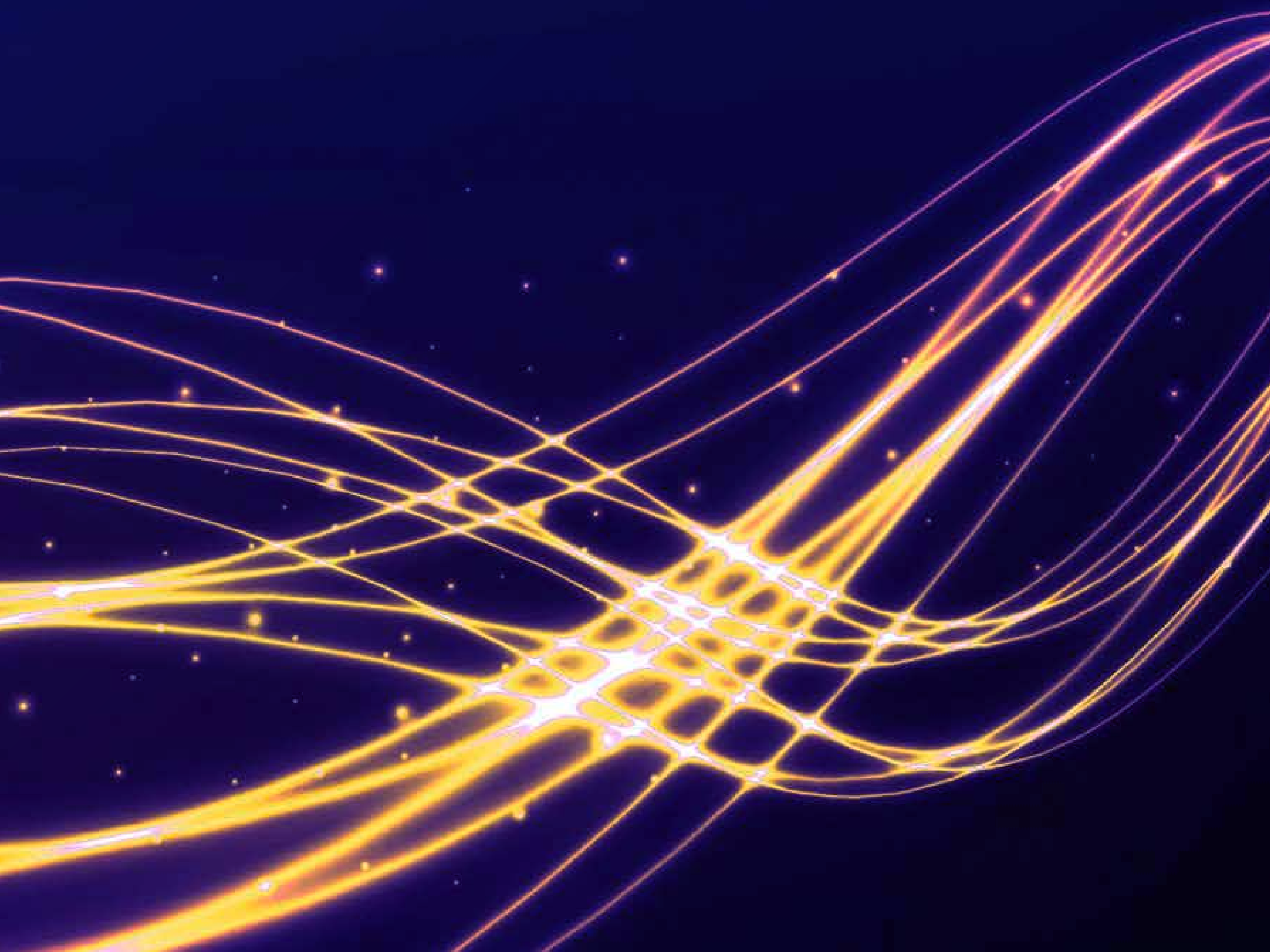
2017

Annual Report

Uniting Chile With Energy

transelec®



TRANSELEC
Santiago, Chile
February 2018

General Coordination
Transelec's Investor Relations

Design
Loreto Cammas Design
Sebastián Paublo
Pilar Bunster

IDENTIFICATION

Name or Firm Name:
Transelec S.A.

Domicile:
Santiago, while not restricting the establishment of agencies, branches or offices in other parts of the country or overseas.

Tax list number:
76.555.400-4

Address:
Orinoco N°90, 14th floor, Las Condes

Entity type:
open stock corporation

National Securities Registration:
Number 974

Telephone:
(56-2) 2467 7000

E-mail:
transelec@transelec.cl

Webpage:
www.transelec.cl

SHARE OWNERSHIP

Transelec capital is divided into 1,000,000 nominative ordinary shares with no nominal value. Transelec Holding Rentas Limitada owns 999,900 shares and Rentas Eléctricas I Limitada owns 100 shares.

transelec®

BENJAMIN VAUGHAN

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Messrs. shareholders:
2017 came to a close with the satisfaction of important results, achievements and awards reaffirming Transelec's leadership position in the power sector and evidencing how the company has constantly contributed to Chile's development.

In terms of results, Transelec continued to incorporate new projects with revenue amounting to CLP 278.6 billion, down slightly from prior year due to the timing of projects, but strong growth for the business and in line with our long term investment plan. The Company generated Ebitda amounting to CLP 232.4 billion in 2017, showcasing the company's important liquidity and cash generation capacity.

This year's projects include a series of works to finish interconnecting the Central Interconnected System and the Far North Interconnected System power grids. We are proud of being part of a project that clearly contributed to Chile's development. We were consequently presented the International Council on Large Electric Systems (CIGRE) Country Contribution Award this year for our interconnection works.

Transelec's performance in terms of risk management and service quality has remained excellent in terms of system operation. One of the main indicators used is Equivalent Interruption Time (EIT), which remained at historically low levels amounting to 4,078 minutes-system in 2017. This performance is outstanding compared to the rest of the industry and we will continue to improve our customer service quality.

In 2017 we implemented a series of new initiatives and received important awards in areas the company has committed to develop.

Transelec has been promoting innovation as one of its crosswise strategic thrusts for several years now. This has produced scores of innovation initiatives that have improved the company's results, together with changes in order to continue consolidating its culture of innovation. In 2017 we were presented the GFK Best Place to Innovate award, which is sponsored by Universidad Adolfo Ibáñez and Microsoft, among other entities. In addition, we received the Universidad de La Frontera Award for Excellence in the Innovation category.

Another aspect we have been developing as a company is integrity at Transelec and in the industry by encouraging good corporate practices. We were presented the Diario Financiero Corporate Generation Award for Commitment to Integrity in 2017, which fills us with pride.

Sustainability is a third working area the company has been developing and this constitutes part of the company's five strategic pillars. We consequently compared our company's performance to best practices by participating in the PROhumana Corporate Sustainability Ranking for the second year in a row. As the result of work done by our collaborators internally, as well as work with our neighboring communities and local authorities, this year the company was ranked in the PROhumana silver category for the most sustainable companies in Chile.

Relations with stakeholders from the financial industry have also been a focus for action and therefore the first Transelec Investor Day was hosted in Chile on May 30th. Transelec showcased the company with an integral focus on business, regulation and operations. It was undoubtedly a special opportunity for strengthening relations and working closer with the financial industry we constantly interact with.

Finally, in December 2017 Brookfield Asset Management, one of our shareholders, signed a sale-purchase agreement to sell its 27.7% share in Transelec S.A. to China Southern Power Grid International once the respective authorizations have been received from the Chinese Government. This agreement with one of the leading power transmission companies in the world confirms Transelec's status as a leader in the sector and recognizes the outstanding work and commitment of our collaborators over time.

We wish to thank all of our collaborators and contractors that have made these achievements possible. These achievements fill us with a sense of pride and are only justified to the extent that we, as the leading power transmission company in Chile, continue contributing to the country's development.

On behalf of the Transelec Board of Directors, I present you with the annual report corresponding to the 2017 fiscal year. As usual, our corporate efforts have focused on providing excellent service throughout our nearly 10,000 kilometers of power transmission lines spanning between Arica and Chiloé.

Benjamin Vaughan
Chairman of the Board of Directors

01 The Company

Transelec is the leading high-voltage power transmission system supplier in Chile and the most important power transmission company in the country. Transelec develops and operates power infrastructure, supplying power to 98% of Chile's population. In addition, Transelec facilities consist of 9,648 kilometers power transmission lines. These are part of Chile's National Power Grid[1], which ranges between Arica to the island of Chiloé. Total transformation capacity amounts to 16,321 MVA, distributed between 61 substations, considering all substations where Transelec is the owner, lessee, usufructuary or operates an important percentage of power transmission facilities in any capacity.

Throughout its corporate history, Transelec has gained extensive experience with each of the links comprising the chain of value for the power transmission industry: ranging from project evaluation, conceptual and basic engineering, power transmission and connection design to project management and construction, consultancy for commissioning, operation, maintenance and administration of new facilities.

Transelec contributes its extensive experience and knowledge of power projects to a wide range of customers in the power, mining and industrial sectors throughout Chile. These customers trust in the support and excellence provided by the Company's integral power transmission solutions.

16,321 MVA

Total transformation capacity amounts distributed between 61 substations.

9,648 Km

of power transmission lines. These are part of Chile's National Power Gridl, which ranges between Arica to the island of Chiloé.

98 %

of Chile's population is supply by Transelec.

[1] The Central (SIC) and Far North (SING) power grids were synchronized Tuesday, 21 November 2017 at 11:00:23 AM. Chile has had a National Power Grid ranging between Arica and Chiloé ever since.

OUR CORPORATE HISTORY, TRANSELEC:

SIC

1943

Corfo created **Empresa Nacional de Electricidad (Endesa)** in order to power up a national plan featuring construction of new power generation units and especially a network of regional power lines to connect these units.

1954

There were already **four independent regional systems** in Chile: La Serena-Punitaqui, La Ligua-Talca, Chillán- Victoria and Valdivia-Puerto Montt. Only certain isolated cities throughout the rest of the country had their own power plants at the time.

1955

The **SIC power grid (Central Interconnected System)** was created by connecting the recently built Cipreses Power Plant by means of the 154 kV Cipreses-Santiago and Charrúa-Itahue power transmission lines to consumption centers in Santiago and Concepción.

1965

A submarine cable (presently an aerial cable) was laid across the Chacao Channel, **supplying power to Isla Grande de Chiloé** for the first time. Another important milestone was construction of the first 220 kV power transmission line, Rapel-Cerro Navia. This line connected the Rapel Power Plant to increasing demand for power in Chile's central zone in 1966.

2004

The largest power transmission development project in history was completed: upgrading the system between Charrúa y Alto Jahuel to 550 kV, thus enabling connection of the Ralco hydroelectric power plant (690 MW).

2006

The Canadian consortium comprised of Brookfield Asset Management (BAM), Canada Pension Plan Investment Board (CPP), British Columbia Investment Management Corporation (bcIMC) and Public Sector Pension Investments (PSP) **purchased 100% of Transelec's shares**, contributing its solid financial strength to meet Chile's growth requirements.

2008

Energization of the 500 kV Alto Jahuel-Polpaico double circuit transmission line brought northbound network saturation to an end and was largely responsible for **creation of a 500 kV ring surrounding Santiago, one of the key developments for the system's future.**

2009

The Nogales Substation was commissioned, thus enabling efficient expansion of the system from Chile's 5th Region northward.

2010

Transelec purchased the Punta Colorada substation from Barrick Gold in order to consolidate service provision to the mining sector. In addition, Transelec commissioned the Las Palmas substation, which is **the core wind power contribution to the SIC power grid.**

2012

350 MVA flow control equipment for each circuit of the 220 kV Polpaico – Cerro Navia transmission line was commissioned, **providing additional flexibility for transporting power to the Metropolitan Region.**

1974

The 220 kV system was extended westward to supply Concepción and northward in order to transport power to Santiago. In addition, **the SIC power grid expanded northward** with the construction of 110 kV systems for the Maitencillo-Cardones and Pan de Azúcar-Maitencillo transmission lines.

1978

Interconnection with Chile's Near North was enhanced with power transmission lines connecting San Isidro (presently Quillota) and Cardones. In the early 80s, the SIC power grid was extended as far as Diego de Almagro in order to connect the El Salvador mining company, while 220 kV power transmission lines were extended as far as Puerto Montt in southern Chile.

1986

The extra high voltage era started with the commissioning of the first 500 kV power transmission lines (Ancoa-Alto Jahuel 1 and 2). These were essential for the injection of power generated by the Colbún-Machicura into the SIC power grid.

1993

Endesa transformed its Power Transmission Division into the subsidiary **Compañía Nacional de Transmisión Eléctrica S.A., followed by the incorporation of Transelec S.A.**, which was designed to plan, operate and maintain the system while providing services to different SIC power grid user power companies. The aerial crossing of the Chacao Channel was commissioned this same year. The project consisted of two 179 meter towers and power transmission lines spanning a total length of 2,680 meters.

1996

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

2000

All Transelec shares were **purchased by the Canadian company Hydro-Québec.**

2003

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

2014

At a ceremony attended by President of the Republic Michelle Bachelet, **Transelec commissioned its National Transmission Operation Center (CNOT)** located in the district of Cerro Navia. This center enabled the operation of Transelec facilities to be centralized in real time and in keeping with the highest standards.

2015

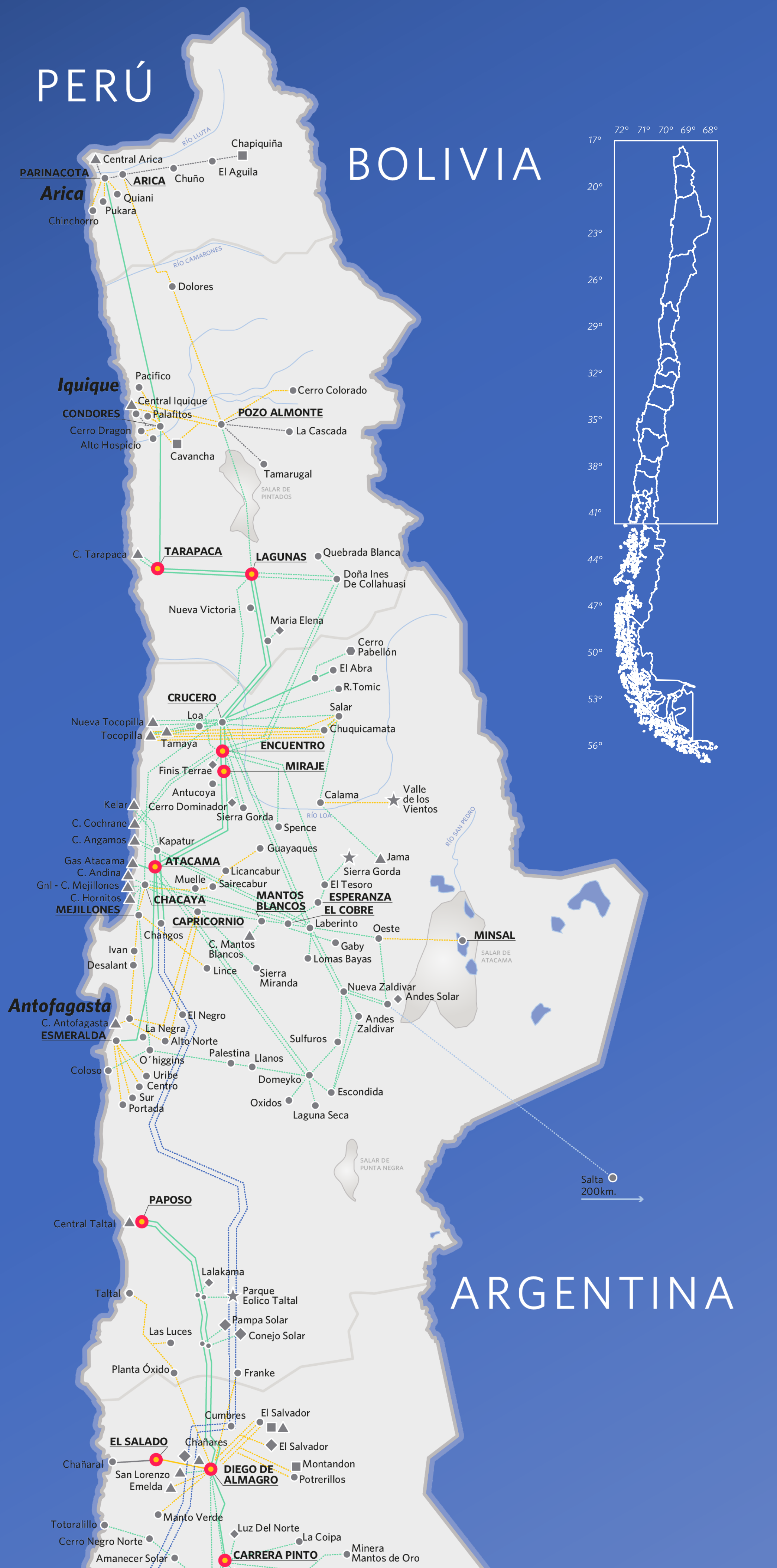
The Lo Aguirre sectioning substation featuring **a bank of four autotransformers and total capacity of 1,000 MVA was commissioned to provide new support for distribution** of potential DC lines in the Metropolitan Region.

POWER TRANSMISSION SYSTEM MAP

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

Updated february 2018.

LINES (kV)	Transelec	Other
500		
345	_	
220		
154		
110		
66 OR LESS		
EOLIC POWER PLANT	–	☆
HYDRO POWER PLANT	–	■
COAL POWER PLANT	–	△
SOLAR POWER PLANT	–	◇
SUBESTATION	●	○



Isla San Félix
Isla San Ambrosio
Isla Sala y Gómez
Isla de Pascua
Totoralillo
Cerro Negro Norte
Amanecer Solar
Chamonate
Caldera
Luz Del Norte
La Coipa
CARRERA PINTO
Minera Mantos de Oro
Hernan Fuentes
Parque Solar Carrera Pinto
Copiapo
Paipote
San Andrés
Cardones (Ex Tierra Amarilla)
Cenizas
Termopacifico
Nueva Cardones
Magnetita
CARDONES
Plantas
Central Medellin
La Candelaria
Travesia
Cerrillos
T. Amarilla
Kazan
RÍO COPIAPÓ
Los Loros
CASTILLA
Mina El Refugio
CHUSCHAMPIS
Los Colorados
Caserones
Guacolda
HUASCO
Jorquera
Pellets
MAITENCILLO
Agrosuper
VALLENAR
Algarrobo
DOS AMIGOS
Pajonales
El Romero
Parque Eólico San Juan
Incahuasi
DON HÉCTOR
Alto del Carmen
El Pelícano
Pascua Lama
Pascua Lama
PUNTA COLORADA
ROMERAL
Romeral
El Indio
La Serena
Las Compañias
Coquimbo
RÍO ELQUI
Marquesa
Guayacan
Vicuña
Don Goyo
PAN DE AZUCAR
Talinay
Andacollo
Cm. Andacollo
El Peñon
La Cebada
Ovalle
Monte Patria
LOS MOLLES
RÍO LIMARÍ
Monte Redondo
Punta Palmera
Punitaqui
Totoral
Canela
LAS PALMAS
El Sauce
Combarbala
RÍO ILLAPEL
Illapel
Mauro
Los Pelambres
Salamanca
Los Espinos
Choapa
LOS VILOS
Olivos
RÍO PETORCA
RÍO DE LA LIGUA
Quinquimo
Cabildo
C.Viejas
Nueva Ventanas
NOGALES
Ventanas
Colmito
Calera
RÍO COLORADO
Quintero
Nehuenco
RÍO ACONCAGUA
San Isidro
San Luis
Los Quilos
Aconcagua
Valparaiso
QUILLOTA
Chacabuquito
Saladillo
Agua Santa
San Pedro
Las Vegas
Laguna Verde
Los Vientos
El Manzano
POLPAICO
Disputada
Lampa
El Salto
CERRO NAVIA
Alfalfal
Casa Blanca
N. Renca
Archipiélago de Juan Fernández
San Antonio
LO AGUIRRE
Santiago
Chena
Santa Marta
Buin
Los Almendros
El Monte
ALTO JAHUEL
Los Morros
Alto Melipilla
Puntilla
Melipilla
I. de Maipo
Florida
RÍO MAIPO
Fatima
Maipo
Maitenes
Mandinga
Paine
Caensa
Los Bajos
Hospital
Queltehues
Quelentaro
Las Arañas
Volcan
Portezuelo
Graneros
Candelaria
Minero
RAPEL
Rancagua
Colon
LOS LIRIOS
Minera Valle Central
EMBALSE RAPEL
P. de Cortes
Pangal
TILCOCO
Coya
Chacayes
RÍO CACHAPOAL
Sauzal
Rengo
Sauzalito
San Vicente de Tagua Tagua
Marchihue
La Ronda
Malloa
Pelequén
San Fernando
Paniahue
Nancagua
RÍO TINGUIRIRICA
TINGUIRIRICA
La Higuera
Confluencia
Quinta
RÍO TENO
Teno
RÍO TENO
Teno
Curico
Hualañe
RÍO MATAQUITO
ITAHUE
San Pedro
Licanten
V.Prat
Elektragen
Constitucion
San Rafael
Armerillo
La Mina
E. Verde
RÍO MAULE
San Ignacio
Río Colorado
Talca
Maule
Loma Alta
Arauco
Curillinque
Nirivilo
San Javier
Colbún
CANAL MELADO
Yerbas Buenas
ANCOA
Cipreses
Villa Alegre
Chiburgo
Ojos De Agua
Panimavida
Isla
Chacahuin
Machicura
Pehuenche
Linares
LAGUNA DEL MAULE
Longavi
Cauquenes
PARRAL
RÍO ACHIBUENO
RÍO LONGAVÍ
RÍO PERQUILAUQUÉN
Ñiquen
San Carlos
Tome
RÍO ITATA
Huachipato
P. Bellavista
Cocharcas
RÍO ÑUBLE
Talcahuano
Nva. Aldea
Monterrico
Penco
Chillán
RÍO LARQUI
SAN VICENTE
Concepción
Petroquimicas
C.Chepe
Bulnes
Petropower
Tres Esquinas
HUALPEN
Chiguayante
C. Los Guindos
Antuco
Petrox
Campanario
CHARRÚA
EL TORO
Mapal
Fpc
San Pedro
LAGUNILLAS
Los Pinos
Quilleco
Bocamina
Rucue
LAGUNA DE LA LAJA
Coronel
Santa Lidia
Cholguan
ABANICO
Horcones
RÍO BIOBÍO
Lota
Arauco
Horcones
LAJA
El Rosal
Mampil
Carampangue
Santa Fe
LOS ANGELES
Nacimiento
DUQUECO
Peuchen
Curanilahue
Cmpc Laja
Tres Pinos
Negrete
Pacifico
RÍO BIOBÍO
Pangue
Lebu
Angostura
Angol
Mulchen
Zona Caida
Renaico
RÍO RENAICO
Ralco
Collipulli
RÍO MALLECO
Palmucho
LAGO LLEULLEU
RÍO TRAIGUÉN
Los Peumos
Traiguén
Victoria
RÍO CAUTÍN
Curacautín
Lautaro
Pumahue
Temuco
TEMUCO
Padre Las Casas
CAUTÍN
RÍO HUICHACHE
Río Toltén
LAGO COLICO
Pitrufquén
Carilafquén
RÍO TOLTÉN
LAGO CABURGA
LAGO VILLARRICA
Mariquina
Loncoche
CIRUELOS
Pta.valdivia
LAGO CALAFQUÉN
Pullinque
Calle Calle
Panguipulli
Chumpullo
VALDIVIA
LAGO PANGUIPULLI
LAGO NELTUME
Valdivia
Picarte
LAGO RIÑIHUE
Gral. Lagos
Antilhue
Los Lagos
LAGO PIRIHUEICO
Corral
Nueva Pichirropulli
La Unión
RÍO PILMAIQUÉN
Pichirrahue
Central Rucatayo
Barro Blanco
Chuyaca
Pilmaiquen
Antillanca
Osorno
LAGO PUYEHUE
RÍO RAHUE
RAHUE
Capullo
Purranque
LAGO RUPANCO
LAGO LLANQUIHUE
Frutillar
LAGO TODOS LOS SANTOS
Puerto Varas
RÍO MAULLÍN
Puerto Montt
Melipulli
PUERTO MONTT
Alto Bonito
Canutillar
LAGO CHAPO
Molinos
Seno de Reloncaví
Empalme
Calbuco
RÍO PUELO
Colaco
ESTUARIO DE RELONCAVÍ
Canal de Chacao
Punta Barranco
Punta San Gallan
ANCUD
Degañ
Rio Negro
Isla de Chiloe
San Pedro
Pid-pid
Castro
Chonchi
Chaitén
Futaleufú
El Avión
El Amarillo
Pto. Cardenas
Pto. Ramirez
El Malito
Quellón
Chiloé
Palena
Río Azul
Villa Santa Lucía
Golfo Corcovado
Villa Vanguardia

02 Corporate Government

BOARD OF DIRECTORS

According to the company's articles of incorporation, the Board of Directors is comprised of nine members elected by the shareholders at the respective shareholders meeting. Board members serve for a period of two years and are eligible for re-election. There is one deputy director for each regular director elected. The Chairman is elected by directors chosen at the shareholder meeting.

In conformity with the law and its by-laws, the Board of Directors meets at least once per month. The Transelec S.A. corporation held twelve ordinary meetings and two special meetings of the Board of Directors during the 2017 fiscal year.

1 Benjamin Vaughan
CHAIRMAN
Foreigner
Deputy Director: Jeffrey Rosenthal

2 Paul Dufresne
DIRECTOR
Foreigner
Deputy Director: Patrick Charbonneau

3 Brenda Eaton
DIRECTOR
Foreigner
Deputy Director: Jordan Anderson

4 Bruno Philippi Irarrázabal
DIRECTOR
Tax identification number: 4.818.243-7
Deputy Director: Mario Valderrama

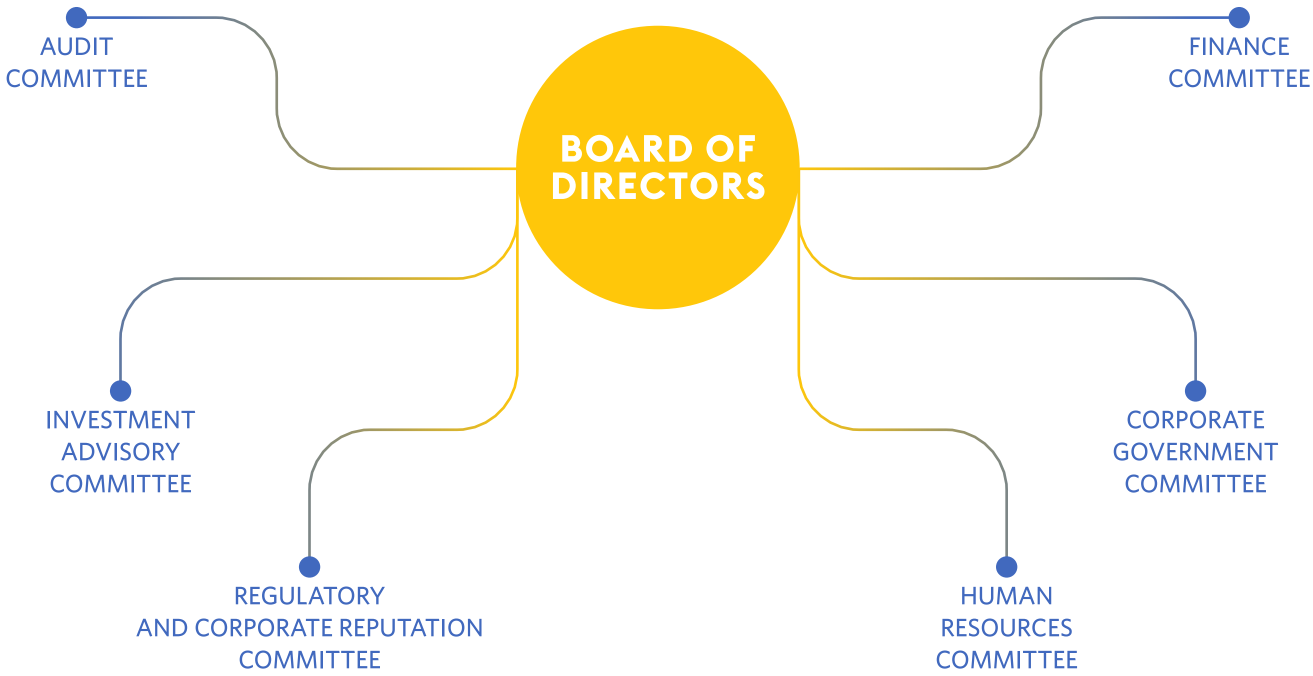
5 Alfredo Ergas Segal
DIRECTOR
Tax identification number: 9.574.296-3
Deputy Director: Etienne Middleton

6 Blas Tomic Errázuriz
DIRECTOR
Tax identification number: 5.390.891-8
Deputy Director: Rodrigo Ferrada

7 Mario Valcarce Durán
DIRECTOR
Tax identification number: 5.850.972-8
Deputy Director: Patricio Leyton

8 Alejandro Jadresic Marinovic
DIRECTOR
Tax identification number: 7.746.199-K
Deputy Director: Valeria Ruz

José Ramón Valente Vias
DIRECTOR
Tax identification number: 8.533.255-4
Deputy Director: Stella Muñoz
Mr. Valente resigned to Transelec Board of Director on March 1, 2018.


BOARD OF DIRECTORS
AUDIT COMMITTEE
FINANCE COMMITTEE
INVESTMENT ADVISORY COMMITTEE
CORPORATE GOVERNMENT COMMITTEE
REGULATORY AND CORPORATE REPUTATION COMMITTEE
HUMAN RESOURCES COMMITTEE


③
⑥
①
⑤

BOARD OF DIRECTORS SALARIES

It was agreed at the tenth ordinary Transelec S.A. shareholders meeting held 27 April 2017 that annual salaries for directors would remain at a gross annual sum of US$ 90,000 and that deputy directors would not be paid for their services.

Directors Benjamin Vaughan, Alfredo Ergas, Paul Dufresne and Brenda Eaton waived salary payment corresponding to the 2017 fiscal year. Salaries paid to directors throughout the 2017 fiscal year are listed as follows:

Bruno Philippi Irarrázabal

CLP$ **59,302,350**

Mario Valcarce Durán

CLP$ **59,302,350**

Blas Tomic Errázuriz

CLP$ **59,302,350**

José Ramón Valente Vias

CLP$ **59,302,350**

Alejandro Jadresic Marinovic

CLP$ **59,302,350**

BOARD OF DIRECTORS EXPENSES

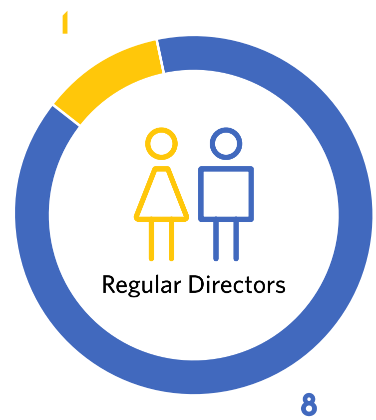
Total payment for director expenses throughout the fiscal year amounted to CLP$ **15,769,080**.

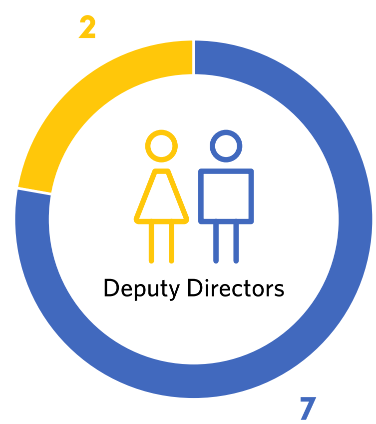
DIVERSITY ON THE BOARD OF DIRECTORS

In terms of diversity, there is one woman serving on the Board of Directors and two deputy directors are women. The following graphs and figures show Board of Directors distribution by nationality, age and seniority at the Company.

I) NUMBER OF PERSONS BY GENDER

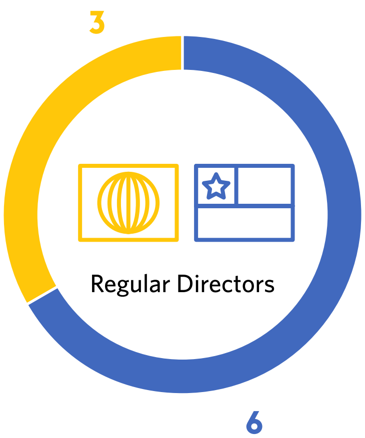
- MEN
- WOMEN

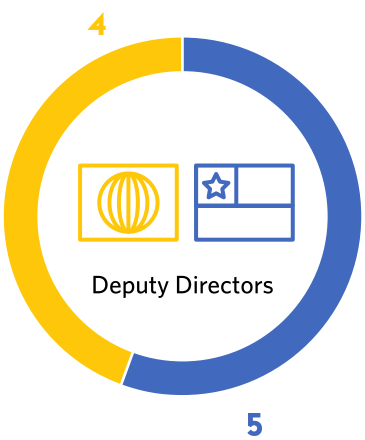




II) NUMBER OF PERSONS BY NATIONALITY

- CHILEAN
- FOREIGNER



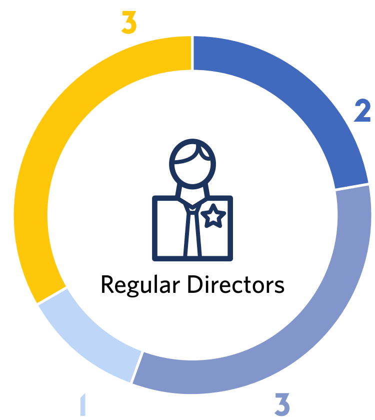


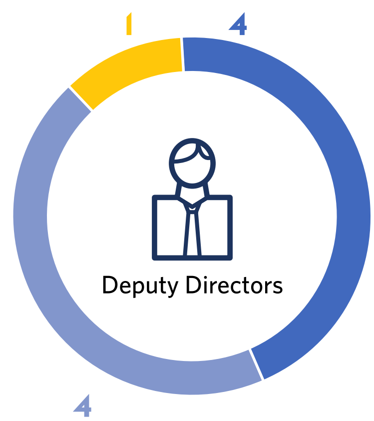
III) NUMBER OF PERSONS BY AGE RANGE

- 30 > 40 YEARS
- 41 > 50 YEARS
- 51 > 61 YEARS
- 61 > 70 YEARS
- 70 > YEARS

IV) NUMBER OF PERSONS BY SENIORITY

- < 3 YEARS
- 3 > 6 YEARS
- 6 > 9 YEARS
- 9 > 12 YEARS





AUDIT COMMITTEE

Creation of an Audit Committee different from that established in the Corporations Law was approved in April 2007. Its functions, among others, are to revise auditor reports, balance sheets and other financial statements for the company, as well as internal systems. The Transelec Audit Committee is comprised of four directors who are appointed by the Board of Directors, serve for a period of two years and are eligible for re-election. The Committee elects a Chairman from among its members and a Secretary, who may be one of its members or the Secretary of the Board of Directors. The Committee held four meetings in 2017.

As of 31 December 2017, the Audit Committee was comprised of its Chairman, Mr. Mario Valcarce Durán, directors Mr. Alfredo Ergas, Mrs. Brenda Eaton and Mr. José Ramón Valente Vias, as well as its Secretary, Mr. Arturo Le Blanc Cerda. Members of the Committee are entitled to receive salaries in accordance with the decisions made at Ordinary Shareholders Meetings.

An agreement was reached at the Tenth Transelec S.A. Ordinary Shareholders Meeting held 27 April 2017 to keep salaries for each of the Committee members at US$ 10,000 per year.

Director Mr. Alfredo Ergas and Mrs. Brenda Eaton waived their salaries corresponding to the 2017 fiscal year.

Salaries paid to the remaining members of the Audit Committee during the 2017 fiscal year are listed as follows:

Mario Valcarce Durán	CLP$ **6,694,700**
José Ramón Valente Vias	CLP$ **6,694,700**

INVESTMENT ADVISORY COMMITTEE

The Investment Advisory Committee is responsible for improving information presented to the Board of Directors regarding the Company's different projects, thus facilitating decision making by the Board of Directors.

REGULATORY AND CORPORATE REPUTATION COMMITTEE

The Regulatory and Corporate Reputation Committee meets on a bimonthly basis to revise the Regulatory and Corporate Reputation Strategy to be executed with regard to the main legal and regulatory amendments in the power and environmental sectors, and to manage tariff processes in the National and Zonal Power Transmission Systems.

FINANCE COMMITTEE

The Finance Committee meets on a regular basis in order to review the Company's financial strategy. The Committee also provides consultancy and approves different proposals made by Transelec. Issues such as financing, coverage, risk management, distribution, taxes and projections are reviewed, among others.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee meets at least once per year to review issues related to the people comprising the Transelec team. Among other issues, the Committee reviews financial KPIs, which are the base of the incentive pyramid for the Company's current variable bonus system, as well as other issues related to personal development, training, etc.

CORPORATE GOVERNMENT COMMITTEE

The Corporate Government Committee was created in 2016. The Committee's mandate is to propose and nominate members of the Board of Directors and to evaluate their management, approve codes and manuals and modifications made to these, to examine and evaluate Transelec corporate government guidelines and to make recommendations to the Board of Directors, among others.

OTHER COMMITTEES

A) **COORDINATION COMMITTEES:**
These involve the different Transelec Vice-Presidencies. The Committees meet regularly to coordinate the most important issues for the Company. These are listed as follows:

- Executive Committee.
- Business Committee.
- Projects Committee.
- Operations Committee.
- Results and Operational Excellence Committee.
- Regulatory Agenda Committee.

B) **INTEGRATED MANAGEMENT SYSTEM COMMITTEE:**
This Committee's mission is to discuss all issues related to Occupational Health and Safety, Environment and Quality. The Committee meets on a regular basis to approve programs and plans for monitoring these issues.

MANAGEMENT TEAM

1 **Andrés Kuhlmann Jahn**
CHIEF EXECUTIVE OFFICER
Civil Industrial Engineer
Pontificia Universidad Católica de Chile
TAX ID: 6.554.568-3

2 **Rodrigo López Vergara**
VICE-PRESIDENT OF OPERATIONS
Civil Electrical Engineer
Universidad de Chile
TAX ID: 7.518.088-8

3 **Claudio Aravena Vallejo**
VICE-PRESIDENT OF HUMAN RESOURCES
Commercial Engineer
Pontificia Universidad Católica de Chile
TAX ID: 9.580.875-1

4 **Francisco Castro Crichton**
VICE-PRESIDENT OF FINANCE
Civil Industrial Engineer
Pontificia Universidad Católica de Chile
TAX ID: 9.963.957-1

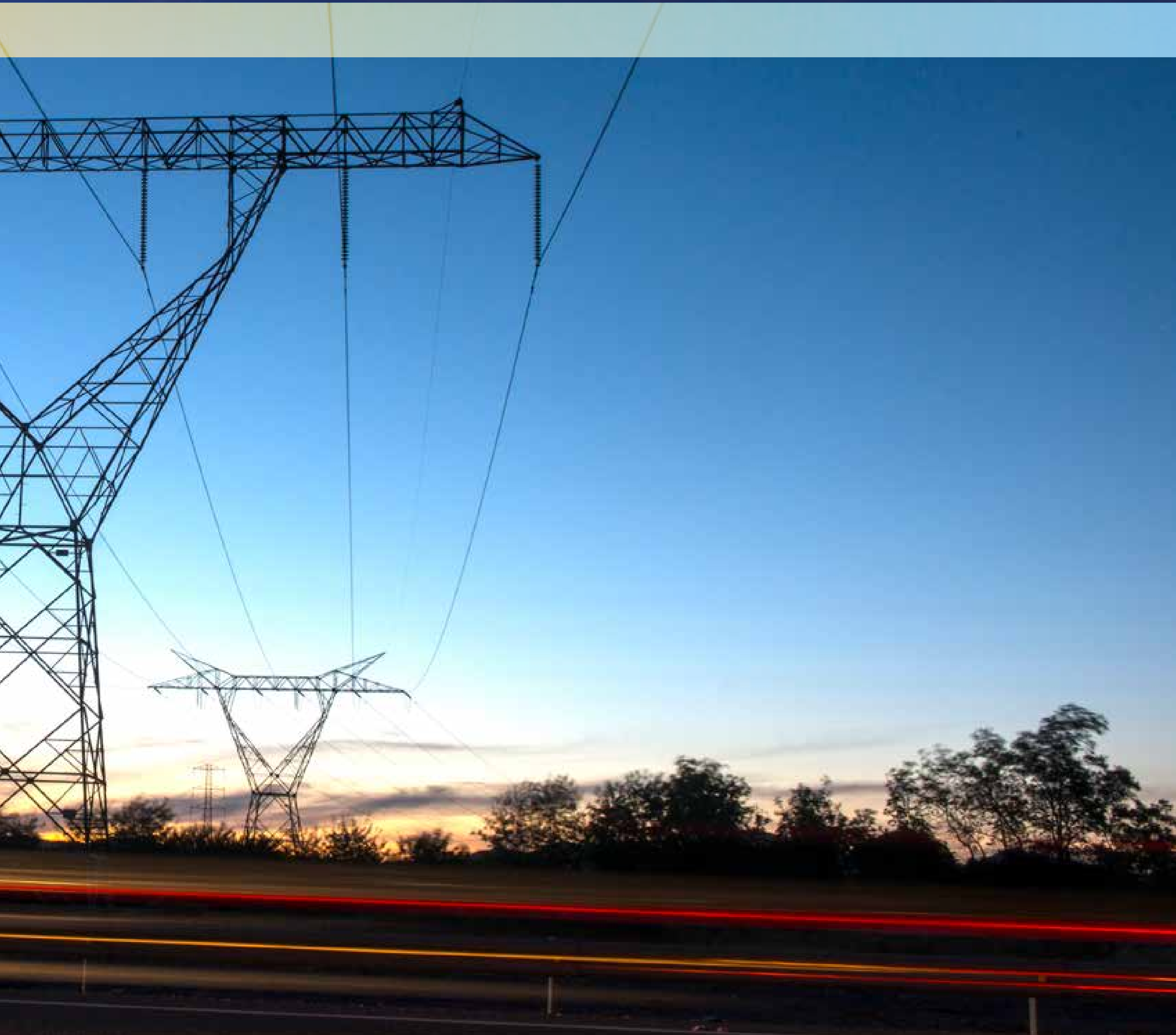
5 **Arturo Le Blanc Cerda**
VICE-PRESIDENT OF LEGAL AFFAIRS AND PROSECUTOR GENERAL
Attorney
Universidad de Chile
TAX ID: 10.601.441-8

6 **David Noe Scheinwald**
VICE-PRESIDENT OF CORPORATE AFFAIRS AND SUSTAINABILITY
Civil Industrial Engineer
Pontificia Universidad Católica de Chile
TAX ID: 10.502.232-8

7 **Eric Ahumada Gómez**
VICE-PRESIDENT OF SALES AND BUSINESS DEVELOPMENT
Civil Electrical Engineer
Universidad de Chile
TAX ID: 9.899.120-4

8 **Alexandros Semertzakis Pandolfi**
VICE-PRESIDENT OF ENGINEERING AND PROJECT DEVELOPMENT
Civil Engineer
Universidad de Santiago de Chile
TAX ID: 7.053.358-8

03 The Business



Transelec participates in the electricity transmission business in Chile, regulated (National and Zonal Systems) and through bilateral contracts with large customers (Dedicated System). The Company develops transmission projects in the country and operates assets for US$3,658 million..

US$**3,658mm**

The Company develops transmission projects in the country and operates assets for US$3,658 million.

REGULATORY SCENARIO

The legal framework that regulates how the power transmission industry operates in Chile is based on Ministry of Economy, Development and Reconstruction Statutory Decree N°4 dated 2006. This decree determines the consolidated, coordinated and systematized text of the General Electricity Services Law, hereinafter and indistinctively the “General Electricity Services Law” or “LGSE”. The LGSE and its complementary regulations determine the technical safety standards that apply to any electricity facility in Chile and specifically regulate power generation, transmission and distribution activities, electricity concessions and rights of way and tariffs applicable to each segment. The organization is also responsible for coordinating system operation in conformity with quality and safety conditions at facilities, as well as corporate and private relations with the Chilean Government.

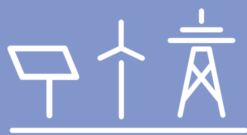
The last important reform made to the LGSE is the recently passed Law Nº 20,936/2016, which established a new Electricity Transmission system, created a new Independent Coordination entity separate from the National Electricity System and incorporated the following amendments:

1. A new functional definition of Power Transmission Systems.
2. A new long-term Energy Planning and Power Transmission Planning process.
3. A new remuneration and tariff setting mechanism for different Power Transmission System segments.
4. A preliminary definition of power transmission line routes for specific new projects, by means of a Strip Study Procedure to be executed by the Ministry of Energy.
5. A new universal Open Access regime.
6. New unauthorized power outage compensation regulations for end users based on predetermined quality and safety standards.
7. Creation of a new Independent Coordinator for the National Electricity System, hereinafter the Coordinator, which replaces the former Economic Load Dispatch Centers (CDECs).

Transelec’s business is power transmission. The current legal framework that regulates the power transmission business in Chile defines power transmission systems and classifies their facilities into four[2] categories: National Power Transmission Systems, Zonal Power Transmission Systems, Power Transmission Systems for Development Poles and Dedicated Power Transmission Systems. The first three systems feature tariffs set by the Ministry of Energy and a universal open access regime with non-discriminatory conditions. Dedicated System power transmission facilities shall provide access as long as available technical power transmission capacity has been determined by the Coordinator, regardless of the hired capacity of its own projects that have been duly considered when requesting that a third party stakeholder be used. In addition, the regulations establish criteria and procedures that are to be used to determine compensation the owner of power transmission facilities will be entitled to.

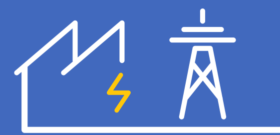
[2] Article 73 of LGSE: “International interconnection systems, which will be subject to special standards determined for this purpose, are also part of the power transmission system”.

Transmission Systems



National
TRANSMISSION SYSTEM

is defined as the system that enables the creation of a shared electricity market interconnecting all other power transmission segments. This is comprised of power transmission lines and electrical substations that enable development of this market and all electricity system demand to be supplied. These must be sufficient to address different power generation facility availability scenarios, including contingency and fault situations. Service quality and safety requirements determined in current legislation must be considered at all times.



Zonal
TRANSMISSION SYSTEMS

Are comprised of power transmission lines and electrical substations essentially arranged to supply current or future regulated customers that can be identified on a territorial basis, with compromising use by free customers or power generation companies connected directly to or by means of power transmission systems used for the aforementioned power transmission systems.

TRANSMISSION SYSTEM FOR
Development Poles

Are comprised of power transmission lines and electrical substations used to transmit electrical energy generated by a development pole into a power transmission system, thus making efficient use of national territory.

Dedicated
TRANSMISSION SYSTEM

Are comprised of power transmission lines and radial electrical substations that are interconnected to the electricity system that are essentially arranged to supply electrical energy to users that are not subject to price regulation or to inject power produced by power plants into the electricity system. Operation of these systems must not produce significant impacts or modifications to how the rest of the system is operated.

Consequently, Trunk Transmission, Subtransmission and Additional System facilities existing at the time the new Law N° 20,936/2016 was passed will become part of the respective National, Zonal and Dedicated Transmission Systems.

Several regulations regarding Law N° 20,936 have been published in 2017. These determine necessary provisions for the execution of issues related to:

- Long-term energy planning.
- Determining new strips for new projects.
- International interconnections.
- Formulation procedure.
- Formulating technical standards.
- Compensation for power supply interruptions.

For issues that have not yet been regulated, the new law states that said provisions will be momentarily subject to deadlines, requirements and conditions established in the new law and to those determined by the Commission's exempt resolution. The Commission has consequently published several resolutions regarding the following issues this year:

- Planning processes.
- Tariff setting.
- Compensation.
- Power Transmission System payment.
- Open access and facility interconnection.

These exempt resolutions will remain in force for a maximum period of eighteen months starting from the publication of the new law. However, if an extension is required because the corresponding regulations are being formulated, this extension shall be approved by exempt resolution, expressly indicating the fundamental issues meriting the aforementioned extension and its term.

SYSTEM GROWTH

In addition, the CNE must conduct a power transmission planning process each year. This process must consider a timeline of at least twenty years. This planning encompasses upgrade projects required for the National Transmission System, the Zonal Transmission System, Development Poles and Dedicated Transmission Systems used by public distribution service concessionaries to supply users subject to price regulation. These expansion plans feature investments that must be classified as new projects or upgrades for existing facilities. As the result of this process, the CNE formulates a technical report and the Ministry of Energy will use this report to determine power transmission facility expansion for the following 12 months.

REMUNERATION FOR THE NATIONAL AND ZONAL TRANSMISSION SYSTEMS, DEVELOPMENT POLE AND DEDICATED FACILITIES USED BY USERS SUBJECT TO PRICE REGULATION

Revenue generated by existing facilities in the National and Zonal Transmission Systems and for Development Poles is constituted by the Annual Transmission Value by Segment (ATVS), which is calculated based on Annual Investment Value (AIV) and Operating, Maintenance and Administration Costs (OMAC) for each of the segments comprising these systems. In addition, revenue generated by the use of dedicated transmission facilities by users subject to price regulation is constituted by the proportion of their ATVS assignable to said users.

SYSTEM VALUATION STUDIES

Segments comprising these systems and their corresponding ATVS are determined by the National Energy Commission (CNE) once every four years based on Transmission System Valuation Study or Studies conducted by a consultant chosen by means of an international public tender. The CNE will consequently formulate a technical report and based on this report the Ministry of Energy will set National and Zonal Transmission and Development Pole tariffs as well as payment for the use of Dedicated transmission facilities by users subject to price regulation for the next four-year period. During the four-year period between two consecutive tariff setting processes, both AIV and OMAC for each segment will be indexed using formulas designed to maintain the real value of AIV and OMAC during said time period. Indexing formulas and their application frequency are determined in the corresponding tariff setting process.

TRANSMISSION SYSTEM PAYMENT

Payment for National, Zonal and Dedicated Transmission Systems used by users subject to price regulation shall be made by free and regulated end users. Transmission System payment for Development Poles determines a single rate in such a way that collection for this service will compensate for the proportion of facilities to be used as development poles that are not used for existing power generation. ATVS that is not covered by this rate will be paid by power generation companies injecting their production into the corresponding pole. In the case of the National Transmission System, Law N°20,936 established a transmission period determined between 2019 and 2034, in order to gradually replace the former payment and remuneration regime with the aforementioned new regime. In the case of Zonal Transmission Systems, the new payment and remuneration regime will come into force as of 1 January 2018.

The Coordinator will be responsible for international public tenders for upgrade projects, regardless of whether these are new works or upgrades. Tenders for the construction and execution of upgrades for existing facilities will be settled depending on the IV offered and the respective company awarded the contract will be paid by the owner of these facilities, as opposed to what happens in the case of new works, for which exploitation and execution rights will be awarded to the bidder indicating the lowest ATVS for the project tendered.

DEDICATED SYSTEM REMUNERATION

Revenue generated by the use of facilities belonging to Dedicated Transmission Systems is obtained in keeping with the provisions of transmission contracts signed between users and the owner of these facilities. Prices are normally set by calculating AVI + OMAC that is determined by mutual agreement between the parties.

Even if these dedicated facilities are essentially being used to inject power produced by power plants into the system or to supply electrical energy to free customers, the authority could eventually declare these facilities to be National, Zonal or Development Poles if operating conditions are changed and if these facilities meet the corresponding requirements.

TARIFF STUDIES

NATIONAL POWER TRANSMISSION/ TRUNK TRANSMISSION SYSTEM

The third Trunk Transmission Study was conducted between 2014 and 2015. This study was formulated as the basis for trunk tariffs between 2015 and 2018. However, a one-time extension of Decree N°61/2011 until 31 December 2015 was published 17 February 2015. Entry into force of the new tariffs was subsequently postponed until 2016-2019. The Ministry of Energy published Supreme Decree N° 23 in February 2016, bringing new tariffs for the Trunk Transmission System and the National System into force for 2016-2019 as required.

Application of the new Law N° 20,936/2016 enabled the identification of two temporary collection, payment and remuneration periods for the National Transmission System, which are regulated as follows:

- **The 2016-2018 period:** the collection, payment and remuneration regime established by Law N° 19,940 (Short Law I) in March 2004 will be applied.

- **The 2019-2034 period:** the collection, payment and remuneration regime established by Temporary Article 25 of the new Law N° 20,936/2016 will be applied. This temporary standard was designed to prevent double payment for transmission due to current power supply contracts between power generation companies and free, end or regulated customers that were signed before the aforementioned law came into force.

ZONAL TRANSMISSION/SUBTRANSMISSION SYSTEM

Studies were conducted between 2014 and 2015 to determine the Annual Value of Subtransmission Systems. These studies were to be used to set tariffs for the five subtransmission systems created in the SIC power grid and for the only subtransmission system in the SING power grid that would remain in force for the 2015-2018 period. However, a one-time extension of Supreme Decree N° 14/2013 until 31 December 2015 was published 17 February 2015. Temporary Article Eleven of Law N° 20,936/2016 was subsequently applied to the period between 1 January 2016 and 31 December 2017. It was decided that Supreme Decree 14/2013 would remain in force with adjustments determined by the Ministry of Energy by means of decree issued using the "by order of the President of the Republic" formula. In turn, Temporary Article Twelve of Law N° 20,936/2016 determines that continuity and termination of the process used to determine the annual value of transmission systems would be provided during the extension of Decree 14/2013 for application between 2018 and 2019.

Application of Law 20,936/2016 enables the identification of two temporary periods regarding the collection, payment and remuneration regime for the Zonal Transmission System, which are to regulated as follows:

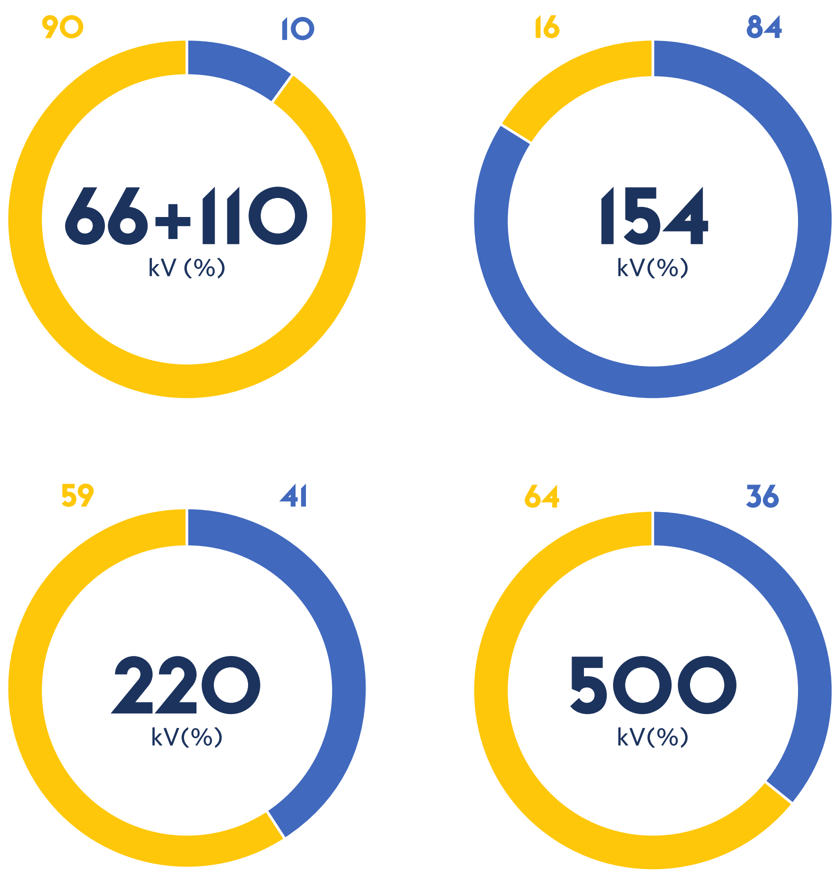
- **The 2016-2017 period:** Supreme Decree N° 14/2013 will remain in force, with the exception of those provisions regarding payment for the use of subtransmission systems by power plants injecting production directly or by means of additional facilities, which will be excluded from said payment. The Ministry of Energy published Decree 1T 27 May 2017. This decree contains the CNE technical report that determines necessary adjustments for the implementation of payment exemption for power plants and application of Supreme Decree N° 23 T/2016 during the extended validity period. Remuneration established by Supreme Decree N° 14/2013 is based on facilities that have been economically adapted to demand forecasts for a period of ten years and considers Annual Investment Value (AIV), Operating, Maintenance and Administration Costs (OMAC), average power and energy losses and indexing formulas to be applied to facilities as a whole.

- **The 2018-2019 period:** the process used to determine the annual value of transmission and subtransmission systems used by users subject to price regulation at the time the new Law N° 20,936/2016 was published. The CNE published Exempt Resolution N°414 31 July 2017. This resolution contains the technical report determining ATVS for Zonal Transmission Systems and the Dedicated power transmission usage proportion for users subject to price regulation in keeping with the provisions of the new Law N° 20,936/2016, as well as its respective indexing formulas, which will be used to determine the respective tariff decree.

MARKET SHARE AS OF 31 DECEMBER 2017

Transelec is an important stakeholder in Chile's power transmission system, as a pioneering company and leader that has substantial know-how and expertise. Given the remuneration system of the electrical transmission market, the Company receives the incomes as a return on installed capacity so that market share is not a relevant factor. Transelec has the following market share of operational power transmission lines:

- TRANSELEC
- OTHERS



NATIONAL POWER GRID PROJECTS

New Projects

1. Studies

Exempt Decree N°422 determining the "National Transmission System Upgrade Plan" was published in the Official Gazette 18 August 2017.

Transelec S.A. is currently developing studies in order to participate in the tendering process executed by the National Electricity Coordinator. The project portfolio has a reference investment value of US$ 300.32 million.

Bids for the new sectioning substations are expected to be presented in March 2018 and bids for the rest of the projects are expected to be presented in May 2018:

Project	Ref. IV US$ thousands	Construction period (months)
New Algarrobal 220 kV Sectioning Substation	13,851	24
New El Rosal 220 kV Sectioning Substation	7,340	24
New Río Malleco 220 kV Sectioning Substation	8,134	20
New Río Toltén 220 kV Sectioning Substation	9,037	24
New Frutillar Norte 220 kV Sectioning Substation	11,213	30
220 kV Nueva Chuquicamata Sectioning Substation and a new 2x220 kV transmission line between the Nueva Chuquicamata Substation – Calama Substation, installation of the first circuit.	17,991	24-48
New 2x220 kV Nueva Pan de Azúcar – Punta Sierra – Nueva Los Pelambres transmission line	125,024	48
New Nueva Puerto Montt – Nueva Ancud 2x500 kV 2x1500 MVA transmission line, new 2x500 kV 2x1500 MVA aerial crossing, both energized at 220 kV and 220 kV Nueva Ancud Substation	107,730	30-60

2. Projects Awarded

No projects were awarded in 2017.

3. Project Development

Transelec S.A. continued Project Development with a referential investment value of US$ 99.29 million throughout the period:

Decree	Project	VI Ref. US$ thousands	Commissioning Date
0082/2012	New 2x220 kV Lo Aguirre – Cerro Navia transmission line	54,610	Q1 2019
0310/2013	Third 500/220 kV 750 MVA Autotransformer Bank at the Alto Jahuel Substation	44,680	Q1 2018

4. Commissioning

No new works in the national system segment were energized in 2017.

Upgrades

1. Tenders and contracts awarded
Exempt Decree N°373 determining the "Trunk Transmission System Expansion Plan" was published in the Official Gazette 23 May 2016.

Transelec S.A. started the tendering process for the following project:

Project	Ref. IV US$ thousands	Construction period (months)
220 kV Punta Colorada Substation Upgrade	2,531	24

This contract should be awarded during the second half of 2018.

Exempt Decree N°422 establishing the "National Transmission System Upgrade Plan" was published in the Official Gazette 18 August 2017.

Transelec S.A. started the bidding process for the following project:

Project	Ref. IV US$ thousands	Construction period (months)
220 kV Ciruelos Substation Upgrade	3,670	24

This contract should be awarded in February 2018.

2. Project Development
Transelec S.A. continued project development with an overall reference investment value of US$ 70.26 million:

Decree	Project	Ref. IV US$ thousands	Commissioning Date
0158/2015	220 kV Carrera Pinto Substation Upgrade	5,802	Q1 2018
0158/2015	Circuit breaker replacement at 220 kV Charrúa Substation	2,082	Q1 2018
0373/2016	Bar capacity upgrade at 220 kV Encuentro Substation	2,404	Q1 2018
0158/2015	2x220 kV Crucero – Lagunas transmission line extension	2,539	Q2 2018
0373/2016	Normalization at the 220 kV Charrúa Substation	2,549	Q2 2018
0373/2016	Normalization at the 220 kV Pan de Azúcar Substation	4,777	Q3 2018
0373/2016	Normalization at the 220 kV Puerto Montt Substation	2,534	Q3 2018
0373/2016	Bay incorporated into the 1x220 kV Cóndores - Parinacota transmission line at Parinacota Substation	2,313	Q4 2018
0373/2016	Bay incorporated into the 1x220 kV Tarapacá - Cóndores transmission line at Cóndores Substation	3,608	Q4 2018
0373/2016	Sectioning of the second circuit of the 2x500 kV Polpaico - Lo Aguirre transmission line at 500 kV Lo Aguirre Substation	10,811	Q4 2018
0373/2016	Bay J3 and J4 normalization at the 220 kV Chena Substation	1,212	Q4 2018
0373/2016	New 220 kV Valdivia Sectioning Substation	11,583	Q4 2018
0373/2016	New 220 kV Quillagua (Frontera) Sectioning Substation	18,044	Q1 2019

3. Commissioning
The following national upgrade projects with an overall reference value of US$ 73.16 million were energized in 2017:

Decree	Project	VI Ref. US$ thousands	Commissioning Date
0310/2013	220 kV Ciruelos Substation Upgrade	21,502	Q1 2017
0201/2014	Bar sectioning at 500 kV Ancoa Substation	17,896	Q1 2017
0158/2015	220 kV Temuco Substation Upgrade	4,922	Q3 2017
0158/2015	Circuit breaker replacement at 220 kV Alto Jahuel Substation	1,467	Q3 2017
0373/2016	Normalization at Alto Jahuel Substation	316	Q3 2017
0158/2015	1x220 kV Cardones - Carrera Pinto - Diego de Almagro capacity upgrade	21,551	Q4 2017
0158/2015	220 kV Cardones Substation upgrade	1,406	Q4 2017
0942/2009	2x220 kV Punta Cortés - Tuniche transmission line	4,098	Q4 2017

Investment in 2017

NATIONAL POWER TRANSMISSION SYSTEM
Values in millions of Chilean pesos

Project type	Actual investment
New projects	20,394
Upgrades	24,845
Carry over (*)	3,043
Total Trunk Transmission System projects	**48,282**

(*) Corresponds to payment in 2017 for projects commissioned in 2016 or earlier.

ZONAL SYSTEM PROJECTS
New Projects

1. Studies
Exempt Decree N°418 establishing a "List of new mandatory zonal transmission projects" was published in the Official Gazette 4 August 2017.

Transelec S.A. is currently developing studies in order to participate in the tender process to be executed by the National Electricity Coordinator. The project portfolio has a reference investment value of US$ 570.0 million.

The Company plans to submit bids in July 2018:

Project	Ref. AVI US$ thousands	Construction period (months)
New 110/23-13 kV Guardiamarina Substation	1,071.5	28
New 220/110 kV Río Aconcagua Substation	2,421.5	36
New 220/66 kV Casablanca Substation	1,121.3	60
New 220/110 kV La Pólvora Substation	1,861.0	36
New 2x220 kV New Alto Melipilla – New Casablanca – La Pólvora – Agua Santa transmission line	4,008.4	60
New 110/13,8 kV Panquehue Substation	888.3	28
New 110 kV San Rafael Sectioning Substation	624.9	36
2x110 kV San Rafael Bypass Construction	468.4	48
New 154 kV Pueblo Seco Substation	633.3	24
New 2x220 kV Mataquito - Nueva Nirivilo - Nueva Cauquenes - Dichato - Hualqui transmission line	19,979.1	60
New 2x220 kV Itahue – Mataquito transmission line	3,304.5	48
New 220/66 kV Hualqui Sectioning Substation	1,497.7	48
New Nirivilo 220/66 kV Substation	1,484.0	60
220/66 kV Nueva Cauquenes Substation	1,529.0	60
220/66 kV Dichato Substation	1,484.0	60
New 220/66 kV Mataquito Substation	1,529.0	48
New 2x66 kV Nueva Cauquenes - Parral transmission line	1,214.4	60
New 2x66 kV Nueva Cauquenes - Cauquenes transmission line	77.6	60
New 2x66 kV Dichato - Tomé transmission line	194.5	60
New 2x66 kV Hualqui - Chiguayante transmission line	622.7	60
New 220/66 kV Trébol Substation	1,142.2	28
New 220/66 kV Guindo Substation	1,364.0	28
New 2x66 kV Trébol - Ejército transmission line	277.1	36
New 220/66 kV Los Varones Substation	1,222.8	36
New 2x66 kV Los Varones - El Avellano transmission line	267.1	36
New 220/66 kV Lastarria Substation	1,487.5	28
New 220/66 kV Metrenco Substation	1,832.1	28

Project	Ref. AVI US$ thousands	Construction period (months)
New Enlace Imperial 66/23 kV Substation	489.3	28
New 2x66 kV Nueva Metrenco - Enlace Imperial transmission line	1,462.9	48
New 2x66 kV Nueva Valdivia - Picarte transmission, installation of the first circuit	628.9	36
New 2x220 kV Gamboa - Chonchi transmission line energized at 110 kV, installation of the first circuit	721.2	60

2. Projects Awarded
No projects were awarded in 2017.

3. Project Development
No projects were developed in this segment.

4. Commissioning
No projects were energized.

Upgrades

1. Tenders and contracts awarded
Exempt Decree N°418 establishing a "List of new mandatory zonal transmission facility upgrades" was published in the Official Gazette 4 August 2017.

The tender process will be executed by the National Electricity Coordinator and it features a project portfolio with reference investment value amounting to US$ 22.3 million.

Bids can be submitted up until April 2018 and contracts should be awarded in July 2018:

Project	Ref. AIV US$ thousands	Construction period (months)
Upgrade for 1x110 kV Maitencillo – Algarrobo high voltage transmission line	433.1	24
TR5 bay connection modification and a new bank at the new 110 kV GIS yard at the Cerro Navia substation	273.9	36
2x154 kV Alto Jahuel - Tinguiririca high voltage transmission line sectioning at the Punta Cortés Substation	452.3	24
Itahue Substation upgrade	48.5	48
Sectioning at the Panimávida Substation	60.7	18
1x154 kV Circuit Replacement at Charrúa - Tap Chillán and 1x154 kV Circuit Replacement at Charrúa – Monterrico	245.1	24
Upgrade at the 220 kV New Valdivia Substation	715.7	36

2. Project Development

Transelec S.A. continued zonal upgrade Project Development in 2017 with a referential investment value of US$ 48.1 million:

Decree	Project	Ref. AVI US$ thousands	Commissioning Date
0418/2017	220/110 kV Autotransformer Bank at the Quillota Substation	867.4	Q1 2018
0418/2017	220/110 kV Autotransformer Bank at the Cerro Navia Substation	1,301.1	Q1 2018
0418/2017	220/110 kV Autotransformer Bank at the Pan de Azúcar Substation	1,291.0	Q2 2018
RE569/2017	New 220/154 kV Transformer and adjustments at the Tinguiririca Substation	1,350.0	Q1 2019

3. Commissioning

No zonal system upgrade projects were energized in 2017.

Investment in 2017

ZONAL SYSTEMS

Values in millions of Chilean pesos

Project Type	Actual Investment
New Projects	0
Upgrades	11,241
Carry over (*)	0
Total projects in the Zonal System	**11,241**

(*) Corresponds to payment in 2017 for projects commissioned in 2016 or earlier.

DEDICATED SYSTEM PROJECTS

1. Studies
Transelec has continued its pursuit of new business opportunities in 2017, aiming to establish and strengthen relations with its customers while contributing its expertise in the provision of technical, innovative and competitive solutions.

2. Projects Awarded
No dedicated system segment projects were awarded in 2017.

3. Project Development
No projects were developed with commissioning scheduled after 31 December 2017.

4. Commissioning
The following projects were energized in 2017:

Customer	Project	Commissioning Date
Sarco	SARCO Wind Farm Project	2Q 2017
Metro	Neptuno Substation and power transmission connecting line	Q4 2017

Main projects in 2017

DEDICATED TRANSMISSION SYSTEM
Values in CLP million

Project Type	Actual Investment
Metro	1,799
Sarco	1,291
Others	171
Carry over (*)	56
Total Additional System projects	**3,318**

(*) Corresponds to payment in 2017 for projects commissioned in 2016 or earlier.

ACQUISITIONS

As part of the company's search for business opportunities, Transelec purchased:

- All shares belonging to Transmisión del Melado SpA in March.
- Don Hector Substation from Total SunPower in September.

ENVIRONMENT

Transelec operations are subject to Law N°19,300/1994 on General Environmental Guidelines ("Environmental Law") and its subsequent amendments. The Environmental Law requires the principals of new projects or modifications of high voltage transmission lines and electrical substations to comply with the Environmental Impact Evaluation System (SEIA) and submit Environmental Impact Studies (EIA) or Environmental Impact Declarations (DIA) as required so that these projects can be environmentally evaluated and qualified by the respective Environmental Evaluation Commissions and then finally approved by means of an environmental qualification resolution. In addition, these regulations indicate that the project principal will be entitled to request the Environmental Evaluation Service to make an official announcement as to whether a project or its modification should be submitted to the SEIA. These documents to be submitted are known as letters of pertinence to be submitted to the SEIA.

More specifically, the main reform made to the Environmental Law came about through the passing of Law 20,417/2010 that introduced important changes to current institutionalism, creating new environmental management instruments and modifying existing instruments. Transelec consequently had to adjust to these new requirements. The institutional framework was therefore constituted by the following entities:

I. Ministry of the Environment
II. Council of Ministers for Sustainability
III. Advisory Councils
IV. Environmental Evaluation Service
V. Superintendence of the Environment
VI. Environmental Courts

These institutions are responsible for the design and application of environmental policies, plans and programs, the proposal of sustainability criteria for the formulation of planning process and policies at ministries, the formulation of regulations, SEIA administration, project inspection and sanctions, among others. These new entities replaced the National Environmental Commission (CONAMA) and the Regional Environmental Commissions and are fully operational. Environmental Evaluation System Regulations (SD N°40/2012) came into force 24 December 2013. Among other issues, these state requirements for environmental impact evaluation procedures for Environmental Impact Studies and Environmental Impact Declarations and community participation, as well consultation with first nations throughout this process.

We wish to highlight that the creation and commissioning of Environmental Courts 28 December 2012 was also accompanied by entry into force of inspection and sanction capacity for the Superintendence of the Environment.

Transelec is an active user of environmental institutionalism. The company submitted seven projects for environmental evaluation in 2017 and one of these is still being evaluated. In addition, 86 environmental sectorial permits were lobbied for projects under construction and currently operating. These permits are in different stages of approval. The Company's outstanding environmental performance has meant that no fines have been applied this year due to non-compliance with environmental commitments or to our assets during operating stages, despite the fact that we are managing 15 projects in development stages.

In addition, the Ministry has been actively improving environmental regulations. One example of this is the proposed amendment of the Environmental Impact Evaluation Regulations (SEIA). These amendments were approved by the Council of Ministers for Sustainability, thus relieving the General Comptrollership of the Republic of this responsibility.

Moreover, in 2017 the Ministry of the Environment started a process to request information from project principals regarding waste management. This extended producer responsibility and encouragement of recycling is part of the application framework of Law 20,920. Finally, in the field of climate change, in 2017 the Ministry of the Environment and the Ministry of Energy submitted a pre-project for a national climate change adaptation plan in the energy sector.

OUR CUSTOMERS

Transelec transmits electrical energy needed by Chile's inhabitants using the company's power transmission lines that transport energy from production centers to cities and to large industrial and mining industry users. Our responsibility is to ensure that residential customers and industries have a continuous and uninterrupted power supply in order to contribute to improving the country's development and quality of life.

The Company is the leading provider of power transmission services in the National Electricity System and plays an essential role in Chile's energy development. Our customers are those users that withdraw and/or inject energy into power transmission systems, which is to say, mining industry and industrial customers, power generation companies and power distribution companies.

We understand that being leaders in the power transmission market not only means managing large-scale projects, which Transelec has been doing throughout its corporate history, but also providing better solutions for each type of customer and adapting to the new requirements of a constantly changing market.

Transelec's commitment not only focuses on its customers, but also involves the future of Chile's energy, which can be understood as a development engine. We have been a fundamental stakeholder at discussions arising regarding the new power transmission law (2016) and the formulation of regulations by means of participatory and consultative workshops where Transelec has contributed its extensive experience toward the final formulation of energy policies.

As industry leader, Transelec has developed lines of approach with its customers in order to share its opinion and communicate changes entailed by the new regulations. Over the last year we have met with power transmission companies and trade associations in order to openly discuss the impacts of the new regulations and future challenges for power transmission in Chile.

Providing a service closely focused on our customers has always been a fundamental pillar of the company's policy. We will focus on maintaining high quality standards for our customers in 2018, backed by innovation as a lynchpin for achieving these objectives.

Transelec's commitment not only focuses on its customers, but also involves the future of Chile's energy, **which can be understood as a development engine.**

Providing a service **closely focused on our customers** has always been a fundamental pillar of the company's policy.

Transelec has connected nearly 1,000 MW of NCRE to power transmission systems in **2017**. **68%** corresponds to solar energy technologies, **23%** to wind energy and the remaining percentage to mini-hydro technologies.

OUR CUSTOMER SERVICE POLICY

Our policy is to interpret and understand our customers' needs, identifying optimum technical and economic solutions for each project and executing these in keeping with the highest quality, safety and environmental parameters. We seek to reach a commitment that will forge long-term relations over the years.

This commitment is to provide service and consultancy using our extensive and specialized knowledge of power transmission in order to provide tailor-made service for project execution. Customer service and trust in our knowledge as system specialists are the foundation for close relations with our customers and the market.

Seeking and providing a specialized power supply allows us to develop the best and most innovative power transmission solutions, especially for highly complex projects with tight deadlines, incorporating cutting-edge technological solutions.

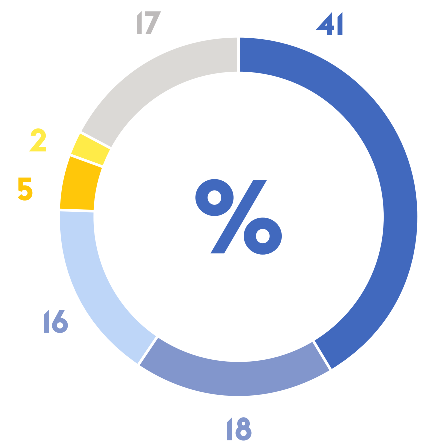
Our projects are executed in compliance with the highest standards in a framework of sustainability throughout their entire life cycle, using technology and designs that are compatible with the environment, communities, our employees and contractors.

Transelec has connected nearly 1,000 MW of NCRE to power transmission systems in 2017. 68% corresponds to solar energy technologies, 23% to wind energy and the remaining percentage to mini-hydro technologies.

This is a sample of the important contribution made by Transelec to third party connection management.

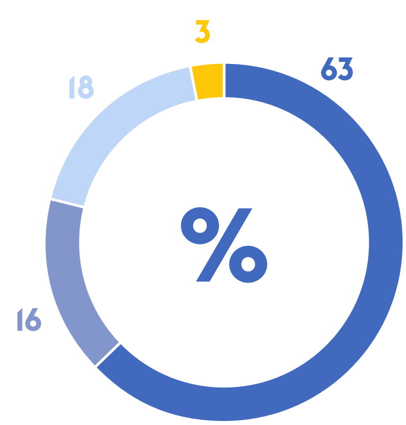
TRANSELEC CUSTOMERS

- ENEL GROUP
- AES GENER GROUP
- COLBÚN GROUP
- ENGIE
- PACIFIC HYDRO GROUP
- OTHERS



REVENUE DISTRIBUTION BY SYSTEM

- NATIONAL
- ZONAL
- DEDICATED
- SERVICES

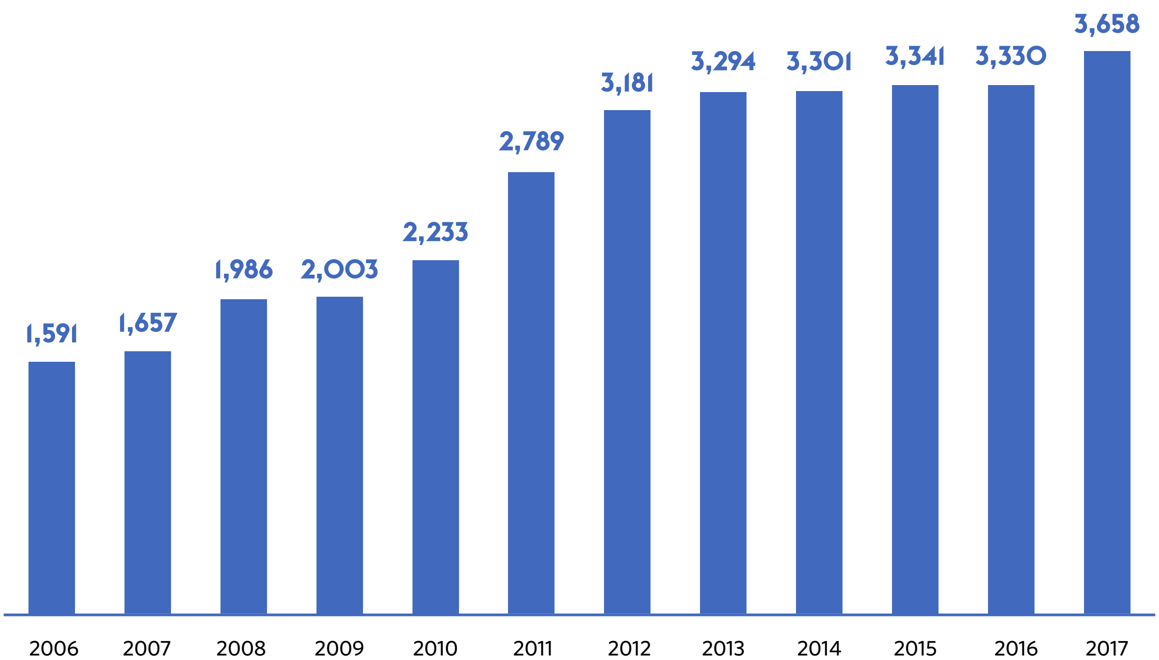


INVESTMENT VALUE (IV)

The current regulatory framework establishes mechanisms for calculating and publishing power transmission company investment valuation at market prices. This information is used to set service tariffs.

Transelec transmission facilities were appraised at US$ 3,658 billion as of 31 December 2017

INVESTMENT VALUE (IV)
US$ Millones



04 The Operation

The essential purpose of Transelec operations is to transmit power in compliance with highly demanding service quality and safety standards. The company uses its own personnel and highly specialized contractors to meet this objective. In addition, we have technology-intensive processes and resources that are managed in accordance with risk models that enable long-term operation of power transmission systems that comply with stringent standards.

Transelec, has an ongoing a permanent innovation strategy, continuous improvement and best practices implementation strategy for the operation and for network maintenance.

Been working hard on innovation, evaluating and implementing different technologies for improving our processes.

MAINTENANCE

Transelec worked hard to formulate an Asset Management digitization strategy in 2017 as part of the company's consolidation and development. From this perspective, the concept of data plays a fundamental role in the continuous improvement cycle. The company needs tools that enable the collection, transmission and computing of these data for subsequent transformation into valuable information for optimum decision making regarding assets. A macro-initiative was consequently executed, featuring different pillars encompassing all dimensions required for this process. The macro-initiative directly leverages quality and productivity, moving toward a strategy based on asset condition in order to evaluate the need for maintenance or replacement of these assets.

In addition, in 2017 the service quality strategy was adjusted to focus on end customers. This strategy is leveraged by initiatives such as the digitization of operating processes, risk-based management and change management for Operations personnel.

The Company has also been working hard on innovation, evaluating and implementing different technologies for improving our processes, which include the installation of sensors to detect contamination affecting high-voltage transmission line insulators, silicon coatings for insulators at facilities in high pollution zones, evaluation of new corrosion-resistant coatings for structures and the use of LIDAR technology to control vegetation, among others.

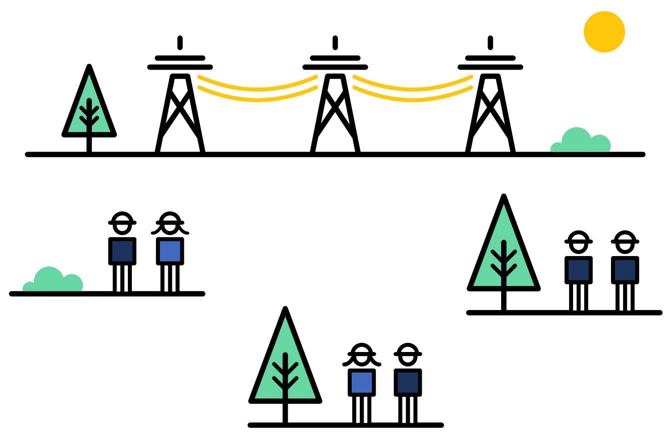
The intensive asset replacement plan continued in 2017 and the Company continuously worked on asset performance analysis. This concluded with a series of replacement projects to be included in the five-year period as part of the company's quality strategy.

OPERATION

The Transelec Operational Continuity Plan brings together guidelines for the prevention and mitigation of emergencies, together with effective and efficient response into a single procedure in order to recover and preserve operational continuity at facilities. Risk matrices related to forest fires along power transmission line easement strips were formulated in 2017. Considering summer weather conditions, Transelec preventively updated and strengthened procedures for controlling forest fires near our facilities, in order to manage incidents in a timely manner and to ensure uninterrupted power supply.

Transelec preventively updated and strengthened procedures for controlling forest fires near our facilities, in order to manage incidents in a timely manner and to ensure uninterrupted power supply.

Part of this work was to double the number of brigades that monitor vegetation under our almost 10,000 kilometers of lines, having a proactive and collaborative work with Conaf and other emergency agencies and training sessions to prevent risks when operating under high voltage lines. This look of prevention and action is being applied throughout the year seeking timely and preventive response to all types of extreme events that may affect the quality of Transelec's service.



In addition, and considering that no operational emergency or goal justifies exposing a worker to uncontrolled risks, we at Transelec have made substantial progress with the initiative for Consolidating our Safety Culture in 2017. This initiative is also sponsored by the Institute for an Industrial Safety Culture (ICSI), France. Transelec's 2017 accident index was the lowest in the last ten years thanks to the outstanding compliance with Occupational Health and Safety (OHS) plans and programs with the direct involvement of contracting companies and support from our shareholders (better practices and lessons learned).

Transelec's 2017 accident index was the lowest in the last ten years.

The National Transmission Operation Center (CNOT), which started operations in 2013 with a partial move into a new and modern building meeting the highest standards applicable to control centers, plays a fundamental role for appropriate network operation. In 2014 the operation of Transelec facilities was centralized in real time, including telecommand of these facilities encompassing both the SING and SIC power grids. A competency management process for engineers operating the CNOT was started in 2016. The process included the assessment of model skills. The Operator Training System (OTS) was consequently designed in 2017 for implementation in 2018. This tool will enable CNOT operators to be trained in a controlled environment where technical and behavioral competencies can be better managed during lengthy extreme situations.

EQUIVALENT INTERRUPTION TIME (EIT)

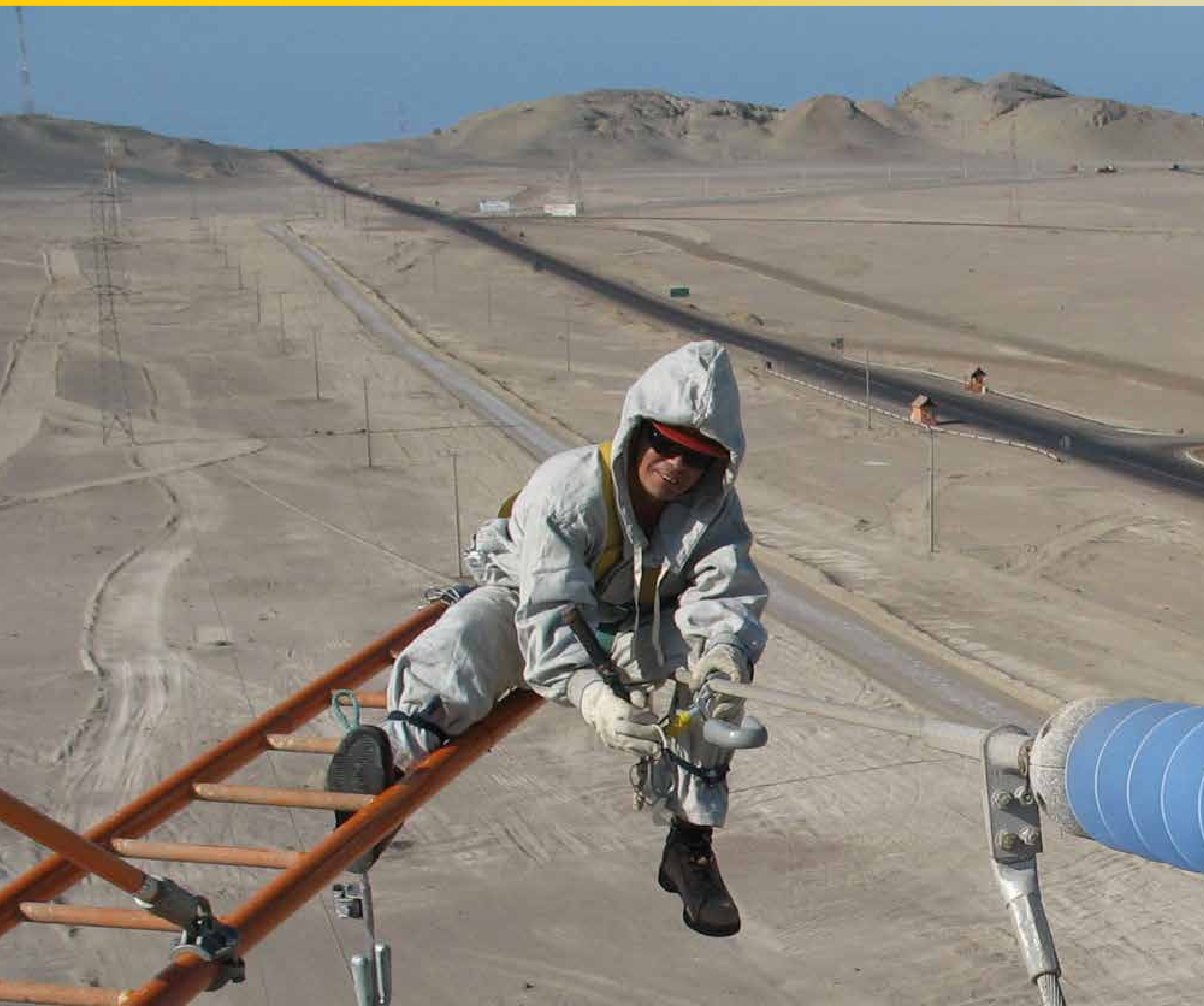
The aforementioned and other improvements, investment and modernization, as well as the application of thorough operational procedures aim to ensure that service quality can be maintained within expected parameters. This is monitored using the Equivalent Interruption Time (EIT) indicator, which measures service security in terms of total energy not supplied to free and regulated customers during a twelve-month period, which is expressed as "equivalent interruption minutes".

45 forced disconnections with power outages attributable to Transelec at its own facilities were reported in 2017, which meant EIT amounting to **4.078** system-minutes, a value within the excellence margins obtained over the last five years.

One important aspect that compromised service quality in 2017 was copper conductor theft along high-voltage transmission lines. These crimes were down by over 50% compared to 2016, but even so a total **16.5** km of power transmission lines equivalent to **18.3** tonnes of copper were extracted, of which **6.7** km were recovered (equivalent to **6.9** tonnes). Among other actions, the Company contributed to joint activities with the Police and regional prosecution authorities from Chile's 6th and 7th Regions to secure the arrest and prosecution of important bands of criminals. These court cases have proceeded with support provided by our prosecution authority and specialized external advisors.

TEI **4.078**

system-minutes, a value within the excellence margins obtained over the last five years.



05 Our People

Employees play a key role as part of the pillars of Transelec's strategic plan. The high quality standards we keep our work up to and the growing challenges being faced by the company lead us to recruit and retain the best professionals in the market for our different divisions.

Transelec therefore has benefit, compensation and bonus plans that keep our company competitive in terms of training, motivating and retaining talent.

In terms of professional development for our employees, the Company regularly hosts training programs that to keep our professional quality standards high. We have also developed the concept of knowledge management at the company in order to retain current knowledge at the Company and transfer this knowledge to new generations.

QUALITY OF LIFE

Transelec has several initiatives:

- One of the most appreciated is a shorter workday on Fridays, which is the case throughout the entire year.

- Another highlighted benefit is the 5-minute Workout Program that started in 2011. This program has been implemented in Santiago and in Chile's regions.

- Along the same lines, we also wish to highlight Club Transelec that hosts recreational, sports and cultural activities by matching employee contributions on a 1+1 basis.

- As part of our plan to integrate family members and the company, "Open Day" was held once again and for the seventh year in a row in Santiago and in Chile's regions. On this day Transelec opens its office doors so that our employees' children can visit the place where their parents work and see how they contribute to the company.

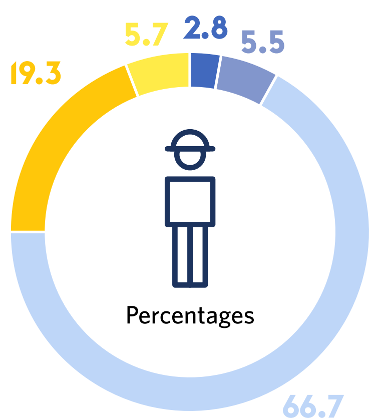
- In addition, the Christmas party has becoming something of a tradition and it was hosted once again in December of this year. Our workers and their families attended the party.

OUR STAFF

Transelec's staff came to 519 workers as of 31 December 2017. More than 96% of these workers are technically or professionally specialized in what they do, proving that the Company is highly knowledge intensive, in line with the service quality it requires. 75.2% of the Company's staff is employed in Operations, Engineering and Project Development.

PERSONNEL DISTRIBUTION (%)

- EXECUTIVES
- MANAGERS/SUBMANAGERS
- PROFESSIONALS
- TECHNICIANS
- ADMINISTRATIVE



Note: does not include personnel by project

519 WORKERS

96% are technically or professionally specialized.
75.2% is employed in Operations, Engineering and Project Development.

19% WOMEN

corresponds to **97** women in our staff.

In terms of diversity at Transelec, we wish to highlight that one woman works at the Senior Management and reports level, while 19% of the rest of our staff are women (97). The following graphs and figures indicate employee distribution by nationality, age and seniority at the Company.

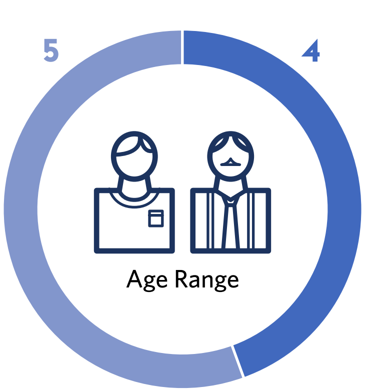
I) NATIONALITY

	Senior Management and reports			Organization		
Nationality	**M**	**F**	**Total**	**M**	**F**	**Total**
Chilean	9	1	10	409	90	499
Foreigners				13	7	20
Overall Total	9	1	10	422	97	519

II) DISTRIBUTION BY AGE

a. Senior management and reports

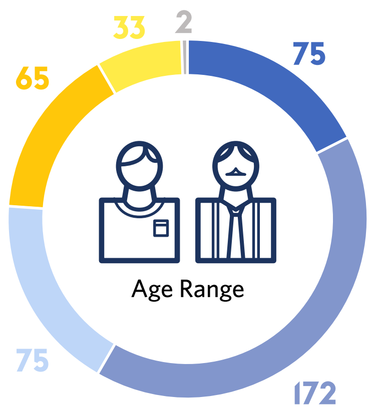
MEN
- 41 > 50 YEARS
- 51 > 60 YEARS



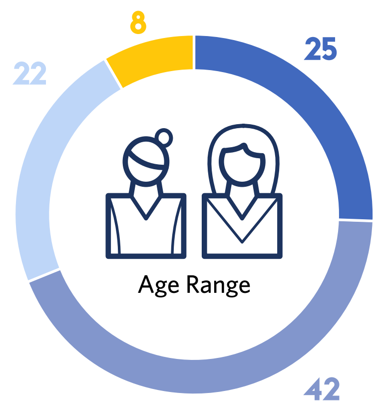
The age range for women
is between 41 and 50.

b. Organization

MEN
- < 30 YEARS
- 30 > 40 YEARS
- 41 > 50 YEARS
- 51 > 60 YEARS
- 61 > 70 YEARS
- 70 > YEARS



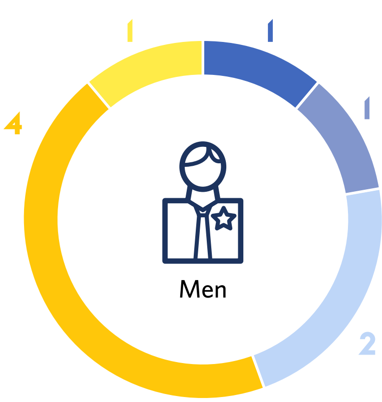
WOMEN
- < 30 YEARS
- 30 > 40 YEARS
- 41 > 50 YEARS
- 51 > 60 YEARS



III) DISTRIBUTION BY SENIORITY

a. Senior management and reports

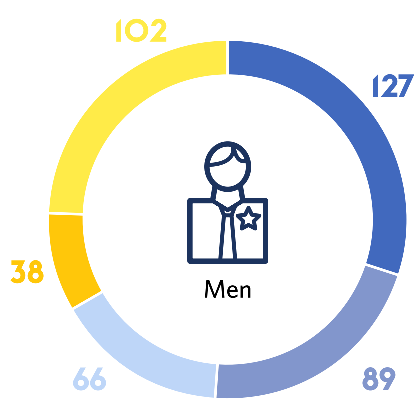
MEN
- < 3 YEARS
- 3 > 6 YEARS
- 6 > 9 YEARS
- 9 > 12 YEARS
- 12 YEARS >



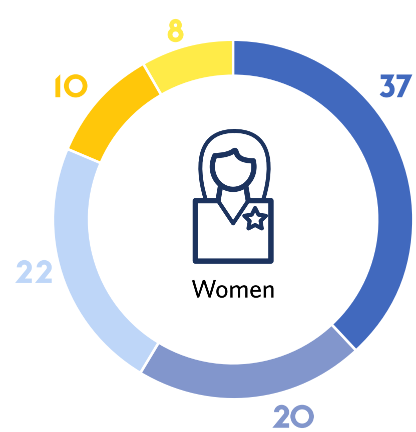
The seniority range for women
is between 6 and 9 years.

b. Organization

MEN
- < 3 YEARS
- 3 > 6 YEARS
- 6 > 9 YEARS
- 9 > 12 YEARS
- 12 YEARS >



WOMEN
- < 3 YEARS
- 3 > 6 YEARS
- 6 > 9 YEARS
- 9 > 12 YEARS
- 12 YEARS >



IV) SALARY GAP

The following figure indicates the salary gap between men and women as percentage rates. The salary gap is determined based on average gross salary (AGS) for women compared to men. (AGS for Women / AGS for Men).

Position	SBP M / SBP H
ADMINISTRATIVE EMPLOYEE	130%
ANALYST	93%
MANAGER/ ASSISTANT MANAGER	105%
ENGINEER	96%
CHIEF	95%
TECHNICIAN	74%

LABOR RELATIONS AND ORGANIZATIONAL CLIMATE

Transelec has been working to continue empowering good labor relations in 2017. The company has been given several awards in this category over recent years. The main thrust of this work is the company's open house policy with its two unions. This is evidenced by regular meetings addressing different labor issues that have helped to build a relationship of trust between the two parties.

The fifth Organizational Health Index (OHI) survey was conducted in 2016. This survey measures nine key dimensions at an organization, such as working climate and leadership. Over the years this survey has evidenced positive development for each of these factors. This year we scored 81 points on the survey, positioning our company in the upper decile for this evaluation at a global level.

This excellent news shows that the work we have been doing in recent years has been productive. We have grown substantially and the Leadership Program developed by our Company, together with the role of communications in the development of organizational culture, have been essential for this achievement. We have worked on disseminating the Organization's results and on strengthening the weakest dimensions throughout 2017.

In addition, this year we applied the ISTAS 21 self-evaluation of psychosocial risks at work evaluation for the second time in the organization's history. Transelec employees were asked to evaluate different conditions inherent or related to the workplace that could positively or negatively affect their physical, psychological and social health. The results of the study were positive as well as in 2015 (previous evaluation).

KNOWLEDGE MANAGEMENT

Training time came to 40,424 hours in 2017, amounting to a monthly average of 6.37 hours per worker. 94.5% of Transelec's workers participated in training programs related to operating areas, management support, safety, engineering, innovation, graduate degrees, languages and information technology, among others.

THE BIGBANG PROGRAM

Talks about the Company's activities were broadcasted using the streaming system in 2017. This took knowledge to workers in Chile's regions.

THE TEACHERS PROGRAM

Four workshops were hosted as part of this program, an initiative that has been running at the company for the last ten years. The program was designed so that people with extensive experience and specialization can communicate their know-how to younger professionals.

LEADERSHIP TRAINING CENTER

The Leadership Training Center was founded in 2014 and is backed by Universidad Adolfo Ibáñez. In 2017 the Center continued to develop competencies at all levels of the Company. This year 110 managers completed a maintenance program that enabled lessons learned to be reinforced in keeping with the company's strategic requirements. At the same time, 24 new managers, many of whom had been recently promoted, were certified by the original program.

40,424 HRS
of training time **in 2017.**

6.37 HRS
monthly average of **training per worker.**

94.5%
of Transelec's workers **participated in training programs.**

VICE-PRESIDENT SALARIES

Overall vice-president salaries at Transelec came to CLP 3,030 million in 2017. This includes salaries paid to vice-presidents employed up until 31 December 2017.

BONUS PLANS

Transelec personnel participate in a bonus program determined by meeting objectives aligned with the Company strategy and these are developed in accordance with the level of detail and responsibility in the Transelec hierarchy scale.

ORGANIZATIONAL CHART

GENERAL MANAGER
Andrés Kuhlmann Jahn

OPERATIONS VICE-PRESIDENCY
Rodrigo López Vergara

CORPORATE AFFAIRS AND SUSTAINABLE DEVELOPMENT VICE-PRESIDENCY
David Noe Scheinwald

SALES AND BUSINESS DEVELOPMENT VICE-PRESIDENCY
Eric Ahumada Gómez

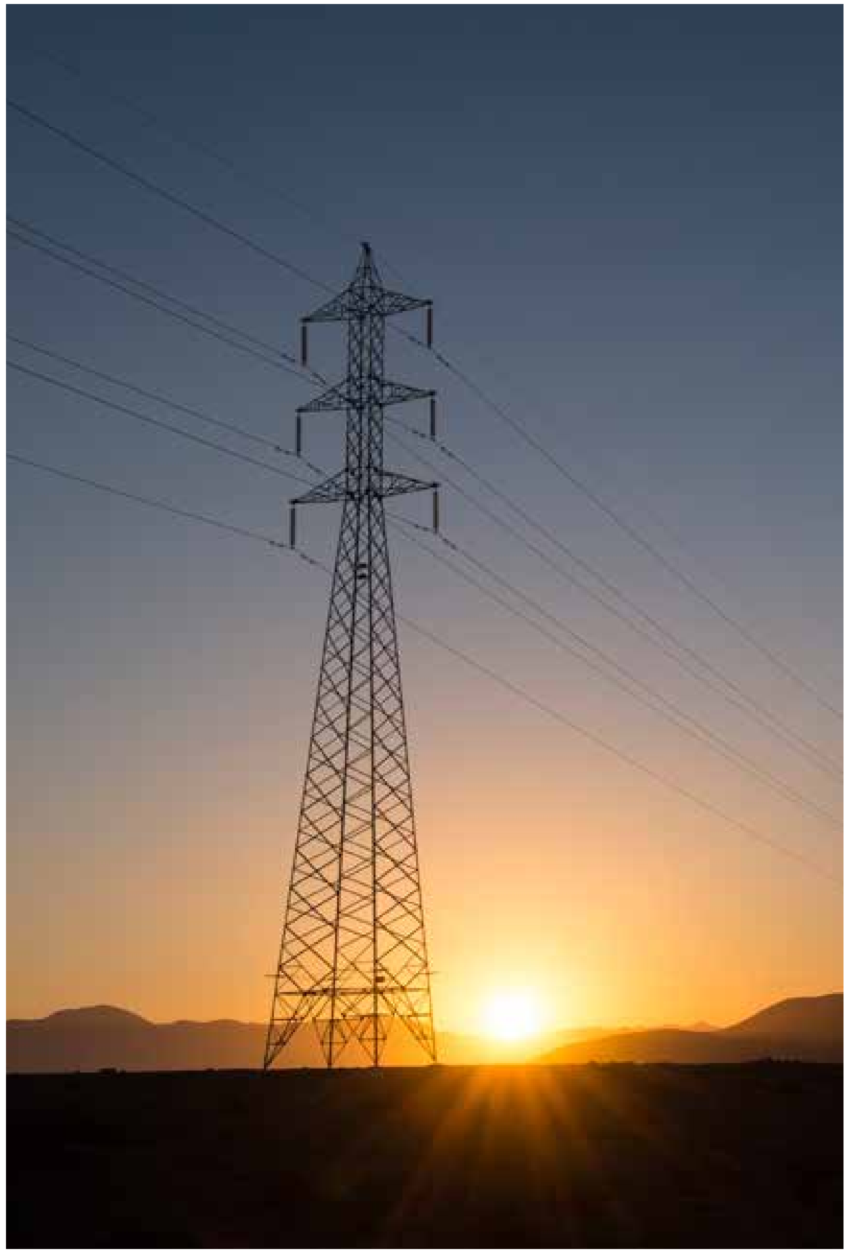
LEGAL AFFAIRS VICE-PRESIDENCY AND PROSECUTOR GENERAL
Arturo Le Blanc Cerda

ENGINEERING AND PROJECT DEVELOPMENT VICE-PRESIDENCY
Alexandros Semertzakis Pandolfi

HUMAN REOUSRCES VICE-PRESIDENCY
Claudio Aravena Vallejo

FINANCE VICE-PRESIDENCY
Francisco Castro Crichton

06 Finance



MAIN FINANCE ACTIVITIES

Transelec hosted its first Investor Day 30 May 2017. The event brought together investors, banks and risk agencies as part of the company's permanent contact with investors policy.

The Company took out a loan with Banco BCI 3 August 2017 amounting to CLP 20,000,000,000 that matures in one year (3 August 2018). The funds were mainly used to finance prepayment of its debt with the subsidiary Transmisión del Melado SpA.

Transelec renegotiated its revolving credit line 03 August 2017, extending the line for three years. The total limit amounting to approximately US$ 250 mn divided into two currencies (US$ and CLP) was maintained, providing flexibility for use of the line. The company thus maintained its historically solid liquidity level.

RISK RATINGS

The Company's international and local risk ratings were ratified in 2017 in recognition of Transelec's financial solidity and good results obtained in recent years.

INTERNATIONAL RATING

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

LOCAL RATING

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

CURRENT PUBLIC DEBT

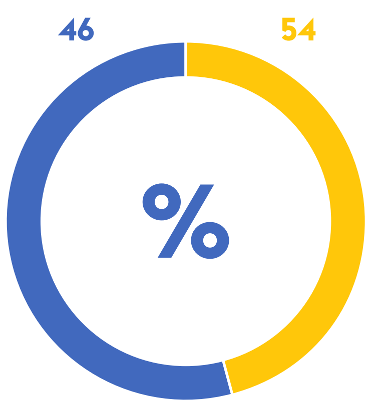
Debt	Date Issued	Interest Rate	Expiry Date	Current Amount	Currency
D Bond	14 DEC 06	4.25%	15 DEC 27	13,500,000	UF
H Bond	13 AUG 09	4.80%	01 AUG 31	3,000,000	UF
K Bond	04 DEC 09	4.60%	01 SEP 31	1,600,000	UF
M Bond	19 JAN 11	4.05%	15 JUN 32	3,400,000	UF
N Bond	19 JAN 11	3.95%	15 JUN 38	3,000,000	UF
Q Bond	03 MAY 13	3.95%	08 OCT 42	3,100,000	UF
US$ Bond	26 JUL 13	4.63%	26 JUL 23	300,000,000	US$
US$ Bond	09 JUL 14	4.25%	14 JAN 25	375,000,000	US$
US$ Bond	12 JUL 16	3.88%	12 JAN 29	350,000,000	US$

UF: Unidad de Fomento (a price level restatement unit determined by the Central Bank of Chile, Law 18,840).
All bonds are bullet bonds (principal payment upon expiry of the last coupon).

Company debt as of 31 December 2017 is broken down as follows:

DEBT BY CURRENCY

- UF
- USD



The total debt denominated in dollars is covered naturally with Company's assets in that currency and with capital-only-cross-currency swap agreements, maintaining 100% balance coverage.

DEBT SERVICE RESERVE

Starting in December 2006, Transelec has had a debt service reserve required for bond issuing contracts in order to make restricted payment (according to the definition of these in debt contracts). This debt service reserve considers each of the Company's public debts and benefits all bondholders, both local (D, H, K, M, N and Q bonds) and international (144A bonds issued in 2013, 2014 and 2016). This reserve goes as high as the amount of interest and main capital amortization –with the exception of final payment– corresponding to a six-month period for the aforementioned bonds in which the Bank of New York acts as Trustee. As of December 2017, the debt service reserve account came to US$ 50,000,000, which further strengthens the company's liquidity position.

CONSOLIDATING TIES WITH OUR INVESTORS

One of the Transelec's main objectives is maintain permanent access to capital markets and banks in order to ensure sufficient funds to develop projects and to make specific purchases. Ongoing confidence in Transelec's investors is therefore essential in order to sign deals that will further the company's development.

The first Transelec Investor Day and several meetings in the United States were hosted 30 May 2017. These meetings were a big success and strengthened ongoing investor relations by means of direct communication, together with the company's quarterly financial report.

INVESTOR DAY

Stakeholders from the financial sector, with whom Transelec maintains permanent contact, met 30 May 2017 to get to know our business from another angle, gaining a thorough knowledge of the company by means of an integrated focus on business, regulation and operations.

Transelec proposed a different approach to investors, complementing its financial perspective with an approach to business, regulatory and operating issues. This enabled investors to get to know our company and our assets on a first-hand basis.

Bondholders were invited to the event: AFPs, Insurance Companies and Investment Funds. Representatives from local Risk Classification Agencies and senior executives from banks the Company deals also attended the event.

Activities include presentations at the Main Office and in an event center, a guided visit to Alto Jahuel Substation. The group review in detail an overview of the Company's history and industry context, Transelec's new business, regulation, operation, maintenance and financial performance with Vice-presidents of the Company.

A better understanding of the Company enables investors to evaluate the business and its potential future risks. An appropriate evaluation of our credit quality helps Transelec to be financed at competitive interest rates.

The first Transelec Investor Day in Chile and several meetings in the United States.

Transelec is a company committed to **maintaining ongoing contact with local and international debt investors.**

MEETINGS IN NORTH AMERICA

Transelec issued half of its bonds in Chile and the other half in the United States; meaning that besides the Investor Day, visits and meetings with international debt investors were held in order to discuss the Company's current status from a more personalized and approachable standpoint.

These meetings were held in the cities of Chicago, Boston and New York over a three-day period as part of the year-round continuity program with foreign investors. International investors really appreciate opportunities like this to discuss business with the company's executives.

Transelec is a company committed to maintaining ongoing contact with local and international debt investors.

AVAILABLE REVOLVING CREDIT FACILITY

In order to ensure that funds are available in order to cover working capital, fixed asset investment project financing (projects currently underway and potential projects), procure power transmission lines and possible debt refinancing, the company has the following unsecured revolving credit facilityn, all of which was available at the end of the 2017 fiscal year according to the following conditions:

Banks	Maturity	Amount (up to)	Credit Type	Use
Bank of Tokyo-Mitsubishi, SMBC, EDC, DnB NOR	03 AUG 2020	US$ 150,000,000	Unsecured revolving credit line	Working capital/ Capex/ Short-term refinancing
Scotiabank, Banco Estado	03 AUG 2020	UF 2,500,000	Unsecured revolving credit line	Working capital/ Capex/ Short-term refinancing

PERFORMANCE INDICATORS

LIQUIDITY

Considering positive results in 2017, Transelec has a solid liquidity level, together with the following:

a) An available revolving credit facility.

b) Partial reinvestment in its own cash generation, which will enable the company to finance its future plans to invest in new power transmission assets, backed by its shareholders' firm commitment to invest or reinvest in the Company whenever necessary.

c) An available debt service reserve.

OPERATING INCOME IN 2017

The Company has two main sources of income generation:

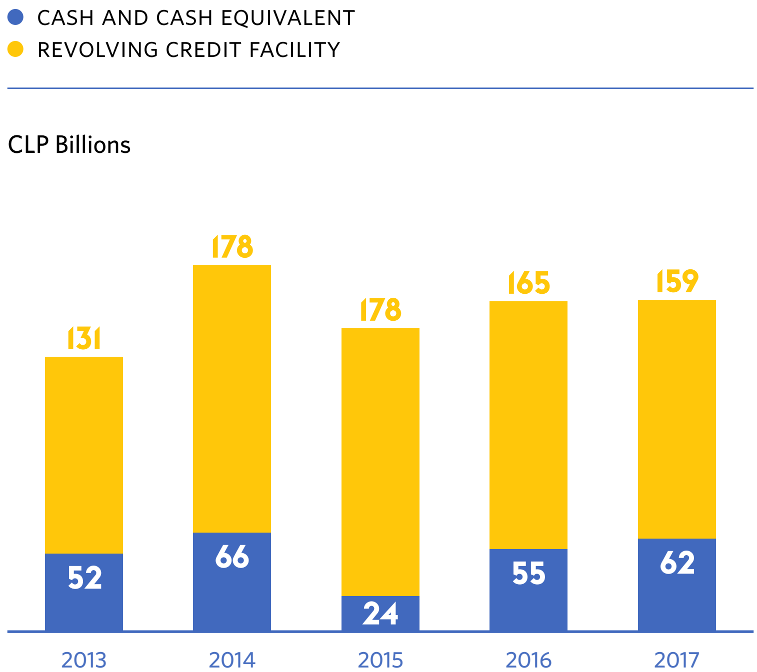
a) Regulated income from services provided by assets belonging to the national power transmission systems and the zonal systems.

b) Contractual revenue stipulated in bilateral contracts which consider dedicated transmission assets, among others.

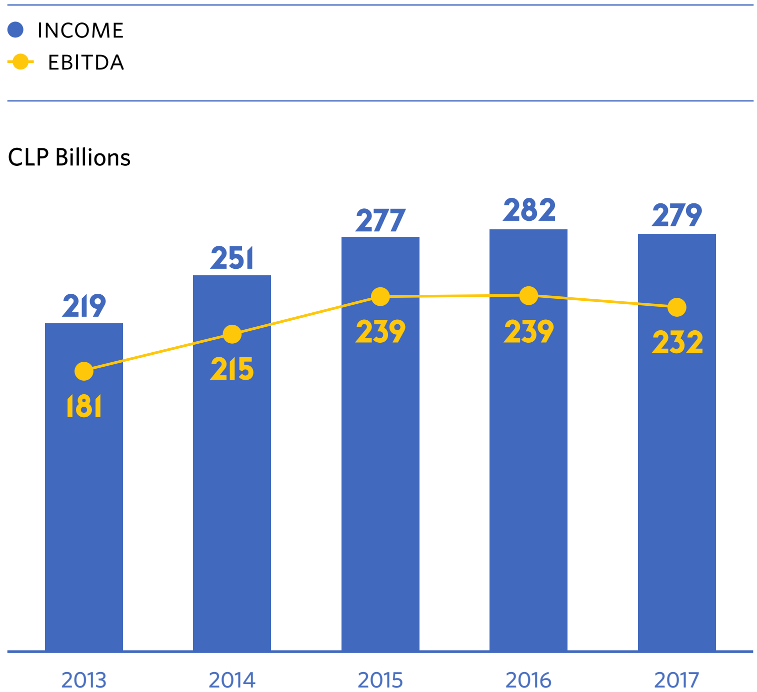
Transelec's properly secured revenue structure, market conditions, legislation, current regulatory framework, customer quality and solvency have ensured stable results for the Company throughout the years.

Stable costs over the years, which mainly consist of personnel and maintenance, ensure an Ebitda margin that is constantly higher than 80%.

LIQUIDITY



INCOME AND EBITDA* PERFORMANCE



*EBITDA = Earnings from Ordinary Activities + Fixed Sales Costs + Fixed Administrative Expenses + Other Income (Losses) + Financial Leasing Amortization

RISK FACTORS

Due to the characteristics of the Chilean electricity market and strict standards regulating the sector, Transelec S.A. is not exposed to substantial risk in the course of operating its main line of business. However, the following risk factors should be mentioned and taken into consideration:

THE REGULATORY FRAMEWORK

Power transmission tariffs are set by operators and includes readjustments in order to guarantee actual annual profitability for operators. The nature of this industry means that power transmission company revenue is stable over the long term. This revenue is complemented by revenue from private contracts with large customers.

However, the fact that these tariffs are revised once every four years in the National and Zonal Power Transmission Studies could mean new tariffs that may be detrimental or less attractive for the Company in terms of investment incurred.

LIQUIDATION OF NATIONAL AND ZONAL REVENUE

According to the provisions of temporary Article twenty-five of the General Electricity Services Law "LGSE", the collection, payment and remuneration regime specified in the standards that the new Law N° 20.936/2016 abolished are to be applied between the period starting 20 July 2016, which corresponds to the entry into force of the new Law N° 20,936, and ending 31 December 2018. This is to say that the former regime established in Law Nº 19.940/2004 (Short Law I) will continue to be applied. By virtue of the above, Transelec is entitled to the collection procedure set out in Ministry of Energy Supreme Decree N° 23 T/2016. Transelec annually collects Annual Transmission Value by Section for its existing national facilities, for which it receives monthly tolls from each section and temporarily receives actual tariff revenue that is subsequently reliquidated compared to estimated tariff revenue.

The Company could face the risk of failing to collect revenue in a timely manner from any of the companies owning power generation assets established in the CDEC Payment Charts, which could temporarily affect the Company's liquidity status. In this sense and in the Company's opinion, work executed by Transelec in terms of the aforementioned collection does not consist of collection managing how it charges payment, but is rather the mere collection and transfer of absolutely external appraised surplus and deficit revenue, with the exception of estimated tariff revenue.

Up until 2017, Transelec received a proportion of the overall revenue produced by each Zonal Transmission System. This revenue was generated by the application of unitary tariffs (CLP/kWh) set by the tariff decree regarding power withdrawn from each system. Power plant payment excluded in accordance with the new legislation will not be covered nor absorbed by the rest of the Zonal Transmission System users. The proportion received by each company owning zonal facilities in the system corresponds to the proportion between asset valuation and total system assets valuation. In addition, payment is made for the power loss differential between actual power losses and those considered in tariffs, an amount that can be positive or negative depending on system operation each month.

The main risk associated to zonal revenue stems from eventual differences that may arise between actual power demand in each system and demand estimated for setting tariffs throughout the tariff period. Starting 1 January 2018, and according to the 2016 Power Transmission Law, zonal revenue will not depend on the volume transmitted but rather on available assets in the system and installed capacity, as is the case with the national system.

SINGLE CUSTOMER REVENUE CONCENTRATION

41% of Transelec's revenue comes from a single customer, Enel Generación Chile S.A., and its power generation subsidiaries. Transmission tolls to be paid by Enel and its subsidiaries will generate most of Transelec's future cash flow and any substantial change made to its business model, financial status or operating income could be detrimental for Transelec.

RENEGOTIATION OF BILATERAL CONTRACTS FOR DEDICATED FACILITIES

Revenue generated by certain dedicated facilities stem from long-term contracts. Once these contracts have expired, a condition renegotiation process must be executed. This includes new payment and tariff terms, as well as the determination of which transmission services will continue to be provided. Therefore, we cannot guarantee that the economic terms will remain in force once the renegotiation process has concluded.

INCREASING COMPETITION IN THE POWER TRANSMISSION MARKET

Chile's power transmission industry is becoming increasingly competitive. We believe that this trend will continue over the short term and that we will face increased competition during tendering processes. This could mean the loss of new projects and transmission network upgrades, which would reduce our market share and could also hamper our estimated operating results in the future.

OPERATING RISKS

Although Transelec administration believes the company will continue to hedge its risks appropriately in keeping with industry practices, there is no guarantee that insurance policy coverage will be enough to cover certain operating risks, including the forces of nature, damage to transmission facilities, work-related accidents and equipment failure.

LABOR CONFLICTS

Delays, suspensions or other labor conflicts affecting Transelec could have an adverse material effect on the corporation's business, financial conditions, operating income and expectations. Approximately 69.4% of the Transelec workforce belongs to one of its two unions and is covered by collective agreements, which expire in 2018 and 2020. Although Transelec's administration believes that current labor relations evidence mutual collaboration between the company and its workers, there is no guarantee that strikes, delays or suspensions will not occur prior to or at the time the current group contracts expire, which may lead to subsequent arbitration. The administration cannot predict the effect of these events on Transelec operations. Finally, Transelec S.A. was included on the "Strategic Companies" list dated 29 July 2015, implying that the Company's workers cannot go on strike.

FINES STEMMING FROM TRANSMISSION

41%

of Transelec's revenue comes from a single customer, **Enel Generación Chile S.A.,** and its power generation subsidiaries.

69.4%

of the Transelec workforce **belongs to one of its two unions** and is covered by collective agreements.

SERVICE SUSPENSION

Transelec presently has four sanction procedures pending with the Superintendence of Electricity and Fuel (SEC) due to changes pressed by the authority stemming from three forced electricity transmission service disconnections and one forced course request. The SEC has not yet determined sanctions for two of these procedures and Transelec has filed appeals to the authority regarding the other two. Once these have been settled at the administrative headquarters, the company will study the feasibility of challenging the SEC decision by filing legal claims. In addition, three processes sanctioned with fines by the SEC were challenged by Transelec filing legal claims. One of these is currently being processed at the Supreme Court after the fine was annulled by the Santiago Court of Appeals.

ENVIRONMENTAL INSTITUTIONALISM AND

THE APPLICATION OF ENVIRONMENTAL STANDARDS AND/OR POLICIES

Transelec projects are subject to Law N° 19,300/1994 on General Environmental Guidelines ("Environmental Law") and its subsequent amendments. Transelec may run the risk of environmental permit lobbying taking longer than expected, which would delay project construction and open the possibility of fines being applied.

CONSTRUCTION DELAYS FOR NEW POWER TRANSMISSION FACILITIES

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

EXCHANGE RATE RISK

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

However, there is no guarantee that Transelec will be totally protected by the fact that it holds exchange rate hedging contracts. In addition, cross-currency swaps and forwards bear credit risk for the counterpart, cash requirements at maturity dates or recouponing clauses (if this is the case) and other associated risks.

In the event that debt is incurred in a currency other than the Transelec functional currency, this will be balanced with assets in the same currency or a financial derivative to counteract exchange rate variation for this currency, thus eliminating exchange rate risk.

TECHNOLOGICAL CHANGES

As previously indicated, compensation for Transelec investment in power transmission facilities is obtained by means of an annual existing facility assessment (EFA) fee at market rates, which is regularly recalculated according to the process established in current regulations. If important technological advances are made for equipment at Transelec facilities, this valuation could be lower and thus hamper overall recovery of investments made.

CREDIT RISK

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

However, revenue is highly concentrated in a few customers that will produce most of Transelec's future cash flow. Any substantial change to these companies' goods, financial status and/or operating income could be detrimental for the Company.

LIQUIDITY RISK

Liquidity risk is the risk of the company not being able to meet a monetary requirement in cash or make debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets at a reasonable price and in a timely manner.

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

In order to ensure that the company is able to react quickly to investment opportunities and to pay its obligations upon maturity, Transelec had a fully available revolving credit line amounting to US$ 250 million as of 31 December 2017, in addition to the company's cash surpluses and short-term accounts receivable. In addition, has Transelec has unused credit lines that have been approved by local banks.

INTEREST RATE RISK

Company assets are mainly long-lasting fixed assets and intangibles. Therefore, financial liabilities used to finance these assets mainly consist of long-term liabilities at fixed rates.

Although higher inflation in Chile could affect debt costs expressed in UF and consequently affect the company's income from readjustable units, these impacts are partly mitigated by the company's revenue, which is also partially adjusted according to local inflation variation by means of indexing polynomials indicated in the contracts.

In addition, current loans held by the Company with related companies are indicated in Chilean pesos, UF and US dollars and feature a fixed interest rate that also helps to mitigate this risk.

INSURANCE

Throughout the 2017 fiscal year, the company continued its policy of holding insurance policies to protect all of its fixed asset goods at facilities owned by the third parties. This coverage is provided by means of an industrial multi-risk policy that includes physical damage caused by fire, machinery breakdown, earthquakes and the forces of nature. Good international construction practices and strict compliance with Chilean standards led Transelec to consider that physical damage coverage for power transmission lines and towers was unnecessary, except for some exceptions considered to be strategic and others involving contractual issues with customers that have been insured.

With regard to sociopolitical risks, the company holds terrorism insurance that which covers actions classified as terrorist actions. In addition, the company continues to hold civil responsibility and professional civil liability insurance. The latter covers eventual damage stemming from actions taken by the company's engineers. Moreover, the company has continued to insure its vehicles and mobile equipment and an insurance policy was taken out to cover cabotage operations and the international transport of equipment and materials. With regard to engineering projects, Transelec took out insurance policies to cover all construction and erection risks, civil liability and transport when required.

Finally, the company continues to hold insurance contracts for its workers to cover complementary health insurance, travel assistance and service commissions, among others.

PROFIT SHARING

THE 2017 PROFIT SHARING POLICY

The Profit Sharing Policy states that the Board of Directors intends to distribute 100% of the net income from a specific fiscal year as dividends, considering the Company's financial situation, commitments made by Transelec when it issued bonds in the national and international markets and considering the implementation of IFRS. No dividend shall be paid if it would mean the company failing to meet its financial commitments. With regard to a specific fiscal year, if considered appropriate by the Board of Directors, Transelec may declare temporary dividends to be distributed depending on the conditions at the time. Total temporary dividends shall not exceed 75% of the Company's estimated distributable income for the current fiscal year in accordance with the latest available forecast.

DIVIDENDS DISTRIBUTED IN 2017

Transelec has distributed the following dividends to its shareholders in 2017:

- CLP 19,757,324,615 as the final dividend for the 2016 fiscal year, distributed 23 May 2017. Approved at the shareholders meeting held 27 April 2017
- CLP 19,222,000,000 as the first interim dividend for 2017, distributed 15 June 2017.
- CLP 17,816,000,000 as the second interim dividend for 2017, distributed 27 September 2017.
- CLP 22,499,000,000 as the third interim dividend for 2017, distributed 20 December 2017.

DIVIDENDS PAID EACH YEAR (*)

(temporary, eventual and final)

Year	Historical Value (CLP million)
2006	2,339
2007	34,955
2008	20,934
2009	28,118
2010	55,129
2011	45,866
2012	106,806
2013	59,064
2014	63,038
2015	88,166
2016	80,894
2017	**79,294**

(*): Values as of December of each year.

DIVIDEND DISTRIBUTION

(Taken from each fiscal year)

Year	CLP million (*)	Income % for Fiscal Year
2006	14,849	100%
2007	31,774	100%
2008	53,658	95%
2009	47,238	100%
2010	55,825	100%
2011	46,839	100%
2012	61,749	100%
2013	63,292	98%
2014	66,773	100%
2015	82,989	99%
2016	**80,983**	**100%**
2017(**)	**59,537**	**78%**

(*): Values as of December of each year.

(**): This exclusively corresponds to temporary dividends paid during the year 2017, since the final dividends corresponding to the 2017 fiscal year has not been announced as of 31 December 2017. These will be announced at a special shareholders meeting to be held in 2018.

RELEVANT FACTS

1. In accordance with the provisions of Article 9 and subsection 2 of Article 10 of Law Nº 18,045 on Securities Markets, the following relevant fact was reported 2 March 2017:

At a meeting held 1 March 2017, the Transelec S.A. Board of Directors agreed to convene a shareholders meeting for 27 April 2017 in order to bring the following issues to the knowledge of the shareholders and submit them for approval:

1.1. The Annual Report, Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2016.

1.2. Final distribution of dividends. In this respect, The Transelec S.A. Board of Directors agreed to propose distribution of definitive dividends corresponding to the 2016 fiscal year amounting to CLP 19.757.324.615 at the ordinary shareholders meeting. This amount is to be paid in accordance with the conditions and deadlines agreed to at this meeting.

1.3. Election of the Board of Directors.

1.4. Board of Directors and Audit Committee remuneration.

1.5. Appointment of External Auditors.

1.6. The newspaper to be used for publishing the shareholders meeting notice.

1.7. Agreements reached by the Board of Directors regarding matters contained in Corporations Law Article 146 and following articles.

1.8. Other issues of interest for the corporation and authority of the shareholders meeting.

2. In accordance with Article 9 and subsection 2 of Article 10 of Law Nº 18,045 on Securities Markets, the following relevant fact was reported 27 April 2017:

That the annual shareholders meeting of the corporation was held 27 April 2017 and the following matters were agreed:

2.1. To approve the Annual Report, Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2016.

2.2. To approve distribution of a final dividend corresponding to 2016 amounting to CLP 19,757,324,615, to be paid as of 23 May 2017 to shareholders registered in the respective shareholders' registry as of 17 May 2017 (Form N° 1 on dividend distribution is attached in accordance with newsletter in a relevant fact dated after 28 April 2017).

2.3. It was agreed that the members of the Board of Directors were to be replaced and therefore the Board is now comprised as follows: Mr. Benjamin Vaughan as director and Mr. Jeffrey Rosenthal as his respective deputy director; Mr. Paul Dufresne as director and Mr. Patrick Charbonneau as his respective deputy director; Mrs. Brenda Eaton as director and Mr. Jordan Anderson as her respective deputy director; Mr. Alfredo Ergas Segal as director and Mr. Etienne Middleton as his respective deputy director; Mr. Bruno Philippi Irarrázabal as director and Mr. Mario Valderrama Venegas as his respective deputy director; Mr. Mario Valcarce Durán as director and Mr. Patricio ton Flores as his respective deputy director; Mr. Blas Tomic Errázuriz as director and Mr. Rodrigo Ferrada Celis as his respective deputy director; Mr. José Ramón Valente Vias as director and Mrs. Stella Muñoz Schiattino as his respective deputy director; and, Mr. Alejandro Jadresic Marinovic as director and Mrs. Valeria Ruz Hernández as his respective deputy director.

2.4. Board of Directors and Audit Committee remunerations were set.

2.5. Approval of the appointment of Ernst & Young as the company's external auditors for the 2017 fiscal year.

2.6. Approval of Diario Financiero as the newspaper to be used for publishing notices of general shareholders meetings.

2.7. Agreements reached by the Board of Directors regarding matters contained in Corporations Law Article 146 and following articles were reported.

3. The following relevant fact was reported 17 May 2017 in accordance with the provisions of Article 9 and subsection 2 of Article 10 of Law Nº 18,045 on the Securities Market as well as the provisions of Superintendence of Securities and Insurance General Standard N°30:

That at a meeting held 17 May 2017, the Transelec S.A. Board of Directors agreed to distribute a temporary dividend to be taken from the 2017 fiscal year amounting to CLP 19,222,000,000. This dividend was to be paid 15 June 2017 to shareholders registered in the respective shareholders' registry as of 9 June 2017.

Form N° 1 regarding dividend distribution was attached in accordance with the aforementioned newsletter.

4. The following relevant fact was reported 18 May 2017 in keeping with the provisions of Superintendence of Securities and Insurance Newsletter N°660:

That at a meeting held 17 May 2017, the Transelec S.A. Board of Directors agreed to distribute a temporary dividend to be taken from the 2017 fiscal year amounting to CLP 19,222,000,000, which was to be paid 15 June 2017 to shareholders registered in the respective shareholders' registry as of 9 June 2017.

Form N° 1 regarding dividend distribution was attached in accordance with the aforementioned newsletter.

5. The following relevant fact was reported 23 August 2017 in keeping with the provisions of Superintendence of Securities and Insurance Newsletter N°660:

That at a meeting held 23 August 2017, the Transelec S.A. Board of Directors agreed to distribute a temporary divided to be taken from the 2017 fiscal year amounting to CLP 17,816,000,000, which was to be paid 26 September 2017 to shareholders registered in the respective shareholders' registry as of 20 September 2017.

Form N° 1 regarding dividend distribution was attached in accordance with the aforementioned newsletter.

6. The following relevant fact was reported 22 November 2017 in keeping with the provisions of the Superintendence of Securities and Insurance Newsletter N°660:

At a meeting held 22 November 2017, the Transelec S.A. Board of Directors agreed to distribute a temporary divided to be taken from the 2017 fiscal year, amounting to CLP 22,499,000,000, which was to be paid 20 December 2017 to shareholders registered in the respective shareholders' registry as of 14 December 2017.

Form N° 1 regarding dividend distribution was attached in accordance with the aforementioned newsletter.

7. The following relevant fact was reported 26 December 2017 in keeping with the provisions of Article 9 and subsection 2 of Article 10 of Law Nº 18,045 on the Securities Market and the provisions of NCG N° 30.

At a special Transelec S.A. Board of Directors meeting held 26 December 2017, its shareholder Brookfield Asset Management ("Brookfield") reported that it had signed a share sale and purchase agreement with the company China Southern Power Grid International (HK) Co. Ltd. ("CSG"), by virtue of which CSG commits to purchase the 27.7% stake in Transelec S.A. indirectly owned by Brookfield once the respective authorizations from the Government of the People's Republic of China have been received.

8. The following relevant fact was reported 27 December 2017 in keeping with Article 9 and subsection 2 of Article 10 of Law N° 18.045 on the Securities Market:

The corporation held a special shareholders meeting 26 December 2017 and agreed to set a new meeting to analyze assignment of contracts between related parties and the eventual constitution of guarantees to favor third parties. The date of this meeting will be announced in due time.

07 Legal Incorporation And Amendments

Transelec S.A. is an open stock corporation founded for an indefinite period that was originally founded as a limited liability company with the firm name “Rentas Eléctricas III Limitada”, by public deed dated 6 June 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. The extract corresponding to its incorporation is inscribed in sheet 22,031, N°15,264 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38,485 dated 9 June 2006.

The assignment of rights and actions for the corporation was executed by means of a public deed dated 15 June 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, with the corporations Rentas Eléctricas I Limitada and Rentas Eléctricas II Limitada established as partners. In addition, the corporation’s share capital was increased and its administration was changed. The extract corresponding to this corporate modification is inscribed in sheet 25,168, N°17,510 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38.501 dated 30 June 2006. The aforementioned amendment extract inscribed in sheet 28,355, N°19,800 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006 was corrected and published in the Official Gazette N°38,518 dated 20 July 2006.

The corporation’s share capital was increased by means of a public deed dated 11 December 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of this deed was inscribed in sheet 53,096, N°37,999 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38,650 dated 29 December 2006.

A public deed dated 26 March 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo recorded that the corporation became an open stock corporation with the firm name “Rentas Eléctricas III S.A.”. The extract corresponding to the corporation’s transformation is inscribed in page 12,696, N° 9,344, of the Santiago Real Estate Registrar Commercial Registry corresponding to 2007 and was published in the Official Gazette N°38,727 dated 30 March 2007.

It was agreed at the company’s first special shareholders meeting held 24 April 2007 that the company would be incorporated as an open stock corporation by means of the voluntary registration of the company and its shares in the Superintendence of Securities and Insurance Securities Registry. The minutes of this first special shareholders meeting were reduced to a document of public record dated 25 April 2007.

In June 2007, Rentas Eléctricas III S.A. took over Transelec S.A., tax list number N°76.555.430-6, as stated in a public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, an extract of which was inscribed in sheet 27,509, N°19,936 corresponding to the year 2007 and was published in the Official Gazette N°38,812 dated 13 July 2007.

It was agreed at the second special shareholders meeting held 30 June 2007 that the company’s corporate bylaws would be changed. The firm name was changed to “Transelec S.A.” and a new Board of Directors was elected. The minutes of this second special shareholders meeting were reduced to a document of public record dated 30 June 2007 at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of this reform was inscribed in sheet 27,530, N°19,941 dated 2007 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°38,812 dated 13 July 2007.

It was agreed at the company’s tenth special shareholders meeting held 24 May 2011 that price level restatement corresponding to the year 2009 would be capitalized. This came to CLP 19,732,724,601 following amendment of the corporate bylaws that increased the company’s share capital. The minutes of this tenth special shareholders meeting were reduced to a document of public record dated 6 June 2011 at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of the reform was inscribed in sheet 33,736, N°25,194 dated 2011 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°39,994 dated 24 June 2011.

It was agreed at the eleventh special shareholders meeting held 22 January 2014 that the corporation’s capital would be reduced by CLP 857,944,547,865, divided into 1,000,000 ordinary nominative shares with no nominal value to CLP 776,355,047,865, divided into 1,000,000 ordinary nominative shares with no nominal value. This reduction was made considering the current stakes in the Corporation owned by shareholders, in such a way that the partner Rentas Eléctricas I Limitada would continue to own 100 shares amounting to CLP 77,635,505 and 0.01% of the corporation’s share capital, and that Transelec Holdings Rentas Limitada would continue to own 999,900 shares amounting to CLP 776,277,412,360 and 99.99% of the corporation's share capital, amending Article Five and the First Temporary Article of the corporate bylaws. The minutes for this meeting were reduced to a document of public record 30 January 2014, at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, and an extract was inscribed in sheet 17,669 N° 11,117 dated 2014 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°40,811 dated 19 March 2014.

It was reported at the corporation's twentieth special shareholders meeting held 23 January 2015 that takeover mergers would be executed with the corporations Transmisora Abenor Limitada, Transmisora Araucana de Electricidad Limitada and Transmisora Huepil Limitada by Inversiones Eléctricas Transam Chile Limitada. In addition, it was agreed at this special shareholders meeting to approve the merger between the subsidiary Inversiones Eléctricas Transam Chile Limitada and Transelec S.A., assigning the Corporation's Board of Directors to announce the when this merger would take place. Moreover, it was agreed at the company's eighth shareholders meeting held 28 April 2015 that in accordance with an official letter from the Superintendence of Securities and Insurance that the purpose of said agreement was to approve the takeover merger of the subsidiary Inversiones Eléctricas Transam Chile Limitada by Transelec S.A., and to authorize the Corporation's Board of Directors to determine the occasion and mechanism to be used in order to proceed with this takeover merger, which finally took place 31 August 2015.

THE CORPORATION'S HISTORICAL BACKGROUND

Transelec S.A., formerly Rentas Eléctricas III S.A., is the successor of the following companies. Its incorporation, firm name change, mergers or transformations are listed as follows:

TAKEOVER MERGER WITH COMPAÑÍA NACIONAL DE TRANSMISIÓN ELÉCTRICA S.A. BY HQI TRANSELEC CHILE S.A.

A public deed of dissolution dated 30 January 2001, granted at the Notary Office owned by Mr. Fernando Opazo Larraín, reduced to a document of public record the fact that Compañía Nacional de Transmisión Eléctrica S.A. was dissolved in virtue of Article 103 N°2 of Law 18,046 on Corporations because all of its shares were purchased by HQI Transelec Chile S.A., its successor. The extract was inscribed in sheet 4,662, N°3,720 of the Santiago Real Estate Registrar Commercial Registry dated 2001 and was published in the Official Gazette dated 30 January 2001. This dissolution was reported at the 113th Board of Directors Meeting 30 January 2001 and was reduced to a document of public record at that same date at the Santiago Notary Office owned by Mr. Fernando Opazo Larraín.

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

A public deed dated 23 August 2006 granted at the Notary Office owned by Mr. Iván Tamargo Barros, reduced the minutes of the eighth HQI TRANSELEC CHILE S.A. Special Shareholders Meeting held 16 August 2006 to a document of public record, indicating that the firm name HQI TRANSELEC CHILE S.A., tax list number 77.498.870-K was changed to TRANSELEC S.A., with the same tax list number. The extract was inscribed in sheet 34.753, N°24.453 of the Santiago Real Estate Registrar Commercial Registry dated 2006 and was published in the Official Gazette dated 23 August 2006.

TAKEOVER MERGER WITH TRANSELEC S.A. BY NUEVA TRANSELEC S.A.

A public deed granted at the Notary Office owned by Mr. Iván Tamargo Barros 30 November 2006 reduced the minutes of the Transelec S.A. special Board of Directors meeting 101 held 22 November 2006, declares dissolution following takeover by the aforementioned corporation since its shares were now held by Nueva Transelec S.A., RUT 76.555.430-6. The extract was inscribed in sheet 49,292, N°35,195, of the Santiago Real Estate Registrar Commercial Registry del year 2006 and published in the Official Gazette dated 6 December 2006.

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

A public deed dated 30 November 2006, granted at the Notary Office owned by Ms. María Gloria Acharán Toledo, reduced the minutes of the corporation's 3rd Special Shareholders Meeting to a document of public record, indicating that the firm name New Transelec S.A. was changed to Transelec S.A. The extract was inscribed in sheet 49,963, N°35,710, of the Santiago Real Estate Registrar Commercial Registry dated 2006, indicating that the firm name was changed and this was published in the Official Gazette dated 9 December 2006.

TAKEOVER MERGER WITH TRANSELEC S.A. BY RENTAS ELÉCTRICAS III S.A.

A public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo reduced the minutes of the 16th Transelec S.A. Special Board of Directors Meeting dated 6 June 2007 to a document of public record, indicating a takeover merger with Transelec S.A., tax list number 76.555.430-6 by Rentas Eléctricas III S.A., tax list number, which purchased all of the corporation's shares. The extract was inscribed in sheet 27.509, N°19,936 of the Santiago Real Estate Registrar Commercial Registry dated 2007 and was published in the Official Gazette dated 13 July 2007. A public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán T. reduced the minutes of the 5th Rentas Eléctricas III S.A. Special Board of Directors meeting held on the same date to a document of public record, indicating the takeover merger with Transelec S.A., tax list number 76.555.430-6 by Rentas Eléctricas III S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. Rentas Eléctricas III S.A. declares that is the legal successor of Transelec S.A., assuming all of its rights and obligations, and declares that it is jointly and severally responsible for any taxes that it currently owes or may owe.

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

A public deed dated 30 June 2007, granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, reduced the minutes of the Rentas Eléctricas III S.A. Second Special Shareholders Meeting dated 30 June 2007 to a document of public record, stating that the name of Rentas Eléctricas III S.A. was changed to Transelec S.A. The extract was inscribed in sheet 27,530, Nº 19,941 of the Santiago Real Estate Registrar Commercial Registry dated 2007 and was published in the Official Gazette dated 13 July 2007.

TRANSELEC NORTE S.A. TAKEVOER MERGER WITH TRANSELEC S.A.

A public deed dated 4 December 2014 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo registered the minutes of the Transelec Norte S.A.'s 131st Special Board of Directors Meeting dated 26 November 2014 and constituted the takeover merger with Transelec Norte S.A., tax list number 99.521.950 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. The extract was inscribed in sheet 94,440, Nº 57,701 Santiago Real Estate Registrar Commercial Registry dated 2014 and was published in the Official Gazette 31 December 2014. A public deed dated 27 November 2014 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo reduced the minutes of the Transelec Norte S.A. 116th Special Board of Directors Meeting dated 26 November 2014 to a document of public record, constituting the takeover merger with Transelec Norte S.A., tax list number 99.521.950 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. Transelec S.A. declares that is the legal successor of Transelec Norte S.A., assuming all of its rights and obligations, and declares that it is jointly and severally responsible for any taxes that it does or may owe.

TRANSELEC S.A. TAKEOVER MERGER WITH INVERSIONES ELÉCTRICAS TRANSAM CHILE LIMITADA

A public deed dated 31 August 2015 granted at the Santiago Notary Office owned by Mr. Raúl Undurraga Laso constituted the takeover merger with Eléctricas Transam Chile Limitada, tax list number 76.384.810-8 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. The extract was inscribed in sheet 71,421, Nº 41,726 of the Santiago Real Estate Registrar Commercial Registry dated 30 September 2015.

08 Financial Statements

Consolidated Financial Statements (Audited)

TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile
As of December 31, 2017 and 2016
(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

INDEPENDENT AUDITOR'S REPORT (Translation of the report originally issued in Spanish)

Shareholders and Directors
Transelec S.A.

We have audited the accompanying consolidated financial statements of Transelec S.A and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transelec S.A. and subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Albert Oppenländer
EY Audit SpA
Santiago, March XX, 2018

INDEX

Consolidated Financial Statements (Audited)

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

ASSETS	Note	December 31, 2017 ThCh$	December 31, 2016 ThCh$
ACTIVOS CORRIENTES			
Cash and cash equivalents	(5)	61,628,069	54,646,538
Other financial assets	(9)	834,163	777,358
Other non-financial assets		3,758,876	2,006,941
Trade and other receivables	(6)	45,225,066	55,684,753
Receivables from related parties	(7)	34,323,681	11,584,175
Inventory	(8)	30,171	19,732
Total current assets		**145,800,026**	**124,719,497**
NON-CURRENT ASSETS			
Other financial assets	(9)	24,214,251	15,333,394
Other non-financial assets		5,213,740	10,461,098
Receivables from related parties	(7)	190,683,003	194,530,954
Intangible assets other than goodwill	(10)	180,362,355	177,888,881
Goodwill	(10-29)	343,059,078	342,651,175
Property, plant and equipment	(11)	1,456,268,115	1,441,237,252
Deferred tax assets	(12)	34,410	-
Total non-current assets		**2,199,834,952**	**2,182,102,754**
Total Assets		**2,345,634,978**	**2,306,822,251**

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

EQUITY AND LIABILITIES	Note	December 31, 2017 ThCh$	December 31, 2016 ThCh$
CURRENT LIABILITIES			
Other financial liabilities	(13)	51,129,853	31,825,802
Trade and other payables	(14)	56,494,365	52,161,110
Current provisions for employee benefits	(17)	6,823,042	6,180,911
Current tax liabilities		162,101	136,728
Other non-financial liabilities		1,980,423	1,948,370
Total current liabilities		**116,589,784**	**92,252,921**
NON-CURRENT LIABILITIES			
Other financial liabilities	(13)	1,352,903,027	1,383,645,992
Deferred tax liabilities	(12)	79,303,942	47,566,763
Non-current provisions for employee benefits		4,533,592	4,533,592
Other non-financial liabilities	(17)	5,944,722	6,342,295
Total non-current liabilities		**1,442,685,283**	**1,442,088,642**
Total liabilities		**1,559,275,067**	**1,534,341,563**
EQUITY			
Paid-in capital	(19)	776,355,048	776,355,048
Retained earnings		18,712,014	19,757,325
Other reserves	(19)	(8,707,151)	(23,631,685)
Total equity attributable to owners of the parent		786,359,911	772,480,688
Non-controlling interest		-	-
Total equity		**786,359,911**	**772,480,688**
Total Equity and Liabilities		**2,345,634,978**	**2,306,822,251**

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function For the twelve-month periods ended December 31, 2017 and 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	12/31/2017 ThCh$	12/31/2017 ThCh$
STATEMENT OF COMPREHENSIVE INCOME BY FUNCTION			
Operating revenues	(20)	278,599,084	281,714,682
Cost of sales	(21)	(83,318,709)	(77,682,038)
Gross margin		**195,280,375**	**204,032,644**
Administrative expenses	(21)	(22,952,899)	(22,591,020)
Other gains (losses), net	(20)	3,555,416	4,518,184
Financial income	(20)	9,138,490	9,609,705
Financial expenses	(21)	(69,326,217)	(65,458,658)
Foreign exchange differences, net	(21)	(138,355)	557,923
Income by indexed units	(21)	(12,278,843)	(22,687,347)
Profit before income taxes		**103,277,967**	**107,981,431**
Income tax expense	(22)	(25,028,954)	(26,998,106)
Profit from continuing operations		78,249,013	80,983,325
Profit (loss) from discontinued operations		-	-
Profit (loss)		**78,249,013**	**80,983,325**
PROFIT (LOSS) ATTRIBUTABLE TO:			
Profit attributable to the owners of the parent company		78,249,013	80,983,325
Profit (loss) attributable to non – controlling interest		-	-
Profit		**78,249,013**	**80,983,325**
EARNINGS PER SHARE BASIC EARNINGS PER SHARE/DILUTED			
Basic earnings per share/diluted from continuing operations	(23)	78,249	80,983
Basic earnings (loss) per share/diluted from discontinued operations		-	-
Basic earnings per share/diluted	**(23)**	**78,249**	**80,983**

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function For the twelve-month periods ended December 31, 2017 and 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

	12/31/2017 ThCh$	12/31/2017 ThCh$
PROFIT (LOSS) **COMPONENTS OF OTHER COMPREHENSIVE INCOME, BEFORE TAXES** **FOREIGN CURRENCY TRANSLATION**	**78,249,013**	**80,983,325**
Gains (losses) on foreign currency translation differences, before taxes	**(1,969,805)**	**(1,916,978)**
CASH FLOW HEDGES		
Gains (losses) on cash flow hedges, before taxes	22,414,373	(23,092,763)
INCOME TAXES RELATED TO COMPONENTS OF OTHER COMPREHENSIVE INCOME		
Income taxes related to components of net investment hedge	531,847	517,584
Income taxes related to components of cash flow hedge	(6,051,881)	6,235,046
Other comprehensive income	14,924,534	(18,257,111)
Total comprehensive income	**93,173,547**	**62,726,214**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Comprehensive income attributable to owners of the parent	93,173,547	62,726,214
Comprehensive income attributable to non-controlling interest	-	
Total comprehensive income	**93,173,547**	**62,726,214**

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Changes in Equity For the twelve-month periods ended December 31, 2017 and 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Paid-in capital ThCh$	Reserve for foreign translation adjustment ThCh$	Reserve for cash flow hedges ThCh$	Other reserves ThCh$
OPENING BALANCE AS OF JANUARY 1, 2017	**776,355,048**	**3,296,224**	**(26,613,155)**	**(314,754)**
Changes in equity:				
Comprehensive income:				
Profit	-	-	-	-
Other comprehensive income	-	(1,437,958)	16,362,492	-
Total comprehensive income	-	(1,437,958)	16,362,492	-
Dividends	-	-	-	-
Total changes in equity	-	(1,437,958)	16,362,492	-
Closing balance as of december 31, 2017 (note 19)	**776,355,048**	**1,858,266**	**(10,250,663)**	**(314,754)**

	Paid-in capital ThCh$	Reserve for foreign translation adjustment ThCh$	Reserve for cash flow hedges ThCh$	Other reserves ThCh$
OPENING BALANCE AS OF JANUARY 1, 2016	**776,355,048**	**4,695,618**	**(9,755,438)**	**(314,754)**
Changes in equity:				
Comprehensive income:				
Profit	-	-	-	-
Other comprehensive income	-	(1,399,394)	(16,857,717)	-
Total comprehensive income	-	(1,399,394)	(16,857,717)	-
Dividends	-			-
Total changes in equity	-	(1,399,394)	(16,857,717)	-
Closing balance as of december 31, 2016 (note 19)	**776,355,048**	**3,296,224**	**(26,613,155)**	**(314,754)**

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

Total Other reserves ThCh$	Retained Earnings ThCh$	Equity attributable to owners of the parent ThCh$	Non- controlling interest ThCh$	Total equity ThCh$
(23,631,685)	**19,757,325**	**772,480,688**	**-**	**772,480,688**
-	78,249,013	78,249,013	-	78,249,013
14,924,534	-	14,924,534	-	14,924,534
14,924,534	78,249,013	93,173,547	-	93,173,547
-	(79,294,324)	(79,294,324)	-	(79,294,324)
14,924,534	(1,045,311)	13,879,223	-	13,879,223
(8,707,151)	**18,712,014**	**786,359,911**	**-**	**786,359,911**

Total Other reserves ThCh$	Retained Earnings ThCh$	Equity attributable to owners of the parent ThCh$	Non- controlling interest ThCh$	Total equity ThCh$
(5,374,574)	**19,668,085**	**790,648,559**	**-**	**790,648.559**
-	80.983.325	80,983,325	-	80,983,325
(18,257,111)	-	(18,257,111)	-	(18,257,111)
(18,257,111)	80,983,325	62,726,214	-	62,726,214
-	(80,894,085)	(80,894,085)	-	(80,894,085)
(18,257,111)	89,240	(18,167,871)	-	(18,167,871)
(23,631,685)	**19,757,325**	**772,480,688**	**-**	**772,480,688**

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Cash Flows For the twelve-month periods ended December 31, 2017 and 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

DIRECT STATEMENT OF CASH FLOWS	DECEMBER 31, 2017 ThCh$	DECEMBER 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	426,883,238	380,820,766
Other proceeds from operating activities	518,359	1,539,436
Proceeds from interest received	8,032,456	9,446,563
Classes of payments		
Payments to suppliers for goods and services	(163,598,438)	(132,512,202)
Other payments for operating activities	(829,172)	(439,853)
Payments to employees	(13,636,120)	(13,277,530)
Interest paid	(66,928,653)	(60,854,356)
Income tax reimbursed (paid)	-	2,743,588
Net cash flows provided by operating activities	**190,441,670**	**187,466,412**
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Cash flows used to obtain control of subsidiaries or other businesses	(6,417,949)	-
Additions of property, plant and equipment	(131,163,063)	(122,243.815)
Amounts from the sale of property, plant and equipment	52,848,254	762,642
Prepayment of cash and loans granted to third parties	(815,377)	(9,726,667)
Loans to related parties	(124,236,481)	(88,806,324)
Receivables from related parties	95,822,052	90,529,227
Net cash flows used in investing activities	**(113,962,564)**	**(129,484,937)**
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Amount proceeding from loans	20,000,000	226,979,140
Payment of loans	(10,203,251)	(173,428,495)
Dividends paid	(79,294,324)	(80,894,085)
Other Inflows (Disbursements)	-	(148,104)
Net cash flows used in financing activities	**(69,497,575)**	**(27,491,544)**
Net Increase (Decrease) in Cash and Cash Equivalents	6,981,531	30,489,931
Cash and Cash Equivalents, at the beginning of the year (Note 5)	54,646,538	24,156,607
Cash and Cash Equivalents, at the ending of the year (Note 5)	**61,628,069**	**54,646,538**

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 December 31, 2017 and December 31, 2016

(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.

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).

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

The Consolidated Financial Statements of the Company for the year ended December 31, 2016, were approved by the board at its meeting held on March 01, 2017, and subsequently approved by the Ordinary Shareholders' Meeting dated April 27, 2017.

The issue of these Consolidated Financial Statements corresponding to December 31, 2017, was approved by the Board of Directors at Ordinary Meeting No. 167 of march 21, 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing the consolidated financial statements are detailed below. These policies have been based on IFRS in effect as of December 31, 2017 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.

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, 2016, except for the adoption of new standards and interpretations in effect as of January 1, 2017, which did not materially affect the consolidated financial statements.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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
		31-12-2017	31-12-2016		
76.538.831-7	Transmisión del Melado SpA	100%	-	Chile	Ch$

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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, t hat 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 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 7	Statement of Cash Flows	January 1, 2017
IAS 12	Income Taxes	January 1, 2017

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 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021

New Standards

IFRS 9 - "Financial Instruments"

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

The Company plans to adopt the new standard on the required effective date and will not reformulate the comparative information. During 2017, the Company performed a detailed evaluation of the impact of the three aspects of IFRS 9. As a result of this study, the Company has determined that IFRS 9 has no significant impact on its financial statements.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

The impact of the three aspects of IFRS 9 evaluated is detailed below:

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity from the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial asset kept at fair value.
Loans and trade receivables are kept to charge contractual cash flows, and it is expected that they will generate cash flows that only represent the payment of principal and interest. The Company analyzed its contractual cash flows, the characteristics of those instruments and its business model, concluding that it meets the criteria for measuring amortized cost under IFRS 9. Therefore, no reclassification is required for these instruments.

(b) Impairment

IFRS 9 requires that the Company records expected credit losses on all of its debt titles, loans and trade receivables. The Company has determined that, in its initial application, using a FWL ("Forward looking") approach will not generate a significant impact for expected credit losses, although it may require minor adjustments in the procedures to determine any impairment to be recorded.

(c) Hedge accounting

The Company plans to maintain a hedge accounting policy consistent with the requirements of IAS 39, therefore no related impact is expected.

IFRS 15 - "Revenue from Contracts with Customers"

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

The Company plans to adopt the new standard on the required effective date and will not reformulate the comparative information.

Moreover, the Company has evaluated the implementation of the new standard and has not identified any significant effects.

Interpretation of IFRIC 22: Foreign Currency Transactions and Advance Consideration

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

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

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

IFRS 16 "Leases"

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

The Company is currently evaluating the impact that this modification could generate.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 1	First-time Adoption of International Financial Reporting Standards	January 1, 2018
IFRS 2	Share Based Payment	January 1, 2018
IFRS 4	Insurance Contracts	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018
IAS 40	Investment Property	January 1, 2018
IFRS 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 23	Borrowing Costs	January 1, 2019
IAS 28	Investments in associates	January 1, 2019
IFRS 10	Consolidated financial statements	TBD

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendment to IFRS 1 eliminates the transitional exceptions included in Appendix E (E3-E7).

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

IFRS 2 "Share Based Payments"

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

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

IFRS 4 "Insurance Contracts"

The modifications address concerns related to the application of new pronouncements included in IFRS 9, before implementing new insurance contracts. The amendments introduce the following two options for those entities that issue insurance contracts:

- **The temporary and optional exemptions** from the application of IFRS 9, which will be available for entities whose activities are predominantly connected to insurance. The exception will allow entities to continue to apply IAS 39 Financial Instruments, Recognition and Measurement, until 1 January 2021.

- **The overlay approach**, which is an option available to entities that adopt IFRS 9 and issue insurance contracts, to adjust the gains or losses for certain financial assets; the adjustment eliminates the volatility in valuation of financial instruments that may arise from the application of IFRS 9, allowing for the reclassification of these effects from income for the year to other comprehensive income.

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

IAS 28 "Investments in Associated and Joint Ventures"

The modification clarifies that an entity that is a risk capital organization, or another qualifying entity, during initial recognition may choose to value its investments in associated and joint ventures at fair value with effect on income. If an entity that in itself is not an investment entity has interest in an associate or joint venture that is an investment entity, it may opt to maintain the fair value applied to its associate. The modifications must be applied retrospectively, and go into effect as of January 1, 2018. Early adoption is permitted.

The Company is evaluating the impact that could be generated by said modification.

IAS 40 "Investment Property"

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

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

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.

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 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.

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

2.4.3 Exchange rates

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

Currency	Pesos per unit	
	December 31, 2017	December 31, 2016
Unidad de Fomento	26,798.14	26,347.98
US$	614.75	669.47
Euro	739.15	705.60

2.5 FINANCIAL REPORTING BY OPERATING SEGMENTS

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

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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:

Items	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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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	December 2017	December 2016	Description
Discount rate	9.79%	8.70%	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 yeas	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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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.

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

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 las enters into effect immediately and gradually until its full application as of 2020.

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

The total 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.

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

2.20 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 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.

NOTE 3 - RISK MANAGEMENT POLICY

3.1 FINANCIAL RISK

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

3.1.1 Market risk

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

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

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

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

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

3.1.1.1 Interest rate risk

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

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

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

The table below compares the debts of the Company and shows that majority of the debt as of December 31, 2017 and 2016 were at fixed rate.

Debt	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (thousand)	
				DECEMBER 31, 2017	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
Revolvig Credit Facility	USD	2.94%	Floating (*)	-	-
Revolvig Credit Facility	UF	1.18%	Floating (**)	-	-
Local Bank Promissory Note	CLP	2.77%	Fixed	20,000,000	-

(*) The floating rate 2.94% of the Revolving credit facility breaks down in 3M LIBOR plus a margin of 1.25%. At December 31, 2017, the Company did not utilize this line therefore does not pay interest of 2.94% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

(**) The floating rate 1.18% of the Revolving credit facility breaks down in TAB UF 180 plus a margin of 0.25%. At December 31, 2017, the Company did not utilize this line therefore does not pay interest of 1.18% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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	Efecto Anual en Resultado ($MM)		
	LONG/ (SHORT)	INFLATION (3%)	INFLATION (4%)	INFLATION (2%)
Bono D	(13,375,664)	(10,753)	(14,337)	(7,168)
Bono H	(3,000,980)	(2,413)	(3,217)	(1,608)
Bono K	(1,598,676)	(1,285)	(1,714)	(857)
Bono M	(1,466,904)	(1,179)	(1,572)	(786)
Bono M1	(1,854,127)	(1,490)	(1,987)	(994)
Bono N	(2,862,969)	(2,301)	(3,069)	(1,534)
Bono Q	(3,071,728)	(2,469)	(3,293)	(1,646)
Total	**(27,231,048)**	**(21,890)**	**(29,189)**	**(14,593)**

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

	Liabilities		Assets	
	DECEMBER 31, 2017 MM$	DECEMBER 31, 2016 MM$	DECEMBER 31, 2017 MM$	DECEMBER 31, 2016 MM$
U.S. dollar (amounts associated with balance sheet items)	632.905	691.075	637.899	689.947
Chilean peso	1.709.713	1.615.304	1.704.719	1.616.432

(b) 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.

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

	Position MM$	Net income (gain)/loss MM$		Posición MM$	OCI (gain)/loss MM$	
ITEM (CURRENCY)	LONG / (SHORT)	CHANGE (-10%)	CHANGE (+10%)	LONG / (SHORT)	CHANGE (-10%)	CHANGE (+10%)
Cash (US$)	15,918	(29)	29	-	-	-
Leasing (US$)	24,994	(45)	45	-	-	-
Senior Notes (US$)	(632,905)	1,144	(1,144)	-	-	-
Financial instrument swap	437,750	(791)	791	(13,612)	25	(25)
Intercompany loan (US$)	159,237	(288)	288	-	-	-
Total	**4,994**	**(9)**	**9**	**(13,612)**	**25**	**(25)**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 December 31, 2017	Periods ended December 31, 2016
	ThCh$	ThCh$
Enel Group	112,480,878	128,777,350
Colbún Group	49,706,030	47,391,221
AES Gener Group	43,930,396	46,006,592
Engie (E-CL) Group	13,762,716	13,897,405
Pacific Hydro-LH-LC Group	6,418,045	7,284,560
Others	52,301,019	38,357,554
Total	**278,599,084**	**281,714,682**
% of concentration of top customers	**81.23%**	**86.38%**

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 to ThCh$153,687,500. 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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

These risks are mitigated by using long-term debt and appropriately structuring maturities over time.

The following table presents the capital amortizations and estimated interest payments corresponding to the Company's financial liabilities (debt), according to their maturity date, as of December 31, 2017 and 2016.

Debt maturity	Less than 1 Years	1 to 3 Years	3 to 5 Years	5 to 10 Years	More than 10 Years	Total
December 31, 2017	77,922,990	115,384,313	115,384,313	1,006,579,351	728,357,797	2,043,628,764
December 31, 2016	59,544,433	119,088,866	119,088,866	705,743,208	1,135,495,931	2,138,961,304

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

- 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 December 31, 2017 and 2016, this account is detailed as follows::

Cash and Cash Equivalents	Balance as of December 31, 2017	Balance as of December 31, 2016
	ThCh$	ThCh$
Bank and cash balances	1,038,279	2,872,345
Short-term deposits	15,550,130	12,553,606
Reverse repurchase agreements and mutual funds	45,039,660	39,220,587
Total	**61,628,069**	**54,646,538**

Cash and cash equivalents included in the statement of financial position as of December 31, 2017 and 2016 does not differ from those presented in the statement of cash flows.

(b) The following table details the balance of cash and cash equivalents by type of currency:

Detail of Cash and Cash Equivalents	Currency	Balance as of December 31, 2017	Balance as of December 31, 2016
		ThCh$	ThCh$
Amount of cash and cash equivalents	U.S. dollars	15,888,701	12,852,827
Amount of cash and cash equivalents	Euros	28,717	12,871
Amount of cash and cash equivalents	Chilean pesos	45,710,651	41,780,840
Total		**61,628,069**	**54,646,538**

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 6 - TRADE AND OTHER RECEIVABLES

As of December 31, 2017 and 2016, this account is detailed as follows:

Item	Balance as of December 31, 2017	Balance as of December 31, 2016
	ThCh$	ThCh$
Trade receivables	46,370,798	56,858,892
Miscellaneous receivables	246,651	218,244
Total trade and other receivables	**46,617,449**	**57,077,136**
Provision for uncollectible amount (*)	(1,392,383)	(1,392,383)
Total trade and other receivables (net)	**45,225,066**	**55,684,753**

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 December 31, 2017	Balance as of December 31, 2016
	ThCh$	ThCh$
Maturing in less than 30 days	27,490,966	29,018,377
Maturing in more than 30 days up to 1 year	17,734,100	26,666,376
Total	**45,225,066**	**55,684,753**

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

The movement of the provision for uncollectible amount is presented the period ended December 31, 2017 and 2016:

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

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

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
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	Not defined
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	3 years
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	10 years
20601047005	Conelsur LT SAC	Peru	Accounts receivable	Not defined
76.248.725-K	CYT Operaciones SPA	Chile	Accounts receivable	Not defined
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Mercantile current account	Not defined
20601047005	Conelsur LT SAC	Peru	Mercantile current account	Not defined
20601047005	Conelsur LT SAC	Peru	Mercantile current account	Not defined
76.524.463-3	Transelec Concesiones S.A.	Chile	Mercantile current account	Not defined

(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
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Loans granted
76.560.200-9	Transelec Concesiones S.A.	Chile	Direct parent	Loans granted
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Loans paid
76.560.200-9	Transelec Concesiones S.A.	Chile	Direct parent	Loans paid
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Interest received
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	Exchange rate
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Direct parent	UF Readjustment

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

Relation	Currency	Balance as of Current December 31, 2017 ThCh$	Balance as of Current December 31, 2016 ThCh$	Balance as of Non-current December 31, 2017 ThCh$	Balance as of Non-current December 31, 2016 ThCh$
Direct parent	CH$	30,947,951	8,879,409	-	-
Direct parent	CH$	116,309	-	10,950,790	
Direct parent	UF	-	-	20,495,288	5,923,096
Direct parent	US$	-	-	159,236,925	188,607,858
Indirect	CLP	25,162	-	-	
Indirect	CLP	638,365	-	-	
Direct parent	CH$	-	2,461,542	-	-
Indirect	CH$	-	943	-	-
Indirect	US$	-	1,976	-	-
Indirect	CH$	2,595,894	240,305	-	-
	Total	**34,323,681**	**11,584,175**	**190,683,003**	**194,530,954**

December 31, 2017 Amount ThCh$	December 31, 2017 Effect on Income M$	December 31, 2016 Amount ThCh$	December 31, 2016 Effect on Income M$
136,345,582	-	88,801,243	-
2,596,524	-	-	-
94,897,259	-	90,525,542	-
240,305	-	-	-
8,289,305	8,289,305	7,892,732	7,892,732
14,833,729	14,833,729	11,498,451	11,498,451
144,148	144,148	162,655	162,655

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 May 17, 2017, in an Ordinary Meeting of Directors, Benjamin Vaughn was elected Chairman of the Board of Directors of Transelec upon resignation of Richard Legault.

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

	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Blas Tomic Errázuriz	53,372	54,662
José Ramón Valente Vias	53,372	54,662
Alejandro Jadresic Marinovic	53,372	54,662
Mario Alejandro Valcarce Duran	53,372	54,662
Bruno Pedro Philippi Irarrazabal	53,372	54,662

7.3 BOARD EXPENSES

During the December 31, 2017 and 2016 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 As of December 31, 2017 and 2016, the Audit Committee has held four sessions.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 2017 and 2016:

	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
José Ramón Valente	6,025	6,391
Mario Alejandro Valcarce Duran	6,025	6,391

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 López 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 2017 and 2016 is detailed as follows:

	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Salaries	1,716,546	1,660,980
Short-term employee benefits	693,886	668,100
Long-term employee benefits	619,587	608,471
Total compensation received by key management personnel	**3,030,019**	**2,937,551**

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 8 - INVENTORY

As of December 31, 2017 and 2016, this account is detailed as follows:

Classes of inventory	Balance as of December 31, 2017	Balance as of December 31, 2016
	ThCh$	ThCh$
Safety equipment	30,171	19,732
Total	**30,171**	**19,732**

NOTE 9 - OTHER FINANCIAL ASSETS, LEASES

As of December 31, 2017 and 2016, this account is detailed as follows:

Clase de inventarios	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Finance lease receivables current	834,163	777,358
Sub-total Other financial assets current	**834,163**	**777,358**
Finance lease receivables non-current	24,159,796	11,751,854
Swap Contracts	39,170	3,520,904
Other financial assets	15,285	60,636
Sub-total Other financial assets non-current	**24,214,251**	**15,333,394**
Total	**25,048,414**	**16,110,752**

9.1 FINANCE LEASE RECEIVABLES

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

Period in Years	December 31, 2017		
	Present Value (net investment) ThCh$	Interest receivable ThCh$	Nominal value (gross investment) 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**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Period in years	December 31, 2016		
	Present Value (net investment) ThCh$	Interest receivable ThCh$	Nominal value (gross investment) ThCh$
Less than 1	777,358	575,372	1,352,730
1-5	4,415,019	2,348,633	6,763,652
Over 5	7,336,835	2,257,192	9,594,027
Total	**12,529,212**	**5,181,197**	**17,710,409**

Movements in finance leases:	Balance as of December 31, 2017	Balance as of December 31, 2016
	ThCh$	ThCh$
Opening balance	**12,529,212**	**14,193,854**
Additions	14,380,951	-
Amortization	(1,120,335)	(859,819)
Translation difference	(795,869)	(804,823)
Ending balance	**24,993,959**	**12,529,212**

9.2 OPERATING LEASES PAYABLE

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

	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Real estate lease	1,003,163	1,061,490
Other leases	899,565	881,495
Total operating leases	**1,902,728**	**1,942,985**

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

	Up to 1 year	1 to 5 years	More than 5 Years
	ThCh$	ThCh$	ThCh$
Real estate lease	1,003,163	4,012,652	-
Other leases	899,565	3,598,260	-
Total operating leases	**1,902,728**	**7,610,912**	**-**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 10 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of December 31, 2017 and 2016:

Intangible assets, net	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Rights of way (*)	173,991,593	173,854,650
Software	6,370,762	4,034,231
Total intangible assets	**180,362,355**	**177,888,881**
Goodwill	343,059,078	342,651,175
Total intangible assets, net	**523,421,433**	**520,540,056**

(*) As of December 31, 2017 and 2016 Transelec S.A. present intangible assets with indefinite useful lives under the classification of rights of way.

Intangible assets, gross	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Rights of way	173,991,593	173,854,650
Software	14,631,672	10,167,420
Goodwill	343,059,078	342,651,175
Total intangible assets	**531,682,343**	**526,673,245**

Accumulated amortization and impairment	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Software	(8,260,910)	(6,133,189)
Total accumulated amortization	**(8,260,910)**	**(6,133,189)**

The composition and movements of intangible assets as of December 31, 2017 and 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, 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**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Movements in intangible assets	Rights of way	Software	Goodwill	Net intangible assets
	ThCh$	ThCh$	ThCh$	ThCh$
Opening balance as of January 1, 2016	**174,170,622**	**2,649,968**	**342,651,175**	**519,471,765**
Movements in intangible assets				
Additions	343,259	2,550,174	-	2,893,433
Amortization	-	(1,165,911)	-	(1,165,911)
Other increases (decreases)	(659,231)	-	-	(659,231)
Ending balance of intangible assets as of December 31 , 2016	**173,854,650**	**4,034,231**	**342,651,175**	**520,540,056**

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of December 31, 2017 and 2016 to be recovered.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

11.1 DETAIL OF ACCOUNTS

This account is detailed as follows:

Property, plant and equipment, net	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Land	20,696,130	20,624,732
Buildings and infrastructure	897,872,721	879,122,021
Work in progress	92,667,010	107,899,910
Machinery and equipment	439,189,740	427,854,711
Other property, plant and equipment	5,842,514	5,735,878
Property, plant and equipment, net	**1,456,268,115**	**1,441,237,252**

Property, plant and equipment, gross	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Land	20,696,130	20,624,732
Buildings and infrastructure	1,160,962,544	1,118,249,344
Work in progress	92,667,010	107,899,910
Machinery and equipment	643,508,830	610,064,656
Other property, plant and equipment	5,842,514	5,735,878
Total property, plant and equipment, gross	**1,923,677,028**	**1,862,574,520**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Total accumulated depreciation of property, plant and equipment, net	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Buildings and infrastructure	(263,089,823)	(239,127,323)
Machinery and equipment	(204,319,090)	(182,209,945)
Total accumulated depreciation of property, plant and equipment	**(467,408,913)**	**(421,337,268)**

11.2 RECONCILIATION OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

The following table details the reconciliation of changes in property, plant and equipment by class during the periods ended December 31, 2017 and 2016:

		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**

		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, 2016		**20,630,332**	**863,685,819**	**415,852,900**	**72,801,826**	**5,529,900**	**1,378,500,777**
Movement	Additions	-	-	-	114,930,263	493,273	115,423,536
	Retirements	(2,899)	(1,679,092)	(2,165,687)	(1,479,891)	-	(5,327,569)
	Transfer to operating assets	(2,701)	40,099,919	37,797,739	(78,352,288)	457,331	-
	Depreciation	-	(22,984,625)	(23,630,241)	-	-	(46,614,866)
	Other increases (decreases)	-	-	-	-	(744,626)	(744,626)
Balance as of December 31, 2016		**20,624,732**	**879,122,021**	**427,854,711**	**107,899,910**	**5,735,878**	**1,441,237,252**

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

11.3 ADDITIONAL INFORMATION ON PROPERTY, PLANT AND EQUIPMENT

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

The Company held as of December 31, 2017 and 2016 commitments to purchase items of property, plant and equipment arising from construction contracts under EPC (Engineering-Procurement-Construction) in the amount of ThCh$ 90.814.441 and ThCh$ 200,813,065, respectively.

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

	December 31, 2017	December 31, 2016
Capitalization rate (Annual basis)	**5.14%**	**5.93%**
Capitalized interest costs (ThCh$)	**4,085,618**	**3,022,279**

Work in progress balances amounts to ThCh$92,667,010 and ThCh$107,899,910 as of December 31, 2017 and 2016 respectively.

NOTE 12 - DEFERRED TAXES

12.1 DETAIL OF DEFERRED TAX ASSETS

The origin of deferred taxes recorded as of December 31, 2017 and 2016, corresponding to the company Transmisión Del Melado SpA is detailed as follows:

Temporary Difference	Net deferred taxes	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Depreciable fixed assets	(340,807)	-
Tax Loss	375,217	-
Total deferred tax assets	**34,410**	**-**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

12.2 DETAIL OF DEFERRED TAX LIABILITIES

The origin of deferred taxes recorded as of December 31, 2017 and 2016, corresponding to the company Transelec is detailed as follows:

Temporary differences	Net deferred taxes	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Depreciable fixed assets	(127,866,573)	(103,241,185)
Financial expenses	(579,073)	(768,502)
Leased assets	(1,337,098)	(835,149)
Materials and spare parts	57,291	29,985
Tax losses	53,505,999	62,675,553
Staff severance indemnities provision	123,086	84,767
Deferred income	1,658,524	1,765,868
Investment value provision	12,955	12,955
Obsolescence provision	926,893	356,219
Work in progress	847,814	1,127,392
Vacation provisions	456,889	446,991
Intangible assets	(7,155,939)	(7,645,986)
Adjustment of effective interest rate of bonds	(2,800,614)	(3,219,282)
Land	1,399,435	1,267,668
Allowance for doubtful receivables	375,944	375,943
Tax goodwill	1,070,525	
Net deferred tax assets/(liabilities)	**(79,303,942)**	**(47,566,763)**

Reflected in the statement financial position as follows:		
Deferred tax assets	34,410	-
Deferred tax liabilities	(79,303,942)	(47,566,763)
Net deferred tax assets/(liabilities)	**(79,269,532)**	**(47,566,763)**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 December 31, 2017 and 2016 are as follows:

Deferred tax movements	Asset	Liability
	ThCh$	ThCh$
Balance as of January 1, 2016	**-**	**27,564,721**
Increase (decrease)	-	20,002,042
Balance as of December 31, 2016	**-**	**47,566,763**
Increase (decrease)	34,410	31,737,179
Balance as of December 31, 2017	**34,410**	**79,303,942**

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

NOTE 13 - FINANCIAL LIABILITIES

13.1 OTHER FINANCIAL LIABILITIES

The current and non-current portion of this account as of December 31, 2017 and 2016 is as follows:

Interest bearing loans	December 31, 2017		December 31, 2016	
	Current	Non- current	Current	Non- current
	ThCh$	ThCh$	ThCh$	ThCh$
Bonds payable	26,828,532	1,339,291,031	27,699,988	1,380,797,913
Total bonds payable	**26,828,532**	**1,339,291,031**	**27,699,988**	**1,380,797,913**
Bank loans	20,230,833	-	-	-
Swap contract (Note 15)	4,070,488	13,611,996	4,081,140	-
Other financial liabilities	-	-	44,674	2,848,079
Total obligations with banks	**24,301,321**	**13,611,996**	**4,125,814**	**2,848,079**
Total	**51,129,853**	**1,352,903,027**	**31,825,802**	**1,383,645,992**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

13.2 DETAIL OF OTHER FINANCIAL LIABILITIES

(a) Bonds payable

The obligations with the public by series, currency, effective rate and expiration as of December 31, 2017 and 2016 are shown below:

Taxpayer ID number	Debtor name	Country	Placement in Chile or abroad	Instrument registration number	Series	Indexation unit
76.555.400-4	Transelec S.A.	Chile	Chile	480	D	UF
76.555.400-4	Transelec S.A.	Chile	Chile	599	H	UF
76.555.400-4	Transelec S.A.	Chile	Chile	599	K	UF
76.555.400-4	Transelec S.A.	Chile	Chile	599	M	UF
76.555.400-4	Transelec S.A.	Chile	Chile	599	M-1	UF
76.555.400-4	Transelec S.A.	Chile	Chile	599	N	UF
76.555.400-4	Transelec S.A.	Chile	Chile	744	Q	UF
76.555.400-4	Transelec S.A.	Chile	Foreign	1st issuance	Sr N	US$
76.555.400-4	Transelec S.A.	Chile	Foreign	2nd issuance	Sr N	US$
76.555.400-4	Transelec S.A.	Chile	Foreign	3rd issuance	Sr N	US$

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh$1,537,491,944 and ThCh$1,587,229,343 as of December 31, 2017 and 2016, respectively (it does not include other current and non-current liabilities such as swap agreements which are presented in the Consolidated 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.

Nominal interest rate	Effective interest rate	Interest payments	Periodicity principal payments	Final maturity	December 31, 2017	December 31, 2016
					ThCh$	ThCh$
4.37%	4.25%	At maturity	Semiannually	12-15-2027	359,042,847	352,746,980
4.79%	4.80%	At maturity	Semiannually	08-01-2031	82,011,051	80,634,967
4.61%	4.60%	At maturity	Semiannually	09-01-2031	43,492,151	42,759,748
4.26%	4.05%	At maturity	Semiannually	06-15-2032	39,383,678	38,680,272
4.23%	4.05%	At maturity	Semiannually	06-15-2032	49,321,317	48,351,985
4.29%	3.95%	At maturity	Semiannually	12-15-2038	77,292,792	75,973,386
4.02%	3.95%	At maturity	Semiannually	10-15-2042	83,021,322	81,597,793
5.10%	4.63%	At maturity	Semiannually	07-26-2023	186,381,107	202,662,964
4.66%	4.25%	At maturity	Semiannually	01-14-2025	231,994,945	252,229,058
4.31%	3.88%	At maturity	Semiannually	01-12-2029	214,178,353	232,860,748
				Total	**1.366,119,563**	**1,408,497,901**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Debtor taxpayer ID number	Debtor Name	Instrument registration number	Current		
			Maturity less than 90 days	Maturity more than 90 days	December 31, 2017 Current
			ThCh$	ThCh$	ThCh$
76.555.400-4	Transelec S.A.	480	7,786,368	-	7,786,368
76.555.400-4	Transelec S.A.	599	1,585,286	-	1,585,286
76.555.400-4	Transelec S.A.	599	648,266	-	648,266
76.555.400-4	Transelec S.A.	599	834,173	-	834,173
76.555.400-4	Transelec S.A.	599	1,059,190	-	1,059,190
76.555.400-4	Transelec S.A.	599	1,639,123	-	1,639,123
76.555.400-4	Transelec S.A.	744	687,436	-	687,436
76.555.400-4	Transelec S.A.	1st issuance	3,814,781	-	3,814,781
76.555.400-4	Transelec S.A.	2nd issuance	4,714,641	-	4,714,641
76.555.400-4	Transelec S.A.	3rd issuance	4,059,268	-	4,059,268
		Total	**26,828,532**	**-**	**26,828,532**

Debtor taxpayer ID number	Debtor Name	Instrument registration number	Current		
			Maturity less than 90 days	Maturity more than 90 days	December 31, 2016 Current
			ThCh$	ThCh$	ThCh$
76.555.400-4	Transelec S.A.	480	-	7,649,943	7,649,943
76.555.400-4	Transelec S.A.	599	1,558,686	-	1,558,686
76.555.400-4	Transelec S.A.	599	637,349	-	637,349
76.555.400-4	Transelec S.A.	599	-	819,291	819,291
76.555.400-4	Transelec S.A.	599	-	1,040,188	1,040,188
76.555.400-4	Transelec S.A.	599	-	1,609,413	1,609,413
76.555.400-4	Transelec S.A.	744	-	675,888	675,888
76.555.400-4	Transelec S.A.	1st issuance	-	4,154,341	4,154,341
76.555.400-4	Transelec S.A.	2nd issuance	-	5,134,299	5,134,299
76.555.400-4	Transelec S.A.	3rd issuance	-	4,420,590	4,420,590
		Total	**2,196,035**	**25,503,953**	**27,699,988**

	Non-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$
	-	-	351,256,479	351,256,479
	-	-	80,425,765	80,425,765
	-	-	42,843,885	42,843,885
	-	-	38,549,505	38,549,505
	-	-	48,262,127	48,262,127
	-	-	75,653,669	75,653,669
	-	-	82,333,886	82,333,886
	-	-	182,566,326	182,566,326
	-	-	227,280,304	227,280,304
	-	-	210,119,085	210,119,085
	-	**-**	**1,339,291,031**	**1,339,291,031**

	Non-current			
	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity more than 5 years	December 31, 2016 Non-current
	ThCh$	ThCh$	ThCh$	ThCh$
	-	-	345,097,037	345,097,037
	-	-	79,076,280	79,076,280
	-	-	42,122,400	42,122,400
	-	-	37,860,981	37,860,981
	-	-	47,311,797	47,311,797
	-	-	74,363,973	74,363,973
	-	-	80,921,699	80,921,699
	-	-	198,508,623	198,508,623
	-	-	247,094,759	247,094,759
	-	-	228,440,364	228,440,364
	-	**-**	**1,380,797,913**	**1,380,797,913**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

(b) Bank loans

Bank loans by financial institution, currency, established rate and maturity as of December 31, 2017 and 2016, are detailed as follows:

Debtor Company RUT	Debtor Company Name	Country	Creditor Company RUT	Creditor Company Name	Country	Currency
76.555.400-4	Transelec S.A	Chile	97.006.000-6	Banco Crédito e Inversiones	Chile	CLP

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		
			Maturity in less than 90 days	Maturity in over 90 days	December 31, 2017 Current
			ThCh$	ThCh$	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**

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		
			Maturity in less than 90 days	Maturity in over 90 days	December 31, 2016 Current
			ThCh$	ThCh$	ThCh$
76.555.400-4	Transelec S.A	Banco Crédito e Inversiones	-	-	-
		Total	**-**	**-**	**-**

Amortization Type	Effective Annual Rate	Nominal Annual Rate	Maturity Year	December 31, 2017	December 31, 2016
				ThCh$	ThCh$
Semestral	2.77%	2.77%	2018	20,230,833	-
				Total	**20,230,833**

Non-current			
Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	December 31, 2017 Non-current
ThCh$	ThCh$	ThCh$	ThCh$
-	-	-	-
-	**-**	**-**	**-**

Non-current			
Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	December 31, 2016 Non-current
ThCh$	ThCh$	ThCh$	ThCh$
-	-	-	-
-	**-**	**-**	**-**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

(c) Other Financial Liabilities

It consisted of a loan maintained by Transelec S.A. with Transmisión Del Melado SpA for the acquisition of SE Los Hierros. As of December 31, 2017, the loan is fully paid:

Debtor Company RUT	Debtor Company Name	Country	Creditor Company RUT	Creditor Company Name	Country	Currency
99.521.950-6	Transelec Norte S.A. (Transelec S.A.)	Chile	77.277.800-7	Transmisión Del Melado SpA	Chile	US$

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		
			Maturity in less than 90 days	Maturity in over 90 days	December 31, 2017 Current
			ThCh$	ThCh$	ThCh$
99.521.950-6	Transelec Norte S.A. (Tran-selec S.A.)	Transmisión Del Melado SpA	-	-	-
		Total	**-**	**-**	**-**

Debtor Company RUT	Debtor Company Name	Creditor Company Name	Current		
			Maturity in less than 90 days	Maturity in over 90 days	December 31, 2016 Current
			ThCh$	ThCh$	ThCh$
99.521.950-6	Transelec Norte S.A. (Tran-selec S.A.)	Transmisión Del Melado SpA	10,922	33,752	44,674
		Total	**10,922**	**33,752**	**44,674**

13.3 OTHER ASPECTS

As of December 31, 2017 and 2016, 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.

Amortization type	Effective annual rate	Nominal annual rate	Maturity year	December 31, 2017	December 31, 2016
				ThCh$	ThCh$
Monthly	6.11%	6.11%	2043	-	2,892,753
			Total	**-**	**2,892,753**

Non-current			
Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	December 31, 2017 Non-current
ThCh$	ThCh$	ThCh$	ThCh$
-	-	-	-
-	**-**	**-**	**-**

Non-current			
Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity over 5 years	December 31, 2016 Non-current
ThCh$	ThCh$	ThCh$	ThCh$
97,697	109,990	2,640,392	2,848,079
97,697	**109,990**	**2,640,392**	**2,848,079**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 14 - TRADE AND OTHER PAYABLES

Trade and other payables as of December 31, 2017 and 2016, are detailed as follows:

Trade and other payables	Current		Non- current	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	ThCh$	ThCh$	ThCh$	ThCh$
Trade and other payables	54,877,542	50,337,292	-	-
Other accounts payable	1,616,823	1,823,818	-	-
Total	**56,494,365**	**52,161,110**	**-**	**-**

The average payment period for suppliers in the periods ended 2017 and 2016 was 30 days and, therefore, the fair value of these liabilities does not differ significantly from their book value.

NOTE 15 - DERIVATIVE INSTRUMENTS

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

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

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

15.1 HEDGE ASSETS AND LIABILITIES

	December 31, 2017			
	Asset		Liability	
	Current	Non - current	Current	Non - current
	ThCh$	ThCh$	ThCh$	ThCh$
Currency hedge Swap	-	-	(4,070,488)	(13,611,996)
Interest rate Swap (non-hedging)	39,170	-		
Total	**39,170**	**-**	**(4,070,488)**	**(13,611,996)**

	December 31, 2016			
	Asset		Liability	
	Current	Non - current	Current	Non - current
	ThCh$	ThCh$	ThCh$	ThCh$
	-	3,520,904	4,081,140	-
	-	**3,520,904**	**4,081,140**	**-**

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 December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

15.2 OTHER INFORMATION

The following table details Transelec's derivatives as of December 31, 2017 and 2016, including their fair values as well as their notional and contractual values by maturity:

		Maturity		
Financial derivatives	**Fair value**	**Before 1 year**	**2018**	**2019**
	ThCh$	ThCh$	ThCh$	ThCh$
Currency hedge Swap	(17,682,484)	(4,070,488)	-	-
Interest rate Swap (non-hedging)	39,170	39,170	-	-

		Maturity		
Financial derivatives	**Fair value**	**Before 1 year**	**2017**	**2018**
	ThCh$	ThCh$	ThCh$	ThCh$
Currency hedge Swap	(560,236)	(4.081.140)	-	-

The contractual notional amount of these contracts does not represent the risk assumed by Transelec as it is only in response to the basis with which derivative settlements are calculated. In the periods presented December 31, 2017 and 2016, Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

Closing Date	Start Date	Maturity Date	Currency	Notional (Asset Portion)	Floating Rate (Asset Portion)
08-07-2014	07-14-2014	01-14-2025	USD	205,000,000	0.00%
08-07-2014	07-14-2014	01-14-2025	USD	170,000,000	0.00%
08-05-2016	07-12-2016	01-12-2029	USD	80,000,000	0.00%
08-30-2016	07-12-2016	01-12-2029	USD	100,000,000	0.00%
09-02-2016	07-12-2016	01-12-2029	USD	50,000,000	0.00%
08-31-2016	07-12-2016	01-12-2029	USD	50,000,000	0.00%
01-25-2017	01-12-2017	01-12-2029	USD	70,000,000	0.00%
10-04-2017	01-31-2018	12-28-2035	USD	22,055,119	Libor 3M
10-04-2017	01-31-2018	12-28-2035	USD	22,055,119	Libor 3M
10-04-2017	01-31-2018	12-28-2035	USD	44,110,238	2.53%

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.

Maturity			December 31, 2017
2020	2021	Subsequent years	Total
ThCh$	ThCh$	ThCh$	ThCh$
-	-	(13,611,996)	(17,682,484)
-	-	-	39,170

Maturity			December 31, 2016
2019	2020	Subsequent years	Total
ThCh$	ThCh$	ThCh$	ThCh$
-	-	3,520,904	(560,236)

Frequency	Currency	Notional (Liability Portion)	Fixed Rate (Liability Portion)	Frequency
Biannual	CLP	117,670,000,000	1.980%	Biannual
Biannual	CLP	97,580,000,000	1.980%	Biannual
Biannual	CLP	52,460,000,000	1.865%	Biannual
Biannual	CLP	66,575,000,000	1.890%	Biannual
Biannual	CLP	33,775,000,000	1.820%	Biannual
Biannual	CLP	32,787,500,000	1.880%	Biannual
Biannual	CLP	45,902,500,000	1.870%	Biannual
Quarterly	USD	22,055,119	2.5230%	Quarterly
Quarterly	USD	22,055,119	2.5230%	Quarterly
Quarterly	USD	44,110,238	2.5230%	Quarterly

(Expressed in thousands of Chilean pesos (ThCh$))

15.3 FAIR VALUE HIERARCHIES

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

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

Financial instrumental measured at fair value	December 31, 2017	Fair value measured at the end of the reporting period using		
		Level 1	Level 2	Level 3
	ThCh$	ThCh$	ThCh$	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)**	**-**

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

Financial instrumental measured at fair value	December 31, 2016	Fair value measured at the end of the reporting period using		
		Level 1	Level 2	Level 3
	ThCh$	ThCh$	ThCh$	ThCh$
Financial asset (liability)				
Currency hedge Swap	(560,236)	-	(560,236)	-
Total, net	**(560,236)**	**-**	**(560,236)**	**-**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 16 - FINANCIAL INSTRUMENTS

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

December 31, 2017	Cash and cash equivalents	Loans and receivables
	ThCh$	ThCh$
Cash and cash equivalents	61,628,069	-
Other financial assets, current	-	834,163
Trade and other receivables	-	45,225,066
Other financial assets, non-current	-	24,159,795
Receivables from related parties, current	-	34,323,681
Receivables from related parties, non-current	-	190,683,003
Total	**61,628,069**	**295,225,708**

December 31, 2016	Cash and cash equivalents	Loans and receivables
	ThCh$	ThCh$
Cash and cash equivalents	54,646,538	-
Other financial assets, current	-	777,358
Trade and other receivables	-	55,684,752
Other financial assets, non-current	-	11,751,854
Receivables from related parties, current	-	11,584,175
Receivables from related parties, non-current	-	194,530,954
Total	**54,646,538**	**274,329,093**

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

December 31, 2017	Other financial liabilities	Derivatives at fair value through profit or loss	Derivatives at fair value through equity	Total
	ThCh$	ThCh$	ThCh$	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**

Derivatives at fair value through profit or loss	Derivatives at fair value through equity	Available for sale investments	Total
ThCh$	ThCh$	ThCh$	ThCh$
-	-	-	61,628,069
-	-	-	834,163
-	-	-	45,225,066
39,170	-	15,286	24,214,251
-	-	-	34,323,681
-	-	-	190,683,003
39,170	**-**	**15,286**	**356,908,233**

Derivatives at fair value through profit or loss	Derivatives at fair value through equity	Available for sale investments	Total
ThCh$	ThCh$	ThCh$	ThCh$
-	-	-	54,646,538
-	-	-	777,358
-	-	-	55,684,752
-	3,520,904	60,636	15,333,394
-	-	-	11,584,175
-	-	-	194,530,954
-	**3,520,904**	**60,636**	**332,557,171**

December 31, 2016	Other financial liabilities	Derivatives at fair value through profit or loss	Derivatives at fair value through equity	Total
	ThCh$	ThCh$	ThCh$	ThCh$
Other financial liabilities, current	31,825,802	-	-	31,825,802
Trade and other payables	51,854,947	-	-	51,854,947
Other financial liabilities, non-current	1,383,645,994	-	-	1,383,645,994
Total	**1,467,326,743**	**-**	**-**	**1,467,326,743**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 17 - PROVISIONS

17.1 DETAIL OF PROVISIONS

As of December 31, 2017 and 2016, this account is detailed as follows:

	Current		Non-current	
Detail	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
	ThCh$	ThCh$	ThCh$	ThCh$
Staff severance indemnities	189,823	5,231	4,533,592	4,533,592
Accrued vacations	1,692,184	1,655,522	-	-
Profit sharing benefits	4,735,588	4,314,711	-	-
Other provisions	205,447	205,447	-	-
Total	**6,823,042**	**6,180,911**	**4,533,592**	**4,533,592**

17.2 PROVISION MOVEMENTS

In 2017 and 2016, provision movements were the following:

Movements in provisions	Staff severance indemnities	Profit sharing benefits	Accrued vacations	Other provisions	Total
	ThCh$	ThCh$	ThCh$	ThCh$	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**

Movements in provisions	Staff severance indemnities	Profit sharing benefits	Accrued vacations	Other provisions	Total
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of January 1, 2016	**4,972,249**	**4,340,121**	**1,642,689**	**205,477**	**11,160,536**
Movements in provisions:					
Provisions during the year	473,083	5,095,352	1,270,373	-	6,838,808
Payments	(906,509)	(5,120,762)	(1,257,540)	(30)	(7,284,841)
Ending balance as of December 31, 2016	**4,538,823**	**4,314,711**	**1,655,522**	**205,447**	**10,714,503**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

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
	ThCh$	ThCh$	ThCh$	ThCh$
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**

As of December 31, 2016

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
	ThCh$	ThCh$	ThCh$	ThCh$
Staff severance indemnities	5,231	509,338	340,522	3,683,732
Accrued vacations	1,655,522	-	-	-
Profit sharing benefits	4,314,711	-	-	-
Other provisions	205,447	-	-	-
Total	**6,180,911**	**509,338**	**340,522**	**3,683,732**

Severance pay for years of service

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

Vacation accrual

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

Annual benefits

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

Other provisions

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

17.3 LAWSUITS AND ARBITRATION PROCEEDINGS

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 December 31, 2017 the Company has established a provision for these and other contingents liabilities totaling to ThCh$1,409,137 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 December 31, 2017, 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, 2288 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).

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Staff severance indemnity provision – current	189,823	5,231
Staff severance indemnity provision non – current	4,533,592	4,533,592
Total Employee benefit obligations Current and Non-current	**4,723,415**	**4,538,823**

18.2 DETAIL OF OBLIGATIONS TO EMPLOYEES

As of December 31, 2017 and 2016, this account is detailed as follows:

	Staff severance indemnity	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Present value of defined benefit plan obligations opening balance	4,538,823	4,972,249
Current service cost of defined benefit plan obligations	519,696	473,083
Liquidations obligation defined benefit plan	(335,104)	(906,509)
Present value of defined benefit obligations ending balance	**4,723,415**	**4,538,823**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

18.3 BALANCE OF OBLIGATIONS TO EMPLOYEES

	Staff severance indemnity	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Present value of defined benefit obligations, ending balance	4,723,415	4,538,823
Present obligation with defined benefit plan funds	4,723,415	4,538,823
Fair value of defined benefit plan assets, ending balance	-	-
Balance of defined benefit obligations, ending balance	**4,723,415**	**4,538,823**

18.4 EXPENSES RECOGNIZED IN INCOME STATEMENT

	Staff severance indemnity		Income statement line item where recognized
	January 1, 2017 to December 31, 2017	January 1, 2016 to December 31, 2016	
	ThCh$	ThCh$	
Current service cost of defined benefit plan	716,653	456,371	Cost of sales and Administrative expenses
Interest cost of defined benefit plan	229,941	229,941	Cost of sales and Administrative expenses
Total expense recognized in income statement	**946,594**	**686,312**	

18.5 ACTUARIAL HYPOTHESIS

Detail	December 31, 2017	December 31, 2016
	ThCh$	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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

18.6 SENSITIVITY ANALYSIS

The following chart shows the sensitivity analysis of the significant hypotheses as of December 30, 2017:

	Discount rate used		Inflation rate		Future salary increase	
Level of Sensitivity	**Increase 1%**	**Decrease 1%**	**Increase 1%**	**Decrease 1%**	**Increase 1%**	**Decrease 1%**
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Impact on current and non-current of employment benefit obligation	(317,300)	354,081	4,988	(4,994)	322,132	(294,029)

To evaluate impact, the sensitivity analysis has been determined based on the extrapolation method obtaining reasonable results in terms of the changes in the significant hypotheses used as of December 31, 2017.

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

	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
During the upcoming 12 month	189,823	5,231
Between 1 to 5 years	852,772	849,860
Between 5 to 10 years	1,692,823	1,722,186
More than 10 years	1,987,997	1,961,546
Total Payments Expected	**4,723,415**	**4,538,823**

NOTE 19 - EQUITY

19.1 SUBSCRIBED AND PAID CAPITAL

As of December 31, 2017 and 2016 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
	ThCh$	ThCh$	
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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

19.3 DIVIDENDS

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

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

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

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

On April 27, 2017, the company's Ordinary Shareholders' Meeting was held, where it was agreed to distribute a definitive dividend for 2016 for a total of ThCh$19,757,324 which shall be paid as of May 23, 2017, to shareholders listed in the respective registry on May 17, 2017. As of December 31, 2017, this dividend has been fully paid.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

19.4 OTHER RESERVES

Other reserves as of December 31, 2017 and December 31, 2016 are detailed as follows:

Description	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Net investment hedge	2,545,569	4,515,376
Cash flow hedge (Exchange rate)	(14,042,004)	(36,456,378)
Actuarial calculation exchange differences	(431,169)	(431,169)
Deferred taxes	3,220,453	8,740,486
Total	**(8,707,151)**	**(23,631,685)**

The Movement and reclassifications of other comprehensive income for the period 2017 are presented below:

	Foreign translation reserve	Cash flow hedges reserve	Other Reserves	Total
	ThCh$	ThCh$	ThCh$	ThCh$
Opening balance as of January 1, 2017	**3,296,224**	**(26,613,155)**	**(314,754)**	**(23,631,685)**
Translation adjustment	(1,969,806)	22,414,373	-	20,444,567
Deferred tax	531,848	(6,051,881)	-	(5,520,033)
Closing balance as of December 30, 2017	**1,858,266**	**(10,250,663)**	**(314,754)**	**(8,707,151)**

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$401,972,100 as of December 31, 2017. As that term is defined in the respective prospectuses of local bond series C, D, H, K, M and N.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

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

The following tables present – as of December 31, 2017 and 2016 - the calculation of the two covenants mentioned above and also a calculation of a third ratio that the Company has to comply, which does not depend on capital (equity) amount.

Covenant 1	Total debt / Total capitalization ratio Lower or equal to 0.70	December 31, 2017	December 31, 2016
		ThCh$	ThCh$
A	Other financial liabilities, current	51,130	31,826
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,352,903	1,383,646
D	Payables to related parties, non-current	-	-
E=A+B+C+D	**Covenants debt**	**1,404,033**	**1,415,472**
G	Debt with guarantees (1)	-	-
DT=E+G	**Total debt**	**1,404,033**	**1,415,472**
H	Non-controlling interest	-	-
P	Equity attributable to owners of the parent	786,360	772,481
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
CT=DT+H+I+P	**Total capitalization**	**2,215,363**	**2,212,923**
DT/CT	**Total debt / Total capitalization ratio**	**0.63**	**0.64**

Covenant 2	Minimum equity Greater than or equal to UF 15 million/ Greater or equal to MMCh$ 350,000	December 31, 2017	December 31, 2016
		ThCh$	ThCh$
P	Equity attributable to owners of the parent	786,360	772,481
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
P+I	**Equity (in ThCh$)**	**811,330**	**797,451**
UF	UF value	26,798.14	26,347.98
(I+P)/UF	**Equity (in UF millions)**	**30.28**	**30.27**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Covenant 3	Restricted payments test Funds from operations (FNO) / Financial costs > 1.5	December 31, 2017	December 31, 2016
		ThCh$	ThCh$
FO	Cash flow from operations	187,507	187,466
CF	Financial costs	69,326	65,459
IG	Income tax expense	25,029	26,998
FNO=FO+CF+IG	**Funds from operations**	**281,862**	**279,923**
FNO/CF	**Funds from operations / Financial costs**	**4.07**	**4.28**

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.

Covenant 4	Total debt / Adjusted EBITDA Lower or equal to 0.70	December 31, 2017	December 31, 2016
		ThCh$	ThCh$
A	Other financial liabilities, current	51,130	31,826
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,352,903	1,383,646
D	Payables to related parties, non-current	-	-
E=A+B+C+D	**Covenants debt**	**1,404,033**	**1,415,472**
F	Debt with guarantees	-	-
G=E+F	**Total debt**	**1,404,033**	**1,415,472**
H	Cash and cash equivalents	(61,628)	(54,647)
DN=G-H	**Net debt**	**1,342,405**	**1,360,825**
I	Operating revenues	278,599	281,715
J	Cost of sales	(83,319)	(77,682)
K	Administrative expenses	(22,953)	(22,591)
L	Depreciation and amortization	55,379	52,537
N	Other gains	3,555	4,518
O	Finance lease amortization	1,120	860
EA=I+J+K+L+N+O	**Adjusted EBITDA**	**232,381**	**239,357**
(I+P)/UF	**Net debt /Adjusted EBITDA**	**5.78**	**5.69**

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 20 - REVENUE

20.1 REVENUE

The following table details revenue for the years ended December 31, 2017 and 2016:

Revenue	For the years ended	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Revenues from regulated transmission services	192,984,656	158,061,935
Revenues from contractual transmission services	81,724,870	123,154,533
Leases revenue	3,889,558	498,214
Total revenues	**278,599,084**	**281,714,682**

20.2 OTHER OPERATING INCOME

The following table details revenue for the years ended December 31, 2017 and 2016:

Other operating income	For the years ended	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Financial income (Note 21,4)	9,138,490	9,609,705
Other gains (losses), net	3,555,416	4,518,184
Total other operating income	**12,693,906**	**14,127,889**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 December 31, 2017 and 2016:

Detail	For the years ended December 31, 2017	For the years ended December 31, 2016
	ThCh$	ThCh$
Personnel expenses	20,654,850	19,193,812
Operating expenses	18,884,715	18,845,429
Maintenance expenses	7,002,323	6,026,406
Depreciation and write-offs	55,379,282	52,536,885
Other	4,350,438	3,670,526
Total	**106,271,608**	**100,273,058**

21.2 PERSONNEL EXPENSES

As of December 31, 2017 and 2016, this account is detailed as follows:

Detail	For the years ended December 31, 2017	For the years ended December 31, 2016
	ThCh$	ThCh$
Salaries and wages	18,275,297	17,170,946
Short-term employee benefits	991,784	1,136,448
Staff severance indemnity	946,594	686,312
Other long-term benefits	1,191,934	1,163,221
Other personnel expenses	7,726,281	6,789,190
Expenses capitalized on construction in progress	(8,477,040)	(7,752,305)
Total	**20,654,850**	**19,193,812**

21.3 DEPRECIATION AND AMORTIZATION

The following table details depreciation and amortization for the years ended December 31, 2017 and 2016:

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Detail	For the years ended December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Depreciation	47,434,329	46,614,865
Amortization	1,871,187	1,165,911
Losses from damages [1]	6,073,766	4,756,109
Total	**55,379,282**	**52,536,885**

[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 December 31, 2017 and 2016 is detailed as follows:

Detail	For the years ended December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Financial income:	**9,138,490**	**9,609,705**
Commercial interest earned	8,730	133,111
Bank interest earned	1,091,510	9,476,594
Interest earned from related parties	8,038,250	-
Financial expenses:	**(69,326,217)**	**(65,458,658)**
Interest on bonds	(57,566,360)	(57,924,119)
Commercial interest incurred	(130,891)	(189,476)
Interest rate Swap	(9,428,636)	(6,401,535)
Interest paid to related parties	(250,295)	-
Other expenses	(1,950,035)	(943,528)
Gain (loss) from indexation of UF	**(12,278,843)**	**(22,687,347)**
Foreign exchange gains (losses), net	**(138,355)**	**557,923**
Positive	**56,113,596**	**26,381,356**
Obligations with public	55,788,298	23,132,831
Banks – Capital Market	89,530	2,544,444
Accounts payable	108,182	588,625
Other	127,586	115,456
Negative	**(56,251,951)**	**(25,823,433)**
Swaps	(38,909,414)	(11,611,367)
Bank – Capitals Market	(825,039)	(1,733,593)
Receivables from related parties	(14,833,729)	(11,475,106)
Other	**(1,683,769)**	**(1,003,367)**
Total financial result, net	**(72,604,925)**	**(77,978,377)**

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 22 - INCOME TAX RESULT

Income tax expense (income)	Balance as of	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Current tax expense	162,101	243,435
Current tax expense, net, total	**162,101**	**243,435**
Deferred tax expense relating to origination and reversal of temporary differences	24,866,853	26,754,671
Deferred tax expense, net, total	**24,866,853**	**26,754,671**
Effect of change in tax situation of the entity or its shareholders	-	-
Income tax expense	**25,028,954**	**26,998,106**

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 December 31, 2017 and 2016:

Reconciliation of Tax Expense Using Statutory Rate with Tax Expense	Balance as of	
	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Tax expense at statutory rate	**(26,335,881)**	**(25,915,543)**
Price level restatement of equity	275,915	1,167,093
Correction of opening balance tax loss	500,197	-
Change in income tax rate, Tax Reform Law 20,780	(1,449,971)	(3,432,563)
Incorporation of Assets and Liabilities from TDM Acquisition	(331,394)	-
Price level restatement, tax loss	1,134,182	-
Tax Goodwill Correction	1,070,525	-
Other increase (decrease)	107,473	1,182,907
Total adjustments to tax expense using statutory rate	**1,306,927**	**(1,082,563)**
Tax Expense at effective Rate	**(25,028,954)**	**(26,998,106)**
	December 31, 2017	**December 31, 2016**
Statutory Tax Rate	**25.50%**	**24.00%**
Price level restatement of equity	(0.27%)	(1.08%)
Correction of opening balance tax loss	(0.48%)	-
Change in income tax rate, Tax Reform Law 20.780	1.40%	3.18%
Incorporation of Assets and Liabilities from TDM Acquisition	0.32%	-
Price level restatement, tax loss	(1.10%)	-
Tax Goodwill Correction	(1.04%)	-
Other increase (decrease)	(0.10%)	(1.10%)
Adjustments to Statutory Tax Rate, Total	**(1.27%)**	**1.00%**
Effective Tax Rate	**24.23%**	**25.00%**

(Expressed in thousands of Chilean pesos (ThCh$))

The tax rate used for the periods 2017 and 2016 reconciliations corresponds to 25.5% and 24%, a corporate tax rate that entities should pay on taxable profits based on current tax regulations.

Tax Reform Chile

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

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

NOTE 23 - EARNINGS PER SHARE

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

Basic Earnings per Share	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Profit attributable to equity holders of parent (ThCh$)	78,249,013	80,983,325
Earnings available to common shareholders, basic (ThCh$)	**78,249,013**	**80,983,325**
Total basic shares	1,000,000	1,000,000
Basic earnings per share (Ch$)	**78,249**	**80,983**

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

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

Information about products and services	December 31, 2017	December 31, 2016
	ThCh$	ThCh$
Revenues from regulated transmission services	192,984,656	158,061,935
Revenues from contractual transmission services and others	85,614,428	123,652,747
Total revenues	**278,599,084**	**281,714,682**

Information about sales and principal customers

The Company has three clients that each represent more than 10% of the total revenue as of December 31, 2017. The amount of revenue recognized for those clients in 2017 is ThCh$112,480,878, ThCh$49,706,030 and ThCh$43,930,396, respectively. As of December 31, 2016, 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 2016 was ThCh$128,777,350, ThCh$47,391,221 and ThCh$46,006,592, respectively.

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

As of December 31, 2017, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh$25,354,104 (ThCh$32,735,703 as of December 31, 2016).

NOTE 26 - DISTRIBUTION OF PERSONNEL

As of December 31, 2017 and 2016, personnel employed by Transelec S.A. are detailed as follows:

	December 31, 2017				
	Manager and Executives	Professionals and technical personnel	Other employees	Total	Average of the year
Total	**15**	**382**	**132**	**529**	**522.8**

	December 31, 2016				
	Manager and Executives	Professionals and technical personnel	Other employees	Total	Average of the year
Total	**15**	**364**	**130**	**509**	**499.2**

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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 for the years ended December 31, 2017 and 2016, the Company has made the following environmental disbursements::

Company making disbursement	Project	December 31, 2017	December 31, 2016
		ThCh$	ThCh$
Transelec S.A.	Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors)	2,403,013	911,717
Total		**2,403,013**	**911,717**

NOTE 28 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY

a) Current assets and liabilities

Current Assets	Foreign Currency	Functional Currency	December 31, 2017		December 31, 2016	
			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$	15,888,701	-	12,852,827	-
	Other Currency	CH$	28,717	-	12,871	-

Current Liabilities	Foreign Currency	Functional Currency	December 31, 2017		December 31, 2016	
			Maturity less than 90 days	Maturity more than 91 to 1 year	Maturity less than 90 days	Maturity more than 91 to 1 year
			ThCh$	ThCh$	ThCh$	ThCh$
Other financial liabilities, current	Dollars	CH$	4,031,317	13,611,996	4,092,062	13,742,982

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016

(Expressed in thousands of Chilean pesos (ThCh$))

(Translation of financial statements originally issued in Spanish-See Note 2.1)

b) Non-Current assets and liabilities

Non-Current Liabilities	Foreign Currency	Functional Currency	31 de diciembre de 2017 Más de 1 a 3 años	31 de diciembre de 2017 Más de 3 a 5 años	31 de diciembre de 2017 Más de 5 años	31 de diciembre de 2016 Más de 1 a 3 años	31 de diciembre de 2016 Más de 3 a 5 años	31 de diciembre de 2016 Más de 5 años
			M$	M$		M$	M$	
Other financial liabilities, non-current	Dollars	CH$	-	-	619,965,715	97,697	109,990	676,684,140
	Other Currency	CH$	-	-	-	-	-	-
Other liabilities, non-current	Dollars	CH$	-	-	-	-	-	-
	Otras monedas	CH$	-	-	-	-	-	-
Non-current provisions for employee benefits	Dollars	CH$	-	-	-	-	-	-
	Otras monedas	CH$	-	-	-	-	-	-

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements As of December 31, 2017 and December 31, 2016
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 29 - BUSINESS COMBINATION

Purchase of Transmisión Del Melado SpA

On March 31, 2017, 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 March 15 the ownership sale transaction for the 27.7% of BIP Holdings II Limited as indirect partner of Transelec S.A. to Coron Investments, S.L.U ("CSGI") has been materialized. In this regard, CSGI is the new indirect shareholder of the Company

Between December 31, 2017, closing date of these consolidated financial statements and the date of issuance, there have been no significant financial and accounting events that may affect the equity of the Company or the interpretation of these financial statements.

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

TRANSELEC S.A.

Santiago, Chile
31 de diciembre de 2017 y 2016

SUMMARY

As of December 31, 2017, Revenues reached MCh$278,599, showing a decrease of 1.1% compared to the same period of 2016 (MCh$281,715). The decrease of Revenues in 2017 are mainly explained due to an extraordinary revenue associated to the renegotiation of long term contracts with Enel Group in 2016. Without considering this extraordinary item, Revenues as of December 2017 would have been 3.0% higher than in 2016, mainly explained by new commissioned projects.

The loss in Non-Operating Income as of December 31, 2017 was MCh$69,050, representing a decrease of 6.0% compared to the same period of 2016 (MCh$73,460). The two main items that explain this decrease are lower losses for indexed assets and liabilities of MCh$10,408, which mostly measures the inflation impact on the UF denominated debt of the Company, partially offset by higher Financial Costs of MCh$3,867. Another highlight is the minimal impact in the Foreign Exchange Differences due to the application of the company's exchange rate flows risk coverage policy.

Net Income recorded by the Company as of December 31, 2017 was MCh$78,249, which is 3.4% lower compared to the same period of 2016 (MCh$80,983). This decrease is mainly explained by the Revenues effect explained above and to a lesser extent by higher Costs partly offset to a lower loss in the Non-Operating Income and lower Income Taxes.

During 2017, Transelec obtained an EBITDA[1] of MCh$232,382, a 2.9% lower than the obtained in the same period of 2016 (MCh$239,357), with an EBITDA Margin[2] of 83.4%. The EBITDA decrease is mainly explained by the Revenues effect explained before and higher Costs of Sales. If we do not consider the agreements renegotiation with Enel, Transelec EBITDA would be 1.8% higher than in 2016.

In 2017, the company incorporated US$142.2 million of new facilities, related to the commissioning of nine National system upgrade projects, three Zonal system project, three dedicated projects, and the acquisition of Don Héctor Substation and the company Transmisión del Melado SpA.

RELEVANT EVENTS OF THE PERIOD:

- On March 31, 2017 Transelec acquired 100% of shares of the company Transmisión del Melado SpA, which is now a subsidiary of Transelec. The operation of Transmisión del Melado started on the second quarter of 2017. Therefore, Financial Statements are consolidated.

- On May 30, 2017 Transelec did its first Investor Day, where the company met investors, banks and rating agencies as part of policy to maintain permanent contact with the company investors. Within the same initiative Transelec held a number of meetings with international investors in June.

- On July's first week, the Transmisión del Melado long-term debt was prepaid for an approximate amount of US$ 15 million.

- On August 03, 2017 Transelec subscribe a Promissory Note with Banco BCI for an amount of MCh$20,000, with a 2.77% interest rate and maturity on August 03, 2018. The funds were primary used to cover the prepayment of Transmisión del Melado made the previous month.

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

[2] EBITDA Margin= EBITDA/Revenues

- On August 03, 2017 Transelec renegotiated its Revolving Credit Facility for 3 more years. The total amount was maintained in approximately US$250 million and some improvements were achivied, for example a local tranche of UF$2.5 million.

- Between August and October, Transelec transfer to Transelec Concesiones the construction of "2x500 KV Pichirropulli – Nueva Puerto Montt", "Nueva Charrúa" and "Los Changos – Nueva Crucero Encuentro" projects. Transelec started the development of the projects but Transelec Concesiones S.A. was the successful bidder.

- On September 14, 2017 Transelec acquired Don Héctor Substation from Total SunPower for UD$17.9 million.

- In December, Brookfield Asset Management reported that has signed a share purchase agreement with China Southern Power Grid International, which would take place in 2018.

- During 2017, international risk rating agencies Moody's, Fitch Ratings, and Standard & Poor's affirmed Transelec's ratings in Baa1, BBB and BBB, respectively. The same was done by the local risk rating agencies Feller, Humphreys and Fitch Ratings, maintaining all classifications in AA-. Additionally, Humphreys changed Transelec outlook from Stable to Positive (the other two local agencies kept it in Stable).

- In 2017, Transelec paid to their shareholders the following distributions:
  - MCh$19,757 as 2016's final dividend distributed on May 23, 2017.
  - MCh$19,222 as the 2017 first interim dividend distributed on June 15, 2017.
  - MCh$17,816 as the 2017 second interim dividend distributed on September 27, 2017.
  - MCh$22,499 as the 2017 third interim dividend distributed on December 22. 2017.

1. ANÁLISIS DEL RESULTADO

Items	December 2017 MCh$	December 2016 MCh$	Variation 2017/2016 MCh$	Variation 2017/2016 %
Revenues	**278.599**	**281.715**	**-3.116**	**-1,1%**
Toll sales	271.771	276.865	-5.094	-1,8%
Services	6.828	4.850	1.978	40,8%
Operation Costs and Expenses	**-106.272**	**-100.273**	**-5.999**	**-6,0%**
Sales Costs	-31.513	-27.440	-4.073	-14,8%
Administrative Expenses	-19.380	-20.296	916	4,5%
Depreciation	-55.379	-52.537	-2.842	-5,4%
Operating Income	**172.327**	**181.442**	**-9.115**	**-5,0%**
Financial Income	9.138	9.610	-472	-4,9%
Financial Costs	-69.326	-65.459	-3.867	-5,9%
Foreign exchange differences	-138	558	-696	N/A
Gain (loss) for indexed assets and liabilities	-12.279	-22.687	10.408	45,9%
Other income (Losses)	3.555	4.518	-963	-21,3%
Non-Operating Income	**-69.050**	**-73.460**	**4.410**	**6,0%**
Income before Taxes	**103.278**	**107.982**	**-4.704**	**-4,4%**
Income Tax	-25.029	-26.998	1.969	7,3%
Net Income	**78.249**	**80.983**	**-2.734**	**-3,4%**
EBITDA[1]	**232.382**	**239.357**	**-6.975**	**-2,9%**
EBITDA MARGIN[2]	**83,4%**	**85,0%**		

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

[2] EBITDA Margin= EBITDA/Revenues

(a) Operating Income

As of December 31, 2017, Revenues reached MCh$278,599 decreasing by 1.1% over the same period of 2016 (MCh$281,715). The decrease is mainly explained due to the Enel agreements renegotiation in 2016, without considering this extraordinary item, Revenues as of December 2017 would be 3.0% higher than the same period of 2016. A portion of Revenues has been reclassified between Toll sales and Services accounting wise changing the results presented in 2016. Considering this reclassification in both periods, the decrease in Revenues is mainly explained by lower income from Toll Sales, which as of December 31, 2017 reached MCh$271,771, a 1.8% lower than that obtained in the same period of 2016 (MCh$276,865). Services Revenues reached MCh$6,828 as of December 31, 2017, a40.8% higher than 2016 (MCh$4,850), mainly explained by an extraordinary service to a related company (also presented as cost).

The decrease in Toll Sales is explained by MCh$7,200 of lower income associated to the National segment partially offset by an increase of MCh$1,675 in the Zonal segment and an increase of MCh$431 in the Dedicated segment.

As a whole, the lower Revenues are mainly explained due to the renegotiation agreements with Enel previously mentioned which meant MCh$11,134 of higher revenues in 2016. If we do not consider that effect, Toll Sales as of December 31, 2017 would be MCh$8,018 higher than the obtained as of December 31, 2016 and the rise is explained by new revenues in 2017 due to the commissioning of new projects between 2016 and 2017 for MCh$10,020, higher income associated to indexation in the Zonal System by MCh$2,525 and an extraordinary income of MCh$1,599 of services to a related company (also presented as cost). This was partially offset by the maturity of transmission agreements with Enel that became regulated by MCh$5,278 and lower macroeconomic effects of MCh$1,026.

Total Transelec Operational Costs and Expenses as of December 31, 2017 were MCh$106,272, a 6.0% higher than the comparison period in 2016 that reached MCh$100,273. Operational Costs and Expenses presented an account reclassification affecting the exposed in 2016. Total costs are composed by the following main items.

Cost of sales during the analysis period totaled MCh$31,513, a 14.8% higher than the same period of 2016 (MCh$27,440). The increase is mainly explained by higher costs of personnel, maintenance associated to vegetation control, an extraordinary maintenance service to a related company (also presented as income), higher payments associated to the coordinator functioning and also project studies.

Administrative Expenses amounted MCh$19,380 in December 2017, 4.5% lower than those obtained in the same period in 2016 (MCh$20,296). The decrease is mainly due to payment of a performance bond related to Nogales – Polpaico project in 2016.

Total Depreciation (considering Costs and Expenses) as of December 31, 2017 is 5.4% higher than the same period in 2016. The increase is mainly by new commissioning which is partly offset by the end of a number of assets' useful life in 2016, which meant a lower depreciation in 2017.

(b) Non-Operating Income

The Non-Operating Income of the twelve months of 2017 was a loss of MCh$69,050, a 6.0% lower than the same period of 2016 (MCh$73,460), mainly explained by lower Losses for Indexed Assets and Liabilities partly offset by higher Financial Costs.

Losses for Indexed Assets and Liabilities were MCh$12,279 in December 2017, a 45.9% lower than the same period of 2016 (MCh$22,687). This is mostly explained due to the maturity and payment of the Local Series C Bond (UF 6 million) in September, 2016, which decreased the UF company debt, and on the other hand the readjustment of local UF bonds due to inflation. In 2017 this variation corresponds to 1.71% compared with a 2.80% for the same period of 2016, due to higher inflation in that period.

Financial Costs recorded as of December 2017 amounted MCh$69,326, a 5.9% higher than the same period of 2016 (MCh$65,459). This increase is mainly explained higher debt because the new issuance in July 2016 was higher than the maturity of September 2016. Specifically, the main items that explained higher Financial Costs are, (i) higher USD interests paid of MCh$4,200 due to the accrued interest for the new dollar debt issuance in July partly offset by the effect of a 4.15% appreciation of the Chilean peso (average exchange rate between periods), (ii) higher interests paid due to Swap agreements of MCh$3,027, mainly due to the new bond hedge, and (iii) lower interests paid due to UF bonds of MCh$3,490 associated to lower UF debt (due to the Series C payment), partly offset with the effect of the UF variation of 2.11% average between both years.

Other Income as of December, 2017 were MCh$3,555, a 21.3% lower than the same period of 2016 (MCh$4,518). The difference is mainly because in 2016 a fire insurance payment due to the accident occurred in Pan de Azúcar Substation was registered.

Foreign Exchange Differences as of December, 2017 resulted a loss of MCh$138, maintained at minimum levels as a result of the foreign currency hedge policy.

Financial Income as of December, 2017 amounted MCh$9,138, a 4.9% lower than the same period of 2016 (MCh$9,610). The decrease is mainly explained by higher interests earned in 2016 associated to higher cash stock. International debt was issued approximately two months before than the Series C payment.

(c) Income tax

The Income Tax as of December 31, 2017 were MCh$125,029, decreasing by 7.3% compared to the same period of 2016 (MCh$26,998). This decrease is mainly explained by lower profits before taxes of 4.4% and the consolidation with Transmisión del Melado, company that shows financial losses in it´s Income Statement.

2. BALANCE SHEET ANALYSIS

Items	**December** 2017 MCh$	**December** 2016 MCh$	**Variation** 2017/2016 MCh$	**Variation** 2017/2016 %
Current assets	145.800	124.719	21.081	16,9%
Non-current assets	2.199.835	2.182.103	17.732	0,8%
Total Assets	**2.345.635**	**2.306.822**	**38.813**	**1,7%**
Current liabilities	116.590	92.253	24.337	26,4%
Non current liabilities	1.442.685	1.442.089	596	0,0%
Equity	786.360	772.481	13.879	1,8%
Total Liabilities & Equity	**2.345.635**	**2.306.822**	**38.813**	**1,7%**

The increase in Assets between December 2016 and December 2017 is explained by an increase in Current Assets and in Non-Current Assets. The increase in Current Assets is mostly explained due to higher short term accounts receivable from related parties and higher cash and cash equivalent, partially offset by lower commercial short term accounts receivable. The increase in Non-Current assets is mainly explained by an increase in property, plant and equipment due to the acquisition of Transmisión del Melado SpA, Don Héctor Substation and the commissioning of other projects and to a lesser extent due to higher financial assets.

The increase in Total Liabilities and Equity as of December 31, 2017 is due to an increase in Current Liabilities, Equity and to a lesser extent to Non-Current Liabilities. The increase in Current Liabilities is explained by higher financial liabilities associated to the Promissory Note agreement with BCI and higher commercial short term accounts payable. The increase in Equity is explained due to lower negative balance in Other Reserves partly offset due to lower Accumulated Earnings. Higher Non-Current Liabilities are explained by higher liabilities for deferred taxed offset almost totally by lower long term financial liabilities, both effects associated to Transmisión del Melado SpA acquisition.

Value of the Main Pp&E in Operation

Assets	December 2017 MCh$	December 2016 MCh$	Variation 2017/2016 MCh$	Variation 2017/2016 %
Land	20.696	20.625	71	0,3%
Building, Infraestucture, works in progress	1.160.963	1.118.249	42.714	3,8%
Work in progress	92.667	107.900	-15.233	-14,1%
Machinery and equipment	643.509	610.065	33.444	5,5%
Other fixed assets	5.843	5.736	107	1,9%
Depreciation (less)	-467.409	-421.337	-46.072	-10,9%
Total	**1.456.268**	**1.441.237**	**15.031**	**1,0%**

Current Debt

					Amount in original currency (million) (unpaid capital)	
Debt	Currency or index	Interest rate	Type of rate	Maturity Date	December 2017	December 2016
Series D bond	UF	4,25%	Fixed	15-Dec-27	13,50	13,50
Series H bond	UF	4,80%	Fixed	01-Aug-31	3,00	3,00
Series K bond	UF	4,60%	Fixed	01-Sep-31	1,60	1,60
Series M bond	UF	4,05%	Fixed	15-Jun-32	3,40	3,40
Series N bond	UF	3,95%	Fixed	15-Dec-38	3,00	3,00
Series Q bond	UF	3,95%	Fixed	15-Oct-42	3,10	3,10
Series Senior Notes bond @2023	USD	4,625%	Fixed	26-Jul-23	300,00	300,00
Series Senior Notes bond @2025	USD	4,25%	Fixed	14-Jan-25	375,00	375,00
Series Senior Notes bond @2029	USD	3,875%	Fixed	12-Jan-29	350,00	350,00
Revolving Credit Facility1	USD	2,94%	Floating	03-Aug-20	-	-
Revolving Credit Facility1	UF	1,43%	Fixed	03-Aug-20	-	-
Local Promissory Note	CLP	2,77%	Fixed	03-Aug-18	20,00	-

[1] Revolving Credit Facility: USD Tranche MM US$150: The floating rate of 2.94% breaks down in 3 months Libor rate plus a margin of 1.25%. At December 31, 2017, the Company did not utilize this line therefore does not pay interest of 2.94% 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 1.18% breaks down in TAB UF 180 rate plus a margin of 0.25%. At December 31, 2017, the Company did not utilize this line therefore does not pay interest of 1.18% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

Although increases in inflation may have an impact on the costs of debt denominated in UF and therefore on the Company's finance expenses, these impacts are slightly lessened by accounts receivable denominated in UF.

3. CASH FLOWS ANALYSIS

Items	December 2017 MCh$	December 2016 MCh$	Variation 2017/2016 MCh$	Variation 2017/2016 %
Cash flows provided by (used in) operating activities	187.507	187.466	41	0,0%
Cash flows provided by (used in) investing activities	-111.028	-129.485	18.457	14,3%
Cash flows provided by (used in) financing activities	-69.498	-27.492	-42.006	-152,8%
Net increase (decrease) of cash and cash equivalent	**6.982**	**30.490**	**-23.508**	**-77,1%**
Cash and cash equivalent at the begining of the period	54.647	24.157	30.490	126,2%
Cash and cash equivalent at the end of the period	**61.628**	**54.647**	**6.981**	**12,8%**

As of December 31, 2017, cash flows provided by operating activities reached MCh$187,507, which maintain stable in comparison with the same period of 2016 (MCh$187,466).

During the same period, cash flow used in investing activities reached MCh$111,028, a 14.3% lower than in the same period of 2016 (MCh$129,485). The decrease is mainly explained by the transfer to Transelec Concesiones of the construction of "2x500 KV Pichirropulli – Nueva Puerto Montt", "Nueva Charrúa" and "Los Changos – Nueva Crucero Encuentro" projects. This is partially offset by higher net loan to related entities of MCh$27,094, higher cash flow used in purchases of property, plant and equipment of MCh$8,919 and MCh$6,407 associated to the acquisition of Transmisión del Melado SpA.

As of December 2017, the cash flow used in financing activities reached MCh$69,498 a 126.2% higher than the comparison period in 2016 (MCh$27,492). As of December 2016 the mainly cash flows are the debt issuance of MCh$226,979, the Series C payment of MCh$163,225 and dividends payment of MCh$80,894. As of December 2017 the manly cash flows are MCh$20,000 associated to the Local Promissory Note with Banco BCI, the prepayment of Transmisión del Melado long term debt of MCh$10,203 and dividends payment of MCh$79,294.

In addition, the Company has secured the following fully available committed credit line to ensure funds are immediately available to cover working capital needs which was recently renegotiated:

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	Agreement	Limit	December 2017	December 2016
Capitalization Ratio[1]	All local Bonds	< 0.70	0,63	0,64
Shareholder's Equity[1] MMUF	D, H, K, M and N local Bonds	> 15.00	30,28	30,27
Shareholder's Equity[1] MCh$	Q local Bond and Revolving Credit Facility	> 350,000	811.330	797.451
Net Debt/Ebitda	Revolving Credit Facility	<= 7,0x	5,78	5,69

Test	Bonds	Limit	December 2017	December 2016
Distribution Test[2] FNO[3]/Financial Expenses	D, H, K, M and N local Series	> 1.50	4,07	4,28

[1] Equity= Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and December 31, 2017 amounted to MCh$24.970.

[2]Test to distribute restricted payments such as dividends.

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

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

Ratios		December 2017	December 2016	Variation 2017/2016
Profitability[1]				
Shareholders' Equity profitability[2]	(%)	10,0%	10,5%	-50 pbs
Assets profitability[3]	(%)	3,3%	3,5%	-20 pbs
Operating assets profitability[4]	(%)	5,4%	5,6%	-20 pbs
Earnings per share[5]	($)	78.249	80.983	-3,4%
Liquidity & Indebtedness				
Current Ratio	(times)	1,25	1,35	-7,4%
Acid-Test Ratio	(times)	1,25	1,35	-7,4%
Debt to Equity	(times)	1,98	1,99	-0,5%
Short term debt/Total debt	(%)	7,5%	6,0%	150 pbs
Log term debt/Total debt	(%)	92,5%	94,0%	-150 pbs
Financial expenses coverage	(times)	3,35	3,66	-8,5%

[1] Profitability ratios are presented under last twelve months criteria.

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

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

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

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

5. THE TRANSMISSION MARKET

5.1 THE TRANSMISSION ACTIVITY AND ITS REGULATION

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

The transmission system of Transelec which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' Region, encompasses the majority of the national transmission lines and substations in the Central Interconnected System (SIC) and the Great North Interconnected System (SING). This transmission system transports the electricity that supplies approximately 98.5% of Chile's population. The Company owns the 66% of all of the 500 kV electricity transport lines, 39% of the 220 kV lines, 83% of the 154 kV lines and 10% of the 110kV and 66kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL No. 1/82) and its subsequent modifications, including Law 19,940 ('Ley Corta I') published on March 13, 2004, and the recently published, Law 20.936 issued on July 20, 2016, which stablishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explodes and operates transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

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

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

5.2 VALUATION AND PRICING OF FACILITIES

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

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

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

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

In relation to the Zonal transmission system facilities (previously subtransmission), on April 9, 2013, the Supreme Decree No. 14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014. The difference between invoiced amounts using these provisional tariffs since January 2011 until the publishing date of this decree were reassessed by the CDEC based on the difference between the provisional tariff and the definitive values established by Decree No. 14. According to what is indicated in the transitory third article of Law 20,805 published on January 29, 2015, and to what is established in the Decree No. 7T of April 22, 2015, the validity of the Decree No. 121/2010, which fixes the tariffs of subtransmission facilities, and of the Exempt Decree No. 14/2013, which fixes the qualification of subtransmission facilities, is extended until December 31, 2015.

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

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

6. MARKET RISK FACTORS

Due to the nature of the electrical market and the legislation and standards that regulate this sector, 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 stablishes 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 stablishing 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 introduce in Law 19,300 and Decree 40/2012 as result of the report.

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

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

6.4 DELAYS IN THE CONSTRUCTION OF NEW TRANSMISSION FACILITIES

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

6.5 TECHNOLOGICAL CHANGES

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

6.6 FOREIGN EXCHANGE RISK

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

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

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

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

	December 2017		December 2016	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	637.899	632.905	689.947	691.075
Chilean peso	1.704.719	1.709.713	1.616.432	1.615.304

EXCHANGE RATES (Observed exchange rates)

Month	Average 2017 ($)	Last Day 2017 ($)	Average 2016 ($)	Last Day 2016 ($)
January	661,19	646,19	721,95	711,72
February	643,21	648,88	704,08	689,18
March	661,20	663,97	682,07	675,10
April	655,74	665,41	669,93	663,40
May	671,54	672,35	681,87	690,27
June	665,15	664,29	681,07	661,49
July	658,17	652,23	657,57	664,94
August	644,24	628,89	658,89	673,17
September	625,54	637,93	668,63	659,08
October	629,55	636,80	663,92	651,65
November	633,77	645,32	666,12	675,48
December	636,92	614,75	667,17	667,29
Average of the period	**648,85**	**648,08**	**676,94**	**673,56**

Semiannual Indexation formulas included into toll contracts and subtransmission tariffs as well as the monthly Indexation formulas for regulated trunk revenues, allow to reflect changes in the value of the facilities and operating, maintenance and administration costs. In general, those indexation formulas contemplate variations in international prices of equipment, supply prices and domestic labor.

6.7 CREDIT RISK

Credit risk corresponding to receivables from commercial activities, is historically very low due to the nature of the business of the Company's clients and the short term of collection of receivables from clients, which explain the fact of not having significant accumulated amounts.

As of December 31, 2017, the company has five main clients which represent individually between 2.3% and 40.4% of the total revenues. These are Enel Group (MCh$112,481), Colbún Group (MCh$49,706), AES Gener Group (MCh$43,930), Engie (MCh$13,763) and Pacific Hydro-LH-LC Group (MCh$6,418). The total revenues recognized for these clients represent an 81.2% of the total revenues of the company. In the period of comparison, the company had the same structure of clients which revenues reached to MCh$128,777, MCh$47,391, MCh$46,007, MCh$13,897 and MCh$7,285 respectively, with a percentage of the total incomes of 86.4%.

The toll agreements signed with these clients, including its subsidiaries, will generate a large part of the Company's future cash flows and, therefore, a substantial change in their assets, financial condition and/or operating income could negatively affect the Company.

In terms of the Company's credit risk associated with financial assets (time deposits, fixed-return mutual funds and sell-back agreements), its treasury policy establishes certain limits on a particular institution's exposure; such limits depend on the risk rating and capital of each institution. Likewise, for investments in mutual funds, only funds with a risk rating qualify.

6.8 LIQUIDITY RISK

Liquidity risk is the risk of the Company not satisfying a need for cash or debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

(a) Risk associated to Company's Management

In order to guarantee that Transelec is able to quickly react financially to investment opportunities and pay its obligations by their maturity dates, in addition to its cash balances and short-term receivables, the Company has committed line of credit for working capital of US$250 million, equivalent to MCh$162,331,475. 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, SMBC, 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 December 31, 2017 and December 31, 2016.

Debt Maturity (capital and interests) MCh$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
December 31, 2017	77.923	115.384	115.384	1.006.579	728.358	2.043.629
December 31, 2016	59.544	119.089	119.089	705.743	1.135.496	2.138.961

(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 December 31, 2017, and as of December 31, 2016, was at a fixed rate. However, in the case of UF indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

UF Values

Month	Average 2017 ($)	Last Day 2017 ($)	Average 2016 ($)	Last Day 2016 ($)
January	26.340,76	26.318,21	25.629,09	25.629,09
February	26.336,93	26.392,09	25.661,05	25.717,40
March	26.442,88	26.471,94	25.772,43	25.812,05
April	26.512,42	26.561,42	25.858,01	25.906,80
May	26.603,14	26.630,98	25.954,31	25.993,05
June	26.651,22	26.665,09	26.025,99	26.052,07
July	26.643,94	26.597,33	26.093,10	26.141,65
August	26.584,37	26.604,10	26.181,82	26.209,10
September	26.631,13	26.656,79	26.222,27	26.224,30
October	26.656,66	26.634,90	26.238,10	26.261,51
November	26.662,41	26.731,12	26.288,20	26.313,53
December	26.779,99	26.798,14	26.334,19	26.347,98
Average of the period	**26.570,49**	**26.588,51**	**26.021,55**	**26.050,71**

09 Statement of Responsibility

STATEMENT OF RESPONSIBILITY

Both the Directors and the CEO of Transelec S.A., which are signing this declaration, are responsible, under oath, regarding the accuracy of the information provided in this 2017 Annual Report, pursuant to General Norm No. 30, issued by the Superintendency of Securities and Insurance.

Benjamin Vaughan
CHAIRMAN
Foreigner

Paul Dufresne
DIRECTOR
Foreigner

Brenda Eaton
DIRECTOR
Foreigner

Bruno Philippi Irarrázabal
DIRECTOR
TAX ID: 4.818.243-7

Alfredo Ergas Segal
DIRECTOR
TAX ID: 9.574.296-3o

José Ramón Valente Vias
DIRECTOR
TAX ID: 8.533.255-4

Blas Tomic Errázuriz
DIRECTOR
TAX ID: 5.390.891-8

Mario Valcarce Durán
DIRECTOR
TAX ID: 5.850.972-8

Alejandro Jadresic Marinovic
DIRECTOR
TAX ID: 7.746.199-K

Andrés Kuhlmann Jahn
CHIEF EXECUTIVE OFFICER
TAX ID: 6.554.568-3