TRANSELEC S.A. AND SUBSIDIARIES

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2013

INTRODUCTION

During the first quarter of 2013, Transelec S.A. and subsidiaries recorded net income of MCh$20,741, which is 48.4% higher than the first quarter of 2012 (MCh$13,980). Operating revenues totaled MCh$54,259, which represents an increase of 0.5% compared to first quarter of year 2012 (MCh$54.015). EBITDA for this period was MCh$48,238, with an EBITDA over revenues of 89.8% (77.8% in 2012). The company´s non-operating income and taxes for the period correspond to MCh$7,474 (MCh$14,888 in the first quarter of year 2012) and MCh$5,680 (MCh$1,387 in the first quarter of 2012), respectively. The decrease in non-operating losses is mainly due to the loss from indexed assets and liabilities for this period for MCh$1,075, which during the comparison period represented a loss of MCh$8,222.

Transelec S.A. and its subsidiary Transelec Norte S.A. have prepared their financial statements as of March 31, 2013 in conformity with International Financial Reporting Standards (IFRS) and correspond to the comprehensive, explicit and non-reserved adoption of the abovementioned international standard. The figures of this ratio analysis are expressed in million of Chilean pesos (MCh$) as the Chilean peso is the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	March 2013 MCh$	March 2012 MCh$	Variation 2012/2011 %
Operating Revenues	54,259	54,015	0.5%
Toll sales	52,490	49,526	6.0%
Work and services	1,769	4,490	-60.6%
Operating costs	-17,653	-21,385	-17.5%
Fixed costs	-6,116	-10,182	-39.9%
Depreciation	-11,537	-11,203	3.0%
Administraton and sales expenses	-2,710	-2,376	14.1%
Operating Income	**33,895**	**30,254**	**12.0%**
Interest from Leasing	654	62	954.5%
Other Financial Income	1,635	1,183	38.2%
Financial Costs	-10,548	-8,907	18.4%
Foreign exchange differences, net	-161	618	-126.0%
Gain (loss) for indexed assets and liabilities	-1,075	-8,222	-86.9%
Other income	2,022	377	435.6%
Non-Operating Income	**-7,474**	**-14,888**	**-49.8%**
Income before Income Taxes	**26,421**	**15,367**	**71.9%**
Income tax	-5,680	-1,387	309.6%
Net Income	**20,741**	**13,980**	**48.4%**
EBITDA	**48,239**	**42,017**	**14.8%**

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

a) Operating income

During the first quarter of 2013 revenues reached MCh$54,259 (MCh$54,015 in the first quarter of 2012), which is an increase of 0.5%. It is worth to mention 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 first quarter of 2013, the company provided engineering and other services that reached a 3.3% of the total revenues; during the same period of 2013, these services increased to 8.3% of the total revenues.

During this period the operating costs reached MCh$17,654 (MCh$21,385 in the first quarter of 2012). These costs are primarily related the maintenance and operation of the Company´s facilities. In percentage terms, 65.4% of the company´s cost correspond to depreciation of property, plant and equipment (52.4% in the first quarter of 2012), while the remaining 34.6% (47.6% in the comparison period) correspond to personnel, supplies and service contracted.

Administrative and selling expenses amounted to MCh$2,710 (MCh$2,376 during the first quarter of 2012) and consist primarily of personnel expenses and expenses for contracted work, supplies and services.

b) Non-operating income

Net income was negatively impacted by the non-operating loss of MCh$7,474 (MCh$14,888 in the first quarter of 2012), which was generated mainly due to financial cost that reached MCh$10,548 (MCh$8,907 for the first quarter of 2012) due to the withdrawal of Revolving Credit Facility and uncommitted Facility Loans

Loss for indexed asset and liabilities reached the amount of MCh$1,075, which is 86.9% lower than comparison period (MCh$8,222), due to lower UF variation. Other income reached the amount of MCh$2,022 mainly due to the payment of the insurance related to the earthquake and the reverse of a provision to a fine of 2003.

2. BALANCE SHEET ANALYSIS

The increase in current assets between March 2013 and December 2012 is due to an increase in accounts receivable to related companies, mainly Transelec Holdings Rentas Ltda.

The increase in current liabilities is mainly due to the increase in bank loans payable to finance the loan to Transelec Holdings Rentas Ltda

Items	March 2013 MCh$	December 2012 MCh$	Variation 2012/2011 %
Current assets	197,905	189,399	4.5%
Non-current assets	1,889,461	1,808,124	4.5%
Total Assets	**2,087,366**	**1,997,524**	**4.5%**
Current liabilities	245,268	178,059	37.7%
Non current liabilities	943,750	942,493	0.1%
Equity	898,348	876,971	2.4%
Total liabilities & Equity	**2,087,366**	**1,997,524**	**4.5%**

VALUE OF THE MAIN PP&E IN OPERATION

Assets	March 2013 MCh$	December 2012 MCh$	Variation 2012/2011 %
Land	20,977	20,983	0.0%
Building, Infraestucture, works in progress	935,378	930,526	0.5%
Machinery and equipment	462,526	458,330	0.9%
Other fixed assets	4,680	4,468	4.7%
Depreciation (less)	-265,984	-254,764	4.4%
Total	**1,157,577**	**1,159,544**	**-0.2%**

CURRENT DEBT

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) Unpaid capital March 2013	Amount in original currency (million) Unpaid capital December 2012
Series C bond	UF	3.50%	Fixed	Sep 1st, 2016	6.0	6.0
Series D bond	UF	4.25%	Fixed	Dec 15 th, 2027	13.5	13.5
Series E bond	UF	3.90%	Fixed	Aug 1st, 2014	3.3	3.3
Series F bond	CLP	5.70%	Fixed	Aug 1st, 2014	33,600.0	33,600.0
Series H bond	UF	4.80%	Fixed	Aug 1st, 2031	3.0	3.0
Series I bond	UF	3.50%	Fixed	Sep 1st, 2014	1.5	1.5
Series K bond	UF	4.60%	Fixed	Sep 1st, 2031	1.6	1.6
Series L bond	UF	3.65%	Fixed	Dec 15 th, 2015	2.5	2.5
Series M bond	UF	4.05%	Fixed	Jun 15 th, 2032	3.4	3.4
Series N bond	UF	4.60%	Fixed	Dec 15 th, 2038	1.6	1.6
Revolving Credit Facility	USD	2.53%	Variable		250.0	120.0
Uncommitted Facility Loans	CLP	5.89%	Fixed		54,840.0	0.0
Westlb	USD	1.80%	Variable	Oct 10 th, 2023	23.1	23.1

3. MAIN CASH FLOWS DURING THE YEAR

Items	March 2013 MCh$	March 2012 MCh$	Variation 2012/2011 %
Cash flows provided by (used in) operating activities	17,112	16,986	0.7%
Cash flows provided by (used in) investing activities	-39,318	-15,366	155.9%
Cash flows provided by (used in) financing activities	21,761	-2,870	-858.2%
Net increase (decrease) of cash and cash equivalent	**-446**	**-1,250**	**-64.3%**
Cash and cash equivalent at the begining of the period	37,956	64,212	-40.9%
Cash and cash equivalent at the end of the period	**37,510**	**62,962**	**-40.4%**

Cash flows from operating activities reached MCh$ 17,112 in the first quarter of 2013 (MCh$ 16,989 in the same period of 2012).

During this period, financing activities generated negative net cash flows of MCh$ 21,761, mainly due to short terms loans as the Revolving Credit Facility and Uncommitted Facility Loans. A portion of these resources were used for a loan to Transelec Holdings Rentas Ltda and a portion for financing CAPEX. During the first quarter of 2012, financing activities generated negative cash flows of MCh$ 2,870.

During 2012, investing activities generated cash outflows amounting to MCh$39,318, where MCh$17,047 are due to Caserones' VAT payment. The rest of the cash flow is mainly generated by investments in property, plant and equipment. During the first quarter of 2012, cash flows from investing activities were negative by MCh$15,366, as a result of net additions of property, plant and equipment.

The closing balance of cash and cash equivalents as of March 31, 2013 amounted to MCh$37,510 considering an initial balance of MCh$37,956.

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

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank, Bannk of Tokyo-Mitsubishi y DnB NOR	US$250,000,000	Sep 5th, 2015	Working Capital

4. INDICATORS

Bonds	Covenant	Limit	March 2013	December 2012	Status
All local Series	Distribution Test (**)	FNO/Financial Expenses > 1,5	5.23	5.14	OK
	Capitalization Ratio (***)	< 0,7	0.55	0.49	OK
	Shareholder's Equity (in UF)	> ThUF15.000	40.31	42.64	OK

(*) FNO = Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.
(**) This is only a test to distribute restricted payments such as dividends.
(***) Equity = Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and March 31, 2013 amounted to MCh$24.970.

Ratios *Figures as of March are annualized	March 2013	December 2012	Variation 2012/2011
Profitability			
Shareholders' Equity profitability *	9.24%	7.04%	31.2%
Assets profitability *	3.97%	3.09%	28.5%
Operating assets profitability *	7.17%	5.33%	34.5%
Earnings per share ($) *	82,964.12	61,749.31	34.4%
Liquidity & Indebtedness			
Current Ratio	0.81	1.06	-23.6%
Acid-Test Ratio	0.81	1.06	-24.1%
Debt to Equity	1.32	1.28	3.1%
% Short term debt	20.63	15.89	29.8%
% Log term debt	79.37	84.11	-5.6%
Financial expenses coverage	4.57	4.72	-3.1%

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 51% 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 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), the Regulations of Complementary Services in 2012 (Supreme Decree No. 130, Ministry of Energy) and also the Technical Standard on Reliability and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

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

Finally, Law 19,940 established that the new payment regime for the use of trunk facilities would become effective as of March 13, 2004 and determined a transitory period that was in effect until the first trunk transmission decree was issued. Thus, from 2004 to 2007, collection and payment for use of transmission facilities was carried out provisionally using subsequent recalculations in accordance with legal and regulatory standards in effect until Short Law I was published. On January 15, 2008, a decree from the Ministry of Economy, Development and Reconstruction was published that set the new Investment Value (VI), the Annuity of the Investment Value (AVI), the Operation, Maintenance and Administration Costs (COMA) and the Annual Transmission Value per Segment (VATT) for trunk facilities for the period from March 14, 2004 to December 31, 2010, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007. The determination of trunk facilities and their Annual Transmission Value (VATT) is updated every four years using an internationally-tendered study. During 2010, the second Trunk Transmission Study was conducted which will allow setting the tariffs and the corresponding indexation formulas for the period 2011-2014. Decree 61, published on November 17, 2011 contains the tariffs that will be retroactively applicable from January 1, 2011. During 2012 the new tariffs have been applied and particularly the assessment process form 2011 was published on March and April for SING and SIC respectively. The SIC assessment for 2011 was modified on September 2012 according to the Expert Panel Report N°2-2012.

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. On April 9, the Supreme Decree N°14 was published by the Ministry of Energy, setting subtransmission tariffs from November 2010 to October 2014 has been issued. The difference between amounts invoiced using these provisional tariffs since November 2010 to the decree publish date will be reassessment by the CDEC based on the difference between the provisional tariff and the definitive values on decree N°14. No significant differences that will affect the financial statement are expected.

6. MARKET RISK FACTORS

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

6.1 Regulatory Framework

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

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

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

6.2 Operating Risks

Although the Company's management believes it has adequate risk coverage, in line with industry practices, it cannot guarantee the sufficiency of its insurance policy coverage for certain operating risks to which it is exposed, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could negatively affect the Company’s financial statements.

6.3 Application of regulations and / or Environmental Law

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

Law No. 20.600 of the official journal was published on June 28, 2012 that creates the environmental courts, last step so the Superintendence of Environmental Affairs (SMA) can begin to implement in full its powers of control and sanction. On December 28 with the implementation of the Environmental Court (Second Environmental Court in Santiago) the SMA assumes the full monitoring and control of the Environmental Qualification Resolution (RCA) among other matters.

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

6.4 Delays in the Construction of New Transmission Facilities

The success of the program for extending the trunk transmission network and building new facilities will depend on numerous factors, including financing cost and availability. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with such projects including delays in obtaining regulatory authorizations, scarcity of equipment, materials or labor, etc. Any of these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

6.5 Technological Changes

Transelec is compensated for investments it makes in electrical transmission facilities through an annual valuation of the existing facilities (AVI), which is performed every four years using current market prices. Any important technological changes in the equipment at its facilities could lower this valuation, which could in turn prevent recovery of part of the investments made.

6.6 Foreign Exchange Risk

The following factors expose Transelec to foreign exchange risk:

- The functional currency of its subsidiaries 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. In addition, in order to maintain the balance regarding the foreign currency, Transelec has a forward with a related company and other forwards in the market.

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 the amounts of monetary assets and liabilities as of March 31, 2013 and December 31, 2012:

	March 2013		December 2012	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	142,660	185,508	75,916	102,918
Dollar (amounts associated with income statement items)	0	15,435	0	31,389
Chilean peso	1,936,645	1,000,847	1,878,852	974,211

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

EXCHANGE RATES (Observed exchange rates)

Month	Average 2013 ($)	Last Day 2012 ($)	Average 2012 ($)	Average 2012 ($)
Enero	472.67	471.4	501.34	488.75
Febrero	472.34	473.3	481.49	476.27
Marzo	472.48	472.54	485.40	487.44
Promedio del periodo	**472.50**	**472.41**	**489.41**	**484.15**

The indexation formulas, updated semiannually for toll contracts and subtransmission fees and updated monthly for regulated trunk income, take into account variations in the value of the facilities and operating costs, 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

With respect to credit risk related to accounts receivable from the electricity transmission activity, this risk has been historically very low in the industry given the limited number of customers, their risk ratings and the short collections term (less than 30 days).

As of March 31, 2013, the company has three main clients which represent more than 10% of the total revenues. The total revenues recognized for these three clients for this period was MCh$25,729, MCh$ 5.936 y MCh$5,460 respectively. For the comparison period in 2012 the company had three clients which more than 10% of the total revenues. The total amount recognized for these clients were MCh$22,807, MCh$8,808 and MCh$7,397.

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 line of credit for working capital of US$ 250 million, equivalent to ThCh$ 118,007). Until now this line is fully utilized and it is expected that this line of credit will be renewed on maturity. This committed line of credit was contracted on July 9, 2012, is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi and DnB NOR.

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

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

The following table presents the capital amortizations corresponding to the Company's financial liabilities, according to their maturity date, as of March 31, 2013 and December 31, 2012.

In million pesos	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
March 31, 2013	173,748	202,591	139,690	4,928	560,617	1,081,574
December 31, 2012	57,640	200,292	137,045	0	559,598	954,575

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

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

Transelec could face the risk of not timely collecting the IT that some of the companies owners of generation facilities should pay as determined in the energy balances prepared by CDEC, what may temporarily affect the Company's liquidity position. In this sense, and in the opinion of the Company, the function that Transelec fulfills in the above-mentioned collection process consists not of the collection of amounts for its own benefit, but it is merely collection and subsequent transfers to third parties of credits and debts that belong to the generating companies, with the exception of the expected IT.

6.9 Interest Rate Risks

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to floating interest rates and changes in the value of financial instruments with fixed cash flows.

The Company´s assets are primarily fixed and long-lived intangible assets. Consequently, financial liabilities that are used to finance such assets consist primarily of long-term liabilities at fixed rates. This debt is recorded in the balance sheet at amortized cost.

The objective of interest rate risk management is to achieve a balanced debt structure, decrease the impact on costs due to interest rate variations and, reduce volatility in the income statement.

The majority of the debt as of March 31, 2013, and all debt as of December 31, 2012, were at fixed rate. However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.