TRANSELEC S.A. AND SUBSIDIARY

Reasoned Analysis

September 30, 2009 and 2008

(Translation of financial statements originally issued in Spanish - See Note 2b)

A. Summary

In the nine-month period ended September 30, 2009, TRANSELEC S.A. and subsidiary recorded net income of ThCh$37,406,876, which is 16.79% lower than in the same period in 2008. This net income is derived from operating income of ThCh$80,185,736, a non-operating loss of ThCh$36,523,619, a net charge to income for first category income taxes and deferred taxes of ThCh$6,255,083 and minority interest of ThCh$158. In the nine-month period ended September 30, 2008, the Company recorded net income of ThCh$44,953,426, with operating income of ThCh$87,630,406, a non-operating loss of ThCh$29,908,603, a net charge for first category income taxes and deferred taxes of ThCh$12,768,227 and minority interest of ThCh$150.

In the current period, revenues reached ThCh$131,794,524 (ThCh$133,174,766 in 2008). These revenues are mainly obtained from commercializing the transmission capacity of the Company's facilities, and in 2009 include sales of services related to its line of business provided to, among others, Centrales Hidroeléctricas de Aysén, for ThCh$7,297,523 (including a margin on the services provided during the second half of 2008). In 2008, revenues included, in addition to normal revenue from commercializing the Company's facilities, some non-recurrent revenues associated with the following concepts: i) recalculation of trunk transmission system tolls for 2007, in accordance with Decree 207 published on January 15, 2008 and the 2007 Toll Report issued by the CDEC-SIC in March 2008 and amended in September 2008 (ThCh$7,447,723), ii) recalculation of trunk transmission system tolls for the period from March 13, 2004 to December 31, 2006, in accordance with Decree 207, which amounted to ThCh$13,313,828, net of tariff income, interest and contractual discounts, and, iii) tolls from prior years based on an agreement with Puyehue S.A. and Panguipulli S.A. for ThCh$2,195,036.

Operating costs amounted to ThCh$47,389,145 (ThCh$41,511,048 in 2008). These costs are due primarily to maintenance and operating the Company's facilities, in addition, these costs comprise disbursements incurred in providing engineering services to Centrales Hidroeléctricas de Aysén S.A. in 2009, as described in the previous paragraph. In percentage terms, the Company's costs can be classified as follows: 56.6% depreciation of property, plant and equipment (61.6% in 2008), 13.2% personnel costs (12.1% in 2008), 24.0% contracted services and supplies (19.5% in 2008) and 6.1% amortization of intangibles (6.8% in 2008).

A. Summary (continued)

Administrative and selling expenses amounted to ThCh$4,219,643 (ThCh$4,033,312 in 2008) and consist of 56.0% personnel expenses (51.1% in 2008), 34.6% contracted works, supplies and services (44.5% in 2008), and 9.4% depreciation (4.3% in 2008).

The Company recorded a non-operating loss of ThCh$36,523,619 (loss of ThCh$29,908,603 in 2008), generated mainly by financial expenses of ThCh$32,931,547 (ThCh$29,350,506 in 2008, which includes interest on trunk reassessment of ThCh$2,608,513) The increase in financial expenses is explained principally by the disbursements associated with the tender offer performed in August, that allows to buy US$219.8 million of the outstanding Yankee Bond debt. Other important accounts that affected the non-operating loss during the period were amortization of goodwill of ThCh$6,578,547 in 2009 (ThCh$6,553,249 in 2008) and financial income of ThCh$2,057,102 (ThCh$9,204,080 in 2008, of which ThCh$5,572,715 was from interest associated with the aforementioned trunk reassessment). Foreign currency translation for the period produced a gain of ThCh$1,577,301 (gain of ThCh$363,247 in 2008), valued in accordance with SVS Circular No. 1,560. In turn, price-level restatement generated a loss of ThCh$88,046 (loss of ThCh$2,280,172 in 2008) and net other non-operating results amounted to a negative ThCh$559,882 (negative ThCh$1,292,003 in 2008).

B. Income

	As of September 30, 2009 ThCh$	As of September 30, 2008 ThCh$	Variation September 2009/2008 %	Variation September 2009-2008 ThCh$
Revenues	131,794,524	133,174,766	-1.04%	-1,380,242
Toll income	120,876,511	130,306,457	-7.24%	-9,429,946
Work and services	10,918,013	2,868,309	280.64%	8,049,704
Operating costs	-47,389,145	-41,511,048	14.16%	-5,878,097
Fixed costs	-17,646,415	-13,129,591	34.40%	-4,516,824
Depreciation	-26,837,396	-25,560,252	5.00%	-1,277,144
Amortization of intangibles	-2,905,334	-2,821,205	2.98%	-84,129
Administrative and selling expenses	-4,219,643	-4,033,312	4.62%	-186,331
Operating Income	80,185,736	87,630,406	-8.50%	-7,444,670
Non-operating loss	-36,523,619	-29,908,603	22.12%	-6,615,016
Income before income taxes	43,662,117	57,721,803	-24.36%	-14,059,686
Income taxes (1)	-6,255,083	-12,768,227	-51.01%	6,513,144
Minority interest	-158	-150	5.33%	-8
Net income	37,406,876	44,953,426	-16.79%	-7,546,550
EBITDA	110,325,345	116,187,226	-5.05%	-5,861,881

B. Income (continued)

(1) The decrease in income taxes in 2009 is due principally to deferred taxes, basically because of a decrease in the book-basis value of certain assets affected by the negative price-level restatement in 2009 of -2.8% (positive 6.9% in 2008). This does not apply to the tax basis since it is negative, thus generating a temporary difference of ThCh$25,923,227, which in turn produced a smaller deferred tax expense for the period of ThCh$6,549,596.

Profitability

	As of September 30, 2009	As of September 30, 2008	Variation September 2009/2008
Ratio			
Return on equity	4.16%	5.19%	-19.85%
Return on assets	2.12%	2.64%	-19.70%
Return on operating assets	6.54%	7.28%	-10.16%
Earnings per share (Ch$)	37,406.88	44,953.43	-16.79%

C. Balance Sheet Analysis

	As of September 30, 2009 ThCh$	As of September 30, 2008 ThCh$	Variation September 2009/2008 %	Variation September 2009-2008 ThCh$
Current assets	143,832,925	88,599,489	62.34%	55,233.436
Property, plant and equipment	1,081,626,447	1,056,476,775	2.38%	25,149,672
Other assets	539,271,302	559,152,688	-3.56%	-19,881,386
Total assets	1,764,730,674	1,704,228,952	3.55%	60,501,722
Current liabilities	66,069,991	58,402,322	13.13%	7,667,669
Long-term liabilities	799,208,498	779,889,370	2.48%	19,319,128
Minority interest	4,723	4,681	0.90%	42
Shareholders’ equity	899,447,462	865,932,579	3.87%	33,514,883
Total liabilities and shareholders’ equity	1,764,730,674	1,704,228,952	3.55%	60,501,722

With respect to liabilities, it is important to mention that the Company carried out the following transactions in August to reduce the refinancing risk of its Yankee Bonds amounted to US$465 million that will mature in April 2011.

- Early redemption of debt:

On August 19, the Company redeemed US$219,862,000 in debt. This early redemption involved a premium of $8,788,436,256 paid to bondholders.

- Novation or early termination of swap contracts:

In August, in relation to the aforementioned redemption of US dollar debt, the Company terminated swap contracts totaling US$220,000,000 that it maintained with banks and financial institutions. The net amount paid to these financial institutions was approximately US$55.9 million.

- During the same month, the Company issued bonds in UF and Chilean pesos on the Chilean market, raising Ch$166,171,439,001, equivalent to approximately US$304.7 million.

C. Balance Sheet Analysis (continued)

Value of principal operating property, plant and equipment

Assets	As of September 30, 2009 ThCh$	As of September 30, 2008 ThCh$	Variation September 2009/2008 %	Variation September 2009-2008 ThCh$
Land	19,060,347	17,516,319	8.81%	1,544,028
Buildings and infrastructure	821,705,613	787,563,431	4.34%	34,142,182
Machinery and equipment	352,270,177	327,283,938	7.63%	24,986,239
Other property, plant and equipment	1,736,739	1,481,927	17.19%	254,812
Accumulated depreciation	-113,146,429	-77,368,840	46.24%	-35,777,589
Total	1,081,626,447	1,056,476,775	2.38%	25,149,672

As of September 30, 2009 and 2008, property, plant and equipment mainly consist of land, buildings, infrastructure, machinery and equipment.

The assets of the Company and its subsidiary are valued in accordance with Chilean GAAP.

Differences between book values and economic values and/or market values of principal assets

As the assets of the Company and its subsidiary were valued at fair value in June 2006, in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, for consolidation purposes, it is estimated that the book value of the assets of Transelec Norte S.A. is 36.3% lower than their economic and/or market value.

C. Balance Sheet Analysis (continued)

Liquidity and indebtedness

Ratio	As of September 30, 2009 ThCh$	As of September 30, 2008 ThCh$	Variation September 2009/2008 %
Current liquidity	2.18	1.52	43.42%
Acid ratio	1.29	0.81	59.26%
Total liabilities/equity	0.96	0.97	-1.03%
% short-term debt	7.64	6.97	9.61%
% long-term debt	92.36	93.03	-0.72%
Financial expense coverage ratio	3.35	3.96	-15.40%

In 2009, the increase in liquidity ratios is explained principally by increased cash and cash equivalents as compared to the prior period.

In addition, 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	US$ 30,000,000	11-06-2009	Working capital
BCI	US$ 30,000,000	02-28-2010	Working capital
Santander	US$ 15,000,000	03-31-2010	Working capital
Scotiabank - Corpbanca	UF 3,206,453	09-15-2010	Project financing

D. Most important changes in the company's market

Transelec S.A. and its subsidiary carry out their 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. The importance of this sector is that it 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 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 transmit the generated electricity from where it is produced (electrical power plants) to the "points of entry" of the distribution companies' networks.

The business of Transelec and its subsidiary are mainly related to commercializing the capacity of its facilities to transmit and transform electricity, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary, which spans 2,900 kilometers from Arica in the Región de Arica y Parinacota in the north to the Chiloé Island, in the Región de Los Lagos in the south, 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 transmission lines, 46% of the 220 kV lines, 94% of the 154 kV lines and 11% of the lines ranging from 66kV to 110 kV.

The legal framework that governs the electrical transmission business in Chile is regulated by DFL No. 4/2007, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, enacted 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 Rules for Reliability and Quality of Service (Exempt Ministerial Resolution No. 40 dated May 16, 2005) and its subsequent modifications.

D. Most important changes in the company's market (continued)

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, subtransmission 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. 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 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 tariffs 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 were set to be applied from January 14, 2009. However, this new tariff has been applied by de CDEC for the February, July, August and September revenues, thus the settlement for the remaining period is pending.

E. 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.

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 procedures 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. Regarding subtransmission facility tolls, although several methodological aspects to perform the calculus should be included in the Electrical By Law, that has not been updated yet, the decree that sets subtransmission tariffs and indexation formulas, already published in January 2009, comprises the new calculation methodology allowing to fix the procedures to calculate the tolls of the associated facilities.

Concentration of income

A major part of Transelec’s total sales (71.5%) is from one single customer, Empresa Nacional de Electricidad S.A. (Endesa) and its subsidiaries generating companies. The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of the Company’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.

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.

E. Market risk factors (continued)

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 cost and availability of funds to finance that program. 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 catastrophes; 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 annuity of the 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 partial recovery of the investments made.

F. Foreign Exchange and Interest rate Risk

Foreign exchange risk

Depending on the market and other considerations, Transelec has carried out, when deemed necessary, certain hedging activities such as cross currency swaps and currency forwards in order to hedge the risk of fluctuations in the UF-dollar exchange rate for its bonds denominated in US dollars. However, it is not possible to ensure that Transelec will be fully protected by these foreign exchange hedge contracts. In addition, cross currency swaps and forwards contain counterparty credit risks, cash requirements upon maturity and other associated risks.

As of September 30, 2009, the Company and its subsidiary had a portion of their debt denominated in US dollars as a result of bonds placed abroad for ThUS$256,180 (including accrued interest), other short-term liabilities of ThUS$29,373 and related company loans for ThUS$18,310 (including accrued interest). On the other hand, the Company and its subsidiary had the following assets denominated in US dollars: credit in a mercantile current account with its related companies (primarily Transelec Holdings Rentas Limitada) of ThUS$31,111 (including interest earned), short-term financial investments of ThUS$29,044 (including interest earned), fair value swap contracts for ThUS$ 49,777, trade receivables and other current assets of ThUS$2,006, property, plant and equipment and intangible assets at fair value of ThUS$178,112 and forward contracts for ThUS$16,000. Therefore, in 2009, the Company's dollar-denominated assets exceed the respective liabilities by ThUS$2,190.

As of September 30, 2009, the Company maintains forward contracts for sales of US dollars amounting to ThUS$29,100 associated with revenue the Company will invoice from October to December 2009. These forward contracts are intended to set the underlying portion of its revenue in pesos that will be invoiced in dollars during those months.

As of September 30, 2008, a portion of the debt of the Company and its subsidiary was denominated in US dollars as a result of bonds placed abroad for ThUS$494,600 (including accrued interest) and other short-term liabilities of ThUS$13,333. On the other hand, the Company had the following assets denominated in US dollars: credit in a mercantile current account with its related companies (primarily Transelec Holdings Rentas Limitada) of ThUS$30,818 (including interest earned), short-term financial investments of ThUS$29,690 (including interest earned), swap contracts at fair value of ThUS$282,586, trade accounts receivable and other current assets of ThUS$1,693, and property, plant and equipment and intangibles at fair value of ThUS$ 165,136. These assets exceed the respective liability by ThUS$2,000.

F. Foreign Exchange and Interest rate Risk (continued)

Foreign exchange risk (continued)

As of September 30, 2008, the Company maintained forward contracts for sales of US dollars amounting to ThUS$31,500 associated with revenue the Company was to invoice from October to December 2008.

The portion of the revenues denominated in US dollars is exposed to the exchange rate variation. This exposure is partially mitigated by the fact that these toll revenues are indexed by indexation formulas partly linked to the US dollar.

Trunk and contractual toll revenues (80% approximately of the total) are denominated in United States dollars, but monthly invoices are sent in their Chilean peso equivalent, calculated by applying the average observed dollar rate. Subtransmission tolls are denominated in Chilean pesos; as the Subtransmission Decree that fix the tolls for this facilities will be in fully application, these revenues will represent approximately 16% approximately of the total toll revenues. Most of the remaining revenues (4%), mainly from providing services, are invoiced in Chilean pesos based on the value of the Unidad de Fomento. The corresponding exchange rates are detailed as follows:

F. Foreign Exchange and Interest rate Risk (continued)

Foreign exchange risk (continued)

Exchange rate

Month	Average 2009 (Ch$)	Last day 2009 (Ch$)	Average 2008 (Ch$)	Last day 2008 (Ch$)
January	623.01	612.43	480.90	465.30
February	606.00	595.76	467.22	458.02
March	592.93	582.10	442.94	439.09
April	583.18	588.62	446.43	459.16
May	565.72	564.64	470.10	479.66
June	553.08	529.07	493.61	520.14
July	540.42	541.90	502.24	502.78
August	546.88	550.64	516.70	516.47
September	549.07	546.07	530.17	552.47
Average for the period	**573.37**	**567.91**	**483.37**	**488.12**

The indexation formulas incorporated into toll contracts and those included in trunk and subtransmission decrees, take into account variations in the value of the facilities and of operating, maintenance and administration costs. In general, those indexation formulas take into consideration variations in the international prices of equipment, materials and local labor.

For the 2009 period, indexation decreased the value of tolls by an average of 8.2% compared with the same period in 2008.

F. Foreign Exchange and Interest rate Risk (continued)

Interest rate risk

As of September 30, 2009, the Company has no debt bearing interest at variable rates. In effect, its US dollar denominated debt accrues interest at a fixed annual rate of 7.875%. All UF denominated debt was placed at fixed interest rates that vary between 3.5% and 6.2%, depending on each bond. Bonds placed in Chilean pesos were placed at a fixed rate of 5.70%.

On the other hand, the Company maintains the following assets at variable rates: a) mercantile current accounts with related companies that are denominated in US dollars, totaling US$ 12.8 million (net) and b) cash and short-term investments totaling US$155.1 million. As cash provisions are set aside for project financing and profit distributions, it is believed that the Company is at no risk of a change in market interest rates affecting its results.

G. Principal cash flows for the period

For the nine-month period ended September 30, 2009, the Company recorded positive net cash flows of ThCh$18,101,416, due to positive cash flows from operating activities of ThCh$62,384,822 and positive cash flows from financing activities of ThCh$ 363,975, offset by negative cash flows from investing activities of ThCh$ 44,647,381. For the nine-month period ended September 30, 2008, the Company recorded positive net cash flows of ThCh$ 13,668,513, due to positive cash flows from operating activities of ThCh$77,552,079, partially offset by negative cash flows from investing activities and financing activities of ThCh$41,406,507 and ThCh$22,477,059, respectively.

The net positive cash flows from financing activities during the period ended September 30, 2009 of ThCh$363,975 are due primarily to the bond placement (E, F and H series), partially offset by the partial repayment of the US dollar denominated bonds plus the premium for early redemption paid to bondholders. In addition, the Company settled swap contracts amounting to US$220 million, which involved paying approximately US$55.9 million to the financial institutions that were party to these contracts. In 2008, the Company recorded net negative cash flows from financing activities of ThCh$22,477,059, mainly as a result of dividend payments.

G. Principal cash flows for the period (continued)

In the current period, investing activities generated negative net cash flows of ThCh$44,647,381, as a result of net additions to property, plant and equipment. In 2008, investing activities generated negative net cash flows of ThCh$41,406,507, due principally to net additions to property, plant and equipment of ThCh$34,719,338 and other investment disbursements of ThCh$73,734,370 (corresponding to the price adjustment on the investment paid to HQ and IFC because of the Trunk Transmission Decree). These effects were partially offset by net collections on loans to related companies of ThCh$58,952,829.

In 2009, the effect of inflation on cash and cash equivalents was positive, amounting to ThCh$ 2,347,378. In 2008, the effect was negative and amounted to ThCh$582,258.

The final balance of cash and cash equivalents as of September 30, 2009 amounted to ThCh$85,369,857 from an opening balance of ThCh$64,921,063. In 2008, the final balance of cash and cash equivalents amounted to ThCh$47,540,593 from an opening balance of ThCh$34,454,338.