Reasoned Analysis of the Financial Statements

TRANSELEC S.A.

Santiago, Chile
June 30, 2016

SUMMARY

As of June 30, 2016, the Revenues reached MCh$136,851, showing an increase of 1.4% compared to 2015 (MCh$135,004). The increase of Revenues in 2016 are mainly explained by macroeconomic effects and new projects.

During the first semester of 2016, Transelec S.A. obtained an EBITDA* of MCh$117,632, a 2.0% lower than the comparison period of 2015 (MCh$120,022), with an EBITDA Margin** of 86.0% (88.9% in 2015). This decrease is mainly due to an increase of MCh$2,806 of Fixed Expenses associated with Administration and a decline of MCh$2,806 in Other Income, partially offset by higher Revenues of MCh$1,847.

Net Income recorded by the Company as of June 30, 2016 was MCh$39,031, which is 9.5% lower respect to the comparison period, and represents a decrease of MCh$4,091. This decrease is mainly explained by higher losses in Non-Operating Income (MCh$2,937) and lower Operating Income (MCh$1,763), partially offset by lower Income Tax (MCh$611).

The loss in Non-Operating Income as of June 30, 2016 was MCh$36,251, representing an increase of 8.8% compared to the same period of 2015 (MCh$33,314), mainly explained by higher losses for indexed assets and liabilities, which measures the inflation impact on the UF denominated debt of the Company of MCh$2,606, lower Other Income of MCh$2,606 and higher Financial Costs of MCh$719. This is partly offset by higher Financial Income of MCh$1,096 and higher profits on foreign exchange differences of MCh$907.

During the first semester of 2016, the company incorporated US$66 million of new facilities, related to the commissioning of six 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.
- On May, 25 the final dividend was paid for fiscal year 2015, amounting MCh$19,668.
- On June, 16 the first interim dividend of 2016 was paid for MCh$17,189.
- On June, 30 Transelec started a roadshow for a potential bond issuance on July in the international market.

Transelec S.A. has prepared its financial statements as of June 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	June 2016 MCh$	June 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Revenues	**136,851**	**135,004**	**1,847**	**1.4%**
Toll sales	133,978	132,096	1,882	1.4%
Services	2,873	2,908	-34	-1.2%
Costs of Sales	**-39,116**	**-38,678**	**-438**	**-1.1%**
Fixed Costs	-13,408	-13,448	40	0.3%
Depreciation	-25,707	-25,231	-476	-1.9%
Administrative Expenses	**-10,196**	**-7,023**	**-3,173**	**-45.2%**
Fixed Expenses	-9,273	-6,467	-2,806	-43.4%
Depreciation	-923	-556	-367	-66.1%
Operating Income	**87,539**	**89,302**	**-1,763**	**-2.0%**
Financial Income	4,540	3,444	1,096	31.8%
Financial Costs	-30,654	-29,935	-719	-2.4%
Foreign exchange differences	974	67	907	1355.3%
Gain (loss) for indexed assets and liabilities	-14,086	-11,480	-2,606	-22.7%
Other income (Losses)	2,975	4,591	-1,616	-35.2%
Non-Operating Income	**-36,251**	**-33,314**	**-2,937**	**-8.8%**
Income before Taxes	**51,288**	**55,989**	**-4,701**	**-8.4%**
Income Tax	-12,256	-12,867	611	4.7%
Net Income	**39,031**	**43,122**	**-4,091**	**-9.5%**
EBITDA*	**117,632**	**120,022**	**-2,391**	**-2.0%**
EBITDA Margin**	**86.0%**	**88.9%**		

*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 first semester of 2016, Revenues reached MCh$136,851 increasing by 1.4% over the same period of 2015 (MCh$135,004). This increase is mainly explained by higher income from Toll Sales, which as of June 30, 2016 reached MCh$133,978, an 1.4% higher than that obtained in the same period of 2015 (MCh$132,096). A portion of Services Revenues has been reclassified accounting wise changing the results presented in 2015. Considering this reclassification, Services Revenues reached MCh$2,873 as of June 30, 2016, a 1.2% lower than 2015 (MCh$2,908).

The increase in Toll sales is explained by MCh$3,042 higher income associated with the Trunk segment and an increase of MCh$1,746 in Transmission Solutions segment, partially offset by MCh$2,906 of lower revenues of in Subtransmission segment.

Higher revenues from Trunk segment are mainly explained by macroeconomic effects associated to a higher exchange rate of MCh$5,114 and the commissioning of new projects by MCh$3,714, partially offset by lower revenues due to adjustments arising from Trunk Transmission Study amounting to MCh$4,543. The higher income from Transmission solutions segment are associated with macroeconomic factors mainly due to a higher exchange rate producing an increase of MCh$1,740 and the commissioning of new projects by MCh$869, partially offset by MCh$1,161 lower revenues associated with transmission lines reassigned to the Trunk system because of the new Trunk Transmission Study. The lower revenues in Subtransmission are mainly associated to lower income from contracts MCh$1,908 due to the reclassification of transmission lines to the Trunk segment and a decrease of MCh$1,777 mainly explained by adjustments in some payments due to the 2016 tariff extension for Subtransmission, this was offset partially in MCh$474 by an increase in the electricity demand during the first half of 2016 compared to the same period of 2015.

Total Transelec Costs (Cost of Sales + Administrative Expenses) on June 30, 2016 were MCh$49,312 increasing by 7.9% when comparing the first half of 2016 to the first half of 2015 which totaled MCh$45,701. Total costs are composed by the following main items.

Cost of sales during the analysis period totaled MCh$39,116, 1.1% higher than the same period of 2015 (MCh$38,678). These costs are mainly maintenance and operation of facilities and they are split in 65.7% depreciation of fixed assets (65.2% in June 2015), and 34.3% fixed costs involving personnel costs, supplies and contracted services (34.8% in 2015). In June 2016, fixed costs decreased by MCh$40, an amount 0.3% lower than the one registered in June 2015, while depreciation was 1.9% higher. The decrease of fixed costs is mainly explained by lower consumption of utilities (water, electricity and gas), lower costs in maintenance of assets and a decrease in other contracted services, partially offset by payment associated with collective bargaining with one of the unions and higher costs of the regulator (CDEC). The increase in depreciation is mainly due to asset retirement due to thefts.

Administrative expenses amounted to MCh$10,196 in June 2016, 45.2 % higher than those obtained in the same period in 2015 (MCh$7,023). These expenses are comprised 90.9% by fixed costs that include personnel costs and works, supplies and contracted services (92.1% in 2015) and depreciation 9.1% (7.9% in 2015) . In June 2016, the Fixed Expenses increased by MCh$2,806, an amount 43.3 % higher than obtained in June 2015, while depreciation was 66.1 % higher. The increase in fixed expenses is mainly due to payment of a performance bond for the project Nogales - Polpaico, payment of collective bargaining with one of the unions and higher extraordinary expenses. The increase in depreciation is due to a provision made for the right off of San Ambrosio right of way per project not executed.

b) Non-Operating Income

The Non-Operating Income for the first six months of 2016 was a loss of MCh$36,251, an 8.8% higher than the same period of 2015 (MCh$33,314), mainly explained by higher Losses for Indexed Assets and Liabilities, a drop in Other Income, partly offset by higher Financial Income.

Losses for Indexed Assets and Liabilities were MCh$14,086 on June, 2016, a 22.7% higher than the same period of 2015 (MCh$11,480). This is explained by the readjustment of local bonds in UF due to variation in the Unidad de Fomento (UF). For the first semester of 2016 this variation corresponds to 1.65% compared with a 1.44% for the first semester of 2015, due to lower inflation in that period.

Gains by Other Income as of June, 2016 were MCh$2,975, a 35.2% 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, partly offset in 2016 by incomes of the fire insurance due to the accident occurred in Pan de Azucar Substation.

Financial costs recorded as of June 2016 amounted MCh$30,654, a 2.4% higher than the same period of 2015 (MCh$29,935). This increase is explained by the effect of an 11.2% depreciation of the Chilean peso (average exchange rate between periods), which implies higher interest paid on dollar bonds (MCh$987) and the effect of a UF variation of 4.5% average which generated higher interest paid on UF bonds (MCh$710).

Financial Income as of June 2016 amounted MCh$4,540, a 31.8% higher than the same period of 2015 (MCh$3,444), this is mainly explained by higher accrued interest to related companies for MCh$1,219 associated to a higher amount of intercompany loan to Transelec Holding Rentas Ltda. in 2016.

Foreign Exchange Differences as of June, 2016 reached MM$974, surpassing those obtained in the same period of 2015 (MCh$67). This is mainly explained by the positive impact of lower exchange rate on the Senior Notes bonds, with a difference of MCh$52,453 between periods, almost totally offset by higher losses from Cross Currency Swap of MCh$29,873 and higher losses in dollar accounts receivables from related companies for MCh$21,449.

c) Income tax

The Income Tax as of June 30, 2016 decreased by 4.7% compared to the same period of 2015. While profit before tax decreased by 8.4%, the variation in tax payments was lessened due to the change of the 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	June 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Current assets	85,532	92,078	-6,546	-7.1%
Non-current assets	2,181,806	2,157,149	24,657	1.1%
Total Assets	**2,267,338**	**2,249,227**	**18,111**	**0.8%**
Current liabilities	266,595	257,921	8,674	3.4%
Non current liabilities	1,196,404	1,200,658	-4,254	-0.4%
Equity	804,339	790,649	13,690	1.7%
Total Liabilities & Equity	**2,267,338**	**2,249,227**	**18,111**	**0.8%**

The increase in Assets between December 2015 and June 2016 is explained by an increase in Non-Current Assets partly offset by a decrease in Current 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 long term accounts receivable from related parties. The decrease in Current Assets is due to a lower balance in short term accounts receivable from related parties, less current assets for taxes, partially offset by higher cash and cash equivalent.

The increase in Total Liabilities and Equity as of June 30, 2016 is due to an increase in Equity and Current Liabilities, partially offset by lower Non-Current Liabilities. The increase in equity was due to an increase in other reserves and higher retained earnings. Higher Current Liabilities are explained by a greater balance in trade accounts payable and other financial liabilities, partially offset by lower current provisions for benefits to employees and lower non-financial liabilities. The decrease in Non-Current Liabilities is mainly due to a decrease in other financial liabilities, partially offset by an increase in deferred tax liabilities.

Value of the Main Pp&E in Operation

ASSETS	June 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	1,109,888	1,080,462	29,426	2.7%
Work in progress	73,401	72,802	599	0.8%
Machinery and equipment	602,469	580,389	22,080	3.8%
Other fixed assets	6,234	5,530	704	12.7%
Depreciation (less)	-402,509	-381,313	-21,196	-5.6%
Total	**1,410,107**	**1,378,501**	**31,606**	**2.3%**

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital) June 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	1.90%	Floating	15-Oct-17	-	-
Local Promissory Note**	CLP	3.80%	Fixed	03-Jul-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 June 30, 2016, the Company did not utilize this line therefore does not pay interest of 1.90% 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	June 2016 MM$	June 2015 MM$	Variation 2016/2015 MM$	Variation 2016/2015 %
Cash flows provided by (used in) operating activities	105,529	79,207	26,322	33.2%
Cash flows provided by (used in) investing activities	-65,694	-87,278	21,584	24.7%
Cash flows provided by (used in) financing activities	-37,005	-36,845	-160	-0.4%
Net increase (decrease) of cash and cash equivalent	**2,830**	**-44,916**	**47,746**	**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	**26,987**	**20,997**	**5,990**	**28.5%**

As of June 30, 2016, cash flows provided by operating activities reached MCh$105,529, which represents an increase of 33.2% over the same period of 2015 (MCh$79,207), mainly explained by lower payments to suppliers that at the end of the semester reached MCh$63,868 in comparison to the MCh$90,949 paid in the same period of 2015.

During the same period, cash flow used in investing activities reached MCh$65,694, a 24.7% lower than in the same period of 2015 (MCh$87,278), explained by higher receivables from related parties and lower cash flow used in loans to related parties that on June 30, 2016 reached MCh$30,870, while as of June 30, 2015 were MCh$49,473 partially offset by higher cash flow used in purchases of property, plant and equipment that by the end of June, 2016 reached MCh$70,416 in comparison with the same period of 2015 that were MCh$39,022.

During the same period, the cash flows used in financing activities amounted MCh$37,005, almost in line with the same period of 2015 (MCh$36,845).

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	June 2016	December 2015
Capitalization Ratio*	All local Series	< 0.70	0.62	0.62
Shareholder's Equity* MMUF	C, D, H, K, M and N local Series	> 15.00	31.83	31.82
Shareholder's Equity* MCh$	Q local Series	> 350,000	829,309	815,618

Test	Bonds	Limit	June 2016	December 2015
Distribution Test**	C, D, H, K, M and N local Series	FNO***/Financial Expenses > 1,50	4.71	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 June 30, 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.

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

RATIOS		June 2016	December 2015	Variation 2016/2015
Profitability				
Shareholders' Equity profitability*	(%)	9.7%	10.6%	-90 pbs
Assets profitability*	(%)	3.4%	3.7%	-30 pbs
Operating assets profitability*	(%)	4.9%	5.4%	-50 pbs
Earnings per share*	($)	78,063	83,628	-6.7%
Liquidity & Indebtedness				
Current Ratio	(times)	0.32	0.36	-11.1%
Acid-Test Ratio	(times)	0.32	0.36	-11.1%
Debt to Equity	(times)	1.82	1.84	-1.1%
Short term debt	(%)	18.2%	17.7%	50 pbs
Log term debt	(%)	81.8%	82.3%	-50 pbs
Financial expenses coverage	(times)	3.82	4.04	-5.4%

*Figures as of June are annualized.

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 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, 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 the third quarter of 2016.

6.2. Operating Risks

Although the Company's management believes it has adequate risk coverage, in line with industry practices, it cannot guarantee the sufficiency of its insurance policy coverage for certain operating risks to which it is exposed, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could negatively affect the Company's financial statements.

6.3. Application of regulations and/or Environmental Law

The operations of Transelec are subject to Law No. 19.300, on Chilean general basis of the environment ('Environmental Law'), enacted in 1994 and modified through the Law No. 20.417 published in the Official Gazette on January 26, 2010. This modification considered an institutional change, creating new institutions with environmental competencies: (i) the Ministry of Environmental Affairs; (ii) the Minister Council for Sustainability; (iii) the Environmental Assessment Service; and (iv) the Superintendence of Environmental Affairs; these institutions are in charge of the regulation, evaluation and inspection of the activities that are likely to generate environmental impacts. Afterwards, the Law No. 20.600 was published on June 28, 2012, creating the Environmental Courts, whose function is to resolve environmental disputes within its jurisdiction. This institutional specialization generates a scenario of greater control and supervision in the Company's actions.

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

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

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

6.4. Delays in the Construction of New Transmission Facilities

The success of the program for extending the trunk transmission network and building new facilities will depend on numerous factors, including cost and availability of funding. Although Transelec has experience with large-scale construction projects, the construction of new facilities could be negatively affected by factors commonly associated with such projects including delays in obtaining regulatory authorizations, scarcity of equipment, materials or labor, etc. Any of these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

6.5. Technological Changes

Transelec is compensated for investments that makes in electrical transmission facilities through an annual valuation of the existing facilities (AVI), which is performed every four years using current market prices. Any significant technological advance in the equipment that are part of Transelec' facilities could lower this valuation, which would prevent partial recovery of the investments made.

6.6. Foreign Exchange Risk

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

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

Exchange rate exposure is managed using a policy that involves fully hedging the Company's net balance sheet exposure using diverse instruments such as foreign exchange forward contracts and cross currency swaps.

The following table details the amounts of monetary assets and liabilities denominated into dollar and Chilean pesos in the periods indicated below:

	June 2016		December 2015	
In million pesos	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	450,320	450,200	499,757	483,045
Dollar (amounts associated with income statement items)	-	-	-	-
Chilean peso	1,816,872	1,816,992	1,711,623	1,728,335

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
Average of the period	**690.16**	**680.81**	**620.89**	**624.06**

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 June 30, 2016, the company has four main clients which represent individually between 3.2% and 48.8% of the total revenues. These are Endesa Group (MCh$66,765), Colbún Group (MCh$24,612), AES Gener Group (MCh$24,464), E-CL Group (MCh$5,674) and Pacific Hydro-LH-LC Group (MCh$4,351). The total revenues recognized for these clients represent a 92.0% 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$60,137, MCh$20,697, MCh$28,076, MCh$4,893 and MCh$4,167 respectively, with a percentage of the total incomes of 87.4%.

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$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:

- 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 June 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	225,079	99,761	99,761	662,346	883,698	1,970,646
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 June 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
Average of the period	**25,816.81**	**25,851.74**	**24,698.46**	**24,727.94**

Subsequent events:

- On July 4, 2016 Local Promissory Note was paid to Banco Estado.
- On July 7, 2016 Transelec issued a Senior Notes in the International market for MUS$350 with a maturity of 12.5 years with an interest rate of 3.875%.
- On July 11, 2016 the new Electrical Transmission Law was published.