transelec

Uniendo a Chile con Energía

ANNUAL REPORT **2016**

CONTENTS

01. BACKGROUND

IDENTITY

Name	: Transelec S.A.
Legal Domicile	: Santiago, without prejudice of agencies, branches or offices it may establish in the country or overseas.
Tax List Number	: 76,555,400-4
Addresss	: Orinoco N°90, 14th Floor, Las Condes
Corporation Type	: Open-stock Corporation
National Securities Registration	: Number 974
Phone	: (56-2) 2467 7000
E-mail	: transelec@transelec.cl
Webpage	: www.transelec.cl

SHARE OWNERSHIP

Transelec's equity is divided into 1,000,000 ordinary, nominative and with no nominal value shares. Transelec Holdings Rentas Limitada owns 999,900 shares, while Rentas Eléctricas I Limitada owns 100 shares.

THE COMPANY

Transelec is the leading supplier of high voltage power transmission systems in Chile and is the largest transmission company that operates 500 kV and 220 kV power lines and substations throughout Chile. Likewise, Transelec 's facilities shape the two main national interconnected power grids, in the Far North (SING) and in the area ranging from Tal Tal as far as Chiloé Island (SIC). Transelec 's power transmission system features a total of 9,609 kilometers of single and double circuit power lines. Our total transformation capacity is 15,986 MWA distributed in 57 substations considering all those Transelec owns, leases, usufructuary or exploits, at any title, a relevant amount of transmission facilities.

Throughout its history, Transelec has gained extensive experience in each one of the links that make up the value chain of the electricity transmission industry: from a project's evaluation, basic and conceptual engineering, systemic studies execution and the design of power transmission and connection solutions to project management and construction, commissioning consultancy, as well as the operation, maintenance and administration of new facilities.

The Company contributes with its extensive experience and knowledge to the development of power projects for a wide range of customers from the electricity, mining, and industrial sectors throughout Chile, who have trusted in the support and excellence of the integral transmission solutions provided by the Company.

LETTER FROM **THE CHAIRMAN OF THE BOARD OF DIRECTORS**

DEAR SHAREHOLDERS

The year 2016 was a period of change and achievement for the company, where the regulatory environment was strengthened after the enactment of the new Law on Transmission, which incorporates a series of changes that will improve Chile's power transmission business. This new regulatory navigation chart will undoubtedly help us to count on stable and well defined rules and allows us to plan Transelec's potential new business more accurately.

In terms of results, we highlight that Transelec, in a year in which it continued its organic growth with commissioning of new projects, recorded revenues of CLP$ 281,715 million, equivalent to 1.8% more than in prior year, generating EBITDA of CLP$ 239,357 million, which implied a margin over revenues of 85%, showing the company's important liquidity and cash generation capacity.

In 2016, Transelec once again showed its solid access to the debt market by issuing a bond in the international market with a lower rate and a longer term than the previous issuances. The market appreciated the stability of the Company's cash flow profile as well as its prudent financial management.

Transelec also continued to drive its efforts to improve the performance of its risk management and control system. This is monitored by the Equivalent Interruption Time (EIT) indicator, which remains at historically low levels, reaching 3.9 system-minutes in 2016, one of our best performances. Likewise, the development of Transelec's projects have achieved over two years free of time-lost injury, which is equal to 3.77 million hours without disabling accidents.

In addition, for the first time Transelec was part of the 12th version of the PROhumana Corporate Sustainability Ranking 2016, being placed in the eleventh position, which fills us with pride, this has further motivated us to improve our sustainable approach on three dimensions: economic, social and environmental. Our commitment is to continuously improve in these areas.

For the second year in a row, Transelec obtained the first place in the category Big Utility Companies in the Ranking of Most Innovative Companies Chile of Universidad de los Andes ESE Business School.

We are proud of our performance during 2016 and the improvements we make in the working climate of our organization. It's been over five years since we measured this aspect using the Organizational Health Index. Throughout this time, this survey has shown a positive evolution of Transelec in each one of the factors. In 2016, the Company ranked within the top decile among over seven-hundred companies participating at a global level.

On behalf of The Transelec Board of Directors, it is with great pleasure that we present the Company's Annual Report corresponding to the 2016 fiscal year for the consideration of Transelec's shareholders. In this exercise, we celebrate ten successful years since the Consortium took over Transelec and continuing to drive its efforts to the delivery of an efficient and high-quality service. Once again, we want to thank all of our employees and business partners for their effort and continuous support.

Richard Legault
Chairman of the Board of Directors

OUR HISTORY, TRANSELEC: **UNITING CHILE WITH ENERGY**

Transelec achieved two years without time-lost accidents, which is equal to 3.77 million hours without disabling accidents.

1943

CORFO creates Endesa (National Electricity Company) in order to execute a national electrification plan consisting on the construction of new power generation units and, specially, a net of regional power transmission lines in order to connect these units.

1954

There were already four independent regional systems in Chile: La Serena-Punitaqui, La Ligua-Talca, Chillán-Victoria and Valdivia-Puerto Montt. In the rest of the country only a few isolated cities had their own power plants.

1955

The SIC (Central Interconnected System) is created by connecting the recently built Cipreses Power Plant using the 154 kV Cipreses-Santiago and Charrúa-Itahue power lines that connect Santiago and Concepción consumption centers.

1965

A submarine cable (currently overhead) crossed the Chacao Channel and supplied electricity to Isla Grande of Chiloé for the first time. Another milestone was the construction of the first 220 kV power lines, Rapel-Cerro Navia, in 1966, which connected Rapel power plant to the growing electrical demand of Chile's central zone.

1974

The 220 kV system was extended westwards, feeding Concepción, and northwards to transport power to Santiago. Likewise, the SIC grew northwards with the construction of 110 kV systems and the Maitencillo-Cardones and Pan de Azúcar-Maitencillo power lines.

1978

The power lines that connected San Isidro (today Quillota) and Cardones intensified the connection with Chile's Near North. In the early 80's, thanks to the connection of El Salvador mine, the SIC reached Diego de Almagro, whereas in the South, the development of 220 kV power lines reached as far as Puerto Montt.

1986

The extra high-voltage era started with the commissioning of the first 500 kV power lines (Ancoa- Alto Jahuel 1 and 2), crucial to inject the power generated by the Colbún-Machicura complex into the SIC power grid.

1993 Endesa transformed its power transmission division into the subsidiary Compañía Nacional de Transmisión Eléctrica S.A., afterwards Transelec S.A. was established in order to plan, operate and maintain the system as well as to provide services to the different power generating companies that used the SIC. Additionally, the overhead transmission line crossing of Chacao, consisting of two 179-meter towers, and a 2,680 Mts. power line, was commissioned.

1996 Transelec laid its first 220 kV power line between Charrúa and Ancoa to connect the Pangue power plant (460 MW), which was later expanded in order to connect the Ralco power plant.

2000 The Canadian company Hydro-Québec purchased all Transelec's shares.

2003 Transelec entered the SING power grid after purchasing 924 kilometers of 220 kV power lines.

2004 The largest power transmission development in history was completed: powering up the system between Charrúa and Alto Jahuel to 500 kV, which allowed connecting Ralco hydroelectric plant (690 MW).

2006 A Canadian consortium formed by Brookfield Asset Management (BAM), Canada Pension Plan Investment Board (CPP), British Columbia Investment Management Corporation (bcIMC) and Public Sector Pension Investments (PSP) purchased 100% Transelec's shares, contributing with its solid financial strength to the service of Chile's growth requirements.

2008 The 500 kV energization of the Alto Jahuel-Polpaico double-circuit power line allowed to end northbound network saturation and was largely responsible for creation of a 500 kV ring surrounding Santiago, one of the key developments for the system's future.

2009 Nogales substation was commissioned; this will allow expanding efficiently the system from Chile's V region towards the North of the country.

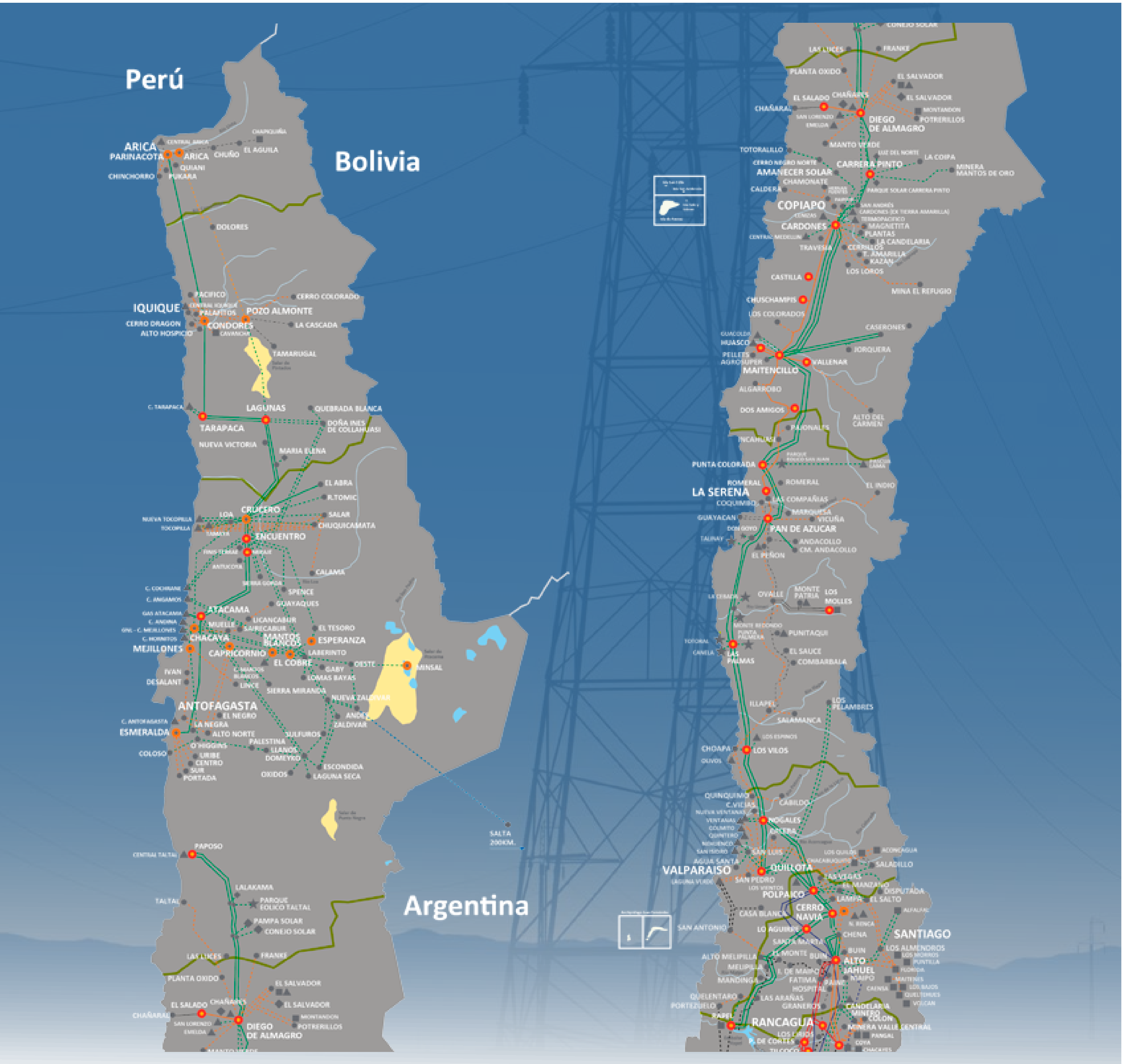
2010 Transelec purchased Barrick Gold's Punta Colorada substation in order to consolidate service provision to the mining sector, as well as Tinguiririca Substation from Hidroeléctrica La Higuera. The Company also commissioned Las Palmas substation, which is the core wind power contribution to the SIC power grid.

2012 Transelec purchased 100% of Transam Chile, which includes Abenor, Araucana and Huepil transmission lines. Likewise, 350 MVA flow control equipment were commissioned - independently for each circuit of the 220 kV Polpaico-Cerro Navia power line, which enables more flexibility for transporting electricity to the Region Metropolitana.

2014 On December 1st, the legal process for the merger of Transelec Norte S.A. with Transelec S.A. finished thanks to the Board of Directors authorization.
With the presence of the President of the Republic Michelle Bachelet, Transelec opened its National Transmission Operation Center (CNOT) located in the municipality of Cerro Navia.

2015 In 2015, the Company commissioned, in advance, Lo Aguirre Substation, which features a four-autotransformer bank amounting a total capacity of 1000 MVA.
In November, Transelec was awarded with the 'Desarrollo Sustentable del Sector Eléctrico Chileno' recognition thanks to the achievement of combining the communities' interests, the local development and the respect for the environment.

2016 Transelec celebrates 10 years since the arrival of its current owners, reinforcing its commitment to the company and to Chile.
Transelec achieved two years without time-lost accidents, which is equal to 3.77 million hours without disabling accidents. Transelec reaffirms its financial strength by issuing a bond in the international market with a lower interest rate and a longer term than any other international issuance of the Company in times of great volatility in world debt markets.

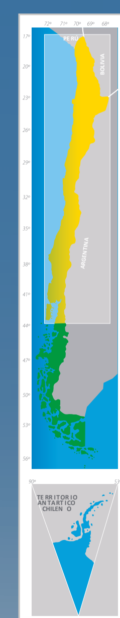

Perú
Bolivia
Argentina
ARICA
PARINACOTA
CHINCHORRO
IQUIQUE
POZO ALMONTE
CONDORES
TARAPACA
LAGUNAS
CRUCERO
ENCUENTRO
ATACAMA
CHACAYA
MEJILLONES
CAPRICORNIO
EL COBRE
ESPERANZA
ANTOFAGASTA
ESMERALDA
DIEGO DE ALMAGRO
CARRERA PINTO
AMANECER SOLAR
COPIAPO
CARDONES
MAITENCILLO
LA SERENA
PAN DE AZUCAR
VALPARAISO
QUILLOTA
POLPAICO
CERRO NAVIA
SANTIAGO
ALTO JAHUEL
RANCAGUA

TRANSMISSION
SYSTEM MAP

Authorized circulation, by Resolution No.15 of January 23rd, 2003 of the National Border and Limits Board of the State. The edition and circulation of maps, geographic charts and other prints and documents referred or related to the boundaries and frontiers of Chile, do not compromise in any way the State of Chile, according to Art. 2, letter g) of DFL. No. 83 of 1979 from Ministry of Foreign Affairs.

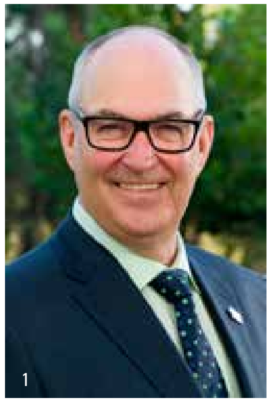
Updated January 2017

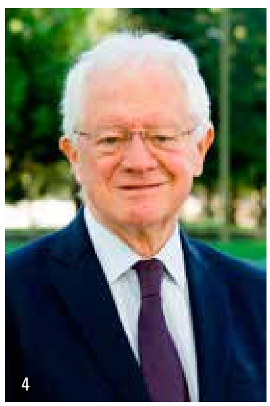
TRANSELEC		OTHER COMPANIES
	LINES-kV	
———	500	– – – – –
———	345	– – – – –
———	220	– – – – –
———	154	– – – – –
———	110	– – – – –
———	66 or less	– – – – –
	EOLIC POWER PLANT	★
	HYDRO POWER PLANT	■
	COAL POWER PLANT	▲
	SOLAR POWER PLANT	◆
●	SUBESTATION	●

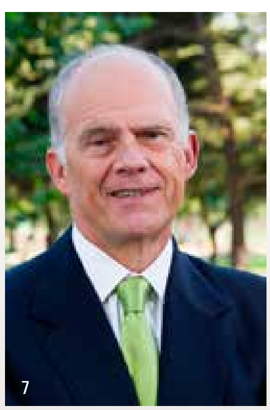


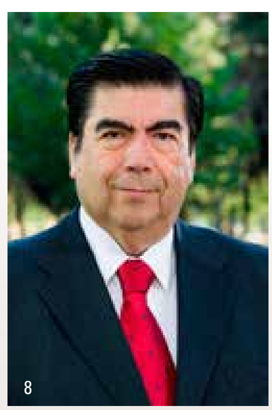
02. CORPORATE GOVERNANCE

BOARD OF **DIRECTORS**









1. **Richard Legault**
   CHAIRMAN
   Foreign
2. **Paul Dufresne**
   DIRECTOR
   Foreign
3. **Brenda Eaton**
   DIRECTOR
   Foreign
4. **Bruno Philippi Irarrázabal**
   DIRECTOR
   I.D.: 4,818,243-7
5. **Alfredo Ergas Segal**
   DIRECTOR
   I.D.: 9,574,296-3
6. **José Ramón Valente Vias**
   DIRECTOR
   I.D.: 8,533,255-4
7. **Blas Tomic Errázuriz**
   DIRECTOR
   I.D.: 5,390,891-8
8. **Mario Valcarce Durán**
   DIRECTOR
   I.D.: 5,850,972-8
9. **Alejandro Jadresic Marinovic**
   DIRECTOR
   I.D.: 7,746,199-K

In accordance with the Company's bylaws, the Board of Directors is composed of nine members elected by the shareholders at the respective Shareholders Meeting. The aforementioned members hold office for a period of two years, without prejudice to the possibility of their reappointment. There is one Alternate Director for each Director. The directors elected at the Shareholders Meeting appoint the Chairman.

In compliance with the Law and the Bylaws, the Board of Directors shall meet at least once a month. During 2016 fiscal year, Transelec S.A. held 12 Ordinary Meetings and 3 Extraordinary Board of Directors meetings.

The Board of Directors is currently integrated by Messrs. Richard Legault, Paul Dufresne, Brenda Eaton, Alfredo Ergas Segal, Bruno Philippi Irarrázabal, Mario Valcarce Durán, Blas Tomic Errázuriz, José Ramón Valente Vias, and Alejandro Jadresic Marinovic, and by their corresponding Alternate Directors, Messrs. Benjamin Vaughn, Patrick Charbonneau, Jerry Divoky, Etienne Middleton, José Ignacio Concha Vial, Patricio Leyton Flores, Rodrigo Ferrada Celis, Stella Muñoz Schiattino and Valeria Ruz Hernández, all elected at Transelec's Ninth Ordinary Shareholders Meeting, held on April 29th, 2016. On July 22nd, 2016, Mr. Jerry Divoky submitted his resignation as Alternate Director of Transelec, which was informed to the Board of Directors at the Meeting held on August 17th, 2016.

BOARD OF DIRECTORS **COMPENSATION**

It was agreed at Transelec's Ninth Ordinary Shareholders meeting, held on April 29th, 2016, that the annual Director's gross compensation will remain at US$ 90,000 and that alternate directors won't receive compensation.

Directors Richard Legault, Alfredo Ergas, Paul Dufresne, Brenda Eaton, waived compensation corresponding to the 2016 fiscal year. Thus, Directors' compensations during 2016 fiscal year were as follows:

Bruno Philippi Irarrázabal	CLP 60,735,375
Mario Valcarce Durán	CLP 60,735,375
Blas Tomic Errázuriz	CLP 60,735,375
José Ramón Valente Vias	CLP 60,735,375
Alejandro Jadresic Marinovic	CLP 60,735,375

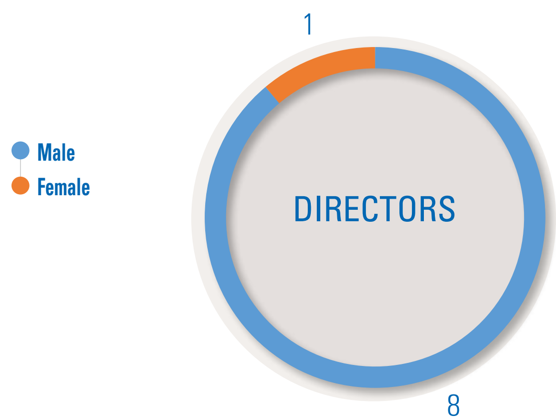
BOARD OF DIRECTORS **EXPENSES**

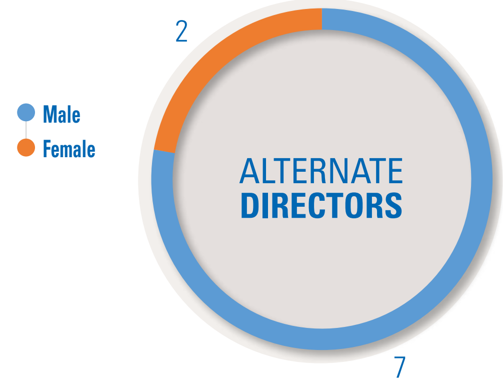
During 2015 fiscal year there were payments associated to Directors' expenses by CLP 7,265,618.

BOARD OF DIRECTORS **DIVERSITY**

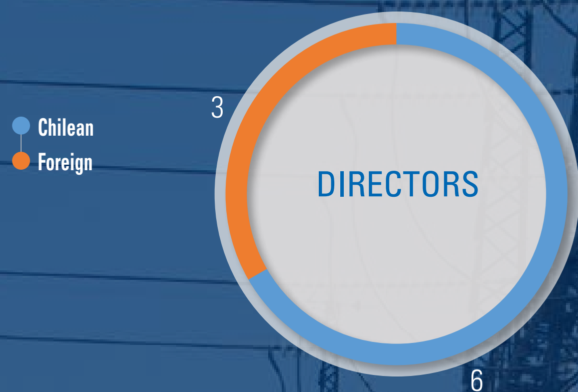
Regarding diversity within the Board of Directors, there is one woman; while among the alternate directors, two are women. The following charts and graphics show the distribution by nationality, age and seniority in the Board of Directors.

I) NUMBER OF PEOPLE BY GENDER

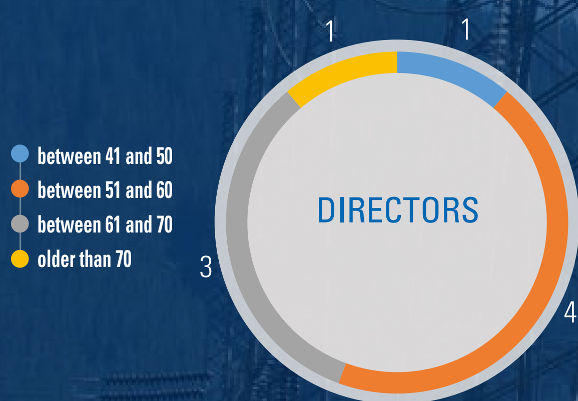




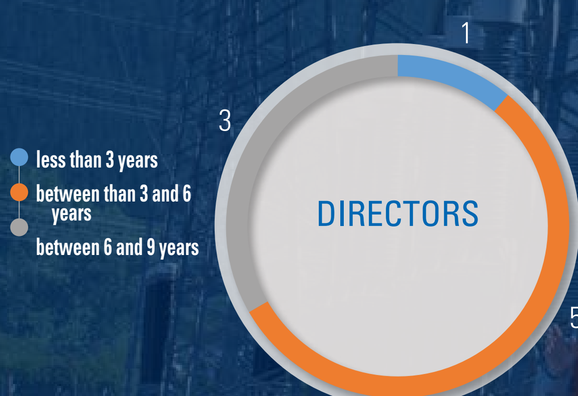
II) NUMBER OF PEOPLE BY NATIONALITY



III) NUMBER OF PEOPLE BY AGE RANGE



IV) NUMBER OF PEOPLE BY SENIORITY



AUDIT **COMMITTEE**

In April 2007, the creation of an Audit Committee, different from that established in the Corporations Law, was approved. The Audit Committee's duties include reviewing the auditor's reports, balance sheets, other financial statements of the Company and internal systems, among others. The Audit Committee is composed by four directors appointed by the Board of Directors, who hold office for two years and are eligible for re-election. The Committee appoints a Chairman among its members and a Secretary, which can be one of its members or the Board of Directors' Secretary. During 2016, the Audit Committee held four meetings.

As of December 31st, 2016, the audit Committee was composed by its Chairman, Mr. Mario Valcarce Durán, the directors Mr. Alfredo Ergas, Mrs. Brenda Eaton and Mr. José Ramón Valente Vias, in addition to the Secretary, Mr. Arturo Le Blanc Cerda. The members of the Committee are entitled to receive the corresponding remuneration as determined at the Ordinary Shareholders Meeting.

It was agreed at Transelec's Ninth Ordinary Shareholders Meeting held on April 29th, 2016 that remuneration of each of the Committee members would continue to be US$ 10,000 per year.

Directors, Mr. Alfredo Ergas and Mrs. Brenda Eaton waived compensation corresponding to the 2016 fiscal year.

Compensation paid to other members of the Audit Committee during 2016 fiscal year is listed as follows:

Mario Valcarce Durán	CLP 7,101,600
José Ramón Valente Vias	CLP 7,101,600

INVESTMENT **ADVISORY COMMITTEE**

The Investment Advisory Committee is composed of Directors and senior executives. The purpose of this Committee is to improve the information submitted to the Board of Directors regarding the Company's different projects, thus facilitating their decision-making.

REGULATION AND **CORPORATE REPUTATION COMMITTEE**

The Regulatory and Corporate Reputation Committee is composed by Directors and executives of the Company that meet on a bimonthly basis to review the Regulatory and Corporate Reputation Strategy against major modifications of laws and regulations of the electrical and environmental sector. This committee also leads the tariff processes of national transmission and zonal transmission systems.

FINANCE **COMMITTEE**

The Finance Committee is composed by Directors and executives of the Company that meet on a monthly basis to review Transelec's Financial Strategy as well as to advice and approve the different proposals that are relevant for the financial activities of the Company. Some of the topics reviewed are financing, hedge, risk management, distributions, budget forecast, among others.

HUMAN RESOURCES **COMMITTEE**

The Human Resources Committee is composed by Directors and executives of the Company that meet at least once a year to review subjects related to the people that are part of Transelec's team. Among other topics, the Committee reviews the financial KPI's upon which the current incentive pyramid of variable bonuses is based, as well as other topics related to people's development, training, etc.

CORPORATE GOVERNANCE **COMMITTEE**

The Corporate Governance Committee was established in 2016 and is composed by Directors and executives of the Company. The main issues addressed by this Committee were the creation of the Compliance Officer position and the analysis of the improvement of internal procedures related to the requirements of Law 385 of the Superintendency of Securities and Insurances which regulates the dissemination of information regarding the corporate governance standards adopted by Open-Stock Corporations.

The Committee's duty is to propose and appoint the members of the Board of Directors, as well as to assess their performance, to approve codes and instruction manuals, such as the Code of Ethics for Directors and executives, to meet the requirements of the Superintendence of Securities and Insurance regarding the standards on Corporate Governance, to review and evaluate Transelec 's guidelines on corporate

OTHER **COMMITTEES**

A) Coordination Committees: They involve Transelec's Vice-Presidencies and are carried out periodically. These Committees are intended to coordinate the most relevant issues of the Company:

- Executive Committee.
- Business Committee.
- Project Committee.
- Operations Committee.
- Human Resources Committee.
- Results and Operational Excellence Committee.
- Regulatory Agenda.

B) Integrated Management System Committee: The task of this committee is to address all the matters regarding Occupational Safety and Health, Environment and Quality, in compliance with the international standards OSHAS18001, ISO14001 and ISO9001, correspondingly. The Committee is composed by several Vice-presidents, the Quality, Safety and Occupational Health Manager and a legal advisor from the Legal Affairs department. They meet on a regular basis to approve the programs as well as plans and their follow-up.

MANAGEMENT **TEAM**

1. **Andrés Kuhlmann Jahn**
   CHIEF EXECUTIVE OFFICER
   Civil Industrial Engineer
   Pontificia Universidad Católica de Chile
   I.D.: 6,554,568-3

2 **Rodrigo López Vergara**
   OPERATIONS VICE PRESIDENT
   Civil Electrical Engineer
   Universidad de Chile
   I.D.: 7,518,088-8

3. **Claudio Aravena Vallejo**
   HUMAN RESOURCES VICE PRESIDENT
   Commercial Engineer
   Pontificia Universidad Católica de Chile
   I.D.: 9,580,875-1

4. **Francisco Castro Crichton**
   FINANCE VICE PRESIDENT
   Civil Industrial Engineer
   Pontificia Universidad Católica de Chile
   I.D.: 9,963,957-1

5. **Arturo Le Blanc Cerda**
   LEGAL AFFAIRS VICE PRESIDENT AND GENERAL COUNSEL
   Lawyer
   Universidad de Chile
   I.D.: 10,601,441-8

6. **David Noe Scheinwald**
   CORPORATE AFFAIRS AND SUSTAINABILITY VICE PRESIDENT
   Civil Industrial Engineer
   Pontificia Universidad Católica de Chile
   I.D.: 10,502,232-8

7. **Eric Ahumada Gómez**
   COMMERCIAL AND BUSINESS DEVELOPMENT VICE PRESIDENT
   Civil Electrical Engineer
   Universidad de Chile
   I.D.: 9,899,120-4

8. **Alexandros Semertzakis Pandolfi**
   ENGINEERING AND PROJECT DEVELOPMENT VICE PRESIDENT
   Civil Engineer
   Universidad de Santiago de Chile
   I.D.: 7,053,358-8

03.
OUR PEOPLE


transelec

Among the pillars of Transelec's strategic plan; its collaborators play a key role. The high quality standards upon which we develop our work, together with the Company's growing challenges mean that Transelec seeks to recruit and retain the best professionals the market has to offer in the different performance areas.

In this context, Transelec has benefit policies, compensations and incentive plans that allow it to be a competitive company in terms of recruitment, motivation and talent retention.

Regarding the professional development of our collaborators, the Company periodically implements training programs in order to keep the high standards of professional quality; developing also among the Company the concept of Knowledge Management, which aims to retain the knowledge within the Company and to transmit it to future generations.

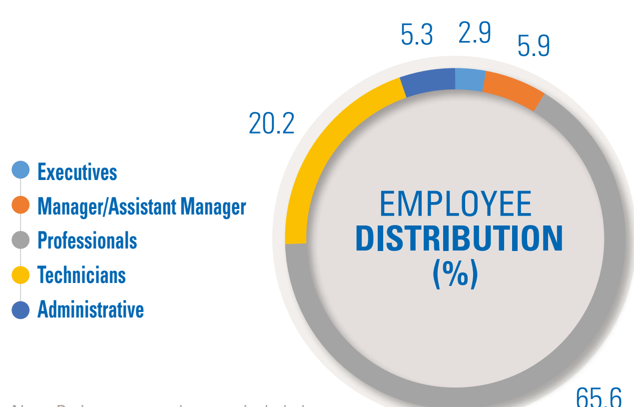
In terms of life quality promotion, Transelec has several initiatives; one of them is the part-time Friday throughout all year. Another very important benefit is the Pause Gymnastic Program, which was started in 2011 and is carried out in Santiago and regions. With this regard, we also highlight Transelec 's Club that, by means of the 1+1 sponsorship, carries out recreational, sport and culture activities in which the Company provides the same amount of money than its collaborators.

As part of its family integration program, the Company once again –and for the sixth consecutive year– hosted in Santiago and regions the "Open Day", a day in which Transelec opens its offices to our collaborator's children to meet their parents workplace as well as their contribution to the company.

In the same line, in December the Company held its traditional Christmas Party together with the employees' families.

OUR **EMPLOYEES**

As of December 31st, 2016, Transelec employed 509 workers. More than 96% of them have a technical or professional specialization, which means the Company is highly knowledge-intensive and consistent with the quality service the Company needs. 75% of the Company's workers are employed in the Operations and Engineering & Project Development areas.



Note: Project personnel are not included.

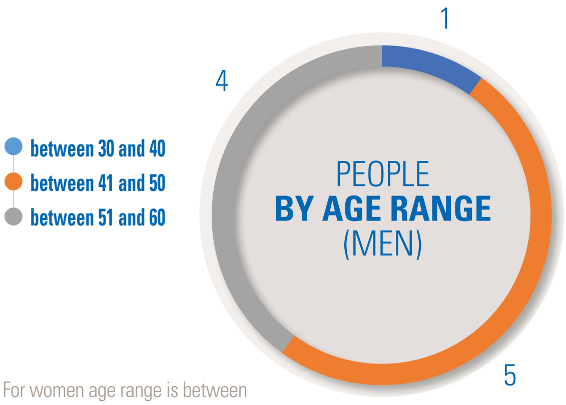
Regarding diversity within Transelec, we can mention that between the CEO and those who report to him, there is a woman, while in the rest of the organization 17% of the employees are women (86). The following charts and graphics show the distribution by nationality, age and seniority in the Company.

I) NATIONALITY

CEO and those who report to him			/	Organization		
Nationality	M	F	Total	M	F	Total
Chilean	10	1	11	404	80	484
Foreign				8	6	14
Total General	**10**	**1**	**11**	**412**	**86**	**498**

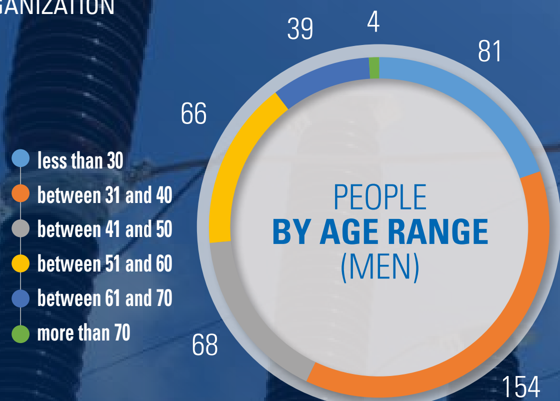
II) DISTRIBUTION BY AGE

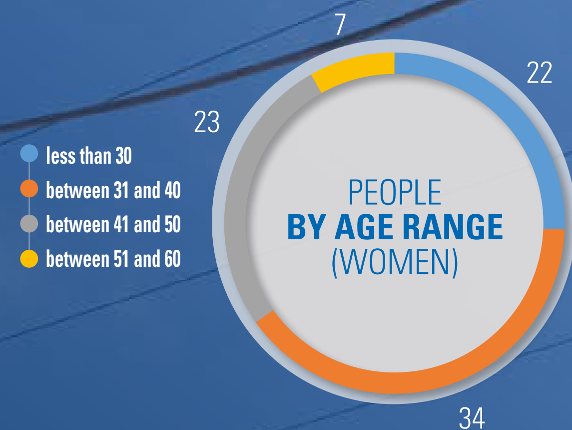
A. CEO AND THOSE WHO REPORT TO HIM



For women age range is between 51 and 60 years old.

B. ORGANIZATION

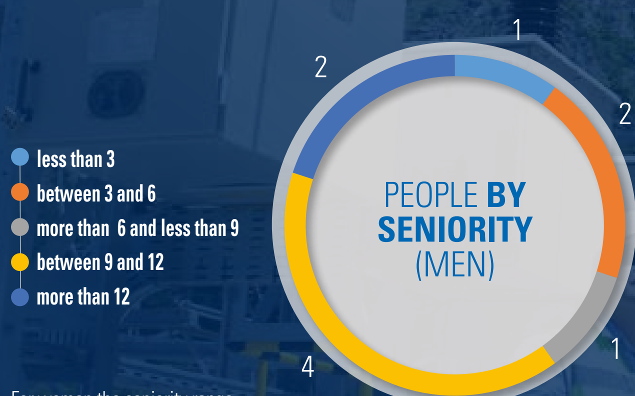




Note: Project personnel are not included.

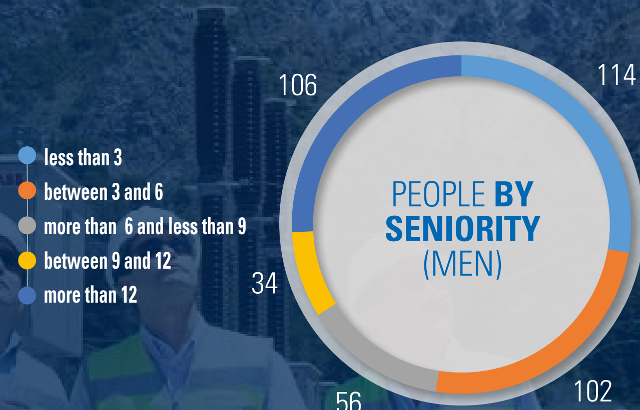
III) DISTRIBUTION BY SENIORITY

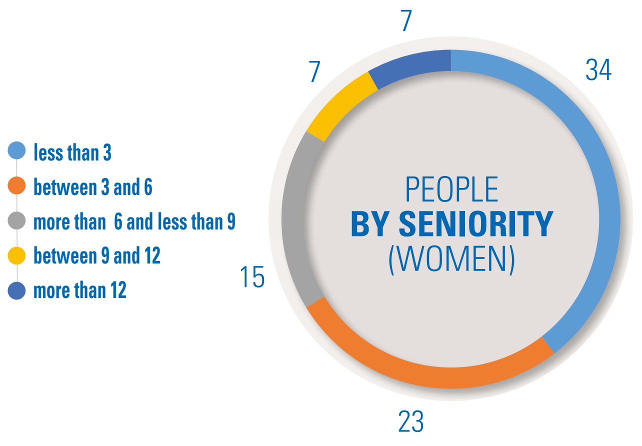
A. CEO AND THOSE WHO REPORT TO HIM



For women the seniority range is between 3 and 6 years.

B. ORGANIZATION





IV) SALARY GAP

In terms of salary gaps between men and women, the following chart shows such difference proportionally. The salary gap is calculated based on women's average gross salary compared to the men's. (AGS Women / AGS Men).

Position	AGS W / AGS M
Administrative	124%
Analyst	89%
Managers/ Assistant Managers	105%
Engineers	111%
Supervisors	101%
Technicians	73%

LABOR RELATIONS **AND ORGANIZATIONAL CLIMATE**

In 2016, Transelec continued working on driving up good labor relationships, which have been actually recognized in former years with different awards. The main axis of this work is the open-door policy towards the 2 existing unions in the Company. This policy materializes in regular meetings where different working issues are discussed, making it possible to build up a trusted relationship between both parties.

In June, the Company and SINATRAN Union successfully signed a new Collective Agreement.. This Union represents 12.6% of the Company's employees. The process was conducted within the deadlines established in the Labor Code and was finished with an agreement for the legal maximum of 4 years, which pleased both counterparties.

In November, the company conducted the fifth version of the Organizational Health Index (OHI), which measures nine key dimensions within an organization, such as working environment and leadership. Throughout the years, this index has evidenced a positive evolution in each one of the dimensions. In this opportunity, we scored 81 points, a number that places us in the superior evaluation decile at a global level.

This excellent news shows us that the work performed in last years was well done. We have grown significantly, and our Company's Leadership Program and the role of communications in the promotion of the organizational culture have been the cornerstone in this achievement.

On the other hand, during 2015-2016, the Ministry of Health requested all Companies in the country to be subject of ISTAS 21, Psychosocial Risks Assessment in Workplace. In this study, Transelec workers had to evaluate different conditions, inherent or related to work, that could positively or negatively affect their physical, psychological or social health. The results of the study were positive in all dimensions, placing us far from the risk margins the Assessment establishes.

KNOWLEDGE **MANAGEMENT**

The total training time during 2016 was 35,848 hours, which represents a monthly average of 5.9 training hours per worker. Thus, 97.2% of Transelec 's workers attended training programs related to operating divisions, management support, safety, engineering, innovation, post-graduate, languages and information technology, among others.

During 2016, we continued developing the Knowledge Management Program, known as BIGBANG. Several lectures related to the Company's activities were broadcasted via streaming, bringing knowledge closer to workers in regions.

Additionally, and for the ninth year, the Company conducted four Workshops within the Framework of the Maestros Program. The ultimate goal of this program is to transfer the knowledge of people with extensive experience to younger professionals within the Company.

In 2016, The Leadership Training Center —created in 2014 with the support of Universidad Adolfo Ibáñez— continued developing skills in all the Company's leaders. In July of 2016, 48 students obtained a degree, while in December 78 graduated, thus finishing 100% of the workshops of the program. Among the skills this program covers are: personal leadership, communicational and relationship skills, leading others, openness to changes, leading the business and security leading.

VICE PRESIDENTS **SALARIES**

In 2016, Transelec paid to their vice presidents salaries amounting to CLP 2,938 million. This value includes the salaries and benefits of vice presidents as of December 31st, 2016.

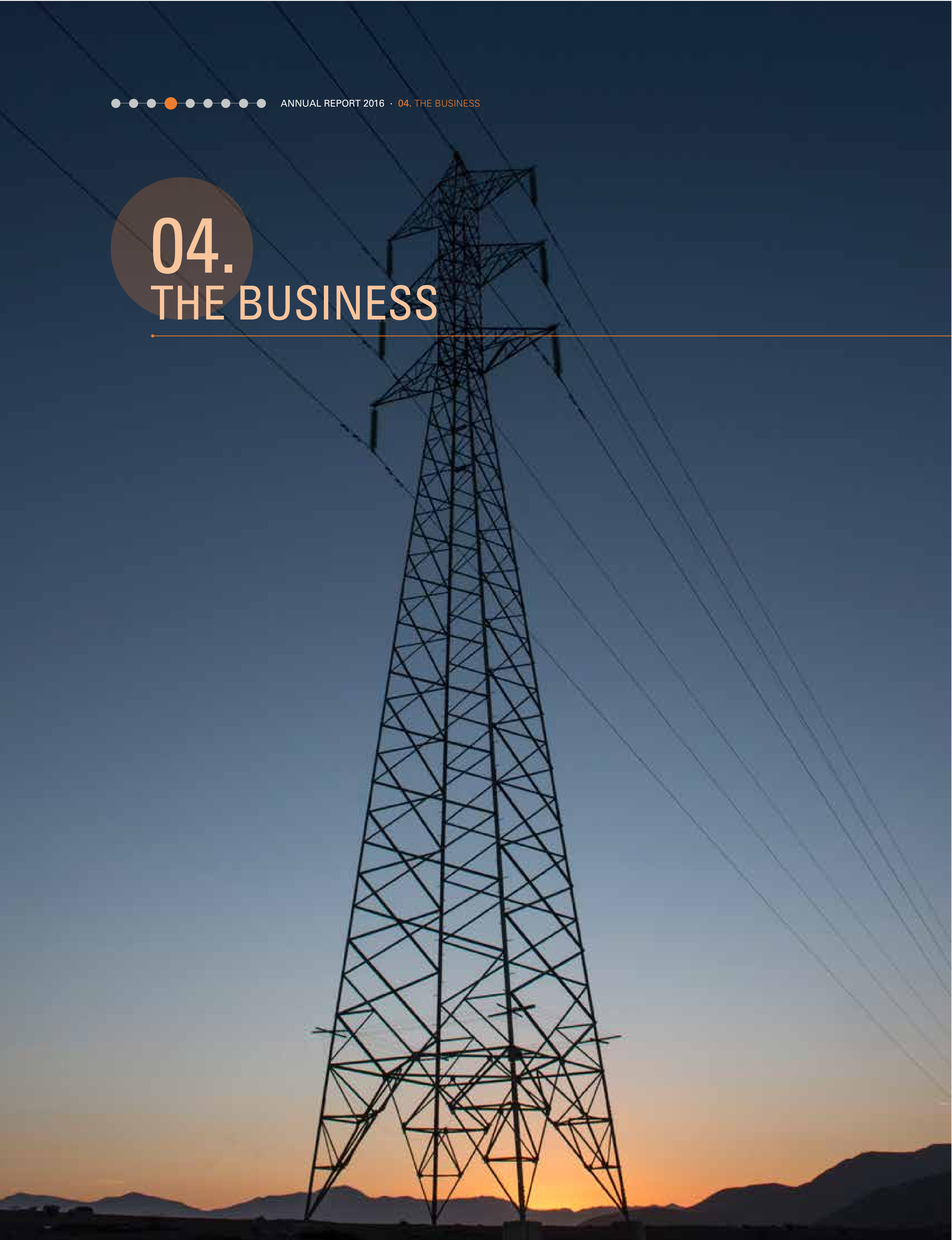
BONUS **PLANS**

In Transelec, employees are part of a bonus plan within an incentive program related to the accomplishment of goals based on the Company's strategy and that are developed according to the level of detail and responsibility in Transelec 's corporate hierarchy.

ORGANIZATIONAL CHART

- CHIEF EXECUTIVE OFFICER
  Andrés Kuhlmann J.
  - OPERATIONS VICE PRESIDENCY
    Rodrigo López V.
  - COMMERCIAL AND BUSINESS DEVELOPMENT VICE PRESIDENCY
    Eric Ahumada G.
  - ENGINEERING AND PROJECT DEVELOPMENT VICE PRESIDENCY
    Alexandros Semertzakis P.
  - FINANCE VICE PRESIDENCY
    Francisco Castro C.
  - HUMAN RESOURCES VICE PRESIDENCY
    Claudio Aravena V.
  - LEGAL AFFAIRS VICE PRESIDENCY
    Arturo Le Blanc C.
  - CORPORATE AFFAIRS AND SUSTAINABILITY VICE PRESIDENCY
    David Noe S.

04. THE BUSINESS



REGULATORY **SCENARIO**

The legal framework regulating the power transmission business in Chile is based on the 2006's Decree with Force of Law N°4 of the Ministry of Economy, Development and Reconstruction that establishes the consolidated, coordinated and systematized text of the General Law on Electrical Services, hereinafter and indistinctly referred to as "General Law on Electrical Services" or "LGSE". The LGSE and its complementary regulation establish the technical and safety standards that rule any electrical facility in the country, particularly the generation, transmission and distribution activities, the electrical concessions and rights of way and the tariffs for each segment; as well as the entity in charge of coordinating the system operation and its performance in compliance with quality and safety conditions of the facilities and the relationship of companies and individuals with the Government.

The last significant amendment to the LGSE was the recently enacted Law N°20,936/2016 that establishes a new Power Transmission System and created a new Coordinating Body Independent from the National Electric System, incorporating the following reforms:

1. New functional definition of the Transmission Systems.
2. New long-term Power Planning process and Transmission Planning.
3. New tariffication and compensation scheme for the different segments of the Transmission System.
4. Preliminary definition of the transmission lines layout for specific new works, by means of a Strip Study conducted by the Ministry of Energy.
5. New Universal Open Access regime.
6. New compensation standard to final users due to unauthorized supply unavailability, based on the safety and quality standards previously established.
7. New Coordinator independent from the National Power System, herein, the Coordinator, which replaces the former Economic Load Dispatch Centers (CDECs).

Transelec's business is power transmission. The legal framework regulating the power transmission business in Chile defines power transmission systems, classifying their facilities into four[1] categories: National Transmission Systems, Zonal Transmission Systems, Transmission Systems for Developing Poles and Dedicated Transmission Systems. The first three systems are governed by a Universal Open System under non-discriminatory basis and the Ministry of Energy fixes the tariffs. For the transmission facilities of Dedicated Systems, access shall be provided whenever there is technical available capacity of transmission determined by the Coordinator, without prejudice of the contracted capacity or own projects that have been reliably considered at the time that the third party interested request for use. In addition, this framework establishes criteria and procedures for determining compensation that power-transmission facility owners are entitled to.

The National Transmission System is the one that shapes an electric common market, interconnecting the other segments of the transmissions and is composed by the power lines and substations that allow the development of this market and that are required to supply all demand stemming from different scenarios of power generation availability, including contingency and failure situations, considering the quality and safety standards of service established by the current framework.

On the other hand, Zonal Transmission Systems are composed by power lines and substations mainly available for the exclusive supply of current or future demands of regulated consumers, located in distribution companies' concession areas, without prejudice to the use by free consumers or generating means connected directly or through transmission systems intended to such transmission systems.

[1] Article 73° of the LGSE: "International interconnection systems are part of the transmission system and are subject of the special regulations that are issued in this regard".

Power Transmission Systems for Developing Poles consist of power lines and substations intended to transport the electricity generated by the same developing pole towards the transmission system, thus, efficiently using the national territory.

Meanwhile, Dedicated Transmission Systems are composed by power lines and radial power substations that are interconnected to the power system and essentially intended for supplying electrical energy to non-regulated consumers or for injecting the production of power generation plants into the power system. Similarly, enmeshed facilities that are for the exclusive use of non-regulated consumers or for injecting the production of power generation plants into the power system and whose operation has been verified not producing any impact of significant changes in the operation of the rest of the system.

Therefore, the facilities of the Trunk Transmission, Subtransmission and Additional Systems existing at the publishing date of the new Law N°20,936/2016 became part of the National, Zonal and Dedicated Systems, correspondingly.

REVENUES OF THE NATIONAL, ZONAL, DEVELOPING POLES AND DEDICATED FACILITIES **OF THE NATIONAL TRANSMISSION SYSTEMS USED BY REGULATED CONSUMERS**

Revenues from the existing National, Zonal and Developing Poles facilities of the National Transmission Systems consist of the 'annual transmission value by segment' (VATT), which is calculated based on the 'Annual Value of Investment' (AVI), plus 'operating, maintenance and administration costs' (COMA) for each of the segments that shape the system. Likewise, revenues from the use of dedicated transmission facilities by regulated consumers consist of a proportion of their corresponding VATT.

The segments of these systems and their corresponding VATT are determined every four years by the National Energy Commission (CNE) or by a consultant chosen through an international public tender who conducts a Transmission System Valorization Studies. As a result of this process, the CNE crafts a technical report that provides the bases upon which the Ministry of Energy sets the tariffs for the National, Zonal Transmission System, and the Developing Poles as well as the payment for the use of dedicated transmission facilities by regulated users for the next four years.

During the four-year period between two consecutive tariff processes, both the AVI and the COMA of each segment are indexed using formulas designed to maintain the real value of the AVI and the COMA during this period. Both, indexing formulas and application frequency are determined in the corresponding tariff study.

To collect the aforementioned revenues, the CNE establishes a single charge for use within each national transmission system and zonal transmission system, so their collection constitutes a complement to the real tariff revenues to collect the VATT of each segment. The term "real tariff revenue per segment" shall be understood as the difference resulting from the application of the marginal costs of the real operation of the system, related to the injection and withdrawals of power and energy in such segments. Free and regulated end users shall pay for the use of National and Zonal Transmission Systems as well as Dedicated Transmission Systems used by regulated users. The payment of Transmission Systems for Developing Poles through a single charge, so their collection pays the percentage of facilities not used for the existing generation; and generators injecting their production to this pole shall assume the VATT not covered by this charge.

Additionally, every year the CNE conducts a planning process of the transmission, which must consider, at least, a 20-year time frame. This planning includes the necessary upgrades of the National and Zonal Transmission Systems and Dedicated Transmission Systems that public distribution service concessions use for supplying electrical energy to regulated users. These upgrading plans feature investments that must be classified as new projects or upgrade projects of existing facilities. As a result of this process, the CNE formulates a technical report. Based on this report, the Ministry of Energy sets tariffs for the transmission systems for the next 12 months.

The bidding for the construction and development of the upgrading projects of existing facilities will be resolved according to the VI offered and the facility owner will pay to whom the contract is awarded. On the other hand, in the case of new projects, the exploitation and development rights will be awarded to the tenderer who submits the lowest VATT for the tendered project.

REVENUES OF **THE DEDICATED SYSTEMS**

Revenues from the use of Dedicated Transmission Systems facilities are obtained based on the provisions of the transmission contracts between the users and the owner of the facilities and they are often established by calculating the AVI + COMA agreed by the parties.

Notwithstanding that the dedicated facilities are essentially intended to inject the production of power generation plants into the system or to supply power electricity to free customers, the authority may eventually declare them National, Zonal or Developing Pole if their operating conditions change and they meet the corresponding requirements.

TARIFF **STUDIES**

NATIONAL/TRUNK TRANSMISSION SYSTEM

During 2014 and 2015, the third Trunk Transmission Study was conducted. The study provides the basis for fixing trunk rates for the 2015-2018 period. However, on February 17th, 2015, the Official Gazette published the law N° 20,805, which, among other topics, entitled the Ministry of Energy to extend -only once and until December 31st, 2015- rates set by decree N° 61 by means of a supreme decree. This was made official by means of Decrees N° 8T of March 17th, 2015. Because of this, new rates were postponed for the 2016-2019 period, keeping trunk 2015 rates the same as previous year. In November 2015, the National Energy Commission forwarded the Ministry of Energy the Technical Report that includes the use of the Opinion N° 6-2015 of the Panel of Experts. Subsequently, and considering the outcome of this judgment, in February, 2016, the Ministry of Energy published the Supreme Decree N° 23 T that began the validity of the new tariffs for the facilities of the Trunk and National Transmission System for the 2016-2019 period, as the case may be.

Under the new Law N° 20,936/2016 it is possible to identify two transitory periods regarding the collection, payment and revenue of the National Transmission System, which shall be governed by the following rules:

- **2016-2018 Period:** the collection, payment and revenue regime of Law N° 19,940 of March 2004 (Short Law I) will be applied.

- **2019-2034 Period:** the collection, payment and revenue regime set forth in the transitory Article of the new Law N° 20.936/2016 will be applied. This transitory regulation seeks to avoid double transmission payments due to valid supply contracts between generating companies and final customers, free or regulated, entered into before the entry into force of the referred law.

ZONAL/SUBTRANSMISSION SYSTEM

During 2014 and 2015, Studies to determine the Annual Value of the Subtransmission Systems were performed. These studies provide the basis for setting the rates for the five SIC's subtransmission systems and the single SING subtransmission system for the 2015-2018 period. However, on February 17th, 2015, the Official Gazette published Law N°20,805, which, among other topics, entitled the Ministry of Energy to extend –only once and until December 31st, 2015– rates set by decree N° 14/2013 by means of a supreme decree N° 7T of March 17th, 2015. Consequently, the effective date for the new rates was postponed for the 2016-2018 quadrennial, which resulted on subtransmission rates for 2015 remain the same as the former year.

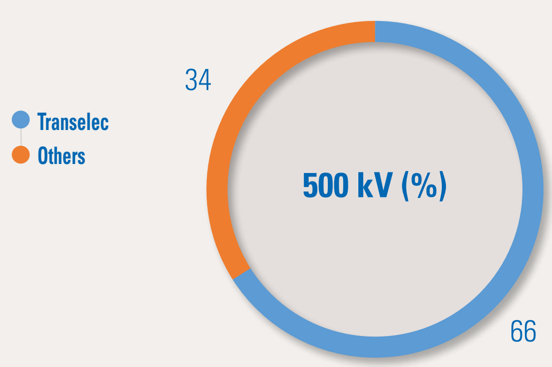
Under the new Law N° 20,936/2016 it is possible to identify two transitory periods regarding the collection, payment and revenue of the Zonal Transmission System, which shall be governed by the following rules:

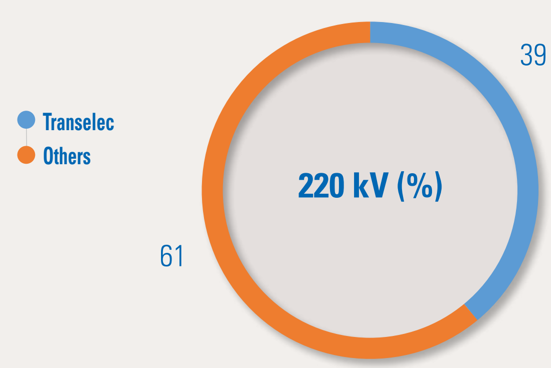
- **2016-2017 Period:** The validity of Supreme Decree N° 14/2013 shall be extended with exception of those provisions related to the payment for the use of subtransmission systems by the power plants that inject their production directly or through additional facilities, which shall be exempted from such payment. By means of a Decree issued under the formula "by order of the President of the Republic", prior the CNE technical report, the Ministry of Energy will be able to make the necessary amendments to exempt from payment –by means of the Supreme Decree N° 23 T/2016– the power plants that are directly affected by the amendment and/or adaptation of indexes, parameters, compensation distribution and other application conditions in order to implement Supreme Decree N° 14/2013 consistently and harmoniously, during the extended validity term. The compensation set by Supreme Decree N° 14/2013 is based on the facilities economically adapted to the demand projected for a ten-year period and includes the Annual Value of Investment (AVI), Operating, Maintenance and Administration Costs (COMA), medium losses of energy and power and the indexing formulas to be applied to the set of facilities. The calculation is performed on each subtransmission system, and then the compensation for each owner is determined based on the proportion AVI+COMA of his facility with respect to the AVI+COMA of the entire system.

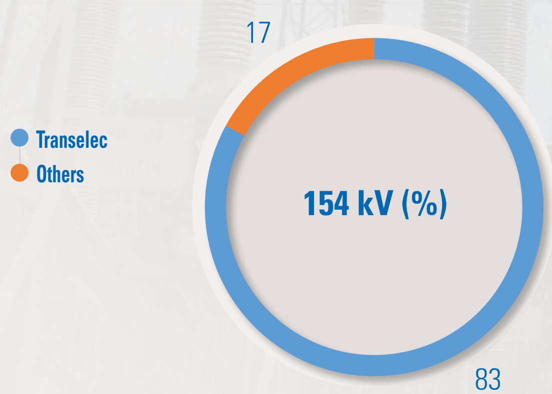
- **2018-2019 Period:** During the period of extended validity of Supreme Decree No. 14/2013, the ongoing process of determining the annual value of the subtransmission and additional transmission systems used by regulated users at the time of new law N°20,936/2016 shall be continued and terminated. In compliance with the new Law N°20,936/2016, the CNE shall issue a technical report establishing the Zonal Transmission System's VATT and the percentage of the dedicated transmission used by the regulated users as well as their corresponding indexing formulas, which shall be used as the basis for issuing the corresponding tariff Decree.

MARKET SHARE AS OF **DECEMBER 31ST, 2016**

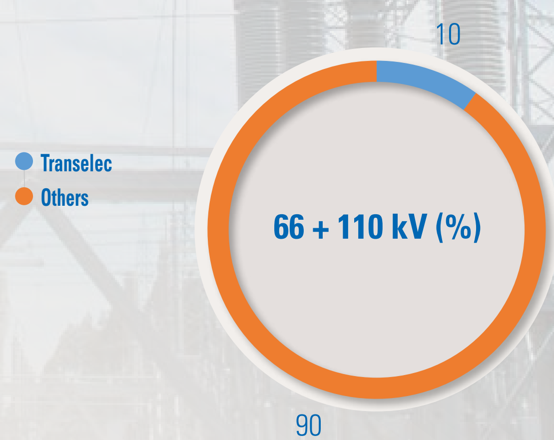
Transelec owns 66% of the 500 kV power lines in service in the country, and has a 39% stake in the 220 kV power lines. The Company therefore has an 83% market share for 154 kV power lines and a 10% share for 110 kV and 66 kV power lines.







Transelec
Others
17
154 kV (%)
83



Transelec
Others
10
66 + 110 kV (%)
90

TRUNK **SYSTEM PROJECTS**[2]

NEW PROJECTS

1. STUDIES

On April 23rd, 2016, The Official Gazette published the Decree N° 373 establishing the 'Trunk Transmission System Upgrade Plan' SIC and SING, through new projects for the next 12 months.

As a result, the Economic Load Dispatch Center of the SIC (CDEC-SIC) and the Economic Load Dispatch Center of the SING (CDEC-SING), made a call to international public tender for following projects:

- New 1x750 MVA 500/220kV Autotransformer Bank at Cardones Substation, Nueva Maitencillo Substation and Nueva Pan de Azúcar Substation.
- New 2x220 kV, 2x500 MVA Nuevo Maitencillo – Punta Colorada – Nueva Pan de Azúcar power line.
- 220kV Nueva Lampa sectioning substation.
- 220kV Nueva Pozo Almonte sectioning substation; new 2x220 kV Power Line Between Nueva Pozo Almonte – Pozo Almonte substation, layout of the first circuit of the New 2x220 kV Nueva Pozo Almonte – Cóndores Power line; and New 2x220 kV Power Line between Nueva Pozo Almonte – Parinacota Substation, first circuit layout.

Transelec S.A. is carrying out all the studies required to evaluate its participation in the bidding process and expects to submit proposals in March 2017

2. PROJECTS AWARDED

No projects were awarded during 2016.

3. PROJECTS DEVELOPMENT

Under provisions of Decree N° 310 of 2013, Transelec continued to develop the following projects:

- New 2x220 kV Lo Aguirre - Cerro Navia Power Line: Transelec S.A. submitted the lowest Annual Transmission Value per Segment. The project has a reference Value of Investment (VI) amounting US$ 54.61 million and the deadline established for the project is 48 months.
- Third 500/220 kV, 750 MVA Autotransformer Bank at Alto Jahuel Substation. The Project has a reference VI amounting US$ 44.68 million and the construction deadline established for the project is 36 months.

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4. COMMISSIONING

During 2016, Transelec did not commission any new project for the trunk segment.

UPGRADES

1. STUDIES

Transelec S.A. is conducting studies included in the Expansion Plan of the Trunk Transmission system for the period 2016-2017.

2. PROJECTS AWARDED

On April 21st, 2015, the Official Gazette published the official Decree N° 158 describing the Trunk Transmission Expansion Plan SIC-SING, New Updating Works, 2014- 2015 period.

Under the provisions the decree establishes, Transelec S.A. initiated the development of the following projects:

- 2x220 KV Crucero - Lagunas power lines extension for relocating connections from Crucero to Nueva Crucero Encuentro Substations.

[2] All projects are based on the old law nomenclature, since their development started prior the entry into force of new Law N°20,936, in which now it is denominated as National System.

On May 23rd, 2016, the Official Gazette published the official Decree Nº 373 describing the Trunk Transmission Expansion Plan SIC-SING, New Updating Works, 2015- 2016 period.

Under the provisions the decree establishes, Transelec S.A. initiated the development of the following projects:

- Regularization at the 220 kV Pan de Azúcar substation.
- Regularization of J3 and J4 bays at 220 kV Chena substation.
- Sectioning of the second circuit of the 2x500 kV Polpaico – Lo Aguirre substation at the 500kV Lo Aguirre substation.
- Regularization at 220 kV Alto Jahuel substation.
- Regularization at 220 kV Charrúa substation.
- 220 kV Nueva Valdivia substation.
- Regularization at 220 kV Puerto Montt substation.
- Incorporation of a 1x220 kV Cóndores – Parinacota power line bay at Parinacota substation.
- Incorporation of a 1x220 kV Tarapacá – Cóndores power line bay at Cóndores substation.
- New 220 kV Quillagua sectioning substation
- Bus bar capacity upgrade at 220kV Encuentro substation.

The referential VI of the tendered portfolio is US$61.93 million.

3.PROJECT DEVELOPMENT

Under the provisions of Exceptional Decree N°942 of 2009 and its modifications by means of the Decree N°1,403 dated in 2009, Transelec S.A. continued the development of the following project:

- 2x220 kV Punta Cortés - Tuniche Power Transmission Line featuring the construction of a power transmission line spanning approximately 10 kms between Punta Cortés Substation and Tuniche Substation (current Tap- Off connection point to Rancagua). The construction deadline established was 40 months with referential VI amounting to US$ 3.69 million.

Under the provisions of Decree N° 310 dated 2013, Transelec S.A. continued developing the following projects:

- 220 kV Ciruelos Substation Upgrade' featuring 220 kV yard upgrade, incorporation of a transfer bus bar, main bus bar extension and the construction of a second bus bar section. Additionally, it features the incorporation of the corresponding bays and sectioning-and-coupling circuit breaker. The Construction deadline is 36 months with a referential VI amounting to US$ 21.50 million.

Under the provisions of Decree N° 201 dated 2014, Transelec S.A. continued developing the following project:

- 500 kV bus bar sectioning at Ancoa Substation featuring the construction of GIS bays or outdoor Hybrid as 500kV bus bar sectioning. The Construction deadline is 27 months with a referential VI amounting to US$ 17.90 million.

Under the provisions of Decree N° 158 dated 2015, Transelec S.A. continued developing the following projects:

- 220 kV Carrera Pinto substation upgrade, featuring a 220 kV upgrade of Carrera Pinto substation, the configuration of one and a half circuit Breaker together with the necessary work to fit the sectioning of circuit N° 1 of the project 2x220 kV Nueva Línea Cardones – Diego de Almagro. The construction deadline is 24 months with a referential V.I. amounting to US$5.80 million.
- 1x220 kV Cardones - Carrera Pinto - Diego de Almagro capacity upgrade, featuring the capacity upgrade of the current 1x220 kV Cardones – Carrera Pinto – Diego de Almagro from 197 MVA to 400 MVA, among other works to perform on the structures and power line isolating sets. The construction deadline is 29 months with a referential VI amounting to US$21.55 million.
- 220 kV Cardones substation upgrade, featuring the installation of a 220 kV circuit breaker at the Cardones – Carrera Pinto bay, modifying its configuration to one and a half circuit breaker whose power line is connected to both

main bus bars at the Cardones substation. The construction deadline is 24 months with a referential VI amounting to US$1.41 million.

- 52J3 and 52J10 circuit breaker replacement at 220 kV Alto Jahuel Substation, featuring the replacement of 52J3 and 52J10 circuit breakers and their equipment for circuit breakers with double braking capacity equal to 63 kA. The construction deadline is 24 months with a referential VI amounting to US$1.47 million.
- 52JT5, 52JT6 and 52J15 circuit breaker replacement at 220 kV Charrúa Substation, featuring the replacement of 52JT5, 52JT6 and 52J15 circuit breakers and their equipment for circuit breakers with double braking capacity equal to 63 kA. The construction deadline is 24 months with a referential VI amounting to US$2.08 million.
- 220 kV Temuco Substation upgrade, featuring the installation of a new main bus bar at the 220 kV Temuco substation bay. The construction deadline is 21 months with a referential VI amounting to US$4.90 million.

4. COMMISSIONING

Under the provisions of Decree N° 310 dated 2013, Transelec S.A. commissioned the following projects:

- **January 4th:** 500 kV Charrúa Substation Upgrade and replacement of a circuit breaker for the 52JR1, 52JR2 and 52JR3 coupling bays, featuring the upgrade of the two main bus bars and the transfer bus bar at the 500 kV yard and replacement of 52JR1, 52JR2 and 52JR3 circuit breakers and their bay equipment. The Construction deadline was 24 months with a referential VI amounting to US$ 18.40 million.
- **March 11th:** 220 kV Upgrade at Encuentro Substation, capacity upgrade for the 2x22 kV Crucero-Encuentro power transmission line and TTCC and line trap replacement for bay J5 at the Crucero Substation, featuring 220kV upgrade to pass a double-bus bar plus a transfer bus bar configuration. Additionally, it features a 2x200 kV Crucero-Encuentro transmission line upgrade to 1,000 MVA. The Construction deadline was 27 months with a referential VI amounting to US$ 6.29 million.
- **April 29th:** 500 kV Polpaico Substation Upgrade and replacement of a circuit breaker for the 52JR coupling bay, featuring the upgrade of the two main bus bars and the transfer bus bar at the 500kV yard and replacement of the circuit breaker for the 52JR coupling bay and its equipment at the 220 kV yard. The construction deadline established was 18 months with referential VI amounting to US$ 9.81 million.
- **June 29th:** 220 kV Sectioning Bus bar at the Tarapacá Substation, featuring the construction of a second main bus bar and its corresponding sectioning bay and circuit connection to the bus bar. The Construction deadline was 26 months with a referential VI amounting to US$ 4.65 million.
- **June 30th:** 220 kV Miraje Sectioning Substation, consisting on the construction of a new substation that, in the first stage, features the connection of four circuits resulting from the 220 kV Atacama-Encuentro transmission line sectioning. The Construction deadline was 24 months with a referential VI amounting to US$ 11.77 million.

Under the provisions of Decree N° 201 dated 2014, Transelec S.A. continued developing the following projects:

- **January 18th:** 500 kV Ancoa Substation Upgrade, featuring the platform upgrade at the new 500 kV bay. The Construction deadline was 15 months with a referential VI amounting to US$ 1.86 million
- **July 20th:** Main bus bar sectioning at Carrera Pinto, featuring the construction of a second main bus bar section, the increase of existing auxiliary services, adjustment of the bus bar differential protection to provide room for constructing two sectioning bays for the Cardones - Diego de Almagro circuit 2. The Construction deadline was 27 months with a referential VI amounting to US$ 4.98 million.
- **July 28th:** 1x220 kV Maitencillo-Cardones power transmission line upgrade, featuring a 260 MVA upgrade at Maitencillo- Cardones power transmission line. The Construction deadline was 24 months with a referential VI amounting to US$ 6.84 million.
- **October 15th:** Bus bar sectioning at 500 kV Charrúa substation, featuring the construction of GIS bays or outdoor Hybrid as 500 kV bus bar sectioning. The Construction deadline was 27 months with a referential VI amounting to US$ 17.90 million.
- **December 30th:** Complete Sectioning at Rahue substation, featuring sectioning of circuit N°2 at the 2x220 at Valdivia - Puerto Montt power line. Additionally, the project includes bus bar sectioning bay as well as the construction and supply of the new elements necessary for the sectioning of this line. The Construction deadline was 27 months with a referential VI amounting to US$ 7.35 million.
- **December 30th:** 500 kV bus bar sectioning at Alto Jahuel substation, featuring the construction of GIS bays or outdoor Hybrid as 500kV bus bar sectioning. The Construction deadline is 27 months with a referential VI amounting to US$ 17.90 million.

MAIN PROJECTS IN 2016

TRUNK TRANSMISSION SYSTEM

Figures in million pesos

Project Type	Real Investment
New Work	6,248
Upgrade Works	46,097
Carry-over*	5,195
Total projects Trunk System	**57,539**

* Corresponding to payments made in 2016 for projects commissioned in 2015 or earlier.

SUBTRANSMISSION SYSTEM **PROJECTS**[3]

1. STUDIES

Transelec S.A. is conducting Studies on the projects included in Zonal Transmission System Upgrading Plan 2016-2017.

2. PROJECTS AWARDED

During 2016, Transelec S.A. did not initiate the execution of any subtransmission project.

3. PROJECTS DEVELOPMENT

During 2016, the Company continued the development of the following subtransmission projects:

- Transformation capacity upgrade at Pan de Azúcar substation, featuring the assembly of a new 220/110kV MVA transformer to increase the security level at the substation. Additionally, the Company made the adjustments needed to comply with the Safety Technic and Quality of Service Standard ("NTSyCS" as per its name in Spanish) with regards to 8 and 9 severity failures.
- Transformation capacity upgrade at Quillota Substation, featuring the assembly of a new 220/110 kV 150 MVA transformer in order to increase the safety level of the substation.
- Transformation Capacity upgrade at Cerro Navia Substation, featuring the construction of a 220/110 kV autotransformers bank with three 133 MVA single-phase units. Additionally, necessary adjustments were made in order to comply with NTSyCS with regards to 8 and 9 severity failures.
- 220/154 KV Transformation Bank at Tinguiririca Substation, featuring the construction of a 220/154 kV autotransformers bank with three 100 MVA single-phase units, plus 1 standby unit.

4.COMMISSIONING

During 2016, Transelec S.A. did not commission any subtransmission project

INVESTMENT IN 2016

SUBTRANSMISSION SYSTEM

Figures in million pesos

Project Type	Real Investment
Works	2,876
Total projects Sub transmission System	**2,876**

ADDITIONAL SYSTEM **PROJECTS**[4]

1. STUDIES

During 2016 Transelec S.A. continued searching for new business opportunities, aiming to establish and strengthen customer relationships, as well as to support these customers with its expertise to offer technical, innovative and competitive solutions.

2. PROJECTS AWARDED

In April 2016, Transelec S.A. signed a contract with AM Eólica Sarco SpA for the development of the transmission project consisting of the construction of a connecting bay at the Maitencillo substation and complementary works. The Construction deadline is 11 months with a referential VI amounting to US$ 4.70 million.

3. PROJECTS DEVELOPMENT

In the framework of the contract signed between Metro and Transelec S.A., the development work of the Neptuno Substation and the 'Neptuno Boot Line' continued. The projects include construction of the Neptuno Type-GIS (Gas Insulated Substation) Substation and interconnection of the Neptuno Substation to the Alto Jahuel - Cerro Navia substation by means of a 2x220 kV transmission line. The agreed construction deadline is 46 months with a referential VI amounting to US$ 21.27 million.

[3] All projects are based on the old law nomenclature, since their development started prior the entry into force of new Law N°20,936, in which it is denominated as Zonal System.

[4] All projects are based on the old law nomenclature, since their development started prior the entry into force of new Law N°20,936, in which it is denominated as Dedicated System.

4. COMMISSIONING

During 2016, there were no projects commissioned in the Additional System.

MAIN PROJECTS IN 2016

ADDITIONAL SYSTEM

Figures in million pesos

Project Type	Real Investment
Metro	2,127
Sarco	508
Other	83
Carry-Over*	145
Total Projects in Additional System	**2,862**

* Corresponding to payments made in 2016 for projects commissioned in 2015 or earlier.

ACQUISITIONS

As part of its continuous search for business opportunities, in March 2016, Transelec S.A. succeeded in acquiring a package of transmission assets property of the company Enel Green Power. These assets are part of the (Additional) Dedicated Transmission System.

OUR **COSTUMERS**

Transelec transports the electric power that all Chileans need through its transmission lines that carry electricity from the production centers to the cities and big industrial and mining users. Our responsibility is that residential clients and industries count on a continuous and uninterrupted supply, thus, contributing to improve their quality life as well as to the development of the country.

The Company is the main supplier of power transmission services between the SING and SIC, whose interconnection is currently under construction and will soon become the National Electric System. Our customers are those users that withdraw and/or inject energy to the transmission systems, mainly, clients from the mining and industrial sectors, as well as companies that generate and distribute power.

We are convinced that being leaders in the transmission market implies, not only being in charge of big projects, but also and mostly, working on providing good solutions to all kind of customers, adapting ourselves to the diverse needs within the market.

Additionally, during the last years, we focused on our commitment to support the different projects that request their connection to the system. In this regard, we have developed a series of electric connection workshops aimed to provide new clients with a learning and support space, showing –from Transelec 's perspective as a transmission company– the different stages that a connection process to our infrastructure must follow, clarifying what are the responsibilities of each stakeholder in the process, explaining what are the involved areas and their role in the process, informing the deadlines set for the compliance of each stage and clarifying doubts and concerns that arise in the process. Transelec has engaged in the generation of informative and formative programs that promote mutual learning with its clients.

Transelec, as the leader of the power transmission industry, has conducted outreach efforts to know our client's opinion and to update them on the changes that the new regulation will bring along. During the last year we have held meetings with the transmission companies, consultants and labor unions to openly address the impacts of the new regulation and the future challenges that the Chilean power transmission industry will face.

We envision a 2017 with great challenges, whose focus will be to contribute, together with our clients, through innovation as fundamental cornerstone for development.

COSTUMER SERVICE POLICY

Our policy is to interpret and understand our customers' needs, identifying optimum technical and economic solutions for each of their projects as well as executing them in conformity with the best quality, safety and environmental parameters. This is a commitment that establishes a long-term relationship over the years.

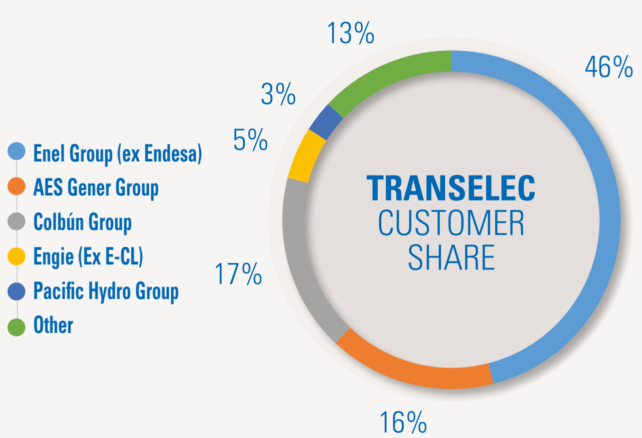
Our commitment is to be increasingly closer to our customers (ongoing customer service and consulting) and especially to provide our extensive and specialized knowledge regarding power transmission, and offer suitable support to materialize their projects. Customer service and their trust in our know-how as system specialists are the basis for creating close relationships with our customers and the market.

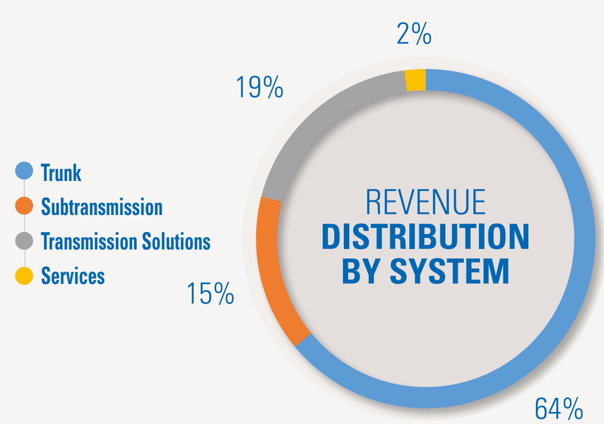
Looking for and delivering a specialized offer allows us to develop the best and most innovative power transmission solutions, especially for highly complex projects with limited deadlines, incorporating state-of-the-art technological solutions to the market.

Being able to optimize our client's business through the optimization of our own business has been one of the innovations that Transelec introduced during this last period. With this model, we have been able to become a partner in the development of the transmission solution of each client, providing competitive offers and services always with the highest standards, developed within a framework of sustainability throughout the entire life-cycle of the projects, using technology and designs that are respectful towards the environment, the communities, collaborators and contractors.

During 2016, Transelec connected approximately 1,000 MW of NCRE to the transmission system, 68% are solar energy technologies, 23% wind energy and the rest, small hydroelectric plants.

This is a sample of the important contribution made by Transelec in managing third-party connections.

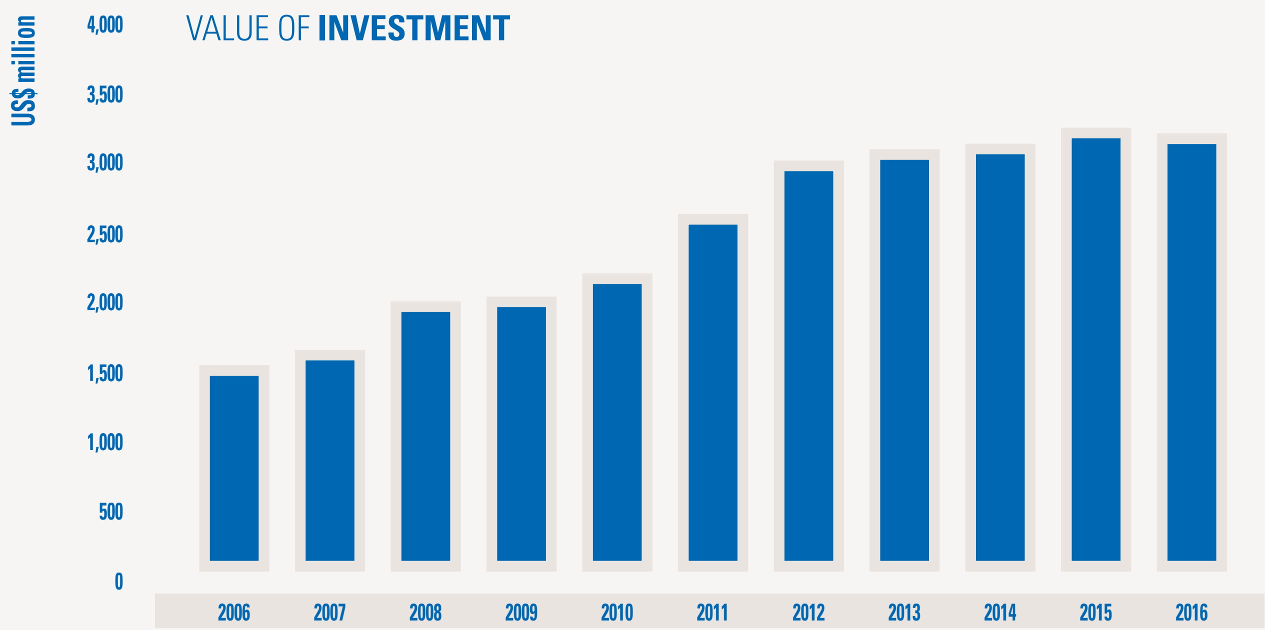




VALUE OF **INVESMENT (VI)**

The current regulation framework establishes calculation and publication mechanisms for the Value of Investment of power transmission companies at market prices. This information is used for setting service rates.

As of December 31st, 2016, VI of Transelec power transmission facilities amounts to US$ 3,330 billion.



05.
THE OPERATION

Transelec's commitment as an important collaborator in the country's growth and development means that the essential operation purpose is to supply power with high safety and quality service standards. Pursuant this goal, Transelec counts on highly specialized personnel and contractors as well as processes and technical resources whose management is executed following criticality and risk models from a long-term perspective that supports power transmission operation with high standards.

The Operations Vice-Presidency, which is responsible for the operation of facilities, has employed an ongoing strategy for continuous improvement and incorporation of best practices, both for operation and network maintenance.

In 2016, Transelec made great efforts to consolidate the Asset Management Model. By means of big changes, such as the redefinition of the maintenance plans, the Company has implemented new work processes and others have been adapted to this new working model. Also, Transelec developed a new process to identify the Company's most critical assets based on their risk definition. In 2017 Transelec will work on finding and implementing a new platform to measure the assets' conditions.

Additionally, the Company is innovating mostly with new technologies that will allow it to foresee the failures and add value to each one of its assets. Among these activities, the use of drones is remarkable to inspect high-voltage power lines, the use of chronographic cameras and the use of technology for measuring the vibration at the high-voltage power lines, among others.

The failure investigation and the root-cause have been fundamental to supporting the continuous improvement and making decisions regarding maintenance and renewal of assets as well as operational processes. Following these concepts, during 2016 the Company continued an intense plan of assets' renewal based on year-over-year plans organized based on criticality assessment of the Company´s assets to maintain their value, increasing reliability, reducing failure rates and ensuring compliance with standard levels (the asset renewal process has steadily grown upon which it is expected to triple the amount by the end of this five-year period). In the long term, Transelec established a methodology that allows managing the Sustainable Capex within a 20-year term.

Regarding our substations, it is worth mentioning the replacement of 15 circuit breakers conducted in the different Zone Divisions during 2016. Likewise, the Company continued to replace control, protection and tele-protection assets, which amounted to 42 replacements throughout the year. Both are core initiatives in Transelec's quality strategy and follow long-term plans that include, for the upcoming years, ongoing tenders under flexible modalities and with the strategic cooperation of suppliers. During this year, we continued with the replacement of other equipment throughout the SIC and SING.

Regarding transmission lines, important renewal works were executed during the year, the main ones being the changes of power cables and insulation at sections of the SIC's and SING's 220 kV and 110 kV transmission lines. Likewise, and as a result of the corrosion map elaborated in 2014, the Company elaborated the anticorrosive treatment planning for high-voltage mechanic structures, which will be performed since 2017 onwards.

In 2016, the power lines disconnection rate increased, mostly due to failures caused by birds and trees. The Company developed an action plan to control itm wich features the installation of bird protections, such as Chinese hats, protective blankets, polycarbonate panels, anti-bird combs, etc. Besides, the substation disconnection rate decreased, mainly due to the decrease in the failure rate at the protection and measuring transformers.

Additionally, and keeping in mind that for Transelec there is no goal or operational emergency that justifies exposing an employee to uncontrolled risks, the Company has consolidated strategies for measurement and treatment of high risk accidents involving people. On the other hand -and consistent with the aforementioned- during the last five years, we have achieved high compliance of Security and Occupational

Safety and Health (SSO) Plans and Programs with direct involvement of contractor companies. Thanks to this, we achieved 63% decrease of the Accident rate and 87% decrease of the Loss rate.

In addition, in 2016, the Company deepened the ongoing application and continuous improvement of the operating risk management, which seeks to detect the intrinsic risks of each facility belonging to the Company and the risks related to the interventions made to each one of them. This promotes an appropriate decision-making to avoid the materialization of risks related to conditions or sub-standard actions that may lead to unavailability of facilities, supply interruption or people and/or environment incidents. Along with the above, this year, Transelec assessed the performance of the operating risk management methodology. The progress achieved in this matter was remarkable and the opportunities of improvement were identified as challenges for 2017.

Transelec's Operational Continuity Plan integrated in a single procedure the guidelines for prevention, mitigation, effective and efficient response to emergency situations into a single procedure recover and preserve operational continuity of Company's facilities. In 2016, Transelec added new emergencies and worked on clarifying certain parts of the procedure. Additionally, series of drills were performed aiming to find improvement aspects for the application of the plan.

The role played by the National Transmission Operating Center (CNOT) for network adequate operation is fundamental. The CNOT started operations in 2013 with the partial transfer to a new and modern center that featured facilities that meet the highest standards applicable to control centers and in 2014 the absorption of all Regional Centers was completed. In this way the centralization of all Transelec 's facility operations in real time, including their telecommand, together with coverage for both, SING and SIC was achieved. In 2016, we conducted a skill-management process for engineers that operate de CNOT. The process included gathering model skills, an evaluation of operators based in this framework of reference and concluded by closing the gaps. This process will be carried out on a continuous basis in the following years with a simulation environment for the CNOT engineers training.

The investments, improvements and updates such as those indicated above, as well as the application of strict operational procedures, aim to ensure that quality service remains within the expected parameters, which is monitored by the Equivalent Interruption Time (EIT) which measures the service safety based on the total power not supplied to free and regulated customers over a twelve-month period, expressed as 'equivalent interruption minutes.

In 2016, 36 power outages attributable to Transelec were reported at the SIC and SING. These disconnections caused an electricity shortage with EIT amounting 3.898 system-minutes. This shows a significant improvement in the service quality, since the EIT registered in the SING was the lowest in the last 5 years.

The recurrence of theft of copper conductors in high voltage transmission lines was a special condition compromising quality service. In 2016, these actions increased, amounting a total of 34 km of transmission lines, which is equivalent to 42.7 tons stolen, of which 8.7 km were recovered (equivalent to 11.6 tons). The Company is aware of its impact and established for 2016 a series of actions aiming to prevent, hamper, impede or disrupt the probability of of copper conductors being stolen, resulting in 12 frustrated thefts, the confiscation of 2 vehicles and the formalization of 5 individuals, all in a joint work with the Prosecutor Office of the VI Region.

This Year, the Bureau Veritas certification company conducted the fifth Integral Management System External Audit. The process concluded successfully and backed our OSHAS 18001, ISO 9001 and ISO 14001 certifications. In turn, during 2016, the consolidation of the legal compliance monitoring at the different facilities of the Company and the development of a computer application to explain and divulge of its proceedings strengthened the Integral Management System (SGI).

06. FINANCE

MAIN ACTIVITIES IN **THE FINANCIAL AREA**

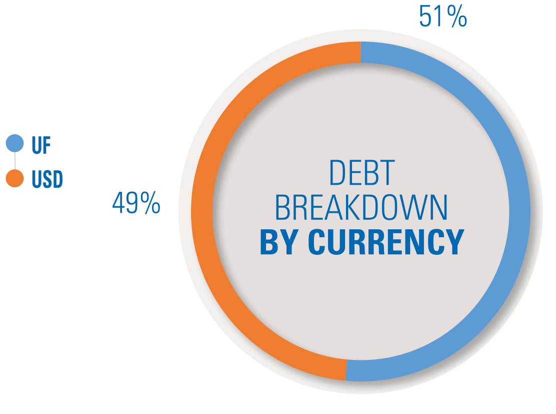
In July, Transelec S.A. issued bonds in the international market under the Securities Act Rule 144A regulation S under the United States Securities Act of 1933 for an amount of US$350,000,000. The maturity date of the bonds is January 12th, 2029, with a nominal interest rate of 3.875% annually. The effective issuing rate was 3.992%, at a 2.60% over 10-year US Treasury bond. J.P. Morgan Securities LLC, Scotia Capital (USA), Citigroup Global Markets Inc. and Santander Investment Securities Inc. acted as book runners of the trade. The bond proceeds were used to refinance the following debts: i) Local Series C bond, issued in 2007 for an amount of UF 6 million with maturity in September 2016, ii) Local Promissory Note with Banco Estado, issued in 2015 for an amount of CLP 16,000 million with maturity in July 2016. With this new debt Transelec was able to extend the average duration of the debt, which resulted in a looser debt profile for the next years.

ACTUAL PUBLIC **DEBT**

Debt	Issuing Date	Interest Rate	Maturity	Valid Amount	Currency
Bond D	14 dec 2006	4.25%	15 dec 2027	13,500,000	UF
Bond H	13 aug 2009	4.80%	01 aug 2031	3,000,000	UF
Bond K	04 dec 2009	4.60%	01 sep 2031	1,600,000	UF
Bond M	19 jan 2011	4.05%	15 jun 2032	3,400,000	UF
Bond N	19 jan 2011	3.95%	15 jun 2038	3,000,000	UF
Bond Q	03 may 2013	3.95%	08 oct 2042	3,100,000	UF
US$ Bond	26 jul 2013	4.63%	26 jul 2023	300,000,000	US$
US$ Bond	09 jul 2014	4.25%	14 jan 2025	375,000,000	US$
US$ Bond	12 jul 2016	3.88%	12 jan 2029	350,000,000	US$

UF: Unidad de Fomento (Readjustable unit set by the Central Bank of Chile, Law 18,840).
All bonds are bullet bonds (principal paid upon maturity of the last coupon).

AS OF DECEMBER 31ST, 2016 THE COMPANY'S DEBT CAN BE BROKEN DOWN AS FOLLOWS:



The percentage of dollar-denominated debt increased due to the favorable conditions that American bond market offered. The total dollar denominated debt is covered naturally with assets of the company and Cross Currency Swap contracts.

DEBT **SERVICE RESERVE**

Since December 2006, Transelec has a debt service reserve required by the bond issuance contracts to be able to pay restricted payments (according to their definition in debt contracts). This debt service reserve considers each of the Company's public debts and benefits all bondholders, both local (bonds D, H, K, M, N and Q) as well as international (bonds 114A issued in 2013, 2014 and 2016). This reserve covers the costs of interests and principal payments –with exception of bullet maturities– corresponding to a six-month period for the aforementioned bonds. The Bank of New York acts as trustee for the Debt Service Reserve. As of December 2016, the Debt Service Reserve Amount was US$ 50,000,000.

REVOLVING **CREDIT FACILITY**

In order to ensure the availability of funds to cover Transelec's general corporate cash needs, such as working capital, new investments in fixed assets (potential and under construction projects), acquisition of transmission lines and possible debt refinancing, the Company has the following unsecured revolving credit facility, which is fully available by the end of year 2016, in accordance to the conditions described as follows:

Bank	Maturity	Amount (up to)	Loan Type	Use
Scotiabank - DnBNor BTMU Citibank JP Morgan - EDC	15 oct 2017	US$ 250,000,000	Unsecure revolving credit facility	Working capital / Capex Short-term refinancing

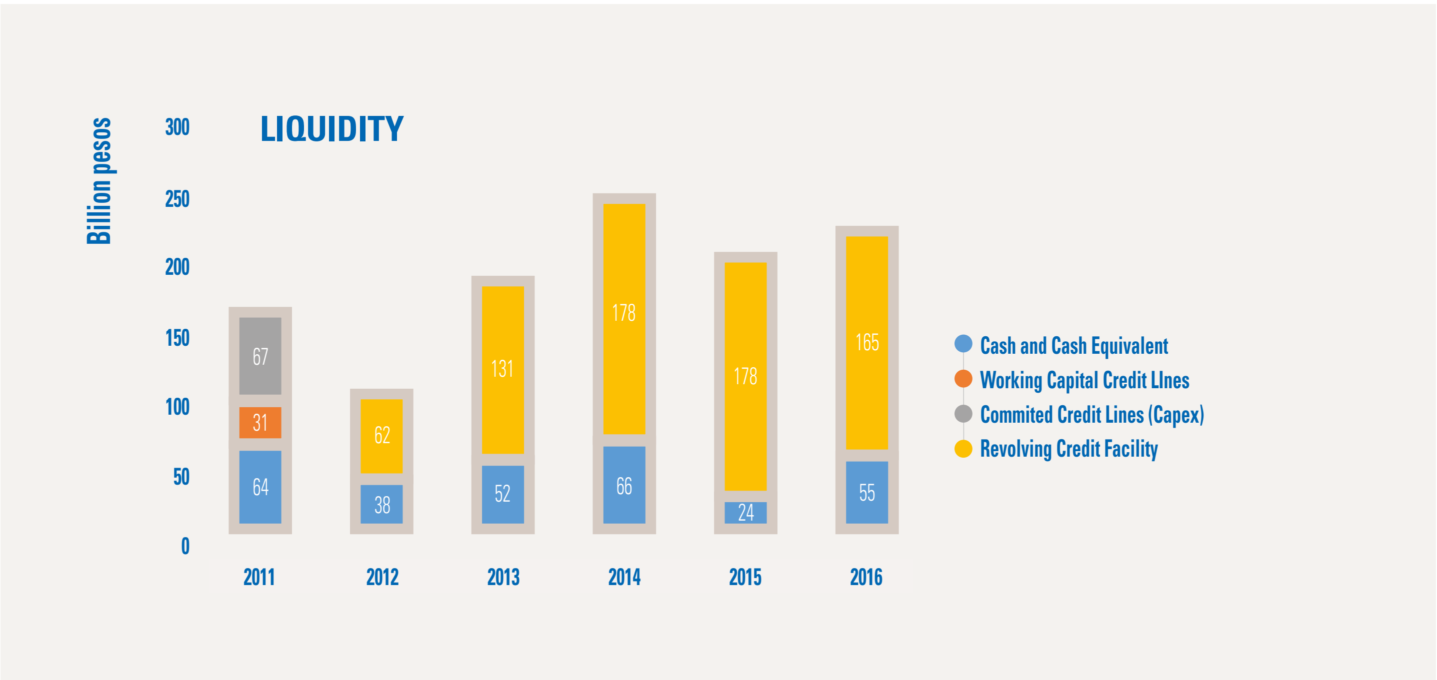
PERFORMANCE **INDICATORS**

LIQUIDITY

Due to positive results of 2016, Transelec shows proper levels of liquidity, which, together with:

a) The availability of the revolving credit facility.

b) Partial reinvestment of its own cash generation will allow the Company to finance its upcoming investments plans in new transmission assets, which is supported by the commitment of the Company's shareholders to invest or reinvest in Transelec when necessary.



2016 OPERATING INCOME

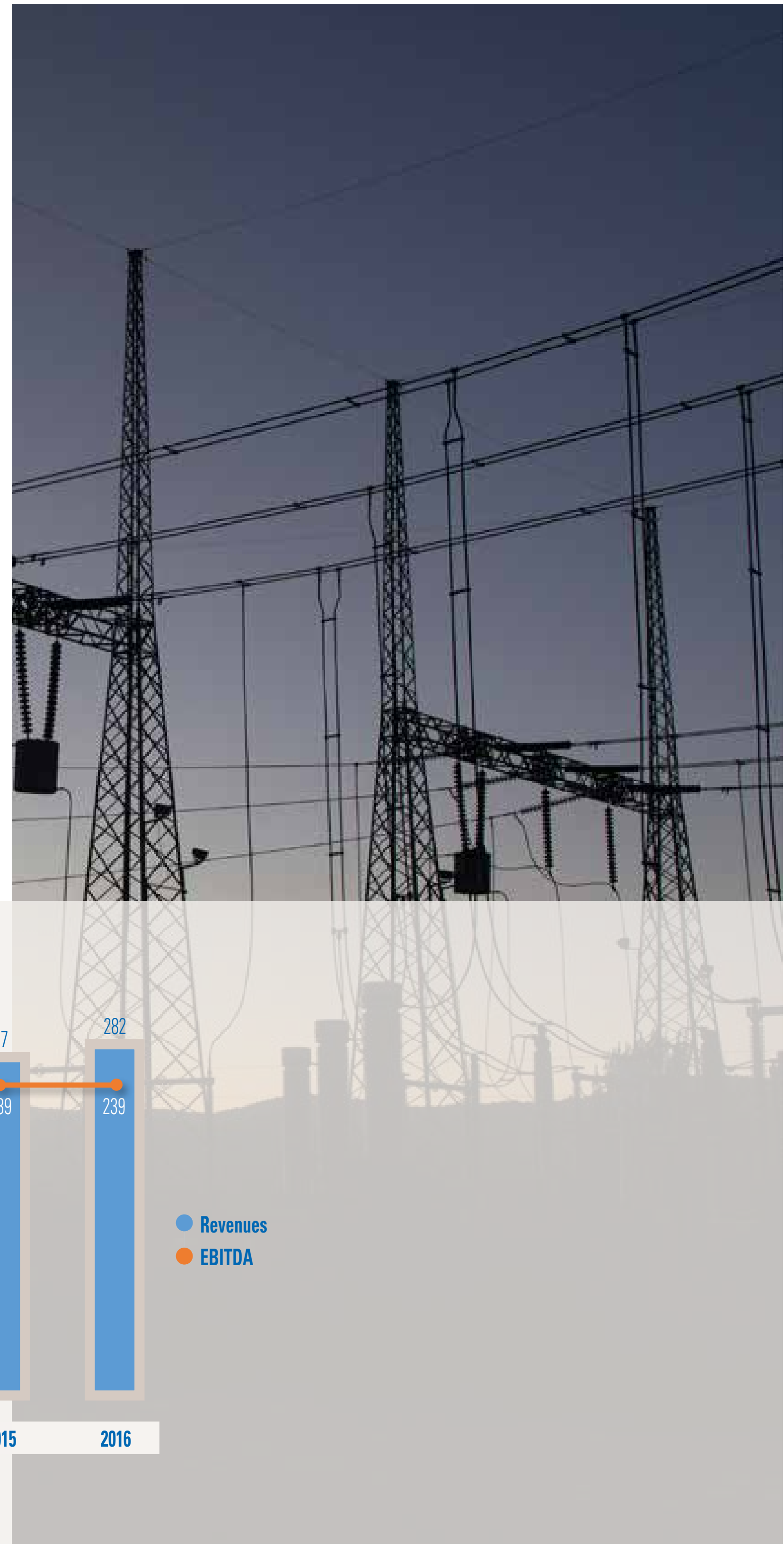
The Company has two main sources of revenue:

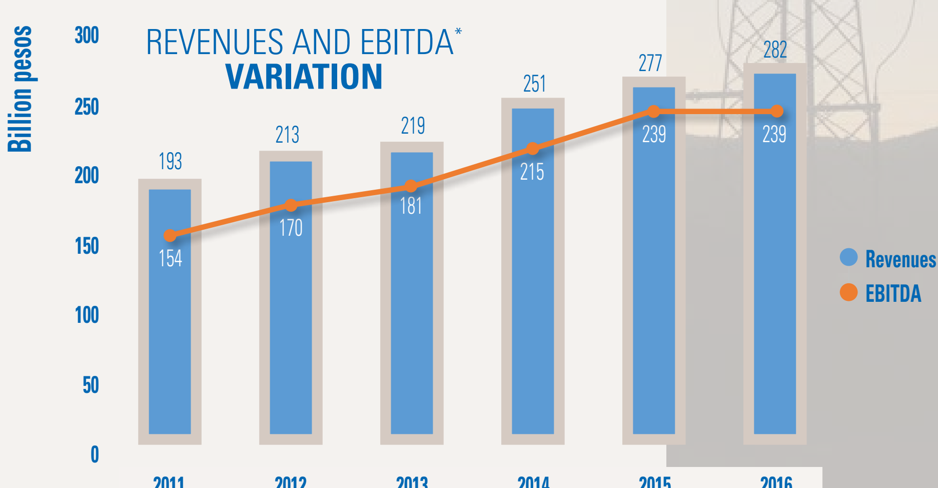
a) Regulated revenue coming from services provided by assets of the trunk/national transmission and subtransmission/zonal systems

b) Contractual revenue stipulated in bilateral contracts which consider additional/dedicated transmission assets as defined by Short Law I and Law 20,936 among others.

Thanks to its properly protected revenue structure, the market conditions, the legislation, the current regulatory framework and the quality and solvency of its clients, the Company has obtained steady results over time.

The cost structure of the company does not present greater variability and is mainly composed of personnel and maintenance, which allows an EBITDA margin above 80% steadily over time.





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

RISK **FACTORS**

Given the characteristics of the Chilean electricity market as well as the strict regulation standards of this sector, Transelec is not exposed to any substantial risk in the course of the operation of its main business. However, it is worth mentioning and considering the following risks:

REGULATORY FRAMEWORK

Power transmission tariffs are established by law and include readjustments in order to guarantee the operator a real annual return. The nature of the industry allows the revenues of power transmission companies to be stable over time. These are complemented by the revenues received from private contracts signed with important clients. However, since these rates are reviewed every four years in the National and Zonal Transmission Studies, the Company could face new tariffs that are detrimental or less attractive considering Investments incurred.

Law 20,936 comprises the enactment of a series of regulations currently under elaboration and whose publication is ex-

pected to take place during the second half of this year. The authority has considered the participation of stakeholders by means of working tables to craft the regulations, which will undergo a public consultation before being published.

SETTLEMENT OF TRUNK AND SUBTRANSMISSION REVENUES

In compliance with the provisions of the twenty-fifth transitory article of the General Law on Electrical Services "LGSE", the period of time between July 20th, 2016 –effective date of the new Law N°20,936 enactment– and December 31st, 2018, the collection, payment and compensation regime must be governed by the regulations established by Law N° 19,940 of 2014 (Short Law I). Based on the aforementioned, Transelec is entitled to annually collect the Annual Transmission Value by Segment of its existing national facilities established by the Supreme Decree N° 23 T/2016 of the Ministry of Energy. In order to collect these revenues, every month Transelec collects the tolls for each section and temporarily actual tariff incomes which later settles according to the expected tariff incomes used for the calculation of tolls in compliance with the payment charts the corresponding CDEC (Center of Economic Dispatch of Charge) establishes, through the collection or payment to the different companies owners of generation facilities.

The Company could face the risk of not collecting revenue in a timely manner from any of the power generation companies established in CDEC payment charts, which could temporarily affect the liquidity of Transelec. In this sense, and in the Company's opinion, actions executed by Transelec regarding the aforesaid collection do not consist of managing how payment due is charged, but rather the mere collection and transfer of absolutely external appraised surplus and deficit revenue to third parties, with the exception of estimated tariff revenue.

In compliance with the provisions of the eleven transitory article of the LGSE, during the period of time between January 1st, 2016, and December 31st, 2017, the Supreme Decree N°14/2013 of the Ministry of Energy will continue in force, with the exception of the provisions regarding payments for the use of zonal systems by power generation plants, which are exempt from such payment.

By means of a new decree, the Ministry of Energy is entitled to make the strictly necessary amendments for the application of the payment exemption of power plants and –by means of the application of Supreme Decree N° 23 T/2016– any other charge that is directly related to the amendment and/or adaptation of indexes, parameters, compensation distribution and other application conditions in order to implement Supreme Decree N° 14/2013 consistently and harmoniously, during the extended validity term. Therefore, every month Transelec collects in each Zonal Transmission System part of the total incomes that the system produces which result from charging single tariffs $/kWh that the tariff decree sets up on energy collection for those systems. The payments of power plants that are except according to the new regulation will not be covered nor absorbed, by the remaining users of the Zonal Transmission Systems. The part that each company owner of a zonal subtransmission facility receives is a proportion between its assets' valorization and the valorization of the total assets of the system. Besides that, there is also a charge for the difference of power losses that take place between actual power losses and those considered in the tariff. Depending on the monthly system operation, this amount can be positive or negative. The amendments that the Ministry of Energy can make to Supreme Decree N°14/2013 by virtue of the eleven transitory article of the Law 20.936/2016 could lead to reassessment of the perceived incomes as of January 1st, 2016.

The main risks associated to subtransmission revenues are the eventual differences that can occur between each system's real power demand and projected power demand for tariff fixing.

SINGLE COSTUMER REVENUE CONCENTRATION

Revenues from Enel Generación Chile S.A., (Ex Endesa Chile) and its power generation subsidiaries represent 46% of Transelec's revenues. Transmission tolls to be paid by Enel and its subsidiaries will generate most of Transelec's future cash flows. Therefore, any substantial changes in Enel's business model, financial status and/or operating income could affect Transelec negatively.

RENEGOTIATION OF BILATERAL CONTRACTS FOR ADDITIONAL/DEDICATED FACILITIES

Revenues generated by certain additional facilities come from long-term contracts. Once these contracts expire, it is necessary to renegotiate the conditions, including new terms of payment, tariffs and definition of the transmission services the Company will continue to provide. We are therefore unable to guarantee that economic terms will remain the same once the renegotiation process has concluded.

INCREASING COMPETITION ON THE TRANSMISSION MARKET

Chile's transmission market is becoming increasingly competitive. We believe this trend will continue over the short term, so we expect to face tougher competition during bidding processes. This could mean the loss of new projects and transmission network upgrades, which could reduce our market share and also hamper our future cash flows.

OPERATING RISKS

Although our management team believes Transelec has a proper risk coverage policy according to the industry standards, we cannot guarantee that our current insurance policy will be enough to cover certain operating risks, including forces of nature, damages to transmission facilities, work accidents and equipment failure.

LABOR CONFLICTS

Delays, work stoppages or other labor conflicts affecting Transelec could have a negative effect on the Company's business, financial conditions, operating outcome and other projections. Approximately 62.9% of Transelec's workforce belongs to one of its two unions, all of them covered by the collective agreements executed between the Company and these two unions. These agreements expire in 2016 and 2018. Although Transelec 's management believes that current labor relations evidence mutual collaboration, the Company cannot assure that strikes, delays or suspensions will not occur in the future after the maturity of any of the agreements or possible arbitrages. We are unable to estimate the effect of these events on Transelec's operations. Finally, as of July 29th, 2015, the Government included Transelec in the list of 'Strategic Companies'.

FINES FROM TRANSMISSION SERVICE SUSPENSION

Currently, Transelec has four legal procedures pending with the Superintendence of Electricity and Fuels (SEC) due to charges pressed by the authority stemming from forced service suspensions. Two procedures have not yet been settled, while in the other cases Transelec has requested appeal for reversal to the same authority. Once these procedures are settled at the administrative office, the Company will consider appealing the SEC's decision by means of legal proceedings. Additionally, SEC fined three Transelec's processes. However, Transelec has filed the corresponding legal claims and one of them is currently in process at the Supreme Court after the Appeal Court of Santiago revoked the fine.

ENVIRONMENTAL INSTITUTIONS AND THE APPLICATION OF ENVIRONMENTAL STANDARDS AND/OR POLICIES

Transelec operations are subject to Law N°19,300/1994 on general environmental guidelines ('Environmental Law') and posterior modifications. The Environmental Law requires companies developing or modifying high-voltage transmission lines and substations projects to enter the Environmental Impact Evaluation System (SEIA) and to submit Environmental Impact Evaluations (EIS) or Environmental Impact

Declarations (EID), as appropriate, so that Commissions for Environmental Assessment evaluate and rate them, thus obtaining approval through an Environmental Qualification Resolution. The standard also establishes that the responsible for the project would be able to request the Environmental Assessment Service its opinion regarding whether a project or its modification should be submitted to the Environmental Impact Assessment System. These presentations are called Letter of Project Pertinence.

In particular, the main reform implemented to the Environmental Law established through Law N°20.417/2010 that introduced changes to environmental institutions. New environmental management instruments were created and the existing ones were modified, therefore, Transelec had to adjust to these new environmental requirements. Then, the new institutional framework was composed by the following organisms:

i. Ministry of the Environment
ii. Council of Ministers for Sustainability
iii. Advisory Councils
iv. Environmental Evaluation Service
v. Environmental Superintendence
vi. Environmental Courts

These institutions are in charge, among other issues, of the design and enforcement of policies, plans and programs regarding environmental issues; the proposal of sustainability criteria for elaboration of planning policies and processes for the ministries; regulation dictation; SEIA administration as well as project auditing and penalty. These new entities are fully operational and replaced the National Environmental Commission (CONAMA) as well as the Regional Environmental Commissions. With the approval of the Environmental Evaluation System regulations update (D.S. N°40/2012), on December 24th, 2013, new requirements were established for the following procedures: environmental impact evaluations procedures, environmental impact studies, environmental impact declarations as well as community involvement and indigenous consultation.

It is worth noting that the creation and commissioning of Environmental Courts on December 28th, 2012 means that the Environmental Superintendence is now fully entitled to audit and apply sanctions.

Transelec is an active user of the environmental institutionalism. During 2016 the Company submitted 8 environmental sustainability projects -one of them is still under evaluation. Additionally, during this year, the Company applied to 92 sectorial environmental authorizations for under-construction and operating projects, which are under different approval stages. The good environmental performance of the Company means that, despite being developing 28 complex projects, during the year, no fines due to incompliance of its environmental commitments were recorded.

In the other hand, the Ministry has been actively working on the environmental regulatory framework perfection. An example of that is the creation of the Presidential Advisor Committee for the 2015 SEIA Regulation reform. In July, 2016, the committee released a report with the first proposals, including the establishment of a special assessment mechanism for projects considered strategic for the country, the increase of citizen participation opportunities during the Environmental Impact Statements and the development of an early relationship procedure with project owners and the respective involved communities. The Ministry of Environment is studying these proposals and will apply the necessary amendments and legal changes. So far, it has not made known the proposals to be promoted.

Likewise, in 2016 a new law related to waste management, extended producer responsibility and promotion of recycling was enacted. Currently, the project of law that creates the Biodiversity and Protected Areas Service and the Protected Areas National System is in process. Regarding climate change, during 2016, the Ministry of Environment crafted the draft of the national climate change action plan 2017-2022.

CONSTRUCTION DELAYS FOR NEW TRANSMISSION FACILITIES

Success of the upgrades and expansions program for the transmission network will depend on several factors, including the cost and availability of financing. Although Transelec has experience with large-scale projects, the construction of new facilities may be hampered by factors commonly associated to projects, including delays of legal permits such as electricity concessions; lack of equipment, materials, labor, price variation; adverse weather conditions; natural disasters and unforeseen circumstances or difficulties when it comes to taking out loans under favorable conditions and at reasonable rates. Any of these factors could lead to delays in the total or partial completion of the capital investment program, while increasing the costs considered in this program.

EXCHANGE RATE RISK

Depending on market fundamentals, specific financial characteristics of its business and other considerations, Transelec has conducted, when necessary, hedging operations such as cross currency swaps or currency forwards in order to set the underlying portion in Chilean pesos contained in its revenue that will be invoiced according to US Dollar-Chilean peso parity and/or to cover from assets and liabilities imbalances.

However, we cannot guarantee that Transelec will be fully covered with exchange rate hedges. In addition, cross currency swaps and forwards bear credit risk from the counterpart, cash requirements at maturity dates or recouponing clauses and other associated risks.

In the event of incurring debt in a currency different from Transelec 's functional currency, this shall be balanced, whether in assets in the same currency, or by means of a financial derivative that allows counteracting the variation of the currency type, thus eliminating the currency risk.

TECHNOLOGICAL CHANGES

As mentioned before, remuneration of Transelec investment on transmission facilities is made through an annuity on facility assessment (AFA) at market prices, which is regularly recalculated according to the process established on current standards. In case any groundbreaking technological advance is made on Transelec's current equipment, this assessment could be diminished and thus prevent the Company from recovering the total investment.

CREDIT RISK

Credit risk corresponding to accounts receivable stemming from power Transmission activity has been historically very low due to the limited number of customers, their risk ratings and short collection time (less than 30 days).

However, revenue is highly concentrated in a few power-generating customers that will make a large portion of Transelec's future cash flow. Any substantial change in these power generation companies' assets, financial status and/or operating results could affect negatively the Company.

Regarding to counterparty risk associated to financial assets held by the company, the treasury's policy establishes various limits:

- Investment restriction in financial institutions that are acceptable for Transelec or mutual fund Administrators owned by these institutions.
- Risk classification and required capital for eligible financial institutions.
- Maximum amounts invested by institution depending on their risk classification.
- Maximum rates of concentration of investments on a single institution.

As for credit risk associated to financial assets (term deposits, fixed income mutual funds and covenants) the treasury's policy establishes various limits:

- Just instruments or those instruments that issuers have an acceptable risk rating for Transelec.
- Maximum amounts depending on the risk rating.
- Maximum amount to the total assets of the mutual fund.

LIQUIDITY RISK

Liquidity risk is the risk of the Company not being able to satisfy a monetary commitment in cash or to make debt payment upon maturity. It also includes the risk of not being able to liquidate assets in a short time span or at a reasonable price.

To ensure that the Company can react quickly to investment opportunities and to pay its obligations upon maturity, Transelec, in addition to its cash surpluses and short-term accounts receivable stemming, has a revolving credit facility amounting to US$ 250 million, which as of December 31st, 2016 is fully available. In addition, Transelec has uncommitted credit facilities with local banks.

The Company is exposed to risks associated to its debt, including the risk of refinancing its debt upon maturity. These risks are mitigated by the use of long-term debt and the structure of its debt's maturity extended over time.

INTEREST RATE RISK

Company assets are mainly long term fixed assets and intangibles. Consequently, financial liabilities used to finance these assets mainly consist of long-term liabilities at a fixed rate. Debt is reported in the balance sheet at its amortized cost.

Management of this risk aims to create a balanced debt structure and reduce impacts on financial costs due to fluctuating interest rates, reducing volatility of the results account.

Although higher inflation in Chile could affect debt costs expressed in UF and consequently affect the Company's gain (loss) in indexed assets and liabilities, these impacts are currently mitigated by the Company's revenue, which is also partially adjusted according to local inflation variation by means of contract's indexing polynomials.

In addition, the loans that the Company holds with related companies are expressed in Chilean pesos, UF and in US dollars and feature a fixed interest rate, which also helps to reduce this risk.

RISK **CLASIFICATION**

In 2016, the Company's international and local rating were confirmed in recognition to the good results achieved in the last years and its financial strength.

INTERNATIONAL RATING

International Rating	Current Rating
Fitch - Ratings International	BBB
Moody's	Baa1
S&P	BBB

LOCAL RATING

International Rating	Current Rating
Humphrey's	AA-
Feller - Rate	AA-
Fitch - Ratings Chile	AA-

INSURANCE

Throughout 2016 Transelec continued its insurance policy of holding insurance policies to protect all fixed asset goods at Transelec's own substations and at facilities owned by third parties. This coverage is provided by means of an industrial multi-risk policy that includes physical damage due to fires, machinery breakdown, earthquakes and forces of nature. Coverage of physical risks for transmission lines and towers was considered unnecessary due to good international practices and stringent Chilean standards observed during the construction of these facilities with a few exceptions that we have covered since they are considered strategic as well as others due to contract issues.

With regard to socio-political risk, the Company is covered by a terrorism insurance policy, which covers acts considered by the law as terrorism. In addition, the Company continues to hold civil liability, and professional civil liability insurance. The latter covers eventual claims stemming from Transelec engineering management. On the other hand the Company's vehicles and mobile equipment are still insured. Likewise, insurance coverage is provided for national and international transport of equipment and material. As of engineering projects, any construction and assembly risk, as well as transportation and civil liability are fully covered.

Finally, the company continues to hold a work accident insurance policy for their workers, which includes complementary health insurance, travel assistance, service commissions and others.

DIVIDENDS

2016 PROFIT-SHARING POLICY

The Company's Profit-Sharing Policy establishes that for any given year its Board of Directors recommends sharing 100% of the reported net income, this considering Transelec 's financial status, commitments signed by the Company when issuing bonds in the local and international markets as well as in consideration of the impact of IFRS implementation. However, no profit shall be declared if this could stop the Company from meeting its financial commitments. With respect to any given fiscal year, if the Board of Directors were to see it appropriate, it would be entitled to declare interim dividends to be distributed depending on the conditions at that time. Overall payment of interim dividends shall not exceed 75% of the Company's distributable profit estimated for the ongoing fiscal year based on the last estimation available.

PROFITS SHARED 2016

It was agreed at Transelec S.A. Ordinary Shareholders Meeting, held on April 26th, 2016, to approve the distribution of the effective dividend surplus of 2015 for a total of CLP$ 19,668,084,516, paid since May 25th.
It was agreed at Transelec S.A. Board of Directors Meeting held on May 18th, 2016, that an interim dividend for CLP$ 17,189,000,000 would be distributed and deducted from 2016 fiscal year earnings. Also, it was agreed at Transelec S.A. Ordinary Shareholders Meeting, held on August 17th, 2016, that an interim dividend for CLP$ 21,842,000.000 would be distributed and deducted from 2016 fiscal year. Lastly, it was agreed at Transelec S.A. Board of Directors Meeting, held on November 9th, 2016 that an interim dividend for CLP$ 22,195,000,000 would be distributed and deducted from 2016 fiscal year profit.

DIVIDENDS PAID EACH YEAR*

Temporary, Eventual and Final

Year	Historical Value (CLP$ million)
2006	2,339
2007	34,955
2008	20,934
2009	28,118
2010	55,129
2011	45,866
2012	106,806
2013	59,064
2014	63,038
2015	88,166
2016	80,894

* Values as of December of each year.

PROFIT SHARED

Charged to each fiscal year

Year	CLP$ million *	Fiscal Year Profit %
2006	14,849	100%
2007	31,774	100%
2008	53,658	95%
2009	47,238	100%
2010	55,825	100%
2011	46,839	100%
2012	61,749	100%
2013	63,292	98%
2014	66,773	100%
2015	82,989	99%
2016**	61,226	76%

* Values as of December each year.

** Only corresponds to provisional dividends paid in 2016, since final dividends to be paid from the 2016 fiscal year had not yet been reported as of December 31st. These will be agreed to at the Shareholders Meeting to be held in 2017.

MATERIAL **FACTS**

1. On March 10th, 2016 and in compliance with the provisions of Article 9 and second paragraph of Article 10 of the Securities Market Law N°18,045, the following material fact was reported:

It was agreed at the Board of Directors Meeting held on March 9th, 2016 to summon an Ordinary Shareholders Meeting to be held on April 26th, 2016 in order to inform and request approval for the following matters:

1.1. Annual Report, Balance Sheet, Financial Statements, and External Auditors Report corresponding to 2016 fiscal year ended on December 31st.

1.2. Final Profit sharing. In this regard, the Company's Board of Directors agreed to suggest at the Shareholders Ordinary Meeting the distribution of a final dividend for a total amount of CLP 19,668,084,516 corresponding to 2015 fiscal year and to be paid under the conditions and terms agreed at that meeting.

1.3. Board of Directors Appointment.

1.4. Board of Directors and Audit Committee compensation.

1.5. Appointment of external auditors.

1.6. Newspaper to be used for the publication of Shareholders Meeting summons.

1.7. Agreements made by the Board of Directors regarding issues contained in Articles 146 et seq. of the Corporations Law.

1.8. Other issues of interest for the Company and within the shareholders' competency.

2. On April 14th, 2016 and in compliance with the provisions of Article 9 and second paragraph of Article 10 of the Securities Market Law N°18,045, the following material fact was reported:

It was agreed at the Company's Extraordinary Shareholders Meeting held on April 13th, 2016, the following material fact was:

2.1. To ratify the resolutions adopted at the N°138 Board of Directors Meeting, in compliance with Article Twenty-Eighth of the Company's bylaws, in terms of authorizing the issuance of debt up to US$7,000,000,000 through the issuance of bonds in the international or national market, or both.

2.2. To ratify the special rights of representation granted by the Company's Board of Directors for the formulation and execution of the acts and contracts required for this purpose.

3. On April 27th, 2016 and in compliance with the provisions of Article 9 and second paragraph of Article 10 of the Securities Market Law N°18,045, the following material fact was reported:

It was agreed at the Company's Extraordinary Shareholders Meeting held on April 26th, 2016, the following material fact was:

3.1. Approve the Annual Report, Balance Sheet, Financial Statements, and the External Auditors Report corresponding to 2015 fiscal year ended on December 31st.
3.2. Approve the distribution of a Final Dividend corresponding to 2015 fiscal year amounting to $19,668,084,516, which shall be paid as of May 25th, 2016 to shareholders registered in the respective Shareholders' Registry as of May 22nd, 2016 (Profit sharing form N°1 was attached pursuant Circular 660, of the subsequent material fact of the dame date was attached).
3.3. It was agreed to renew the members of the Board of Directors as follows: Mr. Richard Legault as regular director and Mr. Benjamin Vaughan as his respective alternate director; Mr. Paul Dufresne as regular director and Mr. Patrick Charbonneau as his respective alternate director; Mrs. Brenda Eaton as regular director and Mr. Jerry Divoky as her respective alternate director; Mr. Alfredo Ergas Segal as regular director and Mr. Etienne Middleton as his respective alternate director; Mr. Bruno Philippi Irarrázabal as regular director and Mr. José Ignacio Concha Vial as his respective alternate director; Mr. Mario Valcarce Durán as regular director and Mr. Patricio Leyton Flores as his respective alternate director; Mr. Blas Tomic Errázuriz as regular director and Mr. Rodrigo Ferrada Celis as his respective alternate director, and Mr. José Ramón Valente Vias as regular director and Mrs. Stella Muñoz Schiattino as his respective alternate director, and Mr. Alejandro Jadresic Marinovic as regular director and Mrs. Valeria Ruz Hernández as his respective alternate director.
3.4. Set the Board of Directors and Audit Committee compensations.
3.5. Approving the appointment of the firm Ernst & Young as the Company's external auditors for the 2016 fiscal year.
3.6. Approving Diario Financiero for publishing shareholder meetings summons.
3.7. Reporting agreements made by the Board of Directors regarding issues contained in Articles 146 et. subseq. of the Corporations Law.

4. On May 19th, 2016 and in compliance with the provisions of Circular N° 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

It was agreed at Transelec S.A. Board of Directors Meeting held on May 18th, 2016; the provisory dividend distribution corresponding to 2016 fiscal year for the amount of CLP $17,189,000,000, which shall be paid as of June 16th, 2016 to the shareholders registered in the respective Shareholders' Registry as of June 10th, 2016.

Profit sharing form N°1 was attached in accordance with the aforementioned Circular.

5. On July 8th, 2016 and in compliance with the provisions of Article 9 and second paragraph of Article 10 of the Securities Market Law N°18,045 and the provisions under Law N°30 and N°210 of the Superintendence of Securities and Insurance, the following material fact was reported:

On July 7th, 2016, Transelec S.A. issued bonds in the international market under the Securities Act Rule 144A regulation S under the United States Securities Act of 1933 for an amount of US$350,000,000. The due date of the bonds is January 12th, 2029 (12.5 years), under a nominal interest rate of 3.875% annually. The effective issuing rate was 3.992%, at a 2.60% over 10-year US Treasury bond. Interests shall be paid on a semi-annual basis and the capital shall be amortized in one installment upon maturity. J.P. Morgan Securities LLC, Scotia Capital (USA), Citigroup Global Markets Inc. and Santander Investment Securities Inc. acted as issuers of the trade.

The "Material Fact Issuance of Bonds Abroad Form" was attached in accordance with the aforementioned Circular.

6. On July 8th, 2016 and in compliance with the provisions of Article 9 and second paragraph of Article 10 of the Securities Market Law N°18,045 and the provisions under Law N°30 of the Superintendence of Securities and Insurance, the following material fact was reported:

On July 22nd, 2016, Mr. Jerry Divoky announced his resignation to the position of Alternate Director of Transelec S.A. Board of Directors.

7. On August 18th, 2016 and in compliance with the provisions of Circular N° 660 of the Superintendence of Securities and Insurance, the following material fact was reported

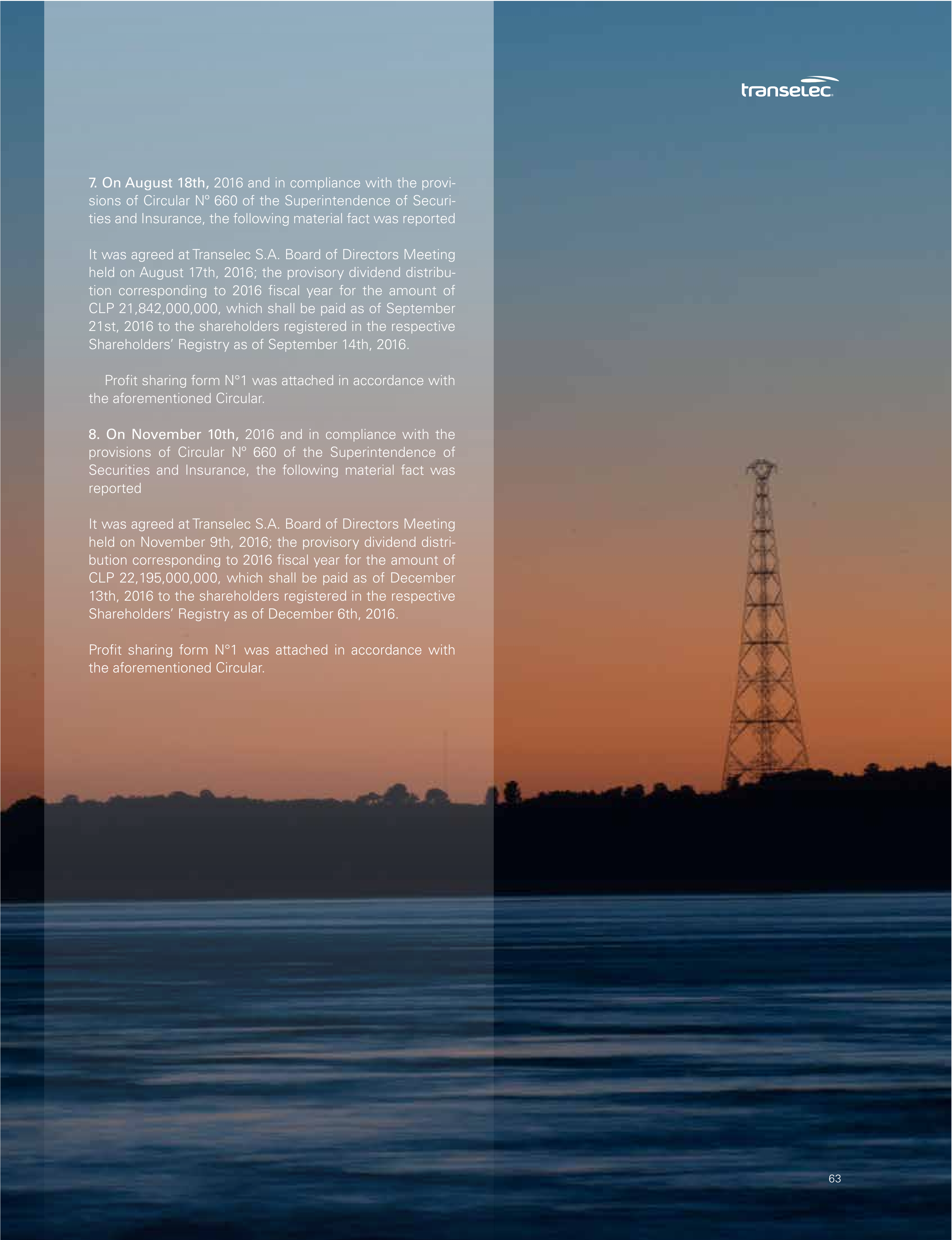
It was agreed at Transelec S.A. Board of Directors Meeting held on August 17th, 2016; the provisory dividend distribution corresponding to 2016 fiscal year for the amount of CLP 21,842,000,000, which shall be paid as of September 21st, 2016 to the shareholders registered in the respective Shareholders' Registry as of September 14th, 2016.

Profit sharing form N°1 was attached in accordance with the aforementioned Circular.

8. On November 10th, 2016 and in compliance with the provisions of Circular N° 660 of the Superintendence of Securities and Insurance, the following material fact was reported

It was agreed at Transelec S.A. Board of Directors Meeting held on November 9th, 2016; the provisory dividend distribution corresponding to 2016 fiscal year for the amount of CLP 22,195,000,000, which shall be paid as of December 13th, 2016 to the shareholders registered in the respective Shareholders' Registry as of December 6th, 2016.

Profit sharing form N°1 was attached in accordance with the aforementioned Circular.



07.
LEGAL INCORPORATION AND AMMENDMENTS

Transelec S.A. is an open stock corporation founded for an indefinite period that was originally founded as a limited liability company with the firm name 'Rentas Eléctricas III Limitada', by public deed dated June 6th, 2006 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo. The extract corresponding to its incorporation is registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 22,031, N°15,264 corresponding to the year 2006, and was published in the Official Gazette N°38,485 dated June 9th, 2006.

The assignment of rights and actions for the Company was executed by means of public deed dated June 15th, 2006 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo, with the Corporations Rentas Eléctricas I Limitada and Rentas Eléctricas II Limitada established as partners. In addition, the Company's share capital was increased and its administration was changed. The extract corresponding to this corporate modification is registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 25,168, N°17,510 corresponding to the year 2006, and was published in the Official Gazette N°38,501 dated June 30th, 2006. The aforementioned amendment extract was corrected and registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 28,355, N° 19,800 corresponding to the year 2006, and was published in the Official Gazette N°38,518 dated July 20th, 2006.

By means of public deed dated December 11th, 2006 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo, the Company´s equity was increased. The extract of deed was registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 53,096, N°37,999 corresponding to year 2006, and was published in the Official Gazette N°38,650 dated December 29th, 2006.

By means of public deed dated March 26th, 2007 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo, the Company became an open stock corporation with the firm name 'Rentas Eléctricas III S.A.'. The extract corresponding to this corporate transformation is registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 12,696, N°9,344 corresponding to the year 2007, and was published in the Official Gazette N°38,727 dated March 30th, 2007.

It was agreed at the Company's Extraordinary Shareholders Meeting N°1 held on April 24th, 2007 that the Company would be founded as an open stock corporation by means of the voluntary registration of the Company and its shares in the Securities Registry of the Superintendence of Securities and Insurance. The minutes of this first Extraordinary Shareholders Meeting were executed as public deed dated April 25th, 2007.

In June 2007, Rentas Eléctricas III S.A. absorbed Transelec S.A., RUT N°76.555.430-6, according to public deed dated June 30th, 2007 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo. The extract of deed was registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 27,530, N°19,941 corresponding to year 2006, and was published in the Official Gazette N°38,812 dated July 13th, 2007.

The Company's Articles of Incorporation were amended at the Extraordinary Shareholders Meeting N°2 held on June 30th, 2007. The Firm name was changed to 'Transelec S.A.' and a new Board of Directors was elected. The minutes of this Second Extraordinary Shareholders Meeting were executed as public deed dated June 30th, 2007 at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo. An extract of this reform was registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 27,530, N°19,941 corresponding to the year 2007, and was published in the Official Gazette N° 38,812 dated July 13th, 2007.

At the Company's 10th Extraordinary Shareholders Meeting held on May 24th, 2011 it was agreed that the price level restatement corresponding to the 2009 fiscal year amounted to CLP 19,732,724,601. The Company's bylaws were therefore modified and its share capital was increased. The minutes of this Extraordinary Shareholders Meeting N°10 were executed as public deed dated June 6th, 2011 at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo. An extract of this reform was registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 33,736, N° 25,194 corresponding to the year 2011, and was published in the Official Gazette N°39,994 dated June 24th, 2011.

In the 18th Extraordinary Shareholders Meeting, it was agreed an $857,944,547,865 capital reduction divided into 1,000,000 ordinary, nominative and with no nominal value shares to the amount of CLP 776,355,047,865 divided into 1,000,000 shares with the same characteristics of the aforementioned. The reduction was executed in line with the current fraction of shareholders that own the Company; in this way Rentas Eléctricas I Limitada owns 100 shares, amounting to CLP 77,635,505 corresponding to 0.01% of the share capital and Transelec Holding Rentas Limitada maintains 999,900 shares, which amounts CLP 776,277,412,360 corresponding to 99.99% of the share capital, modifying for this purpose Transitory Articles 5 and 1 of the Company's bylaws. The extract of this Meeting's public deed, dated January 30th, 2014 at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo, was registered in the Business Registry of the Real Estate Official Property Registry of Santiago, Sheet 317,669, N° 11,117 corresponding to the year 2014, and was published in the Official Gazette N°40,811 dated March 19th, 2014.

It was informed at the Company's 20th Extraordinary Shareholders Meeting, held on January 23rd, 2015, that it was agreed to materialize the absorption of the companies Transmisora Abenor Limitada, Transmisora Araucana de Electricidad Limitada and Transmisora Huepil Limitada by Eléctricas Transam Chile Limitada. Also, it was agreed at this Extraordinary Shareholders Meeting to approve the absorption of the Subsidiary Inversiones Eléctricas Transam Chile Limitada by Transelec S.A., delegating to the Board of Directors the establishment of the time the absorption should be materialized. Additionally, it was agreed at the Company's 8th Ordinary Shareholders Meeting, held on April 28th, 2015 to clarify, due to a written notice from the SVS, that the purpose of such agreement was to approve the absorption of the Subsidiary Inversiones Eléctricas Transam Chile Limitada by Transelec S.A., and to authorize the Company's Board of Directors to establish the moment and mechanism to proceed with such absorption, which took place on August 31st, 2015.

COMPANY'S **HISTORICAL BACKGROUND**

Transelec S.A., formerly known as Rentas Eléctricas III S.A., is the successor of the following companies whose incorporation, mergers or transformation are summarized as follows:

DISSOLUTION BY ABSORPTION OF COMPAÑÍA NACIONAL DE TRANSMISIÓN ELÉCTRICA S.A. INTO HQI TRANSELEC CHILE S.A.

Compañía Nacional de Transmisión Eléctrica S.A. was dissolved in virtue of Article 103 N°2 of the Stock Corporations Law 18,046, since all of its shares were concentrated in the possession of HQI Transelec Chile S.A., the Company succeeding the same. This dissolution was reported at Board of Directors Meeting N°113 on January 30th, 2001 and executed as public deed at that same date at the Santiago notary office owned by Mr. Fernando Opazo Larraín.

FIRM NAME CHANGED FROM HQI TRANSELEC CHILE S.A. TO TRANSELEC S.A.

The minutes HQI TRANSELEC CHILE S.A. of Extraordinary Shareholders Meeting N°8 held on August 16th, 2006, were executed as public deed dated August 23rd, 2006 granted at the Santiago notary office owned by Mr. Iván Tamargo Barros reporting the change of firm name from HQI Transelec Chile S.A., Tax List Number 77,498,870- K, to Transelec S.A., same Tax List Number. The extract was registered in the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 34,753, N°24,453 corresponding to the year 2006 and published in the Official Gazette on August 23rd, 2006.

DISSOLUTION BY ABSORPTION OF TRANSELEC S.A. INTO NUEVA TRANSELEC S.A.

The minutes of Transelec S.A. Extraordinary Board of Directors Meeting N°101 held on November 22nd, 2006 were executed as pubic deed dated November 30th, 2006 granted at the Santiago notary office owned by Mr. Iván Tamargo Barros reporting the dissolution by absorption of Transelec S.A., since all of its shares were concentrated in the possession of Nueva Transelec S.A., Tax List Number 76,555,430-6. The extract was registered in the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 49,292, N°35,195 corresponding to the year 2006 and published in the Official Gazette on December 6th, 2006.

FIRM NAME CHANGED FROM NUEVA TRANSELEC S.A. TO TRANSELEC S.A.

The minutes of Nueva Transelec S.A. Extraordinary Shareholders Meeting N°3 were executed as public deed dated November 30th, 2006 granted at the Santiago Notary Office owned by Mrs. María Gloria Acharán Toledo reporting the change of firm name from Nueva Transelec S.A. to Transelec S.A. The extract was registered in the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 49,963, N°35,710 corresponding to the year 2006 and published in the Official Gazette on December 9th, 2006.

DISOLUTION BY ABSORPTION OF TRANSELEC S.A. INTO RENTAS ELÉCTRICAS III S.A.

The minutes of the Transelec S.A. Extraordinary Shareholders Meeting N°16 held on June 6th, 2007 were executed as public deed dated June 30th, 2007 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo, reporting dissolution by the absorption of Transelec S.A., Tax List Number 76,555,430-6 by Rentas Eléctricas III S.A., Tax List Number 76,555,400-4, since the latter had purchased all of the Company's shares. The Transelec S.A. Extraordinary Board of Directors Meeting N°16 was executed as public deed and registered in the Business Registry of the Real State Official Property Registry of Santiago in Sheet 27,509, N°19,936 corresponding to the year 2007 and was published in the Official Gazette dated July 13th, 2007. The minutes of the Rentas Eléctricas III S.A. Extraordinary Board of Directors Meeting N°5 held that same date announcing dissolution due to the absorption of Transelec S.A. Tax List Number 76,555,430-6, by Rentas Eléctricas III S.A., Tax List Number 76,555,400-4, since the same had purchased all of the Company's shares, were executed as public deed dated June 30th, 2007. Rentas Eléctricas III S.A. declares that it is the legal successor of Transelec S.A., assuming its rights and obligations and declaring to be jointly responsible for taxes owed or which may be owed.

FIRM NAME CHANGED FROM RENTAS ELÉCTRICAS III S.A. TO TRANSELEC S.A.

The minutes of Rentas Eléctricas III S.A. Extraordinary Shareholders Meeting N°2 held on June 30th 2007 were executed as public deed dated June 30th, 2007 granted at the Santiago Notary Office owned by Mrs. María Gloria Acharán Toledo reporting the change of name from Rentas Eléctricas III S.A. to Transelec S.A. The extract was registered in

the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 27,530, N°19,941 corresponding to the year 2007 and published in the Official Gazette on July 13th, 2007.

DISOLUTION BY ABSORPTION OF TRANSELEC NORTE S.A. INTO TRANSELEC S.A.

The minutes of Transelec Norte S.A. Extraordinary Board of Directors Meeting N°131 held on November 26th, 2014 were executed as public deed dated December 4th, 2014 granted at the Santiago notary office owned by Mrs. María Gloria Acharán Toledo reporting the dissolution by absorption of Transelec Norte S.A., Tax List Number 99,521,950-6 into Transelec S.A., Tax List Number 76,555,400-4 since the latter had purchased all of the Company's shares. The extract was registered in the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 94,440, N°57,701 corresponding to the year 2014 and published in the Official Gazette on December 31st, 2014. The Minutes of Transelec S.A. Extraordinary Board of Directors Meeting N°116 held on November 26th, 2014 were executed as public deed dated November 27th, 2014 granted at the Santiago notary office owned by María Gloria Acharán Toledo, reporting the dissolution by absorption of Transelec Norte S.A., Tax List Number 99,521,950-6, into de Transelec S.A., Tax List Number 76,555,400-4, since the latter had purchased all of the Company's shares. Transelec S.A. declares that it is the legal successor of Transelec Norte S.A., assuming its rights and obligations and declaring to be jointly responsible for taxes owed or which may be owed.

DISOLUTION BY ABSORPTION OF INVERSIONES ELÉCTRICAS TRANSAM CHILE LIMITADA INTO TRANSELEC S.A.

By means of public deed, dated August 31st, 2015 granted at the Santiago notary office owned by Mr. Raul Undurraga Laso, reporting the dissolution by the absorption of Inversiones Eléctricas Transam Chile Limitada, Tax List Number 76,384,810-8 into Transelec S.A., Tax List Number 76,555,400-4, since the latter had purchased all the company's shares. The extract was registered in the Business Registry of the Real Estate Official Property Registry of Santiago in Sheet 71,421, N°41,726, corresponding to year 2015 and published on the Official Gazette on September 30th, 2015.

08.
FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

TRANSELEC S.A.

SANTIAGO, CHILE
AS OF DECEMBER 31, 2016 AND 2015
(TRANSLATION OF THE FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

US$	:	US DOLLARS
THUS$	:	THOUSANDS OF US DOLLARS
$	:	CHILEAN PESOS
UF	:	UNIDADES DE FOMENTO
THCH$	:	THOUSANDS OF CHILEAN PESOS

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INDEPENDENT AUDITOR'S **REPORT**

(Translation of the report originally issued in Spanish)

Shareholders and Directors
Transelec S.A.

We have audited the accompanying financial statements of Transelec S.A, which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transelec S.A. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Albert Oppenländer

EY Audit SpA

Santiago, March XX, 2017

TRANSELEC S.A.
Statements of Financial Position
As of December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

ASSETS	NOTE	DECEMBER 31, 2016	DECEMBER 31, 2015
		THCH$	THCH$
CURRENT ASSETS			
Cash and cash equivalents	(5)	54,646,538	24,156,607
Other financial assets	(9)	777,358	802,284
Other non-financial assets		2,006,941	1,569,557
Trade and other receivables	(6)	55,684,753	49,874,884
Receivables from related parties	(7)	11,584,175	12,936,861
Inventory	(8)	19,732	33,854
Current tax assets		-	2,703,682
Total current assets		124,719,497	92,077,729
NON-CURRENT ASSETS			
Other financial assets	(9)	15,333,394	50,368,953
Other non-financial assets		10,461,098	2,975,108
Receivables from related parties	(7)	194,530,954	205,832,822
Intangible assets other than goodwill	(10)	177,888,881	176,820,590
Goodwill	(10)	342,651,175	342,651,175
Property, plant and equipment	(11)	1,441,237,252	1,378,500,777
Total non-current assets		2,182,102,754	2,157,149,425
Total Assets		2,306,822,251	2,249,227,154

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Statements of Financial Position
As of December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

EQUITY AND LIABILITIES	NOTE	DECEMBER 31, 2016	DECEMBER 31, 2015
		THCH$	THCH$
CURRENT LIABILITIES			
Other financial liabilities	(13)	31,825,802	196,684,760
Trade and other payables	(14)	52,161,110	50,581,109
Current provisions for employee benefits	(17)	6,180,911	6,761,681
Current tax liabilities		136,728	-
Other non-financial liabilities		1,948,370	3,893,393
Total current liabilities		92,252,921	257,920,943
NON-CURRENT LIABILITIES			
Other financial liabilities	(13)	1,383,645,992	1,161,954,209
Deferred tax liabilities	(12)	47,566,763	27,564,721
Non-current provisions for employee benefits	(17)	4,533,592	4,398,855
Other non-financial liabilities		6,342,295	6,739,867
Total non-current liabilities		1,442,088,642	1,200,657,652
Total non-current liabilities		1,442,088,642	1,200,657,652
Total liabilities		1,534,341,563	1,458,578,595
EQUITY			
Paid-in capital	(19)	776,355,048	776,355,048
Retained earnings		19,757,325	19,668,085
Other reserves	(19)	(23,631,685)	(5,374,574)
Total equity attributable to owners of the parent		772,480,688	790,648,559
Non-controlling interest		-	-
Total equity		772,480,688	790,648,559
Total Equity and Liabilities		2,306,822,251	2,249,227,154

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Statements of Comprehensive Income By Function
For the twelve-month periods ended December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	NOTE	2016	2015
		THCH$	THCH$
STATEMENT OF COMPREHENSIVE INCOME BY FUNCTION			
Operating revenues	(20)	281,714,682	276,736,836
Cost of sales	(21)	(77,682,038)	(79,360,893)
Gross Margin		**204,032,644**	**197,375,943**
Administrative expenses	(21)	(22,591,020)	(20,602,341)
Other gains (losses), net	(20)	4,518,184	6,785,410
Financial income	(20)	9,609,705	8,259,076
Financial expenses	(21)	(65,458,658)	(59,138,042)
Foreign exchange differences, net	(21)	557,923	839,346
Gain (loss) for indexed assets and liabilities	(21)	(22,687,347)	(32,438,850)
Profit Before Income Taxes		**107,981,431**	**101,080,542**
Income tax expense	(22)	(26,998,106)	(17,452,852)
Profit from continuing operations		80,983,325	83,627,690
Profit (loss) from discontinued operations		-	--
Profit (loss)		**80,983,325**	**83,627,690**
PROFIT (LOSS) ATTRIBUTABLE TO:			
Profit attributable to owners of the parent		80,983,325	83,627,690
Profit (loss) attributable to non – controlling interest		-	-
Profit		**80,983,325**	**83,627,690**
EARNINGS PER SHARE			
BASIC EARNINGS PER SHARE/DILUTED			
Basic earnings per share/diluted from continuing operations	(23)	80,983	83,628
Basic earnings (loss) per share/diluted from discontinued operations		-	-
Basic earnings per share/diluted	**(23)**	**80,983**	**83,628**

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Statements of Comprehensive Income by function
For the twelve-month periods ended December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	2016	2015
	THCH$	THCH$
PROFIT (LOSS)	80,983,325	83,627,690
Components of other comprehensive Income, before taxes		
Foreign Currency Translation		
Gains (losses) on foreign Currency translation differences, before taxes	(1,899,231)	(121,795)
CASH FLOW HEDGES		
Gains (losses) on cash hedges, before taxes	(23,110,510)	(13,412,522)
INCOME TAXES RELATED TO COMPONENTS OF OTHER COMPREHENSIVE INCOME		
Income taxes related to components of net investment hedge	512,792	32,885
Income taxes related to components of cash flow hedge	6,239,838	3,497,943
Other comprehensive income	(18,257,111)	(10,003,489)
Total comprehensive income	**62,726,214**	**73,624,201**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Comprehensive income attributable to owners of the parent	62,726,214	73,624,201
Comprehensive Income attributable to non-controlling interest	-	-
Total comprehensive income	**62,726,214**	**73,624,201**

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Statements of Changes In Equity
For the twelve-month periods ended December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	PAID-IN CAPITAL	RESERVE FOR FOREIGN TRANSLATION ADJUSTMENT	RESERVE FOR CASH FLOW HEDGES	OTHER RESERVES	TOTAL RESERVES	RETAINED EARNINGS OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO	NON- CONTROLLING INTEREST	TOTAL EQUITY
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Opening balance as of									
January 1, 2016	776,355,048	4,695,618	(9,755,438)	(314,754)	(5,374,574)	19,668,085	790,648,559	-	790,648.559
Changes in equity:									
Comprehensive income:									
Profit	-	-	-	-		80,983,325	80,983,325	-	80,983,325
Other comprehensive income	-	(1,386,439)	(16,870,672)	-	(18,257,111)	-	(18,257,111)	-	(18,257,111)
Total comprehensive income	-	(1,386,439)	(16,870,672)	-	(18,257,111)	80,983,325	62,726,214	-	62,726,214
Dividends	-	-	-	-	-	(80.894.085)	(80.894.085)	-	(80.894.085)
Total changes in equity	-	(1,386,439)	(16,870,672)	-	(18,257,111)	89,240	(18,167,871)	-	(18,167,871)
Closing balance as of	776,355,048	3,309,179	(26,626,110)	(314,754)	(23,631,685)	19,757,325	772,480,688	-	772,480,688
December 31, 2016 (Note 19)									

	PAID-IN CAPITAL	RESERVE FOR FOREIGN TRANSLATION ADJUSTMENT	RESERVE FOR CASH FLOW HEDGES	OTHER RESERVES	TOTAL RESERVES	RETAINED EARNINGS OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO	NON- CONTROLLING INTEREST	TOTAL EQUITY
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Opening balance as of									
January 1, 2015	776,355,048	4,915,612	36,680	(323,377)	4,628,915	24,238,710	805,222,673	29,175	805,251,848
hanges in equity:									
Comprehensive income:									
Profit	-	-	-		-	83,627,690	83,627,690	-	83,627,690
Other comprehensive income	-	(219,994)	(9,792,118)	8,623	(10,003,489)	-	(10,003,489)	-	(10,003,489)
Total comprehensive income	-	(219,994)	(9,792,118)	8,623	(10,003,489)	83,627,690	73,624,201	-	73,624,201
Dividends	-	-	-	-	-	(88.166.230)	(88.166.230)	-	(88.166.230)
Increase (decrease) from transfers									
and other changes	-	-	-	-	-	(32,085)	(32,085)	(29,175)	(61,260)
Total changes in equity	-	(219,994)	(9,792,118)	8,623	(10,003,489)	(4,570,625)	(14,574,114)	(29,175)	(14,603,289)
Closing balance as of	776.355.048	4.695.618	(9.755.438)	(314.754)	(5.374.574)	19.668.085	790.648.559	-	790.648.559
December 31, 2015 (Note 19)									

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Statement of Cash Flows
For the twelve-month periods ended December 31, 2016 and 2015
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

DIRECT STATEMENT OF CASH FLOWS	2016	2015
	THCH$	THCH$
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Classes of receipts from operating activities		
Cash receipts from sales of goods and services	380,820,766	398,464,219
Other proceeds from operating activities	1,539,436	3,687,453
Proceeds from interest received	9,446,563	7,388,174
Classes of payments		
Payments to suppliers for goods and services	(132,512,202)	(159,035,643)
Other payments for operating activities	(439,853)	(486,501)
Payments to employees	(13,277,530)	(13,098,181)
Interest paid	(60,854,356)	(58,053,408)
Income taxes reimbursed (paid)	2,743,588	123,125
Net cash flows provided by operating activities	**187,466,412**	**178,989,238**
Cash Flows Provided by (Used in) Investing Activities		
Cash flows used to obtain control of subsidiaries or other businesses	-	(26,886)
Additions of property, plant and equipment	(122,243,815)	(79,981,450)
Amounts from the sale of property, plant and equipment	762,642	1,579
Cash advances and loans to third parties	(9,726,667)	(570,713)
Loans to related parties	(88,806,324)	(104,562,851)
Receivables from related parties	90.529.227	48,961,026
Net cash flows used in investing activities	**(129,484,937)**	**(136,179,295)**
Cash Flows Provided by (Used in) Financing Activities		
Amounts received from loans	226,979,140	16,000,000
Loans paid	(173,428,495)	(13,302,918)
Dividends paid	(80,894,085)	(88,166,230)
Other paid (entries)	(148,104)	902,803
Net cash flows used in financing activities	**(27,491,544)**	**(84,566,345)**
Net Increase (Decrease) in Cash and Cash Equivalents	30,489,931	(41,756,402)
Cash and Cash Equivalents, at the beginning of the year (Note 5)	24,156,607	65,913,009
Cash and Cash Equivalents, at the ending of the year (Note 5)	**54,646,538**	**24,156,607**

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements.

TRANSELEC S.A.
Notes to the Financial Statements
As of December 31, 2016 and 2015
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 1 - GENERAL INFORMATION

Rentas Eléctricas III Limitada was formed as a limited liability company by public deed on June 6, 2006. According to public deed dated May 9, 2007, the Company acquired 100 shares owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of the share capital of Transelec S.A. (formerly Nueva Transelec S.A.), leaving the Company with 100% ownership. Thus, the merger took place by absorption, and the assets, liabilities, rights and obligations of Transelec S.A. (formerly Nueva Transelec S.A.) passed to the Company. In this way, the Company directly assumed operation of the electricity transmission business previously conducted by the aforementioned subsidiary.

On March 26, 2007, it changed its name to Rentas Eléctricas III S.A. and became a corporation and June 30, 2007, Rentas Eléctricas III S.A. changed its name to its current name, Transelec S.A. (here and after "the Company" or "Transelec").

On May 16, 2007, the Company was listed under number 974 in the Securities Registry of the Chilean Superintendency of Securities and Insurance (SVS) and is subject to the supervision of the SVS. Simultaneously, it registered 1,000,000 shares, which corresponds to the total number of shares issued, subscribed and fully paid.

On December 1, 2014, Transelec S.A., merged with its subsidiary Transelec Norte S.A. through an acquisition of 0.01% of the shares of Transelec Norte S.A. owned by Transelec Holdings Rentas Limitada, becoming the owner of the 100% shares.

On September 1, 2015, Transelec S.A merged with its subsidiary Inversiones Electricas Transam Chile Ltda., which on August 1, 2015, had absorbed its subsidiaries: Transmisora Huepil Ltda, Transmisora Abenor Ltda y Transmisora Araucana de Electricidad Ltda. Through the acquisition of the investment complement which completes 100% of the ownership, in the merger processes mentioned above.

Results of the acquisitions mentioned above, from September 1, 2015 the consolidated financial statements of Transelec S.A. and subsidiaries became individual financial statements.

The Company is domiciled at Orinoco No. 90, floor 14, Las Condes, Santiago, Chile.

The Company has the exclusive objective of operating and developing electricity systems owned by the Company or by third parties designed to transport or transmit electricity and may, for these purposes, obtain, acquire and use the respective concessions and permits and exercise all of the rights and powers that current legislation confers on electric companies. Its line of business includes: commercializing the transport capacity of lines and transformation capacity of substations and equipment associated with them so that generating plants, both Chilean and foreign, may transmit the electricity they produce to their consumption centers; providing engineering or management consulting services related to the company's line of business; and developing other business and industrial activities to use electricity transmission facilities. The Company may act directly or through subsidiaries or affiliates, both in Chile and abroad.

The Company is controlled directly by Transelec Holdings Rentas Limitada and indirectly by ETC Transmission Holdings S.L.

The Financial Statements of the Company for the year ended December 31, 2015, were approved by the board at its meeting held on March 09, 2016, and subsequently approved by the Ordinary Shareholders' Meeting dated April 28, 2016.

These Interim Financial Statements were approved by the Board of Directors in Ordinary Meeting No.XX held on March 01, 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing the financial statements are detailed below. These policies have been based on IFRS in effect as of December 31, 2016 and applied uniformly for the periods presented.

2.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Superintendency of Securities and Insurance (from the Spanish, Superintendencia de Valores y Seguros, SVS) in its Circular Letter No. 856 of October 17, 2014, instructs the audited entities to record against equity in the respective financial year the differences in assets and liabilities for the concept of deferred taxes produced as the direct effect of the increase of the first category tax rate introduced by Law 20,780 and the specific Standards set by the SVS, changing the framework for the preparation and the presentation of financial reporting adopted up to that date.

According to what is established in paragraph 4A of IFRS 1, Transelec S.A. retrospectively adopted the IFRS, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as if the application of those IFRS had never been discontinued. This application does not modify any account presented in the current financial statements. Therefore, they have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking into account the presentation regulations of the SVS, which are not in conflict with IFRS.

These Financial Statements have been prepared from the accounting records maintained by the Company.

The figures in these Financial Statements and their notes are expressed in thousands of Chilean pesos.

For the convenience of the reader, these Financial Statements and their accompanying notes have been translated from Spanish to English.

In preparing these Financial Statements, certain critical accounting estimates have been used to quantify some assets, liabilities, income and expenses. Management was also required to exercise judgment in applying Transelec's accounting policies. Areas involving a greater degree of judgment or complexity or areas in which assumptions and estimates are significant for these financial statements are described in Note 4.

The information contained in these Financial Statements is the responsibility of the Company's management.

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the annual financial statements of the Company for the year ended December 31, 2015, except for the adoption of new standards and interpretations in effect as of January 1, 2016, which did not materially affect the financial statements.

TRANSELEC S.A.
Notes to the Financial Statements
As of December 31, 2016 and 2015
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NEW STANDARDS		DATE OF OBLIGATORY APPLICATION
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1, 2016
IFRS 7	Financial Instruments- Disclosures	January 1, 2016
IFRS 10	Consolidated Financial Statements	January 1, 2016
IFRS 11	Joint Arrangements	January 1, 2016
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2016
IAS 1	Presentation of Financial Statements	January 1, 2016
IAS 16	Property, Plant and Equipment	January 1, 2016
IAS 19	Employee benefits	January 1, 2016
IAS 27	Consolidated and Separate Financial Statements	January 1, 2016
IAS 28	Investments in Associates and Joint Ventures	January 1, 2016
IAS 34	Interim Financial Reporting	January 1, 2016
IAS 38	Intangible Assets	January 1, 2016
IAS 41	Agriculture	January 1, 2016

2.2 NEW STANDARDS AND INTERPRETATIONS ACCOUNTING

Below is a summary of new standards and amendments to IFRS that are not yet effective as of December 31, 2016:

NEW STANDARDS		DATE OF OBLIGATORY APPLICATION
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019

IFRS 9 "Financial Instruments"

In July 2014 was issued the final version of IFRS 9 Financial Instruments, gathering all phases of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard includes new requirements based on principles for the classification and measurement. Financial assets must be entirely classified on the basis of the business model of the entity for financial asset management and the characteristics of contractual cash flows of financial assets. Financial assets under this standard are measured either at amortized cost or fair value. Only financial assets classified as measured at amortized cost must be tested for impairment. The standard is mandatory for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Company is evaluating the potential impact that this adoption will have on its financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 issued in May 2014, is a new standard that is applicable to all contracts with customers except leases, financial instruments and insurance contracts. It is a joint project with the FASB to eliminate differences in the recognition of income between IFRS and U.S. GAAP. This new standard provide an improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparability of companies from different industries and regions. Provides a new model for revenue recognition and more detailed requirements for contracts with multiple elements. It also requires more detailed disclosure. Its application is required starting on January 1, 2018 and early adoption is permitted.

The Company is evaluating the potential impact that this adoption will have on its financial statements.

Interpretation of IFRIC 22: Foreign Currency Transactions and Advance Consideration

This interpretation addresses the way to determine the date of transaction in order to establish the exchange rate to be used in the initial recognition of a related asset, expense or revenue, (or the corresponding part of them) in the derecognition from an account of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency. For these purposes, the date of transaction corresponds to the moment an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity will determine a date of transaction for each payment or receipt of the advance consideration.

This interpretation will be applied in annual periods beginning on January 1, 2018. Its earlier application is permitted. If an entity applies this interpretation in prior periods, it will disclose this fact.

To date, the Company is evaluating the effects this amendment could generate.

IFRS 16 "Leases"

In January 2016, the IASB issued a new standard IFRS 16 Leases. IFRS 16 establishes the definition of a lease and specifies the accounting treatment of assets and liabilities arising from these contracts for both to the lessor and lessee. The new standard does not differ significantly from the current accounting standard, IAS 17 Leases regarding the accounting treatment for a lessor. However, for lessees, the new standard requires the recognition of assets and liabilities for most of the lease agreements. IFRS 16 is mandatory for annual periods beginning on or after January 1, 2019. Early application is permitted if it is applied at the same time with IFRS 15 Revenue from contracts with customers.

The Company is evaluating the potential impact that this adoption will have on its financial statements.

TRANSELEC S.A.
Notes to the Financial Statements
As of December 31, 2016 and 2015
(Translation of financial statements originally issued in Spanish-See Note 2.1)

ENHANCEMENTS AND MODIFICATIONS

MEENHANCEMENTS AND MODIFICATIONS		DATE OF OBLIGATORY APPLICATION
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 7	Statement of cash flows	January 1, 2017
IAS 12	Income Taxes	January 1, 2017
IFRS 2	Share Based Payment	January 1, 2018
IFRS 4	Insurance Contracts	January 1, 2018
IAS 28	Investments in associates and joint ventures	January 1, 2018
IAS 40	Investment Property	January 1, 2018
IFRS 10	Consolidated financial statements	TBD

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify the disclosure requirements of IFRS 12 applicable to the interest in an entity in a subsidiary, joint venture or associate classified as held for sale. The amendments will be effective from January 1, 2017, and its application will be retrospectively.

The Company is evaluating the effects these amendments could generate.

IAS 7 "Statement of Cash Flows"

The modifications to IAS 7 "Statement of Cash Flows", issued in January 1, 2016, as part of the Disclosure Initiative project require an entity to disclose information that allows readers of the Financial Statements to assess the changes in the obligations arising from the financial activities. This includes both changes derives from cash flows and changes that are not in cash. The modification will be mandatory for annual periods commencing as of January 1, 2017. Early application is allowed.

The Company assessed the possible impact that this new standard could generate and concluded that it will not significantly affect its financial statements.

IAS 12 "Income Taxes"

These modifications, issued by the IASB in January 2016, clarify how to record deferred tax assets corresponding to debt instruments measured at fair value. The modification will be mandatory for annual periods commencing as of January 1, 2017. Early application is allowed.

The Company assessed the possible impact that this new standard could generate and concluded that it will not significantly affect its financial statements.

IFRS 2 "Share Based Payments"

In June 2016 the IASB issued amendments to IFRS 2 share-based payments, the amendments address the following areas: a) compliance conditions when share-based payments are settled in cash, b) classification of payment transactions based on shares, net of withholding income tax, c) accounting changes made to the contracts terms to modify the classification of cash-settled or equity settlement payments. It is not required to apply the amendment retrospectively, but it is allowed to adopt voluntarily to record retrospective movements. Early adoption is permitted.

The Company is evaluating the impacts that could generate such amendment.

IFRS 4 "Insurance Contracts"

The amendments address concerns related to the application of new pronouncements included in IFRS, before implementing new insurance contracts. The amendments introduce the following two options for those entities that issue insurance contracts: a) the temporary and optional exemption from the application of IFRS 9, which will be available for entities whose activities are predominantly connected with insurance. The exception will allow entities to continue to apply IAS 39 Financial Instruments, Recognition and Measurement, until 1 January 2021. b) the overlay approach, which is an option available to entities adopting IFRS 9 and issue insurance contracts, to adjust the gains or losses for certain financial assets; adjustment eliminates the volatility in valuation of financial instruments that may arise from the application of IFRS 9, allowing reclassify these effects of the profit to other comprehensive income.

The Company is evaluating the impacts that could generate such amendment.

IAS 28 "Investments in associates and joint ventures"

The amendment clarifies that an entity that is a venture capital organization, or any other entity that qualifies, may elect, at the initial recognition, to value its investments in associates and joint ventures at fair value with changes in income. If an entity that is a non-investment entity by itself has interest in an associate or joint venture that is an investment entity, it may elect to keep the measure at fair value applied to its associate. The amendments must be applied retrospectively and they are effective from January 1, 2018. Their early application is permitted.
The Company is evaluating the effects this amendment could generate.

IAS 40 "Investment Property"

The amendments clarify the period when an entity must reclassify assets—including assets under construction or development—into investment assets, indicating that the reclassification must be performed when the property complies or stops complying with the definition of investment property and there is evidence of this change in the use of the asset. A change in the intentions of the management for the use of a property does not provide any evidence of a change in use. The amendments must be applied retrospectively and they are effective from January 1, 2018. Their early application is permitted.
The Company is evaluating the effects these amendments could generate.

IAS 28 - "Investments in associates and joint ventures", IFRS 10 "Consolidated financial statements"

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) address the recognition of profits or losses of sales of assets between an investor and an associate or a joint venture, which are recognized for the total when the transaction involves assets, which constitute business, will be partial. When the transaction involves a business (both when in a subsidiary or not) a gain or loss is recognized full. A gain or partial loss is recognized if the transaction involves assets that do not constitute a business, even when the assets are in a subsidiary. Earlier application is permitted.

The Company assessed the possible impact that this new standard could generate and concluded that it will not significantly affect its Financial Statements.

TRANSELEC S.A.
Notes to the Financial Statements
As of December 31, 2016 and 2015
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2.3 FOREIGN CURRENCY TRANSLATION

2.3.1 FUNCTIONAL AND PRESENTATION CURRENCY

The Company's functional currency is the Chilean peso. These Financial Statements are presented in Chilean pesos.

2.3.2 TRANSACTIONS AND BALANCES

Transactions carried out by each company in a currency other than its functional currency are recorded using the exchange rates in effect as of the date of each transaction. During the period, any differences that arise between the exchange rate recorded in accounting and the rate prevailing as of the date of collection or payment are recorded as exchange differences in the income statement. Likewise, as of each period end, balances receivable or payable in a currency other than each company's functional currency are converted using the period-end exchange rate. Losses and gains in foreign currency arising from settling these transactions and from converting monetary assets and liabilities denominated in foreign currency using period-end exchange rates are recorded in the income statement, except when they should be deferred in equity, such as the case of cash flow.

2.3.3 EXCHANGE RATES

As of each year end, assets and liabilities in foreign currency and UF have been converted to Chilean pesos using the following exchange rates:

CURRENCY	PESOS PER UNIT	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Unidad de Fomento	26,347.98	25,629.09
US$	669.47	710.16
Euro	705.60	774.61

2.4 SEGMENTS REPORTING

The Company manages its operations based on one sole operating segment: transmission of electricity.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition cost, net of accumulated depreciation and any impairment losses it may have experienced. In addition to the price paid to acquire each item, the cost also includes, where appropriate, the following concepts:

a) All costs directly related to placing the asset in the location and condition that enables it to be used in the manner intended by management.

b) Borrowing costs incurred during the construction period that are directly attributable to the acquisition, construction or production of qualified assets, which require a substantial period of time before being ready for use are capitalized. The interest rate used is that of the specific financing or, if none exists, the average financing rate of the company carrying out the investment.

c) Future disbursements that Transelec S.A. and its subsidiary must make to close their facilities are incorporated into the value of the asset at present value, recording the corresponding provision. On an annual basis both existences of such obligations as well as estimate of future disbursements are reviewed, increasing or decreasing the value of the asset based on the results of this estimate.

Assets under construction are transferred to operating assets once the testing period has been completed when they are available for use, at which time depreciation begins.

Expansion, modernization and improvement costs that represent an increase in productivity, capacity or efficiency or an extension of useful life are capitalized as a greater cost of the corresponding assets. Replacement or overhauls of whole components that increase the asset's useful life, or its economic capacity, are recorded as an increase in value for the respective assets, derecognizing the replaced or overhauled components. Periodic maintenance, conservation and repair expenses are recorded directly in income as an expense for the period in which they are incurred.

Property, plant and equipment, net of its residual value, is depreciated by distributing the cost of its different components on a straight-line basis over its estimated useful life, which is the period during which the companies expect to use them. The useful lives and residual values of fixed assets are reviewed on a yearly basis. The land has an indefinite useful life and is not depreciated. The following table details the ranges of useful lives periods applied to principal classes of assets and used to determine depreciation expense:

	RANGE OF ESTIMATED USEFUL LIFE	
	MINIMUM	MAXIMUM
Buildings and infrastructure	20	50
Machinery and equipment	15	40
Other assets	3	15

2.6 INTANGIBLE ASSETS

2.6.1 GOODWILL

The goodwill represents the difference between the acquisition cost and the fair value of the net assets acquired in a business combination. Goodwill is not amortized; instead, at each year end and if there are indications of impairment, the Company estimates whether any impairment has reduced its recoverable value to an amount less than the carrying amount and, if appropriate, adjusts for impairment. For impairment testing purposes, goodwill acquired in a business combination is allocated from the date of acquisition to the cash generating units that are expected to benefit from this combination.

During the periods covered by those Financial Statements, there were no impairment losses of goodwill.

2.6.2 RIGHTS OF WAY

Rights of way are presented at historical cost. These rights have no defined useful life and, therefore, are not amortized. However, these indefinite useful lives are reviewed during each reporting year to determine if they remain indefinite. These assets are tested for impairment at each year end and if there are indicator of impairment.

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2.6.3 COMPUTER SOFTWARE

Purchased software licenses are capitalized based on the costs incurred to purchase them and prepare them for use. These costs are amortized on a straight-line basis over their estimated useful lives that range from three to five years.

Expenses for developing or maintaining computer software are expensed when incurred. Costs directly related to creating unique, identifiable computer software controlled by the Company that is likely to generate economic benefits in excess of its costs during more than one year are recognized as intangible assets, and its amortization is included in the income statement under costs of sales.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with an indefinite useful life, such as land and rights of way, are not amortized and are tested annually for impairment. Amortized assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

An impairment loss is recognized for the difference between the asset's carrying amount and its recoverable amount.

The recoverable amount is the higher of its fair value less costs to sell and its value in use this being the present value of the expected future cash flows.

Impairment losses from continuing operations are recognized in the income statement in the expenses categories in accordance with the function of the impaired assets.

Non-financial assets other than goodwill that suffered an impairment loss are reviewed at each reporting date for possible reversal of the impairment, in which case the reversal may not exceed the amount originally impaired less accumulated depreciation. Reversals are included in the income statement.

Impairment of goodwill is not reversed.

Impairment testing of goodwill and intangible assets with indefinite useful lives is performed at November 30 of each year.

As of December 31, there were no signs of impairment; however, there were losses due to withdrawals during the year.

2.8 FINANCIAL ASSETS

Upon initial recognition, the Company classifies its financial assets, excluding equity method investments and investments held for sale, into four categories:

- Trade and other receivables, including Receivables from related parties: are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method.

- Investments held to maturity: non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company intends to hold and is capable of holding until their maturity. After initial recognition these assets are valued at its amortized cost as defined in the preceding paragraph.

- Financial assets at fair value through profit or loss: This includes the trading portfolio and those financial assets that have been designated as such upon initial recognition and those are managed and evaluated using fair value criteria. They are valued at its fair value in the statement of financial position, with changes in value recorded directly in income when they occur.

- Available-for-sale investments: These are financial assets specifically designated as available for sale or that do not fit within any of the three preceding categories and consist almost entirely of financial investments in shares/ equity instruments. These investments are recorded in the statement of financial position at fair value when it can be reliably determined. In the case of interests in unlisted companies, normally the market value cannot be reliably determined and, thus, when this occurs, they are valued at acquisition cost or a lower amount if evidence of impairment exists. Changes in fair value, net of taxes, are recorded with a charge or credit to an Equity Reserve known as "Available-for-sale financial assets" until the investment is disposed of, at which time the amount accumulated in this account for that investment is fully charged to the income statement. Should the fair value be lower than the acquisition cost, if there is objective evidence that the asset has been more than temporarily impaired, the difference is recorded directly in the income statement.

Purchases and sales of financial assets are accounted for using their trade date.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets may be impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, for example delayed payments.

In the case of financial assets valued at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of the future estimated cash flows. The carrying amount is reduced using a provision account and the loss is recognized in the income statement. If in a later period the amount of the expected loss increases or decreases as a consequence of an event occurred after the recognition of the impairment, the impairment loss previously recognized is increased or reduced adjusting the provision account. If the write off is later recovered, this reversal is recognized in the income statement.

In the case of financial assets classified at available-for-sale, in order to determine if the assets have been impaired,

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it will be considered if a significant or prolonged decrease in fair value of the assets below cost has occurred. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is reclassified from equity and recognized in the income statement. Impairment losses recognized in the income statement for equity instruments are not reversed in the income statement.

2.9 FINANCIAL INSTRUMENTS AND HEDGE ACTIVITIES

The Company selectively uses derivative and non-derivative instruments, to manage its exposure to exchange rate risk (See Note 15).

Derivatives are initially recognized at fair value as of the date the derivative contract is signed and are subsequently re-measured at fair value as of each year end. Any gains or losses from variations in these fair values are recognized in the statement of comprehensive income unless the derivative is designated as a hedge instrument, in which case recognition of the gain or loss depends on the nature of the hedge relationship.

The types of hedges are as follows:

- Fair value hedge.
- Cash flow hedge.
- Hedges for a net investment in a foreign entity (net investment hedge).

At the inception of the transaction, the Company documents the relationship existing between the hedge instruments and the hedged items, as well as its risk management objectives and its strategy for handling various hedge transactions. The Company also documents its assessment, both at inception and subsequently on an ongoing basis, of the effectiveness of the hedge instruments in offsetting movements in the fair values or cash flows of the hedged items.

A derivative is presented as a non-current asset or liability if its maturity is greater than 12 months and it is not expected to be realized within 12 months. Other derivatives are presented as current assets or liabilities.

2.9.1 FAIR VALUE HEDGES

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, along with any change in the fair value of the hedged asset or liability that is attributable to the hedged risk.

The Company has not used fair value hedges during the years presented.

2.9.2 CASH FLOW HEDGES

Changes in the fair value of the effective portion of derivatives are recorded in equity account "Reserve for cash flow hedges". The cumulative loss or gain in this account is transferred to the income statement to the extent that the underlying item impacts the income statement because of the hedged risk, netting the effect in the same income statement account. Gains or losses from the ineffective portion of the hedge are recorded directly in the income statement. A hedge is considered highly effective when changes in the fair value or the cash flows of the underlying item directly attributable to the hedged risk are offset by changes in the fair value or the cash flows of the hedging instrument, with effectiveness ranging from 80% to 125%.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedged item expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity is retained and is recognized when the forecasted transaction is ultimately recognized in the income statement.

2.9.3 NET INVESTMENT HEDGES

Hedges of net investments in foreign operations are accounted for on a similar basis to cash flow hedges. Foreign currency translation originated by a net investment in a foreign entity and derived from the hedge transaction should be registered in equity reserve (under "Other reserves" heading) until the investment's disposal. Gains or losses relating to the ineffective portion are recognized immediately in the income statement in the line item "Other gains (losses)".

2.9.4 DERIVATIVES NOT RECORDED AS HEDGE ACCOUNTING

Certain derivatives are not recorded as hedge accounting and are recognized as instruments in the fair value through profit or loss category. Changes in the fair value of any derivative instrument recorded like this are recognized immediately in the income statement within "Financial expense/income".

2.9.5 EMBEDDED DERIVATIVES

Derivatives embedded in other financial instruments or other contracts are treated as derivatives when their risks and characteristics are not closely related to the principal contracts and the principal contracts are not measured at fair value through profit and loss. In the case that they are not closely related, they are recorded separately, and any changes in value are recognized in the income statement.

In the periods presented in these Financial Statements, the Company did not identify any contracts that met the conditions for embedded derivatives.

2.10 INVENTORY

Inventory is valued at acquisition cost using the weighted average price or net realizable value if this is lower.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in the statement of financial position includes cash, time deposits and other highly-liquid, short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The balance of this account does not differ from that presented in the statement of cash flows.

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2.12 PAID-IN CAPITAL

Paid-in capital is represented by one class of ordinary shares with one vote per share. Incremental costs directly attributable to new share issuances are presented in equity as a deduction, net of taxes, from issuance proceeds.

2.13 FINANCIAL LIABILITIES

All financial liabilities are initially recognized at its fair value. In the case of loans they also include the direct transactions costs.

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Loans, bonds payable and financial liabilities of a similar nature are initially recognized at fair value, net of costs incurred in the transaction. Subsequently, they are valued at amortized cost and any difference between the funds obtained (net of costs to obtain them) and repayment value are recognized in the income statement over the life of the debt using the effective interest rate method.

2.14 INCOME TAX AND DEFERRED TAXES

The result for income tax for the year is determined as the sum of the current tax arising from the application of the tax rate on taxable income, after allowed deductions, plus the change in assets and liabilities for deferred tax and tax credits, both for tax losses and other deductions.

Differences between the book value and tax base of assets and liabilities generate deferred tax asset and liability balances, which are calculated using tax rates expected to be in effect when the assets and liabilities are realized.

Current taxes and changes in deferred tax assets and liabilities not from business combinations are recorded in income or in equity accounts in the statement of financial position, depending on where the gains or losses originating them were recorded.

Deferred tax assets and tax credits are recognized only when it is likely that there are future taxable profits sufficient enough against which the deductible temporary differences and the carry forward of unused tax credit can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and written off to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for all temporary differences, except those derived from the initial recognition of goodwill and those that arose from valuing investments in subsidiaries, associates and jointly-controlled companies in which Transelec can control their reversal and where it is likely that they are not reversed in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

2.15 EMPLOYEE BENEFITS

2.15.1 STAFF SEVERANCE INDEMNITY

The Company records liabilities for staff severance indemnity obligations based on collective and individual employment contracts, payable when their employees cease to provide services.

This benefit is recorded at nominal value.

The Company records liabilities for severance obligations personnel services for their employees, based on the provisions of the collective and individual staff contracts. If this benefit is contractual, the obligation is treated in the same way as defined benefit plans in accordance with IAS 19 and is recorded using the projected unit credit method.

Defined benefit plans define the amount of the benefit that an employee will receive upon termination of employment, which usually depends on one or more factors such as the employee's age, rotation, years of service and compensation.

The liability recognized in the statement of financial position represents the present value of the defined benefit obligation plus/minus adjustments for unrecorded actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting cash outflows estimated using as a reference BCU (rate of Chilean Central Bank bonds denominated in Unidades de Fomento) interest rates for terms similar to the maturity of the staff severance indemnity obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income.

2.15.2 PROFIT SHARING

The Company recognizes a liability and an expense for profit sharing arrangements based on respective collective and individual contracts with its employees and executives, using a formula that takes into account the net income attributable to the Company's shareholders after certain adjustments. Transelec recognizes a provision when it has a contractual obligation or when a past practice has created a constructive obligation of agreement to IAS 19.

2.16 PROVISIONS

Provisions for environmental restoration, asset retirement, restructuring costs, onerous contracts, lawsuits and other contingencies are recognized when:

- The Company has a present obligation, whether legal or implicit, as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation;
- The amount can be reliably estimated.

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Provisions are measured at the present value of management's best estimate of the expenditures required to settle the obligation. The discount rate used to determine the present value reflects current market assessments, as of the reporting date, of the time value of money, as well as the specific risk related to the particular liability, if appropriate. Increases in provisions due to the passage of time are recognized in interest expense.

As of the date of issuance of these Financial Statements, Transelec have no obligation to establish provision for environmental restoration and similar expenses.

2.17 CLASSIFICATION OF CURRENT AND NON-CURRENT BALANCES

In the statement of financial position, balances are classified based on maturity i.e., current balances mature in no more than twelve months and non-current balances in more than twelve months.

Should the Company have any obligations that mature in less than twelve months but can be refinanced over the long term at the Company's discretion, through unconditionally available credit agreements with long-term maturities, such obligations may be classified as non-current liabilities.

2.18 REVENUE RECOGNITION

The regulatory framework that governs electrical transmission activity in Chile comes from the by - Law of the Electric Services dated 1982 (DFL (M) No. 1/82), and subsequent amendments thereto, including Law 19,940 (called also the "Short Law") enacted on March 13, 2004, Law 20,018 ("Short Law II"), enacted on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Sources of Energy), enacted on April 1, 2008. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto.

The Company's revenues correspond mainly to remuneration from the use of its electricity transmission facilities. This remuneration is earned in part from arrangements subject to the tariff regulation and in part from contractual arrangements with the users of the transmission facilities.

The total remuneration for the use of the transmission facilities for both regulated and contractual arrangements includes in general two components: i) the AVI, which is the annuity of the Investment Value (VI), calculated in such a way that the present value of these annuities, using an annual real discount rate and the economic useful life of each of the facilities equals the cost of replacing the existing transmission facilities with new facilities with similar characteristics at current market prices, plus, ii) the COMA, which corresponds to the cost required to operate, maintain and administrate the corresponding transmission facilities.

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from the application of the AVI and COMA values stipulated in the contracts or resulting from the regulated tariffs and indexed as applicable. The transmission service is invoiced usually at the beginning of the month following the month when the service was rendered and thus the revenue recognized each month includes transmission service provided but not invoiced up to the month end.

2.19 LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether or not the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases in which substantially all risks and benefits inherent to the property are transferred to the lessee are classified as finance leases. Other leases that do not meet this criterion are classified as operating leases.

2.19.1 THE COMPANY AS LESSOR

The assets held under a finance lease are presented in other financial assets at an amount equal to the net investment in the lease, being the aggregate of: (i) minimum lease payments receivable and (ii) any unguaranteed residual value accruing to the Company discounted at the interest rate implicit in the lease. The income (interest) is recognized on a pattern reflecting a constant periodic rate of return on the net investment in the lease; this income is presented in the statement of income in operating revenues. Lease payments relating to the period, excluding costs for any separate services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Assets subject to operating leases are presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative to reflect time pattern in which use benefit derived from the leased asset is diminished.

2.19.2 THE COMPANY AS LESSEE

Finance leases in which acts as lessee are recognized when the agreement begins, recording an asset based on the nature of the lease and a liability for the same amount, equal to the lesser of the fair value of the leased asset or the present value of the minimum lease payments.

Subsequently, the minimum lease payments are divided between finance expense and reducing the debt. The finance expense is recorded in the income statement and distributed over the period of the lease term so as to obtain a constant interest rate for each period over the balance of the debt pending amortization. The asset is amortized in the same terms as other similar depreciable assets, as long as there is reasonable certainty that the lessee will acquire ownership of the asset at the end of the lease. If no such certainty exists, the asset will be amortized over the lesser term between the useful life of the asset and the term of the lease.

As of December 31, 2016, the company does not have leases where it acts as a lessee.

Operating lease payments are expensed on a straight-line basis over the term of the lease unless another type of systematic basis of distribution is deemed more representative.

2.20 DISTRIBUTION OF DIVIDENDS

Dividends payable to the Company's shareholders are recognized as a liability in the Financial Statements in the period in which they are approved by the Company's shareholders.

Company makes a provision at the end of each year for the 30% of the profit of the year, in accordance with Law N° 18.046.

On the Company's Board meeting No. 57 held on September 30, 2010, the policy used for the determination of distributable net profit was approved. This policy does not contemplate adjustments to the profit attributable to owners of the parent.

NOTE 3 - RISK MANAGEMENT POLICY

3.1 FINANCIAL RISK

Transelec is exposed to the following risks as a result of the financial instruments it holds: market risk stemming from interest rates, exchange rates and other prices that impact market values of financial instruments, credit risk and liquidity risk. The following paragraphs describe these risks and how they are managed.

3.1.1 MARKET RISK

Market risk is defined for these purposes as the risk of changes in the fair value or future cash flows of a financial instrument as a result of changes in market prices. Market risk includes the risk of changes in interest and exchange rates, inflation rates and variations in market prices due to factors other than interest or exchange rates such as commodity prices or credit spread differentials, among others.

Company policy regulates investments and indebtedness, in an attempt to limit the impact of changes in the value of currencies and interest rates on the Company's net results by:

a) Investing cash surpluses in instruments maturing within no more than 90 days.

b) Entering into swap contracts and other instruments to maintain a balanced foreign exchange position.

c) Entering into long-term fixed rate indebtedness thus limiting risk from variable interest rates.

3.1.1.1 Interest rate risk

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to floating interest rates and changes in the value of financial instruments with fixed cash flows.

The Company´s assets are primarily fixed and long-lived intangible assets. Consequently, financial liabilities that are used to finance such assets consist primarily of long-term liabilities at fixed rates. This debt is recorded in the balance sheet at amortized cost.

The objective of interest rate risk management is to achieve a balanced debt structure, decrease the impact on costs due to interest rate variations and, reduce volatility in the income statement.

The table below compares the debts of the Company and shows that majority of the debt as of December 31, 2016 and 2015 were at fixed rate. However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

DEBT	CURRENCY OR NDEX	INTEREST RATE	TYPE OF RATE	AMOUNT IN ORIGINAL CURRENCY (THOUSAND) DECEMBER 31, 2016	DECEMBER 31, 2015
Bono Series C	UF	3.50%	Fixed	-	6,000
Bono Series D	UF	4.25%	Fixed	13,500	13,500
Bono Series H	UF	4.80%	Fixed	3,000	3,000
Bono Series K	UF	4.60%	Fixed	1,600	1,600
Bono Series M	UF	4.05%	Fixed	3,400	3,400
Bono Series N	UF	3.95%	Fixed	3,000	3,000
Bono Series Q	UF	3.95%	Fixed	3,100	3,100
Senior Notes	USD	4.625%	Fixed	300,000	300,000
Senior Notes	USD	4.250%	Fixed	375,000	375,000
Senior Notes	USD	3.875%	Fixed	350,000	-
Revolving Credit Facility	USD	2.25%	Floating (*)	-	-
Local Note	CLP	3.80%	Fixed	-	16,000,000

(*) The floating rate of the Revolving credit facility breaks down in 3M LIBOR 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.

Even if an increase in inflation rates could impact the costs of debt denominated in UF, and therefore the Company's finance expenses, these impacts are partly mitigated by accounts receivable denominated in UF. The following shows the effects of UF-indexed debt on the company's financial result.

SERIES	POSITION LONG / (SHORT)	EFFECT ANNUAL ON INCOME (THCH$) INFLATION (3%)	INFLATION (4%)	INFLATION (2%)
Bono D	(13,365,234)	(15,852)	(21,247)	(14,205)
Bono H	(3,001,040)	(3,559)	(4,771)	(3,190)
Bono K	(1,598,607)	(1,896)	(2,542)	(1,699)
Bono M	(1,465,272)	(1,738)	(2,329)	(1,557)
Bono M1	(1,851,869)	(2,196)	(2,944)	(1,968)
Bono N	(2,858,841)	(3,391)	(4,545)	(3,038)
Bono Q	(3,071,050)	(3,642)	(4,882)	(3,264)
Total	(27,211,913)	(32,274)	(43,260)	(28,921)

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3.1.1.2 Exchange rate risk

Transelec's exposure to the risk of exchange rate variations is due to the following:

- Transelec carries out several types of transactions in U.S. dollars (certain construction contracts, import purchases, etc.).
- Maintains accounts receivables in US dollars and UF.
- Transelec maintains Cross Currency Swap contracts, which offset exchange rate risks of international emissions made in 2014 and 2016, for notional amounts equivalent to USD 375.000.000 and USD 350.000.000, respectively(Long-term position).
- Maintains lease contracts that generate income indexed to US dollars.

Exchange rate exposure is managed using an approved policy by senior management that involves:

a) Fully hedging 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:

	LIABILITIES		ASSETS	
	DECEMBER 31, 2016	DECEMBER 31, 2015	DECEMBER 31, 2016	DECEMBER 31, 2015
	MCH$	MCH$	MCH$	MCH$
U.S. dollar	691,075	478,148	689,947	499,757
(amounts associated with balance sheet items)				
Chilean peso	1,615,304	1,733,231	1,616,432	1,711,623

b) Polynomials indexing of the Company´s revenues contain formulas for setting these revenues in the short term, differ from the long-term indexing. In order that the short-term indexing is consistent with long-term indexing, the Company, periodically (every six months) sell a percentage of their semi-annual fixed dollar income using currency forwards. These forwards are considered as cash flow hedges and therefore changes in fair value, while not realized are included in other comprehensive income.

3.1.1.2.1 Sensitivity analysis

The following chart shows the sensitivity analysis of various items to a 10% increase or decrease in exchange rates (US Dollar) and their effect on income or equity. This exchange rate sensitivity (10%) is used to internally report the Company's foreign exchange risk to key management personnel and represents management's valuation of the possible change in US Dollar exchange rate. The sensitivity analysis includes asset and liability balances in currencies other than the Company's functional currency. A positive number indicates an increase in income or other comprehensive income when the Chilean peso is strengthened with respect to the foreign currency. A negative percentage implies a weakening of the Chilean peso with respect to the foreign currency, which negatively impacts the income statement or in other comprehensive income.

In addition, the sensitivity table below shows the risk faced by the company with regard to the variation of the Unidad de Fomento (UF); this effect is recognized in income.

	POSITION	NET INCOME (GAIN) / LOSS MCH$		POSITION	OCI (GAIN) / LOSS MCH$	
ITEM (CURRENCY)	LONG / (SHORT)	CHANGE (-10%)	CHANGE (+10%)	LONG / (SHORT)	CHANGE (-10%)	CHANGE (+10%)
Cash (US$)	12,865	(21)	21	-	-	-
Leasing	12,529	(21)	21	-	-	-
Senior Notes (US$)	(688,163)	1,142	(1,142)	-	-	-
Financial instrument swap	475,945	(790)	790	(472,424)	784	(784)
Intercompany loan (US$)	188,608	(313)	313	-	-	-
Others (US$)	(2,892)	5	(5)	-	-	-
Total	(1,108)	2	(2)	(472,424)	784	(784)

3.1.2 CREDIT RISK

With respect to credit risk related to accounts receivable from the electricity transmission activity, this risk is historically very low in the industry given the nature of business of the Company's customers and the short-term period of collection of receivables from clients leads to the situation in which they do not accumulate very significant amounts.

However, revenues are highly concentrated in major customers as shown in the following table:

REVENUES	FOR THE YEAR ENDED DECEMBER 31, 2016	FOR THE YEAR ENDED DECEMBER 31, 2015
	THCH$	THCH$
Endesa Group	128,777,350	125,969,566
Colbún Group	47,391,221	44,129,127
AES Gener Group	46,006,592	52,658,967
Engie (E-CL) Group	13,897,405	7,198,693
Pacific Hydro-LH-LC Group	7,284,560	6,736,146
Others	38,357,554	40,044,337
Total	281,714,682	276,736,836
% of concentration of 5 top customers	86.38%	82.93%

Tolls and tariff revenues that these companies must pay to use the transmission system will generate significant future cash flows of Transelec and a substantial change in their assets, financial conditions and / or results of operations could adversely affect the Company.

Regarding the credit risks associated with financial assets of the Company other than accounts receivable (time deposits, mutual funds, bonds, covenants, active position derivative), the policy of the Treasury establishes limits on exposure to a particular institution, and this limit depends on the risk classification and capital of each institution. Additionally, in the case of investments in mutual funds, only the ones having risk classification qualify.

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3.1.3 LIQUIDITY RISK

a) Risk associated to Company's management

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.

To guarantee that it is able to respond financially both the investment opportunities and to the timely payment of its obligations, Transelec separately records its available cash and short-term accounts receivable with a dedicated revolving credit for working capital in the amount of US$ 250 million equivalent to Ch$167.368 billion. 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, with a bank syndicate formed by the following banks: Scotiabank, Bank of Tokyo-Mitsubishi, DnB NOR, Citibank, JP Morgan Chase Bank and Export Development Canada. Upon renewal the improved following conditions were agreed upon: (i) commissions payable on committed unused amounts (Commitment Fee) from 0.6% to 0.4375%, (ii) the margin or spread over used amounts from 2.35% to 1.25% and (iii) other restrictions clauses 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 and estimated interest payments corresponding to the Company's financial liabilities (debt), according to their maturity date, as of December 31, 2016 and December 31, 2015.

DEBT MATURITY	LESS THAN 1 YEARS	1 TO 3 YEARS	3 TO 5 YEARS	5 TO 10 YEARS	MORE THAN YEARS	TOTAL
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
December 31, 2016	59,544,433	119,088,866	119,088,866	705,743,208	1,135,495,930	2,138,961,303
December 31, 2015	226,264,902	101,690,945	101,690,945	708,219,336	884,187,142	2,022,053,270

The maturity of derivatives is presented Note 15.3.

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 fulfills in the above-mentioned collection process, consists not of the collection of amounts for its own benefit, but it is merely collection and subsequent transfers to third parties of credits and debts that belong to the generating companies, with the exception of the expected IT.

NOTE 4 - CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT

The estimates and criteria used by the Company are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable based on the circumstances.

The Company makes estimates and assumptions about the future. By definition, the resulting accounting estimates will rarely be equal to the real outcomes. Estimates and assumptions with a significant risk of causing an important risk to the Company during the upcoming year are detailed below:

- The estimates of recoverable values of assets and goodwill to determine potential existence of impairment losses;
- Useful lives of property, plant and equipment and intangible assets;
- The assumptions used to calculate the fair value of financial instruments;
- The actuarial assumptions used to calculate obligations with employees;
- Future tax results for the purposes of determining the recoverability of deferred tax assets.
- Determination of existence and classification of financial or operating leases based on the transfer of risks and rewards of the leased assets.
- Deferred tax assets.

Although the estimates mentioned above were made according to the best information available at the date of issuance of these Financial Statements, it is possible that future events oblige to modify them (upside or downside) in further periods, those modifications to each estimate will be recorded prospectively and recognized on those respective Financial Statements.

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NOTE 5 - CASH AND CASH EQUIVALENTS

A) AS OF DECEMBER 31, 2016 AND DECEMBER 31, 2015, THIS ACCOUNT IS DETAILED AS FOLLOWS:

CASH AND CASH EQUIVALENTS	BALANCE AS OF DECEMBER 31, 2016	BALANCE AS OF DECEMBER 31, 2015
	THCH$	THCH$
Bank and cash balances	2,872,345	21,173,289
Short-term deposits	12,553,606	2,983,318
Reverse repurchase agreements and mutual funds	39,220,587	-
Total	**54,646,538**	**24,156,607**

Fair values are not significantly different from book values due to the short maturity of these instruments. There is no restriction on these instruments.

B) THE FOLLOWING TABLE DETAILS THE BALANCE OF CASH AND CASH EQUIVALENTS BY TYPE OF CURRENCY:

DETAIL OF CASH AND CASH EQUIVALENTS	CURRENCY	BALANCE AS OF DECEMBER 31, 2016	BALANCE AS OF DECEMBER 31, 2015
		THCH$	THCH$
Amount of cash and cash equivalents	U.S. dollars	12,852,827	23,776,117
Amount of cash and cash equivalents	Euros	12,871	30,968
Amount of cash and cash equivalents	Chilean pesos	41,780,840	349,522
Total		**54,646,538**	**24,156,607**

Fair values are not significantly different from book values due to the short maturity of these instruments. There is no restriction on these instruments.

NOTE 6 - TRADE AND OTHER RECEIVABLES

AS OF DECEMBER 31, 2016 AND DECEMBER 31, 2015, THIS ACCOUNT IS DETAILED AS FOLLOWS:

ITEMS	BALANCE AS OF DECEMBER 31, 2016	BALANCE AS OF DECEMBER 31, 2015
	THCH$	THCH$
Trade receivables	56,858.892	51,053.016
Miscellaneous receivables	218,244	214,251
Total trade and other receivables	**57,077,136**	**51,267,267**
Provision for uncollectible amount (*)	(1,392,383)	(1,392,383)
Total trade and other receivables (net)	**55,684,753**	**49,874,884**

Refer to Note 7 for the amounts, terms and conditions of receivables from related parties. As of December 31, 2016 and December 31, 2015, the aging of trade and other receivables is as follows:

	BALANCE AS OF	
	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Maturing in less than 30 days	29,018,377	26,972,371
Maturing in more than 30 days up to 1 year	26,666,376	22,902,513
Total	55,684,753	49,874,884

The fair values are not significantly different from book values due to the short maturity of these instruments.

(*) On September 13, 2011 the company Campanario Generación S.A. was declared bankrupt and stopped paying Transelec from tolls and tariff revenue for ThCh$6,345,762 (September 30, 2011). Based on the legal and regulatory history, the Company estimated that there are no indications to attest that the accounts receivable outstanding from tariff revenues, are impaired. Therefore, Transelec S.A. recorded a provision for uncollectible amount as of December 31, 2015 for ThCh$ 1,392,383 relating to accounts receivable for items other than tariff revenues for which - at the date of the presentation of these financial statements - there is no certainty that the Company will recover.

The movement of the provision for uncollectible amount is presented the period ended December 31, 2016 and December 31, 2015:

	THCH$
Balance as of January 1, 2015	1,392,383
Increase charged to the current period	-
Decrease due to utilization	-
Decrease due to reversals and receivables	-
Balance as of December 31, 2015	1,392,383
Increase charged to the current period	-
Decrease due to utilization	-
Decrease due to reversals and receivables	-
Balance as of December 31, 2016	1,392,383

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

7.1 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries consist of customary transactions in terms of their objective and conditions. These transactions have been eliminated in the consolidation process and are not presented in this Note.
Balances of receivables and payables between the company and its unconsolidated related companies are detailed as follows:

RECEIVABLES FROM RELATED PARTIES							BALANCE AS OF			
							CURRENTS		NON CURRENTS	
TAX ID NUMBER	COMPANY	COUNTRY	DESCRIPTION	MATURITY	RELATION	CURRENCY	31.12.2016	31.12.2015	31.12.2016	31.12.2015
							THCH$	THCH$	THCH$	THCH$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	Not defined	Direct parent	CH$	8,879,409	12,936,861	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years	Direct parent	UF	-	-	5,923,096	5,761,487
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years	Direct parent	US$	-	-	188,607,858	200,071,335
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Mercantile CA	Not defined	Direct parent	CH$	2,461,542	-	-	-
20601047005	Conelsur LT SAC	Peru	Mercantile CA	Not defined	Indirect	CH$	943	-	-	-
20601047005	Conelsur LT SAC	Peru	Mercantile CA	Not defined	Indirect	US$	1,976	-	-	-
76.524.463-3	Transelec Concesiones S.A	Chile	Mercantile CA	Not defined	Indirect	CH$	240,305	-	-	-
	Total						11,584,175	12,936,861	194,530,954	205,832,822

(a) Most significant transactions and their effect on income
Transactions with unconsolidated related parties had the following effects on the income statement:

TAX ID NUMBER	COMPANY	COUNTRY	RELATION	DESCRIPTION OF THE TRANSACTION	DECEMBER 31, 2016 AMOUNT	DECEMBER 31, 2016 EFFECT ON INCOME	DECEMBER 31, 2015 AMOUNT	DECEMBER 31, 2015 EFFECT ON INCOME
					THCH$	THCH$	THCH$	THCH$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Mercantile CA	88,801,243	-	104,562,851	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Loans paid	90,525,542	-	48,961,026	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Interest earned	7,892,732	7,892,732	6,727,152	6,727,152
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Exchange rate	11,498,451	11,498,451	26,021,959	26,021,959
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	UF Readjustment	162,655	162,655	1,087,544	1,087,544

These operations are in accordance with the provisions of Articles No. 44 and 49 of Law No. 18,046, on Corporations.

7.2 BOARD OF DIRECTORS AND MANAGEMENT

In accordance with the Company's by-laws, the Board of Directors is composed of nine members appointed by shareholders at the respective shareholders' meeting. They hold their positions for two years and may be re-elected. For each Board Member there is an alternate Board Member. The current Board of Directors was elected in the Ordinary General Shareholders' Meeting on April 26, 2016. The current Chairman of the Board was elected at the Board meeting dated May 18, 2016.

7.2.1 BOARD OF DIRECTORS' COMPENSATION

As established in Article No. 33 of Law No. 18,046 on Anonymous Societies, on the Eighth Ordinary Shareholders' Meeting of Transelec S.A., held on April 26, 2016, shareholders established annual gross compensation for the Company's Directors of the equivalent of US$ 90,000, regardless of the number of sessions actually attended or held and that the alternate directors do not receive remuneration. Allowances are paid on a quarterly basis.

Directors Richard Legault, Alfredo Ergas, Paul Dufresne and Brenda Eaton, and also all alternate directors waived their respective allowances. Accordingly, the following compensation was received by directors during the periods 2016 and 2015:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Blas Tomic Errázuriz	54,662	57,850
José Ramón Valente Vias	54,662	57,850
Alejandro Jadresic Marinovic	54,662	57,850
Mario Alejandro Valcarce Duran	54,662	57,850
Bruno Pedro Philippi Irarrazabal	54,662	57,850

7.3 BOARD EXPENSES

During the period 2016 and 2015 there have been no expenses related to consulting for the Board.

7.4 AUDIT COMMITTEE

In April 2007, the Company approved creation of an Audit Committee, separate from that established in the Corporations Law. Its functions include, among others, reviewing the reports of the external auditors as well as the Company's balance sheets, other Financial Statements and internal systems. Transelec's Audit Committee is composed of four Directors, all of whom are qualified in financial matters and apply their specialized knowledge to diverse topics of interest to the Company. Committee members are appointed by the Board of Directors.

They hold their positions for two years and may be re-elected. The Committee appoints a Chairman-from among its members-and a Secretary, who may be one of its members or the Secretary of the Board of Directors. The Audit Committee held four meetings both during the period 2016.

As of March 9, 2016, the Audit Committee members were composed by its president Mario Valcarce, Directors Mr. Alfredo Ergas, Mrs. Brenda Eaton and Mr. José Ramón Valente, besides the Secretary, Mr. Arthur Le Blanc Cerda.

On the Ordinary Shareholders' Meeting of Transelec S.A., held on April 26, 2016, shareholders established annual gross compensation for the Committee members at US$ 10,000, regardless of the number of sessions actually attended or held.

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The following compensation was received by members of the Audit Committee during 2016 and 2015:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
José Ramón Valente	6.391	6.067
Mario Alejandro Valcarce Duran	6.391	6.067

7.5 COMPENSATION OF KEY MANAGEMENT THAT ARE NOT DIRECTORS

Members of Key Management

Andrés Kuhlmann Jahn	Chief Executive Officer
Eric Ahumada Gómez	Vice-President of Business Development
Francisco Castro Crichton	Vice-President of Finance
Alexandros Semertzakis Pandolfi	Vice-President of Engineering and Construction
Claudio Aravena Vallejo	Vice-President of Human Resources
Arturo Le Blanc Cerda	Vice-President of Legal Matters
Rodrigo Lopéz Vergara	Vice-President of Operations
David Noe Scheinwald	Vice-President of Electrical Development

The Company has established an incentive plan for its executives based on meeting certain individual goals that contribute to the Company's results. These incentives are structured as a minimum and maximum number of gross monthly salaries and paid once per year.

Compensation of key management personnel by concept for the periods 2016 and 2015 is detailed as follows:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Salaries	1,660,980	1,503,234
Short-term employee benefits	668,100	620,156
Long-term employee benefits	608,471	250,126
Total compensation received by key management personnel	**2,937,551**	**2,373,516**

NOTE 8 - INVENTORY

As of December 31, 2016 and December 31, 2015, this account is detailed as follows:

	BALANCE AS OF	
	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Safety equipment	19,732	33,854
Total	**19,732**	**33,854**

NOTE 9 - OTHER FINANCIAL ASSETS, LEASES

As of December 31, 2016 and December 31, 2015, this account is detailed as follows:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Finance lease receivables current	777,358	802,284
Sub-total Other financial assets current	**777,358**	**802,284**
Finance lease receivables non-current	11,751,854	13,391,570
Swap (See Note 15)	3,520,904	36,698,535
Other financial assets	60,636	278,848
Sub-total Other financial assets non-current	**15,333,394**	**50,368,953**
Total	**16,110,752**	**51,171,237**

9.1 FINANCE LEASE RECEIVABLES

Within current and non-current other assets receivable, the Company includes assets that have been constructed at the express request of the lessee. Therefore, substantially all risks and benefits have been transferred when the assets are commissioned. Nominal value (gross investment in the lease) and present value of the minimum lease payments to be received are presented in the following tables:

PERIOD IN YEARS	DECEMBER 31, 2016		
	PRESENT VALUE	INTEREST RECEIVABLE	NOMINAL VALUE (GROSS INVESTMENT)
	THCH$	THCH$	THCH$
Less than 1	777,358	575,372	1,352,730
1-5	4,415,019	2,348,633	6,763,652
Over 5	7,336,835	2,257,192	9,594,027
Total	**12,529,212**	**5,181,197**	**17,710,409**

PERIOD IN YEARS	DECEMBER 31, 2015		
	PRESENT VALUE	INTEREST RECEIVABLE	NOMINAL VALUE (GROSS INVESTMENT)
	THCH$	THCH$	THCH$
Less than 1	802,284	641,132	1,443,416
1-5	4,519,229	2,697,849	7,217,078
Over 5	8,872,341	2,785,325	11,657,666
Total	**14,193,854**	**6,124,306**	**20,318,160**

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MOVEMENTS IN FINANCE LEASES	BALANCE AS OF DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Opening balance	14,193,854	12,996,779
Amortization	(859,819)	(745,245)
Translation difference	(804,823)	1,942,320
Ending balance	**12,529,212**	**14,193,854**

9.2 OPERATING LEASES PAYABLE

The Company has operating leases contract in which it acts as lessee. Payments under those contracts are recognized in administrative expenses as follows:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Real estate lease	1,061,490	1,003,543
Other leases	881,495	705,716
Total operating leases	**1,942,985**	**1,709,259**

The following table details the amounts payable based on the maturity of each agreement.

	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
	THCH$	THCH$	THCH$
Real estate lease	1,061,490	4,245,960	-
Other leases	881,495	3,525,980	-
Total operating leases	**1,942,985**	**7,771,940**	-

10 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of December 31, 2016 and December 31, 2015:

INTANGIBLE ASSETS, NET	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Rights of way (*)	173,854,650	174,170,622
Software	4,034,231	2,649,968
Total intangible assets	177,888,881	176,820,590
Goodwill	342,651,175	342,651,175
Total intangible assets, net	**520,540,056**	**519,471,765**

(*) As of December 31, 2016 and 2015 Transelec S.A. present intangible assets with indefinite useful lives under the classification of rights of way.

INTANGIBLE ASSETS, GROSS	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Rights of way	173,854,650	174,170,622
Software	10,167,420	7,617,212
Goodwill	342,651,175	342,651,175
Total intangible assets	526,673,245	524,439,009

ACCUMULATED AMORTIZATION AND IMPAIRMENT	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Software	(6,133,189)	(4,967,244)
Total accumulated amortization	(6,133,189)	(4,967,244)

The composition and movements of intangible assets during the periods 2015 and 2016 are the following:

MOVEMENTS IN INTANGIBLE ASSETS	RIGHTS OF WAY	SOFTWARE	GOODWILL	NET INTANGIBLE ASSETS
	THCH$	THCH$	THCH$	THCH$
Opening balance as of January 1, 2016	174,170,622	2,649,968	342,651,175	519,471,765
Movements in intangible assets				
Additions	-	-	-	-
Transfer to operating assets	343,259	2,550,174	-	2,893,433
Amortization	-	(1,165,911)	-	(1,165,911)
Translation difference	-	-	-	-
Other increases (decreases)	(659,231)	-	-	(659,231)
Ending balance of intangible assets as of December 31, 2016	173,854,650	4,034,231	342,651,175	520,540,056

MOVEMENTS IN INTANGIBLE ASSETS	RIGHTS OF WAY	SOFTWARE	GOODWILL	NET INTANGIBLE ASSETS
	THCH$	THCH$	THCH$	THCH$
Opening balance as of January 1, 2015	168,069,830	2,013,342	342,724,940	512,808,112
Movements in intangible assets				
Additions	-	-	-	-
Amortization	-	(675,173)	-	(675,173)
Translation difference	745,039	-	(73,765)	671,274
Transfer to operating assets	6,015,753	1,311,799	-	7,327,552
Other increases (decreases)	(660,000)	-	-	(660,000)
Ending balance of intangible assets as of December 31, 2015	174,170,622	2,649,968	342,651,175	519,471,765

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of December 31, 2016 and December 31, 2015 to be recovered.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

11.1 DETAIL OF ACCOUNTS

This account is detailed as follows

PROPERTY, PLANT AND EQUIPMENT, NET	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Land	20,624,732	20,630,332
Buildings and infrastructure	879,122,021	863,685,819
Work in progress	107,899,910	72,801,826
Machinery and equipment	427,854,711	415,852,900
Other property, plant and equipment	5,735,878	5,529,900
Property, plant and equipment, net	1,441,237,252	1,378,500,777

PROPERTY, PLANT AND EQUIPMENT, GROSS	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Land	20,624,732	20,630,332
Buildings and infrastructure	1,118,249,344	1,080,462,476
Work in progress	107,899,910	72,801,826
Machinery and equipment	610,064,656	580,389,433
Other property, plant and equipment	5,735,878	5,529,900
Total property, plant and equipment, gross	1,862,574,520	1,759,813,967

TOTAL ACCUMULATED DEPRECIATION AND IMPAIRMENT, PROPERTY, PLANT AND EQUIPMENT, NET	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Buildings and infrastructure	(239,127,323)	(216,776,657)
Machinery and equipment	(182,209,945)	(164,536,533)
Total accumulated depreciation and impairment, property, plant and equipment	(421,337,268)	(381,313,190)

11.2 RECONCILIATION OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

The following table details the reconciliation of changes in property, plant and equipment by class during the periods ended December 31, 2016 and 2015:

	OPENING BALANCE JANUARY 1, 2016	LAND	BUILDINGS AND INFRAESTRUCTURE	MACHINERY AND EQUIPMENT	WORK IN PROGRESS	OTHER PROPERTY, PLANT AND	PROPERTY, PLANT AND EQUIPMENT, EQUIPMENT NET
		THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
	Opening balance January 1, 2016	20,630,332	863,685,819	415,852,900	72,801,826	5,529,900	1,378,500,777
Movement	Additions				118,573,832	493,273	119,067,105
	Retirements	(2,899)	(1,679,092)	(2,165,687)	(1,479,891)	-	(5,327,569)
	Transfer to operating assets	(2,701)	40,099,919	37,797,739	(81,995,857)	457,331	(3,643,569)
	Depreciation	-	(22,984,625)	(23,630,241)	-	-	(46,614,866)
	Other increases (decreases)	-	-	-	-	(744,626)	(744,626)
	Balance as of December 31, 2016	20,624,732	879,122,021	427,854,711	107,899,910	5,735,878	1,441,237,252

	OPENING BALANCE JANUARY 1, 2015	LAND	BUILDINGS AND INFRAESTRUCTURE	MACHINERY AND EQUIPMENT	WORK IN PROGRESS	OTHER PROPERTY, PLANT AND	PROPERTY, PLANT AND EQUIPMENT, EQUIPMENT NET
		THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
	Opening balance January 1, 2015	20,059,769	853,150,552	401,137,550	73,169,038	4,394,055	1,351,910,964
Movement	Additions	-	-	-	82,379,749	908,679	83,288,428
	Retirements	-	(3,208,821)	(3,442,877)	(1,018,048)	-	(7,669,746)
	Transfer to operating assets	570,563	32,824,895	40,687,606	(81,728,913)	227,166	(7,418,683)
	Depreciation	-	(24,021,601)	(22,529,379)	-	-	(46,550,980)
	Translation adjustment	-	4,940,794	-	-	-	4,940,794
	Balance as of December 31, 2015	20,630,332	863,685,819	415,852,900	72,801,826	5,529,900	1,378,500,777

11.3 ADDITIONAL INFORMATION ON PROPERTY, PLANT AND EQUIPMENT

Transelec has insurance policies to cover possible risks subject to various items of property, plant and equipment and possible claims that might be filed by exercising its activities, understanding that such policies cover sufficiently the risks to which they are taken.

The Company held as of December 31, 2016 and December 31, 2015 commitments to purchase items of property, plant and equipment arising from construction contracts under EPC (Engeenering-Procurment-Construction) in the amount of ThCh$ 200,813,065 and ThCh$ 86,784,307, respectively.

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The following table details capitalized interest costs in property, plant and equipment:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Capitalization rate (Annual basis)	5.93%	7.74%
Capitalized interest costs (ThCh$)	3,022,279	3,709,092

Work in progress balances amounts to ThCh$ 106,258,794 and ThCh$ 72,801,826 as of December 31, 2016 and December 31, 2015 respectively.

NOTE 12 - DEFERRED TAXES

12.1 DETAIL OF DEFERRED TAX ASSETS AND LIABILITIES

The origin of the deferred taxes recorded as of December 31, 2016 and December 31, 2015, is detailed as follows:

TEMPORARY DIFFERENCES	NET DEFERRED TAXES	
	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Depreciable fixed assets	(103,241,185)	(70,430,126)
Financial expenses	(768,502)	(1,021,760)
Leased assets	(835,149)	(1,198,091)
Materials and spare parts	29,985	(152,846)
Tax losses	62,675,553	51,378,939
Staff severance indemnities provision	84,767	131,967
Deferred income	1,765,868	1,873,212
Investment value provision	12,955	12,955
Lawsuit provision	-	27,945
Obsolescence provision	356,219	311,411
Work in progress	1,127,392	1,049,221
Vacation provisions	446,991	443,526
Intangible assets	(7,645,986)	(8,641,523)
Adjustment of effective interest rate of bonds	(3,219,282)	(2,798,382)
Land	1,267,668	1,072,888
Allowance for doubtful receivables	375,943	375,943
Net deferred tax assets/(liabilities)	**(47,566,763)**	**(27,564,721)**
Reflected in the statement financial position as follows:		
Deferred tax assets	-	-
Deferred tax liabilities	(47,566,763)	(27,564,721)
Net deferred tax assets/(liabilities)	**(47,566,763)**	**(27,564,721)**

12.2 DEFERRED TAX MOVEMENTS IN STATEMENT OF FINANCIAL POSITION

The movements of balances of deferred taxes in the consolidated statement of financial position for the periods December 31, 2016 and December 31, 2015 are as follows:

DEFERRED TAX MOVEMENTS	ASSETS	LIABILITY
	THCH$	THCH$
Balance as of January 1, 2015	102,334	14,270,024
Increase (decrease)	(102,334)	12,350,786
Translation adjustment	-	943,911
Balance as of December 31, 2015	-	27,564,721
Increase (decrease)	-	20,002,042
Balance as of December 31, 2016	**-**	**47,566,763**

Recovery of deferred tax assets will depend on whether sufficient tax profits are obtained in the future. Based on its projections the Company believes that its future profits will allow these assets to be recovered.

NOTE 13 - FINANCIAL LIABILITIES

13.1 OTHER FINANCIAL LIABILITIES

The current and non-current portion of this account as of December 31, 2016 and December 31, 2015 is as follows:

INTEREST BEARING LOANS	DECEMBER 31, 2016		DECEMBER 31, 2015	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
	THCH$	THCH$	THCH$	THCH$
Bonds payable	27,699,988	1,380,797,913	178,476,226	1,158,934,826
Total bonds payable	27,699,988	1,380,797,913	178,476,226	1,158,934,826
Bank loans payable	-	-	16,152,000	-
Swap contract (Note 15)	4,081,140	-	2,012,588	-
Other financial liabilities	44,674	2,848,079	43,946	3,019,383
Total obligations with banks	4,125,814	2,848,079	18,208,534	3,019,383
Total	**31,825,802**	**1,383,645,992**	**196,684,760**	**1,161,954,209**

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13.2 DETAIL OF OTHER FINANCIAL LIABILITIES

A) BONDS PAYABLE

The obligations with the public by series, currency, effective rate and expiration as of December 31, 2016 and December 31, 2015 are shown below:

TAX PAYER ID NUMBER	DEBTOR NAME	COUNTRY	PLACEMENT IN CHILE OR ABROAD	INSTRUMENT REGISTRATION NUMBER	SERIES	INDEXATION UNIT	NOMINAL INTEREST RATE	EFFECTIVE INTEREST RATE	INTEREST PAYMENTS	PERIODICITY PRINCIPAL PAYMENTS	FINAL MATURITY	DECEMBER 31, 2016	DECEMBER 31, 2015
												THCH$	THCH$
76.555.400-4	Transelec S.A	Chile	Chile	481	C	UF	4.03%	3.50%	At maturity	Semiannually	09-01-2016	-	155,027,191
76.555.400-4	Transelec S.A	Chile	Chile	480	D	UF	4.37%	4.25%	At maturity	Semiannually	12-15-2027	352,746,980	342,875,869
76.555.400-4	Transelec S.A	Chile	Chile	599	H	UF	4.79%	4.80%	At maturity	Semiannually	08-01-2031	80,634,967	78,436,327
76.555.400-4	Transelec S.A	Chile	Chile	599	K	UF	4.61%	4.60%	At maturity	Semiannually	09-01-2031	42,759,748	41,591,387
76.555.400-4	Transelec S.A	Chile	Chile	599	M	UF	4.26%	4.05%	At maturity	Semiannually	06-15-2032	38,680,272	37,581,581
76.555.400-4	Transelec S.A	Chile	Chile	599	M-1	UF	4.23%	4.05%	At maturity	Semiannually	06-15-2032	48,351,985	47,494,328
76.555.400-4	Transelec S.A	Chile	Chile	599	N	UF	4.29%	3.95%	At maturity	Semiannually	12-15-2038	75,973,386	73,274,046
76.555.400-4	Transelec S.A	Chile	Chile	744	Q	UF	4.02%	3.95%	At maturity	Semiannually	10-15-2042	81,597,793	79,351,463
76.555.400-4	Transelec S.A	Chile	Foreign	1st issuance	Sr N	US$	5.10%	4.63%	At maturity	Semiannually	07-26-2023	202,662,964	214,641,039
76.555.400-4	Transelec S.A	Chile	Foreign	2st issuance	Sr N	US$	4.66%	4.25%	At maturity	Semiannually	01-14-2025	252,229,058	267,137,821
76.555.400-4	Transelec S.A	Chile	Foreign	2st issuance	Sr N	US$	4.31%	3.88%	At maturity	Semiannually	01-12-2029	232,860,748	-
											Total	1,408,497,901	1,337,411,052

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh$1,587,229,343 and ThCh$1,442,713,081 as of December 31, 2016 and December 31, 2015, respectively (it does not include other current and non-current liabilities such as swap agreements which are presented in the Interim Financial Statements at fair value). The fair value of the bonds is estimated by discounting future cash flows using discount rates available for debt with similar terms of credit risk and similar maturities. This value is categorized as level 2 according to the hierarchy of fair value.

			CURRENT			NON-CURRENT			
DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	INSTRUMENT REGISTRATION NUMBER	MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 90 DAYS	DECEMBER 31, 2016 CURRENT	MATURITY 1 TO 3 YEARS	MATURITY 3 TO 5 YEARS	MATURITY MORE THAN 5 YEARS	DECEMBER 31, 2016 NON-CURRENT
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
76.555.400-4	Transelec S.A	480	-	7,649,943	7,649,943	-	-	345,097,037	345,097,037
76.555.400-4	Transelec S.A	599	1,558,686	-	1,558,686	-	-	79,076,280	79,076,280
76.555.400-4	Transelec S.A	599	637,349	-	637,349	-	-	42,122,400	42,122,400
76.555.400-4	Transelec S.A	599	-	819,291	819,291	-	-	37,860,981	37,860,981
76.555.400-4	Transelec S.A	599	-	1,040,188	1,040,188	-	-	47,311,797	47,311,797
76.555.400-4	Transelec S.A	599	-	1,609,413	1,609,413	-	-	74,363,973	74,363,973
76.555.400-4	Transelec S.A	744	-	675,888	675,888	-	-	80,921,699	80,921,699
76.555.400-4	Transelec S.A	1st issuance	-	4,154,341	4,154,341	-	-	198,508,623	198,508,623
76.555.400-4	Transelec S.A	2st issuance	-	5,134,299	5,134,299	-	-	247,094,759	247,094,759
76.555.400-4	Transelec S.A	3st issuance	-	4,420,590	4,420,590	-	-	228,440,364	228,440,364
		Total	2,196,035	25,503,953	27,699,988	-	-	1,380,797,913	1,380,797,913

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			CURRENT			NON-CURRENT			
DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	INSTRUMENT REGISTRATION NUMBER	MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 90 DAYS	DECEMBER 31, 2015 CURRENT	MATURITY 1 TO 3 YEARS	MATURITY 3 TO 5 YEARS	MATURITY MORE THAN 5 YEARS	DECEMBER 31, 2015 NON-CURRENT
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
76.555.400-4	Transelec S.A	481	-	155,027,191	155,027,191	-	-	-	-
76.555.400-4	Transelec S.A	480	7,435,972	-	7,435,972	-	-	335,439,896	335,439,896
76.555.400-4	Transelec S.A	599	1,516,185	-	1,516,185	-	-	76,920,142	76,920,142
76.555.400-4	Transelec S.A	599	619,933	-	619,933	-	-	40,971,454	40,971,454
76.555.400-4	Transelec S.A	599	796,037	-	796,037	-	-	36,785,544	36,785,544
76.555.400-4	Transelec S.A	599	1,010,563	-	1,010,563	-	-	46,483,766	46,483,766
76.555.400-4	Transelec S.A	599	1,563,293	-	1,563,293	-	-	71,710,754	71,710,754
76.555.400-4	Transelec S.A	744	-	653,853	653,853	-	-	78,697,609	78,697,609
76.555.400-4	Transelec S.A	1st issuance	4,406,840	-	4,406,840	-	-	210,234,199	210,234,199
76.555.400-4	Transelec S.A	2st issuance	5,446,359	-	5,446,359	-	-	261,691,462	261,691,462
		Total	22,795,182	155,681,044	178,476,226	-	-	1,158,934,826	1,158,934,826

B) BANK LOANS

The bank loans are presented below by financial institution, currency, effective rate and expiration as of December 31, 2016 and December 31, 2015:

DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	COUNTRY	CREDITOR ID NUMBER	CREDITOR INSTITUTION NAME	COUNTRY	CURRENCY	PERIODICITY INTEREST RATE	EFFECTIVE ANUAL EFECTIVA	NOMINAL INTEREST RATE	MATURITY	DECEMBER 31, 2016 THCH$	DECEMBER 31, 2015 THCH$
76.555.400-4	Transelec S.A.	Chile	97.030.000-7	BANCO ESTADO	Chile	CLP	Six-monthly	4.30%	4.30%	2016	-	16,152,000
										Total	-	16,152,000

			CURRENT			NON-CURRENT			
DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	CREDITOR INSTITUTION	MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 90 DAYS	DECEMBER 31, 2015 CURRENT	MATURITY 1 TO 3 YEARS	MATURITY 3 TO 5 YEARS	MATURITY MORE THAN 5 YEARS	DECEMBER 31, 2015 CURRENT
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
76.555.400-4	Transelec S.A.	BANCO ESTADO	-	16,152,000	16,152,000	-	-	-	-
		Total	-	16,152,000	16,152,000	-	-	-	-

C) OTHER FINANCIAL LIABILITIES

The other financial liabilities by creditor institution name, currencies, rates and maturities as of December 31, 2016 and December 31, 2015 are as follows:

DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	COUNTRY	CREDITOR ID NUMBER	CREDITOR INSTITUTION NAME	COUNTRY	CURRENCY	PERIODICITY INTEREST RATE	EFFECTIVE ANUAL EFECTIVA	NOMINAL INTEREST RATE	MATURITY	DECEMBER 31, 2016 THCH$	DECEMBER 31, 2015 THCH$
99.521.950-6	Transelec Norte S.A. (Transelec S.A.)	Chile	77.277.800-7	Eléctrica Aguas del Melado	Chile	US$	Monthly	6,11%	6,11%	2043	2,892,753	3,063,329
									Total		2,892,753	3,063,329

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DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	CREDITOR INSTITUTION	CURRENT			NON-CURRENT			
			MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 90 DAYS	DECEMBER 31, 2016 CURRENT	MATURITY 1 TO 3 YEARS	MATURITY 3 TO 5 YEARS	MATURITY MORE THAN 5 YEARS	DECEMBER 31, 2016 CURRENT
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
99.521.950-6	Transelec Norte S.A. (Transelec S.A.)	Eléctrica Aguas del Melado	10,922	33,752	44,674	97,697	109,990	2,640,392	2,848,079
		Total	10,922	33,752	44,674	97,697	109,990	2,640,392	2,848,079

DEBTOR TAXPAYER ID NUMBER	DEBTOR NAME	CREDITOR INSTITUTION	CURRENT			NON-CURRENT			
			MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 90 DAYS	DECEMBER 31, 2015 CURRENT	MATURITY 1 TO 3 YEARS	MATURITY 3 TO 5 YEARS	MATURITY MORE THAN 5 YEARS	DECEMBER 31, 2015 CURRENT
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
99.521.950-6	Transelec Norte S.A. (Transelec S.A.)	Eléctrica Aguas del Melado	10,744	33,202	43,946	96,106	108,199	2,815,078	3,019,383
		Total	10,744	33,202	43,946	96,106	108,199	2,815,078	3,019,383

13.3 OTHER ASPECTS

As of December 31, 2016 and December 31, 2015, Transelec had available a credit line of US$250 million which at the date was not used.

Many of the Company's debt agreements include an obligation to comply with certain covenants, including certain financial ratios (see Note 19), which is customary for agreements of this nature. This also includes affirmative and negative obligations that require these commitments to be monitored.

14 - TRADE AND OTHER PAYABLES

Trade and other payables as of December 31, 2016 and December 31, 2015, are detailed as follows:

TRADE AND OTHER PAYABLES	CURRENT		NON-CURRENT	
	DECEMBER 31, 2016	DECEMBER 31, 2015	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$	THCH$	THCH$
Trade and other payables	50,337,292	49,926,412	-	-
Other accounts payable	1,823,818	654,697	-	-
Total	52,161,110	50,581,109	-	-

The average payment period for suppliers in the periods ended 2016 and 2015 was 30 days and, therefore, the fair value of these liabilities does not differ significantly from their book value.

NOTE 15 - DERIVATIVE INSTRUMENTS

In adhering to its risk management policy, Transelec enters primarily into exchange rate derivatives (see Note 3). The Company classifies its derivatives as:

- Cash flow hedging instruments: Those that hedge the cash flows of the hedged underlying item,

In addition, the Company uses certain non-hedging derivatives: the instruments that do not meet the requirements of IFRS and thus do not qualify for hedge accounting.

15.1 HEDGE ASSETS AND LIABILITIES

	DECEMBER 31, 2016				DECEMBER 31, 2015			
	ASSETS CURRENT	NON-CURRENT	LIABILITY CURRENT	NON-CURRENT	CURRENT	ASSETS NON-CURRENT	CURRENT	LIABILITY NON-CURRENT
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Currency hedge Swap	-	3,520,904	4,081,140	-	-	36,698,535	2,012,588	-
Total	-	**3,520,904**	**4,081,140**	-	-	**36,698,535**	**2,012,588**	-

15.2 OTHER INFORMATION

The following table details Transelec's derivatives as of December 31, 2016 and December 31, 2015, including their fair values as well as their notional and contractual values by maturity:

FINANCIAL DERIVATIVES			MATURITY					
	FAIR VALUE	BEFORE 1 YEAR	2017	2018	2019	2020	SUBSEQUENT YEARS	DECEMBER 31, 2016
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Currency hedge Swap	(560,236)	(4,081,140)	-	-	-	-	3,520,904	(560,236)

FINANCIAL DERIVATIVES			MATURITY						
	FAIR VALUE	BEFORE 1 YEAR	2016	2017	2018	2019	2020	SUBSEQUENT YEARS	DECEMBER 31, 2015
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Currency hedge Swap	34,685,947	(2,012,588)	-	-	-	-	-	36,698,535	34,685,947

The contractual notional amount of these contracts does not represent the risk assumed by Transelec as it is only in response to the basis with which derivative settlements are calculated. In the periods presented December 31, 2016 and December 31, 2015, Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

Derivatives are valued considering valuation techniques which include observable data; the most commonly used valuation techniques include swap valuation models using present value calculations. The models include several inputs including the credit risk of the counterparty, foreign exchange spot rates and interest rate curves.

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15.3 FAIR VALUE HIERARCHIES

Financial instruments recognized at fair value in the statement of financial position are classified based on the following hierarchies: (a) Level 1: Quoted (unadjusted) price in an active market for identical assets and liabilities, (b) Level 2: Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly (i.e.,, as a price) or indirectly (i.e., as a derivative of a price); and (c) Level 3: Inputs for assets or liabilities that are not based on observable market information (non-observable inputs).

The following table details financial assets and liabilities measured at fair value as of December 31, 2016.

FINANCIAL INSTRUMENTAL MEASURED AT FAIR VALUE	FAIR VALUE MEASURED AT THE END OF THE REPORTING PERIOD USING			
	DECEMBER 31,	LEVEL 1	LEVEL 2	LEVEL 3
	2016	THCH$	THCH$	THCH$
Financial asset (liability)				
Currency hedge Swap	(560,236)	-	(560,236)	-
Total, net	**(560,236)**	**-**	**(560,236)**	**-**

The following table details financial assets and liabilities measured at fair value as of December 31, 2015.

FINANCIAL INSTRUMENTAL MEASURED AT FAIR VALUE	FAIR VALUE MEASURED AT THE END OF THE REPORTING PERIOD USING			
	DECEMBER 31,	LEVEL 1	LEVEL 2	LEVEL 3
	2015	THCH$	THCH$	THCH$
Financial asset (liability)				
Currency hedge Swap	34,685,947	-	34,685,947	-
Total, net	**34,685,947**	**-**	**34,685,947**	**-**

NOTE 16 - FINANCIAL INSTRUMENTS

The classification of financial assets in the categories described in Note 2.8 is shown below:

DECEMBER 31, 2016	CASH AND CASH EQUIVALENTS	LOANS AND RECEIVABLES	DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES AT FAIR VALUE THROUGH EQUITY	AVAILABLE FOR SALE INVESTMENTS	TOTAL
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Cash and cash equivalents	54,646,538	-	-	-	-	54,646,538
Other financial assets, current	-	777,358	-	-	-	777,358
Trade and other receivables	-	55,684,752	-	-	-	55,684,752
Other financial assets, non-current	-	11,751,854	-	3,520,904	60,636	15,333,394
Receivables from related parties, current	-	11,584,175	-	-	-	11,584,175
Receivables from related parties, non-current	-	194,530,954	-	-	-	194,530,954
Total	**54,646,538**	**274,329,093**	**-**	**3,520,904**	**60,636**	**332,557,171**

DECEMBER 31, 2015	CASH AND CASH EQUIVALENTS	LOANS AND RECEIVABLES	DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES AT FAIR VALUE THROUGH EQUITY	AVAILABLE FOR SALE INVESTMENTS	TOTAL
	THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Cash and cash equivalents	24,156,607	-	-	-	-	24,156,607
Other financial assets, current	-	802,284	-	-	-	802,284
Trade and other receivables	-	49,874,884	-	-	-	49,874,884
Other financial assets, non-current	-	13,391,570	36,698,535	-	278,848	50,368,953
Receivables from related parties, current	-	12,936,861	-	-	-	12,936,861
Receivables from related parties, non-current	-	205,832,822	-	-	-	205,832,822
Total	**24,156,607**	**282,838,421**	**36,698,535**	**-**	**278,848**	**343,972,411**

The classification of financial liabilities in the categories described in Note 2.13 is shown below:

DECEMBER 31, 2016	OTHER FINANCIAL LIABILITIES	DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES AT FAIR VALUE THROUGH EQUITYT	TOTAL
	THCH$	THCH$	THCH$	THCH$
Other financial liabilities, current	31,825,802	-	-	31,825,802
Trade and other payables	51,854,947	-	-	51,854,947
Other financial liabilities, non-current	1,383,645,994	-	-	1,383,645,994
Total	**1,467,326,743**	**-**	**-**	**1,467,326,743**

DECEMBER 31, 2015	OTHER FINANCIAL LIABILITIES	DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	DERIVATIVES AT FAIR VALUE THROUGH EQUITYT	TOTAL
	THCH$	THCH$	THCH$	THCH$
Other financial liabilities, current	194,672,172	2,012,588	-	196,684,760
Trade and other payables	50,581,109	-	-	50,581,109
Other financial liabilities, non-current	1,161,954,209	-	-	1,161,954,209
Total	**1,407,207,490**	**2,012,588**	**-**	**1,409,220,078**

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NOTE 17 - PROVISIONS

17.1 DETAIL OF PROVISIONS

As of December 31, 2016 and December 31, 2015, this account is detailed as follows:

DETAIL	CURRENT DECEMBER 31, 2016	CURRENT DECEMBER 31, 2015	NON-CURRENT DECEMBER 31, 2016	NON-CURRENT DECEMBER 31, 2015
	THCH$	THCH$	THCH$	THCH$
Staff severance indemnities	5,231	582,924	4,533,592	4,389,325
Accrued vacations	1,655,522	1,642,689	-	-
Profit sharing benefits	4,314,711	4,330,591	-	9,530
Other provisions	205,447	205,477	-	-
Total	6,180,911	6,761,681	4,533,592	4,398,855

17.2 PROVISION MOVEMENTS

In 2016 and 2015, provision movements were the following:

MOVEMENTS IN PROVISIONS	STAFF SEVERANCE INDEMNITIES	PROFIT SHARING BENEFITS	ACCRUED VACATIONS	OTHER PROVISIONS	TOTAL
	M$	M$	M$	M$	M$
Beginning balance as of January 1, 2016	4,972,249	4,340,121	1,642,689	205,477	11,160,536
Movements in provisions:					
Provisions during the year	473,083	5,095,352	1,270,373	-	6,838,808
Payments	(906,509)	(5,120,762)	(1,257,540)	(30)	(7,284,841)
Ending balance as of December 31, 2016	**4,538,823**	**4,314,711**	**1,655,522**	**205,447**	**10,714,503**

MOVEMENTS IN PROVISIONS	STAFF SEVERANCE INDEMNITIES	PROFIT SHARING BENEFITS	ACCRUED VACATIONS	OTHER PROVISIONS	TOTAL
	M$	M$	M$	M$	M$
Beginning balance as of January 1, 2015	4,976,539	4,814,173	1,467,122	589,386	11,847,220
Movements in provisions:					
Provisions during the year	513,183	4,545,751	1,207,736	-	6,266,670
Payments	(517,473)	(5,019,803)	(1,032,169)	(383,909)	(6,953,354)
Ending balance as of December 31, 2015	**4,972,249**	**4,340,121**	**1,642,689**	**205,477**	**11,160,536**

The maturity of these provisions is detailed in the table below:

AS OF DECEMBER 31, 2016

DETAIL	LESS THAN 1 YEAR	MORE THAN 1 YEAR AND UP TO 3 YEARS	MORE THAN 3 YEAR AND UP TO 5 YEARS	MORE THAN 5 YEARS
	THCH$	THCH$	THCH$	THCH$
Staff severance indemnities	5,231	509,338	340,522	3,683,732
Accrued vacations	1,655,522	-	-	-
Profit sharing benefits	4,314,711	-	-	-
Other provisions	205,447	-	-	-
Total	6,180,911	509,338	340,522	3,683,732

AS OF DECEMBER 31, 2015

DETAIL	LESS THAN 1 YEAR	MORE THAN 1 YEAR AND UP TO 3 YEARS	MORE THAN 3 YEAR AND UP TO 5 YEARS	MORE THAN 5 YEARS
	THCH$	THCH$	THCH$	THCH$
Staff severance indemnities	582,924	529,307	353,872	3,506,146
Accrued vacations	1,642,689	-	-	-
Profit sharing benefits	4,330,591	9,530	-	-
Other provisions	205,477	-	-	-
Total	6,761,681	538,837	353,872	3,506,146

SEVERANCE PAY FOR YEARS OF SERVICE

The Company has constituted a provision to cover the obligation of severance pay for years of service, to be paid to its employees, in accordance with the collective contracts signed with the latter. This provision represents the entire accrued provision (see note 18).

VACATION ACCRUAL

This obligation corresponds to the expense for vacations granted and not accrued by the Company's employees, whose benefit is specified in individual contract of each employee.

ANNUAL BENEFITS

This provision primarily includes allowances for employee participation in the Company's income, which are mostly paid within the first quarter of the following year.

OTHER PROVISIONS

This category's balance primarily corresponds to the obligation for health agreement contributions.

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17.3 LAWSUITS AND ARBITRATION PROCEEDINGS

1. Regarding the delay in commissioning the Rodeo-Chena project, and in accordance with the bidding terms and conditions, which stipulate a fine of US$30,000 per day of delay with a maximum of 60 days, the Company paid the fine amounting to US$ 1,800,000. At the date of the financials, there is pending a third guarantees for US $ 313.500.-, which was paid to the Ministry of Energy in July 2016.

   With regard to delays in two of the important milestones of Nogales-Polpaico project, the Ministry of Energy proceeded in June 2016 to collect two guarantees for a total of US $ 2.960.000. In September, the CDEC-SIC settled the fine for delays to start the operations of the Project and reported that Transelec was obliged to pay the maximum fine, that is, US$1,800,000. Transelec filed an appeal for protection against the CDEC-SIC and the Ministry of Energy, since there are requests for extension of time they have not been resolved by the Ministry, so it is entirely inappropriate to act CDEC-SIC and the failure of the Ministry of Energy. The Court of Appeals declared admissible and ordered injunction. By judgment dated December 13, 2016, the Court of Appeals rejected the protection. An appeal was filed with the Supreme Court.

   As of December 31, 2016 the Company has established a provision for these and other contingents liabilities totaling to ThCh$1.568.909 considering for the purpose of this estimate that there are similar cases in the Court of Appeals in which the Court of Appeals rejected the claim, pending the hearing of the appeal before Supreme Court, that in such cases has confirmed the decisions of the SEC. In addition, there are cases with appeals before the SEC and for which the body normally and to some extent has kept the fine charged.

2. As of December 31, 2016, the company Campanario Generación S,A, has not fulfilled its obligation to pay invoices issued by Transelec for the injection and withdrawal balances issued by the CDEC-SIC in December, July, August and September 2011. On August 3, 2011, Transelec notified the SEC of this company's failure to comply with its obligation so it could adopt legally appropriate measures.

   In order to collect the funds owed by Campanario Generación S.A., on August 12, 2011, Transelec S.A. filed a preparatory invoice notification measure against that company before the 5th Civil Court of Santiago for unpaid invoices totaling ThCh$ 6,285,171. This judicial management was presented to the 5th Civil Court of Santiago.

   On September 13, 2011, Campanario Generación S.A. was declared bankrupt by the 6th Civil Court of Santiago. In this bankruptcy proceeding, Transelec claimed $ 14,688,235,160, which includes VAT of ThCh$ 2,345,064, plus principal, interest, indexation adjustments and costs.

   By Exempt Resolution No, 2288 dated August 26, 2011, the SEC ordered the CDEC-SIC to exclude the Company from the Balance of Energy and Power which is made to calculate tariff revenues (IT). In compliance with the order, CDEC-SIC issued a new procedure, which was approved by the National Energy Commission (CNE), Transelec S,A, impugned the proceedings before the Panel of Experts, which in Opinion No, 24-2011 ordered the issuance of a new procedure by the CDEC-SIC that still requires an approval by the CNE.

   In relation with the final tolls and IT for 2011, the CDEC-SIC issued the corresponding settlement, which was also impugned by Transelec before the Panel of Experts, which through Opinion No, 2-2012 ordered CDEC-SIC to determine new settlements of tolls and final IT for 2011, declaring that Transelec S.A, is not responsible for the payments of amounts owed by Campanario Generación S.A. to generators, and also that they must pay the IT related to Campanario Generación S,A, to Transelec S.A. This new settlement issued was objected by Endesa through discrepancy filed with the Panel of Experts, which to date did not issue a final resolution. The distribution of the amount already recovered by Transelec in bankruptcy proceeding (ThCh$ 8,012,745) depends on the final settlement mechanism.

In the bankruptcy proceedings the assets of Campanario Generación S.A. were liquidated and an amount of US$ 86.6 million was recovered. According to the opinion of our external lawyers (Philippi), those proceeds will be sufficient to cover approximately 40.86% of the verified debt of Campanario Generación S.A. This percentage may vary depending on the price obtained from the sale of water rights, In addition, efforts are being made to recover an amount paid in respect of VAT and related relating to the amounts billed, The total amount of the VAT to recover is ThCh$ 2,345,054, has been already fully recovered.

Until today it is only pending that the Trustee submit its final account and proceed to the final distribution of funds totaling approximately US $ 640.000.- to be distributed among all creditors in bankruptcy.

NOTE 18 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS

18.1 DETAIL OF ACCOUNT

POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Staff severance indemnity provision – current	5,231	582,924
Staff severance indemnity provision non – current	4,533,592	4,389,325
Total current and non-current obligations for post-employment benefits	**4,538,823**	**4,972,249**

18.2 DETAIL OF POST-EMPLOYMENT AND OTHER SIMILAR OBLIGATIONS

As of December 31, 2016 and December 31, 2015, this account is detailed as follows:

POST-EMPLOYMENT AND OTHER BENEFITS OBLIGATIONS	STAFF SEVERANCE INDEMNITY	
	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Present value of defined benefit plan obligations opening balance	4,972,249	4,976,539
Current service cost of defined benefit plan obligations	473,083	513,183
Liquidations obligation defined benefit plan	(906,509)	(517,473)
Present value of defined benefit obligations ending balance	**4,538,823**	**4,972,249**

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18.3 BALANCE OF POST-EMPLOYMENT AND OTHER SIMILAR OBLIGATIONS

	STAFF SEVERANCE INDEMNITY	
	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Present value of defined benefit obligations, ending balance	4,538,823	4,972,249
Present obligation with defined benefit plan funds	4,538,823	4,972,249
Fair value of defined benefit plan assets, ending balance	-	-
Balance of defined benefit obligations, ending balance	**4,538,823**	**4,972,249**

18.4 EXPENSES RECOGNIZED IN INCOME STATEMENT

	STAFF SEVERANCE INDEMNITY		INCOME STATEMENT LINE ITEM WHERE RECOGNIZED
	JANUARY 1, 2016 TO DECEMBER 31, 2016	JANUARY 1, 2015 TO DECEMBER 31, 2015	
	THCH$	THCH$	
Current service cost of defined benefit plan	456,371	361,653	Cost of sales Administrative and sales expenses
Interest cost of defined benefit plan	229,941	197,729	Cost of sales Administrative and sales expenses
Total expense recognized in income statement	686,312	559,382	

18.5 ACTUARIAL HYPOTHESIS

DETAIL	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Discount rate used	1.95%	1.95%
Inflation rate	4.6%	4.6%
Future salary increase	2.0%	2.0%
Mortality table	B-2006	B-2006
Disability table	PDT1985-Category II	
Rotation table	ESA-77	

Assumptions for future mortality rates are based on actuarial data obtained using published statistics and historical experience.

18.6 SENSITIVITY ANALYSIS

The following chart shows the sensitivity analysis of the significant hypotheses as of December 31, 2016:

LEVEL OF SENSITIVITY	DISCOUNT RATE USED		INFLATION RATE		FUTURE SALARY INCREASE	
	INCREASE 1%	DECREASE 1%	INCREASE 1%	DECREASE 1%	INCREASE 1%	DECREASE 1%
	(THCH$)	(THCH$)	(THCH$)	(THCH$)	(THCH$)	(THCH$)
Impact on current and non-current of employment benefit obligation	(323,108)	361,549	6,004	(6,004)	324,375	(295,176)

To evaluate impact, the sensitivity analysis has been determined based on the extrapolation method obtaining reasonable results in terms of the changes in the significant hypotheses used as of December 31, 2016.

In the following table the payments of expected of employment benefit obligation are presented:

	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
During the upcoming 12 month	5,231	582,924
Between 2 to 5 years	849,860	882,178
Between 5 to 10 years	1,722,186	1,667,921
More than 10 years	1,961,546	1,839,226
Total Payments Expected	**4,538,823**	**4,972,249**

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NOTE 19 - EQUITY

19.1 SUBSCRIBED AND PAID CAPITAL

As of December 31, 2016 and December 31, 2015 authorized, subscribed and paid share capital amounts to ThCh$ 776,355,048.

19.2 NUMBER OF SUBSCRIBED AND PAID SHARES

	NUMBERS OF SHARE SUBSCRIBED	NUMBERS OF SHARE PAID	NUMBERS OF SHARE WITH VOTING RIGHTS
Sole series	1,000,000	1,000,000	1,000,000

No shares have been issued or redeemed in the years covered by these financial statements.

On January 22, 2014, the extraordinary shareholders meeting was celebrated, where a capital reduction was approved since the amount of $ 857,944,547,865 divided into 1,000,000 ordinary shares, without par value the amount of $ 776,355,047,865 divided into 1,000,000 ordinary shares held, no par value, therefore the decrease was M $ 81,589,500.

19.3 DIVIDENDS

On April 28, 2015, the Company's Board of Directors met in an Ordinary Meeting, where they agreed to distribute a final dividend with debit to 2014 income, in the amount of Ch$24,845,230,291. As of December 31, 2015, this dividend has been paid in full.

On May 13, 2015, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2015 income, in the amount of Ch$16,355,000,000. As of December 31, 2015, this dividend has been paid in full.

On August 12, 2015, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2015 income, in the amount of Ch$18,167,000,000. As of December 31, 2015, this dividend has been paid in full.

On November 16, 2015, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2015 income, in the amount of Ch$28,799,000,000. As of December 31, 2015, this dividend has been paid in full.

On April 26, 2016, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a final dividend with debit to 2015 income, in the amount of Ch$19,668,084,516 which will be paid as of May 25, 2016, to the shareholders listed in the respective registry as of May 18, 2016. . As of December 31, 2016, this dividend has been paid in full.

On May 18, 2016, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2016 income, in the amount of Ch$17,189,000,000 which will be paid as of June 26, 2016, to the shareholders listed in the respective registry as of June 10, 2016. As of December 31, 2016, this dividend has been paid in full.

On August 17, 2016, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2016 income, in the amount of Ch$21,842,000,000 which will be paid as of September 21, 2016, to the shareholders listed in the respective registry as of September 14, 2016. As of December 31, 2016, this dividend has been paid in full.

On November 09, 2016, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2016 income, in the amount of Ch$22,195,000,000 which will be paid as of December 13, 2016, to the shareholders listed in the respective registry as of December 06, 2016. As of December 31, 2016, this dividend has been paid in full.

19.4 OTHER RESERVES

Other reserves as of December 31, 2016 and December 31, 2015 are detailed as follows:

DESCRIPTION	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Net investment hedge	4,533,123	6,432,354
Cash flow hedge (Exchange rate)	(36,474,125)	(13,363,615)
Actuarial calculation exchange differences	(431,169)	(431,169)
Deferred taxes	8,740,486	1,987,856
Total	(23,631,685)	(5,374,574)

The Movement and reclassifications of other comprehensive income for the period 2016 are presented below:

	FOREIGN TRANSLATION RESERVE	CASH FLOW HEDGES RESERVE	OTHER RESERVES	TOTAL
	THCH$	THCH$	THCH$	THCH$
Opening balance as of January 1, 2016	4,695,618	(9,755,438)	(314,754)	(5,374,574)
Translation adjustment	(1,899,231)	(23,110,510)	-	(25,009,741)
Deferred tax	512,792	6,239,838	-	6,752,630
Closing balance as of December 31, 2016	3,309,179	(26,626,110)	(314,754)	(23,631,685)

19.5 CAPITAL MANAGEMENT

Capital management refers to the Company's administration of its equity,

The capital management policy of Transelec S.A. and subsidiary is aimed at maintaining adequate capitalization levels to sustain operations and provide sensible leverage, thus optimizing shareholder returns and maintaining a solid financial position.

Capital requirements are determined based on the Company's financing needs, taking care to maintain an adequate level of liquidity and complying with financial covenants established in current debt contracts, The Company manages its capital structure and makes adjustments based on prevailing economic conditions in order to mitigate risks from adverse market conditions and take advantage of any opportunities that may arise to improve its liquidity position.

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The principal financial covenants established in current debt contracts related to capital requirements are:

1) Maintain individual and indebtedness levels (Total debt / Total capitalization ratio) no greater than 0.7 based on the definitions of these terms in the respective prospectuses of local bond series C, D, H, K, M, N and Q.

2) a) Maintain minimum individual and equity of fifteen million UF equivalent to ThCh$395,219,700 as of December 31, 2016. As that term is defined in the respective prospectuses of local bond series C, D, H, K, M and N.

b) Maintain at all times during the validity period of the bond issuance a minimum Equity of ThCh$ 350,000,000; as this term is defined in the respective prospectus of local bond Series Q.

The test of distribution of restricted payments (net cash flow of the operations / financial costs) must be greater than 1.5 times, as those terms are defined in the respective prospectuses C,D,H,K,M and N.

The following tables present – as of December 31, 2016 and December 31, 2015 - the calculation of the two covenants mentioned above and also a calculation of a third ratio that the Company has to comply, which does not depend on capital (equity) amount.

COVENANT N° 1	TOTAL DEBT / TOTAL CAPITALIZATION RATIO LOWER OR EQUAL TO 0.70	DECEMBER 31, 2016 THCH$	DECEMBER 31, 2015 THCH$
A	Other financial liabilities, current	31,826	196,685
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,383,646	1,161,954
D	Payables to related parties, non-current	-	-
E=A+B+C+D	Covenants debt	1,415,472	1,358,639
G	Debt with guarantees	-	-
DT=E+G	Total debt	1,415,472	1,358,639
H	Non-controlling interest	-	-
P	Equity attributable to owners of the parent	772,481	790,649
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
CT=DT+H+I+P	Total capitalization	2,212,923	2,174,258
DT/CT	Total debt / Total capitalization ratio	0.64	0.62

COVENANT N° 2	MINIMUM EQUITY GREATER THAN OR EQUAL TO UF 15 MILLION	DECEMBER 31, 2016 THCH$	DECEMBER 31, 2015 THCH$
P	Equity attributable to owners of the parent	772,481	790,649
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
P+I	Equity (in ThCh$)	797,451	815,619
UF	UF value	26,347.98	25,629.09
(I+P)/UF	Equity (in UF millions)	30.27	31.82

COVENANT N° 3	RESTRICTED PAYMENTS TEST	DECEMBER 31, 2016	DECEMBER 31, 2015
	FUNDS FROM OPERATIONS (FNO) / FINANCIAL COSTS > 1.5	THCH$	THCH$
FO	Cash flow from operations	187,466	178,989
CF	Financial costs	65,459	59,138
IG	Income tax expense	26,998	17,453
FNO=FO+CF+IG	Funds from operations	279,923	255,580
FNO/CF	Funds from operations / Financial costs	4.28	4.32

As of the date of issuance of these Financial Statements, the Company was in compliance with all financial covenants established in its current debt contracts.

NOTE 20 - INCOME

20.1 REVENUE

The following table details revenue for the periods ended December 31, 2016 and 2015:

REVENUE	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Revenues from regulated transmission services	158,061,935	136,417,138
Revenues from contractual transmission services	123,154,533	139,907,755
Leases revenue	498,214	411.943
Total revenues	281,714,682	276,736,836

20.2 OTHER OPERATING INCOME

The following table details operating income for the periods ended December 31, 2016 and 2015:

OTHER OPERATING INCOME	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Financial income (Note 21.4)	9,609,705	8,259,076
Other gains (losses), net	4,518,184	6,785,410
Total other operating income	14,127,889	15,044,486

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NOTE 21 - RELEVANT INCOME STATEMENT ACCOUNTS

21.1 EXPENSES BY NATURE

The composition of cost of sales and administrative expenses by nature in the periods ended December 31, 2016 and 2015:

DETAIL	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Personnel expenses	19,193,812	17,881,456
Operating expenses	18,845,429	14,700,248
Maintenance expenses	6,026,406	6,528,665
Depreciation and write-offs	52,536,885	55,247,348
Other	3,670,526	5,605,517
Total	100,273,058	99,963,234

21.2 PERSONNEL EXPENSES

As of December 31, 2016 and 2015, this account is detailed as follows:

DETAIL	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Salaries and wages	17,170,946	15,969,535
Short-term employee benefits	1,136,448	819,882
Staff severance indemnity	686,312	732,064
Other long-term benefits	1,163,221	1,199,119
Other personnel expenses	6,789,190	6,082,063
Expenses capitalized on construction in progress	(7,752,305)	(6,921,207)
Total	19,193,812	17,881,456

21.3 DEPRECIATION AND AMORTIZATION

The following table details depreciation and amortization for the periods ended December 31, 2016 and 2015:

DETAIL	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Depreciation	46,614,865	46,550,980
Amortization	1,165,911	675,173
Losses from damages (1)	4,756,109	8,021,195
Total	52,536,885	55,247,348

(1) Losses from damage and replacement of equipment produced by technical conditions not significantly affected the impairment of the cash generating unit.

21.4 FINANCIAL RESULTS

The Company's financial result for the six -month periods ended December 31, 2016 and 2015 is detailed as follows:

DETAIL	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Financial income:	9,609,705	8,259,076
Commercial interest earned	133,111	504,946
Bank interest earned	9,476,594	1,026,978
Interest earned from related parties	-	6,727,152
Financial expenses:	(65,458,658)	(59,138,042)
Interest on bonds	(57,924,119)	(52,917,087)
Interest on bank loans	-	(692,943)
Commercial interest incurred	(189,476)	(72,494)
Interest rate Swap	(6,401,535)	(4,321,144)
Other expenses	(943,528)	(1,134,374)
Gain (loss) from indexation of UF	(22,687,347)	(32,438,850)
Foreign exchange gains (losses), net	557,923	839,346
Positive	26,381,356	67,875,893
Obligations with public	23,132,831	-
Swaps	-	38,076,541
Banks	2,544,444	847,968
Accounts payable	588,625	279,895
Receivables from related parties	-	26,239,655
Other	115,456	2,431,834
Negative	(25,823,433)	(67,036,547)
Obligations with public	-	(64,975,676)
Swaps	(11,611,367)	-
Banks	(1,733,593)	(1,099,561)
Receivables from related parties	(11,475,106)	(217,696)
Other	(1,003,367)	(743,614)
Total financial result, net	(77,978,377)	(82,478,470)

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NOTE 22 - INCOME TAX RESULT

INCOME TAX EXPENSE (INCOME)	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Current tax expense	243,435	224,643
Current tax expense, net, total	**243,435**	**224,643**
Deferred tax expense relating to origination and reversal of temporary differences	26,754,671	17,228,209
Deferred tax expense, net, total	**26,754,671**	**17,228,209**
Effect of change in tax situation of the entity or its shareholders	-	-
Income tax expense	**26,754,671**	**17,228,209**

RECONCILIATION OF TAX EXPENSE USING STATUTORY RATE WITH TAX EXPENSE

The following table reconciles income taxes resulting from applying statutory tax rate to the "Profit Before Taxes" to the income tax expense recorded in the income statement for the periods 2016 and 2015:

USING EFFECTIVE RATE	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Tax expense at statutory rate	(25,915,543)	(22,743,122)
Price level restatement of equity	1,167,093	2,278,289
Fusion tax increase value PP&E Transam	-	6,907,747
Change in income tax rate, Tax Reform Law 20,780	(3,432,563)	(3,874,475)
Other differences increase (decrease)	1,182,907	(21,291)
Total adjustments to tax expense using statutory rate	**(1,082,563)**	**5,290,270**
Tax Expense at effective Rate	**(26,998,106)**	**(17,452,852)**

	DECEMBER 31, 2016	DECEMBER 31, 2015
Statutory Tax Rate	24.00%	22.50%
Price level restatement of equity	(1.08%)	(2.25%)
Fusion tax increase value PP&E Transam	-	(6.83%)
Change in income tax rate, Tax Reform Law 20,780	3.18%	3.83%
Other differences increase (decrease)	(1.10%)	0.02%
Adjustments to Statutory Tax Rate, Total	**1.00%**	**(5.23%)**
Effective Tax Rate	**25.00%**	**17.27%**

The tax rate used for the years 2016 and 2015 reconciliations corresponds to 24% and 22.5%, a corporate tax rate that entities should pay on taxable profits based on current tax regulations.

TAX REFORM CHILE

On September 29, 2014, the law N° 20,780 was published, named "Tax Reform which modifies the Tax System on the income and which introduces various adjustments on the Tax System."

Among the principal changes, the creation of two optional tax systems stand out: The Attributed Income System, which establishes the progressive increase of the tax rate of the first category for the commercial years 2014, 2015, 2016 and 2017 increasing to 21%, 22.5%, 24%, 25%, respectively; and in the partially integrated system, which establishes a progressive increase of the tax rate of the first category for the commercial years 2014, 2015, 2016, 2017 and 2018 increasing to 21%, 22.5%, 24%, 25.5% and 27% respectively.

NOTE 23 - EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to the Company's shareholders by the weighted average number of common shares in circulation during the year excluding, if any, common shares purchased by the Company and maintained as treasury shares.

BASIC EARNINGS PER SHARE	DECEMBER 31, 2016	DECEMBER 31, 2015
Profit attributable to equity holders of parent (ThCh$)	80,983,325	83,627,690
Earnings available to common shareholders, basic (ThCh$)	80,983,325	83,627,690
Total basic shares	1,000,000	1,000,000
Basic earnings per share (Ch$)	**80,983**	83,628

There are no transactions or concepts that create a dilutive effect.

NOTE 24 - SEGMENT REPORTING

The Company engages exclusively in providing services related to electricity transmission. To provide such services, they possess assets throughout the country that form the Transelec transmission system, stretching 3,168 kilometers from the Arica y Parinacota Region to the Los Lagos Region.

Electricity transmission service falls under the legal framework that governs the electricity sector in Chile. This framework defines transmission systems and classifies transmission facilities into three categories (the trunk transmission system, the subtransmission system and additional systems), establishing an open access scheme for the first two systems and allowing additional lines that use rights of way and have national assets for public use along their paths to be used by third parties under non-discriminatory technical and economic conditions. The law also sets criteria and procedures for determining compensation that transmission facility owners are entitled to receive.

Transelec's revenue from the trunk system consists of the "annual transmission value per segment" (VATT for its Spanish acronym), which is calculated every 4 years based on the "annual investment value" (AVI for its Spanish acronym), plus "operating, maintenance and administrative costs" (COMA for its Spanish acronym) for each trunk system segment.

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The annual subtransmission system value (VASTX for its Spanish acronym) is calculated every four years. It is based on the valuation of facilities that are economically adapted to demand and consists of standard investment, maintenance, operating and administrative costs, plus average energy and capacity losses of the adapted facilities.

Revenue from additional systems is established in private contracts with third parties, which are principally generators and users that are not subject to price regulation. The main objective of the additional systems is to enable generators to inject their production into the electricity system and to allow large customers to make withdrawals.

The law distinguishes between the different systems in order to ensure that tariffs are appropriate for each case, Nevertheless, facilities of a given voltage (220 KV, for example) are identical, whether trunk, subtransmission or additional, Thus, a 220 KV facility requires a given type of maintenance, fundamentally because of its geographic location, its proximity to the ocean, the climate, etc., but in no case does this maintenance depend on whether that 220 KV facility is trunk, subtransmission or additional. Precisely the same happens with operating costs: operations are executed by the corresponding CDEC regardless of whether that 220 KV facility is trunk, subtransmission or additional, Thus, for Transelec this classification into trunk, subtransmission or additional systems is merely for tariff purposes and has no other consequences.

The Company's management analyzes its business as a set of transmission assets that enables it to provide services to its customers. As a result, resource allocation and performance measurements are analyzed in aggregate.

Internal management takes into account this classification criterion for revenue and costs merely for descriptive purposes but in no case for business segmentation.

As a result, for the purposes of applying IFRS 8, all of the businesses described above are defined as one sole operating segment for Transelec S.A.

INFORMATION ABOUT PRODUCTS AND SERVICES	DECEMBER 31, 2016	DECEMBER 31, 2015
	THCH$	THCH$
Revenues from regulated transmission services	158,061,935	136,417,138
Revenues from contractual transmission services and others	123,652,747	140,319,698
Total revenues	**281,714,682**	**276,736,836**

INFORMATION ABOUT SALES AND PRINCIPAL CUSTOMERS

The Company has three customers that individually represent more than 10% of total revenues for the ended on December 31, 2016. The amounts of revenues recognized from these customers were: ThCh$128,777,350, ThCh$47,391,221, ThCh$46,006,592, respectively. For the nine -month periods ended December 31, 2015 the Company had three customers that individually exceeded 10% of total revenues. The amounts of revenues recognized from these customers were: ThCh$ 125,969,566, ThCh$52,658,967 y ThCh$44,129,127, respectively.

NOTE 25 - THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS

As of December 31, 2016, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh$32,735,703 (ThCh$18,634,565 as of December 31, 2015).

NOTE 26 - DISTRIBUTION OF PERSONNEL (UNAUDITED)

As of December 31, 2016 and December 31, 2015, personnel employed by Transelec S.A. are detailed as follows:

	DECEMBER 31, 2016				
	MANAGER AND EXECUTIVES	PROFESSIONALS AND TECHNICAL PERSONNEL	OTHER EMPLOYEES	TOTAL	AVERAGE OF THE YEAR
Total	15	364	130	509	499.2

	DECEMBER 31, 2015				
	MANAGER AND EXECUTIVES	PROFESSIONALS AND TECHNICAL PERSONNEL	OTHER EMPLOYEES	TOTAL	AVERAGE OF THE YEAR
Total	15	346	130	491	480.4

NOTE 27 - ENVIRONMENT

Transelec, in compliance with current environmental regulations and in line with its sustainability policy have undergone environmental assessment projects or amendments thereto to the environmental authority through the Environmental Evaluation System (SEIA). To this end, several studies were conducted to substantiate the presentations have allowed environmental documents. These documents are an Environmental Impact Statement (EIS for Spanish acronym) or an environmental impact study concerned, met the requirements of Law No, 19,300 on General Environment, amended by Law No, 20,417, and its regulations of SEIA, For projects that have started their implementation the Company has been following the conditions and measures imposed by environmental authority in the respective resolutions of environmental qualification.

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During for the years ended December 31, 2016 and 2015, the Company has made the following environmental disbursements:

COMPANY MAKING DISBURSEMENT	PROJECT	DECEMBER 31, 2016 THCH$	DECEMBER 31.2015 THCH$
Transelec S.A.	Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors)	911,717	653,132
Total		911,717	653,132

NOTE 28 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY

A) CURRENT ASSETS AND LIABILITIES

CURRENT ASSETS	FOREIGN CURRENCY	FUNTIONAL CURRENCY	DECEMBER 31, 2016		DECEMBER 31, 2015	
			MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 91 TO 1 YEAR	MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 91 TO 1 YEAR
			THCH$	THCH$	THCH$	THCH$
Cash and cash equivalents	Dollars	CH$	12,852,827	-	23,776,117	-
	Other Currency	CH$	12,871	-	30,968	-

CURRENT LIABILITIES	FOREIGN CURRENCY	FUNTIONAL CURRENCY	DECEMBER 31, 2016		DECEMBER 31, 2015	
			MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 91 TO 1 YEAR	MATURITY LESS THAN 90 DAYS	MATURITY MORE THAN 91 TO 1 YEAR
			THCH$	THCH$	THCH$	THCH$
Other financial liabilities, current	Dollars	CH$	4,092,062	13,742,982	10,744	2,045,790

B) NON-CURRENT ASSETS AND LIABILITIES

NON-CURRENT ASSETS	FOREIGN CURRENCY	FUNCTIONAL CURRENCY	DECEMBER 31, 2016			DECEMBER 31, 2015		
			1 TO 3 YEAR	3 TO 5 YEAR	MORE THAN 5 YEAR	1 TO 3 YEAR	3 TO 5 YEAR	MORE THAN 5 YEAR
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Trade and other receivables	Dollar	CH$	-	-	-	-	-	-
	Other Currency	CH$	-	-	-	-	-	-
Property, plant and equipment	Dollars	CH$	-	-	-	-	-	-
	Other Currency	CH$	-	-	-	-	-	-
Deferred tax assets	Dollars	CH$	-	-	-	-	-	-
	Other Currency	CH$	-	-	-	-	-	-

NON-CURRENT ASSETS	FOREIGN CURRENCY	FUNCTIONAL CURRENCY	DECEMBER 31, 2016			DECEMBER 31, 2015		
			1 TO 3 YEAR	3 TO 5 YEAR	MORE THAN 5 YEAR	1 TO 3 YEAR	3 TO 5 YEAR	MORE THAN 5 YEAR
			THCH$	THCH$	THCH$	THCH$	THCH$	THCH$
Other financial liabilities, non-current	Dollars	CH$	97,697	109,990	676,684,140	96,106	108,199	474,740,739
	Other Currency	CH$	-	-	-	-	-	-
Other liabilities, non-current	Dollars	CH$	-	-	-			
	Other Currency	CH$	-	-	-	-	-	-
						-	-	-
Non-current provisions for employee benefits	Dollars	CH$	-	-	-	-	-	-
	Other Currency	CH$	-	-	-	-	-	-

NOTE 29 - SUBSEQUENT EVENTS

Between December 31, 2016, closing date of these Interim Financial Statements and the date of issuance, there have been no significant financial and accounting events that may affect the equity of the Company or the interpretation of these Interim Financial Statements.

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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.

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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.

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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	DECEMBER 2015	VARIATION 2016/2015	VARIATION 2016/2015
	MCH$	MCH$	MCH$	%
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	DECEMBER 2015	VARIATION 2016/2015	VARIATION 2016/2015
	MCH$	MCH$	MCH$	%
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%

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OUTSTANDING DEBT

DEBT	CURRENCY OR INDEX	INTEREST RATE	TYPE OF RATE	MATURITY DATE	AMOUNT IN ORIGINAL CURRENCY (MILLION) (UNPAID CAPITAL)	
					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	-	16,0000

* 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	DECEMBER 2015	VARIATION 2016/2015	VARIATION 2016/2015
	MM$	MM$	MM$	%
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,	US$250,000,000	15-oct-17	Working Capital

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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	4.8	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.

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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.

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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:

IN MILLION PESOS	DECEMBER 2016		DECEMBER 2015	
	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

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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

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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.

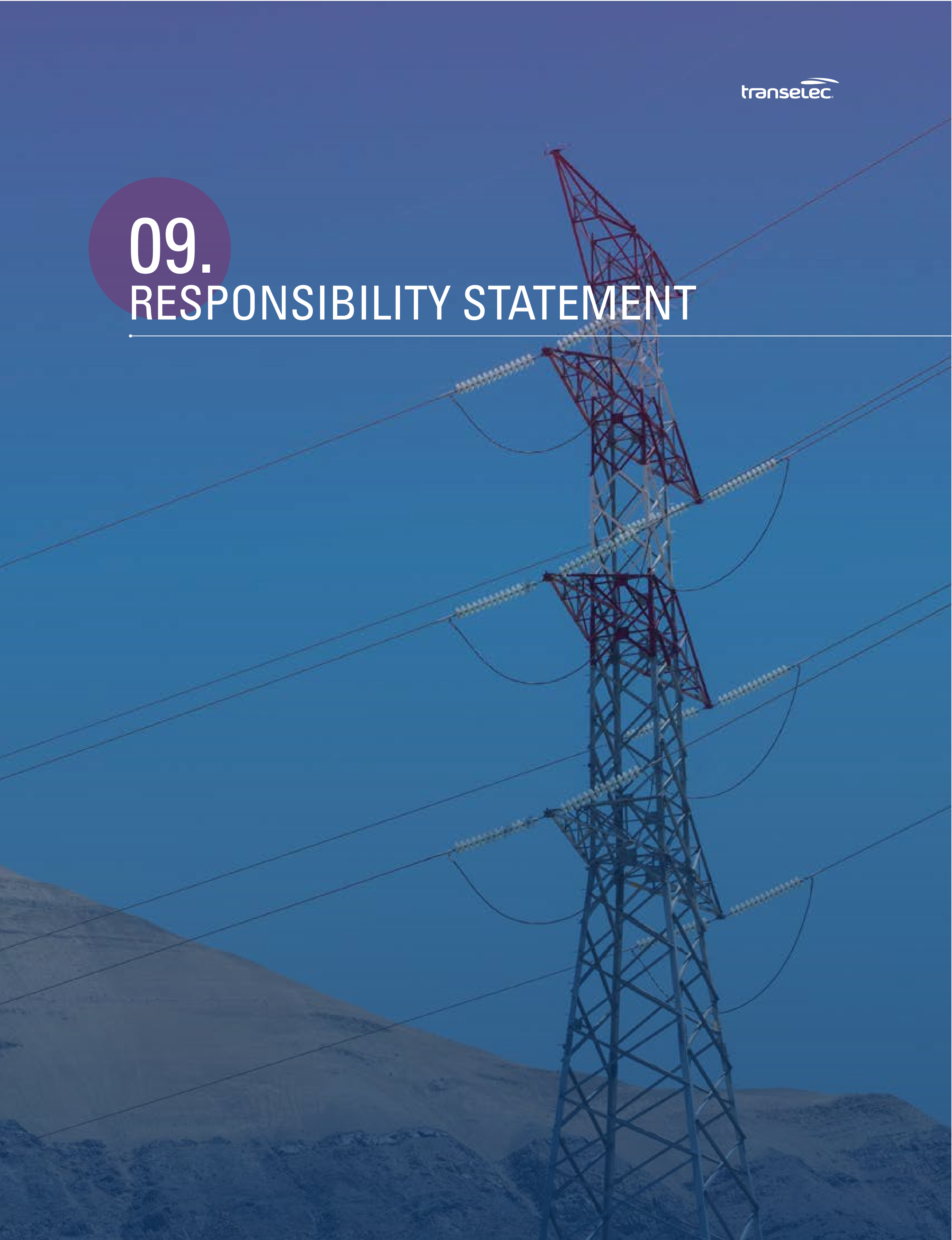
The objective of interest rate risk management is to achieve a balanced debt structure, decrease the impact on costs due to interest rate variations and, reduce volatility in the income statement.

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.

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**

09.
RESPONSIBILITY STATEMENT



RESPONSIBILITY **STATEMENT**

Both the Directors and the CEO of Transelec S.A., which are signing this declaration, are responsible, under oath, regarding the accuracy of the information provided in this 2016 Annual Report, pursuant to General Norm No. 30, issued by the Superintendency of Securities and Insurance.

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Chairman
Foreign

Paul Dufresne
Director
Foreign

Brenda Eaton
Director
Foreign

Bruno Philippi Irarrázabal
Director
I.D.: 4,818,243-7

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José Ramón Valente Vias
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