TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2010

INTRODUCTION

In the reading of this reasoned analysis corresponding to the period ended March 31, 2010 it is important to note that the financial statements for Transelec S.A. and its subsidiary Transelec Norte S.A. have been prepared in accordance with IFRS, issued by the International Accounting Standards Board ("IASB") and Chilean IFRS issued by the Chilean Association of Accountants.

A) SUMMARY

In the three-month period ended March 31, 2010 TRANSELEC S.A. and subsidiary recorded net income of ThCh$15,560,915, which is 10.46% less than the same period in 2009. This net income is derived from operating income of ThCh$22,508,973, a non-operating loss of ThCh$4,313,395 and a net charge to income for first category income taxes and deferred taxes of ThCh$2,634,662. In the three-month period ended March 31, 2009, the Company recorded net income of ThCh$17,378,745, with operating income of ThCh$26,626,621, a non-operating loss of ThCh$5,421,266, and a net charge to income for first category income taxes and deferred taxes for ThCh$3,826,610.

In the period from January 1 to March 31, 2010, sales reached ThCh$41,653,400 (ThCh$43,684,731 in the same period in 2009), which represents a decrease of ThCh$2,031,331. 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 related to its principal activity. Among these services, the Company has provided engineering services related to hydroelectric plants in Aysen since July 2008, generating in 2010 a positive difference of ThCh$1,883,952; however, services to the company Centrales Hidroeléctricas de Aysen S.A. ended in January of the current year. Another difference in the revenue obtained in 2010 is explained by increased income from subtransmission since, despite the fact that the decree which regulates these tariffs was published January 9, 2009, this revenues were collected during the first quarter according the previous methodology and settled in the following months.

In the three-month period ended March 31, 2010, cost of sales reached ThCh$17,425,508 (ThCh$15,260,245 in 2009). These costs are due primarily to maintaining and operating the Company's facilities, in addition to costs incurred in providing engineering services to hydroelectric power plants in Aysen since July 2008. In percentage terms, the Company's costs consist of: 68.8%, depreciation of property, plant and equipment (61.2% in 2009), personnel costs, 12.5% (14.4%% in 2009); and 18.7%, supplies and services hired (24.3% in 2009).

Administrative and selling expenses amounted to ThCh$1,718,919 (ThCh$1,797,865 in 2009) and consist of: 53.9%, personnel expenses (49.1% in 2009); 40.5%, supplies and services hired (34.7% in 2009); and 5.5% depreciation (16.2% in 2009).

The Company recorded a non-operating loss of ThCh$4,313,396 for the current period (ThCh$5,421,266 in 2009), generated mainly by interest expense of ThCh$2,492,526, considering that interest of the debt was offset by a reversal in the fair value of the Series B1 and B2 bonds, amortized in March, resulting in a credit to income of ThCh$7,894,347. Other important accounts that affected the non-operating loss during the period were financial income of ThCh$320,986 (ThCh$1,096,023 in 2009), foreign currency translation produced a loss of ThCh$870,128 (a gain of ThCh$238,509 in 2009), price-level restatement produced a loss of ThCh$1,475,867 (a gain of ThCh$15,932,385 in 2009), and other non-operating income reached ThCh$204,139 (a loss of ThCh$13,060,974 in 2009).

B) INCOME

CONCEPTOS	March 2010 M$	March 2009 M$	Variation March 2010/2009	Variation March 2010-2009 M$
Sales	41.653.400	43.684.731	-4,65%	-2.031.331
Toll income	39.734.272	39.885.982	-0,38%	-151.710
Work and Services	1.919.128	3.798.749	-49,48%	-1.879.621
Cost of sales	-17.425.508	-15.260.245	14,19%	-2.165.263
Fixed costs	-5.433.546	-5.914.897	-8,14%	481.351
Depreciation	-11.991.962	-9.345.348	28,32%	-2.646.614
Admin. and selling expenses	-1.718.919	-1.797.865	-4,39%	78.946
Operating Income	**22.508.973**	**26.626.621**	**-15,46%**	**-4.117.648**
Non-Operating Loss	**-4.313.396**	**-5.421.266**	**-20,44%**	**1.107.870**
Income before Income Taxes	**18.195.577**	**21.205.355**	-14,19%	-3.009.778
Income taxes	-2.634.662	-3.826.610	-31,15%	1.191.948
Net Income	**15.560.915**	**17.378.745**	**-10,46%**	**-1.817.830**
EBITDA	48.710.837	51.106.329	-4,69%	-2.395.492

(1) The decrease in income taxes in 2010 is mainly explained by the tax revalorization of the paid-capital which do not have an accounting equivalent.

PROFITABILITY

INDICES	March 2010 M$	March 2009 M$	Variación March 2010/2009
Return on equity	1,67%	1,92%	-13,02%
Return on assets	0,88%	0,99%	-11,11%
Return on operating assets	2,03%	2,47%	-18,13%
Earnings per share (Ch$)	15.561	17.379	-10,46%

C) BALANCE SHEET ANALYSIS

	March 2010 M$	March 2009 M$	Variation March 2010/2009	Variation March 2010-2009
	M$	M$		M$
Current assets	119.266.804	135.839.620	-12,20%	-16.572.816
Non-current assets	1.649.019.044	1.627.275.144	1,34%	21.743.900
Total Assets	**1.768.285.848**	**1.763.114.764**	**0,29%**	**5.171.084**
Current liabilities	42.160.006	67.106.215	-37,17%	-24.946.209
Non-current liabilities	792.375.920	790.218.235	0,27%	2.157.685
Equity	933.749.922	905.790.312	3,09%	27.959.610
Total liabilities and shareholders' equity	**1.768.285.848**	**1.763.114.762**	**0,29%**	**5.171.086**

With respect to liabilities, it is important to mention that in March 2010 the Company amortized its series B bonds in the amount of UF3,0 million (6.2% annual interest), which meant a reverse in the fair value associated with these bonds in the amount of ThCh$7,894,347. Refinancing of this debt was carried out in early December 2009 when the Company issued UF-denominated bonds in the amount of UF 3.1 million (UF1.5 million, 3.5% annual; and, UF 1.6 million, 3.9% annual).

VALUE OF MAIN OPERATING PROPERTY, PLANT AND EQUIPMENT

Fixed Assets	March 2010 M$	March 2009 M$	Variation March 2010/2009	Variation March 2010-2009
	M$	**M$**	**%**	**M$**
Land	19.461.387	18.894.720	3,00%	566.667
Buildings and infrastructure	857.031.340	797.438.797	7,47%	59.592.543
Machinery and equipment	372.832.983	355.465.365	4,89%	17.367.618
Other property, plant and equipment	463.260	1.565.773	-70,41%	-1.102.513
Accumulated depreciation	-138.285.305	-96.966.136	42,61%	-41.319.169
Total	**1.111.503.665**	**1.076.398.519**	**3,26%**	**35.105.146**

LIQUIDITY AND INDEBTEDNESS

INDICES	March 2010 M$	March 2009 M$	Variation March 2010/2009
Current liquidity	2,83	2,02	40,10%
Acid ratio	1,75	1,39	26,48%
Total liabilities/equity	0,89	0,95	-6,32%
% short-term debt	5,05	7,83	-35,46%
% long-term debt	94,95	92,17	3,01%
Financial expense coverage ratio	4,69	5,31	-11,66%

The decrease in financial expense coverage observed in 2010 is explained by the double indebtedness until bonds serie B were prepaid, taking into account that the impact of the amortization of the fair value of these bonds, which positively impacted the interest expenses, was adjusted for this calculation.

With respect to the Company's liquidity it is also important to note that, in order to ensure funds are available to cover working capital needs, project financing (for projects under development and potential projects), and transmission line acquisitions, the Company has secured the following committed lines of credit.

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

D) MOST IMPORTANT CHANGES IN THE COMPANY'S MARKET

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

Transelec's business mainly centers on commercializing the capacity of its facilities to transport and transform electricity, in accordance with established quality standards. The transmission system of

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

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; the General Electricity Services Law of 1982 (DFL(M) No. 1/82) and its subsequent modifications, including Law 19,940 (Short Law I) 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 Standard on Safety and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

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

Finally, Law 19,940 established that the new payment regime for the use of the trunk facilities would become effective as of March 13, 2004 and determined a transitory period that was in effect until the first trunk transmission decree was issued. Thus, from 2004 to 2007, collection and payment for use of transmission facilities was carried out provisionally using subsequent recalculations in accordance with legal and regulatory standards in effect until Short Law I was published. On January 15, 2008, a decree from the Ministry of Economy, Development and Reconstruction was published that set the new Investment Value (VI), Annual Investment Value (AVI), Operation, Maintenance and Administration Costs (COMA) and Annual Transmission Value per Segment (VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007.

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

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

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

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

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

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.

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 financing cost and availability. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with projects including delays in obtaining regulatory authorizations; scarcity of equipment, materials, labor or changes in their prices; adverse weather conditions; natural disasters; and unforeseen circumstances and difficulties in obtaining financing at reasonable rates. Any of these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

Technological Changes

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

Foreign Exchange Risk

Transelec carries out transactions in foreign currencies and consequently is exposed to fluctuations in exchange rate. Exposure to exchange rate risk is managed through an approved policy, which includes:

a) fully hedging the net exposure of the balance sheet, which is done through various instruments such as dollar positions, forward contracts and cross currency swaps.

The total amounts of monetary assets and liabilities at the end of the period are as follows:

	Liabilities		Assets	
	03-31-2010	12-31-2009	03-31-2010	12-31-2009
	MCh$	MCh$	MCh$	MCh$
Dollar (Amounts associated with balance sheet items)	128.038	11.751	126.946	118.808
Dollar (Amounts associated with income statement items)	14.318	27.688		
Local Currency	725.907	803.708	1.676.167	1.701.882

b) Given that a significant portion of the Company's revenues are fixed in United States dollars (which are indexed every 6 months) and that operating costs are in local currency, the Company periodically sells, in advance, a portion of its half-yearly dollar-denominated revenues.

EXCHANGE RATE

MONTH	Average 2010 (Ch$)	Last day 2010 (Ch$)	Average 2009 (Ch$)	Last day 2009 (Ch$)
January	500.66	531.75	623.01	612.43
February	532.56	529.69	606.00	595.76
March	523.16	526.29	592.93	582.10
Average for the Period	**518.79**	**529.24**	**607.31**	**596.76**

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

For the period from January 1 to March 31, 2010, indexation increased the value of tolls by an average of 6.5% over the same period in 2009.

Credit Risk

Credit risk corresponding to accounts receivable from electricity transmission business is historically very limited, given the limited number of customers and their risk classification. Moreover, the reduced billing term prevents customers from accumulating significant individual amounts.

However, there is a concentration of income from transmission in one single customer (approximately 69.7% as of March 31, 2010), the company Empresa Nacional de Electricidad S.A., "Endesa", (BBB according to S&P, Baa3 according to Moody's).

The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of Transelec'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.

The Company does not expect to require a provision for uncollectible accounts as of the period end.

In addition, Treasury policy establishes certain limits to risk associated with holding deposited funds (demand and time deposits) in banks and derivative instruments with these banks. Such limits depend on the risk classification and capital of each bank. Investments in mutual funds must also have a risk classification.

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet the demand for cash or payment on a maturing debt. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure that Transelec is able to react quickly to investing opportunities as well as pay obligations on maturity dates, apart from its available cash and short-term accounts receivable the Company holds Committed Credit Lines for Working Capital (US$60 million) and Investments (US$130 million). To date these lines have not been used and will be renewed upon maturity.

The Company is exposed to risk associated with indebtedness, including the risk of refinancing maturing debt.

These risks are mitigated through the use of long-term debt and the structure of extended maturities over time.

The following table outlines capital amortizations for the Company's financial liabilities according to their maturity:

In thousands of Ch$ Maturities	0 - 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Bonds issued in UF, Ch$ and US$	-	128,565,075	134,392,896	506,064,332	769,022,303

Interest Rate Risk

Significant impacts on the fair value and future cash flows of financial instruments, which are directly attributable to interest rate risk, include changes in net income from financial instruments whose cash flows are determined by referencing interest rates and changes in the value of financial instruments with fixed cash flows.

The Company's assets are primarily fixed and long-term. As a result, financial liabilities consist mainly of long-term debt at a fixed interest rate. Debt is recorded in the statement of financial position at its amortized cost.

The objective of managing this risk is to achieve equilibrium in the debt structure, reducing the impact on cost as a result of fluctuations in interest rate and thus reducing volatility in our income statement.

As of March 31, 2010 the Company recorded debt with a fixed interest rate. Debt denominated in U.S. dollars has a fixed interest rate equal to 7.785% annually. All UF-denominated debts are set at fixed interest rates, which vary between 3.5% and 6.2%, depending on the bond. Debt denominated in Chilean pesos is also at a fixed rate of 5.7%.

Mercantile current accounts that the Company holds with related companies are denominated in U.S. dollars and accrue interest at a variable rate. Due to the insignificant amount of net assets that accrue interest at a variable rate, the Company is not exposed to risk that could affect its results due to a change in market interest rates.

However, increases in inflation could have an impact on the costs associated with UF-denominated debt, and in turn, on the Company's financial expenses. These impacts are mitigated by the Company's income indexation which is also adjusted according to inflation through indexation polynomials.

G) PRINCIPAL CASH FLOWS FOR THE PERIOD

In the period from January 1 to March 31, 2010, the Company recorded net negative cash flows of ThCh$63,942,215; operating activities generated positive cash flows of ThCh$27,663,601 and financing activities generated negative cash flows of ThCh$72,126,221, while investing activities required disbursements of ThCh$19,479,595. In the same period in 2009, the Company recorded net positive cash flows of ThCh$26,280,915, attributable to positive cash flows from operating activities of ThCh$24,440,912, positive cash flows from financing activities of ThCh$26,280,915, offset by negative cash flows from investing activities of ThCh$7,984,703.

The net negative cash flows from financing activities during the period from January 1 to March 31, 2010 of ThCh$72,126,221 are primarily due to the amortization of the debt of ThCh$63,597,893 (series B1 and B2 bonds). In addition, the Company paid interest in the amount of ThCh$8,525,328. From January to March of 2009, the Company recorded net positive cash flows from financing activities of ThCh$9,824,705 principally as a result of loans with related companies.

In the current period, investing activities generated net negative cash flows of ThCh$19,479,595 because of the additions to property, plant and equipment. In the same period in 2009, investing activities generated negative cash flows of ThCh$7,984,595 also as a result of additions to property, plant and equipment.

The final balance of cash and cash equivalents as of March 31, 2010 amounted to ThCh$73,954,272, from an opening balance of ThCh$137,896,487. In the same period in 2009, the final balance of cash and cash equivalents amounted to ThCh$93,072,132 from an initial balance of ThCh$66,791,217.