

Consolidated Financial Statements (No Audited)

TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile

As of March 31, 2018 and December 31, 2017

Consolidated Financial Statements (No Audited)

TRANSELEC S.A. AND SUBSIDIARY

As of March 31, 2018

(Translation of the Financial Statements originally issued in Spanish)

- \$: Chilean Pesos
- ThCh\$: Thousands of Chilean Pesos
- UF : Unidades de Fomento or UF, is an inflation- indexed, Chilean-peso denominated monetary unit. The UF is set daily in advance based on the changes in the Chilean Consumer Price Index (CPI) of the previous months.
- US\$: US Dollars
- ThUS\$: Thousands of US Dollars

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Consolidated Financial Statements (No Audited)

TRANSELEC S.A. AND SUBSIDIARY

As of March 31, 2018 and December 31, 2017

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position
As of March 31, 2018 and December 31, 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

ASSETS	Note	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
CURRENT ASSETS			
Cash and cash equivalents	(5)	60,419,533	61,628,069
Other financial assets	(9)	884,540	873,333
Other non-financial assets		4,210,863	3,758,876
Trade and other receivables	(6)	47,368,119	45,225,066
Receivables from related parties	(7)	25,876,368	34,323,681
Inventory	(8)	30,338	30,171
Total current assets		138,789,761	145,839,196
NON-CURRENT ASSETS			
Other financial assets	(9)	23,787,260	24,175,081
Other non-financial assets		5,036,774	5,213,740
Receivables from related parties	(7)	204,131,576	190,683,003
Intangible assets other than goodwill	(10)	180,872,130	180,362,355
Goodwill	(10-29)	343,059,078	343,059,078
Property, plant and equipment	(11)	1,461,279,856	1,456,268,115
Deferred tax assets	(12)	26,245	34,410
Total non-current assets		2,218,192,919	2,199,795,782
Total Assets		2,356,982,680	2,345,634,978

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Consolidated Statements of Financial Position
As of March 31, 2018 and December 31, 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

EQUITY AND LIABILITIES	Note	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
CURRENT LIABILITIES			
Other financial liabilities	(13)	35,716,120	51,129,853
Trade and other payables	(14)	45,417,081	56,494,365
Current provisions for employee benefits	(17)	3,947,782	6,823,042
Current tax liabilities		193,662	162,101
Other non-financial liabilities		23,161,063	1,980,423
Total current liabilities		108,435,708	116,589,784
NON-CURRENT LIABILITIES			
Other financial liabilities	(13)	1,377,592,354	1,352,903,027
Deferred tax liabilities	(12)	82,765,167	79,303,942
Non-current provisions for employee benefits	(17)	4,362,552	4,533,592
Other non-financial liabilities		5,845,330	5,944,722
Total non-current liabilities		1,470,565,403	1,442,685,283
Total liabilities		1,579,001,111	1,559,275,067
EQUITY			
Paid-in capital	(19)	776,355,048	776,355,048
Retained earnings		19,403,759	18,712,014
Other reserves	(19)	(17,777,238)	(8,707,151)
Total equity attributable to owners of the parent		777,981,569	786,359,911
Non-controlling interest		-	-
Total equity		777,981,569	786,359,911
Total Equity and Liabilities		2,356,982,680	2,345,634,978

Consolidated Statements of Comprehensive Income by Function
For the three-month periods ended March 31, 2018 and 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	03/31/2018 ThCh\$	03/31/2017 ThCh\$
Statement of comprehensive income by function			
Operating revenues	(20)	68,456,228	67,587,974
Cost of sales	(21)	<u>(19,108,971)</u>	<u>(17,838,871)</u>
GROSS MARGIN		49,347,257	49,749,103
Administrative expenses	(21)	(4,919,817)	(4,995,340)
Other gains (losses), net	(20)	672,434	728,153
Financial income	(20)	2,125,652	2,321,157
Financial expenses	(21)	(16,498,286)	(16,701,607)
Foreign exchange differences, net	(21)	37,547	132,197
Income by indexed units	(21)	(4,505,389)	(3,381,803)
Profit Before Income Taxes		26,259,398	27,851,860
Income tax expense	(22)	<u>(6,855,641)</u>	<u>(6,602,137)</u>
Profit from continuing operations		<u>19,403,757</u>	<u>21,249,723</u>
Profit (loss) from discontinued operations		<u>-</u>	<u>-</u>
Profit (loss)		19,403,757	21,249,723
PROFIT (LOSS) ATTRIBUTABLE TO:			
Profit attributable to the owners of the parent company		19,403,757	21,249,723
Profit (loss) attributable to non – controlling interest		-	-
PROFIT		19,403,757	21,249,723
EARNINGS PER SHARE			
Basic earnings per share/diluted			
Basic earnings per share/diluted from continuing operations	(23)	<u>19,404</u>	<u>21,250</u>
Basic earnings (loss) per share/diluted from discontinued operations		<u>-</u>	<u>-</u>
Basic earnings per share/diluted	(23)	19,404	21,250

Consolidated Statements of Comprehensive Income by Function
For the three-month periods ended March 31, 2018 and 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	03/31/2018 ThCh\$	03/31/2017 ThCh\$
PROFIT (LOSS)	19,403,757	21,249,723
Components of other comprehensive income, before taxes		
Foreign Currency Translation		
Gains (losses) on foreign currency translation differences, before taxes	(492,452)	(492,452)
Cash flow hedges		
Gains (losses) on cash flow hedges, before taxes	(11,932,325)	(5,449,622)
Income taxes related to components of other comprehensive income		
Income taxes related to components of net investment hedge	132,962	132,962
Income taxes related to components of cash flow hedge	3,221,728	1,471,398
Other comprehensive income	(9,070,087)	(4,337,714)
Total comprehensive income	10,333,670	16,912,009
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	10,333,670	16,912,009
Comprehensive income attributable to non-controlling interest	-	-
Total comprehensive income	10,333,670	16,912,009

TRANSELEC S.A. AND SUBSIDIARY

Interim Consolidated Statement of Changes in Equity
For the three-month periods ended March 31, 2018 and 2017
(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 Other reserves	Retained Earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2018	776,355,048	1,858,266	(10,250,663)	(314,754)	(8,707,151)	18,712,014	786,359,911	-	786,359,911
Changes in equity:									
Comprehensive income:									
Profit	-	-	-	-	-	19,403,757	19,403,757	-	19,403,757
Other comprehensive income	-	(359,490)	(8,710,597)	-	(9,070,087)	-	(9,070,087)	-	(9,070,087)
Total comprehensive income	-	(359,490)	(8,710,597)	-	(9,070,087)	19,403,757	10,333,670	-	10,333,670
Dividends	-	-	-	-	-	(18,712,012)	(18,712,012)	-	(18,712,012)
Total changes in equity	-	(359,490)	(8,710,597)	-	(9,070,087)	691,745	(8,378,342)	-	(8,378,342)
Closing balance as of March 31, 2018 (Note 19)	776,355,048	1,498,776	(18,961,260)	(314,754)	(17,777,238)	19,403,759	777,981,569	-	777,981,569

	Paid-in capital	Reserve for foreign translation adjustment	Reserve for cash flow hedges	Other reserves	Total Other reserves	Retained Earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2017	776,355,048	3,309,179	(26,626,110)	(314,754)	(23,631,685)	19,757,325	772,480,688	-	772,480,688
Changes in equity:									
Comprehensive income:									
Profit	-	-	-	-	-	21,249,723	21,249,723	-	21,249,723
Other comprehensive income	-	(359,490)	(3,978,224)	-	(4,337,714)	-	(4,337,714)	-	(4,337,714)
Total comprehensive income	-	(359,490)	(3,978,224)	-	(4,337,714)	21,249,723	16,912,009	-	16,912,009
Dividends	-	-	-	-	-	-	-	-	-
Total changes in equity	-	(359,490)	(3,978,224)	-	(4,337,714)	21,249,723	16,912,009	-	16,912,009
Closing balance as of March 31, 2017 (Note 19)	776,355,048	2,949,689	(30,604,334)	(314,754)	(27,969,399)	41,007,048	789,392,697	-	789,392,697

The accompanying notes number 1 to 30 form an integral part of these interim consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARY
Interim Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2018 and 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

Direct Statement of Cash Flows	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Cash flows provided by (used in) operating activities		
Classes of receipts from operating activities		
Cash receipts from sales of goods and services	92,628,684	109,120,956
Other proceeds from operating activities	370,082	10,331
Proceeds from interest received	508,223	338,763
Classes of payments		
Payments to suppliers for goods and services	(35,909,534)	(33,394,045)
Other payments for operating activities	(18,886)	(15,471)
Payments to employees	(6,703,584)	(5,600,222)
Interest paid	(20,394,663)	(21,578,648)
Income tax reimbursed (paid)	-	-
Net cash flows provided by operating activities	30,480,322	48,881,664
Cash Flows Provided by (Used in) Investing Activities		
Cash flows used to obtain control of subsidiaries or other businesses	-	(8,727,880)
Additions of property, plant and equipment	(25,299,182)	(28,016,867)
Amounts from the sale of property, plant and equipment	2,596,524	-
Prepayment of cash and loans granted to third parties	-	-
Loans to related parties	(8,986,200)	(26,540,613)
Receivables from related parties	-	-
Net cash flows used in investing activities	(31,688,858)	(63,285,360)
Cash Flows Provided by (Used in) Financing Activities		
Amount proceeding from loans	-	-
Payment of loans	-	-
Dividends paid	-	-
Other Inflows (Disbursements)	-	-
Net cash flows used in financing activities	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,208,536)	(14,403,696)
Cash and Cash Equivalents, at the beginning of the year (Note 5)	61,628,069	54,646,538
Cash and Cash Equivalents, at the ending of the year (Note 5)	60,419,533	40,242,842

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
As of March 31, 2018 and December 31, 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(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 Superintendence 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.

On March 31, 2017, Transelec S.A acquired 100% shares of the company Transmisión Del Melado SpA.; thus, taking control of this entity during April 2017. For this reason, Transelec S.A. changes from preparing the individual financial statements as of December 31, 2016, to preparing consolidated financial statements as of June 30, 2017.

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.

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
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(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 1 - GENERAL INFORMATION (continued)

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

As of January 16, 2018 the SVS was replaced by the Commission for the Financial Market (CMF).

The Consolidated Financial Statements of the Company for the year ended December 31, 2017, were approved by the board at its meeting held on March 21, 2018.

The issue of these Consolidated Financial Statements corresponding to March 31, 2018, was approved by the Board of Directors at Ordinary Meeting No. 169 of May 23, 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing the interim consolidated financial statements are detailed below. These policies have been based on IFRS in effect as of March 31, 2018 and applied uniformly for the periods presented.

2.1 Basis of preparation of the consolidated 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 Consolidated Financial Statements have been prepared from the accounting records maintained by the Company. The figures in these Consolidated 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 Consolidated 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 consolidated financial statements are described in Note 4.

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

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Notes to the Consolidated Financial Statements
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(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.1 Basis of preparation of the interim consolidated financial statements (continued)

The accounting policies adopted in the preparation of the Consolidated Financial Statements are consistent with those applied in the preparation of the annual individual financial statements of the Company for the year ended December 31, 2017, except for the adoption of new standards and interpretations in effect as of January 1, 2018, which did not materially affect the consolidated financial statements.

2.2 Basis of Consolidation of the Financial Statements

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, including all its assets, liabilities, revenue, expenses and cash flows after carrying out the amendments and eliminations related to the transactions between the companies that form part of the consolidation.

A subsidiary is a company over which Transelec S.A. exercises control in accordance with IFRS 10. In order to comply with the definition of control according to IFRS 10, three criteria must be complied with, namely: (a) an investor has the power over the relevant activities of the investee, (b) the investor is exposed, or has rights to, variable returns from the share in the investee, (c) the investor has the ability to use its power over the investee to exercise influence over the amount of income of the investor. Non-controlling interest represents the amount of net assets and profit or loss that are not property of the Parent Company, which is presented separately in the comprehensive income statement and within equity in the consolidated statement of financial situation.

Acquisition of a subsidiary is recorded in accordance with IFRS 3 “Business Combinations”, using the equity method. This method requires the recognition of identifiable assets (including intangible assets previously unrecognized and goodwill) and liabilities acquired at fair value on the acquisition date. Non-controlling interest is recognized by the portion owned by minority shareholders on the value of recognized assets and liabilities.

The excess of acquisition cost on the fair value of the share of the Company in the acquired identifiable net assets is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

The financial statements of the subsidiary have been prepared on the same date as those of the Parent Company and the accounting policies have been applied uniformly, considering the specific nature of each business unit.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.2 Bases of Consolidation of the Financial Statements (continued)

The information regarding the entity in which the Company has control and that forms part of the consolidation is detailed as follows:

Rut	Subsidiary	Participation Share		Country of origin	Functional currency
		03-31-2017	12-31-2017		
76.538.831-7	Transmisión del Melado SpA	100%	100%	Chile	Ch\$

2.3 International Financial Reporting Standards

2.3.1 Amendments and/or Modifications

The standards and interpretations, as well as the improvements and modifications to IFRS, that have been issued and gone into effect as of the date of these financial statements are detailed below:

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

2.3.2 New Accounting Pronouncements

The standards and interpretations, as well as the improvements and amendments to IFRS, which have been issued but are not yet effective at the date of these consolidated financial statements, are detailed below. The Company has not adopted these standards in advance:

New Standards		Date of obligatory application
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021

New Standards

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 currently evaluating the impact that this modification could generate.

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Notes to the Consolidated Financial Statements
As of March 31, 2018 and December 31, 2017
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3 International Financial Reporting Standards (continued)

2.3.2 New Accounting Pronouncements (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued an Interpretation on IFRIC 23, which clarifies the application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. This interpretation is applicable for annual reporting periods beginning on or after January 1, 2019.

To date, the Company is evaluating the impacts that this modification could generate.

IFRS 17 Insurance Policies

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them.

IFRS 17 is effective for reporting periods starting on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15.

To date, the Company is evaluating the impacts that this modification could generate.

2.3.3 Enhancements and Modifications

The standards and interpretations, as well as the improvements and modifications to IFRS that have been issued and will go into effect after the date of these financial statements are detailed below.

Enhancements and Modifications		Date of obligatory application
IFRS 3	Business Combinations	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2019
IFRS 11	Joint Arrangements	January 1, 2019
IAS 12	Income Taxes	January 1, 2019
IAS 19	Benefits to employees- plan amendment, curtailment or settlement	January 1, 2019
IAS 23	Borrowing Costs	January 1, 2019
IAS 28	Investments in associates	January 1, 2019
IFRS 10 and IAS 28	Consolidated financial statements	TBD

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3 International Financial Reporting Standards (continued)

2.3.3 Enhancements and Modifications (continued)

IFRS 3 “Business Combinations”

The amendments clarify that when an entity obtains control of an entity that is a joint operation, it applies the requirements for a business combination in stages, including interests previously held on the assets and liabilities of a joint operation presented at fair value. The amendments must be applied to business combinations carried out after January 1, 2019. 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 Consolidated Financial Statements.

IFRS 9 “Financial Instruments – Prepayment Features with Negative Compensation”

A debt instrument can be measured at amortized cost, cost or fair value through other comprehensive income, as long as the contractual cash flows are only payment of principal and interest on pending principal and the instrument is carried out within the business model for that classification. The amendments to IFRS 9 are intended to clarify that a financial asset complies with the criterion of only payment of principal plus interest regardless of the event or circumstance that causes the early termination of the contract or of which party pays or receives the reasonable compensation for early termination of the contract.

The amendments to IFRS 9 must be applied when the prepayment is similar to the unpaid amounts of capital and interest, in such a way that they reflect the change in the referential interest rate. This implies that prepayments at fair value or for an amount that includes the fair value of the cost of the associated hedging instrument, normally will satisfy the criterion of payment of principal plus interest only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are not representative. Application will commence as of January 1, 2019 and is retrospective. Early adoption is allowed.

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

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2.3 International Financial Reporting Standards (continued)

2.3.3 Enhancements and Modifications (continued)

IFRS 11 “Joint Arrangements”

The amendment affects joint arrangements on interests previously held in a joint operation. A party that participates, but does not have joint control of a joint operation, could obtain control if the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that interests previously held in that joint operation are not measured again at the time of the operation. The amendments must be applied to transactions in which joint control is acquired that are carried out after January 1, 2019. 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 Consolidated Financial Statements.

IAS 12 “Income Taxes”

The amendments clarify that income tax on dividends generated by financial instruments classified as equity is more directly associated to past transactions or events that generated distributable profits rather than to distributions to the owners. Therefore, an entity recognizes the income tax on dividends in income, other comprehensive income or equity depending on where the entity originally recognized these transactions or past events. The amendments must be applied to dividends recognized after January 1, 2019.

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

IAS 19 “Benefits to employees- plan amendment, curtailment or settlement”

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

The amendments require a company to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments specify that when a plan amendment, curtailment or settlement during the annual reporting occurs, the Entity should:

- Determine the actual cost of services for the rest of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to measure the liability (asset) of the defined benefit plan, in a net basis, showing the benefits and assets of the plan after the event

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2.3 International Financial Reporting Standards (continued)

2.3.3 Enhancements and Modifications (continued)

IAS 19 “Benefits to employees- Modification, reduction or liquidation of the plan”

- Determine the net interest for the rest of the period after the plan amendment, curtailment or settlement using: the liability (asset), net from the defined benefits, that shows the benefits and assets of the plan before the event; and the discount rate used to reassess the liability (asset) net for the defined benefit plan.

The amendments clarify that an Entity has to determine first any cost of past services, or a gain or loss in the settlement, without considering the effect of the asset ceiling. This amount is recorded in the Profit or Loss. Then, an Entity has to determine the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in this effect, excluding the amount related to the net interest, has to be recorded into the Other Comprehensive Income.

This clarification set that the entities could recognize a cost of past service, or a result in the settlement that generate a decrease in a no recognized surplus. Changes in the asset ceiling effect won't be offset with this effect.

The amendments are applicable to the plan amendment, curtailment or settlement and go into effect on January 1, 2019. Early adoption is permitted and it should be disclosed.

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

IAS 23 “Borrowing Costs”

The amendments clarify that an entity treats as general borrowings any indebtedness originally entered into to develop a qualifying asset when substantially all activities necessary to get that asset ready for use or sale are completed. Amendments must be applied as of January 1, 2019.

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

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2.3 International Financial Reporting Standards (continued)

2.3.3 Enhancements and Modifications (continued)

IAS 28 “Investments in Associates”

The modifications clarify that an entity applies IFRS 9 Financial Instruments for long-term investments in associates or joint ventures for those investments that do not apply the equity share method but that, in substance, form part of the net investment in the associate or joint venture. This clarification is relevant because it implies that the expected credit loss model, described in IFRS 9, is applied to these interests in the long-term. Entities must apply the amendments retrospectively, with certain exceptions. They shall go into effect on January 1, 2019, and early adoption is permitted.

The Company evaluated the possible impact generated by this new standard, and concluded that it will not significantly affect its Consolidated Financial Statements.

IAS 28 - “Investments in Associates and Joint Ventures”, IFRS 10 “Consolidated Financial Statements”

The amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) address an inconsistency recognized between the requirements of IFRS 10 and those of IAS 28 (2011) in the treatment of the sale or contribution of assets between an investor and its associate or joint venture. Amendments issued in September 2014 establish that when the transaction involves a business (found in a subsidiary or not), a complete profit or loss is recognized. A partial profit or loss is recognized when the transaction involves assets that do not constitute a business, even when the assets are found in a subsidiary. The date of obligation application of these modifications is yet to be determined as the IASB is planning an in-depth investigation that may result in a simplification of the accounting of associates and joint ventures. Early adoption is permitted.

The Company evaluated the possible impact generated by this new standard, and concluded that it will not affect its Consolidated Financial Statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 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.

2.4.3 Exchange rates

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

Currency	Pesos per unit	
	March 31, 2018	December 31, 2017
Unidad de Fomento	26,966.89	26,798.14
US\$	603.39	614.75
Euro	741.90	739.15

2.5 Financial reporting by operating segments

The Company manages its operations and presents information in the Interim Consolidated Financial Statements based on a single operating segment, Electricity transmission.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.6 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

The depreciation of these assets is recorded in the Statement of Income under the categories of Cost of Sales and Administrative and Sales Expenses.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.7 Intangible assets

2.7.1 Goodwill

Goodwill represents the excess of acquisition cost on the fair value of net assets acquired in a business combination. Goodwill is not amortized, it is annually tested for impairment, regardless if there is any indication of impairment. For impairment testing, goodwill acquired in a Business combination is assigned as of the acquisition date to the cash generation units that are expected to benefit from said combination.

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

2.7.2 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.

2.7.3 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 and administrative expenses.

2.8 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.

The Company has defined its only operating segment the Transmission of Electricity as a Cash Generating Unit (CGU) for the purposes of impairment tests and, therefore, both goodwill and intangible assets with an indefinite useful life existing at the date of the impairment test are completely assigned to this CGU.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.8 Impairment of non-financial assets (continued)

The variable to which the value in use model is most sensitive is the discount rate. The main variables considered in the impairment test are:

Variable	March 2018	December 2017	Description
Discount rate	9.79%	9.79%	The discount rate used is the weighted average cost of capital (WACC) of the Company, measured before taxes.
Growth rate	3.00%	3.00%	The growth rate is applied to the perpetuity and is based on the estimation of the long-term inflation expectation established by the Central Bank of Chile.
Period of estimation of flows	5 years	5 years	The estimation period is 5 years, based on the Company's internal business plan plus perpetuity.

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial assets (continued)

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, 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.

2.10 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.10 Financial instruments and hedge activities (continued)

2.10.1 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.

2.10.2 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.

2.10.3 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)".

2.10.4 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".

2.10.5 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.10 Financial instruments and hedge activities (continued)

2.10.5 Embedded derivatives (continued)

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

2.11 Inventory

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

2.12 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. There is no restricted cash.

2.13 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.

2.14 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.

2.15 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.15 Income tax and deferred taxes (continued)

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 consolidated financial statement 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.

2.16 Employee benefits

2.16.1 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.16 Employee benefits (continued)

2.16.2 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.

2.17 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.

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 Consolidated Financial Statements, Transelec have no obligation to establish provision for environmental restoration and similar expenses.

2.18 Classification of current and non-current balances

In the consolidated 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.

2.19 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. On July 11, 2016, the new Transmission Law was enacted, which creates an Independent Coordinating entity of the National Electrical System (NES), called National Electrical Coordinator (CEN, according to the Spanish acronym), which groups the previous DEC SIC and CDEC SING; in addition, it establishes a new Electrical Transmission System in which the trunk transmission system, the subtransmission system and additional systems now form part of National, Zone and Committed.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.19 Revenue recognition (continued)

Transmission System, respectively. To the remuneration received from the transmitter, a variable discount rate will be applied with a minimum of 7% and a maximum of 10% after taxes. The law enters into effect immediately and gradually until its full application as of 2020.

Company's revenues are generated by the remuneration from customers for the use of its transmission facilities. The Company has two types of contracts with customers: regulated and contractual. The first one is subject to regulatory rates while the second one is related to contractual agreements with the user of the transmission facilities.

The total revenues 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.

The Company has the right to collect from its customers a "toll" which is composed by an "AVI+COMA" related to the use of its transmission facilities. The Electrical Law establishes these "AVI+COMA" as integral components in rendering the transmission service. Therefore, due to these services are substantially the same and they have the same stream of transference to customers, in other words, both services are satisfied through the time with a similar progress measurement; The company has defined that there is a unique performance obligation and it is satisfied during a period of time, therefore revenues are recognized in the same base.

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from 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.

2.20 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.

2.20.1 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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.20 Leases (continued)

2.20.1 The Company as lessor (continued)

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.

2.20.2 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, 2017, 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.

2.21 Distribution of dividends

Dividends payable to the Company's shareholders are recognized as a liability in the Consolidated 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.

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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.

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

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 March 31, 2018 and December 31, 2017 were at fixed rate.

Debt	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (thousand)	
				March 31, 2018	December 31, 2017
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	350,000
Revolving Credit Facility	USD	3.56%	Floating (*)	-	-
Revolving Credit Facility	UF	1.03%	Floating (**)	-	-
Local Bank Promissory Note	CLP	2.77%	Fixed	20,000,000	20,000,000

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.1 Interest rate risk (continued)

(*) The floating rate 3.56% of the Revolving credit facility breaks down in 3M LIBOR plus a margin of 1.25%. At March 31, 2018, the Company did not utilize this line therefore does not pay interest of 3.56% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

(**) The floating rate 1.03% of the Revolving credit facility breaks down in TAB UF 180 plus a margin of 0.25%. At March 31, 2018, the Company did not utilize this line therefore does not pay interest of 1.03% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

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 (MillionCh\$)		
		Inflation (3%)	Inflation (4%)	Inflation (2%)
Bono D	(13,545,266)	(10,958)	(14,611)	(7,305)
Bono H	(3,025,444)	(2,448)	(3,263)	(1,632)
Bono K	(1,605,208)	(1,299)	(1,731)	(866)
Bono M	(1,484,824)	(1,201)	(1,602)	(801)
Bono M1	(1,859,860)	(1,505)	(2,006)	(1,003)
Bono N	(2,913,987)	(2,357)	(3,143)	(1,572)
Bono Q	(3,128,172)	(2,531)	(3,374)	(1,687)
Total	(27,562,761)	(22,299)	(29,730)	(14,866)

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.
- Transelec maintains Cross Currency Swap contracts, which offset exchange rate risks of international emissions made in 2014 and 2016, for notional amounts equivalent to US\$ 375 million and US\$ 350 million, respectively (Long-term position).
- Maintains lease contracts that generate income indexed to US dollars.

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.2 Exchange rate risk (continued)

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	
	March 31, 2018 MM\$	December 31, 2017 MM\$	March 31, 2018 MM\$	December 31, 2017 MM\$
U.S. dollar (amounts associated with balance sheet items)	615,705	632,905	376,119	637,899
Chilean peso	1,726,913	1,709,713	1,966,500	1,704,719

- a) The indexation formulas applied biannually and incorporated into the toll contracts of the zone System (former Subtransmission) as well as the monthly application for the regulated revenue of the National System (former trunk system) allow presentation of the variations of the value of the installations and the costs of operation, maintenance and management. Generally, these indexation formulas contemplate the variations in the international equipment prices, material prices and national manpower prices.

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.

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.2 Exchange rate risk (continued)

3.1.1.2.1 Sensivity analysis (continued)

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.

Item (Currency)	Position	Net income (gain)/loss		Position	OCI (gain)/loss	
	MM\$ Long /(Short)	Change (-10%)	Change (+10%)	MM\$ Long /(Short)	Change (-10%)	Change (+10%)
Cash (US\$)	1,302	(2)	2	-	-	-
Leasing (US\$)	24,289	(45)	45	-	-	-
Senior Notes (US\$)	(603,387)	1,129	(1,129)	-	-	-
Financial instrument swap	422,811	(791)	791	(36,719)	69	(69)
Intercompany loan (US\$)	153,761	(288)	288	-	-	-
Total	(1,224)	3	(3)	(36,719)	69	(69)

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	Periods ended March 31, 2018 ThCh\$	Periods ended March 31, 2017 ThCh\$
	Enel Group	24,336,122
Colbún Group	11,429,980	12,761,590
AES Gener Group	9,416,720	11,423,913
Engie (E-CL) Group	4,308,455	3,242,538
Pacific Hydro-LH-LC Group	1,518,192	1,772,977
Others	17,446,759	10,458,817
Total	68,456,228	67,587,974
% of concentration of top customers	74.51%	84.53%

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.2 Credit risk (continued)

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.

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 Transelec is capable of responding financially to both investment opportunities and the timely fulfillment of its financial obligations, the company has, in addition to its available cash and short-term accounts receivable, a committed revolving credit line for use as working capital in the amount of US\$250 million approximately, equivalent MM\$250. To date, this line does not record the balance of the amounts used. This committed credit line was taken out for the first time on July 9, 2012, and renegotiated and extended in 2014 and 2017. The last renewal on August 3, 2017, maintains the total amount, but includes a tranche in Chilean pesos and another in dollars, and also includes other improvements. It was granted for a 3-year period by a syndicate of banks composed of Scotiabank, Bank of Tokyo-Mitsubishi, SMBC, EDC, DnB NOR and Banco Estado. This line includes no clause on material adverse changes. 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.

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NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.3 Liquidity risk (continued)

a) Risk associated to Company's management (continued)

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 March 31, 2018 and December 31, 2017.

Debt maturity	Less than 1 Years	1 to 3 Years	3 to 5 Years	5 to 10 Years	More than 10 years	Total
March 31, 2018	77,625,631	114,789,596	114,789,596	991,791,508	720,311,742	2,019,308,073
December 31, 2017	77,922,990	115,384,313	115,384,313	1,006,579,351	728,357,797	2,043,628,764

The maturity of derivatives is presented Note 15.3.

b) Associated risk to the settlement of trunk transmission system tariff revenues (Ex Troncal)

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 Sistema Nacional (Ex Troncal) 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 CEN (National Electrical Coordinator) 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 CEN, 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.

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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.
- Contingent assets and liabilities.

Although the estimates mentioned above were made according to the best information available at the date of issuance of these Consolidated 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 Consolidated Financial Statements.

NOTE 5 - CASH AND CASH EQUIVALENTS

a) As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

	Balance as of	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Cash and Cash Equivalents		
Bank and cash balances	1,303,875	1,038,279
Short-term deposits	912,754	15,550,130
Reverse repurchase agreements and mutual funds	58,202,904	45,039,660
Total	60,419,533	61,628,069

Cash and cash equivalents included in the statement of financial position as of March 31, 2018 and December 31, 2017 does not differ from those presented in the statement of cash flows.

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NOTE 5 - CASH AND CASH EQUIVALENTS (continued)

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	
		March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Amount of cash and cash equivalents	U.S. dollars	1,263,990	15,888,701
Amount of cash and cash equivalents	Euros	21,240	28,717
Amount of cash and cash equivalents	Chilean pesos	59,134,303	45,710,651
Total		60,419,533	61,628,069

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

NOTE 6 - TRADE AND OTHER RECEIVABLES

As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

Item	Balance as of	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Trade receivables	48,489,987	46,370,798
Miscellaneous receivables	270,515	246,651
Total trade and other receivables	48,760,502	46,617,449
Provision for uncollectible amount (*)	(1,392,383)	(1,392,383)
Total trade and other receivables (net)	47,368,119	45,225,066

Refer to Note 7 for the amounts, terms and conditions of receivables from related parties.

As of December 31, 2017 and 2016, the aging of trade and other receivables is as follows:

	Balance as of	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Maturing in less than 30 days	32,156,779	27,490,966
Maturing in more than 30 days up to 1 year	15,211,340	17,734,100
Total	47,368,119	45,225,066

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NOTE 6 - TRADE AND OTHER RECEIVABLES (continued)

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 for 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 consolidated financial statements - there is no certainty that the Company will recover.

The movement of the provision for uncollectible amount is presented the period ended March 31, 2018 and December 31, 2017:

	ThCh\$
Balance as of January 1, 2017	1,392,383
Increase charged to the current period	-
Decrease due to utilization	-
Decrease due to reversals and receivables	-
Balance as of December 31, 2017	1,392,383
Increase charged to the current period	-
Decrease due to utilization	-
Decrease due to reversals and receivables	-
Balance as of March 31, 2018	1,392,383

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

7.1 Balances and transactions with related parties

Balances of receivables and payables between the company and its unconsolidated related companies are detailed as follows:

Receivables from related parties

Tax ID Number	Company	Country	Description	Maturity	Relation	Currency	Balance as of			
							Current		Non-current	
							March 31, 2018 ThCh\$	December 31, 2017 ThCh\$	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	Not defined	Direct parent	CH\$	23,672,090	30,947,951	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	3 years	Direct parent	CH\$	38,060	116,309	27,212,850	10,950,790
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years	Direct parent	UF	1,543,234	-	20,624,349	20,495,288
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years	Direct parent	US\$	137,541	-	156,294,377	159,236,925
76.248.725-K	CYT Operaciones SPA	Chile	Accounts receivable	Not defined	Indirect	CH\$	130,232	638,365	-	-
20601047005	Conelsur LT SAC	Peru	Accounts receivable	Not defined	Indirect	CH\$	-	25,162	-	-
76.524.463-3	Transelec Concesiones S.A	Chile	Mercantile current account	Not defined	Indirect	CH\$	355,211	2,595,894	-	-
Total							25,876,368	34,323,681	204,131,576	190,683,003

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.1 Balances and transactions with related parties (continued)

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	March 31, 2018		December 31, 2017	
					Amount	Effect on Income	Amount	Effect on Income
					ThCh\$	ThCh\$	ThCh\$	ThCh\$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Loans granted	25,248,260	-	26,540,933	-
76.560.200-9	Transelec Concesiones S.A.	Chile	Direct parent	Fixed asset purchase	2,596,524	-	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Interest received	1,774,324	1,774,324	1,935,405	1,935,405
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Exchange rate	2,934,643	2,934,643	(1,518,793)	(1,518,793)
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	UF Readjustment	129,378	129,378	28,001	28,001

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

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

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 27, 2017.

On March 15, 2018, in an Ordinary Meeting of Directors, Brenda Eaton was elected Chairman of the Board of Directors of Transelec upon resignation of Benjamin Vaughn.

7.2.1 Board of Directors' compensation

According to Article No. 33 of Law No. 18,046 on Corporations, at the Tenth Ordinary Shareholders' Board Meeting of Transelec S.A., held on April 27, 2017, it was agreed to maintain annual directors' allowance of US\$ 90,000, gross value, regardless of the number of meetings actually attended or held. The allowance is paid quarterly.

The directors Alfredo Ergas, Paul Dufresne, Brenda Eaton waived their allowance corresponding to the years 2017 and 2016. At the Ordinary Shareholders' Meeting for 2018, it was decided that the alternate directors would not receive an allowance.

During January 01, 2018 and March 31, 2018 an amount of \$12,448,687 was paid by director's allowance corresponding to the fourth quarter of 2017 to each Director. They were Mr. José Ramón Valente Vías, Mr. Bruno Philippi Irrarrázabal, Mr. Alejandro Jadresic Marinovic, Mr. Blas Tomic Errázuriz and Mr. Mario Alejandro Valcarce Durán.

	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Blas Tomic Errázuriz	13,832	15,063
José Ramón Valente Vías	13,832	15,063
Alejandro Jadresic Marinovic	13,832	15,063
Mario Alejandro Valcarce Durán	13,832	15,063
Bruno Pedro Philippi Irrarrázabal	13,832	15,063

7.3 Board expenses

During January 01, 2018 and March 31, 2018 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 Consolidated 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. During January 01, 2018 and March 31, 2018 the Audit Committee has held one session.

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.4 Audit committee (continued)

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.

As of the date of these consolidated financial statements, the Audit Committee is maintained.

On the Ordinary Shareholders' Meeting of Transelec S.A., held on April 27, 2017, shareholders established annual gross compensation for the Committee members at US\$ 10,000, regardless of the number of sessions actually attended or held.

The following compensation was received by members of the Audit Committee during 2018 and 2017:

	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
José Ramón Valente	6,174	6,695
Mario Alejandro Valcarce Duran	6,174	6,695

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 2018 and 2017 is detailed as follows:

	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Salaries	428,173	410,248
Short-term employee benefits	180,032	172,309
Long-term employee benefits	160,792	153,721
Total compensation received by key management personnel	768,997	736,278

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NOTE 8 - INVENTORY

As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

Classes of inventory	Balance as of	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Safety equipment	30,338	30,171
Total	30,338	30,171

NOTE 9 - OTHER FINANCIAL ASSETS, LEASES

As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Finance lease receivables current	848,531	834,163
Swap Contracts	36,009	39,170
Sub-total Other financial assets current	884,540	873,333
Finance lease receivables non-current	23,771,974	24,159,796
Other financial assets	15,286	15,285
Sub-total Other financial assets non-current	23,787,260	24,175,081
Total	24,671,800	25,048,414

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	March 31, 2018		
	Present Value (net investment) ThCh\$	Interest receivable ThCh\$	Nominal value (gross investment) ThCh\$
	Less than 1	848,531	2,586,809
1-5	4,871,304	12,326,411	17,197,715
Over 5	18,900,670	33,695,448	52,596,118
Total	24,620,505	48,608,668	73,229,173

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NOTE 9 - OTHER FINANCIAL ASSETS, LEASES (continued)

9.1 Finance lease receivables (continued)

Period in years	December 31, 2017		
	Present Value (net investment)	Interest receivable	Nominal value (gross investment)
	ThCh\$	ThCh\$	ThCh\$
Less than 1	834,163	2,614,170	3,447,937
1-5	4,803,073	12,535,691	17,338,764
Over 5	19,356,723	43,964,107	63,321,226
Total	24,993,959	59,113,968	84,107,927

Movements in finance leases:

	Balance as of	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Opening balance	24,993,959	12,529,212
Additions	-	14,380,951
Amortization	(205,120)	(1,120,335)
Translation difference	(168,334)	(795,869)
Ending balance	24,620,505	24,993,959

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:

	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Real estate lease	305,653	1,003,163
Other leases	135,600	899,565
Total operating leases	441,253	1,902,728

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NOTE 9 - OTHER FINANCIAL ASSETS, LEASES (continued)

9.2 Operating leases payable (continued)

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	76,413	305,653	-
Other leases	33,900	135,600	-
Total operating leases	110,313	441,253	-

NOTE 10 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of March 31, 2018 and December 31, 2017:

Intangible assets, net	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Rights of way (*)	174,923,889	173,991,593
Software	5,948,241	6,370,762
Total intangible assets	180,872,130	180,362,355
Goodwill	343,059,078	343,059,078
Total intangible assets, net	523,931,208	523,421,433

(*) As of March 31, 2018 and December 31, 2017 Transelec S.A. present intangible assets with indefinite useful lives under the classification of rights of way.

Intangible assets, gross	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Rights of way	174,923,889	173,991,593
Software	14,821,228	14,631,672
Goodwill	343,059,078	343,059,078
Total intangible assets	532,804,195	531,682,343

Accumulated amortization and impairment	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Software	(8,872,987)	(8,260,910)
Total accumulated amortization	(8,872,987)	(8,260,910)

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NOTE 10 - INTANGIBLE ASSETS (continued)

The composition and movements of intangible assets as of March 31, 2018 and December 31, 2017 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, 2018	173,991,593	6,370,762	343,059,078	523,421,433
Movements in intangible assets				
Additions	932,296	189,555	-	1,121,851
Amortization	-	(612,076)	-	(612,076)
Other increases (decreases)	-	-	-	-
Ending balance of intangible assets as of March 31, 2018	174,923,889	5,948,241	343,059,078	523,931,208

Movements in intangible assets	Rights of way	Software	Goodwill	Net intangible assets
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2017	173,854,650	4,034,231	342,651,175	520,540,056
Movements in intangible assets				
Additions	308,419	4,207,718	407,903	4,924,040
Amortization	-	(1,871,187)	-	(1,871,187)
Other increases (decreases)	(171,476)	-	-	(171,476)
Ending balance of intangible assets as of December 31, 2017	173,991,593	6,370,762	343,059,078	523,421,433

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of March 31, 2018 and December 31, 2017 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	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Land	20,696,130	20,696,130
Buildings and infrastructure	892,458,983	897,872,721
Work in progress	107,504,473	92,667,010
Machinery and equipment	434,724,119	439,189,740
Other property, plant and equipment	5,896,151	5,842,514
Property, plant and equipment, net	<u>1,461,279,856</u>	<u>1,456,268,115</u>
Property, plant and equipment, gross	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Land	20,696,130	20,696,130
Buildings and infrastructure	1,161,605,934	1,160,962,544
Work in progress	107,504,473	92,667,010
Machinery and equipment	644,743,447	643,508,830
Other property, plant and equipment	5,896,151	5,842,514
Total property, plant and equipment, gross	<u>1,940,446,135</u>	<u>1,923,677,028</u>
Total accumulated depreciation of property, plant and equipment, net	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Buildings and infrastructure	(269,146,951)	(263,089,823)
Machinery and equipment	(210,019,328)	(204,319,090)
Total accumulated depreciation of property, plant and equipment	<u>(479,166,279)</u>	<u>(467,408,913)</u>

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued)

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 March 31, 2018 and December 31, 2017:

	Land	Buildings and infrastructure	Machinery and equipment	Work in progress	Other property, plant and equipment	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance January 1, 2018	20,696,130	897,872,721	439,189,740	92,667,010	5,842,514	1,456,268,115
Movement						
Additions	-	-	-	17,639,010	53,637	17,693,346
Retirements	-	(371,075)	(162,281)	(114,627)	-	(647,983)
Transfer to operating assets	-	1,130,033	1,557,586	(2,687,619)	-	-
Depreciation	-	(6,172,696)	(5,860,926)	-	-	(12,033,622)
Other increases (decreases)	-	-	-	-	-	-
Balance as of March 31, 2018	20,696,130	892,458,983	434,724,119	107,504,473	5,896,151	1,461,279,856
	Land	Buildings and infrastructure	Machinery and equipment	Work in progress	Other property, plant and equipment	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance January 1, 2017	20,624,732	879,122,021	427,854,711	107,899,910	5,735,878	1,441,237,252
Movement						
Additions	-	13,579,482	2,046,352	115,546,434	106,636	131,278,904
Retirements	-	(8,522,732)	(10,588,897)	(47,759,954)	-	(66,871,583)
Transfer to operating assets	71,398	38,528,621	44,419,361	(83,019,380)	-	-
Depreciation	-	(24,168,848)	(23,265,482)	-	-	(47,434,330)
Other increases (decreases)	-	(665,823)	(1,276,305)	-	-	(1,942,128)
Balance as of December 31, 2017	20,696,130	897,872,721	439,189,740	92,667,010	5,842,514	1,456,268,115

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued)

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 March 31, 2018 and December 31, 2017 commitments to purchase items of property, plant and equipment arising from construction contracts under EPC (Engineering-Procurement-Construction) in the amount of ThCh\$64,730,792 and ThCh\$90,814,441, respectively.

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

	March 31, 2018	December 31, 2017
Capitalization rate (Annual basis)	4.96%	5.14%
Capitalized interest costs (ThCh\$)	777,174	4,085,618

Work in progress balances amounts to ThCh\$107,504,473 and ThCh\$92,667,010 as of March 31, 2018 and December 31, 2017 respectively.

NOTE 12 - DEFERRED TAXES

12.1 Detail of deferred tax assets

The origin of deferred taxes recorded as of March 31, 2018 and December 31, 2017, corresponding to the company Transmisión Del Melado SpA is detailed as follows:

Temporary Difference	Net deferred taxes	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Depreciable fixed assets	(373,876)	(340,807)
Tax Loss	400,121	375,217
Total deferred tax assets	26,245	34,410

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NOTE 12 - DEFERRED TAXES (continued)

12.2 Detail of deferred tax liabilities

The origin of deferred taxes recorded as of March 31, 2018 and December 31, 2017, corresponding to the company Transelec is detailed as follows:

Temporary differences

	Net deferred taxes	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Depreciable fixed assets	(132,508,848)	(127,866,573)
Financial expenses	(531,762)	(579,073)
Leased assets	(1,552,525)	(1,337,098)
Materials and spare parts	68,792	57,291
Tax losses	54,403,000	53,505,999
Staff severance indemnities provision	132,361	123,086
Deferred income	1,631,687	1,658,524
Investment value provision	12,955	12,955
Obsolescence provision	926,893	926,893
Work in progress	1,016,064	847,814
Vacation provisions	395,334	456,889
Intangible assets	(6,929,639)	(7,155,939)
Adjustment of effective interest rate of bonds	(2,697,994)	(2,800,614)
Land	1,448,423	1,399,435
Allowance for doubtful receivables	375,943	375,944
Tax goodwill	1,044,149	1,070,525
Net deferred tax assets/(liabilities)	(82,765,167)	(79,303,942)

Reflected in the statement financial position as follows:

Deferred tax assets	26,245	34,410
Deferred tax liabilities	(82,765,167)	(79,303,942)
Net deferred tax assets/(liabilities)	(82,738,922)	(79,269,532)

12.3 Deferred tax movements in statement of financial position

The movements of balances of deferred taxes in the statement of financial position for the periods March 31, 2018 and December 31, 2017 are as follows:

Deferred tax movements

	Asset ThCh\$	Liability ThCh\$
Balance as of January 1, 2017	-	47,566,763
Increase (decrease)	34,410	31,737,179
Balance as of December 31, 2017	34,410	79,303,942
Increase (decrease)	(8,165)	3,461,225
Balance as of March 31, 2018	26,245	82,765,167

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.

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NOTE 13 - FINANCIAL LIABILITIES

13.1 Other financial liabilities

The current and non-current portion of this account as of March 31, 2018 and December 31, 2017 is as follows:

Interest bearing loans	March 31, 2018		December 31, 2017	
	Current ThCh\$	Non- current ThCh\$	Current ThCh\$	Non- current ThCh\$
Bonds payable	13,518,425	1,334,001,827	26,828,532	1,339,291,031
Total bonds payable	13,518,425	1,334,001,827	26,828,532	1,339,291,031
Bank loans	20,364,717	-	20,230,833	-
Swap contract (Note 15)	1,832,978	33,509,527	4,070,488	13,611,996
Total obligations with banks	22,197,695	33,590,527	24,301,321	13,611,996
Total	35,716,120	1,377,592,354	51,129,853	1,352,903,027

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NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities

1. Bonds payable

The obligations with the public by series, currency, effective rate and expiration as of March 31, 2018 and December 31, 2017 are shown below:

Taxpayer 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	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
76.555.400-4	Transelec S.A	Chile	Chile	480	D	UF	4.37%	4.25%	At maturity	Semiannually	12-15-2027	365,273,697	359,042,847
76.555.400-4	Transelec S.A	Chile	Chile	599	H	UF	4.79%	4.80%	At maturity	Semiannually	08-01-2031	81,586,809	82,011,051
76.555.400-4	Transelec S.A	Chile	Chile	599	K	UF	4.61%	4.60%	At maturity	Semiannually	09-01-2031	43,287,471	43,492,151
76.555.400-4	Transelec S.A	Chile	Chile	599	M	UF	4.26%	4.05%	At maturity	Semiannually	06-15-2032	40,041,082	39,383,678
76.555.400-4	Transelec S.A	Chile	Chile	599	M-1	UF	4.23%	4.05%	At maturity	Semiannually	06-15-2032	50,154,648	49,321,317
76.555.400-4	Transelec S.A	Chile	Chile	599	N	UF	4.29%	3.95%	At maturity	Semiannually	12-15-2038	78,581,159	77,292,792
76.555.400-4	Transelec S.A	Chile	Chile	744	Q	UF	4.02%	3.95%	At maturity	Semiannually	10-15-2042	84,357,063	83,021,322
76.555.400-4	Transelec S.A	Chile	Foreign	1st issuance	Sr N	US\$	5.10%	4.63%	At maturity	Semiannually	07-26-2023	180,797,714	186,381,107
76.555.400-4	Transelec S.A	Chile	Foreign	2nd issuance	Sr N	US\$	4.66%	4.25%	At maturity	Semiannually	01-14-2025	225,279,556	231,994,945
76.555.400-4	Transelec S.A	Chile	Foreign	3rd issuance	Sr N	US\$	4.31%	3.88%	At maturity	Semiannually	01-12-2029	208,161,053	214,178,353
Total												1,357,520,252	1,366,119,563

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh\$1,516,269,720 and ThCh\$1,537,491,944 as of March 31, 2018 and December 31, 2017, respectively (it does not include other current and non-current liabilities such as swap agreements which are presented in the Consolidated 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.

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NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities (continued)

1. Bonds payable (continued)

Debtor taxpayer ID number	Debtor Name	Instrument registration number	Current		Non-current				
			Maturity less than 90 days	Maturity more than 90 days	March 31, 2018 Current	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity more than 5 years	March 31, 2018 Non-current
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
76.555.400-4	Transelec S.A	480	3,968,961	-	3,968,961	-	-	361,304,736	361,304,736
76.555.400-4	Transelec S.A	599	-	655,403	655,403	-	-	80,931,406	80,931,406
76.555.400-4	Transelec S.A	599	-	178,305	178,305	-	-	43,109,166	43,109,166
76.555.400-4	Transelec S.A	599	409,402	-	409,402	-	-	39,631,680	39,631,680
76.555.400-4	Transelec S.A	599	519,850	-	519,850	-	-	49,634,798	49,634,798
76.555.400-4	Transelec S.A	599	804,548	-	804,548	-	-	77,776,611	77,776,611
76.555.400-4	Transelec S.A	744	1,500,322	-	1,500,322	-	-	82,856,741	82,856,741
76.555.400-4	Transelec S.A	1st issuance	-	1,541,811	1,541,811	-	-	179,255,903	179,255,903
76.555.400-4	Transelec S.A	2nd issuance	-	2,103,062	2,103,062	-	-	223,176,494	223,176,494
76.555.400-4	Transelec S.A	3rd issuance	-	1,836,761	1,836,761	-	-	206,324,292	206,324,292
		Total	7,203,083	6,315,342	13,518,425	-	-	1,344,001,827	1,344,001,827

Debtor taxpayer ID number	Debtor Name	Instrument registration number	Current		Non-current				
			Maturity less than 90 days	Maturity more than 90 days	December 31, 2017 Current	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity more than 5 years	December 31, 2017 Non-current
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
76.555.400-4	Transelec S.A	480	7,786,368	-	7,786,368	-	-	351,256,479	351,256,479
76.555.400-4	Transelec S.A	599	1,585,286	-	1,585,286	-	-	80,425,765	80,425,765
76.555.400-4	Transelec S.A	599	648,266	-	648,266	-	-	42,843,885	42,843,885
76.555.400-4	Transelec S.A	599	834,173	-	834,173	-	-	38,549,505	38,549,505
76.555.400-4	Transelec S.A	599	1,059,190	-	1,059,190	-	-	48,262,127	48,262,127
76.555.400-4	Transelec S.A	599	1,639,123	-	1,639,123	-	-	75,653,669	75,653,669
76.555.400-4	Transelec S.A	744	687,436	-	687,436	-	-	82,333,886	82,333,886
76.555.400-4	Transelec S.A	1st issuance	3,814,781	-	3,814,781	-	-	182,566,326	182,566,326
76.555.400-4	Transelec S.A	2nd issuance	4,714,641	-	4,714,641	-	-	227,280,304	227,280,304
76.555.400-4	Transelec S.A	3rd issuance	4,059,268	-	4,059,268	-	-	210,119,085	210,119,085
		Total	26,828,532	-	26,828,532	-	-	1,339,291,031	1,339,291,031

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

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NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities (continued)

2. Bank loans

Bank loans by financial institution, currency, established rate and maturity as of March 31, 2018 and December 31, 2017, are detailed as follows:

Debtor Company RUT	Debtor Company Name	Country	Creditor Company RUT	Creditor Company Name	Country	Currency	Amortization Type	Effective Annual Rate	Nominal Annual Rate	Maturity Year	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
76.555.400-4	Transelec S.A	Chile	97.006.000-6	Banco Crédito e Inversiones	Chile	CH\$	Semestral	2.77%	2.77%	2018	20,364,717	20,230,833
Total											20,364,717	20,230,833

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NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities (continued)

2. Bank loans (continued)

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		Non-current					
			Maturity in less than 90 days	Maturity in over 90 days	March 31, 2018	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	March 31, 2018	
			ThCh\$	ThCh\$	Current ThCh\$	years ThCh\$	ThCh\$	ThCh\$	Non-current ThCh\$	
76.555.400-4	Transelec S.A	Banco Crédito e Inversiones	-	20,364,717	20,364,717	-	-	-	-	-
		Total	-	20,364,717	20,364,717	-	-	-	-	-

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		Non-current					
			Maturity in less than 90 days	Maturity in over 90 days	December 31, 2017	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	December 31, 2017	
			ThCh\$	ThCh\$	Current ThCh\$	years ThCh\$	ThCh\$	ThCh\$	Non-current ThCh\$	
76.555.400-4	Transelec S.A	Banco Crédito e Inversiones	-	20,230,833	20,230,833	-	-	-	-	-
		Total	-	20,230,833	20,230,833	-	-	-	-	-

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

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NOTE 13 - FINANCIAL LIABILITIES (continued)

13.3 Other aspects

As of March 31, 2018 and December 31, 2017, Transelec had available a credit line of US\$250 million, which has not been used as of said dates.

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.

NOTE 14 - TRADE AND OTHER PAYABLES

Trade and other payables as of March 31, 2018 and December 31, 2017, are detailed as follows:

Trade and other payables	Current		Non- current	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Trade and other payables	43,893,903	54,877,542	-	-
Other accounts payable	1,523,178	1,616,823		
Total	45,417,081	56,494,365	-	-

The average payment period for suppliers in the periods ended 2018 and 2017 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.

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NOTE 15 - DERIVATIVE INSTRUMENTS (continued)

15.1 Hedge assets and liabilities

	March 31, 2018				December 31, 2017			
	Asset		Liability		Asset		Liability	
	Current ThCh\$	Non - current ThCh\$	Current ThCh\$	Non - current ThCh\$	Current ThCh\$	Non - current ThCh\$	Current ThCh\$	Non - current ThCh\$
Currency hedge Swap	-	-	(1,832,978)	(33,590,527)	-	-	(4,070,488)	(13,611,996)
Interest rate Swap (non-hedging)	-	36,009	-	-	-	39,170	-	-
Total	-	36,009	(1,832,978)	(33,590,527)	-	39,170	(4,070,488)	(13,611,996)

15.2 Other Information

The following table details Transelec's derivatives as of March 31, 2018 and December 31, 2017, including their fair values as well as their notional and contractual values by maturity:

Financial derivatives	Fair value ThCh\$	Before 1 year ThCh\$	Maturity				Subsequent years ThCh\$	March 31, 2018 Total ThCh\$
			2017 ThCh\$	2018 ThCh\$	2019 ThCh\$	2020 ThCh\$		
			Currency hedge Swap	(35,423,505)	(1,832,978)	-		
Interest rate Swap (non-hedging)	36,009	36,009	-	-	-	-	-	36,009

Financial derivatives	Fair value ThCh\$	Before 1 year ThCh\$	Maturity				Subsequent years ThCh\$	December 31, 2017 Total ThCh\$
			2017 ThCh\$	2018 ThCh\$	2019 ThCh\$	2020 ThCh\$		
			Currency hedge Swap	(17,682,484)	(4,070,488)	-		
Interest rate Swap (non-hedging)	39,170	39,170	-	-	-	-	-	39,170

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 March 31, 2018 and December 31, 2017. Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

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NOTE 15 - DERIVATIVE INSTRUMENTS (continued)

15.2 Other Information (continued)

Closing Date	Start Date	Maturity Date	Currency	Notional (Asset Portion)	Floating Rate (Asset Portion)	Frequency	Currency	Notional (Liability Portion)	Fixed Rate (Liability Portion)	Frequency
08-07-2014	07-14-2014	01-14-2025	USD	205,000,000	0.00%	Biannual	CLP	117,670,000,000	1.980%	Biannual
08-07-2014	07-14-2014	01-14-2025	USD	170,000,000	0.00%	Biannual	CLP	97,580,000,000	1.980%	Biannual
08-05-2016	07-12-2016	01-12-2029	USD	80,000,000	0.00%	Biannual	CLP	52,460,000,000	1.865%	Biannual
08-30-2016	07-12-2016	01-12-2029	USD	100,000,000	0.00%	Biannual	CLP	66,575,000,000	1.890%	Biannual
09-02-2016	07-12-2016	01-12-2029	USD	50,000,000	0.00%	Biannual	CLP	33,775,000,000	1.820%	Biannual
08-31-2016	07-12-2016	01-12-2029	USD	50,000,000	0.00%	Biannual	CLP	32,787,500,000	1.880%	Biannual
01-25-2017	01-12-2017	01-12-2029	USD	70,000,000	0.00%	Biannual	CLP	45,902,500,000	1.870%	Biannual
10-04-2017	01-31-2018	12-28-2035	USD	22,778,397	Libor 3M	Quarterly	USD	22,778,397	2.5137%	Quarterly
10-04-2017	01-31-2018	12-28-2035	USD	22,778,397	Libor 3M	Quarterly	USD	22,778,397	2.5137%	Quarterly
10-04-2017	01-31-2018	12-28-2035	USD	45,556,794	2.5137%	Quarterly	USD	45,556,794	2.5158%	Quarterly

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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NOTE 15 - DERIVATIVE INSTRUMENTS (continued)

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 March 31, 2018.

Financial instrumental measured at fair value	Fair value measured at the end of the reporting period using			
	March 31, 2018	Level 1 ThCh	Level 2 ThCh\$	Level 3 ThCh\$
Financial asset (liability)				
Currency hedge Swap	(35,423,505)	-	(35,423,505)	-
Cash flows derivatives (non-hedging)	36,009	-	36,009	-
Total, net	(35,387,496)	-	(35,387,496)	-

The following table details financial assets and liabilities measured at fair value as of December 31, 2017.

Financial instrumental measured at fair value	Fair value measured at the end of the reporting period using			
	December 31, 2017	Level 1 ThCh	Level 2 ThCh\$	Level 3 ThCh\$
Financial asset (liability)				
Currency hedge Swap	(17,682,484)	-	(17,682,484)	-
Cash flows derivatives (non-hedging)	39,170	-	39,170	-
Total, net	(17,643,314)	-	(17,643,314)	-

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NOTE 16 - FINANCIAL INSTRUMENTS

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

	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
March 31, 2018	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Cash and cash equivalents	60,419,533	-	-	-	-	60,419,533
Other financial assets, current	-	848,531	36,009	-	-	884,540
Trade and other receivables	-	47,368,119	-	-	-	47,368,119
Other financial assets, non-current	-	23,771,974	-	-	15,286	23,787,260
Receivables from related parties, current	-	25,876,368	-	-	-	25,876,368
Receivables from related parties, non-current	-	204,131,576	-	-	-	204,131,576
Total	60,419,533	301,996,568	36,009	-	15,286	362,467,396

	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
December 31, 2017	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Cash and cash equivalents	61,628,069	-	-	-	-	61,628,069
Other financial assets, current	-	834,163	39,170	-	-	873,333
Trade and other receivables	-	45,225,066	-	-	-	45,225,066
Other financial assets, non-current	-	24,159,795	-	-	15,286	24,175,081
Receivables from related parties, current	-	34,323,681	-	-	-	34,323,681
Receivables from related parties, non-current	-	190,683,003	-	-	-	190,683,003
Total	61,628,069	295,225,708	39,170	-	15,286	356,908,233

The accompanying notes number 1 to 30 form an integral part of these consolidated financial statements

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NOTE 16 - FINANCIAL INSTRUMENTS (continued)

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

March 31, 2018	Other financial liabilities ThCh\$	Derivatives at fair value through profit or loss ThCh\$	Derivatives at fair value through equity ThCh\$	Total ThCh\$
Other financial liabilities, current	33,883,142	1,832,978	-	35,716,120
Trade and other payables	45,417,081	-	-	45,417,081
Other financial liabilities, non-current	1,377,592,354	-	-	1,377,592,354
Total	1,456,892,577	1,832,978	-	1,458,725,555

December 31, 2017	Other financial liabilities ThCh\$	Derivatives at fair value through profit or loss ThCh\$	Derivatives at fair value through equity ThCh\$	Total ThCh\$
Other financial liabilities, current	47,059,365	4,070,488	-	51,129,853
Trade and other payables	56,494,365	-	-	56,494,365
Other financial liabilities, non-current	1,352,903,027	-	-	1,352,903,027
Total	1,456,456,757	4,070,488	-	1,460,527,245

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NOTE 17 - PROVISIONS

17.1 Detail of provisions

As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

Detail	Current		Non-current	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Staff severance indemnities	484,728	189,823	4,362,552	4,533,592
Accrued vacations	1,464,202	1,692,184	-	-
Profit sharing benefits	1,793,405	4,735,588	-	-
Other provisions	205,447	205,447	-	-
Total	3,947,782	6,823,042	4,362,552	4,533,592

17.2 Provision movements

In 2018 and 2017, provision movements were the following:

Movements in provisions	Staff severance indemnities ThCh\$	Profit sharing benefits ThCh\$	Accrued vacations ThCh\$	Other provisions ThCh\$	Total ThCh\$
Beginning balance as of January 1, 2018	4,723,415	4,735,588	1,692,184	205,447	11,356,634
Movements in provisions:					
Provisions during the year	343,113	1,358,526	318,924	-	2,020,563
Payments	(219,248)	(4,300,709)	(546,906)	-	(5,066,863)
Ending balance as of March 31, 2018	4,847,280	1,793,405	1,464,202	205,447	8,310,334

Movements in provisions	Staff severance indemnities ThCh\$	Profit sharing benefits ThCh\$	Accrued vacations ThCh\$	Other provisions ThCh\$	Total ThCh\$
Beginning balance as of January 1, 2017	4,538,823	4,314,711	1,655,522	205,447	10,714,503
Movements in provisions:					
Provisions during the year	519,696	5,456,356	1,146,823	-	7,122,875
Payments	(335,104)	(5,035,479)	(1,110,161)	-	(6,480,744)
Ending balance as of December 31, 2017	4,723,415	4,735,588	1,692,184	205,447	11,356,634

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NOTE 17 - PROVISIONS (continued)

17.2 Provision movements (continued)

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

As of March 31, 2018

Detail	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years
Staff severance indemnities	484,728	509,338	340,522	3,512,692
Accrued vacations	1,464,202	-	-	-
Profit sharing benefits	1,793,405	-	-	-
Other provisions	205,447	-	-	-
Total	3,947,782	509,338	340,522	3,512,692

As of December 31, 2017

Detail	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years
Staff severance indemnities	189,823	509,338	340,522	3,683,732
Accrued vacations	1,692,184	-	-	-
Profit sharing benefits	4,735,588	-	-	-
Other provisions	205,447	-	-	-
Total	6,823,042	509,338	340,522	3,683,732

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.

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NOTE 17 - PROVISIONS (continued)

17.2 Provision movements (continued)

Other provisions

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

17.3 Lawsuits and arbitration proceedings

Transelec S.A.

- 1) 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 2016, the CDEC-SIC (currently CEN) 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 (currently CEN) 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 (currently CEN) 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. . The Supreme Court rejected the appeal presented. TGR's report of the fine is pending, to then proceed with its payment.

As of March 31, 2018 the Company has established a provision for these and other contingents liabilities totaling to ThCh\$1,142,863 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.

- 2) As of March 31, 2018, 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 (currently CEN) in December 2010, July, August and September 2011, plus provisional payments for the use of Zonal Systems (former Subtransmission), common facilities and lease of physical spaces. 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 ThCh\$ 14,688,235, which includes VAT of ThCh\$ 2,345,064, plus principal, interest, indexation adjustments and costs.

By Exempt Resolution No, 2,288 dated August 26, 2011, the SEC ordered the CDEC-SIC (currently CEN) to exclude the Company from the Balance of Energy and Power which is made to calculate tariff revenues (IT).

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NOTE 17 - PROVISIONS (continued)

17.3 Lawsuits and arbitration proceedings (continued)

Transelec S.A. (continued)

In compliance with the order, CDEC-SIC (currently CEN) 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 (currently CEN), that still requires an approval by the CNE.

In relation with the final tolls and IT for 2011, the CDEC-SIC (currently CEN) issued the corresponding settlement, which was also impugned by Transelec before the Panel of Experts, which through Opinion No, 2-2012 ordered CDEC-SIC (currently CEN) 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

Employee benefit obligations	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Staff severance indemnity provision – current	484,728	189,823
Staff severance indemnity provision non – current	4,362,552	4,533,592
Total Employee benefit obligations Current and Non-current	4,847,280	4,723,415

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NOTE 18 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS (continued)

18.2 Detail of obligations to employees

As of March 31, 2018 and December 31, 2017, this account is detailed as follows:

	Staff severance indemnity	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Present value of defined benefit plan obligations opening balance	4,723,415	4,538,823
Current service cost of defined benefit plan obligations	343,113	519,696
Liquidations obligation defined benefit plan	(219,248)	(335,104)
Present value of defined benefit obligations ending balance	4,847,280	4,723,415

18.3 Balance of obligations to employees

	Staff severance indemnity	
	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Present value of defined benefit obligations, ending balance	4,847,280	4,723,415
Present obligation with defined benefit plan funds	4,847,280	4,723,415
Fair value of defined benefit plan assets, ending balance	-	-
Balance of defined benefit obligations, ending balance	4,847,280	4,723,415

18.4 Expenses recognized in income statement

	Staff severance indemnity		Income statement line item where recognized
	January 1, 2018 to March 31, 2018 ThCh\$	January 1, 2017 to March 31, 2017 ThCh\$	
Current service cost of defined benefit plan	153,819	68,470	Cost of sales and Administrative expenses
Interest cost of defined benefit plan	140,769	57,485	Cost of sales and Administrative expenses
Total expense recognized in income statement	294,588	125,955	

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NOTE 18 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS (continued)

18.5 Actuarial hypothesis

Detail	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Discount rate used	1.95%	1.95%
Inflation rate	1.3%	2.9%
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 March 31, 2018:

Level of Sensitivity	Discount rate used		Inflation rate		Future salary increase	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	1%	1%	1%	1%	1%	1%
	(ThCh\$)	(ThCh\$)	(ThCh\$)	(ThCh\$)	(ThCh\$)	(ThCh\$)
Impact on current and non-current of employment benefit obligation	(324,196)	361,814	5,048	(5,048)	330,203	(301,353)

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 March 31, 2018.

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

	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
During the upcoming 12 month	484,728	189,823
Between 1 to 5 years	852,772	852,772
Between 5 to 10 years	1,692,823	1,692,823
More than 10 years	1,816,957	1,987,997
Total Payments Expected	4,847,280	4,723,415

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NOTE 19 - EQUITY

19.1 Subscribed and paid capital

As of March 31, 2018 and December 31, 2017 authorized, subscribed and paid share capital amounts to ThCh\$ 776,355,048.

19.2 Number of subscribed and paid shares

	Number of shares subscribed	Number of shares paid	Number of shares 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 ThCh \$ 81,589,500.

19.3 Dividends

On April 27, 2017, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a final dividend with debit to 2016 income, in the amount of ThCh\$19,757,324 which will be paid as of May 23, 2017, to the shareholders listed in the respective registry as of May 17, 2017. As of December 31, 2017, this dividend has been paid in full.

At Board of Directors' Meeting held on May 17, 2017, it was agreed to distribute a provisional dividend with debit to the 2017 income, in the amount of ThCh\$19,222,000, which will be paid as of June 15, 2017, to the shareholders listed in the respective registry as of June 9, 2017. As of December 31, 2017, this dividend has been fully paid.

On August 23, 2017, the Ordinary Shareholders meeting of the Company was celebrated, where they agreed to distribute a provisional dividend with debit to 2017 income, in the amount of ThCh\$17,816,000 which will be paid as of September 26, 2017, to the shareholders listed in the respective registry as of September 20, 2017. As of December 31, 2017, this dividend has been paid in full.

At the Board of Directors Meeting held on November 22, 2017, the directors agreed to distribute an interim dividend with a charge to 2017, amounting to ThCh\$22,499,000, to be paid as of December 20, 2017, to the shareholders registered in the respective Shareholders' Registry on December 14, 2017. As of December 31, 2017, this dividend has been paid in full.

On April 27, 2018, the company's Ordinary Shareholders' Meeting was held, where it was agreed to distribute a definitive dividend for 2017 for a total of ThCh\$18,712,012 which shall be paid as of May 29, 2018, to shareholders listed in the respective registry on May 23, 2018.

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NOTE 19 - EQUITY (continued)

19.4 Other reserves

Other reserves as of March 31, 2018 and December 31, 2017 are detailed as follows:

Description	March 31, 2018 ThCh\$	December 31, 2017 ThCh\$
Net investment hedge	2,053,118	2,545,569
Cash flow hedge (Exchange rate)	(25,974,330)	(14,042,004)
Actuarial calculation exchange differences	(431,169)	(431,169)
Deferred taxes	6,575,143	3,220,453
Total	(17,777,238)	(8,707,151)

The Movement and reclassifications of other comprehensive income for the period 2018 are presented below:

	Foreign translation reserve ThCh\$	Cash flow hedges reserve ThCh\$	Other Reserves ThCh\$	Total ThCh\$
Opening balance as of January 1, 2018	1,858,266	(10,250,663)	(314,754)	(8,707,151)
Translation adjustment	(492,452)	(11,932,325)	-	(12,424,777)
Deferred tax	132,962	3,221,728	-	3,354,690
Closing balance as of March 31, 2018	1,498,776	(18,961,260)	(314,754)	(17,777,238)

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NOTE 19 - EQUITY (continued)

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.

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\$404,503,350 as of March 31, 2018. 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 March 31, 2018 and December 31, 2017 - 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.

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NOTE 19 - EQUITY (continued)

19.5 Capital management (continued)

Covenant 1	Total debt / Total capitalization ratio	March 31, 2018	December 31, 2017
	Lower or equal to 0.70	MMCh\$	MMCh\$
A	Other financial liabilities, current	35,716	51,130
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,377,592	1,352,903
D	Payables to related parties, non-current	-	-
E=A+B+C+D	Covenants debt	1,413,308	1,404,033
G	Debt with guarantees (1)	-	-
DT=E+G	Total debt	1,413,308	1,404,033
H	Non-controlling interest	-	-
P	Equity attributable to owners of the parent	777,982	786,360
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
CT=DT+H+I+P	Total capitalization	2,216,260	2,215,363
DT/CT	Total debt / Total capitalization ratio	0.64	0.63

Covenant 2	Minimum equity	March 31, 2018	December 31, 2017
	Greater than or equal to UF 15 million/ Greater or equal to MMCh\$ 350,000	MMCh\$	MMCh\$
P	Equity attributable to owners of the parent	777,982	786,360
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
P+I	Equity (in ThCh\$)	802,952	811,330
UF	UF value	26,966.89	26,798.14
(I+P)/UF	Equity (in UF millions)	29.78	30.28

Covenant 3	Restricted payments test	March 31, 2018	December 31, 2017
	Funds from operations (FNO) / Financial costs > 1.5	MMCh\$	MMCh\$
FO	Cash flow from operations	169,106	187,507
CF	Financial costs	69,093	69,326
IG	Income tax expense	25,282	25,029
FNO=FO+CF+IG	Funds from operations	263,481	281,862
FNO/CF	Funds from operations / Financial costs	3.81	4.07

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

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NOTE 19 - EQUITY (continued)

19.5 Capital management (continued)

Covenant N° 4	Total debt / Adjusted EBITDA	March 31, 2017	December 31, 2017
	Lower or equal to 0.70	ThCh\$	ThCh\$
A	Other financial liabilities, current	35,716	51,130
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,377,592	1,352,903
D	Payables to related parties, non-current	-	-
E=A+B+C+D	Covenants debt	1,413,308	1,404,033
F	Debt with guarantees	-	-
G=E+F	Total debt	1,413,308	1,404,033
H	Cash and cash equivalents	(60,420)	(61,628)
DN=G-H	Net debt	1,352,888	1,342,405
I	Operating revenues	279,467	278,599
J	Cost of sales	(84,589)	(83,319)
K	Administrative expenses	(22,877)	(22,953)
L	Depreciation and amortization	55,964	55,379
N	Other gains	3,500	3,555
O	Finance lease amortization	1,140	1,120
EA=I+J+K+L+N+O	Adjusted EBITDA	232,605	232,381
(I+P)/UF	Net debt /Adjusted EBITDA	5.82	5.78

NOTE 20 - REVENUE

20.1 Revenue

The following table details revenue for the period ended March 31, 2018 and 2017:

Revenue	For the periods ended	
	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Revenues from regulated transmission services	47,957,241	47,565,796
Revenues from contractual transmission services	19,552,812	19,875,482
Leases revenue	946,175	146,696
Total revenues	68,456,228	67,587,974

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NOTE 20 - REVENUE (continued)

20.1 Revenue (continued)

Revenue	For the periods ended	
	31.03.2018 M\$	31.03.2017 M\$
Customers from regulated transmission services	47,957,241	47,565,796
Customers from contractual transmission services	19,552,812	19,875,482
Other	946,175	146,696
Total	68,456,228	67,587,974
National Revenue	41,538,058	42,327,210
Zonal Revenue	24,106,950	22,753,062
Dedicated Revenue	202,377	739,848
Revenue from services	1,662,668	1,621,158
Other	946,175	146,696
Total	68,456,228	67,587,974
Transferred assets in a specific moment	-	-
Transferred services during a period of time	68,456,228	67,587,974
Total revenue	68,456,228	67,578,974

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NOTE 20 - REVENUE (continued)

20.2 Other operating income

The following table details revenue for the years ended March 31, 2018 and 2017:

Other operating income	For the periods ended	
	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Financial income (Note 21,4)	2,125,652	2,321,157
Other gains (losses), net	672,434	728,153
Total other operating income	2,798,086	3,049,310

NOTE 21 - RELEVANT INCOME STATEMENT ACCOUNTS

21.1 Expenses by nature

The composition of cost of sales and administrative expenses by nature in the years ended March 31, 2018 and 2017:

Detail	For the periods ended	
	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Personnel expenses	5,374,476	4,552,819
Operating expenses	3,427,537	4,309,900
Maintenance expenses	1,795,889	928,089
Depreciation and write-offs	13,137,098	12,552,431
Other	293,788	490,972
Total	24,028,788	22,834,211

21.2 Personnel expenses

As of March 31, 2018 and 2017, this account is detailed as follows:

Detail	For the periods ended	
	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Salaries and wages	4,691,268	4,489,880
Short-term employee benefits	213,743	177,193
Staff severance indemnity	294,588	125,955
Other long-term benefits	326,076	292,348
Other personnel expenses	1,580,678	1,314,917
Expenses capitalized on construction in progress	(1,731,877)	(1,847,474)
Total	5,374,476	4,552,819

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NOTE 21 - RELEVANT INCOME STATEMENT ACCOUNTS (continued)

21.3 Depreciation and amortization

The following table details depreciation and amortization for the years ended March 31, 2018 and 2017:

Detail	For the periods ended	
	March 31, 2018	March 31, 2017
	ThCh\$	ThCh\$
Depreciation	12,033,622	11,601,053
Amortization	612,076	373,939
Losses from damages ⁽¹⁾	491,400	577,439
Total	13,137,098	12,552,431

⁽¹⁾The losses for the withdrawal and damages are a replacement of equipment by technical conditions, not significantly affecting the deterioration of the Cash Generating Unit.

21.4 Financial results

The Company's financial result for the years ended March 31, 2018 and 2017 is detailed as follows:

Detail	For the periods ended	
	March 31, 2018	March 31, 2017
	ThCh\$	ThCh\$
Financial income:	2,125,652	2,321,157
Commercial interest earned	23,124	46,989
Bank interest earned	328,202	338,763
Interest earned from related parties	1,774,326	1,935,405
Financial expenses:	(16,498,286)	(16,701,607)
Interest on bonds	(14,162,775)	(14,372,110)
Commercial interest incurred	-	(63,992)
Interest rate Swap	(2,145,456)	(2,146,365)
Other expenses	(190,055)	(119,140)
Gain (loss) from indexation of UF	(4,505,389)	(3,381,803)
Foreign exchange gains (losses), net	37,547	132,197
Positive	12,557,970	5,810,159
Obligations with public	12,384,240	5,600,572
Banks – Capital Market	-	51,383
Accounts payable	-	156,973
Other	173,730	1,231
Negative	(12,520,423)	(5,677,962)
Swaps	(8,081,985)	(3,904,435)
Bank – Capitals Market	(940,054)	(104,578)
Receivables from related parties	(2,934,643)	(1,518,793)
Other	(563,741)	(150,156)
Total financial result, net	(18,840,476)	(17,630,056)

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NOTE 22 - INCOME TAX RESULT

Income tax expense (income)	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Current tax expense	31,562	25,567
Current tax expense, net, total	31,562	25,567
Deferred tax expense relating to origination and reversal of temporary differences	6,824,079	6,576,570
Deferred tax expense, net, total	6,824,079	6,576,570
Effect of change in tax situation of the entity or its shareholders	-	-
Income tax expense	6,855,641	6,602,137

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 March 31, 2018 and 2017:

Reconciliation of Tax Expense Using Statutory Rate with Tax Expense	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Tax expense at statutory rate	(7,090,037)	(7,102,224)
Price level restatement of equity	66,708	114,919
Change in income tax rate, Tax Reform Law 20,780	-	(366,785)
Price level restatement, tax loss	226,050	-
Other increase (decrease)	(58,362)	751,953
Total adjustments to tax expense using statutory rate	234,396	500,087
Tax Expense at effective Rate	(6,855,641)	(6,602,137)
	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Statutory Tax Rate	27.00%	25.50%
Price level restatement of equity	(0.25%)	(0.41%)
Change in income tax rate, Tax Reform Law 20.780	-	1.32%
Price level restatement, tax loss	(0.86%)	-
Other increase (decrease)	0.22%	(2.69%)
Adjustments to Statutory Tax Rate, Total	(0.89%)	(1.78%)
Effective Tax Rate	26.11%	23.72%

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NOTE 22 - INCOME TAX RESULT (continued)

The tax rate used for the periods 2018 and 2017 reconciliations corresponds to 27% and 25.5%, 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	March 31, 2018	March 31, 2017
Profit attributable to equity holders of parent (ThCh\$)	19,403,757	21,249,723
Earnings available to common shareholders, basic (ThCh\$)	19,403,757	21,249,723
Total basic shares	1,000,000	1,000,000
Basic earnings per share (Ch\$)	19,404	21,250

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

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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 national transmission system (former trunk), the zonal system (former subtransmission system) and committed systems (former 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 national system (former 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 segment that forms the national system (former trunk system).

The annual zonal system (former 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 committed systems (former additional system) 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 committed systems (former additional system) 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 national (former trunk), Zonal (former subtransmission) or committed (former 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 national (former trunk), zonal (former subtransmission) or additional. Thus, for Transelec this classification into national (former trunk), zonal (former 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.

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NOTE 24 - SEGMENT REPORTING (continued)

Information about products and services

	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Revenues from regulated transmission services	47,957,241	47,565,796
Revenues from contractual transmission services and others	20,498,987	20,022,178
Total revenues	68,456,228	67,587,974

Information about sales and principal customers

The Company has three clients that each represent more than 10% of the total revenue as of March 31, 2018. The amount of revenue recognized for those clients in 2018 is ThCh\$24,336,122, ThCh\$11,429,980 and ThCh\$9,416,720, respectively. As of March 31, 2017, the Company had three clients that each represented more than 10% of the total revenue as of said date. The amount of revenue recognized for those clients in 2017 was ThCh\$27,928,139, ThCh\$12,761,590 and ThCh\$11,423,913, respectively.

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

As of March 31, 2018, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh\$23,717,397 (ThCh\$25,354,104 as of December 31, 2017).

NOTE 26 - DISTRIBUTION OF PERSONNEL

As of March 31, 2018 and December 31, 2017, personnel employed by Transelec S.A. are detailed as follows:

	March 31, 2018			Total	Average of the year
	Manager and Executives	Professionals and technical personnel	Other employees		
Total	8	388	130	526	527.3

	December 31, 2017			Total	Average of the year
	Manager and Executives	Professionals and technical personnel	Other employees		
Total	8	389	132	529	522.8

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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.

During the periods ended March 31, 2018 and 2017, the Company has made the following environmental disbursements:

Company making disbursement	Project	March 31, 2018 ThCh\$	March 31, 2017 ThCh\$
Transelec S.A.	Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors)	61,100	395,929
Total		61,100	395,929

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As of March 31, 2018 and December 2017
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 28 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY

a) Current assets and liabilities

Current Assets	Foreign Currency	Functional Currency	March 31, 2018		December 31, 2017	
			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\$	1,263,990	-	15,888,701	-
	Other Currency	CH\$	21,240	-	28,717	-

Current Liabilities	Foreign Currency	Functional Currency	March 31, 2018		December 31, 2017	
			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\$	1,823,978	39,072,161	4,031,317	13,611,996

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NOTE 28 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY (continued)

b) Current assets and liabilities (continued)

Non-Current Liabilities	Foreign Currency	Functional Currency	March 31, 2018			December 31, 2017		
			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\$	-	-	608,756,688	-	-	619,965,715
	Other Currency	CH\$	-	-	-	-	-	-
Other liabilities, non-current	Dollars	CH\$	-	-	-	-	-	-
	Other Currency	CH\$	-	-	-	-	-	-
Non-current provisions for employee benefits	Dollars	CH\$	-	-	-	-	-	-
	Other Currency	CH\$	-	-	-	-	-	-

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NOTE 29 - BUSINESS COMBINATION

Purchase of Transmisión Del Melado SpA

On March 31, 2018, the company Transelec S.A acquired the company Transmisión Del Melado SpA, thus obtaining control over it. This Company was acquired as part of the development and growth strategy of Transelec S.A.

The goodwill generated at the moment of the transaction represents the synergies and scale economies expected from the business combination.

The following chart describes the price paid and the fair values of the assets acquired and liabilities assumed (ThCh\$):

Acquisition Price (A)	8,739,171
Assets acquired and liabilities assumed	
Total current assets	2,643,265
Property, plant and equipment	15,626,371
Intangible assets	1,556
Other non-current assets	2,024,189
Total Assets	20,295,381
Total current liabilities	(245,858)
Other non-current financial liabilities	(10,191,902)
Deferred tax liabilities	(1,082,981)
Other non-current liabilities	(443,372)
Total Liabilities	(11,964,113)
Total Net Assets Acquired (B)	8,331,268
Goodwill on the Acquisition (A) - (B)	407,903

NOTE 30 - SUBSEQUENT EVENTS

On April 27, 2018, the Ordinary Shareholders meeting of the company was celebrated, where they agreed to distribute a final dividend with debit to 2016 income, in the amount of Ch\$18,712,012,037, which will be paid as of May 29, 2018 to the shareholders listed in the respective registry as of May 23, 2018.

Between March 31, 2018, closing date of these consolidated financial statements and the date of issuance, there have been other no significant financial and accounting events that may affect the equity of the Company or the interpretation of these financial statements.

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

TRANSELEC S.A.

*Santiago, Chile
March 31, 2018*



SUMMARY

As of March 31, 2018, Revenues reached MCh\$68,456, showing an increase of 1.3% compared to the same period of 2017 (MCh\$67,588). The increase of Revenues is mainly explained by commissioning of projects and the indexation of contracts, partially compensated by macroeconomic effects, mainly FX.

During the period of 3 months ended in March 31, 2018, Transelec obtained an EBITDA¹ of MCh\$58,442, a 0.4% higher than the obtained in the same period of 2017 (MCh\$58,220), with an EBITDA Margin² of 85.4%.

The loss in Non-Operating Income as of March 31, 2018 was MCh\$18,168, representing an increase of 7.5% compared to the same period of 2017 (MCh\$16,902). The main item that explain this increase is higher losses for indexed assets and liabilities of MCh\$1,123, which mostly measures the inflation impact on the UF denominated debt of the Company. It is important to highlight the minimal impact in the Foreign Exchange Differences due to the application of the company's exchange rate risk coverage policy.

Net Income recorded by the Company as of March 31, 2018 was MCh\$19,403, which is 8.7% lower compared to the same period of 2017 (MCh\$21,250). The drop is mainly explained by higher losses in the Non-Operating Income and higher Operation Costs and Expenses, partly offset by higher Revenues.

In general, the figures presented in this analysis as of March 31, 2018, show minor variations compared to the same period of 2017, reflecting the stability of the business over time, which has a structure of revenues adequately protected, due to the market conditions, the legislation, the current regulatory framework, and the quality and solvency of the clients.

During the three-month period ended on March 31, 2018, the Company incorporated US\$44.4 million of new facilities, which correspond to a new National project commissioning , an expansion in the National and Zonal segment. Similarly, on the last 12 months, the Company incorporated facilities for US\$146.37 million.

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

² EBITDA Margin= EBITDA/Revenues



Relevant events of the period:

- On March 15, 2018, the purchase and sale of shares between Brookfield Asset Management (BAM) and China Southern Power Grid International (CSGI) took place, therefore, CSGI became shareholder of the 27.7% that BAM indirectly owned in Transelec SA. The other 3 indirect shareholders remain unchanged (Canada Pension Plan (CPP), British Columbia Investment Management Corporation (bcIMC) and Public Sector Pension Investment (PSP)).
- During the first quarter of 2018, international risk rating agencies, Moody's and Fitch Ratings, affirmed Transelec's ratings in Baa1 and BBB. The same was done by the local risk rating agencies Humphreys and Fitch Ratings, maintaining the classifications in AA-. Additionally, Humphreys changed the Transelec outlook from Stable to Positive (the other two local agencies kept it Stable).
- The Board of Directors of Transelec SA, in a meeting held on March 21, 2018, agreed to propose to the Ordinary Shareholders' Meeting (to be held on April 27) the distribution of a definitive dividend corresponding to fiscal year 2017, for a total amount of MCh\$8,712, to be paid under the conditions and terms agreed upon.

1. INCOME STATEMENT ANALYSIS

ITEMS	March 2018 MCh\$	March 2017 MCh\$	Variation 2018/ 2017 MCh\$	Variation 2018/ 2017 %
Revenues	68,456	67,588	868	1.3%
Toll sales	66,763	65,967	796	1.2%
Services	1,694	1,621	73	4.5%
Operation Costs and Expenses	-24,029	-22,834	-1,195	-5.2%
Sales Costs	-7,094	-5,761	-1,333	-23.1%
Administrative Expenses	-3,798	-4,521	723	16.0%
Depreciation	-13,137	-12,552	-586	-4.7%
Operating Income	44,426	44,754	-328	-0.7%
Financial Income	2,126	2,321	-195	-8.4%
Financial Costs	-16,498	-16,703	205	1.2%
Foreign exchange differences	38	132	-94	-71.6%
Gain (loss) for indexed assets and liabilities	-4,505	-3,382	-1,123	-33.2%
Other income (Losses)	672	728	-56	-7.7%
Non-Operating Income	-18,168	-16,902	-1,266	-7.5%
Income before Taxes	26,259	27,852	-1,593	-5.7%
Income Tax	-6,856	-6,602	-254	-3.8%
Net Income	19,403	21,250	-1,847	-8.7%
EBITDA¹	58,442	58,220	222	0.4%
EBITDA Margin²	85.4%	86.1%		

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

² EBITDA Margin= EBITDA/Revenues

a) Operating Income

During the period of 3 months ended in March 31, 2018, Revenues reached MCh\$68,456 increasing by 1.3% over the same period of 2017 (MCh\$67,588). The increase is mainly explained by higher income from Toll Sales, which as of March reached MCh\$66,763, a 1.2% higher than that obtained in the same period of 2017 (MCh\$65,967). Services Revenues reached MCh\$1,694 as of March 31, 2018, a 4.5% higher than the same period of 2017 (MCh\$1,621).

The increase in Toll Sales is explained by an increase of MCh\$925 in the Zonal segment and an increase of MCh\$667 in the Dedicated segment partially offset by MCh\$797 of lower income associated to the National segment mostly explained due to macroeconomic effects.

As a whole, the rise in Revenues are mainly explained by new revenues in 2018 due to the commissioning of new projects in the last twelve months for MCh\$2,014 and higher income associated to indexation, readjustment and the incorporation of a dedicated client by MCh\$1,254. This was partially offset by lower macroeconomic effects of MCh\$2,614.

Total Transelec Operational Costs and Expenses as of March 31, 2018 were MCh\$24,029, a 5.2% higher than the comparison period in 2017 that reached MCh\$22,834. Total costs are composed by the following main items.



Cost of sales during the analysis period totaled MCh\$7,094, a 23.1% higher than the same period of 2017 (MCh\$5,761). The increase is mainly explained by higher maintenance costs associated to the increase of preventive activities, in which main focus has been vegetation control and line-insulator wash and higher personnel costs. This is partially offset by lower payments associated to the coordinator functioning because the new Transmission Law doesn't consider this costs.

Administrative Expenses amounted MCh\$3,798 in March 2018, 16.0% lower than those obtained in the same period in 2017 (MCh\$4,521). Expenses were higher in 2017 due to a fine related to Alto Jahuel Substation and an accounting adjustment in Neptuno project. The higher costs in 2017 were partially compensated due to higher personnel expenses in 2018, related to project studies that were not awarded to Transelec.

Total Depreciation (considering Costs and Expenses) as of March 31, 2018 reached MCh\$13,137, a 5.4% higher than the same period in 2017 (MCh\$12,552). The increase is mainly by new commissioning and higher amortizations due to software between both periods.

b) Non-Operating Income

The Non-Operating Income of the last 3 months ended in March 31, 2018 was a loss of MCh\$18,168, a 7.5% higher than the same period of 2017 (MCh\$16,902), mainly explained by higher Losses for Indexed Assets and Liabilities.

The loss for Indexed Assets and Liabilities was MCh\$4,505 as of March 31, 2018, 33.2% higher than the loss recorded in the same period of 2017 (MCh\$3,382). This is mainly due to the readjustment of local bonds in UF because of the variation in the value of the UF that for the three-month period ended March 31, 2018 corresponds to 0.63% compared to a 0, 47% for the same period of 2017, due to lower inflation in that period. It should be reminded that this accrual is a non-cash effect.

The Financial Costs recorded as of March 2018 amounted to MCh\$16,498, 1.2% less than what was recorded in the same period of 2017 (MCh\$16,703). The decrease is mainly explained by lower interest paid for bonds in dollars for MCh\$628, this variation is associated with the effect of an 8.13% appreciation of the Chilean peso in relation to the dollar (comparing the average exchange rate of the periods), compensated partly due to higher interest paid for bonds in UF of MCh\$273 associated to the effect of the variation of the UF on average 1.92% between both years.

Other Income as of March, 2018 were MCh\$672, a 7.7% lower than the same period of 2017 (MCh\$728).

Foreign Exchange Differences as of March, 2018 resulted a loss of MCh\$38, maintained at minimum levels as a result of the foreign currency hedge policy.

Financial Income registered as of March 2018 reached MCh\$2,124, 8.5% lower than that registered in the same period of 2017 (MCh\$2,321). The decrease is mainly explained by the lower amount of interest on loans to related companies because they are denominated principally in dollars and were valued at a lower exchange rate.

c) Income tax

Income Tax as of March 31, 2018 was MCh \$ 6,856, increasing by 3.8% in relation to the same period of 2017 (MCh \$ 6,602). The increase is mainly due to a higher effective rate for the calculation of the tax.

2. BALANCE SHEET ANALYSIS

ITEMS	March 2018 MCh\$	December 2017 MCh\$	Variation 2018/2017 MCh\$	Variation 2018/2017 %
Current assets	135,958	145,839	-9,881	-6.8%
Non-current assets	2,218,193	2,199,796	18,397	0.8%
Total Assets	2,354,151	2,345,635	8,516	0.4%
Current liabilities	105,604	116,590	-10,986	-9.4%
Non current liabilities	1,470,565	1,442,685	27,880	1.9%
Equity	777,982	786,360	-8,378	-1.1%
Total Liabilities & Equity	2,354,151	2,345,635	8,516	0.4%

The increase in Assets between December 2017 and March 2018 is explained by an increase in Non-current Assets, partially offset by a decrease in Current Assets. The increase in Non-current Assets is mainly due to an increase in accounts receivable from related companies and a higher balance of property, plant and equipment, for works in progress. The decrease in Current Assets is mostly explained due to a lower balance of accounts receivable from related entities.

The increase in total Liabilities and Equity is due to an increase in Non-Current Liabilities, partially offset by decreases in Current Liabilities and Equity. The rise in Non-Current Liabilities is due to an increase in financial liabilities associated with hedge contracts and, to a lesser extent, to the revaluation of the debt. The lower current liabilities are mainly due to a lower balance of short-term financial liabilities and lower accounts payable to suppliers, which is partially offset by higher non-financial liabilities. The decrease in Equity is almost entirely due to a lower accumulated balance in Other Reserves.

Value of the Main Pp&E in Operation

ASSETS	March 2018 MCh\$	December 2017 MCh\$	Variation 2018/2017 MCh\$	Variation 2018/2017 %
Land	20,696	20,696	0	0.0%
Building, Infraestructure, works in progress	1,161,606	1,160,963	643	0.1%
Work in progress	107,504	92,667	14,837	16.0%
Machinery and equipment	644,743	643,509	1,234	0.2%
Other fixed assets	5,896	5,843	53	0.9%
Depreciation (less)	-479,166	-467,409	-11,757	-2.5%
Total	1,461,280	1,456,268	5,012	0.3%

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital)	
					March 2018	December 2017
Series D bond	UF	4.25%	Fixed	15-Dec-27	13.50	13.50
Series H bond	UF	4.80%	Fixed	01-Aug-31	3.00	3.00
Series K bond	UF	4.60%	Fixed	01-Sep-31	1.60	1.60
Series M bond	UF	4.05%	Fixed	15-Jun-32	3.40	3.40
Series N bond	UF	3.95%	Fixed	15-Dec-38	3.00	3.00
Series Q bond	UF	3.95%	Fixed	15-Oct-42	3.10	3.10
Series Senior Notes bond @2023	USD	4.625%	Fixed	26-Jul-23	300.00	300.00
Series Senior Notes bond @2025	USD	4.25%	Fixed	14-Jan-25	375.00	375.00
Series Senior Notes bond @2029	USD	3.875%	Fixed	12-Jan-29	350.00	350.00
Revolving Credit Facility ¹	USD	3.56%	Floating	03-Aug-20	-	-
Revolving Credit Facility ¹	UF	1.03%	Fixed	03-Aug-20	-	-
Local Promissory Note	CLP	2.77%	Fixed	03-Aug-18	20,000.00	20,000.00

¹ Revolving Credit Facility: USD Tranche MM US\$150: The floating rate of 3.56% breaks down in 3 months Libor rate plus a margin of 1.25%. At March 31, 2018, the Company did not utilize this line therefore does not pay interest of 3.56% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

² Revolving Credit Facility: UF Tranche MM UF\$2.5: The floating rate of 1.03% breaks down in TAB UF 180 rate plus a margin of 0.25%. At March 31, 2018, the Company did not utilize this line therefore does not pay interest of 1.03% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

It can be observed in the table that the only short-term maturity is the Local Promissory Note, for which Transelec has the necessary liquidity to comply with the debt obligation.

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	March 2018 MM\$	March 2017 MM\$	Variation 2018/2017 MM\$	Variation 2018/2017 %
Cash flows provided by (used in) operating activities	30,480	48,882	-18,402	-37.6%
Cash flows provided by (used in) investing activities	-31,689	-63,285	31,596	49.9%
Cash flows provided by (used in) financing activities	0	0	0	N/A
Net increase (decrease) of cash and cash equivalent	-1,209	-14,404	13,195	91.6%
Cash and cash equivalent at the beginning of the period	61,628	54,647	6,981	12.8%
Cash and cash equivalent at the end of the period	60,420	40,243	20,177	50.1%

As of March 31st, 2018, the flow of activities of the operation reached MCh\$30,480, which decreased by 37.6% in the same period of 2017 (MCh\$48,882). The difference is mainly explained by lower sales charges of MCh\$16,492.

During the same period, the cash flow used in investment activities was MCh\$31,689, 49.9% less than the amount allocated as of March 31, 2017 (MCh\$63,285). The decrease is mainly explained by higher loan to entities related to March 2017 for MCh\$17,554 and to the acquisition of all the shares of Transmisión del Melado SpA for MCh\$8,728. .

As of March 2017 and 2018, there have been no cash flow movements used in financing activities

It should also be noted that, in order to ensure the immediate availability of funds to cover working capital needs, as of March 31, 2018 the company has the following committed credit line (Revolving Credit Facility), which was renegotiated in 2017 and is fully available:

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank, Bank of Tokyo-Mitsubishi, DnB NOR and Export Development Canada	US\$150,000,000	03-Aug-2020	Working Capital
Scotiabank and Banco Estado	UF\$2,500,000	03-Aug-2020	Working Capital

4. INDICATORS

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

Covenants		Limit	March 2018	December 2017
Capitalization Ratio*	All local Bonds	< 0.70	0.64	0.63
Shareholder's Equity* MMUF	D, H, K, M and N local Bonds	> 15.00	29.78	30.28
Shareholder's Equity* MCh\$	Q local Bond and Revolving Credit Facility	> 350,000	802,951	811,330
Net Debt/Ebitda	Revolving Credit Facility	<= 7,0x	5.82	5.78

Test	Bonds	Limit	March 2018	December 2017
Distribution Test** FNO***/Financial Expenses	D, H, K, M and N local Series	> 1.50	3.71	4.07

¹Equity= Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and March 31, 2018 amounted to MCh\$24.970.

²Test to distribute restricted payments such as dividends.

³FNO= Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.

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

RATIOS		March 2018	December 2017	Variation 2018/2017
Profitability				
Shareholders' Equity profitability*	(%)	9.8%	10.0%	-20 pbs
Assets profitability*	(%)	3.2%	3.3%	-10 pbs
Operating assets profitability*	(%)	5.2%	5.4%	-20 pbs
Earnings per share*	(\$)	76,402	78,249	-2.4%
Liquidity & Indebtedness				
Current Ratio	(times)	1.29	1.25	3.2%
Acid-Test Ratio	(times)	1.29	1.25	3.2%
Debt to Equity	(times)	2.03	1.98	2.5%
Short term debt/Total debt	(%)	6.7%	7.5%	-80 pbs
Log term debt/Total debt	(%)	93.3%	92.5%	80 pbs
Financial expenses coverage	(times)	3.54	3.35	5.7%

¹ Profitability ratios are presented under last twelve months criteria.

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

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

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

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

5. THE TRANSMISSION MARKET

5.1. The transmission activity and its regulation

Transelec develops its activities in Chile in the electricity market, which has been divided into three sectors: generation, transmission and distribution. The generation sector includes companies that are dedicated to produce electricity that will subsequently be used throughout the country by end users. The purpose of the distribution sector is to carry electricity to the physical location where each end user will use this electricity. Finally, the primary goal of the transmission sector (the only sector in which it participates Transelec) is to transport the generated electricity from where it is produced (electrical power plants) to the 'points of entry' of the distribution companies' networks or of the large end users.

The transmission system of Transelec, which stretches between 'Arica y Parinacota' Region to 'Los Lagos' Region, encompasses a great majority of the electricity transmission lines and substations in the National Electric System. This transmission system transports the electricity that reaches the areas where 98.5% of the population of Chile lives. The company owns 36% of all 500 kV electricity transmission lines, 41% of the 220 kV lines, 84% of the 154 kV lines and 10% in the segment of 110 kV and 66 kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL No. 1/82) and its subsequent modifications, including Law 19,940 ('Ley Corta I') published on March 13,



2004, and the recently published, Law 20.936 issued on July 20, 2016, which establishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explore and operate transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

The new Law 20,936/2016 redefines transmission systems classifying them into five segments: National Transmission System (previously trunk), the Transmission Systems Zonal (previously subtransmission) Systems Dedicated (previously additional transmission), Systems for Development Poles and International Systems Interconnection. Additionally the bill of law addresses the transmission planning a long-term horizon and regulates the pricing of national, zonal and for development poles systems and payment for use of transmission facilities dedicated by users liable to price regulation.

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

5.2. Valuation and pricing of facilities

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

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

During 2014 and 2015 were developed the third trunk facilities tariff process in order to determine the tariffs and indexation formulas corresponding to the period 2016 - 2019, that were fixed by Decree N° 23T by the Minister of Energy on February 3, 2016 and its application is retroactive from January 1, 2016. These regulations established the trunk transmission facilities and the new Investment Values (VI), the Annuity of the Investment Value (AVI) and the Operating, Maintenance and Administration Costs (COMA), plus the VATT of the trunk facilities, and the Indexation formulas applicable during that period.

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

In relation to the Zonal transmission system facilities (previously subtransmission), on April 9, 2013, the Supreme Decree No. 14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014. The difference between invoiced amounts using these provisional tariffs since January 2011 until the publishing date of this decree were reassessed by the CDEC based on the difference between the provisional tariff and the definitive values established by Decree No. 14. According to what is indicated in the transitory third article of Law 20,805 published

on January 29, 2015, and to what is established in the Decree No. 7T of April 22, 2015, the validity of the Decree No. 121/2010, which fixes the tariffs of subtransmission facilities, and of the Exempt Decree No. 14/2013, which fixes the qualification of subtransmission facilities, is extended until December 31, 2015.

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

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

6. MARKET RISK FACTORS

Due to the nature of the electrical market and the legislation and standards that regulate this sector, Transelec is not exposed to significant risks in developing its principal business. However, the following risk factors should be mentioned and considered:

6.1. Regulatory Framework

As mentioned above, electricity transmission tariffs are set by law and are indexed in order to guarantee real annual returns for the operator. The nature of the industry enables transmission income to be stable over time. In addition, this income is complemented with income obtained from private contracts with large clients.

However, the fact that these tariffs are revised every four years in National and Zonal Transmission Studies, could place the Company at risk of new tariffs that are detrimental or less attractive given the investments it has made.

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

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

6.2. Operating Risks

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

6.3. Application of regulations and/or Environmental Law

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

The Environmental Impact Assessment System (SEIA) Bylaw, modified through the Supreme Decree No. 40/2012, has introduced changes in the assessment process of the projects, implying the 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 introduced in Law 19,300 and Decree 40/2012 as result of the report.

The enactment of the Supreme Decree No. 66/2013 of the Minister of Social Development, which regulates the indigenous consultation procedure and its application considered in the Supreme Decree No. 40/2012 for the projects in the SEIA, has had results of relative effectiveness, implying delays in the management of some projects and even the prosecution of some environmental authorizations. However, during the past few months there has been a relative decline in the prosecution of the environmental licenses.

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



6.4. Delays in the Construction of New Transmission Facilities

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

6.5. Technological Changes

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

6.6. Foreign Exchange Risk

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

- Transelec carries out several types of transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Maintains lease contracts that generate income indexed to US dollars.
- Maintains accounts payables in US dollars associated to debt issued in U.S. America.
- Maintains accounts receivables in US dollars associated to intercompany loans.
- Maintains Cross Currency Swap contracts that compensates the risks of exchange rates on the international issuances.

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

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

In million pesos	March 2018		December 2017	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	376,119	615,705	637,899	632,905
Chilean peso	1,966,500	1,726,913	1,704,719	1,709,713

EXCHANGE RATES (Observed exchange rates)

MONTH	Average 2018 (\$)	Last Day 2018 (\$)	Average 2017 (\$)	Last Day 2017 (\$)
January	605.53	603.25	661.19	646.19
February	596.84	593.61	643.21	648.88
March	603.45	603.39	661.20	663.97
Average of the period	601.94	600.08	655.20	653.01

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 March 31, 2018, the Company has five clients which represent individually between 2.3% and 40.4% of total revenues. These are Enel Group (MCh\$24,336), Colbún Group (MCh\$11,430), AES Gener Group (MCh\$9,417), Engie (MCh\$4,308) and Pacific Hydro-LH-LC Group (MCh\$1,518). The total sum of these main customers corresponds to a 74.5% of the total income of the Company. In the same period of 2017, the Company had a similar structure of clients, whose revenues reached to MCh\$27,928, MCh\$12,762, MCh\$11,424, MCh\$3,243 and MCh\$1,773 respectively, with a percentage of total incomes of 84, 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\$157,925,725. As of the balance sheet date, does not register balance of used amounts. This committed line of credit was contracted on July 9, 2012, being renegotiated in 2014 and 2017. The last renovation was on August 03, 2017 maintains the total amount but it includes a local tranche and a USD tranche with others improvements. Is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi, EDC DnB NOR and Banco Estado. This line does not include any material clause of adverse change.

The Company is exposed to risks associated with indebtedness, including refinancing risk when its debt matures. These risks are mitigated by using long-term debt and appropriately structuring maturities over time.

The following table presents the capital amortizations corresponding to the Company's financial liabilities, according to their maturity date, as of March 31, 2018 and December 31, 2017.

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
31 de marzo de 2018	77,626	114,790	114,790	991,792	720,312	2,019,308
December 31, 2017	77,923	115,384	115,384	1,006,579	728,358	2,043,629

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 Sistema Nacional (Ex Troncal) 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 CEN (National Electrical Coordinator) 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 CEN, 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.



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 March 31, 2018, and as of December 31, 2017, 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 2018 (\$)	Last Day 2018 (\$)	Average 2017 (\$)	Last Day 2017 (\$)
January	26,811.97	26,824.94	26,340.76	26,318.21
February	26,864.09	26,923.70	26,336.93	26,392.09
March	26,961.32	26,966.89	26,442.88	26,471.94
Average of the period	26,879.13	26,905.18	26,373.52	26,394.08

Subsequent Events

- On April 27, 2018, the Ordinary Shareholders' Meeting was held, where, among other matters, the following was agreed:
 - Approve the Financial Statements corresponding to the period ended on December 31, 2017.
 - Approve the definitive dividend of 2017 for MCh\$18,712, which will be paid on May 29.
 - Approve the nomination to Deloitte as external auditors for the fiscal year 2018.

CONSOLIDATED MATERIAL FACTS

TRANSELEC S.A.

- 1) On March 2, 2018, and in accordance with article 9 and subsection 2 of article 10 of Law No. 18,045 on the Securities Market and General Standard No. 30 of the Superintendency of Exchange and Securities, today the Commission for the Financial Market, it was informed as an essential fact that on March 1, 2018, Mr. José Ramón Valente communicated his resignation as Director to the Chairman of the Board of Transelec S.A.
- 2) On March 15, 2018, and in compliance with article 9 and subsection 2 of article 10 of Law No. 18,045 on Stock Market and General Standard No. 30, it was reported as an essential fact that in a special Meeting of the Board of Directors of Transelec S.A., dated March 15, 2018, and according to what was reported by essential fact on December 26, 2017, that the respective authorizations have been obtained by the government of the People's Republic of China. As a result, the purchase and sale of shares between BIP (Barbados) Holdings II Limited ("Brookfield") and the company Coron Investments, S.L.U. ("CSGI"), by virtue of which, CSGI becomes a shareholder of 27.7% that Brookfield indirectly owned in Transelec S.A.
- 3) On March 15, 2018, and in compliance with the provisions of article 9 and in the second paragraph of article 10 of Law No. 18,045 on the Securities Market, and the provisions of NCG No. 30, it was reported as an essential fact that in the special Meeting of the Board of Directors of Transelec S.A., dated March 15, 2018, the Board of Transelec S.A., took knowledge and accepted the resignation presented by Mr. Benjamin Vaughn, to his position as Chairman and Director of the company, as well as the resignation of his alternate director Mr. Jeffrey Rosenthal, all since March 15, 2018. In addition, the Board of Directors of Transelec S.A. took notice and accepted the resignation presented by Mr. Etienne Middleton to his position as alternate director of the company, effective as of April 27, 2018. Given the previously mentioned, in the same special Meeting of the Board of Directors of Transelec S.A. Mr. Han Rui was appointed as substitute director and Ms. Brenda Eaton as Chair of the Board.
- 4) On March 22, 2018 and according the article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, the following material fact was reported:

Transelec S.A.'s Board of Directors at its meeting held on March 21, 2018, agreed on informing as a material fact the calling for the annual Shareholders Meeting to be held on April 27, 2018, in order to inform and request approval from shareholders on the following matters:

1. Annual Report, General Balance Sheet, Financial Statements and External Auditors' Report, corresponding to the period ended on December 31, 2017.
 2. Distribution of final dividends. On this matter, Transelec S.A.'s Board of directors agreed on requesting approval to the shareholders for the distribution of a final dividend for fiscal year 2017, for a total amount of CLP 18.712.012.037, to be paid on the terms and conditions to be agreed by them.
 3. Appointment of the Board of Directors members.
 4. Remuneration of the Board of Directors and the Audit Committee.
 5. Appointment of External Auditors.
 6. Newspaper to call for Shareholders Meetings.
 7. Resolutions adopted by the Board regarding matters contained in articles 146 et seq. of the Law on Stock Corporations.
 8. Other matters of interest for the Company and of the Shareholders' competence.
- 5) On March 22, 2018, and in compliance with the provisions of article 9 and the second paragraph of article 10 of Law No. 18,045 on the Securities Market, and the provisions of NCG No. 30, it was reported as an essential fact that in the Board Meeting of Transelec S.A., dated March 21, 2018, the Board of Transelec S.A. took knowledge and accepted the resignation presented by Mr. Bruno Philippi to his position as the company's Director, this resignation is as of April 1, 2018.