Reasoned Analysis of the Financial Statements

TRANSELEC S.A.

Santiago, Chile
March 31, 2016

SUMMARY

As of March 31, 2016, the Revenues remained similar to the same period of 2015, reaching MCh$69,329, showing a slight decrease of 1.7% compared to 2015 (MCh$70,530). When compared with 2015, Revenues in 2016 are affected by tariff, macroeconomic effects and new projects.

During the first quarter of 2016, Transelec S.A. obtained an EBITDA* of MCh$61,190, a 5.7% lower than the comparison period of 2015 (MCh$64,914), with an EBITDA Margin* of 88.3% (92.0% in 2015). This decrease is mainly due to a decline of MCh$2,651 in Other Income, lower Revenues (MCh$1,201) and an increase of MCh$224 in Fixed Costs associated to sales. All this was partially offset by lower Fixed Expenses associated with administration of MCh$226.

Net Income recorded by the Company as of March 31, 2016 was MCh$21,944, which is 24.0% lower respect to the comparison period (MCh$28,880). This decrease is mainly explained by higher losses in Non-Operating Income (96.8%) and lower Operating Income (1.8%), partially offset by lower Income Tax (29.2%).

The loss in Non-Operating Income as of March 31, 2016 was MCh$18,178, representing an increase of 96.8% compared to the same period of 2015 (MCh$9,236), mainly explained by losses for indexed assets and liabilities, which measures the inflation impact on the UF denominated debt of the Company of MCh$6,080, compared to a profit of MCh$194 at the same period in 2015, lower Other Income of MCh$1,086 compared to MCh$3,737 in the first quarter of 2015 and higher Financial Costs, which in March 2016 reached MCh$15,539, compared with the Financial Costs recorded as of March 31, 2015 were MCh$14,584. This is partly offset by financial income of MCh$2,297, at the same period of 2015 were MCh$1,692 and profits on foreing exchange differences of MCh$58 compared to the loss of MCh$276 in the same period 2015.

During the first quarter of 2016, the company incorporated US$47.1 million of new facilities, correspond to the commissioning of four trunk upgrade projects and also to a transmission assets acquisition from Enel Green Power.

Relevant events of the period:

- Transelec S.A.'s Board of Directors meeting held on March 9, 2016, agreed on requesting approval to the annual shareholders meeting (to be held on April 26) for the distribution of a final dividend for fiscal year 2015, for a total amount of MCh$19,668, to be paid on the terms and conditions to be agreed by them.

Transelec S.A. has prepared its financial statements as of March 31, 2016 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.

*EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization
**EBITDA Margin= EBITDA/Revenues

1. INCOME STATEMENT ANALYSIS

ITEMS	March 2016 MCh$	March 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Revenues	**69,329**	**70,530**	**-1,201**	**-1.7%**
Toll sales	68,077	69,079	-1,002	-1.5%
Services	1,252	1,451	-198	-13.7%
Costs of Sales	**-19,040**	**-18,914**	**-125**	**-0.7%**
Fixed Costs	-6,432	-6,208	-224	-3.6%
Depreciation	-12,608	-12,707	99	0.8%
Administrative Expenses	**-3,151**	**-3,596**	**445**	**12.4%**
Fixed Expenses	-3,092	-3,317	226	6.8%
Depreciation	-60	-279	219	78.6%
Operating Income	**47,138**	**48,020**	**-881**	**-1.8%**
Financial Income	2,297	1,692	604	35.7%
Financial Costs	-15,539	-14,584	-955	-6.5%
Foreign exchange differences	58	-276	334	N/A
Gain (loss) for indexed assets and liabilities	-6,080	194	-6,274	N/A
Other income (Losses)	1,086	3,737	-2,651	-70.9%
Non-Operating Income	**-18,178**	**-9,236**	**-8,942**	**-96.8%**
Income before Taxes	**28,960**	**38,783**	**-9,823**	**-25.3%**
Income Tax	-7,016	-9,903	2,887	29.2%
Net Income	**21,944**	**28,880**	**-6,936**	**-24.0%**
EBITDA*	**61,190**	**64,914**	**-3,850**	**-5.7%**
EBITDA Margin**	**88.3%**	**92.0%**		

*EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization
**EBITDA Margin= EBITDA/Revenues

a) Operating Income

During the first quarter of 2016, Revenues reached MCh$69,329 decreasing by 1.7% over the same period of 2015 (MCh$70,530). This decrease is mainly explained by lower income from Tolls sales, which as of March 31, 2016 reached MCh$68,077, an 1.5% lower than that obtained in the same period of 2015 (MCh$69,079). This decrease is due to MCh$2,013 lower revenues related to Subtransmission system, partially offset by MCh$721 higher revenues related to Transmission Solutions. Substransmission lower revenues are related to a lower demand in 2016 when comparing with first quarter 2015 (MCh$2,581). Transmission Solution's higher revenues are mainly related to macroeconomic effects (MCh$1,160). Trunk revenues, are almost flat, because the macroeconomic effect and revenues from new projects were offset by a decrease in tariffs and other effects. Additionally, Services Revenues reached MCh$1,252 as of March 31, 2016, a 13.7% lower than 2015 (MCh$1,451).

Company's Total Costs (Sales Costs + Administrative Expenses) as of March 31, 2016 were MCh$22,191 decreasing by 1.4% when comparing the first quarter of 2016 to the first quarter of 2015 which totaled MCh$22,511. The main items of Total Costs are shown below.

During this period, the Sales Costs reached MCh$19,040, a 0.7% higher than 2015 (MCh$18,914). These costs are mainly related to the maintenance and operation of the Company's facilities and, in percentage terms, 66.2% of the company's costs correspond to property, plant and equipment depreciation (67.2% in 2015) and the remaining 33.8% corresponds to personnel, supplies and contracted services (32.8% in 2015). As of March 2016, Fixed Costs were slightly higher than the costs reached in the same period in 2015 (3.6% increase), while the depreciation was 0.8% lower. The increase in Fixed Costs is mainly explained by higher costs from the Regulator entity (CDEC), higher costs from extraordinary maintenance and higher Telecommunications payments because on 2015 where a delay in contracts. This was partially offset by lower costs of programed maintenance, less insurance payment and less auxiliary services used.

Administrative Expenses amounted MCh$3,151 to March 2016, 12.4% lower than those obtained in the same period in 2015 (MCh$3,596). These expenses are formed in 98.1% by Fixed Expenses include staff costs and works, supplies and contracted services (92.2% in 2015) and depreciation 1.9% (7.8% in 2015). The decrease in administrative expenses is mainly due to lower computer expenses and lower Other Costs, both because the payments made in 2015 included services of prior years.

b) Non-Operating Income

The Non-Operating Income for the first three months of 2016 was a loss of MCh$18,178, a 96.8% higher than the same period of 2015, mainly explained by losses for indexed assets and liabilities and a drop in Other Income.

Losses for indexed assets and liabilities were MCh$6,080 in 2016, compared to a profit of MCh$158 in 2015. This is explained by a readjustment of local bonds in UF due to variation in the Unidad de Fomento (UF). For the first quarter of 2016 this variation corresponds to 0.71% compared with negative 0.02% for the first quarter of 2015, due to lower inflation in that period.

Gains by Other Income as of March 2016 were MCh$1,086, a 70.9% lower than the same period of 2015 (MCh$3,737). The difference is mainly explained by higher exceptional income due to reassessments and fines in favor to Transelec in 2015.

Financial costs recorded as of March 2016 amounted MCh$15,539, a 6.5% higher than the same period of 2015 (MCh$14,584). This increase is explained by the effect of a 12.6% depreciation of the Chilean peso (average exchange rate between periods), which implies higher interest paid on dollar bonds (MCh$607) and the effect of a CPI variation of 4.5% average which generated higher interest paid on UF bonds (MCh$438).

Financial Income as of March 2016 amounted MCh$2,297, a 35.7% higher than the same period of 2015 (MCh$1,692), this is mainly explained by higher accrued interest to related companies (Transelec Holding Rentas Ltda.) (MCh$779), partially offset by less bank interest income (MCh$136).

Foreign Exchange Differences as of March 2016 resulted in a gain of MCh$58, compared with a loss in the same period of 2015 by MCh$276. The losses at the beginning of 2015 are mainly explained by the negative impact of higher exchange rate on the Senior Notes bonds issued in July 2013 and July 2014 (MCh$12,051), offset by gains from Cross Currency Swap (MCh$7,022) and profit in dollar accounts receivables from related companies (MCh$4,442). As of March 2015, the positive impact of lower exchange rate in dollar bonds (MCh$ 26,756) were offset by losses from the Cross Currency Swap (MCh$14,876) and losses associated with accounts receivable dollar companies related (MCh$11,432).

c) Income tax

The income tax as of March 31, 2016 decreased by 29.2% compared to the same period of 2015, mainly due to a decrease of 25.3% of the base tax calculation and also by Restatement Capital due to the change in the CPI of 0.71% in the first three months of 2016, compared with negative 0.02% in the first three months of 2015.

2. BALANCE SHEET ANALYSIS

ITEMS	March 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Current assets	109,248	92,078	17,170	18.6%
Non-current assets	2,163,699	2,157,149	6,550	0.3%
Total Assets	**2,272,947**	**2,249,227**	**23,720**	**1.1%**
Current liabilities	252,824	257,921	-5,097	-2.0%
Non current liabilities	1,199,731	1,200,658	-927	-0.1%
Equity	820,392	790,649	29,743	3.8%
Total Liabilities & Equity	**2,272,947**	**2,249,227**	**23,720**	**1.1%**

The increase in the total assets between December 2015 and March 2016 is explained by an increase in current in non-current assets. The increase in current assets is mainly explained by a rise in accounts receivables from related entities due to short-term loans associated with advances for the next dividend and more cash and cash equivalents. The increase in non-current assets is mainly due to an increase in property, plant and equipment and also by an increase in intangible assets other than goodwill. This increase was partially offset by a decrease in long term accounts receivables from related entities mainly due to the exchange rate and a decrease in other financial assets mainly associated with the valuation of the Cross Currency Swap.

The decrease in total liabilities between December 2015 and March 2016 is explained by a decrease in current and non-current liabilities, notwithstanding the Equity of the company had an increase that offsets the decrease in liabilities and explains the increase in total liabilities and Equity. The decrease in current liabilities is explained by a decrease in other financial liabilities mainly due to lower exchange rate, lower current provisions for employee benefits for payment of bonus and vacation and lower non-financial liabilities, partly offset by an increase in accounts trade payables and other payables. The decrease in non-current liabilities is mainly due to a decrease in other financial liabilities mainly due to lower exchange rate, partly offset by an increase in deferred tax liabilities. The increase in equity is explained by higher retained earnings and an increase in other reserves.

VALUE OF THE MAIN PP&E IN OPERATION

ASSETS	March 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Land	20,630	20,630	0	0.0%
Building, Infraestucture, works in progress	1,105,132	1,080,462	24,670	2.3%
Work in progress	65,678	72,802	-7,124	-9.8%
Machinery and equipment	592,524	580,389	12,135	2.1%
Other fixed assets	6,612	5,530	1,082	19.6%
Depreciation (less)	-391,412	-381,313	-10,099	2.6%
Total	**1,399,165**	**1,378,501**	**20,664**	**1.5%**

CURRENT DEBT

					Amount in original currency (million) (unpaid capital)	
Debt	Currency or index	Interest rate	Type of rate	Maturity Date	March 2016	December 2015
Series C bond	UF	3.50%	Fixed	01-Sep-16	6.0	6.0
Series D bond	UF	4.25%	Fixed	15-Dec-27	13.5	13.5
Series H bond	UF	4.80%	Fixed	01-Aug-31	3.0	3.0
Series K bond	UF	4.60%	Fixed	01-Sep-31	1.6	1.6
Series M bond	UF	4.05%	Fixed	15-Jun-32	3.4	3.4
Series N bond	UF	3.95%	Fixed	15-Dec-38	3.0	3.0
Series Q bond	UF	3.95%	Fixed	15-Oct-42	3.1	3.1
Series Senior Notes bond	USD	4.625%	Fixed	26-Jul-23	300.0	300.0
Series Senior Notes bond	USD	4.25%	Fixed	14-Jan-25	375.0	375.0
Revolving Credit Facility*	USD	2.15%	Floating	15-Oct-17	-	-
Local Promissory Note**	CLP	3.80%	Fixed	02-Apr-16	16,000.0	16,000.0

*The floating rate of the Revolving credit facility breaks down in 3 months Libor rate plus a margin of 1.25%. At March 31, 2016, the Company did not utilize this line therefore does not pay interest of 2.15% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.
** Local Promissory Note maturity was extended for 3 months, with new maturity on July 2, 2016.

Although increases in inflation may have an impact on the costs of debt denominated in UF and therefore on the Company's finance expenses, these impacts are slightly lessened by accounts receivable denominated in UF.

3. MAIN CASH FLOWS DURING THE YEAR

ITEMS	March 2016 MM$	March 2015 MM$	Variation 2016/2015 MM$	Variation 2016/2015 %
Cash flows provided by (used in) operating activities	51,093	29,086	22,007	75.7%
Cash flows provided by (used in) investing activities	-49,921	-67,618	17,697	-26.2%
Cash flows provided by (used in) financing activities	-148	-139	-10	6.9%
Net increase (decrease) of cash and cash equivalent	**1,024**	**-38,670**	**39,695**	**-102.6%**
Cash and cash equivalent at the begining of the period	24,157	65,913	-41,756	-63.4%
Cash and cash equivalent at the end of the period	**25,181**	**27,243**	**-2,062**	**-7.6%**

As of March 31, 2016, cash flows provided by operating activities reached MCh$51,093, which represents an increase of 75.7% over the same period of 2015 (MCh$29,086), mainly explained by higher cash receipts from the sale of goods and provision services (MCh$19,008) associated with a higher exchange rate in 2016 and commissioning during 2015, and lower payments to suppliers for goods and services (MCh$4,992), partly offset by higher interest expenses (MCh$1,688).

During this period, cash flow used in investing activities reached MCh$49,921, a 26.2% lower than the amount used in the same period of 2015 (MCh$67,618), explained by lower cash flow used in loans to related entities (MCh$33,283), partially offset by higher cash flow used in purchases of property, plant and equipment (MCh$16,749).

The cash flows used in financing activities was MCh$148, virtually in line with the same period of 2015 (MCh$139).

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	15-Oct-17	Working Capital

4. INDICATORS

Covenants	Bonds	Limit	March 2016	December 2015
Capitalization Ratio*	All local Series	< 0.70	0.61	0.62
Shareholder's Equity* MMUF	C, D, H, K, M and N local Series	> 15.00	32.75	31.82
Shareholder's Equity* MCh$	Q local Series	> 350,000	845,362	815,618

Test	Bonds	Limit	March 2016	December 2015
Distribution Test**	C, D, H, K, M and N local Series	FNO***/Financial Expenses > 1,5	4.77	4.32

*Equity= Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and March 31, 2015 amounted to MCh$24.970.
**This is only a test to distribute restricted payments such as dividends.
*FNO= Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.

RATIOS		March 2016	December 2015	Variation 2016/2015
Profitability				
Shareholders' Equity profitability*	(%)	10.7%	10.6%	10 pbs
Assets profitability*	(%)	3.9%	3.7%	20 pbs
Operating assets profitability*	(%)	5.6%	5.4%	20 pbs
Earnings per share*	($)	87,776	83,628	5.0%
Liquidity & Indebtedness				
Current Ratio	(times)	0.43	0.36	19.4%
Acid-Test Ratio	(times)	0.43	0.36	21.1%
Debt to Equity	(times)	1.77	1.84	-3.8%
Short term debt	(%)	17.4%	17.7%	-30 pbs
Log term debt	(%)	82.6%	82.3%	30 pbs
Financial expenses coverage	(times)	3.92	4.04	-3.0%

*Figures as of March are annualized.

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 produce 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 tolls by use 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 were fixed by Decree N° 23T by the Minister of Energy on February 3, 2016 and its application is retroactive from January 1, 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 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), and 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 should be approve during 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:

a) 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 denominated into dollar and Chilean pesos in the periods indicated below:

	March 2016		December 2015	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	450,976	450,466	499,757	482,980
Dollar (amounts associated with income statement items)	-	-	-	-
Chilean peso	1,821,971	1,822,481	1,711,623	1,728,400

EXCHANGE RATES (Observed exchange rates)

MONTH	Average 2016 ($)	Last Day 2016 ($)	Average 2015 ($)	Last Day 2015 ($)
January	721.95	710.37	620.91	632.03
February	704.08	694.17	623.62	618.76
March	682.07	669.80	628.50	626.58
Average of the period	**702.70**	**691.45**	**624.34**	**625.79**

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

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 March 31, 2016, the company has four main clients which represent individually between 23.3 and 51.7% of the total revenues. These are Endesa Group (MCh$35,791), Colbún Group (MCh$12.154), AES Gener Group (MCh$11,425), Pacific Hydro-LH-LC Group (MCh$3,218) and E-CL Group (MCh$4,313). The total revenues recognized for these clients represent a 93.8% 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$32,053, MCh$12,154, MCh$12,199, MCh$2,223 and MCh$2,498 respectively, with a percentage of the total incomes of 76.2%.

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 March 31, 2016 and December 31, 2015.

Debt Maturity (capital and interests) MCh$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
March 31, 2016	223,726	99,708	99,708	667,477	887,723	1,978,342
December 31, 2015	226,265	101,691	101,691	708,219	884,187	2,022,053

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 "clearing house" function that Transelec fulfils 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.

All the debt as of March 31, 2016, and as of December 31, 2015, was at a fixed rate. However, in the case of UF indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

UF Values

MONTH	Average 2016 ($)	Last Day 2016 ($)	Average 2015 ($)	Last Day 2015 ($)
January	25,629.09	25,629.09	24,601.14	24,557.15
February	25,661.05	25,717.40	24,538.61	24,545.23
March	25,772.43	25,812.05	24,577.93	24,622.78
Average of the period	**25,687.52**	**25,719.51**	**24,572.56**	**24,575.05**

Subsequent events:

- On April 2, 2016 Local Promissory Note maturity with Banco Estado was renegotiated, extending by three months. Its new maturity is on July 2, 2016.

- On April 26, 2016 an Ordinary Shareholders Meeting was held, in which the distribution of a final dividend for 2015 was approved, for a total amount of MCh$19,668, to be paid on May 25, 2016.