



## TRANSELEC S.A. AND SUBSIDIARIES

### REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

#### INTRODUCTION

During the first semester of 2014, Transelec S.A. and subsidiaries obtained an EBITDA\* of MCh\$102,280, this is a 6.6% higher than the comparison period of 2013 (MCh\$95,983), with an EBITDA\* over revenues of 83.8% (82.4% in 2013). This increase is mainly due to a higher amount of operating income MCh\$78,545 to June 2014 (MCh\$65,732 to June 2013), this is explained by higher operating revenues for the first half of 2014 MCh\$121,095 (MCh\$108,772 for the same period 2013), also it is observed a decrease of 0.7% in operating cost and a 3.4% lower in administration and sales expenses. The net income recorded by the company during the first half of the year was MCh\$24,543 (MCh\$39,810 in the same period 2013), this correspond a decrease of 38.3% respect to the comparison period, mainly impacted by the price level-restatement of our UF debt portfolio.

Since the end of first semester 2013, the company incorporated in VI US\$215.8 million of new facilities, US\$94.4 million of these were incorporated during the first semester 2014, among these US\$38.8 million of new VI are related to three new trunk upgrades commissioned, and US\$54.7 million are related to the acquisition of the line belonging to the Trunk Transmission System "Maitencillo – Cardones 2x220 kV" to Guacolda S.A.

Transelec S.A. and its subsidiary Transelec Norte S.A. have prepared their financial statements as of June 30, 2014, in conformity with International Financial Reporting Standards (IFRS) and correspond to the comprehensive, explicit and non-reserved adoption of the above mentioned international standard. The figures of this ratio analysis are expressed in million of Chilean pesos (MCh\$) as the Chilean peso is the functional currency of Transelec S.A.

#### 1. INCOME STATEMENT ANALYSIS

Items	June 2014 MCh\$	June 2013 MCh\$	Variation 2014/2013 %
Operating Revenues	121,095	108,772	11.3%
Toll sales	119,343	105,282	13.4%
Work and services	1,751	3,491	-49.8%
Operating costs	-35,836	-36,093	-0.7%
Fixed costs	-13,368	-13,161	1.6%
Depreciation	-22,468	-22,932	-2.0%
Administraton and sales expenses	-6,713	-6,947	-3.4%
Fixed costs	-6,303	-5,943	6.1%
Depreciation	-410	-1,004	-59.2%
<b>Operating Income</b>	<b>78,545</b>	<b>65,732</b>	<b>19.5%</b>
Other Financial Income	5,078	5,170	-1.8%
Financial Costs	-25,315	-22,869	10.7%
Foreign exchange differences, net	-4,609	-3,299	39.7%
Gain (loss) for indexed assets and liabilities	-26,533	-119	22143.2%
Other income	857	6,314	-86.4%
<b>Non-Operating Income</b>	<b>-50,522</b>	<b>-14,803</b>	<b>241.3%</b>
<b>Income before Income Taxes</b>	<b>28,024</b>	<b>50,930</b>	<b>-45.0%</b>
Income tax	-3,481	-11,119	-68.7%
<b>Net Income</b>	<b>24,543</b>	<b>39,811</b>	<b>-38.4%</b>
<b>EBITDA</b>	<b>102,280</b>	<b>95,983</b>	<b>6.6%</b>

(\*) EBITDA= Net income +abs(Income tax)+abs(Depreciation)+abs(Non-operating income)+abs(Other gains)+Lease financial income.



### **a) Operating income**

During the first semester of 2014, operating revenues reached MCh\$121,095, which is 11.3% higher compared with the same period in 2013 (MCh\$108,772). This increase is mainly explained by higher Toll revenues that reached MCh\$119,343 during 2014, 13.4% higher than 2013 (MCh\$105,282). This increase is mainly due to new commissioned projects, that resulted in MCh\$8,611 of additional revenues, including MCh\$1,434 from the acquisition on the Maitencillo - Cardones line to Guacolda S.A., and due to macroeconomical effects that resulted in MCh\$8,611 of higher revenues. These higher operating revenues were partially offset by lower work and services revenues that reached MCh\$1,751 in 2014 and MCh\$3,491 in 2013, explained by lower services to third parties. During the first quarter of 2014, these works and services resulted in 1.4% of the total revenues and 3.2% during the same period in 2013.

During this period, the operating costs reached MCh\$35,836 (MCh\$36,093 in 2013). These costs are mainly related to the maintenance and operation of the Company's facilities and, in percentage terms, 62.7% of the company's costs correspond to property, plant and equipment depreciation (63.5% in 2013). This decrease in the depreciation is mainly explained by adjustments on the useful life of the assets, adjusted during the last quarter of 2013. The remaining 37.3% (36.5% in the comparison period) correspond to personnel, supplies and contracted services. This lower depreciation is partially offset by an increase of 1.6% in fixed costs, that is mainly explained by higher personnel costs that as June 30, 2014 reached MCh\$6,390, an 14.4% higher than the same period of 2013 (MCh\$5,587).

Administrative and selling expenses amounted MCh\$6,713 (MCh\$6,947 during the same period of 2013) and primarily consist in 93.9% (85.5% in 2013) of personnel and work expenses, supplies and services contracted, and 6.1% of depreciation (14.5% in 2013). The decrease in administrative and selling expenses is mainly explained by adjustments on the useful life of the assets, adjusted during the last quarter of 2013, which was partially offset by a higher amount spent on leases.

### **b) Non-operating income**

Net income for the first semester of 2014, was negatively impacted by the non-operating loss of MCh\$50,522 (MCh\$14,803 in the same period of 2013), mainly generated by higher loss from indexed assets and liabilities (MCh\$26,533 as June of 2014 and MCh\$119 in the same period of 2013), lower other incomes (MCh\$857 in 2014 and MCh\$6,314 in 2013) and due to higher financial costs (MCh\$25,315 in 2014 and MCh\$22,869 in 2013). This higher Financial Costs are mostly explained by the Q series and Senior Notes bonds issuance on May 3 and July 23 of 2013 respectively. The interests paid due to these liabilities reached MCh\$5,401 during the first semester of 2014 in comparison with MCh\$588 paid in the same period of 2013, besides MCh\$656 of additional cost due to the existing bond structure in UF. This increase is partially offset by lower bank interests paid (MCh\$2,277) mainly explained by the use of the Revolving Credit Facility (RCF) and the non-committed line of credit during 2013, that do not recorded movements as June 30, 2014.

Loss from indexed assets and liabilities amounted (MCh\$26,533), which is significantly higher in comparison with the same period of 2013 (MCh\$119), that is mainly explained by a higher variation of the UF. This variation corresponds to a 3.1% for the current period and 0.1% for the comparison period in 2013.

Loss from Foreign exchange differences amounted MCh\$4,609, which is 39.7% higher in comparison with the same period of 2013 (MCh\$3,299). This loss is mainly explained by the increase of the exchange rate, that comparing the first semesters of 2014 and 2013 had 15.5% of variation, causing a negative impact of MM\$8,433 on the Senior Note bond issued in July 2013. This negative impact is partially offset by a lower loss related to the use of the Revolving Credit Facility during the first semester of 2013 recorded MM\$7,416 of loss by foreign exchange differences, as June 30, 2014 this amount was MCh\$0.



## 2. BALANCE SHEET ANALYSIS

The decrease in current assets between December 2013 and June 2014 is explained by a decrease in receivables from related parties, mainly to Transelec Holding Rentas Ltda. The increase in non-current assets is due to an increase in intangible assets other than goodwill, mainly rights of way, and due to an increase in fixed assets from the commissioning of three trunk upgrade projects and the acquisition of the Maitencillo - Cardones line to Guacolda S.A during the first semester of 2014.

The decrease in equity and liabilities is mainly explained by a capital reduction of MCh\$81,590 made during the first semester of 2014. Additionally, the increase in non-current liabilities is mostly generated by higher bonds payable and other financial liabilities, and by higher payables to related parties, mainly to Transelec Holding Rentas Ltda.

Items	June 2014 MCh\$	December 2013 MCh\$	Variation 2014/2013 %
Current assets	104,623	209,451	-50.0%
Non-current assets	2,023,798	1,969,931	2.7%
<b>Total Assets</b>	<b>2,128,421</b>	<b>2,179,381</b>	<b>-2.3%</b>
Current liabilities	241,347	238,758	1.1%
Non current liabilities	1,091,850	1,053,528	3.6%
Equity	795,224	887,096	-10.4%
<b>Total liabilities &amp; Equity</b>	<b>2,128,421</b>	<b>2,179,381</b>	<b>-2.3%</b>

## VALUE OF THE MAIN PP&E IN OPERATION

Assets	June 2014 MCh\$	December 2013 MCh\$	Variation 2014/2013 %
Land	19,904	19,777	0.6%
Building, Infraestructure, works in progress	975,289	938,651	3.9%
Work in progress	60,281	83,383	-27.7%
Machinery and equipment	542,171	498,519	8.8%
Other fixed assets	5,002	4,260	17.4%
Depreciation (less)	-317,446	-295,511	7.4%
<b>Total</b>	<b>1,285,202</b>	<b>1,249,080</b>	<b>2.9%</b>

## CURRENT DEBT

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million)	
					Unpaid capital	
					June 2014	December 2013
Series C bond	UF	3.50%	Fixed	Sep 1st, 2016	6.0	6.0
Series D bond	UF	4.25%	Fixed	Dec 15 th, 2027	13.5	13.5
Series E bond	UF	3.90%	Fixed	Aug 1st, 2014	3.3	3.3
Series F bond	CLP	5.70%	Fixed	Aug 1st, 2014	33,600.0	33,600.0
Series H bond	UF	4.80%	Fixed	Aug 1st, 2031	3.0	3.0
Series I bond	UF	3.50%	Fixed	Sep 1st, 2014	1.5	1.5
Series K bond	UF	4.60%	Fixed	Sep 1st, 2031	1.6	1.6
Series L bond	UF	3.65%	Fixed	Dec 15 th, 2015	2.5	2.5
Series M bond	UF	4.05%	Fixed	Jun 15 th, 2032	3.4	3.4
Series N bond	UF	3.95%	Fixed	Dec 15 th, 2038	3.0	3.0
Series Q bond	UF	3.95%	Fixed	Oct 15 th, 2042	3.1	3.1
Series Senior Notes bond	USD	4.63%	Fixed	Jul 26 th, 2023	300.0	300.0
Revolving Credit Facility	USD	2.76%	Variable		-	-
Huepil Loan	USD	1.74%	Variable	Oct 10 th, 2023	20.2	21.2

### 3. MAIN CASH FLOWS DURING THE YEAR

Items	June 2014 MCh\$	June 2013 MCh\$	Variation 2014/ 2013 %
Cash flows provided by (used in) operating activities	92,712	40,389	130%
Cash flows provided by (used in) investing activities	-71,430	-146,335	-51%
Cash flows provided by (used in) financing activities	-40,781	93,375	-144%
<b>Net increase (decrease) of cash and cash equivalent</b>	<b>-19,499</b>	<b>-12,571</b>	<b>55%</b>
Cash and cash equivalent at the beginning of the period	52,422	37,956	38%
<b>Cash and cash equivalent at the end of the period</b>	<b>32,923</b>	<b>25,385</b>	<b>30%</b>

During the first semester of 2014, cash flows from operating activities reached MCh\$92,712 (MCh\$40,389 in the same period of 2013), which represent an increase of 130%, mainly explained by higher cash receipts from sales of goods and services that reached MCh\$205,794 as of June 30, 2014, in comparison to MCh\$155,757 receipt in the same period of 2013.

During this period, investing activities generated a negative cash flow for an amount of MCh\$71,430 (MCh\$146,335 in 2013), mainly due to loans to related parties and other investing activity payments that as June 30, 2014 reached MCh\$2,672 in comparison to MCh\$98,655 in the same period of 2013. This was partially offset by higher Cash advances and loans to third parties that as June 30, 2014, reached MCh \$24,363, compared with MCh\$9,003 reached in the same period in 2013.

During the same period, financing activities generated a negative net cash flow of MCh\$40,781 (MCh\$93,375 positive in 2013) mainly explained by proceeds from short and long term loans that as June 30, 2014 did not record disbursements, while as the same period of 2013 these proceeds reached MCh\$118,450. Additionally, as June 30, 2014, there were MCh\$34,471 used in dividends paid in comparison with MCh\$16,966 reached in the same period of 2013.

In addition, the Company has secured the following 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 y DnB NOR	US\$250,000,000	Jul 9th, 2015	Working Capital

#### 4. INDICATORS

Bonds	Covenant	Limit	June	December
			2014	2013
All local Series	Distribution Test ( **)	FNO/Financial Expenses > 1,5	4.69	4.09
	Capitalization Ratio (***)	< 0,7	0.61	0.57
	Shareholder's Equity (million UF)	> ThUF15.000	34.14	39.13

(\*) 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 June 30, 2014 amounted to MCh\$24.970.

Ratios	June 2014	December 2013	Variation 2014/2013
*Figures as of June are annualized			
<b>Profitability</b>			
Shareholders' Equity profitability *	6.17%	7.28%	-15.2%
Assets profitability *	2.31%	2.96%	-22.0%
Operating assets profitability *	3.38%	4.59%	-26.4%
Earnings per share (\$) *	49,086.3	64,607.4	-24.0%
<b>Liquidity &amp; Indebtedness</b>			
Current Ratio	0.43	0.88	-51.1%
Acid-Test Ratio	0.43	0.88	-50.6%
Debt to Equity	1.68	1.46	15.1%
% Short term debt	18.10	18.48	-2.0%
% Log term debt	81.90	81.52	0.5%
Financial expenses coverage	3.57	3.74	-4.7%

#### 5. THE MARKET

Transelec S.A. carries out 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 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 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" Region 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 all of the 500 kV electricity transport lines, approximately 51% of the 220 kV lines and 86% of the 154 kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL 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 April



1, 2008, Law 20,701 (Procedure to grant Electrical Concessions) published on October 14, 2013, and Law 20,698 (Contribute with the Generation mix expansion through Non-Conventional Renewable Energy) published on October 22, 2013 and the Law 20,726 (that promote the interconnection of independents electrical systems), published on February 7, 2014. 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 to 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 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 sub-transmission systems – is considered a public service and is subject to regulated tariffs and to the open access regime.

Finally, Law 19,940 established that the new payment regime for using 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 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 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. During 2010, the second Trunk Transmission Study was conducted which will allow setting the tariffs and the corresponding indexation formulas for the period 2011-2014.

Decree 61, published on November 17, 2011 contains the tariffs that will be retroactively applicable from January 1, 2011. During 2012 and 2013 the new tariffs have been applied and particularly the assessment process form 2011 was published on March and April for SING and SIC respectively. The SIC assessment for 2011 was modified on December 2012 according to the Expert Panel Report N°2-2012.

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. On April 9, 2013, the Supreme Decree N°14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014 has been issued. The difference between amounts invoiced using these provisional tariffs since January 2011 to the decree publish date will be reassessment by the CDEC based on the difference between the provisional tariff and the definitive values on decree N°14.

## **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 make use of ways of rights or national public goods in its layout and have available technical capacity.

The Company cannot guarantee that other regulatory changes will not negatively affect it or its clients or creditors, thus compromising Transelec's income.

### **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 environment ("Environmental Law"), enacted in 1994. According to its recent modification, through Law N° 20.417 which was published in the official journal on January 26, 2010, created, among others, new institutions consisting of: (i) the Ministry of Environmental Affairs; (ii) the Minister Council for Sustainability; (iii) the Environmental Evaluation Service; and (iv) the Superintendence of Environmental Affairs; these institutions are in charge of the regulation, evaluation and inspection of the activities involving environmental impacts. These new institutions replaced the National Commission of Environmental Affairs ("CONAMA") and the Regional Commissions of Environmental Affairs and are fully operative through the enactment of an updated regulation, that is under review by the Comptroller General of the Republic.

Law No. 20.600 of the official journal was published on June 28, 2012 that creates the environmental courts, last step so the Superintendence of Environmental Affairs (SMA) can begin to implement in full its powers of control and sanction. On December 28 with the implementation of the Environmental Court (Second Environmental Court in Santiago) the SMA assumes the full monitoring and control of the Environmental Qualification Resolution (RCA) among other matters.

Notwithstanding that Transelec meets the environmental requirements of the environmental law, it is not possible to assure that these filings (EIA o DIA) before the environmental authority will be approved by government authorities, neither that the possible opposition of public opinion will not generate delays or changes in the proposed projects, nor that the laws and



regulations will not change or will be interpreted in a way that may adversely affect the company's operations and plans, as the new institutional structure is just in progress.

#### 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 financing cost and availability. 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 important technological changes in the equipment at its 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:

- The revenues of its subsidiary Transelec Norte are denominated in U.S. dollars.
- Transelec carries out several types of transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Transelec uses forward contracts to sell U.S. dollars to hedge future revenues denominated in the U.S. dollars. Transelec also uses a currency forward contract with its parent; this allows it to finance U.S. dollar-denominated assets of its subsidiary.

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 June 30, 2014 and December 31, 2013:

In million pesos	June 2014		December 2013	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	168,475	169,568	218,691	217,254
Dollar (amounts associated with income statement items)	-	38,138	-	36,513
Chilean peso	1,889,772	1,850,492	1,958,392	1,072,254

(\*) Indexing polynomials of the Company's revenues contain formulas for setting these revenues in the short term, differing 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, meanwhile they are not done, are included in other comprehensive income.





## **EXCHANGE RATES (Observed exchange rates)**

<b>Month</b>	<b>Average 2014 (\$)</b>	<b>Last Day 2014 (\$)</b>	<b>Average 2013 (\$)</b>	<b>Last Day 2013 (\$)</b>
January	537.03	553.84	472.67	471.44
February	554.41	559.38	472.34	472.96
March	563.84	551.18	472.48	472.03
April	554.64	564.59	472.14	471.31
May	555.40	550.72	479.58	499.78
June	553.06	552.72	502.89	507.16
<b>Average of the period</b>	<b>553.06</b>	<b>555.41</b>	<b>478.68</b>	<b>482.45</b>

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 to clients, which explain the fact of not having large accumulated amounts

As of June 30, 2014, the company has four main clients which represent individually between 7% and 49% of the total revenues. These are Endesa Group (MCh\$58,662), Colbún Group (MCh\$20,202), AES Gener Group (MCh\$17,330) and Pacific Hydro-LH-LC (MCh\$8,389). The total revenues recognized for these clients represent an 86.4% of the total revenues of the company. In the period of comparison, the company had the same structure of clients which represent individually between 7% and 49% of the total revenues, whose amounts reached to MCh\$52,188, MCh\$11,894, MCh\$16,070 and MCh\$7,799 respectively, with a percentage of the total incomes of 80.9%.

Income from these companies 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 from Company's Management Processes**

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 line of credit for working capital of US\$ 250 million, equivalent to MCh\$138,180. Until now this line does not file a utilized amount. 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.



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 June 30, 2014 and December 31, 2013.

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
June 30, 2014	196,039	286,781	74,404	343,630	870,522	1,771,376
December 31, 2013	194,098	281,307	71,735	333,619	858,363	1,739,122

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 June 30, 2014, and as of December 31, 2013, was at a fixed rate, corresponding to 99.1% y 99.04% respectively. However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.



### UF Values

<b>Month</b>	<b>Average 2013 (\$)</b>	<b>Last Day 2013 (\$)</b>	<b>Average 2012 (\$)</b>	<b>Last Day 2012 (\$)</b>
January	23,369.91	23,435.87	22,811.83	22,807.54
February	23,482.16	23,508.46	22,818.59	22,838.48
March	23,552.54	23,606.97	22,857.28	22,869.38
April	23,685.06	23,773.41	22,898.59	22,940.02
May	23,860.55	23,931.69	22,933.69	22,885.95
June	23,986.19	24,023.61	22,857.11	22,852.67
<b>Average of the period</b>	<b>23,656.07</b>	<b>23,713.34</b>	<b>22,862.85</b>	<b>22,865.67</b>

### Subsequent Events

On July 9, 2014, Transelec SA placed in the international bond market 144a Regulation S under the United States Securities Act of 1933 in the amount of \$ 375,000,000 in the United States of America. The loan matures on January 14, 2025, and a nominal interest rate of 4.25% pa will be paid. Effective placement rate was 4.372%, with a spread over Treasury bonds of the United States of America at 10 years of 1.78%. Interest is paid semi-annually and principal is repaid in one installment at the end of maturity.