TRANSELEC S.A. AND SUBSIDIARY

MANAGEMENT DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2011

INTRODUCTION

During the first quarter of 2011, Transelec S.A. and subsidiary recorded net income of MCh$ 12,588 (MCh$ 15,562 in 2010), which is 19.1% lower than the comparison period. Operating revenues totaled MCh$ 45,543, which is 9.3% higher than the comparison period (MCh$ 41,653). EBITDA for the period was MCh$ 37,950, with an EBITDA over revenues margin of 83.3% (83.5% in 2010). The Company's non-operating loss and income taxes for the 2011 period represented a charge of MCh$ 14,249 (MCh$ 6,948 in 2010). This higher non-operating loss can be explained fundamentally by higher financial expenses (MCh$ 9,170 in first quarter 2011 compared to MCh$ 2,492 in the comparison period), and by a higher loss from inflation-indexed assets and liabilities during 2011 (MCh$ 3,418), in contrast to the loss of only MCh$ 1,476 recorded in first quarter 2010.

In January 2011, Transelec issued bonds on the Chilean market for a total of UF 7 million (Serie L for UF 2.5 million at 3.65% per annum, Serie M for UF 1.5 million at 4.05% per annum and Serie N for UF 3.0 million at 3.95% per annum) to raise funds in advance to pay the principal on its Yankee bonds at maturity; the last coupon payment is due April 15, 2011.

In March 2011, local banks and Transelec signed a Committed Credit Line for up to UF 3 million which will be used to finance disbursements associated with its Investment Plan.

Transelec S.A. and subsidiary have prepared their financial statements as of March 31, 2011 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 (MCh$), given the fact that the peso (Ch$) is the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	March 2011 MCh$	March 2010 MCh$	Variation 2011/2010 %
Operating Revenues	45,543	41,653	9.3%
Toll sales	43,161	39,734	8.6%
Work and services	2,382	1,919	24.1%
Operating costs	-16,806	-17,426	-3.6%
Fixed costs	-6,124	-5,437	12.6%
Depreciation	-10,682	-11,989	-10.9%
Administraton and sales expenses	-1,901	-1,719	10.6%
Operating Income	**26,837**	**22,509**	**19.2%**
Financial Income	837	321	160.9%
Financial Costs	-9,170	-2,492	268.0%
Foreign exchange differences, net	-491	-870	-43.6%
Gain (loss) for indexed assets and liabilities	-3,418	-1,476	131.6%
Others	266	204	30.2%
Non-Operating Income	**-11,976**	**-4,313**	**177.7%**
Income before Income Taxes	**14,860**	**18,196**	**-18.3%**
Income tax	-2,273	-2,635	-13.7%
Net Income	**12,588**	**15,562**	**-19.1%**
EBITDA	**37,950**	**34,800**	**9.1%**

EBITDA= Net Income + abs(Income tax) + abs(Depreciation) + abs(Non-Operating Income) + abs(Other Gains) + Leasing interest.

a) Operating Income

In the first three months of 2011, sales reached MCh$ 45,543 (MCh$ 41,653 in the same period in 2010), which is an increase of 9.3%. 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 2011, the Company provided engineering and other services that accounted for 5.2% of total sales; in the comparison period, such other services only amounted to 4.6% of total revenue.

In 2011, cost of sales reached MCh$ 16,806 (MCh$ 17,426 in 2010). These costs are primarily related to maintaining and operating the Company's facilities. In percentage terms, 64% of the Company's costs correspond to depreciation of property, plant and equipment (69% in 2010), while the remaining 36% (31% in 2010) consists of personnel costs, supplies and services contracted.

Administrative and selling expenses amounted to MCh$ 1,901 (MCh$ 1,719 in 2010) and consist primarily of personnel expenses and expenses for contracted work, supplies and services (95% in 2011 and 94% in 2010), and depreciation (5% in 2011 and 6% in 2010).

b) Non-Operating Income

Net income recorded in the first quarter of 2011 was negatively impacted by the non-operating loss of MCh$ 11,976 (MCh$ 4,313 in 2010), which was generated mainly by financial expenses of MCh$ 9,170 (MCh$ 2,492 in 2010). This sharp increase in financial expenses is attributable primarily to interest accrued in 2010 being 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 MCh$ 6,455 during 2010. Another important item that affected the non-operating loss recorded during the first quarter of 2011 was a charge from inflation-indexed assets and liabilities of MCh$ 3,418 (compared to a charge of MCh$ 1,476 in 2010).

2. BALANCE SHEET ANALYSIS

Items	March 2011 MCh$	December 2010 MCh$	Variation 2011/2010 %
Current assets	229,232	79,312	189.0%
Non-current assets	1,690,198	1,676,933	0.8%
Total Assets	**1,919,430**	**1,756,245**	**9.3%**
Current liabilities	183,526	183,111	0.2%
Non current liabilities	804,245	653,618	23.0%
Equity	931,659	919,517	1.3%
Total liabilities & Equity	**1,919,430**	**1,756,245**	**9.3%**

The increase in current assets as of March 2010 as compared to December 2010 is due to funds raised from issuing UF 7.0 million in bonds in January 2011 to finance the principal payment on its Yankee bond of US$245 million and its associated swap, which mature in April 2011.

The increase in non-current liabilities as of March 2011 as compared to December 2010 can also be explained by the recognition of the recently issued bonds (L, M and N series) for UF 7 million.

VALUE OF PRINCIPAL OPERATING PROPERTY, PLANT AND EQUIPMENT

Assets	March 2011 MCh$	December 2010 MCh$	Variation 2011/2010 %
Land	20,421	19,949	2.4%
Building, Infraestucture, works in progress	858,003	851,299	0.8%
Machinery and equipment	390,635	390,316	0.1%
Other fixed assets	1,859	1,891	-1.7%
Depreciation (less)	-179,640	-168,902	6.4%
Total	**1,091,278**	**1,094,553**	**-0.3%**

OUTSTANDING DEBT

				Amount in original currency (million) Unpaid capital	
Debt	Currency or index	Interest rate	Type of rate	March 2011	December 2010
Yankee bond	US$	7.88%	Fixed	245.1	245.1
Series C bond	UF	3.50%	Fixed	6.0	6.0
Series D bond	UF	4.25%	Fixed	13.5	13.5
Series E bond	UF	3.90%	Fixed	3.3	3.3
Series F bond	CLP	4.80%	Fixed	33,600.0	33,600.0
Series H bond	UF	5.70%	Fixed	3.0	3.0
Series I bond	UF	3.50%	Fixed	1.5	1.5
Series K bond	UF	4.60%	Fixed	1.6	1.6
Series L bond	UF	3.65%	Fixed	2.5	-.-
Series M bond	UF	4.05%	Fixed	1.5	-.-
Series N bond	UF	3.95%	Fixed	3.0	-.-

3. PRINCIPAL CASH FLOWS FOR THE PERIOD

Items	March 2011 MCh$	March 2010 MCh$	Variation 2011/2010 %
Cash flow araising from (used in) operating activities	34,823	19,135	82.0%
Cash flow araising from (used in) investing activities	-24,214	-19,480	24.3%
Cash flow araising from (used in) financing activities	145,775	-63,598	-329.2%
Net increase (decrease) of cash and cash equivalent	**156,385**	**-63,942**	**-344.6%**
Cash and cash equivalent at the begining of the period	35,495	137,896	-74.3%
Cash and cash equivalent at the end of the period	**191,880**	**73,954**	**159.5%**

The net positive cash flows from financing activities recorded in the first quarter of 2011 of MCh$ 145,775 are due primarily to funds raised from issuing the series L, M and N bonds for UF 7 million. In 2010, financing activities generated negative cash flows of MCh$ 63,598 as a result of payments made on the series B bonds totaling UF 3.04 million.

In the first three months of 2011, investing activities generated net negative cash flows of MCh$ 24,214 because of net additions to property, plant and equipment. In the comparison period, investing activities generated negative cash flows of MCh$ 19,480, also as a result of net additions to property, plant and equipment.

The final balance of cash and cash equivalents as of March 31, 2011 amounted to MCh$ 191,880, from an opening balance of MCh$ 35,495. As of March 31, 2010, the final balance of cash and cash equivalents amounted to MCh$ 73,954, from an opening balance of MCh$ 137,896.

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	06-11-2011	Working Capital
DnBNnor	US$30.000.000	28-02-2012	Working Capital
Scotiabank Sudamericano	US$15.000.000	31-03-2011	Working Capital
Scotiabank-Corpbanca	UF 3.000.000	03-03-2012	Project Financing

In March 2011, local banks (Scotiabank and Corpbanca) and Transelec signed a Committed Credit Line for up to UF 3 million which is intended to be used to finance disbursements associated with Transelec´s 2011 Investment Plan. Withdrawals can be made within 12 month from starting date and amortizations must be done within 7 years, as a maximum.

4. RATIOS

Limit	Covenant	March 2011	December 2010	Status
> 1,5	FNO/Financial Expenses (**)	4.62	5.27	OK
< 0,7	Capitalization Ratio (***)	0.50	0.45	OK
> ThUF15,000	Shareholder's Equity (in ThUF)	43,658	43,089	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.
(**) Total capitalization = Total debt + Non controlling interest + Equity
(***) 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, 2011 amounts to MCh$ 24,970.

INDICATORS	March 2011	December 2010	Variation 2011/2010
Profitability			
Shareholders' Equity profitability *	5.40%	6.07%	-11.0%
Assets profitability *	2.62%	3.18%	-17.6%
Operating assets profitability *	8.72%	8.16%	6.9%
Earnings per share ($) *	50.35091	55.82505	-9.8%
Liquidity & Indebtedness			
Current Ratio	1.25	0.43	190.7%
Acid-Test Ratio	1.25	0.43	188.5%
Debt to Equity	1.06	0.91	16.5%
% Short term debt	18.58	21.88	-15.1%
% Log term debt	81.42	78.12	4.2%
Financial expenses coverage	4.14	13.97	-70.4%

* Yearly basis

The increase in the Company's liquidity ratios is due to increased cash available after placing the L, M and N series bonds in January 2011. These funds will be used to pay the principal on its Yankee bond and its associated swap upon maturity in April 2011.

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 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 100% of the 500 kV electricity transport lines, 45% of the 220 kV lines and 94% 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, as well as by 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 2011-2014 period. As of the date of this management discussion and analysis, the decree setting trunk tariffs for the 2011-2014 period has not yet been issued.

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 during the period 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 for the November 2010 - October 2014 period has not yet been issued.

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:

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.

Decree 207, published January 15, 2008, established, among other matters, the Annual Transmission Value per Segment (VATT for its Spanish language acronym) and its indexation formulas for the four-year period from 2007 to 2010, as well as the conditions to be applied to determine payments for transmission services along trunk transmission systems. The provisions of this decree define a set of previously pending matters that allow trunk facility owners to receive VATT for their facilities. The second Trunk Transmission Study was conducted in 2010; results from this study will be the base to set tariffs and indexation formulas for the 2011-2014 period. The results of this study will be applicable during the second half of 2011 once the following has been completed: a public hearing, a technical report from the National Energy Commission (CNE for its Spanish language acronym) and presentations before the Panel of Experts.

In the case of subtransmission, Decree No. 320 of the Ministry of Economy, Development and Reconstruction, published in the Official Gazette on January 9, 2009, set the subtransmission tariffs and indexation formulas that were applied beginning January 14, 2009. During 2010, subtransmission studies were conducted in order to be used as the base for the setting of the tariffs and indexation formulas for the period November 2010 - October 2014. The CNE will issue its technical report in the first semester of 2011, then any potential discrepancies will be heard and solved by the Panel of Experts. After the completion of these steps, a new decree with the new set of tariffs will be enacted; these new tariffs will be applicable retroactively since November 1st, 2010.

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.

Application of Environmental Standards and/or Policies

The operations of Transelec are governed by Law No. 19,300, Chile's Environmental Bases ("Environmental Law"), enacted in 1994. The Environmental Law requires entities that develop projects involving high voltage transmission lines and substations to be subject to the Environmental Impact Assessment System (SEIA for its Spanish language acronym) and conduct Environmental Impact Studies (EIA for its Spanish language acronym) or Environmental Impact Assessment (DIA for its Spanish language acronym) for any future project or activity that may affect the environment, and to file them with the new Environmental Assessment Service.

Among other modifications, recent amendments created a new environmental institutional structure, new documents to be filed (or the modification of some of the existing documents); hence, Transelec must adapt its procedures to these new requirements. In particular, current structure consists: (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 in charge of the regulation, assessing and supervising activities with environmental impact. These new institutions replaced the National Environmental Commission (CONAMA) and the Regional Environmental Commissions (COREMA) 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 forthcoming creation of the Environmental Courts; and (ii) new requirements for Environmental Impact Studies and for Environmental Impact Assessment, and new duties and rights for the Environmental Services that grant them new powers; these new requirements and powers will be applicable once a By-law will be enacted, that, in turn, will occur once the Contraloría General de la República reviewed it.

Notwithstanding Transelec accomplish environmental requirements established in the Law Transelec cannot ensure that these environmental impact studies or assessments filed with Environmental Authorities will be approved by government authorities within the periods and under the terms presented by the Company, or, given any public opposition, any delays or modifications will not occur in the proposed projects, or 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 an annuity of the valuation of the existing facilities (AVI), valuation that is reviewed each 4 years for the regulated branches (those that are not subject to a contract). 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:

	March 2011		December 2010	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	93.360	100.633	98.453	100.717
Dollar (amounts associated with income statement items)	-.-	13.665	-.-	26.677
Chilean peso	1.823.713	884.782	1.655.610	733.826

(*) 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	489.44	483.32	500.66	531.75
February	475.69	475.63	532.56	529.69
March	479.65	482.08	523.16	526.29
Average of the period	**481.59**	**480.34**	**518.79**	**529.24**

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.

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, Company's revenues and consequently receivables are highly concentrated in some main clients, as shown below:

Revenues	March 31, 2011 TCh$	March 31, 2010 TCh$
Endesa Group	20,074,574	16,019,933
AES Gener	5,427,317	7,232,573
Colbún Group	4,642,656	8,817,728
Others	15,398,944	9,583,166
Total	**45,543,491**	**41,653,400**
% Concentration	**66.19%**	**76.99%**

The toll agreements signed with these clients, including its subsidiaries will generate a large part of the Company's future cash flows. Therefore, a substantial change in their assets, financial condition or operating income could negatively affect the Company.

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. As of March 31, 2011, these lines have not been used and are expected to be renewed upon maturity. These credit lines were in effect during the entire year 2010 and continue to be in effect as of March 31, 2011.

In addition, since March 2011, Transelec has available a committed credit line for up to UF 3 million, that is intended to be used to finance the disbursements associated with its 2011 investment plan.

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 March 31, 2011 and 2010:

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, 2011	117,534	0	191,121	129,470	487,669	925,793
December 31, 2010	114,727	0	136,587	128,733	388,345	768,392

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.