TRANSELEC S.A.

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

SUMMARY

As of December 31, 2015, Transelec S.A. obtained an EBITDA* of MCh$238,806, an 11.0% higher than the comparison period of 2014 (MCh$215,159), with an EBITDA* over revenues of 86.3% (85.9% in 2014). This increase is mainly explained by operating revenues that reached MCh$276,737 in December 2015, a 10.5% higher than the revenues obtained in the same period of 2014 (MCh$250,525) and by a decrease of MCh$423 in fixed costs for administration and sales expenses. This was partially offset by a decrease in other income (MCh$1,844) and an increase in fixed costs in Operating costs (MCh$1,144).

The net income recorded by the Company as of December 31, 2015 was MCh$83,628, which is 25.2% higher respect to the comparison period (MCh$6,773). This increase is mainly explained by higher revenues in Operating Income (12.6%) and lower loss in Non-Operating Income (12.6%), partially offset by higher Income Tax (386.3%).

The loss in Non-Operating Income as of December 31, 2015 of MCh$75,693, shows a decrease of 12.6% compared with the same period in 2014 (MCh$86,603), that is mainly explained by lower losses for indexed assets and liabilities (30.7%), which measures the inflation impact on the UF denominated debt of the Company, and by a gain in foreign exchange differences (MCh$839), partially offset by higher financial costs.

During 2015, the company incorporated US$138.3 million of new facilities, where US$70.5 correspond to the commissioning of the trunk expansion project ‘S/E Lo Aguirre’, US$19.0 million correspond to the commissioning of the trunk expansion project ‘Segundo transformador Ancoa’, US$37.9 million to the commissioning of ten trunk upgrade projects and US$10.9 million to other projects.

Relevant facts of the period:

- On January 23, 2015, an extraordinary Shareholders’ Meeting of Transelec S.A. was held. The merger of the subsidiary Inversiones Eléctricas Transam Chile with Transelec S.A. was approved, in the terms and conditions discussed at the meeting, delegating to the Board of Directors the establishment of the adequate timing for the merger.
- During 2015, Fitch Ratings has upgraded Transelec to ‘BBB’ from ‘BBB-’ internationally and ‘AA-’ from ‘A+’ locally. Humphrey’s also upgraded to ‘AA-’ from ‘A+’ locally. Moody’s and S&P both ratified Transelec’s international rating in ‘Baa1’ and ‘BBB’ respectively and Feller ratified Transelec’s local rating in ‘AA-’.
- On April 2, 2015, Transelec S.A. subscribed a loan agreement with ‘Banco Estado’ (1 year bullet, 3.8% rate), amounting MCh$16,000, maturing on April 2, 2016, to prepay the debt of its subsidiary Transmisora Huepil Ltda.
- On April 10, 2015, the subsidiary Transmisora Huepil Ltda. totally prepaid the principal and interests related to its only outstanding debt, transaction required for the merger of its parent company Inversiones Eléctricas Transam Chile Ltda. with Transelec S.A.
- During 2015’s first semester, Transelec S.A. made an intercompany loan to Transelec Holdings Rentas Limitada for UF 1.76 million. On September the currency was redenominated to US Dolar and UF.
- On August 1, 2015, Inversiones Eléctricas Transam Ltda. was merged with its subsidiaries.

- On September 1, 2015, the merger between Transelec S.A. and Inversiones Eléctricas Transam Ltda was finalized.
- In 2015, Transelec S.A. paid to their shareholders the following amounts:
    - MCh$24,845 as 2014's final dividend. Agreed to be distributed on Transelec S.A. Ordinary Shareholders Meeting in April 28, 2015.
    - MCh$16,355 as the 2015 first interim dividend. Agreed to be distributed on Transelec S.A. Board of Directors Meeting in May 13, 2015.
    - MCh$18,167 as the 2015 second interim dividend. Agreed to be distributed on Transelec S.A. Board of Directors Meeting in August 12, 2015.
    - MCh$28,799 as the 2015 third interim dividend. Agreed to be distributed on Transelec S.A. Board of Directors Meeting in November 16, 2015.
- On October, 2015, the Panel of Experts made their resolution about the Trunk Transmission Study claims presented on August. It is expected that the decree will be published on the first quarter of 2016. However the new trunk transmission rates for the 2016-2019 period shouldn't show significant changes to Transelec.

Transelec S.A. has prepared its financial statements as of December 31st, 2015 according to International Financial Reporting Standards (IFRS), and taking into account the instructions and standards of financial reporting issued by the SVS, in particular Circular No. 856 (10/17/2014) which instructs a form of registration of differed taxes for audited companies by this Superintendency. Note 2.1 of the Financial Statements, from which this MD&A is part, accounts and describes this instruction. The figures in this MD&A are expressed in millions of Chilean pesos (MCh$), since Chilean Peso corresponds to the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	December 2015 MCh$	December 2014 MCh$	Variation 2015/2014 MCh$	Variation 2015/2014 %
Operating Revenues	**276.737**	**250.525**	**26.212**	**10,5%**
Toll sales	272.596	246.328	26.268	10,7%
Work and services	4.141	4.197	-56	-1,3%
Operating costs	**-83.121**	**-75.950**	**-7.171**	**9,4%**
Fixed costs	-29.086	-27.942	-1.144	4,1%
Depreciation	-54.035	-48.009	-6.026	12,6%
Administraton and sales expenses	**-16.842**	**-17.609**	**767**	**-4,4%**
Fixed costs	-15.630	-16.053	423	-2,6%
Depreciation	-1.212	-1.556	344	-22,1%
Operating Income	**176.774**	**156.965**	**19.808**	**12,6%**
Other Financial Income	8.259	10.129	-1.870	-18,5%
Financial Costs	-59.138	-56.710	-2.428	4,3%
Foreign exchange differences, net	839	-1.809	2.649	-146,4%
Gain (loss) for indexed assets and liabilities	-32.439	-46.842	14.403	-30,7%
Other income	6.785	8.629	-1.844	-21,4%
Non-Operating Income	**-75.693**	**-86.603**	**10.910**	**-12,6%**
Income before Income Taxes	**101.081**	**70.362**	**30.718**	**43,7%**
Income tax	-17.453	-3.589	-13.864	386,3%
Net Income	**83.628**	**66.773**	**16.854**	**25,2%**
EBITDA	**238.806**	**215.159**	**23.647**	**11,0%**

(*) EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income

a) Operating Income

During 2015, operating revenues reached MCh$276,737, which is 10.5% higher compared with the same period in 2014 (MCh$250,525). This increase is mainly explained by higher Toll sales that reached MCh$272,596 in December 2015, a 10.7% higher than 2014 (MCh$246,328). This increase is mainly due to MCh$14,227 derived from macroeconomical effects (indexation and foreign exchange), MCh$2,346 related to the ending of a negotiation of terms and conditions of certain pending agreements with ENDESA, MCh$1,303 of higher subtransmission revenues, MCh$5,524 for additional revenues due to commissioned projects and MCh$1,221 of lower revenues in December 2014 due to forward contracts. Additionally, Work and Services revenues reached MCh$4,141 as of December 31, 2015, a 1.3% lower than 2014 (MCh$4,197).

During this period, the operating costs reached MCh$83,121, a 9.4% higher than 2014 (MCh$75,950). These costs are mainly related to the maintenance and operation of the Company's facilities and, in percentage terms, 65.0% of the company's costs correspond to property, plant and equipment depreciation (63.2% in 2014) and the remaining 35.0% corresponds to personnel, supplies and contracted services (36.8% in 2014). As of December 2015, fixed costs were slightly higher than the costs reached in the same period in 2014 (4.1% increase), while the depreciation was 12.6% higher, which is mainly explained by the retirement of fixed assets as a result of sinister and commissioning of new facilities occurred during 2015.

Administrative and selling expenses amounted MCh$16,842, a 4.4% less than 2014 (MCh$17,609), and primarily consist in 92.8% of personnel and work expenses, supplies and contracted services (91.2% in 2014), and 7.2% of depreciation (8.8% in 2014). The decrease in administrative and selling expenses is mainly explained by less fine payments in 2015, less payment for consultancies for the trunk transmission study. This decrease was partially offset by the reclassification of personnel costs from operating costs to administration and sales expenses and personnel performance bonus paid in 2014.

b) Non-Operating Income

Despite net income of 2015 was negatively impacted by the non-operating loss of MCh$75,693, this result was a 12.6% lower than the one recorded in the same period of 2014 (MCh$86,603), and is mainly explained by lower losses in indexed assets and liabilities (MCh$14,403) and in the earnings by foreign exchange differences (MCh$839) which in 2014 where losses for MCh$1,809. This effects were partially offset by less other financial incomes (MCh$1,870) and higher financial costs (MCh$2,428).

Loss from indexed assets and liabilities of MCh$32,439, compared with the loss of MCh$46,842 recorded in the same period of 2014, is mainly explained by the UF variation. This variation corresponds to a 4.1% for the current period compared to 5.7% in 2014 due to less inflation in 2015.

Gain from Foreign exchange differences in 2015, reached MCh$839 compared to the losses in 2014 of MCh$1,809. Losses recorded as of December 31, 2014, are mainly explained by the negative impact of higher exchange rate on the Senior Notes bonds issued in July 2013 and July 2014 (MCh$40,360) partially offset by gains related to receivables from related companies (MCh$18,068) and gains derived from the Cross Currency Swap contracted in August 2014 (MCh$12,281). In 2015, the negative impact of higher exchange rate on the US bonds (MCh$64,975) was offset by gains derived from the Cross Currency Swap (MCh$38,077) and gains related to receivables from related companies (MCh$26,240).

Financial costs as of December 31, 2015, reached MCh$59,138, a 4.3% higher than the same period of 2014 (MCh$56,710). This increase is mainly explained by MCh$7,913 of interest related to the Senior Notes bonds. However its partially offset by less interest related to UF bonds (MCh$3,397). This is mainly explain by the new debt structure of the company (the maturity of Bonds Series E, F and I during the third quarter of 2014, the prepayment of Bond Serie L on December of 2014). Lower bank fees & expenses (MCh$789) and more interests activated due to new projects also offset the increase.

Other financial income as of December 31, 2015, reached MCh$8,259, an 18.5% lower than the same period in 2014 (MCh$10,129), mainly explained by lower bank interest earned due to less cash balance and lower interest accrued to related companies (Transelec Holding Rentas Ltda.).

Earnings due to Other Income as of December 31, 2015 reached MCh$6,785, a 21.4% lower than the same period in 2014 (MCh$8,629). The difference is mainly explained by less exceptional gains partially offset by higher income due to disposal of materials.

c) Income tax

The income tax increased because of a 44% increment of the basis for calculating tax, also by a higher income tax rate and the absorption effect of mergers with related companies and other permanent effects.

2. BALANCE SHEET ANALYSIS

Items	December 2015 MCh$	December 2014 MCh$	Variation 2015/2014 MCh$	Variation 2015/2014 %
Current assets	92.078	128.514	-36.436	-28,4%
Non-current assets	2.157.149	2.028.552	128.598	6,3%
Total Assets	**2.249.227**	**2.157.066**	**92.162**	**4,3%**
Current liabilities	257.921	96.930	160.991	166,1%
Non current liabilities	1.200.658	1.254.884	-54.226	-4,3%
Equity	790.649	805.252	-14.603	-1,8%
Total Liabilities & Equity	**2.249.227**	**2.157.066**	**92.162**	**4,3%**

The increase in the total assets between December 2014 and December 2015 is mainly explained by higher non-current assets, partially offset by a decrease in the current assets. The increase in non-current assets is mainly due to higher receivables from related parties (Transelec Holdings Rentas Ltda.), an increase in fixed assets derived from the increase of work in progress and the commissioning of the trunk expansions projects 'S/E Lo Aguirre' and 'Segundo Transformador Ancoa', among others and an increase in Other financial assets. On the other hand, the decrease in current assets is mainly explained by lower Cash and cash equivalents, lower Trade and other receivables and also lower Other non-financial assets partially offset by an increase of Receivables from related parties.

The increase in total liabilities between December 2014 and December 2015 is explained by higher current liabilities, mainly due to an increase in Other financial liabilities. This increase is primarily explained by higher obligations to the public due to the bond C maturity in September 2016 and the obligations with banks due to a loan agreement subscribed with 'Banco Estado' in April 2015; partially offset by less balance in Trade and other payables. On the other hand, non-current liabilities recorded a decrease that is mainly explained by lower Other financial liabilities due to the short-term reclassification of bond C, partially offset by an increase in Deferred tax liabilities due to lower obligations with banks due to prepayment of Transmisora Huepil Ltda. loan in April 2015.

VALUE OF THE MAIN PP&E IN OPERATION

Assets	December 2015 MCh$	December 2014 MCh$	Variation 2015/2014 MCh$	Variation 2015/2014 %
Land	20.630	20.060	571	2,8%
Building, Infraestucture, works in progress	1.080.462	1.046.214	34.249	3,3%
Work in progress	72.802	73.169	-367	-0,5%
Machinery and equipment	580.389	546.349	34.040	6,2%
Other fixed assets	5.530	4.394	1.136	25,8%
Depreciation (less)	-381.313	-338.275	-43.038	12,7%
Total	**1.378.501**	**1.351.911**	**26.590**	**2,0%**

CURRENT DEBT

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) Unpaid capital December 2015	December 2014
Series C bond	UF	3,50%	Fixed	01 September, 2016	6,0	6,0
Series D bond	UF	4,25%	Fixed	15 December, 2027	13,5	13,5
Series H bond	UF	4,80%	Fixed	01 August, 2031	3,0	3,0
Series K bond	UF	4,60%	Fixed	01 September, 2031	1,6	1,6
Series M bond	UF	4,05%	Fixed	15 June, 2032	3,4	3,4
Series N bond	UF	3,95%	Fixed	15 December, 2038	3,0	3,0
Series Q bond	UF	3,95%	Fixed	15 October, 2042	3,1	3,1
Series Senior Notes bond	USD	4,625%	Fixed	26 July, 2023	300,0	300,0
Series Senior Notes bond	USD	4,25%	Fixed	14 January, 2025	375,0	375,0
Revolving Credit Facility	USD	2,01%	Variable	15 October, 2017	0,0	0,0
Huepil Loan	USD	1,88%	Variable	04 April, 2015	0,0	19,1
Local Note	CLP	3,80%	Fixed	02 April, 2016	16.000,0	0,0

Although increases in inflation can impact the cost of debt denominated in UF and, therefore, on the financial costs of the Company, these impacts are mitigated by the revenues of the Company, which are also indexed to the inflation by the polynomials revenues.

3. MAIN CASH FLOWS DURING THE YEAR

Items	December 2015 MCh$	December 2014 MCh$	Variation 2015/2014 MCh$	Variation 2015/2014 %
Cash flows provided by (used in) operating activities	178.989	186.444	-7.455	-4,0%
Cash flows provided by (used in) investing activities	-136.179	-99.763	-36.417	36,5%
Cash flows provided by (used in) financing activities	-84.566	-73.191	-11.376	15,5%
Net increase (decrease) of cash and cash equivalent	**-41.756**	**13.491**	**-55.247**	**-409,5%**
Cash and cash equivalent at the begining of the period	65.913	52.422	13.491	25,7%
Cash and cash equivalent at the end of the period	**24.157**	**65.913**	**-41.756**	**-63,4%**

As of December 31, 2015, cash flows provided by operating activities reached MCh$178,989, which is 4.0% lower than the same period of 2014 (MCh$186,444), mainly explained by higher Interest paid (MCh$7,041) due to the new debt structure previously explained.

During this period, cash flow used in investing activities reached MCh$136,179, an 36.5% higher than the amount used in the same period of 2014 (Mch$99,763), which is mostly explained by higher cash flow used in loans to related parties (MCh$98,329), mainly to Transelec Holding Rentas Ltda., partially offset by an increase in Receivables from related parties (MCh$43,619) and lower Additions of property, plant and equipment that reached MCh$18,019, mainly explained by the acquisition of the line 'Maitencillo – Cardones' to Guacolda S.A in February 2014 (MCh$29.995).

During the same period, cash flows used in financing activities reached MCh$84,556, a 15.5% higher than the amount used in the same period of 2014 (MCh$73,191), mainly explained by higher flow used in dividends paid (MCh$25,129), partially offset by the import proceeds from the loan agreement subscribed by Transelec S.A. with Banco Estado on April, 2015 (MCh$16,000), used to prepay the Transmisora Huepil Ltda. loan (MCh$13,303). On the other hand, on 2014 there was bond issuance for MCh$205,134 and a bond payment for MCh$210,728, items that had no movements in 2015.

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

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank, Bank of Tokyo-Mitsubishi, DnB NOR,Citibank, JP Morgan Chase Bank and Export Development Canadá	US$250,000,000	Oct 15th, 2017	Working Capital

4. INDICATORS

Bonds	Covenant	Limit	December 2015	December 2014
All local Series	Distribution Test (**)	FNO(*)/Financial Expenses > 1,5	4,32	4,35
	Capitalization Ratio	< 0,7	0,62	0,61
	Shareholder's Equity (million UF) (***)	> UF15	31,82	33,71

(*) 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 December 31, 2015 amounted to MCh$24.970.

Ratios	December 2015	December 2014	Variation 2015/2014
Profitability			
Shareholders' Equity profitability	10,6%	8,3%	27,6%
Assets profitability	3,7%	3,1%	20,0%
Operating assets profitability	5,4%	4,4%	22,8%
Earnings per share ($)	83.628	66.773	25,2%
Liquidity & Indebtedness			
Current Ratio	0,36	1,33	-72,9%
Acid-Test Ratio	0,36	1,33	-73,1%
Debt to Equity	1,84	1,68	9,5%
% Short term debt	17,68	7,17	146,6%
% Log term debt	82,32	92,83	-11,3%
Financial expenses coverage	4,04	3,79	6,4%

5. THE MARKET

Transelec S.A. develops 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 generate 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 this electricity. Finally, 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 companies' networks or of the large end users.

Transelec's business mainly focuses on commercializing the capacity of its facilities to transport and transform electricity, in accordance with established safety and quality standards. The transmission system of Transelec S.A. and its subsidiary, which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' 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 98.5% of Chile's population. The Company owns the 81% of all of the 500 kV electricity transport lines, approximately 42% of the 220 kV lines, 86% of the 154 kV lines and 10% of the 110kV and 66kV 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 ('Ley Corta I') published on March 13, 2004, Law 20,018 ('Ley Corta II') published on May 19, 2005, Law 20,257 (Generation with Non-Conventional Renewable Energy Resources) published on April 1, 2008, Law 20,701 (Procedure to grant Electrical Concessions) published on October 14, 2013, Law 20,698 (Contribute with the Generation mix expansion through Non-Conventional Renewable Energy) published on October 22, 2013, the Law 20,726 (that promote the interconnection of independents electrical systems) published on February 7, 2014 and Law N° 20.805 (Refines Bidding System of Power Supply for customers subject to price regulation), published on January 29, 2015. 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 that 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 'Ley Corta I', modified the General Electricity Services Law of 1982 in matters related 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 sub-transmission systems – is considered a public service and is subject to regulated tariffs and to the open access regime.

Finally, Law 19,940 establishes that the new payment regime for using trunk facilities would become effective as of March 13, 2004 and determines a transitory period that was in effect until the first trunk transmission decree was issued. Thus, from 2004 to 2007, collection and payment for using transmission facilities was carried out provisionally using subsequent recalculations in accordance with legal and regulatory standards in effect until 'Ley Corta I' was published.

On January 15, 2008, a decree from the Ministry of Economy, Development and Reconstruction was published, and 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 14th, 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 allowed setting the tariffs and the corresponding indexation formulas for the period 2011 - 2014.

Decree No. 61, published on November 17, 2011 contains the tariffs that were retroactively applicate from January 1, 2011. During 2012 to 2014 the new tariffs have been applied and particularly the assessment process form 2011 was published in March and April for SING and SIC respectively. The SIC assessment for 2011 was modified in December 2012 according to the Expert Panel Report N°2-2012. According to what is indicated in the transitory third article of Law 20,805 published on January 29, 2015, and to what is established in the Decree No. 8T of April 22, 2015, the validity of the Decree No. 61/2011, which fixes the qualification of its trunk facilities and the tariffs, is extended until December 31, 2015, except for the values associated with Annual Value of Investment (AVI) of upgrade works.

During 2014 and 2015 were developed the third trunk facilities tariff process in order to determinate the tariffs and indexation formulas corresponding to the period 2016 - 2019, that are expected to be published by Decree of the Minister of Energy during the first semester of 2016.

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. The new tariffs began to be applied on January 14th, 2009 and were in effect until December 31, 2010. On April 9, 2013, the Supreme Decree No. 14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014. The difference between invoiced amounts using these provisional tariffs since January 2011 until the publishing date of this decree were reassessed by the CDEC based on the difference between the provisional tariff and the definitive values established by Decree No. 14. According to what is indicated in the transitory third article of Law 20,805 published on January 29, 2015, and to what is established in the Decree No. 7T of April 22, 2015, the validity of the Decree No. 121/2010, which fixes the tariffs of subtransmission facilities, and of the Exempt Decree No. 14/2013, which fixes the qualification of subtransmission facilities, is extended until December 31, 2015, except for the values associated with Annual Value of Investment (AVI) of upgrade works.

The new Subtransmission Systems Studies that will set the basis for determining the tariffs and indexation formulas corresponding to the period 2016 - 2018 were finished during December 2014. These tariffs are expected to be published by Decree of the Minister of Energy during the second semester of 2016.

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 and Subtransmission Studies could place the Company at risk of new tariffs that are detrimental or less attractive given the investments it has made.

Since both Trunk Transmission and Subtransmission Systems are subject to the regime of unrestricted open access, as provided by the law that regulates our industry, there is a risk that the authority attempt to extend this access not only to the network connection - connecting a bay to a busbar of a substation - but also a physical access to the transmission facilities, meaning to force the transmitter, owner of such facilities, to share assets or areas inside some substations. The same may happen with additional systems that are subject to the open access regime when these facilities use ways of rights or national public goods in its layout and have available technical capacity.

On August 7, 2015, the Law Project corresponding to Bulletin No. 10240-08 entered the Chamber of Deputies, amending the General Law of Electrical Services in electric transmission matters and creates an independent coordinator of the National Electric System body. In matters of power transmission, the bill redefines transmission systems classifying them into five segments: National Transmission System (now trunk), the Zonal Transmission Systems (currently subtransmission), Dedicated Systems (currently additional transmission), Systems for Development Poles and International Interconnection Systems. It addresses the transmission planning with a long-term horizon. It regulates the pricing of national, zonal, for development poles systems and payment for use of transmission facilities dedicated by users subject to price regulation. Prices are determined by the Commission every four years through a process that includes the participation of companies of the industry, users & interested institutions and the Panel of Experts in the event of any discrepancies. Efficient pricing recognizes the acquisition and installation costs according to market prices, which are annualized considering a useful life determined every three tariff periods and a variable rate of discount. The owners of regulated transmission facilities must receive the annual transmission value from the sum of the actual tariff revenues and a single charge associated with each segment and applied directly to end users.

The Bill of Law is in its first constitutional procedure and is expected to pass to the Commission of Mining and Energy of the Senate during the month of January 2016.

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 general basis of the environment ('Environmental Law'), enacted in 1994 and modified through the Law No. 20.417 published in the Official Gazette on January 26, 2010. This modification considered an institutional change, creating new institutions with environmental competencies: (i) the Ministry of Environmental Affairs; (ii) the Minister Council for Sustainability; (iii) the Environmental Assessment Service; and (iv) the Superintendence of Environmental Affairs; these institutions are in charge of the regulation, evaluation and inspection of the activities that are likely to generate environmental impacts. Afterwards, the Law No. 20.600 was published on June 28, 2012, creating the Environmental Courts, whose function is to resolve environmental disputes within its jurisdiction. This institutional specialization generates a scenario of greater control and supervision in the Company's actions.

The Environmental Impact Assessment System (SEIA) Bylaw, modified through the Supreme Decree No. 40/2012, has introduced changes in the assessment process of the projects, implying the adaption of the formulation of these projects to the new scenario, mainly regarding the level of details in its description, analysis of alternatives and the impacts assessment.

Furthermore, the enactment of the Supreme Decree No. 66/2013 of the Minister of Social Development, which regulates the indigenous consultation procedure for the Chilean State and the participation and consultation indigenous procedure considered in the Supreme Decree No. 40/2012 for the investment projects in the Environmental Impact Assessment System, has generated a new scenario of high uncertainty, generating indigenous consulting processes of relative effectiveness, implying delays in the management of projects and even the prosecution of some environmental authorizations.

On the other hand, investment projects in Chile are facing a more informed and organized citizenry, therefore, the challenge is to formulate projects that include people's concerns and proposals of the community through participatory and informational processes a in an early stage pre environmental project processing. The risk of not considering the citizenry in this early stage, results in a greater complexity scenario regarding the environmental approval and the prosecution of environmental licenses.

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 cost and availability of funding. Although Transelec has experience with large-scale construction projects, the 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 that 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 significant technological advance in the equipment that are part of Transelec' facilities could lower this valuation, which would prevent partial recovery of the investments made.

6.6 Foreign Exchange Risk

The following factors expose Transelec to foreign exchange risk (since Chilean peso is the functional currency):

- Transelec carries out several types of transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Maintains accounts receivables in UF and US dollars.
- Maintains a Cross Currency Swap contract that compensates the risks of exchange rates on the last international issuance, amounting to a notional amount equivalent to US$375 million.
- Maintains lease contracts that generate income indexed to 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 foreign exchange forward contracts and cross currency swaps.

The following table details the amounts of monetary assets and liabilities as of December 31, 2015 and December 31, 2014:

	December 2015		December 2014	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	499.757	482.980	405.821	420.498
Dollar (amounts associated with income statement items)	-	-	0	0
Chilean peso	1.711.623	1.728.400	1.728.024	1.713.348

EXCHANGE RATES (Observed exchange rates)

Month	Average 2015 ($)	Last Day 2015 ($)	Average 2014 ($)	Last Day 2014 ($)
January	620.91	632.03	537.03	553.84
February	623.62	618.76	554.41	559.38
March	628.50	626.58	563.84	551.18
April	614.73	611.28	554.64	564.59
May	607.60	616.66	555.40	550.72
June	629.99	639.04	553.06	552.72
Average of the period	**620.89**	**624.06**	**553.06**	**555.41**

The indexation formulas, updated semiannually for toll contracts and sub-transmission 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

Credit risk corresponding to receivables from commercial activities, is historically very low due to the nature of the business of the Company's clients and the short term of collection of receivables from clients, which explain the fact of not having significant accumulated amounts.

As of December 31, 2015, the company has four main clients which represent individually between 2.4% and 45.5% of the total revenues. These are Endesa Group (MCh$125,970), AES Gener Group (MCh$52,659), Colbún Group (MCh$44,129) and Pacific Hydro-LH-LC Group (MCh$6,736). The total revenues recognized for these clients represent an 82.9% of the total revenues of the company. In the period of comparison, the company had the same structure of clients which revenues reached to MCh$121,247, MCh$42,317, MCh$41,390 and MCh$10,811 respectively, with a percentage of the total incomes of 86.1%.

The toll agreements signed with these clients, including its subsidiaries, 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 associated to Company's Management

In order to guarantee that Transelec is able to quickly react financially 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 MCh$159,760. As of the balance sheet date, does not register balance of used amounts. 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.

Additionally, this line was renegotiated and extended on October 15, 2014 until October 15, 2017. This time, the bank syndicate was formed by the following banks: Scotiabank, Bank of Tokyo-Mitsubishi, DnB NOR, Citibank, JP Morgan Chase Bank and Export Development Canada. In that renovation, has been improved: (i) the costs not committed (Commitment Fee) from 0.6% to 0.4375%, (ii) the margin or spread for use from 2.35% to 1.25% by withdrawn amount and (iii) other restrictions clauses that resulted more favorable to Transelec.

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 December 31, 2015 and December 31, 2014.

Debt Maturity (Capital) MCh$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
December 31, 2015	226.265	101.691	101.691	708.219	884.187	2.022.053
December 31, 2014	53.259	249.539	97.061	410.285	1.110.499	1.920.643

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 December 31, 2015, and as of December 31, 2014, was at a fixed rate, corresponding to 100.0% y 99.1% respectively. However, in the case of UF indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

UF Values

Month	Average 2015 ($)	Last Day 2015 ($)	Average 2014 ($)	Last Day 2014 ($)
January	24.601,1	24.557,2	23.369,9	23.435,9
February	24.538,6	24.545,2	23.482,2	23.508,5
March	24.577,9	24.622,8	23.552,5	23.607,0
April	24.685,4	24.754,8	23.685,1	23.773,4
May	24.832,6	24.904,8	23.860,5	23.931,7
June	24.955,1	24.983,0	23.986,2	24.023,6
July	25.028,9	25.086,6	24.048,8	24.062,3
Agoust	25.144,7	25.194,2	24.081,0	24.103,4
September	25.264,8	25.346,9	24.134,1	24.168,0
Octubre	25.426,5	25.490,0	24.237,8	24.326,9
Noviembre	25.548,2	25.598,4	24.438,2	24.553,7
Diciembre	25.625,1	25.629,1	24.617,6	24.627,1
Average of the period	**25.019,1**	**25.059,4**	**23.957,8**	**24.010,1**