

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

TRANSELEC S.A.

*Santiago, Chile
June 30, 2017*



SUMMARY

Net Income recorded by the Company as of June 30, 2017 was MCh\$42,617, which is 9.2% higher compared to the same period of 2016 (MCh\$39,031). This increase is mainly explained by a higher Operating Income due to higher Revenues and lower total costs and expenses, and lower losses in the Non-Operating Income.

As of June 30, 2017, Revenues reached MCh\$138,763, showing an increase of 1.4% compared to the same period of 2016 (MCh\$136,851). The increase of Revenues in 2017 are mainly explained by the commissioning of new projects, macroeconomic effects and to a lesser extent by contracts reassessment. This is partly offset by the maturity of transmission agreements that became regulated.

During the first semester of 2017, Transelec obtained an EBITDA¹ of MCh\$118,337, a 0.6% higher than the obtained in the same period of 2016 (MCh\$117,632), with an EBITDA Margin² of 85.3%. The EBITDA increase is mainly explained due to the Revenues effect explained before, partly offset by lower Other Income. Total operation fixed costs and expenses maintain practically in line with those of the first semester of 2016, without considering the accounting in 2017 of a couple of extraordinary charges that corresponds to fines and exchange rate difference.

The loss in Non-Operating Income as of June 30, 2017 was MCh\$35,063, representing a decrease of 3.3% compared to the same period of 2016 (MCh\$36,251), mainly explained by lower losses for indexed assets and liabilities, which mostly measures the inflation impact on the UF denominated debt of the Company of MCh\$5,421. This is partly offset by higher Financial Costs of MCh\$2,230 and lower Other Income of MCh\$1,144.

During the first semester of 2017, the company incorporated US\$84.3 million of new facilities, related to the commissioning of two National system upgrade projects, one Zonal system project, two dedicated projects and the acquisition of the company Transmisión del Melado SpA.

¹ EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization

² EBITDA Margin= EBITDA/Revenues



Relevant events of the period:

- On March 31, 2017 Transelec acquired 100% of shares of the company Transmisión del Melado SpA. This is now a subsidiary of Transelec. The operation of Transmisión del Melado started on the second quarter of 2017. This is why now the Financial Statements are consolidated.
- On May 30, 2017 Transelec made its first Investor Day, where the company met investors, banks and rating agencies as part of policy to maintain permanent contact with the company investors. Within the same initiative Transelec held a number of meetings with international investors on June.
- In 2017, Transelec paid to their shareholders the following amounts:
 - MCh\$19,757 as 2016's final dividend distributed on May 23, 2017.
 - MCh\$19,222 as the 2017 first interim dividend distributed on June 15, 2017.

Transelec S.A. has prepared its financial statements as of June 30, 2017 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 deferred 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 mentioning the adoption of IAS 8, which establishes mechanisms to consider that the issuer had never failed to apply IFRS. 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 2017 MCh\$	June 2016 MCh\$	Variation 2017/ 2016 MCh\$	Variation 2017/ 2016 %
Revenues	138,763	136,851	1,912	1.4%
Toll sales	136,112	134,244	1,868	1.4%
Services	2,651	2,606	45	1.7%
Costs of Sales	-38,806	-38,288	-518	-1.4%
Fixed Costs	-13,560	-12,599	-961	-7.6%
Depreciation	-25,246	-25,689	443	1.7%
Administrative Expenses	-9,579	-11,024	1,445	13.1%
Fixed Expenses	-9,185	-10,082	897	8.9%
Depreciation	-394	-942	548	58.1%
Operating Income	90,378	87,539	2,839	3.2%
Financial Income	4,606	4,540	66	1.4%
Financial Costs	-32,884	-30,654	-2,230	-7.3%
Foreign exchange differences	49	974	-925	-94.9%
Gain (loss) for indexed assets and liabilities	-8,665	-14,086	5,421	38.5%
Other income (Losses)	1,831	2,975	-1,144	-38.5%
Non-Operating Income	-35,063	-36,251	1,188	3.3%
Income before Taxes	55,314	51,288	4,026	7.9%
Income Tax	-12,697	-12,256	-441	-3.6%
Net Income	42,617	39,031	3,586	9.2%
EBITDA¹	118,337	117,632	705	0.6%
EBITDA Margin²	85.3%	86.0%		

¹ EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization

² EBITDA Margin= EBITDA/Revenues

a) Operating Income

During the period of 6 months ended on June 30, 2017, Revenues reached MCh\$138,763 increasing by 1.4% over the same period of 2016 (MCh\$136,851). A portion of Revenues has been reclassified between Toll sales and Services accounting wise changing the results presented in 2016. Considering this reclassification in both periods, the increase in Revenues is mainly explained by higher income from Toll Sales, which as of June 30, 2017 reached MCh\$136,112, a 1.4% higher than that obtained in the same period of 2016 (MCh\$134,244). Services Revenues reached MCh\$2,651 as of June 30, 2017, a 1.7% higher than 2016 (MCh\$2,607).

The increase in Toll Sales is explained by MCh\$2,253 of higher income associated with the Dedicated segment (previous Transmission Solutions) and an increase of MCh\$596 in the Zonal segment (previous Subtransmission), partially offset by MCh\$980 of lower revenues in the National segment (previous Trunk).

As a whole, the higher Revenues are mainly explained due to the commissioning of new projects in the last twelve months that provides revenues by MCh\$3,909, macroeconomic effects of MCh\$903 and a contract reassessment with clients of MCh\$867. This was partially offset by the maturity of transmission agreements with Enel (previous Endesa) that became regulated by MCh\$4,252.



Total Transelec Costs and Expenses (Cost of Sales + Administrative Expenses) as of June 30, 2017 were MCh\$48,385, a 1.9% lower than the comparison period in 2016 that reached MCh\$49,312. Costs and Expenses presented an account reclassification affecting the exposed in 2016. Total costs are composed by the following main items.

Cost of sales during the analysis period totaled MCh\$38,806, a 1.4% higher than the same period of 2016 (MCh\$38,288). These costs are mainly maintenance and operation of facilities and they are split in 65.1% depreciation of fixed assets (67.1% in June 2016), and 34.9% fixed costs involving personnel costs, supplies and contracted services (32.9% in June 2016). In June 2017, fixed costs increased by MCh\$961, an amount 7.6% higher than the one registered in June 2016, while depreciation was 1.7% lower. The increase of fixed costs is mainly explained by higher costs of personnel and safety and protection in substations.

Administrative expenses amounted to MCh\$9,579 in June 2017, 13.1% lower than those obtained in the same period in 2016 (MCh\$11,024). These expenses are comprised 95.9% by fixed costs that include personnel costs and works, supplies and contracted services (91.5% in 2016) and 4.1% due to depreciation (8.5% in June 2016). In June 2016, the Fixed Expenses decreased by MCh\$897, an amount 8.9% higher than obtained in June 2016, while depreciation had a decrease of MCh\$548. The decrease in fixed expenses is mainly due to payment of a performance bond for the project Nogales – Polpaico in 2016.

Total Depreciation (considering Costs and Expenses) as of June 30, 2017 is 3.7% lower than the same period in 2016. The decrease is mainly due to a write-off during the first semester of 2016 and the end of a number of assets' useful life in the same year, which meant a lower depreciation in 2017. This is partly offset by new commissioning.



b) Non-Operating Income

The Non-Operating Income of the first semester of 2017 was a loss of MCh\$35,063, an 3.3% lower than the same period of 2016 (MCh\$36,251), mainly explained by lower Losses for Indexed Assets and Liabilities partly offset by higher Financial Costs and lower income for Foreign Exchanges Differences.

Losses for Indexed Assets and Liabilities were MCh\$8,665 on June 2017, a 38.5% lower than the same period of 2016 (MCh\$14,086). This is mostly explained due to the maturity and payment of the Local Series C of UF 6 million in September, 2016, and on the other hand the readjustment of local bonds in UF due to variation in the UF. In the first semester of 2017 this variation corresponds to 1.20% compared with a 1.65% for the same period of 2016, due to higher inflation in that period.

Financial Costs recorded as of June 2017 amounted MCh\$32,884, a 7.3% higher than the same period of 2016 (MCh\$30,654). This increase is mainly explained by the fact that in June 2017 Transelec has more debt than in June 2016, because of the new issuance in July 2016 that was higher than the maturity of September 2016. Specifically, the main items that explained higher Financial Costs are, (i) higher USD interests paid of MCh\$4,514 due to the accrued interest for the new dollar debt issuance in July partly offset by the effect of a 4.42% appreciation of the Chilean peso (average exchange rate between periods), (ii) higher interests paid due to Swap agreements of MCh\$1,529, mainly due to the new bond hedge, and (iii) lower interests paid due to UF bonds of MCh\$2,695 associated to lower UF debt (due to the Series C payment), partly offset with the effect of the UF variation of 2.57% average between both years.

Other Income as of June, 2017 were MCh\$1,831, a 38.5% lower than the same period of 2016 (MCh\$2,975). The difference is mainly explained that in 2016 were income due the fire insurance due to the accident occurred in Pan de Azúcar Substation.

Foreign Exchange Differences as of June, 2017 reached MM\$49, maintaining at minimum levels associated to the foreign currency hedge.

Financial Income as of June 2017 amounted MCh\$4,606, maintaining practically in line with what was registered in the same period of 2016 (MCh\$4,540).

c) Income tax

The Income Tax as of June 30, 2017 were MCh\$12,697, increasing by 3.6% compared to the same period of 2016 (MCh\$12,256). This increase is mainly explained because the higher profits before taxes of 7.9%, partly offset by the incorporation of deferred taxes of Transmisión del Melado SpA.

2. BALANCE SHEET ANALYSIS

ITEMS	June 2017 MCh\$	December 2016 MCh\$	Variation 2017/2016 MCh\$	Variation 2017/2016 %
Current assets	112,892	124,719	-11,827	-9.5%
Non-current assets	2,225,552	2,182,103	43,449	2.0%
Total Assets	2,338,444	2,306,822	31,622	1.4%
Current liabilities	89,048	92,253	-3,205	-3.5%
Non current liabilities	1,468,426	1,442,089	26,337	1.8%
Equity	780,971	772,481	8,490	1.1%
Total Liabilities & Equity	2,338,444	2,306,822	31,622	1.4%

The increase in Assets between December 2016 and June 2017 is explained by an increase in Non-Current Assets partly offset by lower Current Assets. The increase in Non-Current assets is mainly explained an increase in property, plant and equipment due to the acquisition of Transmisión del Melado SpA. The decrease in Current Assets is mostly explained due to a higher short term accounts receivable from related parties partially offset by lower cash and cash equivalent and a drop in accounts receivable.

The increase in Total Liabilities and Equity as of June 30, 2017 is due to an increase Non-Current Liabilities and Equity partially offset by lower Current Liabilities. The increase in Non-Current Liabilities is explained by an increase on deferred taxes and higher long term other financial liabilities both due to the acquisition of Transmisión del Melado SpA. The increase in Equity is explained due to lower negative balance in Other Reserves and higher Accumulated Earnings. Lower Current Liabilities are explained by lower accounts payables and lower balance in employees' allowances.

Value of the Main Pp&E in Operation

ASSETS	June	December	Variation	Variation
	2017	2016	2017/2016	2017/2016
	MCh\$	MCh\$	MCh\$	%
Land	20,641	20,625	16	0.1%
Building, Infraestructure, works in progress	1,145,312	1,118,249	27,063	2.4%
Work in progress	114,337	107,900	6,437	6.0%
Machinery and equipment	634,188	610,065	24,123	4.0%
Other fixed assets	7,542	5,736	1,806	31.5%
Depreciation (less)	-444,905	-421,337	-23,568	-5.6%
Total	1,477,115	1,441,237	35,878	2.5%

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital)	
					June 2017	December 2016
Series D bond	UF	4.25%	Fixed	15-Dec-27	13.50	13.50
Series H bond	UF	4.80%	Fixed	01-Aug-31	3.00	3.00
Series K bond	UF	4.60%	Fixed	01-Sep-31	1.60	1.60
Series M bond	UF	4.05%	Fixed	15-Jun-32	3.40	3.40
Series N bond	UF	3.95%	Fixed	15-Dec-38	3.00	3.00
Series Q bond	UF	3.95%	Fixed	15-Oct-42	3.10	3.10
Series Senior Notes bond @2023	USD	4.625%	Fixed	26-Jul-23	300.00	300.00
Series Senior Notes bond @2025	USD	4.25%	Fixed	14-Jan-25	375.00	375.00
Series Senior Notes bond @2029	USD	3.875%	Fixed	12-Jan-29	350.00	350.00
Revolving Credit Facility ¹	USD	2.70%	Floating	15-Oct-17	-	-
TDM USD Loan Tranche A ²	USD	5.92%	Floating	16-Dec-30	4.30	-
TDM CLP Loan - Tranche B1 ²	CLP	6.32%	Floating	17-Jan-31	5,460.38	-
TDM UF Loan - Tranche B2 ²	UF	4.39%	Floating	16-Dec-30	0.07	-

¹ US\$ 250 million Revolving Credit Facility: The floating rate of 2.40% breaks down in 3 months Libor rate plus a margin of 1.25%. At June 30, 2017, the Company did not utilize this line therefore does not pay interest of 2.40% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

² Each of the loans indexed to LIBOR 6 months + 4.6%, ICP + 3.25% and TAB UF 180 + 2.1% are credits from the Subsidiary Transmisión el Melado SpA that was recently acquired, and which were prepaid during the first week of July 2017.

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 2017 MM\$	June 2016 MM\$	Variation 2017/2016 MM\$	Variation 2017/2016 %
Cash flows provided by (used in) operating activities	99,263	105,529	-6,266	-5.9%
Cash flows provided by (used in) investing activities	-67,212	-65,694	-1,518	-2.3%
Cash flows provided by (used in) financing activities	-38,979	-37,005	-1,974	-5.3%
Net increase (decrease) of cash and cash equivalent	-6,928	2,830	-9,758	N/A
Cash and cash equivalent at the beginning of the period	54,647	24,157	30,490	126.2%
Cash and cash equivalent at the end of the period	47,718	26,987	20,731	76.8%

As of June 30, 2017, cash flows provided by operating activities reached MCh\$99,263, which represents a decrease of 5.9% over the same period of 2016 (MCh\$105,529), mainly explained by higher payments to suppliers of MCh\$11,614, higher interest payments of MCh\$1,875 and to taxes refund in 2016 due to Transelec Norte absorption of MCh\$2,744. This was partly offset higher cash receipts from sales for MCh\$10,556.

During the same period, cash flow used in investing activities reached MCh\$67,212, a 2.3% higher than in the same period of 2016 (MCh\$65,694), mainly explained by MCh\$6,407 associated to the acquisition of Transmisión del Melado SpA and higher net loan to related entities of MCh\$5,676, partially offset by lower cash flow used in purchases of property, plant and equipment of MCh\$9,180.

As of June 2017, the cash flow used in financing activities reached MCh\$38,979 a 5.3% higher than the comparison period in 2016 (MCh\$37,005). Those cash flows represent almost totally the dividends payment.

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	15-10-2017 ¹	Working Capital

¹ The Revolving Credit Facility was successfully renegotiated in August having its new maturity on August 3, 2020.

4. INDICATORS

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

Covenants	Bonds	Limit	June 2017	December 2016
Capitalization Ratio*	All local Series	< 0.70	0.64	0.64
Shareholder's Equity* MMUF	D, H, K, M and N local Series	> 15.00	30.22	30.27
Shareholder's Equity* MCh\$	Q local Series	> 350,000	805,941	797,451

Test	Bonds	Limit	June 2017	December 2016
Distribution Test**	D, H, K, M and N local Series	> 1.50	4.04	4.28
FNO***/Financial Expenses				

¹Equity= 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, 2017 amounted to MCh\$24.970.

²Test to distribute restricted payments such as dividends.

³FNO= 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 2017	December 2016	Variation 2017/2016
Profitability				
Shareholders' Equity profitability*	(%)	10.8%	10.5%	30 pbs
Assets profitability*	(%)	3.6%	3.5%	10 pbs
Operating assets profitability*	(%)	5.7%	5.6%	10 pbs
Earnings per share*	(\$)	84,569	80,983	4.4%
Liquidity & Indebtedness				
Current Ratio	(times)	1.27	1.35	-5.9%
Acid-Test Ratio	(times)	1.27	1.35	-5.9%
Debt to Equity	(times)	1.99	1.99	0.0%
Short term debt/Total debt	(%)	5.7%	6.0%	-30 pbs
Log term debt/Total debt	(%)	94.3%	94.0%	30 pbs
Financial expenses coverage	(times)	3.60	3.66	-1.6%

¹ Profitability ratios are presented under last twelve months criteria.

² Shareholders' Equity profitability is calculated as Net Income over Equity.

³ Assets profitability is calculated as Net Income over Total Assets.

⁴ Operating assets profitability is calculated as Net Income over total value of the Main Pp&E.

⁵ Earnings per share is calculated as Net Income over total shares.



5. THE TRANSMISSION MARKET

5.1. The transmission activity and its regulation

Transelec 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) 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.

The transmission system of Transelec 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 66% of all of the 500 kV electricity transport lines, 39% of the 220 kV lines, 83% 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, and the recently published, Law 20.936 issued on July 20, 2016, which establishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explore and operate transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

The new Law 20,936/2016 redefines transmission systems classifying them into five segments: National Transmission System (previously trunk), the Transmission Systems Zonal (previously subtransmission) Systems Dedicated (previously additional transmission), Systems for Development Poles and International Systems Interconnection. Additionally the bill of law addresses the transmission planning a long-term horizon and 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.

Transelec's business is focused on the economic retribution that can obtain for tolls by use of the transport and transformation capacity of its facilities, aligned to the security and quality service standards.

5.2. Valuation and pricing of facilities

Prices associated to transmission activity are determined by the Commission every four years by conducting an internationally tendered study, and processes that include the participation of companies, users and interested institutions and the Panel of Experts in the event of any discrepancies.



Pricing of the existing facilities recognizes the efficient acquisition and installation costs according to market prices, which are annualized considering the assets life determined every three tariff periods and with 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.

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. These regulations established the trunk transmission facilities and the new Investment Values (VI), the Annuity of the Investment Value (AVI) and the Operating, Maintenance and Administration Costs (COMA), plus the VATT of the trunk facilities, and the Indexation formulas applicable during that period.

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.

In relation to the Zonal transmission system facilities (previously subtransmission), 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, Transelec 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

As mentioned above, 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.

The law 20,936 considers the promulgation of several regulations, which are in development and publication is expected in the second half of 2017. Notwithstanding that for the elaboration of the great majority of these regulations, the authority has contemplated the participation of the private agents of the sector through workshops and of the citizenship in general through the procedures of public consultation, the authority is not obliged to incorporate the comments and observations made to the preliminary versions of the regulations, and finally may include what it deems pertinent or necessary, always in accordance with the law.

Additionally, in virtue of the regime of unrestricted open access that the new law establishes about the National, Zonal, International Interconnection, Development Poles Transmissions Systems and Dedicated Systems when technical capacity is available, it is possible to detect a risk directly associated to scope and application of this reform, since the authority will be the one establishing the particular conditions of implementation of this regime in the respective bylaw. Notwithstanding this, the National Energy Commission issued on March 30 a resolution that regulates in detail this matter, in a transitional way until the issuance of the definitive regulation.

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 its principal modification is 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 adaptation 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.

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 SEIA to find the structural weaknesses of the system and elaborate proposals that contribute to correct implementation and operation of the process and environmental management tool. The Final Report of the referred Presidential Commission issued in July 2016, 25 measures aimed at strengthening and improving the SEIA through legal, policy and procedural changes are proposed. However, at this time the Ministry of Environment has not established any priority on modifications to be introduced in Law 19,300 and Decree 40/2012 as result of the report.

The enactment of the Supreme Decree No. 66/2013 of the Minister of Social Development, which regulates the indigenous consultation procedure and its application considered in the Supreme Decree No. 40/2012 for the projects in the SEIA, has had results 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.

It should be mentioned that, projects that could be materialize in Chile are facing a more informed and organized citizenry, therefore, the challenge is include early 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 lease contracts that generate income indexed to US dollars.
- Maintains accounts payables in US dollars associated to debt issued in U.S. America.
- Maintains accounts receivables in US dollars associated to intercompany loans.
- Maintains Cross Currency Swap contracts that compensates the risks of exchange rates on the international issuances.

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:

In million pesos	June 2017		December 2016	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	684,776	683,139	499,757	691,075
Chilean peso	1,629,317	1,630,955	1,711,623	1,733,231

EXCHANGE RATES (Observed exchange rates)

MONTH	Average 2017 (\$)	Last Day 2017 (\$)	Average 2016 (\$)	Last Day 2016 (\$)
January	661.19	646.19	721.95	711.72
February	643.21	648.88	704.08	689.18
March	661.20	663.97	682.07	675.10
April	655.74	665.41	669.93	663.40
May	671.54	672.35	681.87	690.27
June	665.15	664.29	681.07	661.49
Average of the period	659.67	660.18	690.16	681.86

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, 2017, the company has five main clients which represent individually between 3.2% and 39.5% of the total revenues. These are Enel Group (previously Endesa) (MCh\$54,812), Colbún Group (MCh\$25,644), AES Gener Group (MCh\$24,226), Engie Group (ex E-CL) (MCh\$7,210) and Pacific Hydro-LH-LC Group (MCh\$4,460). The total revenues recognized for these clients represent an 83.9% of the total revenues of the company. In the period of comparison, the company had the same structure of clients which revenues reached to MCh\$66,765, MCh\$24,612, MCh\$24,464, 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\$166,072.5. 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, 2017³. 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. This line does not include any material clause of adverse change.

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, 2016.

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, 2017	59,687	119,374	119,374	693,396	1,124,139	2,115,970
December 31, 2016	59,544	119,089	119,089	705,743	1,135,496	2,138,961

³ The Revolving Credit Facility was successfully renegotiated in August having its new maturity on August 3, 2020.



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, 2017, and as of December 31, 2016, 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 2017 (\$)	Last Day 2017 (\$)	Average 2016 (\$)	Last Day 2016 (\$)
January	26,340.76	26,318.21	25,629.09	25,629.09
February	26,336.93	26,392.09	25,661.05	25,717.40
March	26,442.88	26,471.94	25,772.43	25,812.05
April	26,512.42	26,561.42	25,858.01	25,906.80
May	26,603.14	26,630.98	25,954.31	25,993.05
June	26,651.22	26,665.09	26,025.99	26,052.07
Average of the period	26,481.22	26,506.62	25,816.81	25,851.74

Subsequent Events

- Transmisión del Melado SpA loans were prepaid during July.
- Transelec sold to Transelec Concesiones the assets associated to "2x500 KV Pichirropulli – Nueva Puerto Montt" and "Nueva Charrúa Substation" in August.