TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2010

INTRODUCTION

During the nine-month period ended September 30, 2010, Transelec S.A. and subsidiary obtained net income of MMCh$ 42,559 (MMCh$ 40,963 in 2009), which is 3.9% higher than the comparison period. Operating revenues totaled MMCh$ 131,611, which represents a decrease of MMCh$ 1,375 (1.0%) in comparison to the same period in 2009 (MMCh$ 132,985). EBITDA for the period was MMCh$ 108,423, with an EBITDA margin of 82.4% (83.0% in 2009). The Company's non-operating loss and income taxes for the 2010 period represented a charge of MMCh$ 32,169 (MMCh$ 37,402 in 2009). This decrease in non-operating loss can be explained fundamentally by lower financial expenses (MMCh$ 19,516 in 2010 compared to MMCh$ 50,450 in 2009), partially offset by the loss generated by indexed assets and liabilities during 2010 (MMCh$ 10,770), in contrast to the gain obtained in 2009 of MMCh$ 20,060.

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

In March 2010, the Company fully prepaid its series B bonds, which totaled UF 3.04 million (6.2% annual interest rate). Funds to prepay this debt was secured beforehand in December 2009 by issuing bonds on the local market (series I for UF 1.5 million at 3.5% per annum and series K for UF 1.6 million at 4.6% per annum).

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

1. INCOME STATEMENT ANALYSIS

Items	September 2010 MM$	September 2009 MM$	Variation 2010/2009 %
Operating Revenues	131.611	132.985	-1,0%
Toll sales	126.840	121.943	4,0%
Work and services	4.770	11.042	-56,8%
Operating costs	-50.502	-49.354	2,3%
Fixed costs	-17.104	-18.309	-6,6%
Depreciation	-33.398	-31.045	7,6%
Administraton and sales expenses	-6.379	-5.267	21,1%
Operating Income	**74.729**	**78.365**	**-4,6%**
Non-Operating Income	**-27.047**	**-29.781**	**-9,2%**
Income before Income Taxes	**47.682**	**48.584**	**-1,9%**
Income tax	-5.122	-7.621	-32,8%
Net Income	**42.559**	**40.963**	**3,9%**
EBITDA	**108.423**	**110.384**	**-1,8%**

a) Operating Income

In the first nine months of 2010, sales reached MMCh$ 131,611 (MMCh$ 132,985 in the same period in 2009), which is a decrease of MCh$ 1,375. 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 main activity. During 2010, the Company provided engineering services for hydroelectric power plants in Aysén, but lower in the amount of MMCh$5,290 compared to the same period in 2009.

In the nine-month period between January and September 2010, operating costs reached MMCh$ 50,502 (MMCh$ 49,354 in 2009). These costs are primarily related to maintaining and operating the

Company's facilities. The Company also incurred costs in 2009 to provide engineering services to hydroelectric power plants in Aysén. In percentage terms, the Company's costs consist of: 66.1% depreciation of property, plant and equipment (62.9% in 2009), 20.1% personnel costs (18.4% in 2009) and 13.8% supplies and services contracted (18.7% in 2009). Depreciation increased by MMCh$ 1,937 during the first nine months of 2010 as compared to the same period in 2009, due mainly to equipment and parts retired or replaced because of damage from February 27th earthquake.

Administrative and selling expenses amounted to MMCh$ 6,379 (MMCh$ 5,267 in 2009) and consist of 50.1% personnel costs (53.0% in 2009), 45.3% work, supplies and services contracted (30.2% in 2009), and 4.6% depreciation (16.8% in 2009).

b) Non-Operating Income

Net income was negatively impacted by the non-operating loss of MMCh$ 27,047 (MMCh$ 29,781 in 2009) recorded for the nine-month period ended September 30, 2010, which was generated mainly by financial expenses of MMCh$ 19,516 (MMCh$ 50,450 in 2009). This strong decrease in financial expenses is attributable primarily to: i) interest accrued in 2010 that was partially offset by the reversal of the difference between the book value of the series B1 and B2 bonds, prepaid in March 2010, and the value actually paid, resulting in a credit for that reversal of MMCh$ 6,455 during 2010, ii) the negative result during 2010 from mark to market of the Company's swap contracts and settling those derivative instruments for just MMCh$ 1,259, which resulted in a charge of MMCh$ 18,106 in 2009. Other important items that affected the non-operating loss recorded in 2010 include: a) a charge from indexed assets and liabilities of MMCh$ 10,770 (credit of MMCh$ 20,060 in 2009), b) foreign currency translation, which resulted in a credit of MMCh$ 984 in 2010 (charge of MMCh$ 1,691 in 2009) and c) financial income of MMCh$ 1,623 (MMCh$ 1,991 in 2009).

2. BALANCE SHEET ANALYSIS

Items	September 2010 MM$	December 2009 MM$	Variation 2010/2009 %
Current assets	117.295	180.370	-35,0%
Non-current assets	1.665.517	1.632.026	2,1%
Total Assets	**1.782.812**	**1.812.396**	**-1,6%**
Current liabilities	190.184	43.915	333,1%
Non current liabilities	649.622	850.546	-23,6%
Equity	943.006	917.934	2,7%
Total liabilities & Equity	**1.782.812**	**1.812.396**	**-1,6%**

Although there is a decrease in current assets as of September 2010 as compared to December 2009, it is important to note that the Company prepaid its series B bonds in March 2010 for UF 3.04 million. Funds for these premium payments were secured beforehand in December 2009 when Transelec issued bonds for UF 3.10 million. Likewise, current liabilities as of September 2010 reflect the fact that the Company's Yankee bonds will mature within the next 12 months (April 2011).

VALUE OF PRINCIPAL OPERATING PROPERTY, PLANT AND EQUIPMENT

Assets	September 2010 MM$	December 2009 MM$	Variation 2010/2009 %
Land	20.376	19.410	5,0%
Building, nfraestucture, works in progress	859.123	823.998	4,3%
Machinery and equipment	388.206	364.968	6,4%
Other fixed assets	442	1.803	-75,5%
Depreciation (less)	-158.678	-127.445	24,5%
Total	**1.109.469**	**1.082.733**	**2,5%**

OUTSTANDING DEBT

Debt	Currency or index	Interest rate	Type of rate	Amount in original currency (million) Unpaid capital		
				September 2010	December 2009	January 2009
Yankee bond	US$	7,88%	Fixed	245	245	465
Series B bond	UF	6,20%	Fixed	-.-	3	3
Series C bond	UF	3,50%	Fixed	6	6	6
Series D bond	UF	4,25%	Fixed	14	14	14
Series E bond	UF	3,90%	Fixed	3	3	-.-
Series F bond	CLP	5,70%	Fixed	33.600	33.600	-.-
Series H bond	UF	4,80%	Fixed	3	3	-.-
Series I bond	UF	3,50%	Fixed	2	2	-.-
Series K bond	UF	4,60%	Fixed	2	2	-.-

3. PRINCIPAL CASH FLOWS FOR THE PERIOD

Items	September 2010 MM$	September 2009 MM$	Variation 2010/2009 %
Cash flow araising from (used in) operating activities	83.326	63.277	31,7%
Cash flow araising from (used in) investing activities	-71.272	-44.688	59,5%
Cash flow araising from (used in) financing activities	-82.718	-10	829566,6%
Net increase (decrease) of cash and cash equivalent	**-70.663**	**18.579**	**-480,3%**
Cash and cash equivalent at the begining of the period	137.896	66.791	106,5%
Cash and cash equivalent at the end of the period	**67.233**	**85.370**	**-21,2%**

Net negative cash flows from financing activities during the period from January 1 to September 30, 2010 of MMCh$ 82,718 are mainly due to principal payments on debt (UF-denominated series B1 and B2 bonds) and dividend payments. In the 2009 period, the Company recorded net negative cash flows from financing activities of MMCh10, mainly due to the issuance of local Series E, F and H, to the purchase of a portion of the Yankee Bonds issued by the Company in 2001, the early redemption of certain swaps associated with the portion of the acquired Yankee bonds, and dividend payments.

In the current period, investing activities generated net negative cash flows of MMCh$ 71,272 mainly due to net additions to property, plant and equipment. In the same period in 2009, investing activities generated negative cash flows of MMCh$ 44,688, also as a result of net additions to property, plant and equipment.

The final balance of cash and cash equivalents as of September 30, 2010 amounted to MMCh$ 67,233, from an opening balance of MMCh$ 137,896. In 2009, the final balance of cash and cash equivalents amounted to MMCh$ 85,370 from an opening balance of MCh$ 66,791.

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

Bank	Amount (up to)	Maturity
Scotiabank Sudamericano	US$ 15,000,000	11-06-2010
DnBNnor	US$ 30,000,000	02-28-2012
Scotiabank Sudamericano	US$ 15,000,000	03-31-2011

4. RATIOS

Limit	Covenant	IFRS September 2010	Chile GAAP September 2009	Status
> 1,5	FNO/Financial Expenses (**)	2,97	3,21	OK
< 0,7	Total Debt / Total Capitalization (***)	0,45	0,47	OK
> ThUF15.000	Shareholder's Equity (in UF)	44.189	43.171	OK

(*) FNO= Cash flor araising (used in) operatng activities + abs(financial expense) + abs(income tax); this ratio is a Distribution Test for Restricted Payments.
(**) Total Capitalization = Total Debt+ Non controlling interest+ Shareholder's Equity
(***) Shareholder's Equity = Total equito attributable to owners of the parent + Amortization of the goodwill

INDICATORS	September 2010	December 2009	Variation 2010/2009
Profitability			
Shareholders' Equity profitability	6,02%	5,96%	1,0%
Assets profitability	3,18%	3,02%	5,3%
Operating assets profitability	7,98%	8,78%	-9,1%
Earnings per share ($)	56,74457	54,70808	3,7%
Liquidity & Indebtedness			
Current Ratio	0,62	4,11	-84,9%
Acid-Test Ratio	0,62	4,11	-85,0%
Debt to Equity	0,89	0,97	-8,2%
% Short term debt	22,65	4,91	361,3%
% Log term debt	77,35	95,09	-18,7%
Financial expenses coverage	5,56	2,55	117,8%

The percentage of short-term debt increased in 2010 due to the Yankee Bonds being reclassified as short term since they mature in April 2011, which also explains the decrease in the Company's liquidity.

5. MARKET ANALYSIS

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

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; the General Electricity Services Law of 1982 (DFL(M) No. 1/82) and its subsequent modifications, including Law 19,940 (Short Law I) published on March 13, 2004, Law 20,018 (Short Law II) published on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Energy Resources) published April 1, 2008. These standards are complemented by the Regulations of the General Electricity Services Law of 1997 (Supreme Decree No. 327/97 from the Ministry of Mining) and its respective modifications, as well as by the Technical Standard on Reliability and Quality of Service (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), Annuity of the Investment Value (AVI), Operation, Maintenance and Administration Costs (COMA) and Annual Transmission Value per Segment (VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007. The determination of trunk facilities and their Annual Transmission Value per Segment (VATT) is updated every four years using an internationally-tendered study. Such a study is being carried out in 2010 to set tariffs for the 2011-2014 period.

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

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 core business. However, the following risk factors should be mentioned and considered:

Regulatory Framework

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

Even though some application-related aspects of Short Law I still need to be defined in the electricity regulations, which have not yet been fully prepared, the most relevant methodological aspects for establishing tolls for trunk facilities to be paid by each user company, as well as mechanisms for payment and recalculation, are defined in decree No. 207, issued July 9, 2007 by the Ministry of Economy, Development and Reconstruction published in the Official Gazette on January 15, 2008. With respect to tolls for subtransmission facilities, although some application-related aspects of the new calculation method are still to be defined in the electricity regulations, which have not yet been prepared, decree No. 320 from the Ministry of Economy, Development and Reconstruction that sets subtransmission tariffs and indexation formulas, published in January 2009, contains provisions regarding application that have allowed payment amounts and mechanisms for the facilities to be established.

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.

Enforcement of Environmental Standards and/or Policies

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

Delays in Construction of New Transmission Facilities

The success of the program for extending the trunk transmission network and building new facilities will depend on numerous factors, including financing cost and availability. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with 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.

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

Foreign Exchange Risk
The following factors expose Transelec to foreign exchange risk:

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

Exchange rate exposure is managed using a policy that involves fully hedging 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:

	September 2010		December 2009	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	102	104	119	118
Dollar (amounts associated with income statement items)	-.-	12	-.-	28
Chilean peso	1.678	734	1.702	804

(*) Indexation polynominals for the Company's revenue should be temporarily applied so that, in the short term, they differ from long-term indexation. In order to ensure that short-term indexation is consistent with long-term indexation, the Company periodically (every six months) sells a percentage of its revenue fixed in dollars using 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

Month	Average 2010 ($)	Last day 2010 ($)	Average 2009 ($)	Last day 2009 ($)
January	500,66	531,75	623,01	612,43
February	532,56	529,69	606	595,76
March	523,16	526,29	592,93	582,1
April	520,62	520,99	583,18	588,62
May	533,21	529,23	565,72	564,64
June	536,67	543,09	553,08	529,07
Julio	531,72	522,36	540,42	541,9
Agosto	509,32	499,26	546,88	550,64
Septiembre	493,93	485,23	549,07	546,07
Average of the period	**524,48**	**530,17**	**587,32**	**578,77**

The indexation formulas, applied twice yearly to tolls from 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.

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

However, a significant portion of the Company's transmission income is concentrated in one customer. In effect, as of September 30, 2010, approximately 70.17% of income is invoiced to only one client (or its subsidiaries and related parties). As a result, changes in the financial situation of this client could affect the financial performance of Transelec S.A.

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

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

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

In order to guarantee 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$ 60 million (equivalent to MMCh$ 29,019). To date, these lines have not been used and are expected to be renewed upon maturity. These credit lines were in effect during the entire year 2009 and continue to be in effect as of September 30, 2010.

The Company is exposed to risks associated with indebtedness, including refinancing risk when its debt matures. These risks are lessened by using long-term debt and appropriately structuring their maturities over time.

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

In million pesos	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
September 30, 2010	118.561	-.-	136.032	128.040	386.254	768.887
december 31, 2009	1.340	129.001	139.487	147.773	409.224	826.825
January 1, 2009	1.373	299.381	5.490	147.894	326.585	780.722

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 financial expenses. These impacts are mitigated by the Company's income, which is partially indexed to local inflation using indexation polynomials.

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