Management Discussion and Analysis (MD&A) of the Financial Statements

TRANSELEC S.A.

Santiago, Chile
September 30, 2016

SUMMARY

As of September 30, 2016, the Revenues reached MCh$214,606, showing an increase of 4.8% compared to the same period of 2015 (MCh$204,833). The increase of Revenues in 2016 are mainly explained by an agreements renegotiation with Endesa, new projects and macroeconomic effects associated to exchange rate.

During the first nine months of 2016, Transelec S.A. obtained an EBITDA* of MCh$185,179, a 2.8% higher than the comparison period of 2015 (MCh$180,107), with an EBITDA Margin** of 86.3% (87.9% in 2015). The EBITDA increase is mainly due to higher Revenues of MCh$9,773 partially offset by an increase of MCh$2,654 of Fixed Expenses associated with Administration and lower Other Income by MCh$1,655.

Net Income recorded by the Company as of September 30, 2016 was MCh$64,784, which is 2.7% lower respect to the comparison period, and represents a decrease of MCh$1,817. This decrease is mainly explained by higher Income Tax of MCh$10,394 partially offset by higher Operating Income for MCh$9,203.

The loss in Non-Operating Income as of September 30, 2016 was MCh$56,162, representing an increase of 1.1% compared to the same period of 2015 (MCh$55,536), mainly explained by higher Financial Costs of MCh$4,269 and lower Other Income of MCh$1,655. This is partly offset by lower losses for indexed assets and liabilities, which mostly measures the inflation impact on the UF denominated debt of the Company of MCh$3,698 and higher Financial Income of MCh$1,658.The profits on foreign exchange differences stays practically in line with same period of 2015, decreasing in MCh$57.

During the period of nine months ended on September 30 of 2016, the company incorporated US$75 million of new facilities, related to the commissioning of eight trunk upgrade projects and also to a transmission assets acquisition from Enel Green Power.

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

Relevant events of the period:

- On March the company started the documentation for September, 2016 bond refinancing in the local or international market.
- On April 4, the company extended Banco Estado Promissory Note for 3 months with new maturity on July 3, 2016.
- The Annual Shareholders Meeting was held on April, 26.
- The Banco Estado Promissory Note was paid at its maturity on July, 4.
- New Transmission Bill of Law was approved on July, 11.
- Transelec issued a bond on July, 12 in the international market for US$350 million at 12.5 years with a 3.875% interest coupon rate.
- During August and September, Transelec signed Swap agreements for US$350 million to hedge the new debt.
- The C Series Local Bond was paid at its maturity on September, 1.
- In 2016, Transelec S.A. paid to their shareholders the following amounts:
    - MCh$19,668 as 2015's final dividend distributed on May 25, 2016.
    - MCh$17,189 as the 2016 first interim dividend distributed on June 16, 2016.
    - MCh$21,842 as the 2016 second interim dividend distributed on September 21, 2016.

Transelec S.A. has prepared its financial statements as of September 30, 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.

1. INCOME STATEMENT ANALYSIS

ITEMS	September 2016 MCh$	September 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Revenues	**214,606**	**204,833**	**9,773**	**4.8%**
Toll sales	210,485	200,707	9,778	4.9%
Services	4,121	4,126	-5	-0.1%
Costs of Sales	**-57,382**	**-59,537**	**2,155**	**3.6%**
Fixed Costs	-19,597	-19,005	-592	-3.1%
Depreciation	-37,785	-40,533	2,748	6.8%
Administrative Expenses	**-15,645**	**-12,920**	**-2,725**	**-21.1%**
Fixed Expenses	-14,024	-11,370	-2,654	-23.3%
Depreciation	-1,621	-1,551	-70	-4.5%
Operating Income	**141,579**	**132,376**	**9,203**	**7.0%**
Financial Income	7,134	5,476	1,658	30.3%
Financial Costs	-48,267	-43,998	-4,269	-9.7%
Foreign exchange differences	768	825	-57	-7.0%
Gain (loss) for indexed assets and liabilities	-19,317	-23,015	3,698	16.1%
Other income (Losses)	3,521	5,176	-1,655	-32.0%
Non-Operating Income	**-56,162**	**-55,536**	**-626**	**-1.1%**
Income before Taxes	**85,417**	**76,840**	**8,577**	**11.2%**
Income Tax	-20,633	-10,239	-10,394	-101.5%
Net Income	**64,784**	**66,601**	**-1,817**	**-2.7%**
EBITDA*	**185,179**	**180,107**	**5,072**	**2.8%**
EBITDA Margin**	**86.3%**	**87.9%**		

*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 period of nine months ended on September 30, 2016, Revenues reached MCh$214,606 increasing by 4.8% over the same period of 2015 (MCh$204,833). This increase is mainly explained by higher income from Toll Sales, which as of September 30, 2016 reached MCh$210,485, a 4.9% higher than that obtained in the same period of 2015 (MCh$200,707). A portion of Services Revenues has been reclassified accounting wise changing the results presented in 2015. Considering this reclassification, Services Revenues reached MCh$4,121 as of September 30, 2016, a 0.1% lower than 2015 (MCh$4,126).

The increase in Toll Sales is explained by MCh$6,606 higher income associated with the National segment (previous Trunk) and an increase of MCh$6,463 in the Dedicated segment (previous Transmission Solutions), partially offset by MCh$3,292 of lower revenues of in the Zonal segment (previous Subtransmission).

Higher revenues from National segment are mainly explained by the commissioning of new projects by MCh$6,187, an agreement renegotiation with Endesa in 2016 for MCh$6,023, higher revenues due to the reclassification of transmission lines from Zonal and Dedicated segments to the National by MCh$4,617 and macroeconomic effects associated to a higher exchange rate of MCh$2,498, partially offset by lower tariff revenues by MCh$8,974, an agreement renegotiation with Endesa in 2015, with revenues of MCh$2,346 in that period and the maturity of transmission agreements that become regulated by MCh$1,348. The higher income from Dedicated segment are associated mainly due to the agreement renegotiation with Endesa in 2016 for MCh$4,391, the commissioning of new projects by MCh$1,540 and macroeconomic factors mainly due to a higher exchange rate producing an increase of MCh$1,418 and, partially offset by MCh$1,734 lower revenues associated with transmission lines reassigned to the National system. The lower revenues in Zonal segment are mainly associated to lower income by MCh$2,884 due to the reclassification of transmission lines to the National segment and a decrease of MCh$1,443 mainly explained by lower demand in the period, this was partially offset in MCh$720 due to the an agreement renegotiation with Endesa in 2016.

Total Transelec Costs and Expenses (Cost of Sales + Administrative Expenses) on September 30, 2016 were MCh$73,027 increasing by 0.8% when comparing the same period of 2015 which totaled MCh$72,457. Costs and Expenses presented an account reclassification affecting the exposed in 2015. Total costs are composed by the following main items.

Cost of sales during the analysis period totaled MCh$57,382, 3.6% lower than the same period of 2015 (MCh$59,537). These costs are mainly maintenance and operation of facilities and they are split in 65.8% depreciation of fixed assets (68.1% in September 2015), and 34.2% fixed costs involving personnel costs, supplies and contracted services (31.9% in 2015). In September 2016, fixed costs increased by MCh$592, an amount 3.1% higher than the one registered in September 2015, while depreciation was 6.8% lower. The increase of fixed costs is mainly explained by payment associated with collective bargaining with one of the unions and higher costs of the regulator (CDEC). The decrease in depreciation is mainly due to asset retirement due to thefts.

Administrative expenses amounted to MCh$15,645 in September 2016, 21.1% higher than those obtained in the same period in 2015 (MCh$12,920). These expenses are comprised 89.6% by fixed costs that include personnel costs and works, supplies and contracted services (88.0% in 2015) and depreciation 10.4% (12.0% in 2015). In September 2016, the Fixed Expenses increased by MCh$2,654, an amount 23.3% higher than obtained in September 2015, the increase in fixed expenses is mainly due to payment of a performance bond for the project Nogales – Polpaico and payment of collective bargaining with one of the unions.

b) **Non-Operating Income**

The Non-Operating Income for the first nine months of 2016 was a loss of MCh$56,162, an 1.1% higher than the same period of 2015 (MCh$55,536), mainly explained by higher Financial Costs and a drop in Other Income partly offset by lower Other Losses for Indexed Assets and Liabilities and higher Financial Income.

Financial Costs recorded as of September 2016 amounted MCh$48,267, a 9.7% higher than the same period of 2015 (MCh$43.998). This increase is mainly explained by the new bond issuance before the maturity of Series C Bond which causes higher temporary debt (about two months). Specifically, the main items that explained higher Financial Costs are, accrued interest for the new dollar debt issuance and the effect of a 6.4% depreciation of the Chilean peso (average exchange rate between periods), which implies higher interest paid on dollar bonds by MCh$2,952, the Swap agreements to hedge the new bond by MCh$795 and the effect of the UF variation of 4.4% average which generated higher interest paid on UF bonds by MCh$732.

Gains by Other Income as of September, 2016 were MCh$3,521, a 32.0% lower than the same period of 2015 (MCh$5,176). The difference is mainly explained by higher exceptional income in 2015 due to reassessments and fines in favor to Transelec, partly offset incomes in 2016 due to adjustments associated with the merge of Transelec Norte and the fire insurance due to the accident occurred in Pan de Azúcar Substation.

Foreign Exchange Differences as of September, 2016 reached MM$768, decreasing 7.0% to those obtained in the same period of 2015 (MCh$825). This is mainly explained by negative difference between periods from Cross Currency Swap of MCh$53,604 and dollar accounts receivables from related companies for MCh$37,827 almost totally offset by the positive impact of lower exchange rate on the Senior Notes bonds, with a positive difference of MCh$92,072 between periods.

Losses for Indexed Assets and Liabilities were MCh$19,317 on September, 2016, a 16.1% lower than the same period of 2015 (MCh$23,015). This is explained by the readjustment of local bonds in Unidad de Fomento (UF) due to variation in the UF. On the period of nine months ended on September 30 of 2016 this variation corresponds to 2.32% compared with a 2.92% for the same period of 2015, due to higher inflation in that period.

Financial Income as of September 2016 amounted MCh$7,134, a 30.3% higher than the same period of 2015 (MCh$5,476), this is mainly explained by higher accrued interest to related companies for MCh$1,349 associated to a higher amount of intercompany loan to Transelec Holding Rentas Ltda. in 2016.

c) **Income tax**

The Income Tax as of September 30, 2016 increased by 101.5% compared to the same period of 2015. This increase is mainly explained because in 2015 the merge of Transam and its subsidiaries and then the merge of Transam in Transelec caused a deferred tax income that reduced the Income Tax expense in that period. The increase in Income Tax is also due to the 11.2% higher profits before taxes and the increase in tax rate that, for 2015, was 22.5% as opposed to 2016 where it is 24.0%, as established in 2014 tax reform.

2. BALANCE SHEET ANALYSIS

ITEMS	September 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Current assets	122,023	92,078	29,945	32.5%
Non-current assets	2,179,176	2,157,149	22,027	1.0%
Total Assets	**2,301,199**	**2,249,227**	**51,972**	**2.3%**
Current liabilities	63,515	257,921	-194,406	-75.4%
Non current liabilities	1,439,028	1,200,658	238,370	19.9%
Equity	798,656	790,649	8,007	1.0%
Total Liabilities & Equity	**2,301,199**	**2,249,227**	**51,972**	**2.3%**

The increase in Assets between December 2015 and September 2016 is explained by an increase in Current Assets and Non-Current Assets. The increase in Current Assets is due to a higher balance in short term accounts receivable from related parties and higher cash and cash equivalent, partially offset by lower trades and other receivables and lower current tax assets. The increase in Non-Current assets is mainly explained by an increase in property, plant and equipment and an increase in other non-financial assets, partially offset by lower other financial assets and lower long term accounts receivable from related parties.

The increase in Total Liabilities and Equity as of September 30, 2016 is due to an increase Non-Current Liabilities and Equity partially offset by lower Current Liabilities. The increase in Non-Current Liabilities is almost totally explained by an increase of long term other financial liabilities due to the new bond issuance in July, 2016. The increase in Equity was due to higher retained earnings. Lower Current Liabilities are explained by a decrease of short term financial liabilities due to the maturity Local C Bond in September, 2016.

Value of the Main Pp&E in Operation

ASSETS	September 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Land	20,625	20,630	-5	0.0%
Building, Infraestucture, works in progress	1,116,315	1,080,462	35,853	3.3%
Work in progress	87,928	72,802	15,126	20.8%
Machinery and equipment	603,691	580,389	23,302	4.0%
Other fixed assets	5,781	5,530	251	4.5%
Depreciation (less)	-413,247	-381,313	-31,934	-8.4%
Total	**1,421,092**	**1,378,501**	**42,591**	**3.1%**

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital) September 2016	December 2015
Series C bond*	UF	3.50%	Fixed	01-Sep-16	-	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 @2023	USD	4.625%	Fixed	26-Jul-23	300.0	300.0
Series Senior Notes bond @2025	USD	4.25%	Fixed	14-Jan-25	375.0	375.0
Series Senior Notes bond @2029	USD	3.875%	Fixed	12-Jan-29	350.0	-
Revolving Credit Facility**	USD	2.10%	Floating	15-Oct-17	-	-
Local Promissory Note***	CLP	3.80%	Fixed	03-Jul-16	-	16,000.0

*Series C bond was paid at maturity.
**US$ 250 million Revolving Credit Facility: The floating rate of 2.10% breaks down in 3 months Libor rate plus a margin of 1.25%. At September 30, 2016, the Company did not utilize this line therefore does not pay interest of 2.10% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.
***Local Promissory Note was paid at maturity.

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. CASH FLOWS ANALYSIS

ITEMS	September 2016 MM$	September 2015 MM$	Variation 2016/2015 MM$	Variation 2016/2015 %
Cash flows provided by (used in) operating activities	132,994	126,077	6,917	5.5%
Cash flows provided by (used in) investing activities	-113,922	-103,916	-10,006	-9.6%
Cash flows provided by (used in) financing activities	-5,297	-55,753	50,456	90.5%
Net increase (decrease) of cash and cash equivalent	**13,775**	**-33,592**	**47,367**	**N/A**
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	**37,932**	**32,321**	**5,611**	**17.4%**

As of September 30, 2016, cash flows provided by operating activities reached MCh$132,994, which represents an increase of 5.5% over the same period of 2015 (MCh$126,077), mainly explained by lower payments to suppliers by MCh$13,893 partly offset lower cash receipts for sales for MCh$48,204.

During the same period, cash flow used in investing activities reached MCh$113,922, a 9.6% higher than in the same period of 2015 (MCh$103,916), mainly explained by higher cash flow used in purchases of property, plant and equipment that reached MCh$35,948 and higher cash flow used in loans to related parties by MCh$20,332, partially offset by higher receivables from related parties for MCh$48,204.

During the period of nine months ended on September 30, 2016, the cash flows used in financing activities amounted MCh$5,297, a 90.5% lower than the used in the same period of 2015 (MCh$55,753). This is mainly explained by the new bond issuance which represent an increase of MCh$210,979 related to September, 2015, partly offset by the C Series bond payment for MCh$160,126.

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

Financial restrictions contained in local bonds issuances are presented in the next table:

Covenants	Bonds	Limit	September 2016	December 2015
Capitalization Ratio*	All local Series	< 0.70	0.63	0.62
Shareholder's Equity* MMUF	D, H, K, M and N local Series	> 15.00	31.41	31.82
Shareholder's Equity* MCh$	Q local Series	> 350,000	823,626	815,618

Test	Bonds	Limit	September 2016	December 2015
Distribution Test**	D, H, K, M and N local Series	FNO***/Financial Expenses > 1.50	4.37	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 September 30, 2016 amounted to MCh$24.970.
**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.

Rates of profitability, liquidity and indebtedness of the company are presented in the next table:

RATIOS		September 2016	December 2015	Variation 2016/2015
Profitability				
Shareholders' Equity profitability*	(%)	10.2%	10.6%	-40 pbs
Assets profitability*	(%)	3.6%	3.7%	-10 pbs
Operating assets profitability*	(%)	5.8%	6.1%	-30 pbs
Earnings per share*	($)	81,811	83,628	-2.2%
Liquidity & Indebtedness				
Current Ratio	(times)	1.92	0.36	433.3%
Acid-Test Ratio	(times)	1.92	0.36	433.3%
Debt to Equity	(times)	1.88	1.84	2.2%
Short term debt/Total debt	(%)	4.2%	17.7%	-1350 pbs
Log term debt/Total debt	(%)	95.8%	82.3%	1350 pbs
Financial expenses coverage	(times)	3.84	4.04	-5.0%

*Figures as of September are annualized under last twelve months criteria.

5. THE MARKET

Transelec S.A. develops its activities in Chile 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 (the only sector in which it participates Transelec S.A.) 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 national 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, 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. Recently, on July 20, 2016 the Law 20,936 was published, it stablishes a new electric transmission Company and creates an independent coordinator of the national electricity system. 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.

The new Law 20,936 amends the General Law of Electrical Services in electric transmission and creates an independent coordinator of the National Electric System. In matters of power transmission, the bill of law redefines transmission systems classifying them into five segments: National Transmission System (now trunk), the Transmission Systems Zonal (currently subtransmission) Systems Dedicated (currently additional transmission), Systems for Development Poles and International Systems Interconnection, addresses the transmission planning a long-term horizon. Regulates the pricing of national, zonal and for development poles systems and payment for use of transmission facilities dedicated by users liable to price regulation. Prices are determined by the Commission every four years through processes that include the participation of companies, users and interested institutions and the Panel of Experts in the event of any discrepancies.

Pricing recognizes the efficient acquisition and installation costs according to market prices, which are annualized considering the assets life determined every three tariff periods and whit a variable discount rate. The owners of regulated transmission facilities must receive the Annual Transmission Value from the sum of the real tariff revenues and a single charge associated to each segment and applied directly to end users.

The Law 20,936 establishes a new payment regime for using national facilities that would become effective as of January 1, 2019 starting on that date and a transitory period that will extend until December 31, 2034, period during which the payments of the generating companies for the associated use to the supply agreements for free and regulated customers, concluded prior to the publication of enactment of this new law, will apply the same general rules for calculating the payment of the trunk transmission with some adjustments. These resulting injections tolls will be reduced year by year and the payment of the corresponding amounts will be transferred to the demand.

On February 3, 2016, a decree from the Ministry of Energy was published, and set trunk transmission facilities and 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 January 1, 2016 to December 31, 2019, as well as the indexation formulas applicable during that period. The determination of trunk facilities and their Annual Transmission Value (VATT) is updated every four years using an internationally-tendered study.

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.

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.

In accordance with the provisions of the eleventh transitory article of Law 20,936, during the period between the January 1, 2016 and December 31, 2017, remain in force Decree No. 14 and subtransmission tariffs in it are fixing, excluding payment corresponding to the generating companies. These payments will not be covered or absorbed by the subtransmission users. The Ministry of Energy shall issue a decree to may make adjustments to the Decree No. 14 (Decree No. 14 adjusted) to implement the exemption from power plants and for harmonious and consistent implementation of Decree No. 14 with the application decree 23T. This decree No. 14 adjusted has not yet been issued and subtransmission revenues that have been collected since is 1 January 2016 shall be reassess under the provisions containing the decree.

The Subtransmission Systems Studies that were set the basis for determining the tariffs and indexation formulas corresponding to the period 2016 - 2018 were finished during December 2014. In accordance with the twelfth article of the law 20,936, during the duration of the extended term of the decree No.14, it will continuity and term given to the process of setting new subtransmission tariffs which will be effective from January 1, 2018 until December 31, 2019.

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

Since the National, Zonal and Development poles Transmissions 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 have available technical capacity.

The law 20,936 considers the promulgation of several regulations, which are in development and publication is expected in the second half of 2017. For the preparation of regulations the authority has seen the participation of agents of the sector through workshops and before the publication these should be subject to public consultation.

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.

While the new regulation SEIA has been applied to investment projects of the company, in April 2015 by Decree No. 20 from the Ministry of Environment, the President of the Republic created the Presidential Advisory Commission to evaluate the Environmental Impact Assessment System to have proposals aimed at solving the major structural aspects of the system that contribute to the operation of this environmental management tool. The Final Report of the Presidential Commission for the Evaluation of SEIA was delivered in July 2016, 25 measures aimed at strengthening and improving the SEIA through legal, policy and procedural changes are proposed. However, the Ministry of Environment to date has not established any priority on modifications to be introduce in Law 19,300 and Decree 40/2012.

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 indigenous consulting processes of relative effectiveness, implying delays in the management of some projects and even the prosecution of some environmental authorizations. However, during the past few months there has been a relative decline in the prosecution of the environmental licenses.

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 Cross Currency Swap contracts that compensates the risks of exchange rates on the international issuances, amounting to a notional amount equivalent to US$375 million in 2014 and a US$350 million in 2016.
- 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 denominated into dollar and Chilean pesos in the periods indicated below:

	September 2016		December 2015	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	646,007	646,400	499,757	482,980
Dollar (amounts associated with income statement items)	-	-	-	-
Chilean peso	1,655,080	1,654,687	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
April	669.93	659.34	614.73	611.28
May	681.87	689.81	607.60	616.66
June	681.07	661.37	629.99	639.04
July	657.57	656.95	650.14	671.11
August	658.89	678.57	688.12	695.25
September	668.63	658.02	691.73	698.72
Average of the period	**680.67**	**675.38**	**639.48**	**645.49**

Semiannual Indexation formulas included into toll contracts and subtransmission tariffs as well as the monthly Indexation formulas for regulated trunk revenues, allow to reflect changes in the value of the facilities and operating, maintenance and administration costs. In general, those indexation formulas contemplate variations in international prices of equipment, supply prices and domestic 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 September 30, 2016, the company has five main clients which represent individually between 3.1% and 46.7% of the total revenues. These are Endesa Group (MCh$10,229), AES Gener Group (MCh$36,052), Colbún Group (MCh$35,957), Engie Group (ex E-CL) (MCh$10,044) and Pacific Hydro-LH-LC Group (MCh$6,736). The total revenues recognized for these clients represent an 88.1% 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$91,549, MCh$40,557, MCh$32,586, MCh$7,294 and MCh$5,060 respectively, with a percentage of the total incomes of 86.4%.

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$164,505. 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:

- the costs not committed (Commitment Fee) from 0.6% to 0.4375%,
- the margin or spread for use from 2.35% to 1.25% by withdrawn amount and
- 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 September 30, 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
June 30, 2016	58,905	117,809	117,809	695,566	1,139,338	2,129,426
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 September 30, 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
April	25,858.01	25,906.80	24,685.43	24,754.77
May	25,954.31	25,993.05	24,832.61	24,904.75
June	26,025.99	26,052.07	24,955.07	24,982.96
July	26,093.10	26,141.65	25,028.87	25,086.58
August	26,181.82	26,209.10	25,144.67	25,194.21
September	26,222.27	26,224.30	25,264.76	25,346.89
Average of the period	**25,933.12**	**25,965.06**	**24,847.68**	**24,888.37**