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

TRANSELEC S.A.

Santiago, Chile
December 31, 2016

SUMMARY

As of December 31, 2016, the Revenues reached MCh$281,715, showing an increase of 1.8% compared to the same period of 2015 (MCh$276,737). The increase of Revenues in 2016 are mainly explained by an agreements renegotiation with Enel (previously Endesa), commissioning of new projects and macroeconomic effects associated to exchange rate partly offset by lower revenues associated to an adjustment in the National Segment tariffs.

During 2016, Transelec S.A. obtained an EBITDA* of MCh$239,357, staying practically in line with 2015 (MCh$239,552). In 2016 Transelec also registered an EBITDA Margin** of 85.0% (86.6% in 2015).

Net Income recorded by the Company as of December 31, 2016 was MCh$80,983, which is 3.2% lower respect to the comparison period, and represents a decrease of MCh$2,644. This decrease is mainly explained by higher Income Tax of MCh$9,545 and higher Administrative Expenses of MCh$1,989, partially offset by higher Operating Income for MCh$4,978, lower losses in the Non-Operating Income of MCh$2,233 and lower Costs of Sales of MCh$1,679.

The loss in Non-Operating Income as of December 31, 2016 was MCh$73,460, representing a decrease of 2.9% compared to the same period of 2015 (MCh$75,693), 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$9,752 and higher Financial Income of MCh$1,351. This is partly offset by higher Financial Costs of MCh$6,321, lower Other Income of MCh$2,267 and to a lesser extent by lower Foreign Exchange Differences of MCh$281.

During 2016, the company incorporated US$100 million of new facilities, related to the commissioning of eleven National system 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.
- 6 UF million corresponding to 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.
    - MCh$22,195 as the 2016 third interim dividend distributed on December 13, 2016.

Transelec S.A. has prepared its financial statements as of December 31, 2016 according to International Financial Reporting Standards (IFRS), and taking into account the instructions and standards of financial reporting issued by the SVS, in particular Circular No. 856 (10/17/2014) which instructs a form of registration of differed taxes for audited companies by this Superintendency. Note 2.1 of the Financial Statements, from which this MD&A is part, accounts and describes this instruction 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	December 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Revenues	**281,715**	**276,737**	**4,978**	**1.8%**
Toll sales	276,196	271,145	5,051	1.9%
Services	5,519	5,592	-73	-1.3%
Costs of Sales	**-77,682**	**-79,361**	**1,679**	**2.1%**
Fixed Costs	-27,440	-26,603	-837	-3.1%
Depreciation	-50,242	-52,758	2,516	4.8%
Administrative Expenses	**-22,591**	**-20,602**	**-1,989**	**-9.7%**
Fixed Expenses	-20,296	-18,113	-2,183	-12.1%
Depreciation	-2,295	-2,489	194	7.8%
Operating Income	**181,442**	**176,774**	**4,668**	**2.6%**
Financial Income	9,610	8,259	1,351	16.4%
Financial Costs	-65,459	-59,138	-6,321	-10.7%
Foreign exchange differences	558	839	-281	-33.5%
Gain (loss) for indexed assets and liabilities	-22,687	-32,439	9,752	30.1%
Other income (Losses)	4,518	6,785	-2,267	-33.4%
Non-Operating Income	**-73,460**	**-75,693**	**2,233**	**2.9%**
Income before Taxes	**107,982**	**101,081**	**6,901**	**6.8%**
Income Tax	-26,998	-17,453	-9,545	-54.7%
Net Income	**80,983**	**83,628**	**-2,645**	**-3.2%**
EBITDA*	**239,357**	**239,552**	**-195**	**-0.1%**
EBITDA Margin**	**85.0%**	**86.6%**		

*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 twelve months ended on December 31, 2016, Revenues reached MCh$281,715 increasing by 1.8% over the same period of 2015 (MCh$276,737). A portion of Revenues has been reclassified between Toll sales and Services accounting wise changing the results presented in 2015. Considering this reclassification in both periods, the increase in Revenues is mainly explained by higher income from Toll Sales, which as of December 31, 2016 reached MCh$276,196, a 1.9% higher than that obtained in the same period of 2015 (MCh$271,145). Services Revenues reached MCh$5,519 as of December 31, 2016, a 1.3% lower than 2015 (MCh$5,592).

The increase in Toll Sales is explained by MCh$2,856 higher income associated with the National segment (previous Trunk) and an increase of MCh$6,455 in the Dedicated segment (previous Transmission Solutions), partially offset by MCh$4,260 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$7,538, higher revenues associated to the reclassification of transmission lines from Zonal and Dedicated segments to the National System due to the Transmission Study of 2016 by MCh$6,174, an agreement renegotiation with Enel (previously Endesa) in 2016 for MCh$6,023 and macroeconomic effects associated to a higher exchange rate of MCh$1,947, partially offset by lower tariff revenues by MCh$13,233, the maturity of transmission agreements that become regulated by MCh$2,958 and an agreement renegotiation with Enel (previously Endesa) in 2015, with revenues of MCh$2,346 in that period. 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$2,014 and macroeconomic factors mainly due to a higher exchange rate producing an increase of MCh$1,356 and, partially offset by MCh$2,310 of lower revenues associated with transmission lines reassigned to the National system due to the Transmission Study of 2016. The lower revenues in Zonal segment are mainly associated to lower income by MCh$3,854 due to the reclassification of transmission lines to the National segment and a decrease of MCh$1,245 mainly explained by lower demand in the period, this was partially offset in MCh$720 due to the an agreement renegotiation with Enel (previously Endesa) in 2016.

Total Transelec Costs and Expenses (Cost of Sales + Administrative Expenses) on December 31, 2016 were MCh$100,273 staying practically in line when comparing with the same period of 2015 which totaled MCh$99.963. 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$77,682, 2.1% lower than the same period of 2015 (MCh$79,361). These costs are mainly maintenance and operation of facilities and they are split in 64.7% depreciation of fixed assets (66.5% in December 2015), and 35.3% fixed costs involving personnel costs, supplies and contracted services (33.5% in 2015). In December 2016, fixed costs increased by MCh$837, an amount 3.1% higher than the one registered in December 2015, while depreciation was 4.8% lower. The increase of fixed costs is mainly explained by higher costs of the regulator (CDEC and the new independent coordinator of the electric system) and higher costs due to personnel mostly associated to a payment associated with collective bargaining with one of the unions. The decrease in depreciation is mainly due to asset retirement in 2015.

Administrative expenses amounted to MCh$22,591 in December 2016, 9.7% higher than those obtained in the same period in 2015 (MCh$20,602). These expenses are comprised 89.8% by fixed costs that include personnel costs and works, supplies and contracted services (87.9% in 2015) and 10.2% due to depreciation (12.1% in 2015). In December 2016, the Fixed Expenses increased by MCh$2,183, an amount 12.1% higher than obtained in December 2015, the increase in fixed expenses is mainly due to payment of a fine and 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 of 2016 was a loss of MCh$73,460, an 2.9% lower than the same period of 2015 (MCh$75,693), mainly explained by lower Other Losses for Indexed Assets and Liabilities and higher Financial Income partly offset by higher Financial Costs and a drop in Other Income.

Losses for Indexed Assets and Liabilities were MCh$22,687 on December, 2016, a 30.1% lower than the same period of 2015 (MCh$32,439). This is mostly explained by the lower debt in Unidad de Fomento (UF) 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 2016 this variation corresponds to 2.80% compared with a 4.07% for the same period of 2015, due to higher inflation in that period.

Financial Costs recorded as of December 2016 amounted MCh$65,459, a 10.7% higher than the same period of 2015 (MCh$59,138). 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, (i) higher interests paid of MCh$5,085 due to the accrued interest for the new dollar debt issuance in July and the effect of a 3.5% depreciation of the Chilean peso (average exchange rate between periods), which implies higher interest paid on dollar bonds, (ii) higher interests paid due to Swap agreements of MCh$2,080, mainly due to the new bond hedge, and (iii) lower interests paid due to UF bonds of MCh$562 associated to lower UF debt (due to the Series C payment), partly offset with the effect of the UF variation of 4.07% average during 2016.

Gains by Other Income as of December, 2016 were MCh$4,518, a 33.4% lower than the same period of 2015 (MCh$6,785). The difference is mainly explained by, (i) higher exceptional income in 2015 due to reassessments and fines in favor to Transelec, partly offset by incomes in 2016 due to adjustments associated with the merge of Transelec Norte and an insurance indemnification, (ii) an extraordinary sale of wasted materials in 2015 and (iii) in 2016 were lower income due to past periods.

Foreign Exchange Differences as of December, 2016 reached MM$558, decreasing 33.5% to those obtained in the same period of 2015 (MCh$839). This is mainly explained by negative difference between periods from Cross Currency Swap of MCh$49,688 and dollar accounts receivables from related companies for MCh$37,715 almost totally offset by the positive impact of lower exchange rate on the US bonds, with a positive difference of MCh$88,109 between periods.

Financial Income as of December 2016 amounted MCh$9,610, a 16.4% higher than the same period of 2015 (MCh$8,259), this is mainly explained by higher accrued interest to related companies for MCh$1,348 associated to a higher amount of intercompany loan to Transelec Holding Rentas Ltda. in 2016.

c) Income tax

The Income Tax as of December 31, 2016 increased by 54.7% 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 6.8% higher profits before taxes, 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 and by Restatement Capital due to the change in the CPI of 2.80% in 2016, compared with 4.07% in 2015.

2. BALANCE SHEET ANALYSIS

ITEMS	December 2016 MCh$	December 2015 MCh$	Variation 2016/2015 MCh$	Variation 2016/2015 %
Current assets	124,719	92,078	32,641	35.5%
Non-current assets	2,182,103	2,157,149	24,954	1.2%
Total Assets	**2,306,822**	**2,249,227**	**57,595**	**2.6%**
Current liabilities	92,253	257,921	-165,668	-64.2%
Non current liabilities	1,442,089	1,200,658	241,431	20.1%
Equity	772,481	790,649	-18,168	-2.3%
Total Liabilities & Equity	**2,306,822**	**2,249,227**	**57,595**	**2.6%**

The increase in Assets between December 2015 and December 2016 is explained by an increase in Current Assets and Non-Current Assets. The increase in Current Assets is mostly explained due to a higher cash and cash equivalent. 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 December 31, 2016 is due to an increase Non-Current Liabilities partially offset by lower Current Liabilities and Equity. 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. Lower Current Liabilities are explained by a decrease of short term financial liabilities due to the maturity Local C Bond in September, 2016. The decrease in Equity was due to higher negative balance on Other Reserves.

Value of the Main Pp&E in Operation

ASSETS	December 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	1,118,249	1,080,462	37,787	3.5%
Work in progress	107,900	72,802	35,098	48.2%
Machinery and equipment	610,065	580,389	29,676	5.1%
Other fixed assets	5,736	5,530	206	3.7%
Depreciation (less)	-421,337	-381,313	-40,024	-10.5%
Total	**1,441,237**	**1,378,501**	**62,736**	**4.6%**

Current Debt

					Amount in original currency (million) (unpaid capital)	
Debt	Currency or index	Interest rate	Type of rate	Maturity Date	December 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	2.25%	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 2.25% breaks down in 3 months Libor rate plus a margin of 1.25%. At December 31, 2016, the Company did not utilize this line therefore does not pay interest of 2.25% 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	December 2016 MM$	December 2015 MM$	Variation 2016/2015 MM$	Variation 2016/2015 %
Cash flows provided by (used in) operating activities	187,466	178,989	8,477	4.7%
Cash flows provided by (used in) investing activities	-129,485	-136,179	6,694	4.9%
Cash flows provided by (used in) financing activities	-27,492	-84,566	57,074	67.5%
Net increase (decrease) of cash and cash equivalent	**30,490**	**-41,756**	**72,246**	**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	**54,647**	**24,157**	**30,490**	**126.2%**

As of December 31, 2016, cash flows provided by operating activities reached MCh$187,466, which represents an increase of 4.7% over the same period of 2015 (MCh$178,989), mainly explained by lower payments to suppliers by MCh$26,523 partly offset lower cash receipts for sales for MCh$17,643.

During the same period, cash flow used in investing activities reached MCh$129,485, a 4.9% lower than in the same period of 2015 (MCh$136,179), mainly explained by lower receivables from related parties for MCh$41,458 and lower loan to related entities of MCh$15,757, partially offset by higher cash flow used in purchases of property, plant and equipment that reached MCh$41,568 and higher cash flow used in loans to related parties by MCh$9,156.

During 2016, the cash flows used in financing activities amounted MCh$27,492, a 67.5% lower than the used in the same period of 2015 (MCh$84,566). 2016 flows are associated to the local bond payment and the distributions, partly offset with the bond issued in the international market. The difference with 2015 is mostly due to the new debt, which represents an increase of MCh$210,979 is mainly explained by the new bond issuance which represent an increase of MCh$210,979, partially 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	December 2016	December 2015
Capitalization Ratio*	All local Series	< 0.70	0.64	0.62
Shareholder's Equity* MMUF	D, H, K, M and N local Series	> 15.00	30.27	31.82
Shareholder's Equity* MCh$	Q local Series	> 350,000	797,451	815,618

Test	Bonds	Limit	December 2016	December 2015
Distribution Test** FNO***/Financial Expenses	D, H, K, M and N local Series	> 1.50	4.28	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 December 31, 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		December 2016	December 2015	Variation 2016/2015
Profitability				
Shareholders' Equity profitability*	(%)	10.5%	10.6%	-10 pbs
Assets profitability*	(%)	3.5%	3.7%	-20 pbs
Operating assets profitability*	(%)	5.6%	6.1%	-50 pbs
Earnings per share*	($)	80,983	83,628	-3.2%
Liquidity & Indebtedness				
Current Ratio	(times)	1.35	0.36	275.0%
Acid-Test Ratio	(times)	1.35	0.36	275.0%
Debt to Equity	(times)	1.99	1.84	8.2%
Short term debt/Total debt	(%)	6.0%	17.7%	-1170 pbs
Log term debt/Total debt	(%)	94.0%	82.3%	1170 pbs
Financial expenses coverage	(times)	3.66	4.05	-9.6%

*Figures are presented under last twelve months criteria.

5. THE TRANSMISSION MARKET

5.1. The transmission activity and its regulation

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.

The transmission system of Transelec S.A. 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 stablishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explodes and operates 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 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.

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, 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

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 stablishes about the National, Zonal, 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 stablishing the particular conditions of implementation of this regime in the respective bylaw.

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 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.

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 introduce 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:

	December 2016		December 2015	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	689,947	691,075	499,757	478,148
Dollar (amounts associated with income statement items)	-	-	-	-
Chilean peso	1,616,432	1,615,304	1,711,623	1,733,231

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
October	663.92	651.18	685.31	690.32
November	666.12	673.54	704.00	711.20
December	667.17	669.47	704.24	710.16
Average of the period	**676.94**	**672.72**	**654.07**	**660.09**

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 December 31, 2016, the company has five main clients which represent individually between 2.6% and 45.7% of the total revenues. These are Enel Group (previously Endesa) (MCh$128,777), AES Gener Group (MCh$46,007), Colbún Group (MCh$47,391), Engie Group (ex E-CL) (MCh$13,893) and Pacific Hydro-LH-LC Group (MCh$7,285). The total revenues recognized for these clients represent an 86.4% of the total revenues of the company. In the period of comparison, the company had the same structure of clients which revenues reached to MCh$125,970, MCh$52,659, MCh$44,129, MCh$7,199 and MCh$6,736 respectively, with a percentage of the total incomes of 85.5%.

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 December 31, 2016 and December 31, 2015.

Debt Maturity (capital and interests) MCh$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
December 31, 2016	59,544	119,089	119,089	705,743	1,135,496	2,138,961
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 December 31, 2016, and as of December 31, 2015, was at a fixed rate. However, in the case of UF indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

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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
October	26,238.10	26,261.51	25,426.52	25,490.04
November	26,288.20	26,313.53	25,548.23	25,598.41
December	26,334.19	26,347.98	25,625.13	25,629.09
Average of the period	**26,021.55**	**26,050.71**	**25,019.08**	**25,059.41**