*Consolidated Financial Statements (Audited)*

# *TRANSELEC S.A. AND SUBSIDIARY*

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

*Consolidated Financial Statements (Audited)*

**TRANSELEC S.A. AND SUBSIDIARY**

*As of December 31, 2017*

**(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

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Consolidated Financial Statements (Audited)

# TRANSELEC S.A. AND SUBSIDIARY

As of December 31, 2017 and 2016

**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$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| 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** |

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

**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 | (17) | 4,533,592 | 4,533,592 |
| Other non-financial liabilities | | 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$ | 12/31/2016 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** |

**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$ | 12/31/2016 ThCh$ |
|---|---|---|
| **PROFIT (LOSS)** | **78,249,013** | **80,983,325** |
| **Components of other comprehensive income, before taxes** | | |
| **Foreign Currency Translation** | | |
| 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** |

**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$ | Total Other reserves ThCh$ | Retained Earnings ThCh$ | Equity attributable to owners of the parent ThCh$ | Non-controlling interest ThCh$ | Total equity ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance as of January 1, 2017 | 776,355,048 | 3,296,224 | (26,613,155) | (314,754) | (23,631,685) | 19,757,325 | 772,480,688 | - | 772,480,688 |
| Changes in equity: | | | | | | | | | |
| Comprehensive income: | | | | | | | | | |
| Profit | - | - | - | - | - | 78,249,013 | 78,249,013 | - | 78,249,013 |
| Other comprehensive income | - | (1,437,958) | 16,362,492 | - | 14,924,534 | - | 14,924,534 | - | 14,924,534 |
| Total comprehensive income | - | (1,437,958) | 16,362,492 | - | 14,924,534 | 78,249,013 | 93,173,547 | - | 93,173,547 |
| Dividends | - | - | - | - | - | (79,294,324) | (79,294,324) | - | (79,294,324) |
| Total changes in equity | - | (1,437,958) | 16,362,492 | - | 14,924,534 | (1,045,311) | 13,879,223 | - | 13,879,223 |
| **Closing balance as of December 31, 2017 (Note 19)** | **776,355,048** | **1,858,266** | **(10,250,663)** | **(314,754)** | **(8,707,151)** | **18,712,014** | **786,359,911** | **-** | **786,359,911** |

| | Paid-in capital ThCh$ | Reserve for foreign translation adjustment ThCh$ | Reserve for cash flow hedges ThCh$ | Other reserves ThCh$ | Total Other reserves ThCh$ | Retained Earnings ThCh$ | Equity attributable to owners of the parent ThCh$ | Non-controlling interest ThCh$ | Total equity ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance as of January 1, 2016 | 776,355,048 | 4,695,618 | (9,755,438) | (314,754) | (5,374,574) | 19,668,085 | 790,648,559 | - | 790,648.559 |
| Changes in equity: | | | | | | | | | |
| Comprehensive income: | | | | | | | | | |
| Profit | - | - | - | - | - | 80.983.325 | 80,983,325 | - | 80,983,325 |
| Other comprehensive income | - | (1,399,394) | (16,857,717) | - | (18,257,111) | - | (18,257,111) | - | (18,257,111) |
| Total comprehensive income | - | (1,399,394) | (16,857,717) | - | (18,257,111) | 80,983,325 | 62,726,214 | - | 62,726,214 |
| Dividends | - | | | - | - | (80,894,085) | (80,894,085) | - | (80,894,085) |
| Total changes in equity | - | (1,399,394) | (16,857,717) | - | (18,257,111) | 89,240 | (18,167,871) | - | (18,167,871) |
| **Closing balance as of December 31, 2016 (Note 19)** | **776,355,048** | **3,296,224** | **(26,613,155)** | **(314,754)** | **(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, 2016 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

## 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.

**NOTE 1 - GENERAL INFORMATION (continued)**

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

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

The Consolidated Financial Statements of the Company for the year ended December 31, 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. XX 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

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

The accounting policies adopted in the preparation of the Consolidated Financial Statements are consistent with those applied in the preparation of the annual individual financial statements of the Company for the year ended December 31, 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.

**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.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.2 Bases of Consolidation of the Financial Statements (continued)**

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

| Rut | Subsidiary | Participation Share 12-31-2017 | Participation Share 12-31-2016 | Country of origin | Functional currency |
|---|---|---|---|---|---|
| **76.538.831-7** | Transmisión del Melado SpA | 100% | - | Chile | Ch$ |

**2.3 International Financial Reporting Standards**

**2.3.1 Amendments and/or Modifications**

The standards and interpretations, as well as the improvements and modifications to IFRS, 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.2 New Accounting Pronouncements (continued)**

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.

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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.2 New Accounting Pronouncements (continued)**

**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.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

## 2.3 International Financial Reporting Standards (continued)

### 2.3.2 New Accounting Pronouncements (continued)

**IFRIC 23 Uncertainty over Income Tax Treatments**

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

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

**IFRS 17 Insurance Policies**

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

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

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

### 2.3.3 Enhancements and Modifications

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

| | Enhancements and Modifications | Date of obligatory application |
|---|---|---|
| **IFRS 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 |

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.2 New Accounting Pronouncements (continued)**

**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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.2 New Accounting Pronouncements (continued)**

**IAS 28 "Investments in Associated and Joint Ventures" (continued)**

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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.3 Enhancements and Modifications (continued)**

**IFRS 9 "Financial Instruments – Prepayment Features with Negative Compensation" (continued)**

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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.3 International Financial Reporting Standards (continued)**

**2.3.3 Enhancements and Modifications (continued)**

**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.

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

### 2.4 Foreign currency translation

#### 2.4.1 Functional and presentation currency

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

#### 2.4.2 Transactions and balances

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

#### 2.4.3 Exchange rates

As of each 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

### 2.6 Property, plant and equipment

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

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

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

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

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

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

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

| | Range of estimated useful life | |
|---|---|---|
| | Minimum | Maximum |
| Buildings and infrastructure | 20 | 50 |
| Machinery and equipment | 15 | 40 |
| Other assets | 3 | 15 |

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

## 2.7 Intangible assets

### 2.7.1 Goodwill

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

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

### 2.7.2 Rights of way

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

### 2.7.3 Computer software

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

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

## 2.8 Impairment of non-financial assets

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

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.8 Impairment of non-financial assets (continued)**

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

| Variable | 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.9 Financial assets**

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

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

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

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

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

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

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.9 Financial assets (continued)**

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

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

**2.10 Financial instruments and hedge activities**

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

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

The types of hedges are as follows:

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

## 2.10 Financial instruments and hedge activities (continued)

### 2.10.1 Fair value hedges

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

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

### 2.10.2 Cash flow hedges

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

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

### 2.10.3 Net investment hedges

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

### 2.10.4 Derivatives not recorded as hedge accounting

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

### 2.10.5 Embedded derivatives

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2.10 Financial instruments and hedge activities (continued)**

**2.10.5 Embedded derivatives (continued)**

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

**2.11 Inventory**

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

**2.12 Cash and cash equivalents**

Cash and cash equivalents presented in the statement of financial position includes cash, time deposits and other highly-liquid, short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The balance of this account does not differ from that presented in the statement of cash flows. There is no restricted cash.

**2.13 Paid-in capital**

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

**2.14 Financial liabilities**

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

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

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

**2.15 Income tax and deferred taxes**

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

## 2.15 Income tax and deferred taxes (continued)

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

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

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

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

## 2.16 Employee benefits

### 2.16.1 Staff severance indemnity

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

This benefit is recorded at nominal value.

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

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

## 2.16 Employee benefits (continued)

### 2.16.2 Profit sharing

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

## 2.17 Provisions

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

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

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

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

## 2.18 Classification of current and non-current balances

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

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

## 2.19 Revenue recognition

The regulatory framework that governs electrical transmission activity in Chile comes from the by - Law of the Electric Services dated 1982 (DFL (M) No. 1/82), and subsequent amendments thereto, including Law 19.940 (called also the "Short Law") enacted on March 13, 2004, Law 20,018 ("Short Law II"), enacted on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Sources of Energy), enacted on April 1, 2008. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto. On July 11, 2016, the new Transmission Law was enacted, which creates an Independent Coordinating entity of the National Electrical System (NES), called National Electrical Coordinator (CEN, according to the Spanish acronym), which groups the previous DEC SIC and CDEC SING; in addition, it establishes a new Electrical Transmission System in which the trunk transmission system, the subtransmission system and additional systems now form part of National, Zone and Committed.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

### 2.19 Revenue recognition (continued)

Transmission System, respectively. To the remuneration received from the transmitter, a variable discount rate will be applied with a minimum of 7% and a maximum of 10% after taxes. The 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

### 2.20 Leases (continued)

### 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.

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

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

**3.1 Financial risk (continued)**

**3.1.1 Market risk (continued)**

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

a) Investing cash surpluses in instruments maturing within no more than 90 days.
b) Entering into swap contracts and other instruments to maintain a balanced foreign exchange position.
c) Entering into long-term fixed rate indebtedness thus limiting risk from variable interest rates.

**3.1.1.1 Interest rate risk**

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

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

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

The table below compares the debts of the Company and shows that majority of the debt as of December 31, 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, 2016 |
|---|---|---|---|---|---|
| Bono Series D | UF | 4.25% | Fixed | 13,500 | 13,500 |
| Bono Series H | UF | 4.80% | Fixed | 3,000 | 3,000 |
| Bono Series K | UF | 4.60% | Fixed | 1,600 | 1,600 |
| Bono Series M | UF | 4.05% | Fixed | 3,400 | 3,400 |
| Bono Series N | UF | 3.95% | Fixed | 3,000 | 3,000 |
| Bono Series Q | UF | 3.95% | Fixed | 3,100 | 3,100 |
| Senior Notes | USD | 4.625% | Fixed | 300,000 | 300,000 |
| Senior Notes | USD | 4.250% | Fixed | 375,000 | 375,000 |
| Senior Notes | USD | 3.875% | Fixed | 350,000 | 350,000 |
| Revolving Credit Facility | USD | 2.94% | Floating (*) | - | - |
| Revolving Credit Facility | UF | 1.18% | Floating (**) | - | - |
| Local Bank Promissory Note | CLP | 2.77% | Fixed | 20,000,000 | - |

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

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

**3.1 Financial risk (continued)**

**3.1.1 Market risk (continued)**

**3.1.1.1 Interest rate risk (continued)**

(*) The floating rate 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.

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.

| | Position | Effect annual on income (MillionCh$) | | |
|---|---|---|---|---|
| **Series** | **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.

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

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

**3.1 Financial risk (continued)**

**3.1.1 Market risk (continued)**

**3.1.1.2 Exchange rate risk (continued)**

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

a) Fully hedging net balance sheet exposure using diverse instruments such as foreign exchange forward contracts and cross currency swaps.

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 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 |

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

**3.1.1.2.1 Sensitivity analysis**

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

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

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

## 3.1 Financial risk (continued)

### 3.1.1 Market risk (continued)

#### 3.1.1.2 Exchange rate risk (continued)

##### 3.1.1.2.1 Sensivity analysis (continued)

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

| Item (Currency) | Position MM$ Long /(Short) | Net income (gain)/loss MM$ Change (-10%) | Net income (gain)/loss MM$ Change (+10%) | Position MM$ Long /(Short) | OCI (gain)/loss MM$ Change (-10%) | OCI (gain)/loss MM$ 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)** |

### 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 ThCh$ | Periods ended December 31, 2016 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%** |

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

**3.1 Financial risk (continued)**

**3.1.2 Credit risk (continued)**

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

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

**3.1.3 Liquidity risk**

**a) Risk associated to Company's management**

Liquidity risk is the risk of the Company not satisfying a need for cash or debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To guarantee that Transelec is capable of responding financially to both investment opportunities and the timely fulfillment of its financial obligations, the company has, in addition to its available cash and short-term accounts receivable, a committed revolving credit line for use as working capital in the amount of US$250 million approximately, equivalent 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.

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

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

**NOTE 3 - RISK MANAGEMENT POLICY (continued)**

**3.1 Financial risk (continued)**

**3.1.3 Liquidity risk (continued)**

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

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

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

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

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

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

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

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

## NOTE 5 - CASH AND CASH EQUIVALENTS

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

| Cash and Cash Equivalents | Balance as of December 31, 2017 ThCh$ | Balance as of December 31, 2016 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.

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

**NOTE 5 - CASH AND CASH EQUIVALENTS (continued)**

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

| Detail of Cash and Cash Equivalents | Currency | Balance as of December 31, 2017 ThCh$ | Balance as of December 31, 2016 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.

**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 ThCh$ | Balance as of December 31, 2016 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 ThCh$ | Balance as of December 31, 2016 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** |

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

**NOTE 6 - TRADE AND OTHER RECEIVABLES (continued)**

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

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

The movement of the provision for uncollectible amount is presented the period ended 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** |

## 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**

| | | | | | | | Balance as of | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Current | | Non-current | |
| **Tax ID Number** | **Company** | **Country** | **Description** | **Maturity** | **Relation** | **Currency** | **December 31, 2017 ThCh$** | **December 31, 2016 ThCh$** | **December 31, 2017 ThCh$** | **December 31, 2016 ThCh$** |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Loan | Not defined | Direct parent | CH$ | 30,947,951 | 8,879,409 | - | - |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Loan | 3 years | Direct parent | CH$ | 116,309 | - | 10,950,790 | |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Loan | 10 years | Direct parent | UF | - | - | 20,495,288 | 5,923,096 |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Loan | 10 years | Direct parent | US$ | - | - | 159,236,925 | 188,607,858 |
| 20601047005 | Conelsur LT SAC | Peru | Accounts receivable | Not defined | Indirect | CLP | 25,162 | - | - | |
| 76.248.725-K | CYT Operaciones SPA | Chile | Accounts receivable | Not defined | Indirect | CLP | 638,365 | - | - | |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Mercantile current account | Not defined | Direct parent | CH$ | - | 2,461,542 | - | - |
| 20601047005 | Conelsur LT SAC | Peru | Mercantile current account | Not defined | Indirect | CH$ | - | 943 | - | - |
| 20601047005 | Conelsur LT SAC | Peru | Mercantile current account | Not defined | Indirect | US$ | - | 1,976 | - | - |
| 76.524.463-3 | Transelec Concesiones S.A | Chile | Mercantile current account | Not defined | Indirect | CH$ | 2,595,894 | 240,305 | - | - |
| | **Total** | | | | | | **34,323,681** | **11,584,175** | **190,683,003** | **194,530,954** |

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

### 7.1 Balances and transactions with related parties (continued)

### a) Most significant transactions and their effect on income

Transactions with unconsolidated related parties had the following effects on the income statement:

| Tax ID Number | Company | Country | Relation | Description of the transaction | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount ThCh$ | Effect on Income ThCh$ | Amount ThCh$ | Effect on Income ThCh$ |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Direct parent | Loans granted | 136,345,582 | - | 88,801,243 | - |
| 76.560.200-9 | Transelec Concesiones S.A. | Chile | Direct parent | Loans granted | 2,596,524 | - | - | - |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Direct parent | Loans paid | 94,897,259 | - | 90,525,542 | - |
| 76.560.200-9 | Transelec Concesiones S.A. | Chile | Direct parent | Loans paid | 240,305 | - | - | - |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Direct parent | Interest received | 8,289,305 | 8,289,305 | 7,892,732 | 7,892,732 |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Direct parent | Exchange rate | 14,833,729 | 14,833,729 | 11,498,451 | 11,498,451 |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Chile | Direct parent | UF Readjustment | 144,148 | 144,148 | 162,655 | 162,655 |

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

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

## 7.2 Board of Directors and management

In accordance with the Company's by-laws, the Board of Directors is composed of nine members appointed by shareholders at the respective shareholders' meeting. They hold their positions for two years and may be re-elected. For each Board Member there is an alternate Board Member. The current Board of Directors was elected in the Ordinary General Shareholders' Meeting on April 27, 2017.

On 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 ThCh$ | December 31, 2016 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.

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

### 7.4 Audit committee (continued)

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

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

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

The following compensation was received by members of the Audit Committee during 2017 and 2016:

| | December 31, 2017 ThCh$ | December 31, 2016 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 Lopéz Vergara | Vice-President of Operations |
| David Noe Scheinwald | Vice-President of Electrical Development |

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

Compensation of key management personnel by concept for the periods 2017 and 2016 is detailed as follows:

| | December 31, 2017 ThCh$ | December 31, 2016 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** |

## 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 ThCh$ | Balance as of December 31, 2016 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:

| | December 31, 2017 ThCh$ | December 31, 2016 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:

**December 31, 2017**

| Period in Years | 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** |

**NOTE 9 - OTHER FINANCIAL ASSETS, LEASES (continued)**

**9.1 Finance lease receivables (continued)**

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

## NOTE 9 - OTHER FINANCIAL ASSETS, LEASES (continued)

### 9.2 Operating leases payable (continued)

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

| | Up to 1 year<br>ThCh$ | 1 to 5 years<br>ThCh$ | More than 5 Years<br>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** | **-** |

## 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<br>ThCh$** | **December 31, 2016<br>ThCh$** |
|---|---|---|
| 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<br>ThCh$** | **December 31, 2016<br>ThCh$** |
|---|---|---|
| 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<br>ThCh$** | **December 31, 2016<br>ThCh$** |
|---|---|---|
| Software | (8,260,910) | (6,133,189) |
| **Total accumulated amortization** | **(8,260,910)** | **(6,133,189)** |

**NOTE 10 - INTANGIBLE ASSETS (continued)**

The composition and movements of intangible assets as of December 31, 2017 and 2017 are the following:

| Movements in intangible assets | Rights of way ThCh$ | Software ThCh$ | Goodwill ThCh$ | Net intangible assets 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** |

| Movements in intangible assets | Rights of way ThCh$ | Software ThCh$ | Goodwill ThCh$ | Net intangible assets 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 ThCh$ | December 31, 2016 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 ThCh$ | December 31, 2016 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** |

| Total accumulated depreciation of property, plant and equipment, net | December 31, 2017 ThCh$ | December 31, 2016 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)** |

## NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued)

### 11.2 Reconciliation of changes in property, plant and equipment

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

| | | Land<br>ThCh$ | Buildings and infrastructure<br>ThCh$ | Machinery and equipment<br>ThCh$ | Work in progress<br>ThCh$ | Other property, plant and equipment<br>ThCh$ | Property, plant and equipment, net<br>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<br>ThCh$ | Buildings and infrastructure<br>ThCh$ | Machinery and equipment<br>ThCh$ | Work in progress<br>ThCh$ | Other property, plant and equipment<br>ThCh$ | Property, plant and equipment, net<br>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** |

**NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued)**

## 11.3 Additional information on property, plant and equipment

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

The Company held as of 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 ThCh$ | December 31, 2016 ThCh$ |
| Depreciable fixed assets | (340,807) | - |
| Tax Loss | 375,217 | - |
| **Total deferred tax assets** | **34,410** | **-** |

**NOTE 12 - DEFERRED TAXES (continued)**

### 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 ThCh$** | **December 31, 2016 ThCh$** |
| 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)** |

### 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 ThCh$** | **Liability ThCh$** |
|---|---|---|
| **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 ThCh$ | Non- current ThCh$ | Current ThCh$ | Non- current 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** |

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities

### 1. Bonds payable

The obligations with the public by series, currency, effective rate and expiration as of 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 | Nominal interest rate | Effective interest rate | Interest payments | Periodicity principal payments | Final maturity | December 31, 2017 ThCh$ | December 31, 2016 ThCh$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 76.555.400-4 | Transelec S.A | Chile | Chile | 480 | D | UF | 4.37% | 4.25% | At maturity | Semiannually | 12-15-2027 | 359,042,847 | 352,746,980 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 599 | H | UF | 4.79% | 4.80% | At maturity | Semiannually | 08-01-2031 | 82,011,051 | 80,634,967 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 599 | K | UF | 4.61% | 4.60% | At maturity | Semiannually | 09-01-2031 | 43,492,151 | 42,759,748 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 599 | M | UF | 4.26% | 4.05% | At maturity | Semiannually | 06-15-2032 | 39,383,678 | 38,680,272 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 599 | M-1 | UF | 4.23% | 4.05% | At maturity | Semiannually | 06-15-2032 | 49,321,317 | 48,351,985 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 599 | N | UF | 4.29% | 3.95% | At maturity | Semiannually | 12-15-2038 | 77,292,792 | 75,973,386 |
| 76.555.400-4 | Transelec S.A | Chile | Chile | 744 | Q | UF | 4.02% | 3.95% | At maturity | Semiannually | 10-15-2042 | 83,021,322 | 81,597,793 |
| 76.555.400-4 | Transelec S.A | Chile | Foreign | 1st issuance | Sr N | US$ | 5.10% | 4.63% | At maturity | Semiannually | 07-26-2023 | 186,381,107 | 202,662,964 |
| 76.555.400-4 | Transelec S.A | Chile | Foreign | 2nd issuance | Sr N | US$ | 4.66% | 4.25% | At maturity | Semiannually | 01-14-2025 | 231,994,945 | 252,229,058 |
| 76.555.400-4 | Transelec S.A | Chile | Foreign | 3rd issuance | Sr N | US$ | 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** |

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.

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities (continued)

#### 1. Bonds payable (continued)

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

| | | | Current | | | Non-current | | | |
|---|---|---|---|---|---|---|---|---|---|
| Debtor taxpayer ID number | Debtor Name | Instrument registration number | Maturity less than 90 days ThCh$ | Maturity more than 90 days ThCh$ | December 31, 2016 Current ThCh$ | Maturity 1 to 3 years ThCh$ | Maturity 3 to 5 years ThCh$ | Maturity more than 5 years ThCh$ | December 31, 2016 Non-current ThCh$ |
| 76.555.400-4 | Transelec S.A | 480 | - | 7,649,943 | 7,649,943 | - | - | 345,097,037 | 345,097,037 |
| 76.555.400-4 | Transelec S.A | 599 | 1,558,686 | - | 1,558,686 | - | - | 79,076,280 | 79,076,280 |
| 76.555.400-4 | Transelec S.A | 599 | 637,349 | - | 637,349 | - | - | 42,122,400 | 42,122,400 |
| 76.555.400-4 | Transelec S.A | 599 | - | 819,291 | 819,291 | - | - | 37,860,981 | 37,860,981 |
| 76.555.400-4 | Transelec S.A | 599 | - | 1,040,188 | 1,040,188 | - | - | 47,311,797 | 47,311,797 |
| 76.555.400-4 | Transelec S.A | 599 | - | 1,609,413 | 1,609,413 | - | - | 74,363,973 | 74,363,973 |
| 76.555.400-4 | Transelec S.A | 744 | - | 675,888 | 675,888 | - | - | 80,921,699 | 80,921,699 |
| 76.555.400-4 | Transelec S.A | 1st issuance | - | 4,154,341 | 4,154,341 | - | - | 198,508,623 | 198,508,623 |
| 76.555.400-4 | Transelec S.A | 2nd issuance | - | 5,134,299 | 5,134,299 | - | - | 247,094,759 | 247,094,759 |
| 76.555.400-4 | Transelec S.A | 3rd issuance | - | 4,420,590 | 4,420,590 | - | - | 228,440,364 | 228,440,364 |
| | | **Total** | **2,196,035** | **25,503,953** | **27,699,988** | **-** | **-** | **1,380,797,913** | **1,380,797,913** |

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities (continued)

#### 2. Bank loans

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

| Debtor Company RUT | Debtor Company Name | Country | Creditor Company RUT | Creditor Company Name | Country | Currency | Amortization Type | Effective Annual Rate | Nominal Annual Rate | Maturity Year | December 31, 2017 ThCh$ | December 31, 2016 ThCh$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 76.555.400-4 | Transelec S.A | Chile | 97.006.000-6 | Banco Crédito e Inversiones | Chile | CLP | Semestral | 2.77% | 2.77% | 2018 | 20,230,833 | - |
| | | | | | | | | | | **Total** | **20,230,833** | - |

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities (continued)

#### 2. Bank loans (continued)

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

| | | | Current | | | Non-current | | | |
|---|---|---|---|---|---|---|---|---|---|
| Debtor Company RUT | Debtor Company Name | Creditor Company Name | Maturity in less than 90 days ThCh$ | Maturity in over 90 days ThCh$ | December 31, 2016 Current ThCh$ | Maturity 1 to 3 years ThCh$ | Maturity 3 to 5 years ThCh$ | Maturity over 5 years ThCh$ | December 31, 2016 Non-current ThCh$ |
| 76.555.400-4 | Transelec S.A | Banco Crédito e Inversiones | - | - | - | - | - | - | - |
| | | **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities (continued)

#### 3. 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 | Amortization type | Effective annual rate | Nominal annual rate | Maturity year | December 31, 2017 ThCh$ | December 31, 2016 ThCh$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 99.521.950-6 | Transelec Norte S.A. (Transelec S.A.) | Chile | 77.277.800-7 | Transmisión Del Melado SpA | Chile | US$ | Monthly | 6.11% | 6.11% | 2043 | - | 2,892,753 |
| | | | | | | | | | | **Total** | **-** | **2,892,753** |

## NOTE 13 - FINANCIAL LIABILITIES (continued)

### 13.2 Detail of other financial liabilities (continued)

#### 3. Other Financial Liabilities (continued)

| Debtor Company RUT | Debtor Company Name | Creditor Company Name | Current<br>Maturity in less than 90 days<br>ThCh$ | Maturity in over 90 days<br>ThCh$ | December 31, 2017 Current<br>ThCh$ | Non-current<br>Maturity 1 to 3 years<br>ThCh$ | Maturity 3 to 5 years<br>ThCh$ | Maturity over 5 years<br>ThCh$ | December 31, 2017 Non-current<br>ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| 99.521.950-6 | Transelec Norte S.A. (Transelec S.A.) | Transmisión Del Melado SpA | - | - | - | - | - | - | - |
| | | **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

| Debtor Company RUT | Debtor Company Name | Creditor Company Name | Current<br>Maturity in less than 90 days<br>ThCh$ | Maturity in over 90 days<br>ThCh$ | December 31, 2016 Current<br>ThCh$ | Non-current<br>Maturity 1 to 3 years<br>ThCh$ | Maturity 3 to 5 years<br>ThCh$ | Maturity over 5 years<br>ThCh$ | December 31, 2016 Non-current<br>ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| 99.521.950-6 | Transelec Norte S.A. (Transelec S.A.) | Transmisión Del Melado SpA | 10,922 | 33,752 | 44,674 | 97,697 | 109,990 | 2,640,392 | 2,848,079 |
| | | **Total** | **10,922** | **33,752** | **44,674** | **97,697** | **109,990** | **2,640,392** | **2,848,079** |

**NOTE 13 - FINANCIAL LIABILITIES (continued)**

### 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.

## 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 ThCh$ | December 31, 2016 ThCh$ | December 31, 2017 ThCh$ | December 31, 2016 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.

## NOTE 15 - DERIVATIVE INSTRUMENTS (continued)

### 15.1 Hedge assets and liabilities

| | December 31, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset | | Liability | | Asset | | Liability | |
| | Current | Non – current | Current | Non - current | Current | Non - current | Current | Non – current |
| | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ |
| Currency hedge Swap | - | - | (4,070,488) | (13,611,996) | - | 3,520,904 | 4,081,140 | - |
| Interest rate Swap (non-hedging) | 39,170 | - | | | | | | |
| **Total** | **39,170** | **-** | **(4,070,488)** | **(13,611,996)** | **-** | **3,520,904** | **4,081,140** | **-** |

### 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** | **2017** | **2018** | **2019** | **2020** | **Subsequent years** | **December 31, 2017 Total** |
| | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** |
| Currency hedge Swap | (17,682,484) | (4,070,488) | - | - | - | - | (13,611,996) | (17,682,484) |
| Interest rate Swap (non-hedging) | 39,170 | 39,170 | - | - | - | - | - | 39,170 |

| | | | Maturity | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial derivatives** | **Fair value** | **Before 1 year** | **2017** | **2018** | **2019** | **2020** | **Subsequent years** | **December 31, 2016 Total** |
| | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** |
| Currency hedge Swap | (560,236) | (4,081,140) | | | | | 3,520,904 | (560,236) |

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.

**NOTE 15 - DERIVATIVE INSTRUMENTS (continued)**

## 15.2 Other Information (continued)

| Closing Date | Start Date | Maturity Date | Currency | Notional (Asset Portion) | Floating Rate (Asset Portion) | Frequency | Currency | Notional (Liability Portion) | Fixed Rate (Liability Portion) | Frequency |
|---|---|---|---|---|---|---|---|---|---|---|
| 08-07-2014 | 07-14-2014 | 01-14-2025 | USD | 205,000,000 | 0.00% | Biannual | CLP | 117,670,000,000 | 1.980% | Biannual |
| 08-07-2014 | 07-14-2014 | 01-14-2025 | USD | 170,000,000 | 0.00% | Biannual | CLP | 97,580,000,000 | 1.980% | Biannual |
| 08-05-2016 | 07-12-2016 | 01-12-2029 | USD | 80,000,000 | 0.00% | Biannual | CLP | 52,460,000,000 | 1.865% | Biannual |
| 08-30-2016 | 07-12-2016 | 01-12-2029 | USD | 100,000,000 | 0.00% | Biannual | CLP | 66,575,000,000 | 1.890% | Biannual |
| 09-02-2016 | 07-12-2016 | 01-12-2029 | USD | 50,000,000 | 0.00% | Biannual | CLP | 33,775,000,000 | 1.820% | Biannual |
| 08-31-2016 | 07-12-2016 | 01-12-2029 | USD | 50,000,000 | 0.00% | Biannual | CLP | 32,787,500,000 | 1.880% | Biannual |
| 01-25-2017 | 01-12-2017 | 01-12-2029 | USD | 70,000,000 | 0.00% | Biannual | CLP | 45,902,500,000 | 1.870% | Biannual |
| 10-04-2017 | 01-31-2018 | 12-28-2035 | USD | 22,055,119 | Libor 3M | Quarterly | USD | 22,055,119 | 2.5230% | Quarterly |
| 10-04-2017 | 01-31-2018 | 12-28-2035 | USD | 22,055,119 | Libor 3M | Quarterly | USD | 22,055,119 | 2.5230% | Quarterly |
| 10-04-2017 | 01-31-2018 | 12-28-2035 | USD | 44,110,238 | 2.53% | Quarterly | USD | 44,110,238 | 2.5230% | Quarterly |

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

**NOTE 15 - DERIVATIVE INSTRUMENTS (continued)**

## 15.3 Fair value hierarchies

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

The following table details financial assets and liabilities measured at fair value as of 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 ThCh | Level 2 ThCh$ | Level 3 ThCh$ |
|---|---|---|---|---|
| **Financial asset (liability)** | | | | |
| Currency hedge Swap | (17,682,484) | - | (17,682,484) | - |
| Cash flows derivatives (non-hedging) | 39,170 | - | 39,170 | - |
| **Total, net** | **(17,643,314)** | **-** | **(17,643,314)** | **-** |

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 ThCh | Level 2 ThCh$ | Level 3 ThCh$ |
|---|---|---|---|---|
| **Financial asset (liability)** | | | | |
| Currency hedge Swap | (560,236) | - | (560,236) | - |
| **Total, net** | **(560,236)** | **-** | **(560,236)** | **-** |

## 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 ThCh$ | Loans and receivables ThCh$ | Derivatives at fair value through profit or loss ThCh$ | Derivatives at fair value through equity ThCh$ | Available for sale investments ThCh$ | Total ThCh$ |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 61,628,069 | - | - | - | - | 61,628,069 |
| Other financial assets, current | - | 834,163 | - | - | - | 834,163 |
| Trade and other receivables | - | 45,225,066 | - | - | - | 45,225,066 |
| Other financial assets, non-current | - | 24,159,795 | 39,170 | - | 15,286 | 24,214,251 |
| Receivables from related parties, current | - | 34,323,681 | - | - | - | 34,323,681 |
| Receivables from related parties, non-current | - | 190,683,003 | - | - | - | 190,683,003 |
| **Total** | **61,628,069** | **295,225,708** | **39,170** | **-** | **15,286** | **356,908,233** |

| December 31, 2016 | Cash and cash equivalents ThCh$ | Loans and receivables ThCh$ | Derivatives at fair value through profit or loss ThCh$ | Derivatives at fair value through equity ThCh$ | Available for sale investments ThCh$ | Total ThCh$ |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 54,646,538 | - | - | - | - | 54,646,538 |
| Other financial assets, current | - | 777,358 | - | - | - | 777,358 |
| Trade and other receivables | - | 55,684,752 | - | - | - | 55,684,752 |
| Other financial assets, non-current | - | 11,751,854 | - | 3,520,904 | 60,636 | 15,333,394 |
| Receivables from related parties, current | - | 11,584,175 | - | - | - | 11,584,175 |
| Receivables from related parties, non-current | - | 194,530,954 | - | - | - | 194,530,954 |
| **Total** | **54,646,538** | **274,329,093** | **-** | **3,520,904** | **60,636** | **332,557,171** |

## NOTE 16 - FINANCIAL INSTRUMENTS (continued)

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

| December 31, 2017 | Other financial liabilities ThCh$ | Derivatives at fair value through profit or loss ThCh$ | Derivatives at fair value through equity ThCh$ | Total ThCh$ |
|---|---|---|---|---|
| Other financial liabilities, current | 47,059,365 | 4,070,488 | - | 51,129,853 |
| Trade and other payables | 56,494,365 | - | - | 56,494,365 |
| Other financial liabilities, non-current | 1,352,903,027 | - | - | 1,352,903,027 |
| **Total** | **1,456.456,757** | **4,070,488** | **-** | **1,460,527,245** |

| December 31, 2016 | Other financial liabilities ThCh$ | Derivatives at fair value through profit or loss ThCh$ | Derivatives at fair value through equity ThCh$ | Total ThCh$ |
|---|---|---|---|---|
| Other financial liabilities, current | 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** |

## NOTE 17 - PROVISIONS

### 17.1 Detail of provisions

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

| Detail | Current | | Non-current | |
|---|---|---|---|---|
| | December 31, 2017 ThCh$ | December 31, 2016 ThCh$ | December 31, 2017 ThCh$ | December 31, 2016 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 ThCh$ | Profit sharing benefits ThCh$ | Accrued vacations ThCh$ | Other provisions ThCh$ | Total ThCh$ |
|---|---|---|---|---|---|
| **Beginning balance as of January 1, 2017** | 4,538,823 | 4,314,711 | 1,655,522 | 205,447 | 10,714,503 |
| Movements in provisions: | | | | | |
| Provisions during the year | 519,696 | 5,456,356 | 1,146,823 | | 7,122,875 |
| Payments | (335,104) | (5,035,479) | (1,110,161) | | (6,480,744) |
| **Ending balance as of December 31, 2017** | **4,723,415** | **4,735,588** | **1,692,184** | **205,447** | **11,356,634** |

| Movements in provisions | Staff severance indemnities ThCh$ | Profit sharing benefits ThCh$ | Accrued vacations ThCh$ | Other provisions ThCh$ | Total ThCh$ |
|---|---|---|---|---|---|
| **Beginning balance as of January 1, 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** |

## NOTE 17 - PROVISIONS (continued)

### 17.2 Provision movements (continued)

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 |
|---|---|---|---|---|
| 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 |
|---|---|---|---|---|
| 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.

**NOTE 17 - PROVISIONS (continued)**

**17.2 Provision movements (continued)**

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

**17.3 Lawsuits and arbitration proceedings**

**Transelec S.A.**

1) With regard to delays in two of the important milestones of Nogales-Polpaico project, the Ministry of Energy proceeded in June 2016 to collect two guarantees for a total of US $ 2,960,000. In September 2016, the CDEC-SIC (currently CEN) settled the fine for delays to start the operations of the Project and reported that Transelec was obliged to pay the maximum fine, that is, US$1,800,000. Transelec filed an appeal for protection against the CDEC-SIC (currently CEN) and the Ministry of Energy, since there are requests for extension of time they have not been resolved by the Ministry, so it is entirely inappropriate to act CDEC-SIC (currently CEN) and the failure of the Ministry of Energy. The Court of Appeals declared admissible and ordered injunction. By judgment dated December 13, 2016, the Court of Appeals rejected the protection. . The Supreme Court rejected the appeal presented. TGR's report of the fine is pending, to then proceed with its payment.

   As of 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).

**NOTE 17 - PROVISIONS (continued)**

## 17.3 Lawsuits and arbitration proceedings (continued)

**Transelec S.A. (continued)**

In compliance with the order, CDEC-SIC (currently CEN) issued a new procedure, which was approved by the National Energy Commission (CNE), Transelec S,A, impugned the proceedings before the Panel of Experts, which in Opinion No, 24-2011 ordered the issuance of a new procedure by the CDEC-SIC (currently CEN), that still requires an approval by the CNE.

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

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

Until today it is only pending that the Trustee submit its final account and proceed to the final distribution of funds totaling approximately US $ 640,000 to be distributed among all creditors in bankruptcy.

**NOTE 18 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS**

## 18.1 Detail of account

| Employee benefit obligations | December 31, 2017 ThCh$ | December 31, 2016 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** |

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

## 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 ThCh$ | December 31, 2016 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** |

## 18.3 Balance of obligations to employees

| | Staff severance indemnity | |
|---|---|---|
| | December 31, 2017 ThCh$ | December 31, 2016 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 ThCh$ | January 1, 2016 to December 31, 2016 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** | |

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

## 18.5 Actuarial hypothesis

| Detail | December 31, 2017 ThCh$ | December 31, 2016 ThCh$ |
|---|---|---|
| Discount rate used | 1.95% | 1.95% |
| Inflation rate | 1.3% | 2.9% |
| Future salary increase | 2.0% | 2.0% |
| Mortality table | B-2006 | B-2006 |
| Disability table | PDT1985-Category II | |
| Rotation table | ESA-77 | |

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

## 18.6 Sensitivity analysis

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

| | Discount rate used | | Inflation rate | | Future salary increase | |
|---|---|---|---|---|---|---|
| Level of Sensitivity | Increase 1% (ThCh$) | Decrease 1% (ThCh$) | Increase 1% (ThCh$) | Decrease 1% (ThCh$) | Increase 1% (ThCh$) | Decrease 1% (ThCh$) |
| 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 ThCh$ | December 31, 2016 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 |
|---|---|---|---|
| Sole series | 1,000,000 | 1,000,000 | 1,000,000 |

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

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

### 19.3 Dividends

On April 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.

**NOTE 19 - EQUITY (continued)**

## 19.3 Dividends (continued)

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.

## 19.4 Other reserves

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

| Description | December 31, 2017 ThCh$ | December 31, 2016 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 ThCh$ | Cash flow hedges reserve ThCh$ | Other Reserves ThCh$ | Total 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)** |

**NOTE 19 - EQUITY (continued)**

### 19.5 Capital management

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

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

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

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

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

2) a) Maintain minimum individual and equity of fifteen million UF equivalent to ThCh$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.

   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.

## NOTE 19 - EQUITY (continued)

### 19.5 Capital management (continued)

| Covenant 1 | Total debt / Total capitalization ratio<br>Lower or equal to 0.70 | December 31, 2017 MMCh$ | December 31, 2016 MMCh$ |
|---|---|---|---|
| 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<br>Greater than or equal to UF 15 million/ Greater or equal to MMCh$ 350,000 | December 31, 2017 MMCh$ | December 31, 2016 MMCh$ |
|---|---|---|---|
| **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** |

| Covenant 3 | Restricted payments test<br>Funds from operations (FNO) / Financial costs > 1.5 | December 31, 2017 MMCh$ | December 31, 2016 MMCh$ |
|---|---|---|---|
| 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.

## NOTE 19 - EQUITY (continued)

### 19.5 Capital management (continued)

| Covenant N° 4 | Total debt / Adjusted EBITDA<br>Lower or equal to 0.70 | December 31, 2017 ThCh$ | December 31, 2016 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** |

## 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<br>December 31, 2017 ThCh$ | <br>December 31, 2016 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** |

## NOTE 20 - REVENUE (continued)

### 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 ThCh$ | For the years ended December 31, 2016 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** |

## 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 ThCh$ | For the years ended December 31, 2016 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 ThCh$ | For the years ended December 31, 2016 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** |

## NOTE 21 - RELEVANT INCOME STATEMENT ACCOUNTS (continued)

### 21.3 Depreciation and amortization

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

| Detail | For the years ended | |
|---|---|---|
| | December 31, 2017 ThCh$ | December 31, 2016 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 ThCh$ | December 31, 2016 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)** |

## NOTE 22 - INCOME TAX RESULT

| Income tax expense (income) | December 31, 2017 ThCh$ | December 31, 2016 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 | December 31, 2017 ThCh$ | December 31, 2016 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 ThCh$ | December 31, 2016 ThCh$ |
|---|---|---|
| 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%** |

## NOTE 22 - INCOME TAX RESULT (continued)

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 |
|---|---|---|
| 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.

## 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.

**NOTE 24 - SEGMENT REPORTING (continued)**

**Information about products and services**

| | December 31, 2017 ThCh$ | December 31, 2016 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** |

## 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 ThCh$ | December 31, 2016 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 ThCh$ | Maturity more than 91 to 1 year ThCh$ | Maturity less than 90 days ThCh$ | Maturity more than 91 to 1 year 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 ThCh$ | Maturity more than 91 to 1 year ThCh$ | Maturity less than 90 days ThCh$ | Maturity more than 91 to 1 year ThCh$ |
| Other financial liabilities, current | Dollars | CH$ | 4,031,317 | 13,611,996 | 4,092,062 | 13,742,982 |

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

b) Current assets and liabilities (continued)

| | | | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|---|
| | | | 1 to 3 year | 3 to 5 year | More than 5 year | 1 to 3 year | 3 to 5 year | More than 5 year |
| **Non-Current Liabilities** | **Foreign Currency** | **Functional Currency** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** | **ThCh$** |
| 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$ | - | - | - | | | |
| | Other Currency | CH$ | - | - | - | - | - | - |
| | | | | | | - | - | - |
| Non-current provisions for employee benefits | Dollars | CH$ | - | - | - | - | - | - |
| | Other Currency | CH$ | - | - | - | - | - | - |

## 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

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*
*December 31, 2017*

## 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.

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

2 EBITDA Margin= EBITDA/Revenues

**Relevant events of the period:**

- On March 31, 2017 Transelec acquired 100% of shares of the company Transmisión del Melado SpA, 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.
- 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. INCOME STATEMENT ANALYSIS

| 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%** | | |
| **Total Costs and Expenses** | **-129.225** | **-122.864** | **-6.361** | **-5,2%** |
| **Fixed Costs and Expenses** | **-50.892** | **-47.736** | **-3.156** | **-6,6%** |
| **Total Depreciation** | **-55.379** | **-52.537** | **-2.842** | **-5,4%** |

[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

| Debt | Currency or index | Interest rate | Type of rate | Maturity Date | Amount in original currency (million) (unpaid capital) 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 Facility[1] | USD | 2,94% | Floating | 03-Aug-20 | - | - |
| Revolving Credit Facility[2] | UF | 1,18% | 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 MM$ | December 2016 MM$ | Variation 2017/2016 MM$ | 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* | All local Bonds | < 0.70 | 0,63 | 0,64 |
| Shareholder's Equity* MMUF | D, H, K, M and N local Bonds | > 15.00 | 30,28 | 30,27 |
| Shareholder's Equity* 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**<br>FNO***/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** | | | | |
| Shareholders' Equity profitability* | (%) | 10,0% | 10,5% | -50 pbs |
| Assets profitability* | (%) | 3,3% | 3,5% | -20 pbs |
| Operating assets profitability* | (%) | 5,4% | 5,6% | -20 pbs |
| Earnings per share* | ($) | 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** |

## CONSOLIDATED MATERIAL FACTS

**TRANSELEC S.A.**

1) On March 2, 2017 and according the article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, the following material fact was reported:

   Transelec S.A.'s Board of Directors at its meeting held on March 1, 2017, agreed on informing as a material fact the calling for the annual Shareholders Meeting to be held on April 27, 2017, in order to inform and request approval from shareholders on the following matters:

   1. Annual Report, General Balance Sheet, Financial Statements and External Auditors' Report, corresponding to the period ended on December 31, 2016.

   2. Distribution of final dividends. On this matter, Transelec S.A.'s Board of directors agreed on requesting approval to the shareholders for the distribution of a final dividend for fiscal year 2016, for a total amount of $19.757.324.615, to be paid on the terms and conditions to be agreed by them.

   3. Appointment of the Board of Directors members.

   4. Remuneration of the Board of Directors and the Audit Committee.

   5. Appointment of External Auditors.

   6. Newspaper to call for Shareholders Meetings.

   7. Resolutions adopted by the Board regarding matters contained in articles 146 et seq. of the Law on Stock Corporations.

   8. Other matters of interest for the Company and of the Shareholders' competence.

2) On April 27, 2017, and according the article 9 and second paragraph of article 10 of the Law No 18,045 of Securities Market, the following material fact was reported:

   That on April 27, 2017, the Company's annual shareholders meeting was held, and the following was agreed:

1. Approval of the Annual Report, Balance Sheet, Financial Statements and Report of the External Auditors for the period ended December 31, 2016.

2. Approval of the distribution of a final dividend for the year 2016, for the amount of $19.757.324.615, which will be paid starting from May 23, 2017 to shareholders registered in the respective registry on May 17, 2017 (the Form No. 1 about dividend distribution regarding circular 660 was attached in an essential fact informed on May 28th 2017).

3. It was agreed to renew the members of the Board, which will be composed as follows: Benjamin Vaughn as director and Jeffrey Rosenthal as his alternate; Paul Dufresne as director and Patrick Charbonneau as his alternate; Brenda Eaton as director and Jordan Anderson as her alternate; Alfredo Ergas Segal as director and Etienne Middleton as as his alternate; Bruno Philippi Irarrázabal as director and Mario Valderrama Venegas as his alternate; Mario Valcarce Durán as director and Patricio Leyton Flores as his alternate; Blas Tomic Errázuriz as director and Rodrigo Ferrada Celis as his alternate; José Ramón Valente Vias as director and Stella Muñoz Schiattino as his alternate; and, Alejandro Jadresic Marinovic as director and Valeria Ruz Hernández as his alternate.

4. Set the remuneration of the Board and the Audit Committee.

5. Approval of the appointment of Ernst & Young as external auditors of the company for the year 2017.

6. Approval of the appointment of the Diario Financiero to publish the citations for the shareholders meetings.

7. It was informed of the resolutions adopted by the Board on matters contained in Articles 146 et seq. of the Corporations Law.

3) On May 17, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting No. 153 held on May 17, 2017, elected Mr. Benjamin Vaughn as the Board of Directors' Chairman.

4) On May 18, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on May 17, 2017, approved the distribution of the interim dividend of CLP $19,222,000,000 corresponding to year 2017, to be paid from June 15, 2017 to the shareholders registered at the pertinent registrar on June 9, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

5) On August 23rd, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on August 23rd, 2017, approved the distribution of the interim dividend of CLP $17,816,000,000 corresponding to year 2017, to be paid from September 26th, 2017 to the shareholders registered at the pertinent registrar on September 20th, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

6) On November 22nd, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on November 22nd, 2017, approved the distribution of the interim dividend of $22.499.000.000.-, corresponding to year 2017, to be paid from December 20th, 2017 to the shareholders registered at the pertinent registrar on December 14th, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

7) On December 26, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

That in an special Board of Directors meeting, held on December 26, 2017, its shareholder Brookfield Asset Management ("Brookfield") reported that it has entered into a share purchase agreement with the company China Southern Power Grid International (HK) Co., Ltd. ("CSG"), by virtue of which, CSG agrees to acquire the 27.7% stake that Brookfield indirectly holds in Transelec SA, once the respective authorizations have been obtained by the government of the People's Republic of China.

8) On December 27, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

   That in a special shareholders meeting of the company held on December 26, 2017, it was agreed to call a new meeting to analyze the assignment of contracts between related parties and the possible constitution of guarantees in favor of third parties. The date on which the meeting will be held will be informed in a timely manner.

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

***TRANSELEC S.A.***

*Santiago, Chile*
*December 31, 2017*

## 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.

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

[2] EBITDA Margin= EBITDA/Revenues

**Relevant events of the period:**

- On March 31, 2017 Transelec acquired 100% of shares of the company Transmisión del Melado SpA, 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.
- 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. INCOME STATEMENT ANALYSIS

| 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%** | | |
| | | | | |
| **Total Costs and Expenses** | **-129.225** | **-122.864** | **-6.361** | **-5,2%** |
| **Fixed Costs and Expenses** | **-50.892** | **-47.736** | **-3.156** | **-6,6%** |
| **Total Depreciation** | **-55.379** | **-52.537** | **-2.842** | **-5,4%** |

[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

| Debt | Currency or index | Interest rate | Type of rate | Maturity Date | Amount in original currency (million) (unpaid capital) 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 Facility[1] | USD | 2,94% | Floating | 03-Aug-20 | - | - |
| Revolving Credit Facility[2] | UF | 1,18% | 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 MM$ | December 2016 MM$ | Variation 2017/2016 MM$ | 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* | All local Bonds | < 0.70 | 0,63 | 0,64 |
| Shareholder's Equity* MMUF | D, H, K, M and N local Bonds | > 15.00 | 30,28 | 30,27 |
| Shareholder's Equity* 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**<br>FNO***/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** | | | | |
| Shareholders' Equity profitability* | (%) | 10,0% | 10,5% | -50 pbs |
| Assets profitability* | (%) | 3,3% | 3,5% | -20 pbs |
| Operating assets profitability* | (%) | 5,4% | 5,6% | -20 pbs |
| Earnings per share* | ($) | 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** |

## 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.

**CONSOLIDATED MATERIAL FACTS**

**TRANSELEC S.A.**

1) On March 2, 2017 and according the article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, the following material fact was reported:

   Transelec S.A.'s Board of Directors at its meeting held on March 1, 2017, agreed on informing as a material fact the calling for the annual Shareholders Meeting to be held on April 27, 2017, in order to inform and request approval from shareholders on the following matters:

   1. Annual Report, General Balance Sheet, Financial Statements and External Auditors' Report, corresponding to the period ended on December 31, 2016.

   2. Distribution of final dividends. On this matter, Transelec S.A.'s Board of directors agreed on requesting approval to the shareholders for the distribution of a final dividend for fiscal year 2016, for a total amount of $19.757.324.615, to be paid on the terms and conditions to be agreed by them.

   3. Appointment of the Board of Directors members.

   4. Remuneration of the Board of Directors and the Audit Committee.

   5. Appointment of External Auditors.

   6. Newspaper to call for Shareholders Meetings.

   7. Resolutions adopted by the Board regarding matters contained in articles 146 et seq. of the Law on Stock Corporations.

   8. Other matters of interest for the Company and of the Shareholders' competence.

2) On April 27, 2017, and according the article 9 and second paragraph of article 10 of the Law No 18,045 of Securities Market, the following material fact was reported:

   That on April 27, 2017, the Company's annual shareholders meeting was held, and the following was agreed:

1. Approval of the Annual Report, Balance Sheet, Financial Statements and Report of the External Auditors for the period ended December 31, 2016.

2. Approval of the distribution of a final dividend for the year 2016, for the amount of $19.757.324.615, which will be paid starting from May 23, 2017 to shareholders registered in the respective registry on May 17, 2017 (the Form No. 1 about dividend distribution regarding circular 660 was attached in an essential fact informed on May 28th 2017).

3. It was agreed to renew the members of the Board, which will be composed as follows: Benjamin Vaughn as director and Jeffrey Rosenthal as his alternate; Paul Dufresne as director and Patrick Charbonneau as his alternate; Brenda Eaton as director and Jordan Anderson as her alternate; Alfredo Ergas Segal as director and Etienne Middleton as as his alternate; Bruno Philippi Irarrázabal as director and Mario Valderrama Venegas as his alternate; Mario Valcarce Durán as director and Patricio Leyton Flores as his alternate; Blas Tomic Errázuriz as director and Rodrigo Ferrada Celis as his alternate; José Ramón Valente Vias as director and Stella Muñoz Schiattino as his alternate; and, Alejandro Jadresic Marinovic as director and Valeria Ruz Hernández as his alternate.

4. Set the remuneration of the Board and the Audit Committee.

5. Approval of the appointment of Ernst & Young as external auditors of the company for the year 2017.

6. Approval of the appointment of the Diario Financiero to publish the citations for the shareholders meetings.

7. It was informed of the resolutions adopted by the Board on matters contained in Articles 146 et seq. of the Corporations Law.

3) On May 17, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting No. 153 held on May 17, 2017, elected Mr. Benjamin Vaughn as the Board of Directors' Chairman.

4) On May 18, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on May 17, 2017, approved the distribution of the interim dividend of CLP $19,222,000,000 corresponding to year 2017, to be paid from June 15, 2017 to the shareholders registered at the pertinent registrar on June 9, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

5) On August 23rd, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on August 23rd, 2017, approved the distribution of the interim dividend of CLP $17,816,000,000 corresponding to year 2017, to be paid from September 26th, 2017 to the shareholders registered at the pertinent registrar on September 20th, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

6) On November 22nd, 2017, and according to article 9 and second paragraph of article 10 of the law No 18,045 of Securities Market, and the Circular No. 660 of the Superintendence of Securities and Insurance, the following material fact was reported:

That Transelec S.A.'s Board of Directors, at its Meeting held on November 22nd, 2017, approved the distribution of the interim dividend of $22.499.000.000.-, corresponding to year 2017, to be paid from December 20th, 2017 to the shareholders registered at the pertinent registrar on December 14th, 2017.

The Form No. 1 about dividend distribution was attached, in accordance to the aforementioned circular.

7) On December 26, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

That in an special Board of Directors meeting, held on December 26, 2017, its shareholder Brookfield Asset Management ("Brookfield") reported that it has entered into a share purchase agreement with the company China Southern Power Grid International (HK) Co., Ltd. ("CSG"), by virtue of which, CSG agrees to acquire the 27.7% stake that Brookfield indirectly holds in Transelec SA, once the respective authorizations have been obtained by the government of the People's Republic of China.

8) On December 27, 2017, and according to article 9 and second paragraph of article 10 of the Law No. 18,045 of Securities Market, and in the General Norm No. 30 of the Superintendence of Securities and Insurance, the following material fact was reported:

   That in a special shareholders meeting of the company held on December 26, 2017, it was agreed to call a new meeting to analyze the assignment of contracts between related parties and the possible constitution of guarantees in favor of third parties. The date on which the meeting will be held will be informed in a timely manner.