



TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2012

INTRODUCTION

During the first quarter of 2012, Transelec S.A. and subsidiary obtained net income of MCh\$ 13,981 (MCh\$ 12,588 in the first quarter of 2011), which is 11.1% greater than the comparison period. Operating revenues totaled MCh\$ 54,015, which represents an increase of 18.6% in comparison to the same period in 2011 (MCh\$ 45,544). EBITDA for the period was MCh\$ 42,017, with an EBITDA over revenues margin of 77.8% (83.3% in the first quarter of 2011). The Company's non-operating loss and income taxes for the 2012 period represented a charge of MCh\$ 14,887 (MCh\$ 11,976 in 2011) and MCh\$ 1,386 (MCh\$ 2,273 in 2011), respectively. This increased non-operating loss can be explained primarily by the loss from indexed assets and liabilities during Q1 2012 (MCh\$ 8,221), which during the comparison period was a loss of MCh\$ 3,418.

Transelec S.A. and subsidiary have prepared their financial statements as of March 31, 2012 in accordance with International Financial Reporting Standards (IFRS), which have been adopted wholly, explicitly and without reserves. Figures in this management discussion and analysis are expressed in millions of Chilean pesos, which is the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	March 2012 MCh\$	March 2011 MCh\$	Variation 2012/2011 %
Operating Revenues	54,015	45,544	18.6%
Toll sales	49,525	43,162	14.7%
Work and services	4,490	2,382	88.5%
Operating costs	-21,385	-16,806	27.2%
Fixed costs	-10,182	-6,124	66.3%
Depreciation	-11,203	-10,682	4.9%
Administraton and sales expenses	-2,376	-1,901	25.0%
Fixed costs	-2,256	-1,802	25.2%
Depreciation	-120	-99	21.2%
Operating Income	30,254	26,837	12.7%
Interest from Leasing	62	67	-7.5%
Other Financial Income	1,183	770	53.6%
Financial Costs	-8,907	-9,170	-2.9%
Foreign exchange differences, net	618	-491	-225.9%
Gain (loss) for indexed assets and liabilities	-8,221	-3,418	140.5%
Other income	378	266	42.1%
Non-Operating Income	-14,887	-11,976	24.3%
Income before Income Taxes	15,367	14,861	3.4%
Income tax	-1,386	-2,273	-39.0%
Net Income	13,981	12,588	11.1%
EBITDA	42,017	37,951	10.7%

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



a) Operating Income

In the first three months of 2012, sales reached MCh\$ 54,015 (MCh\$ 45,544 in the same period in 2011), which is an increase of 18.6%. 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 quarter of 2012, the Company provided engineering and other services that accounted for 8.3% of total sales; in the comparison period, such other services only amounted to 5.2% of total revenue.

In Q1 2012, cost of sales reached MCh\$ 21,385 (MCh\$ 16,806 in Q1 2011). These costs are primarily related to maintaining and operating the Company's facilities. In percentage terms, 52.4% of the Company's costs correspond to depreciation of property, plant and equipment (63.6% in 2011), while the remaining 47.6% (36.4% in 2011) consists of personnel costs, supplies and services contracted.

Administrative and selling expenses amounted to MCh\$ 2,376 (MCh\$ 1,901 in Q1 2011) and consist primarily of personnel expenses and expenses for contracted work, supplies and services (94.9% in 2012 and 94.7% in 2011), and depreciation (5.1% in 2012 and 5.3% in 2011).

b) Non-operating Income

Net income was negatively impacted by the non-operating loss of MCh\$ 14,887 (MCh\$ 11,976 in 2011) recorded for the first quarter of 2012, which was generated mainly by the loss from indexed assets and liabilities of MCh\$ 8,221 in Q1 2012 (loss of MCh\$ 3,418 in Q1 2011).

2. BALANCE SHEET ANALYSIS

The decrease in current assets between December 2011 and March 2012 is due mainly to a decrease (9.5%) in third-party receivables.

Item	March 2012 MCh\$	December 2011 MCh\$	Variation 2012/2011 %
Current assets	149,446	154,709	-3.4%
Non-current assets	1,784,242	1,786,269	-0.1%
Total assets	1,933,688	1,940,978	-0.4%
Current liabilities	80,109	108,733	-26.3%
Non-current liabilities	917,771	911,203	0.7%
Equity	935,808	921,042	1.6%
Total liabilities & equity	1,933,688	1,940,978	-0.4%

The decrease in current liabilities between December 2011 and March 2012 is a result of the sharp decrease (27.8%) in accounts payable because a series of commercial obligations was paid during the first quarter of 2012.



Value of Principal Operating Property, Plant and Equipment

Assets	March 2012 MCh\$	December 2011 MCh\$	Variation 2012/2011 %
Land	20,695	20,669	0.1%
Building, Infraestructure, works in progress	921,648	903,866	2.0%
Machinery and equipment	438,785	438,028	0.2%
Other fixed assets	1,968	1,853	6.2%
Depreciation (less)	-221,689	-211,371	4.9%
Total	1,161,407	1,153,045	0.7%

OUTSTANDING DEBT

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) Outstanding principal	
					March 2012	December 2011
Series C bond	UF	3.50%	Fixed	1-Sep-16	6.0	6.0
Series D bond	UF	4.25%	Fixed	15-Dec-27	13.5	13.5
Series E bond	UF	3.90%	Fixed	1-Aug-14	3.3	3.3
Series F bond	CLP	5.70%	Fixed	1-Aug-14	33,600.0	33,600.0
Series H bond	UF	4.80%	Fixed	1-Aug-31	3.0	3.0
Series I bond	UF	3.50%	Fixed	1-Sep-14	1.5	1.5
Series K bond	UF	4.60%	Fixed	1-Sep-31	1.6	1.6
Series L bond	UF	3.65%	Fixed	15-Dec-15	2.5	2.5
Series M bond	UF	4.05%	Fixed	15-Jun-32	3.4	3.4
Series N bond	UF	3.95%	Fixed	15-Dec-38	3.0	3.0

3. PRINCIPAL CASH FLOWS FOR THE PERIOD

Item	March 2012 MCh\$	March 2011 MCh\$	Variation 2012/2011 %
Cash flows provided by (used in) operating activities	16,986	34,823	-51.2%
Cash flows provided by (used in) investing activities	-15,366	-24,214	-36.5%
Cash flows provided by (used in) financing activities	-2,870	145,775	-102.0%
Net increase (decrease) of cash and cash equivalent	-1,250	156,384	-100.8%
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	62,962	191,880	-67.2%

In the first three months of 2012, cash flows from operating activities reached only MCh\$ 16,986 (MCh\$ 34,823 in the comparison period). The difference is due fundamentally to payments made on commercial obligations recorded as accounts payable as of December 2011.

In the first quarter of 2012, financing activities generated negative net cash flows of MCh\$ 2,870 due primarily to an intercompany loan. In the first quarter of 2011, financing activities generated positive cash flows of MCh\$ 145,775, primarily as a result of the placement of L, M and N series bonds.

In Q1 2012, investing activities generated net negative cash flows of MCh\$ 15,366 because of investments in property, plant and equipment. In the comparison period, investing activities



generated negative cash flows of MCh\$ 24,214, also as a result of net additions to property, plant and equipment.

The final balance of cash and cash equivalents as of March 31, 2012 amounted to MCh\$ 62,962, from an opening balance of MCh\$ 64,212. As of March 31, 2011, the final balance of cash and cash equivalents amounted to MCh\$ 191,880, from an opening balance of MCh\$ 35,496.

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

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank Sudamericano	US\$15,000,000	11/15/2012	Working capital
Scotiabank Sudamericano	US\$15,000,000	5/30/2012	Working capital

4. RATIOS

Bonds	Covenant	Limit	March	December	Status
			2012	2011	
All local Series	Distribution Test (**)	FNO/Financial Expenses > 1,5	5.14	5.70	OK
	Capitalization Ratio (***)	< 0,7	0.49	0.49	OK
	Shareholder's Equity (in UF)	> ThUF15.000	42,638	42,433	OK

(*) FNO = Cash flows provided by (used in) operating activities + absolute value of financial expenses + absolute value of income tax expense.

(**) This ratio is a test of distribution of restricted payments, such as dividends.

(***) Shareholders' equity = Total equity attributable to equity holders of the parent + Accumulated amortization of goodwill. Accumulated amortization of goodwill from June 30, 2006 to March 31, 2012 amounts to MCh\$ 24,970.

INDICATORS	March 2012	December 2011	Variation 2012/2011
Profitability			
Shareholders' Equity profitability *	5.09%	6.07%	17.5%
Assets profitability *	2.41%	3.18%	19.9%
Operating assets profitability *	3.60%	4.52%	340.2%
Earnings per share (\$) *	46,839.62073	55,825.05215	19.4%
Liquidity & Indebtedness			
Current Ratio	1.42	0.43	31.7%
Acid-Test Ratio	1.42	0.43	31.1%
Debt to Equity	1.11	0.91	-3.6%
% Short term debt	10.66	21.88	-24.7%
% Log term debt	89.34	78.12	2.9%
Financial expenses coverage	4.90	5.01	14.0%

* Yearly basis

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. The second Trunk Transmission Study was conducted in 2010 to set tariffs for the period from 2011 to 2014. Decree 61, published November 17, 2011, contains the tariffs that will be retroactively applied beginning January 1, 2011. Application of these new tariffs and the recalculation for the year 2011 are expected to take place during the first 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 Environmental Standards and/or Policies

The operations of Transelec are subject to Law No. 19,300, known as Chile's Environmental Bases or the Environmental Law, which was enacted in 1994 and amended in 2010. The Environmental Law requires entities that develop or modify projects involving high voltage transmission lines and substations to submit these projects to the Environmental Impact Assessment System (SEIA for its Spanish language acronym) and conduct Environmental Impact Studies (EIA for its Spanish language acronym) or make Environmental Impact Statements (DIA for its Spanish language acronym) and to file them with the new Environmental Assessment Service.

As indicated above, the Environmental Law has been amended and has led to changes in environmental institutions in Chile, creating new instruments for environmental management or modifying existing instruments. As a result, Transelec must adapt to these new environmental requirements. These recent amendments, among other matters, created a new institutional structure comprised of: (i) the Ministry of the Environment; (ii) the Council of Ministers on Sustainability; (iii) the Environmental Assessment Service; and (iv) the Superintendency of the Environment, institutions that are charged with regulating, assessing and supervising activities with environmental impact. These new institutions replaced the National Environmental Commission (CONAMA) and the Regional Environmental Commissions and are fully operational with the exception of: (i) supervision by and ability to issue sanctions of the Superintendency of the Environment, which is conditional on the creation of the Environmental Courts; and (ii) new



requirements for EIA and DIA and new powers given to environmental institutions, which will be applied via Regulations that have yet to be reviewed by Chile's Office of the Comptroller.

Despite the fact that Transelec complies with the requirements of the Environmental Law, it cannot ensure that filings (EIA or DIA) with environmental authorities will be approved by government authorities, or that potential public opposition will not generate delays or modifications in the proposed projects, or that the laws and regulations will not change or be interpreted in a manner that could adversely affect the Company's operations and plans, since these new institutions have recently begun to operate.

6.4 Delays in Construction of New Transmission Facilities

The success of the program for extending the trunk transmission network and building new facilities will depend on numerous factors, including financing cost and availability. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with 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 Exchange Rate 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 millions of Chilean pesos	March 2012		December 2011	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	-2,878	-7,138	26,722	3,917
Dollar (amounts associated with income statement items)	0	14,184	0	30,111
Chilean peso	1,898,259	945,822	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 RATE (observed dollar)



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
Period Average	489.41	484.15	481.59	480.34

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	March 2012 MCh\$	March 2011 MCh\$
Endesa Group	22,807	20,075
AES Gener Group	8,808	5,427
Colbún Group	7,397	4,643
Others	15,003	15,399
Total	54,015	45,544
% Concentration	72,22%	66,19%

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\$ 30 million.



As of March 31, 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 2011.

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 March 31, 2012 and December 31, 2011:

In millions of Chilean pesos	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
March 31, 2012	0	141,761	191,535	0	552,071	885,367
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 Risk

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.