TRANSELEC S.A. AND SUBSIDIARY

MANAGEMENT DISCUSSION AND ANALYSIS

OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

INTRODUCTION

In 2010, Transelec S.A. and subsidiary recorded net income of MCh$ 55,825 (MCh$ 54,708 in 2009), which is 2.0% higher than the comparison period. Operating revenues totaled MCh$ 177,253, which is 4.7% lower than in 2009 (MCh$ 186,035). EBITDA for the year was MCh$ 146,039, with an EBITDA over revenues margin of 82.4% (82.0% in 2009). The Company's non-operating loss and income taxes for the 2010 period represented a charge of MCh$ 44,628 (MCh$ 52,400 in 2009). This lower non-operating loss can be explained fundamentally by lower financial expenses (MCh$ 29,151 in 2010 compared to MCh$ 59,577 in 2009), partially offset by the loss generated by inflation-indexed assets and liabilities during 2010 (MCh$ 14,004), in contrast to the profit obtained in 2009 of MCh$ 16,931 in this same concept.

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 (with 6.2% annual interest). Financing to prepay this debt was secured beforehand in December 2009 by issuing new 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 subsidiary have prepared their financial statements as of December 31, 2010 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, which is the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	December 2010 MM$	December 2009 MM$	Variation 2010/2009 %
Operating Revenues	177,253	186,035	-4.7%
Toll sales	169,650	165,810	2.3%
Work and services	7,603	20,225	-62.4%
Operating costs	-68,582	-72,511	-5.4%
Fixed costs	-24,491	-28,196	-13.1%
Depreciation	-44,091	-44,315	-0.5%
Administraton and sales expenses	-8,218	-6,415	28.1%
Operating Income	**100,453**	**107,108**	**-6.2%**
Financial Income	2,341	2,307	1.5%
Financial Costs	-29,151	-59,577	-51.1%
Foreign exchange differences, net	1,501	-1,663	-190.2%
Gain (loss) for indexed assets and liabilities	-14,004	16,931	-182.7%
Others	640	583	9.8%
Non-Operating Income	**-38,673**	**-41,420**	**-6.6%**
Income before Income Taxes	**61,780**	**65,688**	**-6.0%**
Income tax	-5,955	-10,980	-45.8%
Net Income	**55,825**	**54,708**	**2.0%**
EBITDA	**146,039**	**152,535**	**-4.3%**

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

a) Operating Income

In 2010, sales reached MCh$ 177,253 (MCh$ 186,035 in the same period in 2009), which is a decrease of 4.7%. 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 principal activity. During 2010, the Company provided lower engineering services to hydroelectric power plants in Aysén compared with those services rendered in 2009.

In 2010, cost of sales reached MCh$ 68,582 (MCh$ 72,511 in 2009). These costs are primarily related to maintaining and operating the Company's facilities. The Company also incurred in higher costs in 2009 to provide engineering services to hydroelectric power plants projects in Aysén. In percentage terms, the Company's costs consist of 64% depreciation of property, plant and equipment (61% in 2009), and the remaining 36% (39% in 2009) correspond to personnel costs and supplies and services contracted.

Administrative and selling expenses amounted to MCh$ 8,218 (MCh$ 6,415 in 2009) and consist of 95% (92% in 2009) in personnel expenses, work, supplies and services contracted, and 5% depreciation (8% in 2009).

b) Non-Operating Income

Net income recorded in 2010 was negatively impacted by the non-operating loss of MCh$ 38,673 (MCh$ 41,420 loss in 2009), which was generated mainly by financial expenses of MCh$ 29,151 (MCh$ 59,577 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 MCh$ 6,455 during 2010, ii) the negative result during 2010 from mark to market of the Company's swap contracts and settling of those derivative instruments amounted only to MCh$ 1,535, which resulted in a charge of MCh$ 17,164 in 2009, and, iii) in 2009 financial expenses included a charge of MCh$8,788 corresponding to the premium paid to buy a portion of the Yankee Bond. Other important items that affected the non-operating loss recorded in 2010 include: a) a charge from inflation indexed assets and liabilities of MCh$ 14,004 (credit of MCh$ 16,931 in 2009) and b) foreign currency translation, which resulted in a credit of MCh$ 1,501 in 2010 (compared to a charge of MCh$ 1,663 in 2009).

2. BALANCE SHEET ANALYSIS

Items	December 2010 MCh$	December 2009 MCh$	Variation 2010/2009 %
Current assets	79,312	180,370	-56.0%
Non-current assets	1,676,933	1,632,026	2.8%
Total Assets	**1,756,245**	**1,812,396**	**-3.1%**
Current liabilities	183,111	43,915	317.0%
Non current liabilities	653,618	850,546	-23.2%
Equity	919,517	917,934	0.2%
Total liabilities & Equity	**1,756,245**	**1,812,396**	**-3.1%**

The decrease in current assets as of December 2010 as compared to December 2009 is due to bonds issued by Transelec in December 2009 for UF 3.1 million to finance the early redemption of its series B bonds for UF 3.04 million, which occurred in March 2010.

The increase in current liabilities as of December 2010 reflects the fact that the Company's Yankee bonds and the related swap will mature within the next 12 months (April 2011).

VALUE OF PRINCIPAL OPERATING PROPERTY, PLANT AND EQUIPMENT

Assets	December 2010 MM$	December 2009 MM$	Variation 2010/2009 %
Land	19.949	19.410	2,8%
Building, nfraestucture, works in progress	851.299	823.998	3,3%
Machinery and equipment	390.316	364.968	6,9%
Other fixed assets	1.891	1.803	4,9%
Depreciation (less)	-168.902	-127.445	32,5%
Total	**1.094.553**	**1.082.733**	**1,1%**

OUTSTANDING DEBT

Debt	Currency or index	Interest rate	Type of rate	Amount in original currency (million) Unpaid capital		
				December 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	4,80%	Fixed	33.600	33.600	-.-
Series H bond	UF	5,70%	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	December 2010 MM$	December 2009 MM$	Variation 2010/2009 %
Cash flow araising from (used in) operating activities	118,463	106,466	11.3%
Cash flow araising from (used in) investing activities	-102,137	-76,089	34.2%
Cash flow araising from (used in) financing activities	-118,727	40,728	-391.5%
Net increase (decrease) of cash and cash equivalent	**-102,401**	**71,105**	**-244.0%**
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	**35,495**	**137,896**	**-74.3%**

The net negative cash flows from financing activities during 2010 of MCh$ 118,727 are due fundamentally to principal payments on debt (UF-denominated series B1 and B2 bonds, which were prepaid) and dividend payments. In 2009, the Company recorded net positive cash flows from financing activities of MCh$ 40,728, due principally to the placement of series E, F, H, I and K bonds, the purchase of a portion of the Yankee bonds issued by the Company in 2001, termination of certain swaps associated with that portion of the redeemed Yankee bonds, and dividend payments.

In 2010, investing activities generated net negative cash flows of MCh$ 102,137 because of net additions to property, plant and equipment. During 2009, investing activities generated negative cash flows of MCh$ 76,089, also as a result of net additions to property, plant and equipment.

The final balance of cash and cash equivalents as of December 31, 2010 amounted to MCh$ 35,495, from an opening balance of MCh$ 137,896. As of December 31, 2009, the final balance of cash and cash equivalents amounted to MCh$ 137,896, 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 lines of credit:

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

4. RATIOS

INDICATORS	December 2010	December 2009	Variation 2010/2009
Profitability			
Shareholders' Equity profitability	6.07%	5.96%	1.9%
Assets profitability	3.18%	3.02%	5.3%
Operating assets profitability	7.84%	8.78%	-10.7%
Earnings per share ($)	55.82505	54.70808	2.0%
Liquidity & Indebtedness			
Current Ratio	0.43	4.11	-89.5%
Acid-Test Ratio	0.43	4.11	-89.5%
Debt to Equity	0.91	0.97	-6.2%
% Short term debt	21.88	4.91	345.7%
% Long term debt	78.12	95.09	-17.9%
Financial expenses coverage	4.97	2.55	94.9%

		IFRS	Chile GAAP	
Limit	Covenant	December 2010	December 2009	Status
> 1,5	FNO/Financial Expenses (**)	5.27	3.21	OK
< 0,7	Capitalization Ratio (***)	0.45	0.47	OK
> ThUF15,000	Shareholder's Equity (in ThUF)	43,089	43,171	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 + Noncontrolling 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 December 31, 2010 amounted to MCh$24,970.

The percentage of short-term debt increased in 2010 due to the Yankee bonds and their related swap 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 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 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.

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 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.

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 began 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 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 to set tariffs and indexation formulas for the 2011-2014 period. The results of this study will be applicable during the first 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 set tariffs and indexation formulas for the 2011-2014 period. The CNE will issue its Technical Report during January 2011 and its results will be applicable following presentation of any potential discrepancies before the Panel of Experts.

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
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.

The operations of Transelec are governed by Law No. 19,300, Chile's Environmental Bases ("Environmental Law"), enacted in 1994. Among other modifications, recent amendments created a new institutional structure, detailed below: (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 charged with regulating, assessing and supervising activities with environmental impact. These new institutions replaced the National Environmental Commission (CONAMA) and the Regional Environmental Commissions 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 that grant new powers to environmental institutions but are still in the legislative review stage.

The modified Environmental Law requires entities that develop projects involving high voltage transmission lines and substations to participate in the Environmental Impact Assessment System (SEIA for its Spanish language acronym) and conduct independent environmental impact studies for any future project or activity that may affect the environment, and to file them with the new Environmental Assessment Service.

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 annual valuation of the existing facilities (AVI). Any important technological changes in the equipment at its facilities could lower this valuation, which could in turn prevent recovery of 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:

	December 2010		December 2009	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	99	101	119	118
Dollar (amounts associated with income statement items)	-.-	27	-.-	28
Chilean peso	1.656	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	606.00	595.76
March	523.16	526.29	592.93	582.10
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
July	531.72	522.36	540.42	541.90
August	509.32	499.26	546.88	550.64
September	493.93	485.23	549.07	546.07
October	484.04	491.76	545.83	531.74
November	482.32	486.39	507.78	495.84
December	474.76	468.37	501.42	506.43
Average of the period	**510.25**	**511.20**	**559.61**	**553.77**

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, a significant portion of the Company's transmission income is concentrated in one customer. In effect, as of December 31, 2010, approximately 63.2% 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. As of December 31, 2010, 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 December 31, 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 December 31, 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
December 31, 2010	114,727	0	136,587	128,733	388,346	768,393
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.