*Interim Unaudited Consolidated Financial Statements*

***TRANSELEC S.A. Y FILIALES***

*Santiago, Chile*
*September 30, 2013*

**TRANSELEC S.A. AND SUBSIDIARIES**

*Interim Unaudited Consolidated Financial Statements*

*As of and for the nine-month periods ended September 30, 2013*

**(Translation of the Financial Statements originally issued in Spanish)**

| | | |
|---|---|---|
| US$ | : | US Dollars |
| ThUS$ | : | Thousand of US Dollars |
| $ | : | Chilean Pesos |
| UF | : | Unidades de Fomento |

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TRANSELEC S.A. AND SUBSIDIARIES

**Consolidated Statements of Financial Position**
**As of September 30, 2013 and December 31, 2012**
**(Expressed in thousands of Chilean pesos (ThCh$))**
**(Translation of financial statements originally issued in Spanish-See Note 2.1)**

| ASSETS | Note | (Unaudited) September 30, 2013 ThCh$ | (Audited) December 31, 2012 ThCh$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | (5) | 182,212,212 | 37,955,954 |
| Other financial assets | (9) | 807,662 | 669,329 |
| Other non-financial assets | | 12,308,808 | 8,566,618 |
| Trade and other receivables | (6) | 46,003,855 | 49,387,085 |
| Receivables from related parties | (7) | 7,413,141 | 92,649,357 |
| Inventory | (8) | 28,301 | 28,301 |
| Current tax assets | | 391,100 | 142,823 |
| Total current assets | | 249,165,079 | 189,399,467 |
| **NON-CURRENT ASSETS** | | | |
| Other financial assets | (9) | 43,689,892 | 34,769,560 |
| Other non-financial assets | | 16,862,235 | 26,429,971 |
| Receivables from related parties | (7) | 163,322,639 | 69,581,888 |
| Intangible assets other than goodwill | (10) | 155,828,727 | 153,819,655 |
| Goodwill | (10) | 342,304,205 | 348,371,203 |
| Property, plant and equipment | (11) | 1,189,252,039 | 1,159,543,789 |
| Deferred tax assets | (12) | 5,636,757 | 15,608,137 |
| Total non-current assets | | 1,916,896,494 | 1,808,124,203 |
| Total Assets | | 2,166,061,573 | 1,997,523,670 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

**TRANSELEC S.A. AND SUBSIDIARIES**

**Consolidated Statements of Financial Position**
**As of September 30, 2013 and December 31, 2012**
**(Expressed in thousands of Chilean pesos (ThCh$))**
**(Translation of financial statements originally issued in Spanish-See Note 2.1)**

| EQUITY AND LIABILITIES | Note | (Unaudited) September 30, 2013 ThCh$ | (Audited) December 31, 2012 ThCh$ |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Other financial liabilities | (13) | 10,969,338 | 66,782,786 |
| Trade and other payables | (14) | 91,164,220 | 89,427,302 |
| Payables to related parties | (7) | -.- | - .- |
| Current provisions for employee benefits | (16) | 6,651,124 | 6,833,923 |
| Other non-financial liabilities | | 4,188,381 | 15,014,843 |
| Total current liabilities | | 112,973,063 | 178,058,854 |
| **NON-CURRENT LIABILITIES** | | | |
| Other financial liabilities | (13) | 1,124,087,917 | 892,622,689 |
| Payables to related parties | (7) | 38,813,984 | 36,947,376 |
| Deferred tax liabilities | (12) | 8,518,797 | 6,110,267 |
| Non-current provisions for employee benefits | (16) | 3,491,273 | 3,237,935 |
| Other non-financial liabilities | | 4,538,034 | 3,575,059 |
| Total non-current liabilities | | 1,179,450,005 | 942,493,326 |
| Total liabilities | | 1,292,423,068 | 1,120,552,180 |
| **EQUITY** | | | |
| Paid-in capital | (18) | 857,944,548 | 857,944,548 |
| Retained earnings | | 10,351,534 | 17,200,259 |
| Other reserves | (18) | 5,338,781 | 1,823,280 |
| Total equity attributable to owners of the parent | | 873,634,863 | 876,968,087 |
| Non-controlling interest | | 3,642 | 3,403 |
| Total equity | | 873,638,505 | 876,971,490 |
| Total Equity and Liabilities | | 2,166,061,573 | 1,997,523,670 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income
**For the nine-month period ended September 30, 2013 and 2012**
**(Expressed in thousands of Chilean pesos (ThCh$))**
**(Translation of financial statements originally issued in Spanish-See Note 2.1)**

| Consolidated statement of comprehensive income by function | Nota | (Unaudited) 01/01/2013 30/09/2013 ThCh$ | (Unaudited) 01/01/2012 30/09/2012 ThCh$ | (Unaudited) 01/07/2013 30/09/2013 ThCh$ | (Unaudited) 01/07/2012 30/09/2012 ThCh$ |
|---|---|---|---|---|---|
| Operating revenues | (19) | 158,954,205 | 161,323,011 | 50,182,467 | 53,714,870 |
| Cost of sales | (20) | (55,863,960) | (62,220,304) | (19,770,927) | (20,854,930) |
| **GROSS MARGIN** | | 103,090,245 | 99,102,707 | 30,411,540 | 32,859,940 |
| Administrative expenses | (20) | (10,953,652) | (7,957,124) | (4,006,741) | (2,663,018) |
| Other gains (losses), net | (19) | 719,966 | 1,233,042 | (5,594,434) | 697,072 |
| Financial income | (19) | 8,079,037 | 4,482,176 | 2,908,593 | 1,615,496 |
| Financial expenses | (20) | (35,442,235) | (27,350,706) | (12,573,202) | (9,159,601) |
| Foreign exchange differences, net | (20) | (4,055,232) | (298,761) | (755,978) | (498,913) |
| Gain (loss) for indexed assets and liabilities | (20) | (9,037,360) | (10,177,396) | (8,918,075) | 1,285,514 |
| **Profit Before Income Taxes** | | 52,400,769 | 59,033,938 | 1,471,703 | 24,136,490 |
| Income tax expense | (21) | (10,218,292) | (7,046,788) | 900,350 | (2,266,482) |
| Profit from continuing operations | | 42,182,477 | 51,987,150 | 2,372,053 | 21,870,008 |
| Profit (loss) from discontinued operations | | - .- | -. - | -. - | - .- |
| **Profit (loss)** | | 42,182,477 | 51,987,150 | 2,372,053 | 21,870,008 |
| **PROFIT (LOSS) ATTRIBUTABLE TO:** | | | | | |
| Profit attributable to owners of the parent | | 42,182,187 | 51,986,975 | 2,371,952 | 21,869,973 |
| Profit (loss) attributable to non – controlling interest | | 290 | 175 | 101 | 35 |
| **PROFIT** | | 42,182,477 | 51,987,150 | 2,372,053 | 21,870,008 |
| **EARNINGS PER SHARE** | | | | | |
| **Basic earnings per share** | | | | | |
| Basic earnings per share from continuing operations ($/a) | (22) | 42,182 | 51,987 | 2,372 | 21,870 |
| Basic earnings (loss) per share from discontinued operations | | -.- | -.- | -.- | -.- |
| **Basic earnings per share** ($/a) | (22) | 42,182 | 51,987 | 2,372 | 21,870 |
| **Diluted earnings per share** | | -.- | -.- | | -.- |
| Diluted earnings per share from continuing operations ($/a) | (22) | 42,182 | 51,987 | 2,372 | 21,870 |
| Diluted earnings (loss) per share from discontinued operations | | -.- | -.- | -.- | -.- |
| **Diluted earnings per share ($/s)** | (22) | 42,182 | 51,987 | 2,372 | 21,870 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

**TRANSELEC S.A. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**
**For the nine-month period ended September 30, 2013 and 2012**
**(Expressed in thousands of Chilean pesos (ThCh$))**
**(Translation of financial statements originally issued in Spanish-See Note 2.1)**

| | (Unaudited) 01/01/2013 30/09/2013 ThCh$ | (Unaudited) 01/01/2012 30/09/2012 ThCh$ | (Unaudited) 01/07/2013 30/09/2013 ThCh$ | (Unaudited) 01/07/2012 30/09/2012 ThCh$ |
|---|---|---|---|---|
| **PROFIT (LOSS)** | 42,182,477 | 51,987,150 | 2,372,053 | 21,870,008 |
| **Components of other comprehensive income, before taxes** | | | | |
| **Foreign Currency Translation** | | | | |
| Gains (losses) on foreign currency translation differences, before taxes | 1,722,468 | 201,600 | 432,609 | 8,596 |
| **Cash flow hedges** | | | | |
| Gains (losses) on cash flow hedges, before taxes | 2,671,909 | 1,282,866 | 277,068 | 899,466 |
| **Income taxes related to components of other comprehensive income** | | | | |
| Income taxes related to components of other comprehensive income | (878,876) | (338,644) | (141,935) | (197,438) |
| **OTHER COMPREHENSIVE INCOME** | 3,515,501 | 1,145,822 | 567,742 | 710,624 |
| **Total comprehensive income** | 45,697,978 | 53,132,972 | 2,939,795 | 22,580,632 |
| **Comprehensive income attributable to:** | | | | |
| Comprehensive income attributable to owners of the parent | 45,697,688 | 53,132,797 | 2,939,694 | 22,580,597 |
| Comprehensive income attributable to non controlling Interest | 290 | 175 | 101 | 35 |
| **Total comprehensive income** | 45,697,978 | 53,132,972 | 2,939,795 | 22,580,632 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

**TRANSELEC S.A. AND SUBSIDIARIES**

**Consolidated Statement of Changes in Equity**
**For the nine-month period ended September 30, 2013**
**(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$ | 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, 2013 (Audited) | 857,944,548 | 1,930,573 | (107,293) | 1,823,280 | 17,200,259 | 876,968,087 | 3,403 | 876,971,490 |
| Increase (decrease) for changes in accounting policies | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Increase (decrease) for correction of errors | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Opening balance restated | 857,944,548 | 1,930,573 | (107,293) | 1,823,280 | 17,200,259 | 876,968,087 | 3,403 | 876,971,490 |
| Changes in equity: | | | | | | | | |
| Comprehensive income: | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Profit | -.- | - | - | - | 42,182,187 | 42,182,187 | 290 | 42,182,477 |
| Other comprehensive income | -.- | 1,377,974 | 2,137,527 | 3,515,501 | -.- | 3,515,501 | -.- | 3,515,501 |
| Total comprehensive income | -.- | 1,377,974 | 2,137,527 | 3,515,501 | 42,182,187 | 45,697,688 | 290 | 45,697,978 |
| Dividends | -.- | -.- | -.- | -.- | (48,753,411) | (48,753,411) | -.- | (48,753,411) |
| Increase (decrease) from transfers and other changes | -.- | -.- | - | -.- | (277,501) | (277,501) | (51) | (277,552) |
| Total changes in equity | -.- | 1,377,974 | 2,137,527 | 3,515,501 | (6,848,725) | (3,333,224) | 239 | (3,332,985) |
| Closing balance as of September 30, 2013 (Unaudited) | 857,944,548 | 3,308,547 | 2,030,234 | 5,338,781 | 10,351,534 | 873,634,863 | 3,642 | 873,638,505 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

**TRANSELEC S.A. AND SUBSIDIARIES**

**Consolidated Statement of Changes in Equity**
**For the nine-month period ended September 30, 2012**
**(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$ | 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, 2012 (Audited) | 857,944,548 | 1,292,225 | (137,115) | 1,155,110 | 61,938,528 | 921,038,186 | 3,633 | 921,041,819 |
| Increase (decrease) for changes in accounting policies | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Increase (decrease) for changes correction of errors | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Opening balance restated | 857,944,548 | 1,292,225 | (137,115) | 1,155,110 | 61,938,528 | 921,038,186 | 3,633 | 921,041,819 |
| Changes in equity: | | | | | | | | |
| Comprehensive income: | -.- | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Profit | -.- | - | -.- | -.- | 51,986,975 | 51,986,822 | 175 | 51,987,150 |
| Other comprehensive income | -.- | 114,573 | 1,031,249 | 1,145,822 | -.- | 1,145,822 | -.- | 1,145,822 |
| Total comprehensive income | -.- | 114,573 | 1,031,249 | 1,145,822 | 51,986,975 | 53,132,797 | 175 | 53,132,972 |
| Dividends | -.- | -.- | -.- | -.- | (61,938,528) | (61,938,528) | -.- | (61,938,528) |
| Increase (decrease) from transfers and other changes | -.- | -.- | -.- | -.- | 219,655 | 219,655 | (494) | 219,161 |
| Total changes in equity | -.- | 114,573 | 1,031,249 | 1,145,822 | (9,731,898) | (8,586,076) | (319) | (8,586,395) |
| Closing balance as of September 30, 2012 (Unaudited) | 857,944,548 | 1,406,798 | 894,134 | 2,300,932 | 52,206,630 | 912,452,110 | 3,314 | 912,455,424 |

The accompanying notes number 1 to 27 form an integral part of these interim consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows
**For the nine-month period ended as of September 30, 2013 and 2012**
**(Expressed in thousands of Chilean pesos (ThCh$))**
**(Translation of financial statements originally issued in Spanish-See Note 2.1)**

| | Note | (Unaudited) September 30, 2013 ThCh$ | (Unaudited) September 30, 2012 ThCh$ |
|---|---|---|---|
| **Cash flows provided by (used in) operating activities** | | | |
| Cash receipts from sales of goods and services | | 192,186,580 | 172,854,396 |
| Other proceeds from operating activities | | -.- | 486,409 |
| **Classes of payments** | | | |
| Payments to suppliers for goods and services | | (27,559,928) | (56,548,396) |
| Payments to employees | | (11,499,151) | (11,887,255) |
| Other payments for operating activities | | -.- | (869,830) |
| | | 153,127,501 | 104,035,158 |
| Interest paid | | (29,119,262) | (25,770,417) |
| Income taxes paid | | (932,667) | (654,893) |
| Net cash flows provided by operating activities | | 123,075,572 | 77,609,848 |
| **Cash Flows Provided by (Used in) Investing Activities** | | | |
| Gain /(Loss) from the sale of property, plant and equipment | | 85,588,369 | -.- |
| Other investing activity payments | | (17,046,636) | -.- |
| Additions of property, plant and equipment | | (64,529,859) | (73,425,249) |
| Cash advances and loans to third parties | | (6,693,125) | (8,424,378) |
| Loans to related parties | | (92,316,472) | -.- |
| Collection of loans from related parties | | -.- | 2,345,862 |
| Cash flows provided by (used in) investing activities | | (94,997,723) | (79,503,765) |
| **Cash Flows Provided by (Used in) Financing Activities** | | | |
| Proceeds from long term loans | | 121,125,700 | -.- |
| Proceeds from short term loans | | 222,842,193 | -.- |
| Repayments of loans | | (182,434,450) | -.- |
| Dividends paid | | (48,753,411) | (33,789,621) |
| Other disbursements | | 3,398,377 | -.- |
| Net cash flows provided by (used in) financing activities | | 116,178,409 | (33,789,621) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | 144,256,258 | (35,683,538) |
| **Cash and Cash Equivalents, Opening Balance** | | 37,955,954 | 64,211,994 |
| **Cash and Cash Equivalents, Closing Balance** | | 182,212,212 | 28,528,456 |

The accompanying notes number 1 to 27 form an integral part of these interim 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. On March 26, 2007, it changed its name to Rentas Eléctricas III S.A. and became a corporation. 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 June 30, 2007, Rentas Eléctricas III S.A. changed its name to its current name, Transelec S.A. (here and after "the Company" or "Transelec").

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

The Company is domiciled at Av. Apoquindo No. 3721, floor 6, Las Condes, Santiago, Chile. Its subsidiary, Transelec Norte S.A., is a corporation domiciled at Av. Apoquindo No. 3721, floor 6, Las Condes, Santiago, Chile. The subsidiary is registered in the Securities Register of the Superintendency of Securities and Insurance (SVS) under No. 939.

The Company's another subsidiary Inversiones Eléctricas Transam Chile Ltda. is a limited liability company that has three subsidiaries: Transmisora Huepil Ltda., Transmisora Abenor Ltda., and Transmisora Araucana de Electricidad Ltda. The rights in Inversiones Eléctricas Transam Chile Ltda. were acquired in December 2012. The subsidiary is domiciled at Av. Apoquindo No. 3721, floor 6, Las Condes, Santiago, Chile.

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

The Company is controlled directly by Transelec Holdings Rentas Limitada and indirectly by ETC Holdings Ltd.

These interim consolidated financial statements were approved by the Board of Directors in Ordinary Meeting No.98 held on November 20, 2013.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing these interim consolidated financial statements are detailed below. These policies have been based on IFRS in effect as of September 30, 2013 and applied uniformly for the periods presented.

### 2.1 Basis of preparation of the consolidated financial statements

These interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" incorporated in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), considering the presentation requirements of the SVS, which are not in conflict with IFRS.

The figures in these financial statements and their notes are expressed in thousands of Chilean pesos, which is the functional currency of the Company.

For the convenience of the reader, these consolidated financial statements and their accompanying notes have been translated from Spanish to English.

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

The information contained in these financial statements is the responsibility of the Company's management.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Company for the year ended December 31, 2012, except for the adoption of new standards and interpretations in effect as of January 1, 2013.

The Group applies, for the first time, certain standards and amendments that require – in principle – restatement of previous financial statements. These include IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 19 (Revised 2011) "Employee Benefits", etc. In the Company´s case these new rules had no impact requiring the restatement of the previously issued financial statements. Several other new standards and amendments apply for the first time in 2013, however they do not impact the previously issued annual consolidated financial statements of the Company or the interim consolidated financial statements. In addition, the application of IFRS 12 "Disclosure of Interest in Other Entities" would result in additional disclosures in the annual consolidated financial statements.

The nature and the impact of those changes are described below:

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

**IAS 1 - Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss in the future (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale investments) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the financial position of the Company, in which case all items presented in other comprehensive income could be reclassified to income in the future.

**IAS 1 - Clarification of the requirement for comparative information**

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

This amendment did not have impact on the Company's financial statements.

**IAS 32 - Tax effects of distributions to holders of equity instruments**

The amendment to IAS 32 "Financial Instruments: Presentation" clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 "Income Taxes". The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the Company's interim financial statements.

**IAS 19 "Employee Benefits" (Revised 2011) (IAS 19R)**

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including (1) that actuarial gains and losses are now recognized in other comprehensive income and permanently excluded from profit and loss; (2) that expected returns on plan assets are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, etc..Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

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

In the case of the Company, changes had no impact on prior financial statements or the interim financial statements as in recent years no actuarial gain or loss were recognized in income and previous accumulated effect was reclassified to retained earnings in accordance with paragraph 122 of IAS 19R. In the future actuarial gains and losses will be recognized in other comprehensive income.

**IFRS 10 "Consolidated Financial Statements" and IAS 27 "Separate Financial Statements"**

IFRS 10 establishes a single control model that applies to all entities including special purpose entities.
IFRS 10 replaces the parts of previously existing IAS 27 "Consolidated and Separate Financial Statements" that dealt with consolidated financial statements and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Company.

**IFRS 11 "Joint Arrangements" and IAS 28 "Investment in Associates and Joint Ventures"**

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly-controlled Entities — Non-monetary Contributions by Venturers". IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of IFRS 11 had no impact on the Company's consolidated financial statements.

**IFRS 12 "Disclosure of Interests in Other Entities"**

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim financial statements, unless significant events and transactions in the interim period require that they are provided.

Accordingly, the Company has not made such disclosures.

**IFRS 13 "Fair Value Measurement"**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 "Financial Instruments: Disclosures".

## 2.2 New standards and interpretations issued but not yet effective

Below is a summary of new standards and amendments to IFRS issued by the IASB that are not yet effective as of September 30, 2013.

**IFRS 9 "Financial Instruments"**

This standard introduces new requirements for classifying and measuring financial assets, allowing early application. It eequires all financial assets to be classified in its entirety on the basis of the business model of the entity for the management of financial assets and characteristics of the contractual cash flows of financial assets.

Financial assets under this standard are either measured at amortized cost or fair value. Only assets classified as measured at amortized cost shall be tested for impairment. Its application is effective for annual periods beginning on or after January 1, 2015, early adoption is permitted.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

**IAS 32 "Financial Instruments: Presentation"**

In December 2011 the IASB issued amendments to IAS 32. These amendments are intended to clarify differences in the application relating to compensation and reduce the level of diversity in current practice. The standard is applicable to count from January 1, 2014 and early adoption is permitted.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

**IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 "Separate Financial Statements"**

The amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" come from the project "Investment Entities" published in 2012. The amendments define an investment entity and introduce an exception to consolidate certain subsidiaries owned investment entities. These amendments require an investment entity to record these subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements related to investment entities in IFRS 12 and IAS 27. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

**IAS 36 "Impairment of Assets"**

The amendments to IAS 36, issued in May 2013, are intended for the disclosure of information about the recoverable amount of impaired assets, if this amount is based on fair value less costs to sell. These changes are related to the issuance of IFRS 13 "Fair Value Measurement". The amendments should be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted when the entity has applied IFRS 13.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

**IAS 39 “Financial Instruments: Recognition and Measurement”**

The amendments to IAS 39, issued in September 2013, provide an exception to the requirement to discontinue hedge accounting in situations in which derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

**IFRIC 21 “Levies”**

IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and was issued in May 2013. IAS 37 establishes criteria for the recognition of a liability, one of which is the requirement that the entity must have a present obligation as a result of a past event. The interpretation clarifies that this past event that gives rise to the obligation to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

To date, the Company is evaluating the potential impact that adoption will have on its financial statements.

## 2.3 Basis of consolidation and business combinations

Under IFRS 10, subsidiaries are all entities over which Transelec has control. An investor controls an investee when the investor (1) has the power over the investee, (2) is exposed, or has rights, to variable returns from its involvement with the investee, and (3) has the ability to affect those returns through its power over the investee. It is considered that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. In case of the Company, in general, the power over its subsidiaries is derived from possession of majority of the voting rights granted by equity instruments of the subsidiaries.

Subsidiaries are consolidated from the date on which control is acquired and are excluded from consolidation from the date that control ceases.

Business combinations are accounted for by applying the acquisition method. At the date of acquisition, the assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity are recorded at fair value. In the event that there is a positive difference between the acquisition cost and the fair value of the assets and liabilities of the acquired entity, including contingent liabilities, corresponding to the parent’s share, this difference is recorded as goodwill (see also Note 2.7.1). In the event that the difference is negative, it is recorded with a credit to income.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred.

## 2.3 Basis of consolidation and Business Combination (continued)

The value of non-controlling interest in equity and the results of the consolidated subsidiary are presented, respectively, under the headings "Profit (loss) attributable to non-controlling interest" in the consolidated statement of comprehensive income.

All balances and transactions between consolidated companies have been eliminated upon consolidation.

The consolidated financial statements include balances and transactions of the parent Transelec S.A. and its following subsidiaries:

| Subsidiary | Percentage of interest held | |
|---|---|---|
| | September 30, 2013 | December 31, 2012 |
| Transelec Norte S.A. | 99,99% | 99,99% |
| Inversiones Eléctricas Transam Chile Ltda. | 100% | 100% |
| Transmisora Huepil Ltda. | 100% | 100% |
| Transmisora Abenor Ltda. | 100% | 100% |
| Transmisora Araucana de Electricidad Ltda. | 100% | 100% |

## 2.4 Foreign currency translation

### 2.4.1 Functional and presentation currency

The Company's functional currency is the Chilean peso, while the functional currency of its all subsidiaries the US dollar. 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. Any translation differences are recorded as exchange differences in the income statement. 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 and net investment hedges.

Transelec has established a cash flow hedge policy for part of its revenues indexed to U.S. dollars. It also has a net investment hedge for its net investment in subsidiary Transelec Norte.

**2.4 Foreign currency translation (continued)**

**2.4.3 Subsidiary conversion with functional currency other than the Chilean Peso**

The conversion of the financial statements of the subsidiaries with functional currency other than the Chilean peso is performed as follows:

a) For assets and liabilities, the prevailing exchange rate on the closing date of the financial statements is used.

b) Foritems in the income statement, the average exchange rate for the period is used that approximates exchange rates at the dates of the transactions.

Foreign currency translation produced in the conversion of the financial statements is registered under the heading "Reserve for foreign currency translation adjustment" within Equity (see Note 18).

**2.4.4 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 | |
|---|---|---|
| | September 30, 2013 | December 31, 2012 |
| Unidad de Fomento | 23,091.03 | 22,840.75 |
| US$ | 504.20 | 479.96 |
| Euro | 682.00 | 634.45 |

**2.5 Segments reporting**

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

## 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 existence 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 following table details the ranges of useful lives periods applied to principal classes of assets and used to determine depreciation expense:

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

## 2.7 Intangible assets

### 2.7.1 Goodwill

The goodwill represents the difference between the acquisition cost and the fair value of the net assets acquired in a business combination. Goodwill is not amortized; instead, at each year end, the Company estimates whether any impairment has reduced its recoverable value to an amount less than the carrying amount and, if appropriate, adjusts for impairment.

For impairment testing purposes, goodwill acquired in a business combination is allocated from the date of acquisition to the cash generating units that are expected to benefit from this combination.

During the periods covered by those financial statements, there were no impairment losses of goodwill.

### 2.7.2 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 on an annual basis.

### 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.

## 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.

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

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

In order to assess impairment losses, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

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. 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 September 30 of each year.

### 2.9 Financial assets

Upon initial recognition, Transelec and its subsidiary classify their 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.

During the periods covered by these financial statements, the Company had no financial assets in this category.

- **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 consolidated financial position, with changes in value recorded directly in income when they occur.

**2.9 Financial assets (continued)**

- **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 consolidated 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.

During the years covered by these financial statements, the Company had no financial assets in this category

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

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

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

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

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

## 2.9 Financial assets (continued)

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

## 2.10 Financial instruments and hedge activities

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

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

The types of hedges are as follows:

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

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

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

### 2.10.1 Fair value hedges

Changes in the fair value of derivates 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 Financial instruments and hedge activities (continued)

### 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)”. The Company applies this policy for the hedge of its investment in the subsidiary Transelec Norte S.A., which is not a foreign operation but has a different functional currency than the Parent Company (US Dollars).

### 2.10.4 Derivatives not recorded as hedge accounting

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

### 2.10.5 Embedded derivatives

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

In the periods presented in these 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 consolidated 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.

### 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.

### 2.15 Income tax and deferred taxes (continued)

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

Deferred tax assets and tax credits are recognized only when it is likely that there are future tax profits sufficient enough to recover deductions for temporary differences and make use of tax losses.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced 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 Employee vacation

The Company recognizes personnel vacation expenses on an accrual basis. This benefit is provided to all personnel and is a fixed amount based on each employee's particular contract. This benefit is recorded at nominal value.

#### 2.16.2 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. 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.

## 2.16 Employee benefits (continued)

### 2.16.2 Staff severance indemnity

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

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

### 2.16.3 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.

## 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 financial statements, Transelec and subsidiaries 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. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto.

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

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

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

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

### 2.20.2 The Company as lessee

Finance leases in which Transelec 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.

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 financial statements in the period in which they are approved by the Company's shareholders.

### 2.21 Distribution of dividends (continued)

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

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

## NOTE 3 - RISK MANAGEMENT POLICY

### 3.1 Financial risk

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

#### 3.1.1 Market risk

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

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

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

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

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

## 3.1 Financial risk (continued)

### 3.1.1 Market risk (continued)

#### 3.1.1.1 Interest rate risk

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

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

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

The table below compares the debts of the Company and shows that majority of the debt as of September 30, 2013 and December 31, 2012 were at fixed rate. However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

| Deb | Currency or index | Interest Rate | Type of rate | Amount in Original Currency (thousand) September 30, 2013 | December 31, 2012 |
|---|---|---|---|---|---|
| Bono Series C | UF | 3.50% | Fixed | 6,000 | 6,000 |
| Bono Series D | UF | 4.25% | Fixed | 13,500 | 13,500 |
| Bono Series E | UF | 3.90% | Fixed | 3,300 | 3,300 |
| Bono Series F | CLP | 5.70% | Fixed | 33,600,000 | 33,600,000 |
| Bono Series H | UF | 4.80% | Fixed | 3,000 | 3,000 |
| Bono Series I | UF | 3.50% | Fixed | 1,500 | 1,500 |
| Bono Series K | UF | 4.60% | Fixed | 1,600 | 1,600 |
| Bono Series L | UF | 3.65% | Fixed | 2,500 | 2,500 |
| 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 | -.- |
| Senior Notes | USD | 4.625% | Fixed | 300,000 | -.- |
| Revolving Credit Facility | USD | 2.76% | Variable (*) | -.- | 120,000 |
| Portigom-WestLB. | USD | 1.77% | Variable (*) | 22,664 | 23,056 |

(*) The floating interest rate may correspond to a 3- month Libor and includes a margin of 1.5%

### 3.1 Financial risk (continued)

### 3.1.1 Market risk (continued)

### 3.1.1.1 Interest rate risk (continued)

The Company has mercantile current accounts with related companies denominated in US dollars that have a variable interest rate. Given the fact that the Company's net assets with variable interest rates are an insignificant portion of its total assets, the Company believes that its income is not exposed to significant risk from changes in market interest rates.

However, increases in inflation could impact the cost of UF-denominated debt and, therefore, the Company's financial expenses. These impacts are to some extent offset by the mechanism of indexation of the Company's revenues, which are also adjusted for inflation using indexation formulas.

### 3.1.1.2 Exchange rate risk

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

- The revenues of its subsidiary Transelec Norte are denominated in U.S. dollars.
- Transelec carries out several types of transactions in U.S. dollars (certain construction contracts, import purchases, etc.).
- Transelec uses forward contracts to sell U.S. dollars to hedge future revenues denominated in the U.S. dollars. Transelec also uses a currency forward contract with its parent; this allows it to finance U.S. dollar-denominated assets of its subsidiary.

Exchange rate exposure is managed using an approved policy 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 as of September 30, 2013 and December 31, 2012:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | September 30, 2013 MCh$ | December 31, 2012 MCh$ | September 30, 2013 MCh$ | December 31, 2012 MCh$ |
| U.S. dollar (amounts associated with balance sheet items) | 205,909.03 | 102,918.40 | 188,446.80 | 75,915.80 |
| U.S. dollar (amounts associated with income statement items) | 18,604.98 | 31,389.40 | -.- | -.- |
| Chilean peso | 1,084,747.17 | 974,211.20 | 1,982,882.10 | 1,878,851.70 |

## 3.1 Financial risk (continued)

### 3.1.1 Market risk (continued)

### 3.1.1.2 Exchange rate risk (continued)

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

#### 3.1.1.2.1 Sensitivity analysis

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

| Item (Currency) | Position MCh$ Long /(Short) | Net income (gain)/loss MCh$ Change (-10%) | Net income (gain)/loss MCh$ Change (+10%) | Position MCh$ Long /(Short) | OCI (gain)/loss MCh$ Change (-10%) | OCI (gain)/loss MCh$ Change (+10%) |
|---|---|---|---|---|---|---|
| Receivables (US$) | 4,106 | 373 | (411) | -. - | -.- | -.- |
| Payables (US$) | (2,365) | (215) | 236 | -.- | -.- | -.- |
| Cash (US$) | 119,298 | 10,845 | (11,930) | -.- | -.- | -.- |
| Forwards (assets) (US$) | (12,101) | (1,100) | 1,210 | (67,764) | (6,160) | 6,776 |
| Forwards (income) | -.- | -.- | -.- | (18,605) | (1,691) | 1,860 |
| Senior Notes and Huepil Credit (US$) | (160,322) | (14,575) | 16,032 | -.- | -.- | -.- |
| Intercompany loan (US$) | 1,548 | 141 | (155) | -.- | -.- | - |
| PPE (US$) | -.- | -.- | -.- | 65,033 | 5,912 | (6,503) |
| Other (US$) | 6,493 | 590 | (649) | -.- | -.- | -.- |
| Total | (43,343) | (3,941) | 4,333 | (21,336) | (1,939) | 2,133 |

### 3.1 Financial risk (continued)

### 3.1.2 Credit risk

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

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

| **Revenues** | **For the period 9 months ended September 30, 2013 ThCh$** | **For the period 9 months ended September 30, 2012 ThCh$** |
|---|---|---|
| Endesa Group | 42,709,703 | 65,720,790 |
| Colbún Group | 45,063,675 | 17,917,017 |
| Pacific Hydro-LH-LC Group | 32,797,477 | 16,428,120 |
| AES Gener Group | 20,322,409 | 19,560,954 |
| Others | 18,060,941 | 41,696,130 |
| Total | 158,954,205 | 161,323,011 |
| % of concentration of 4 top customers | 88.64% | 74.15% |

The toll agreements signed with these clients, including its subsidiaries will generate a large part of the Company's future cash flows. Therefore, a substantial change in their assets, financial condition or operating income could negatively affect the Company.

During 2011 certain insolvency problems of some of the members of the CDEC-SIC were observed.

In terms of the Company's credit risk associated with other financial assets (time deposits, fixed-return mutual funds and reverse repurchase agreements, net asset position from derivative contracts), the 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.

**3.1 Financial risk (continued)**

**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.

In order to guarantee that Transelec is able to quickly react 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 ThCh$ 126,050. As of the balance sheet date, does notregister balance of used amounts. This committed line of credit was contracted on July 9, 2012, is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi and DnB NOR.

The Company is exposed to risks associated with indebtedness, including refinancing risk when its debt matures.

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

The following table presents the capital amortizations and interest payments corresponding to the Company's financial liabilities (debt), according to their maturity date, as of September 30, 2013.

| Debt maturity | Less than 1 Years | 1 to 3 Years | 3 to 5 Years | 5 to 10 Years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| September 30, 2013 | 145,451,394 | 198,550,722 | 2,763,016 | 156,015,614 | 637,425,369 | 1,140,206,116 |
| December 31, 2012 | 57,639,841 | 202,292,834 | 137,044,500 | -.- | 559,598,375 | 954,575,550 |

**b) Associated risk to the settlement of trunk transmission system tariff revenues**

According to Decree N°4/20.018 from the Ministry of Economy, Fomentation and Reconstruction, in its articles 81, 101, 104 and 106, and complementary rules, Transelec has the right to perceive on a provisory basis the real tariff income (IT for its name in Spanish) of the trunk transmission system generated for every period. In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20.018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by the respective CDEC (Center of Economic Dispatch of Charge) through the collection or payment to the different companies, owners of generation facilities.

## 3.1 Financial risk (continued)

### 3.1.3 Liquidity risk

**b) Associated risk to the settlement of trunk transmission system tariff revenues (continued)**

Transelec could face the risk of not timely collecting the IT that some of the companies owners of generation facilities should pay as determined in the energy balances prepared by CDEC, what may temporarily affect the Company's liquidity position. In this sense, and in the opinion of the Company, the "clearing house" function that Transelec fulfils in the above-mentioned collection process, consists not of the collection of amounts for its own benefit, but it is merely collection and subsequent transfers to third parties of credits and debts that belong to the generating companies, with the exception of the expected IT.

## 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 a material adjustment to the balances of assets and liabilities 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.

## NOTE 5 - CASH AND CASH EQUIVALENTS

a) As of September 30, 2013 and December 31, 2012, this account is detailed as follows:

| Cash and Cash Equivalents | Balance as of September 30, 2013 ThCh$ | Balance as of December 31, 2012 ThCh$ |
|---|---|---|
| Bank and cash balances | 3,861,247 | 33,614,700 |
| Short-term deposits | 111,212,817 | 3,044,660 |
| Reverse repurchase agreements and mutual funds | 67,138,148 | 1,296,594 |
| Total | 182,212,212 | 37,955,954 |

Cash and cash equivalents included in the statement of financial position as of September 30, 2013 and December 31, 2012, does not differ from those presented in the statement of cash flows.

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

| Detail of Cash and Cash Equivalents | Currency | Balance as of September 30, 2013 ThCh$ | Balance as of December 31, 2012 ThCh$ |
|---|---|---|---|
| Amount of cash and cash equivalents | U.S. dollars | 119,057,050 | 19,820,861 |
| Amount of cash and cash equivalents | Euros | 21,528 | -.- |
| Amount of cash and cash equivalents | Chilean pesos | 63,133,634 | 18,135,093 |
| Total | | 182,212,212 | 37,955,954 |

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 September 30, 2013 and December 31, 2012, this account is detailed as follows:

| Item | Balance as of September 30, 2013 Current ThCh$ | Balance as of December 31, 2012 Current ThCh$ |
|---|---|---|
| Trade receivables | 45,326,589 | 48,820,533 |
| Miscellaneous receivables | 677,266 | 566,552 |
| Total trade and other receivables | 46,003,855 | 49,387,085 |

Refer to Note 7 for the amounts, terms and conditions of receivables from related parties. As of September 30, 2013 and December 31, 2012, the aging of trade and other receivables is as follows:

| | Balance as of | |
|---|---|---|
| | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
| Maturing in less than 30 days | 33,527,620 | 27,777,749 |
| Maturing in more than 30 days up to 1 year | 12,476,235 | 21,609,336 |
| Total | 46,003,855 | 49,387,085 |

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 SA the amount of ThCh$ 6,345,762 (as of September 30, 2011) from tolls and tariff revenue. 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 of ThCh$ 1,026,284 relating to accounts receivable for items other than tariff revenues for which - at the date of the presentation of these financial statements - there is no certainty that the Company will recover.

## NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

### 7.1 Balances and transactions with related parties

Transactions between the Company and its subsidiaries consist of customary transactions in terms of their objective and conditions. These transactions have been eliminated in the consolidation process and are not presented in this Note.

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

**Receivables from related parties**

| | | | | | | Balance as of | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Current | | Non-Current | |
| Taxpayer ID Number | Company | Description | Term of transaction | Relationship | Currency | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Mercantile current account | Not defined | Direct parent | Ch$ | 2,705,829 | 6,059,980 | -.- | -.- |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Mercantile current account | 6 months | Direct parent | UF | 547,659 | 57,860 | -.- | -.- |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Loan | 6 years | Direct parent | UF | -.- | -.- | 71,006,167 | 69,581,888 |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Loan | 3 years | Direct parent | Ch$ | -.- | -.- | 75,901,840 | -.- |
| 76.559.580-0 | Rentas Electricas I Ltda. | Loan | Not defined | Indirect parent | Ch$ | 3,158,859 | -.- | -.- | -.- |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Loan | 3 years | Direct parent | Ch$ | -.- | -.- | 16,414,632 | -.- |
| 76.248.725-K | CyT Operaciones SpA | Mercantile current account | Not defined | Indirect | US$ | 57,646 | -.- | -.- | -.- |
| 76.248.725-K | CyT Operaciones SpA | Price Balance | Not defined | Indirect | US$ | 943,148 | 86,531,517 | -.- | -.- |
| Total | | | | | | 7,413,141 | 92,649,357 | 163,322,639 | 69,581,888 |

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

**Payables to related parties**

| Taxpayer ID Number | Company | Description | Term of transaction | Relationship | Currency | Balance as of – Current – September 30, 2013 ThCh$ | Balance as of – Current – December 31, 2012 ThCh$ | Balance as of – Non-Current – September 30, 2013 ThCh$ | Balance as of – Non-Current – December 31, 2012 ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Loan | 5 years and 7 months | Direct parent | US$ | -.- | -.- | 38,813,984 | 36,947,376 |
| **Total** | | | | | | **-.-** | **-.-** | **38,813,984** | **36,947,376** |

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

Transactions with unconsolidated related parties had the following effects on the income statement for the periods September 30, 2013 and December 31, 2012:

| Taxpayer ID Number | Company | Relationship | Description of | September 30, 2013 ThCh$ Amount | September 30, 2013 ThCh$ Effect on Income | December 31, 2012 ThCh$ Amount | December 31, 2012 ThCh$ Effect on Income |
|---|---|---|---|---|---|---|---|
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Direct parent | Loans granted | 93,286,472 | -.- | -.- | -.- |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Direct parent | Loans paid | -.- | -.- | 3,870,835 | -.- |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Direct parent | Interest earned | 6,525,161 | 6,525,161 | 2,648,059 | 2,648,059 |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Direct parent | Interest accrued | 1,188,150 | (1,188,150) | 1,586,062 | (1,586,062) |
| 76.560.200-9 | Transelec Holdings Rentas Ltda. | Direct parent | Interest received | -.- | -.- | 4,494,218 | -.- |
| 76.559.580-0 | Rentas Eléctricas I Ltda. | Indirect parent | Loans granted | 3,158,859 | -.- | | |
| 76.248.725-K | CyT Operaciones SpA. | Indirect | Sale of project | 1,576,134 | 1,328,647 | 102,899,637 | 2,538,189 |

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

## 7.2 Board of Directors and management

In accordance with the Company's by-laws, the Board of Directors of Transelec 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. The current Board of Directors was elected in the Ordinary General Shareholders' Meeting on April 26, 2013. The current Chairman of the Board was elected at Board meeting dated May 23, 2013.

### 7.2.1 Board of Directors' compensation

As established in Article No. 33 of Law No. 18,046 on Corporations, on the Second Ordinary Shareholders' Meeting of Transelec S.A., held on June 21, 2013, shareholders established annual gross compensation for the Company's Directors of the equivalent of US$ 90,000, regardless of the number of sessions actually attended or held. Allowances are paid on a quarterly basis.

Directors Jeffrey Blidner, Bruce Hogg, Patrick Charbonneau and Brenda Eaton waived their respective allowances. Accordingly, the following compensation was received by directors during the periods 2013 and 2012:

| | September 30, 2013<br>ThCh$ | September 30, 2012<br>ThCh$ |
|---|---|---|
| Blas Tomic Errázuriz | 28,071 | 26,398 |
| José Ramón Valente Vias | 28,071 | 26,398 |
| Alejandro Jadresic Marinovic | 28,071 | 26,398 |
| Mario Alejandro Valcarce Duran | 28,071 | 26,398 |
| Bruno Pedro Philippi Irarrazabal | 28,071 | 26,398 |

As established in article 8 of its by-laws, the Directors of the Company's subsidiary, Transelec Norte, S.A. do not receive compensation for their services.

## 7.3 Board expenses

During the periods 2013 and 2012, no payments were made for Board expenses.

### 7.4 Audit committee

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

They hold their positions for two years and may be re-elected. The Committee appoints a Chairman-from among its members-and a Secretary, who may be one of its members or the Secretary of the Board of Directors. The Audit Committee held one meeting in the period 2013 and one meeting in the period 2012.

As of September 30, 2013, the Audit Committee members included Chairman Mario Valcarce Duran, Directors Patrick Charbonneau, José Ramón Valente Vías and Brenda Eaton and Secretary Arturo Le Blanc Cerda. The Committee members are entitled to receive compensation as determined by shareholders at the Ordinary Shareholders' Meeting.

On the Quarter Ordinary Shareholders' Meeting of Transelec S.A., held on April 27, 2012, 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 2013 and 2012:

| | **September 30, 2013 ThCh$** | **September 30, 2012 ThCh$** |
|---|---|---|
| Mario Alejandro Valcarce Duran | 4,800 | 5,192 |
| José Ramón Valente | 4,800 | 5,192 |

### 7.5 Compensation of key management that are not Directors

**Members of Key Management**

| | |
|---|---|
| Andrés Kuhlmann Jahn | Chief Executive Officer |
| Eric Ahumada Gomez | 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 |
| Jorge Lagos Rodríguez | Corporate Affairs Manager |
| Juan Carlos Araneda Tapia | Electrical Development Manager |

### 7.5 Compensation of key management that are not Directors (continued)

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 2013 and 2012 is detailed as follows:

| | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Salaries | 1,058,243 | 1,105,225 |
| Short-term employee benefits | 431,874 | 412,527 |
| Long-term employee benefits | 174,238 | 419,804 |
| Total compensation received by key management personnel | 1,664,355 | 1,937,556 |

## NOTE 8 - INVENTORY

As of September 30, 2013 and December 31, 2012, this account is detailed as follows:

| | Balance as of | |
|---|---|---|
| **Classes of inventory** | **September 30, 2013 ThCh$** | **December 31, 2012 ThCh$** |
| Safety equipment | 28,301 | 28,301 |
| Total | 28,301 | 28,301 |

## NOTE 9 - OTHER FINANCIAL ASSETS

As of September 30, 2013 and December 31, 2012, this account is detailed as follows:

| | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Finance lease receivables current | 748,387 | 669,329 |
| Forward agreement | 59,275 | -.- |
| Sub-total Other financial assets current | 807,662 | 669,329 |
| | | |
| Finance lease receivables non-current | 43,411,044 | 34,465,605 |
| Other financial assets | 278,848 | 303,955 |
| Sub-total Other financial assets non-current | 43,689,892 | 34,769,560 |
| Total | 44,497,554 | 35,438,889 |

## 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:

**September 30, 2013**

| Period in Years | Present Value (net investment) ThCh$ | Interest receivable ThCh$ | Nominal value (gross investment) ThCh$ |
|---|---|---|---|
| Less than 1 | 748,387 | 3,668,365 | 4,416,752 |
| 1-5 | 3,410,100 | 14,257,023 | 17,667,123 |
| Over 5 | 40,000,944 | 52,873,092 | 92,874,036 |
| Total | 44,159,431 | 70,798,480 | 114,957,911 |

**December 31, 2012**

| Period in years | Present Value (net investment) ThCh$ | Interest receivable ThCh$ | Nominal value (gross investment) ThCh$ |
|---|---|---|---|
| Less than 1 | 669,329 | 2,855,370 | 3,524,699 |
| 1-5 | 3,235,803 | 11,634,743 | 14,870,546 |
| Over 5 | 31,229,802 | 40,217,103 | 71,446,905 |
| Total | 35,134,934 | 54,707,216 | 89,842,150 |

## 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:

| | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Real estate lease | 455,240 | 418,174 |
| Other leases | 497,190 | 419,104 |
| Total operating leases | 952,430 | 837,278 |

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 | 606,987 | 2,427,948 | -.- |
| Other leases | 662,920 | 2,651,680 | -.- |
| Total operating leases | 1,269,907 | 5,079,628 | -.- |

## NOTE 10 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of September 30, 2013 and December 31, 2012:

| Intangible assets, net | September 30, 2013<br>ThCh$ | December 31, 2012<br>ThCh$ |
|---|---|---|
| Rights of way | 154,274,970 | 152,969,673 |
| Software | 1,553,757 | 849,982 |
| Goodwill | 342,304,205 | 348,371,203 |
| Total intangible assets, net | 498,132,932 | 502,190,858 |

| Intangible assets, gross | September 30, 2013<br>ThCh$ | December 31, 2012<br>ThCh$ |
|---|---|---|
| Rights of way | 154,274,970 | 152,969,673 |
| Software | 5,129,623 | 4,127,431 |
| Goodwill | 342,304,205 | 348,371,203 |
| Total intangible assets | 501,708,798 | 505,468,307 |

| Accumulated amortization and impairment | September 30, 2013<br>ThCh$ | December 31, 2012<br>ThCh$ |
|---|---|---|
| Software | (3,575,866) | (3,277,449) |
| Total accumulated amortization | (3,575,866) | (3,277,449) |

The composition and movements of intangible assets during the period 2013 and 2012 are the following:

**Period 2013**

| Movements in intangible assets | Rights of way<br>ThCh$ | Software<br>ThCh$ | Goodwill<br>ThCh$ | Net intangible assets<br>ThCh$ |
|---|---|---|---|---|
| Opening balance as of January 1, 2013 | 152,969,673 | 849,982 | 348,371,203 | 502,190,858 |
| Movements in intangible assets | | | | |
| Additions | 1,041,659 | 997,490 | -.- | 2,039,149 |
| Amortization | -.- | (293,715) | -.- | (293,715) |
| Translation difference | 263,638 | -.- | 509,398 | 773,036 |
| Other increases (decreases) | -.- | -.- | (6,576,396)* | (6,576,396) |
| Ending balance of intangible assets as of September 30 , 2013 | 154,274,970 | 1,553,757 | 342,304,205 | 498,132,932 |

(*) Corresponds to the adjustment of goodwill related to the acquisition of Inversiones Eléctricas Transam Chile Ltda. and its subsidiaries in December 2012 (see Note 1). The values of certain assets and liabilities at the date of acquisition were provisional. During the first half of 2013 the Company obtained certain additional information relating to the contracts of the subsidiaries acquired and adjusted the valuation of assets and consequently also the amount of goodwill changed. The valuation is still not completed and the Company expects to complete it definitively during the second half of 2013 in the measurement period set in IFRS 3.

**Year 2012**

| Movements in intangible assets | Rights of way<br>ThCh$ | Software<br>ThCh$ | Goodwill<br>ThCh$ | Net intangible assets<br>ThCh$ |
|---|---|---|---|---|
| Opening balance as of January 1, 2012 | 148,448,704 | 815,158 | 338,897,614 | 488,161,476 |
| Movements in intangible assets | | | | |
| Additions | 4,897,068 | 352,349 | 9,473,589 | 14,723,006 |
| Amortization | -.- | (309,913) | -.- | (309,913) |
| Translation difference | (376,099) | (7,612) | -.- | (383,711) |
| Other increases (decreases) | -.- | -.- | -.- | -.- |
| Ending balance of intangible assets as of December 31 , 2012 | 152,969,673 | 849,982 | 348,371,203 | 502,190,858 |

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of September 30, 2013 and December 31, 2012, 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 | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Land | 21,190,332 | 20,983,480 |
| Buildings and infrastructure | 792,487,125 | 782,651,737 |
| Machinery and equipment | 371,218,367 | 351,440,492 |
| Other property, plant and equipment | 4,356,215 | 4,468,080 |
| Property, plant and equipment, net | 1,189,252,039 | 1,159,543,789 |

| Property, plant and equipment, gross | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Land | 21,190,332 | 20,983,480 |
| Buildings and infrastructure | 958,790,145 | 930,526,162 |
| Machinery and equipment | 492,732,582 | 458,330,044 |
| Other property, plant and equipment | 4,356,215 | 4,468,080 |
| Total property, plant and equipment, gross/ | 1,477,069,274 | 1,414,307,766 |

| Total accumulated depreciation and impairment, property, plant and equipment, net | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Buildings and infrastructure | (166,303,020) | (147,874,425) |
| Machinery and equipment | (121,514,215) | (106,889,552) |
| Total accumulated depreciation and impairment, property, plant and equipment | (287,817,235) | (254,763,977) |

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

| Period 2013 | | Land | Buildings and infrastructure | Machinery and equipment | Other property, plant and equipment | Property, plant and equipment, net |
|---|---|---|---|---|---|---|
| Opening balance January 1, 2013 | | 20,983,480 | 782,651,737 | 351,440,492 | 4,468,080 | 1,159,543,789 |
| Movement | Additions | 135,185 | 18,728,885 | 37,267,692 | -.- | 56,131,762 |
| | Retirements | -.- | (1,187,003) | (2,561,807) | (125,429) | (3,874,239) |
| | Depreciation expense | -.- | (19,316,334) | (15,630,812) | -.- | (34,947,146) |
| | Translation adjustment | 71,667 | 2,145,369 | 702,802 | 13,564 | 2,933,402 |
| | Other increases (decreases) | -.- | 9,464,471 | -.- | -.- | 9,464,471 |
| Ending balance as of September 30, 2013 | | 21,190,332 | 792,487,125 | 371,218,367 | 4,356,215 | 1,189,252,039 |

| Year 2012 | | Land | Buildings and infrastructure | Machinery and equipment | Other property, plant and equipment | Property, plant and equipment, net |
|---|---|---|---|---|---|---|
| Opening balance January 1, 2012 | | 20,668,591 | 780,897,957 | 349,626,007 | 1,852,680 | 1,153,045,235 |
| Movement | Additions | 430,904 | 100,863,139 | 25,411,530 | 263,705 | 126,969,278 |
| | Retirements | -.- | (84,445,437) | (1,868,540) | -.- | (86,313,977) |
| | Depreciation expense | -.- | (24,869,011) | (21,026,175) | -.- | (45,895,186) |
| | Translation adjustment | (116,015) | (4,104,258) | (702,330) | (517) | (4,923,120) |
| | Other increases (decreases) | -.- | 14,309,347 | -.- | 2,352,212 | 16,661,559 |
| Ending balance as of December 31, 2012 | | 20,983,480 | 782,651,737 | 351,440,492 | 4,468,080 | 1,159,543,789 |

### 11.3 Additional information on property, plant and equipment

Transelec has taken out insurance policies to cover possible risks related to its tangible assets as well as possible claims related to its activities that may arise. These policies are understood to sufficiently cover the risks to which the Company is exposed.

As of September 30, 2013 and December 31, 2012, the Company maintained commitments to acquire tangible assets related to EPC construction contracts totaling ThCh$ 116,357,141 and ThCh$ 117,294,073, respectively.

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

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Capitalization rate (Annual basis) | 5.64% | 5.91% |
| Capitalized interest costs (ThCh$) | 551,285 | 1,937,556 |

Work in progress balances amounts to ThCh$ 44,968,973 and ThCh$ 101,568,901 and as of September 30, 2013, and 2012, respectively.

**NOTE 12 - DEFERRED TAXES**

**12.1 Detail of deferred tax assets and liabilities**

The origin of the deferred taxes recorded as of September 30, 2013 and December 31, 2012, is detailed as follows:

| Temporary differences | Net deferred taxes | |
|---|---|---|
| | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
| Depreciable fixed assets | (8,756,274) | 6,842,751 |
| Prepaid bond expenses | (1,094,497) | (1,216,263) |
| Leased assets | (6,985,274) | (4,272,499) |
| Materials and spare parts | 427,946 | 411,803 |
| Tax losses | 22,547,153 | 17,297,470 |
| Staff severance indemnities provision | (29,459) | (21,849) |
| Deferred income | 881,697 | 690,539 |
| Investment value provision | 9,596 | 9,596 |
| Lawsuit provision | 74,157 | 45,345 |
| Obsolescence provision | 20 | 20 |
| Assets under construction | 467,021 | 497,907 |
| Vacation provisions | 245,621 | 255,443 |
| Intangible assets | (9,385,072) | (10,031,296) |
| Adjustment of effective interest rate of bonds | (1,879,189) | (1,508,789) |
| Land | 427,846 | 218,395 |
| Allowance for doubtful receivables | 205,257 | 279,297 |
| Prepaid expenses | (19,606) | -.- |
| Forward contract | (18,983) | -.- |
| **Net deferred tax assets/(liabilities)** | (2,882,040) | 9,497,870 |
| **Reflected in the statement financial position as follows:** | | |
| Deferredtaxassets | 5,636,757 | 15,608,137 |
| Deferred tax liabilities | (8,518,797) | (6,110,267) |
| **Net deferred tax assets/(liabilities)** | (2,882,040) | 9,497,870 |

### 12.2 Deferred tax movements in statement of financial position

The movements of balances of deferred taxes in the consolidated statement of financial position for the periods 2013 and 2012 are as follows:

| Deferred tax movements | Asset ThCh$ | Liability ThCh$ |
|---|---|---|
| **Balance as of January 1, 2012** | 23,689,884 | 3,502,644 |
| Increase (decrease) | (8,081,747) | 2,745,067 |
| Translation adjustment | -.- | (137,444) |
| **Balance as of December 31, 2012** | 15,608,137 | 6,110,267 |
| Increase (decrease) | (9,971,380) | 2,099,640 |
| Translation adjustment | -.- | 308,890 |
| **Balance as of September 30, 2013** | 5,636,757 | 8,518,797 |

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 September 30, 2013 and December 31, 2012 is as follows:

| Interest bearing loans | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Current ThCh$ | Non- current ThCh$ | Current ThCh$ | Non- current ThCh$ |
| Bonds payable | 10,048,201 | 1,114,705,651 | 7,917,373 | 883,196,168 |
| **Total bonds payable** | 10,048,201 | 1,114,705,651 | 7,917,373 | 883,196,168 |
| Bank loans payable | 921,137 | 9,382,266 | 58,530,647 | 9,426,521 |
| Forward contract | -.- | -.- | 334,766 | -.- |
| **Total obligations with banks** | 921,137 | 9,382,266 | 58,865,413 | 9,426,521 |
| **Total** | 10,969,338 | 1,124,087,917 | 66,782,786 | 892,622,689 |

## 13.2 Detail of other financial liabilities

The detail of other current financial liabilities is as follows:

| Instrument registration number | Series | Nominal amount placed outstanding | Indexati on unit | Nominal interest are | Effective interest rate | Final maturity | Periodicity Interest payments | Periodicity Principal payments | Par value September 30, 2013 ThCh$ | Par value December 31, 2012 ThCh$ | Placement in Chile or abroad |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 481 | C | 6,000,000 | UF | 3.50% | 4.03% | 3-1-2013 | Semiannually | At the end | 435,139 | 1,781,859 | Chile |
| 480 | D | 13,500,000 | UF | 4.25% | 4.37% | 12-15-2013 | Semiannually | At the end | 3,315,031 | 1,131,935 | Chile |
| 598 | E | 3,300,000 | UF | 3.90% | 3.82% | 2-1-2014 | Semiannually | At the end | 469,783 | 1,187,926 | Chile |
| 598 | F | 33,600,000,000 | $ | 5.70% | 5.79% | 2-1-2014 | Semiannually | At the end | 310,897 | 795,468 | Chile |
| 599 | H | 3,000,000 | UF | 4.80% | 4.79% | 2-1-2014 | Semiannually | At the end | 534,148 | 1,351,300 | Chile |
| 598 | I | 1,500,000 | UF | 3.50% | 3.79% | 3-1-2014 | Semiannually | At the end | 103,732 | 425,437 | Chile |
| 599 | K | 1,600,000 | UF | 4.60% | 4.61% | 3-1-2014 | Semiannually | At the end | 134,199 | 552,413 | Chile |
| 598 | L | 2,500,000 | UF | 3.65% | 3.92% | 12-15-2013 | Semiannually | At the end | 559,352 | 186,671 | Chile |
| 599 | M | 1,500,000 | UF | 4.05% | 4.26% | 12-15-2013 | Semiannually | At the end | 356,669 | 119,189 | Chile |
| 599 | M-1 | 1,900,000 | UF | 4.05% | 4.23% | 12-15-2013 | Semiannually | At the end | 452,698 | 151,273 | Chile |
| 599 | N | 3,000,000 | UF | 3.95% | 4.29% | 12-15-2013 | Semiannually | At the end | 700,053 | 233,902 | Chile |
| 744 | Q | 3,100,000 | UF | 3.95% | 4.02% | 11-15-2013 | Semiannually | At the end | 1,305,146 | -,- | Chile |
| 601 | Sr N | 300,000,000 | US$ | 4.625% | 5.10% | 1-26-2014 | Semiannually | At the end | 1,371,354 | -.- | Foreign |
| Total Bonds payable – non-current portion | | | | | | | | | 10,048,201 | 7,917,373 | |
| Bank loans payable | | | | | | | | | 921,137 | 58,530,647 | |
| Forward contracts | | | | | | | | | -,- | 334,766 | |
| Total long term | | | | | | | | | 10,969,338 | 66,782,786 | |

## 13.2 Detail of other financial liabilities (continued)

| Instrument registration number | Series | Nominal amount placed outstanding | Indexation unit | Nominal interest are | Effective interest rate | Final maturity | Periodicity | | Par value | | Placement in Chile or abroad |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Interest payments | Principal payments | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ | |
| 481 | C | 6,000,000 | UF | 3.50% | 4.03% | 9-1-2016 | Semiannually | At the end | 136,532,764 | 134,439,685 | Chile |
| 480 | D | 13,500,000 | UF | 4.25% | 4.37% | 12-15-2027 | Semiannually | At the end | 308,371,987 | 303,839,090 | Chile |
| 598 | E | 3,300,000 | UF | 3.90% | 3.82% | 8-1-2014 | Semiannually | At the end | 76,259,650 | 75,489,536 | Chile |
| 598 | F | 33,600,000,000 | CLP | 5.70% | 5.79% | 8-1-2014 | Semiannually | At the end | 33,573,212 | 32,963,328 | Chile |
| 599 | H | 3,000,000 | UF | 4.80% | 4.79% | 8-1-2031 | Semiannually | At the end | 69,305,084 | 67,737,670 | Chile |
| 598 | I | 1,500,000 | UF | 3.50% | 3.79% | 9-1-2014 | Semiannually | At the end | 34,539,899 | 34,657,920 | Chile |
| 599 | K | 1,600,000 | UF | 4.60% | 4.61% | 9-1-2031 | Semiannually | At the end | 36,912,088 | 37,328,283 | Chile |
| 598 | L | 2,500,000 | UF | 3.65% | 3.92% | 12-15-2015 | Semiannually | At the end | 57,455,994 | 56,588,400 | Chile |
| 599 | M | 1,500,000 | UF | 4.05% | 4.26% | 6-15-2032 | Semiannually | At the end | 33,772,680 | 33,278,059 | Chile |
| 599 | M-1 | 1,900,000 | UF | 4.05% | 4.23% | 6-15-2032 | Semiannually | At the end | 42,670,883 | 42,043,467 | Chile |
| 599 | N | 3,000,000 | UF | 3.95% | 4.29% | 12-15-2038 | Semiannually | At the end | 65,804,135 | 64,830,730 | Chile |
| 744 | Q | 3,100,000 | UF | 3.95% | 4.02% | 10-15-2042 | Semiannually | At the end | 69,510,863 | -.- | Chile |
| 601 | Sr N | 300,000,00 | US$ | 4.625% | 5.10% | 7-26-2023 | Semiannually | At the end | 149,996,412 | -.- | Foreign |
| Total Bonds payable – non-current portion | | | | | | | | | 1,114,705,651 | 883,196,168 | |
| Bank loans payable | | | | | | | | | 9,382,266 | 9,426,521 | |
| Total long term | | | | | | | | | 1,124,087,917 | 892,622,689 | |

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh$ 1,140,206,116 and ThCh$ 954,575,550 as of September 30, 2013 and December 31, 2012, respectively. (it does not include other current and non-current liabilities such as swap or forwards agreements which are presented in the 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.

### 13.3 Other aspects

As of September 30, 2013, Transelec had available a credit line of US$ 250 million whichat the balance sheet date it did not have any drawn pending and as of December 31, 2012 this was credit line of US$250 million available, US$120 million were drawn in December 2012, remaining available US$130 million equivalentsto ThCh$ 62,394,800.

Many of the Company's debt agreements include an obligation to comply with certain covenants, including certain financial ratios (see Note 18), 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 September 30, 2013 and December 31, 2012, are detailed as follows:

| Trade and other payables | Current | | Non- current | |
|---|---|---|---|---|
| | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
| Trade and other payables | 91,164,220 | 89,427,302 | -.- | -.- |
| Total | 91,164,220 | 89,427,302 | -.- | -.- |

The average payment period for suppliers in 2013 and 2012 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,
- Net investment hedge.

## 15.1 Hedge assets and liabilities

| | September 30, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset | | Liability | | Asset | | Liability | |
| | Current | Non – current | Current | Non - current | Current | Non - current | Current | Non – current |
| | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ |
| Cash flow hedge forwards (revenue) | -.- | -.- | 59,274 | -.- | -.- | -.- | 134,116 | -.- |
| Net investment hedge forward | -.- | -.- | 428,710 | -.- | 6,059,980 | -.- | -.- | -.- |
| Non-hedge forwards | -.- | -.- | 118,949 | -.- | -.- | -.- | 200,650 | -.- |
| Cash flow hedge forward (base interest rate) | 2,478,518 | -.- | -.- | -.- | -.- | -.- | -.- | -.- |
| Total | 2,478,518 | -.- | 606,933 | -.- | 6,059,980 | -.- | 334,766 | -.- |

## 15.2 Other Information

The following table details Transelec's derivatives as of September 30, 2013 and December 31, 2012, including their fair values as well as their notional and contractual values by maturity:

| Financial derivatives | Fair value | Maturity | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Before 1 year | 2014 | 2015 | 2016 | 2017 | Subsequent years | September 30, 2013 Total |
| | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ |
| Cash flow hedge forwards (revenues) | 59,274 | 59,274 | -.- | -.- | -.- | -.- | -.- | 59,274 |
| Net investment hedge forward | 428.710 | 428.710 | -.- | -.- | -.- | -.- | -.- | 428.710 |
| Non-hedge forwards | 118,949 | 118,949 | -.- | -.- | -.- | -.- | -.- | 118,949 |
| Cash flow hedge forward (base interest rate) | 2,478,518 | 2,478,518 | -.- | -.- | -.- | -.- | -.- | 2,478,518 |

## 15.2 Other Information (continued)

| Financial derivatives | Fair value ThCh$ | Before 1 year ThCh$ | Maturity 2013 ThCh$ | 2014 ThCh$ | 2015 ThCh$ | 2016 ThCh$ | 2017 ThCh$ | Subsequent years ThCh$ | December 31, 2012 Total ThCh$ |
|---|---|---|---|---|---|---|---|---|---|
| Cash flow hedge forwards | 134,116 | 134,116 | -.- | -.- | -.- | -.- | -.- | -.- | 134,116 |
| Net investment hedge forward | 6,059,980 | 6,059,980 | -.- | -.- | -.- | -.- | -.- | -.- | 6,059,980 |
| Non-hedge forwards | 200,650 | 200,650 | -.- | -.- | -.- | -.- | -.- | -.- | 200,650 |

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, September 30, 2013 and December 31, 2012, Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

Derivatives are valued considering valuation techniques which include observable data, The most commonly used valuation techniques include forward pricing and swap valuation models using present value calculations.

The models include several inputs including the credit risk of the counterparty, foreign exchange spot rate, forward rates and interest rate curves.

## 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 September 30, 2013.

| Financial instrumental measured at fair value | September 30, 2013 | Fair value measured at the end of the reporting period using Level 1 ThCh | Level 2 ThCh$ | Level 3 ThCh$ |
|---|---|---|---|---|
| **Financial asset (liability)** | | | | |
| Cash flow hedges (revenues) | (59,274) | -.- | (59,274) | -.- |
| Net investment hedge | (428,710) | -.- | (428,710) | -.- |
| Non-hedge forwards | (118,949) | -.- | (118,949) | -.- |
| Cash flow hedges (base interest rate) | 2,478,518 | -.- | 2,478,518 | -.- |
| Total, net | 1,871,585 | -.- | 1,871,585 | -.- |

### 15.3 Fair value hierarchies (continued)

The following table details financial assets and liabilities measured at fair value as of December 31, 2012.

| Financial instruments measured at fair value | December 31, 2012 | Fair value measured at the end of the reporting period using Level 1 ThCh$ | Level 2 ThCh$ | Level 3 ThCh$ |
|---|---|---|---|---|
| **Financial asset (liability)** | | | | |
| Cash flow hedge | (134,116) | -.- | (134,116) | -.- |
| Net investment hedge | 6,059,980 | -.- | 6,059,980 | -.- |
| Non-hedge | (200,650) | -.- | (200,650) | -.- |
| Total, net | 5,725,214 | -.- | 5,725,214 | -.- |

## NOTE 16 - PROVISIONS

### 16.1 Detail of provisions

As of September 30, 2013 and December 31, 2012, this account is detailed as follows:

| Detail | Current | | Non-current | |
|---|---|---|---|---|
| | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
| Staff severance indemnities (Note 17) | 196,941 | 690,072 | 3,481,743 | 3,228,405 |
| Accrued vacations | 1,228,103 | 1,277,215 | -.- | -.- |
| Profit sharing benefits | 4,653,372 | 4,351,884 | 9,530 | 9,530 |
| Other provisions | 572,708 | 514,752 | -.- | -.- |
| Total | 6,651,124 | 6,833,923 | 3,491,273 | 3,237,935 |

### 16.2 Provision movements

In 2013 and 2012, 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, 2013** | 3,918,477 | 4,361,414 | 1,277,215 | 514,752 | 10,071,858 |
| Movements in provisions: | | | | | |
| Provisions during the year | 596,087 | 3,223,421 | 743,229 | 57,956 | 4,620,693 |
| Payments | (835,880) | (2,921,933) | (792,341) | -.- | (4,550,154) |
| **Ending balance as of September 30, 2013** | 3,678,684 | 4,662,902 | 1,228,103 | 572,708 | 10,142,397 |

| 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, 2012** | 3,856,383 | 3,014,310 | 1,300,932 | 439,330 | 8,610,955 |
| Movements in provisions: | | | | | |
| Provisions during the year | 460,810 | 4,575,494 | 1,152,116 | 107,973 | 6,296,393 |
| Payments | (398,716) | (3,228,390) | (1,175,833) | (32,551) | (4,835,490) |
| **Ending balance as of December 31, 2012** | 3,918,477 | 4,361,414 | 1,277,215 | 514,752 | 10,071,858 |

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

**As of September 30, 2013**

| 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 | 196,941 | 642,001 | 582,997 | 2,256,745 |
| Accrued vacations | 1,228,103 | -.- | -.- | -.- |
| Profit sharing benefits | 4,653,372 | 9,530 | -.- | -.- |
| Other provisions | 572,708 | -.- | -.- | -.- |
| Total | 6,651,124 | 651,531 | 582,997 | 2,256,745 |

**As of December 31, 2012**

| Detail | Less than 1 year | More than 1 year and up to 3 years | More than 3 years and up to 3 years | More than 5 years |
|---|---|---|---|---|
| Staff severance indemnities | 690,072 | 388,664 | 582,997 | 2,256,744 |
| Accrued vacations | 1,277,215 | -.- | -.- | -.- |
| Profit sharing benefits | 4,351,884 | 9,530 | -.- | -.- |
| Other provisions | 514,752 | -.- | -.- | -.- |
| Total | 6,833,923 | 398,194 | 582,997 | 2,256,744 |

### 16.3 Lawsuits and arbitration proceedings

**Transelec S.A.**

1. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on March 14, 2010. Fine applied: UTA 1,645 (one thousand six hundred forty-five units per year tax) equal to ThCh$ 798,424 as of September 30, 2013. Current status: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals (Rol 3385-12). By decision dated January 18, 2013, the judicial claim was rejected. Additional Company's appeal has not been resolved on September 30, 2013.

   Probable outcome: Given the Court´s historical behavior in similar cases the most likely scenario is that the fine will be upheld.

2. Regarding the delay in commissioning the Rodeo-Chena project, and in accordance with the bidding terms and conditions, which stipulate a fine of US$30,000 per day of delay with a maximum of 60 days, the Company paid the fine amounting to US$ 1,800,000. Collection of a stand-by letter amounting to US$ 313,500 by authority is pending.

3. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on July 28, 2010 (S/E Polpaico). Fine applied: UTA 400 (four hundred tax units) equal to ThCh$ 194,146 as of September 30, 2013.

   Current status: As the motion for reconsideration filed with the SEC was rejected. Transelec filed an appeal before the Santiago Court of Appeals (Rol 5824-12). On January 3, 2013, the Court of Appeals rejected the claim and additional Company's appeal has not been resolved on September 30, 2013. Probable outcome: Given the Court´s historical behavior in similar cases the most likely scenario is that the fine will be upheld.

4. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on July 27, 2010 (S/E Polpaico). Fine applied: UTA 560 (five hundred sixty tax units) equal ThCh$ 271,804 as of September 30, 2013. Current status: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Court of Appeals of Santiago (Rol 5949-12), which by judgment dated January 28, 2013, upheld the claim and released Transelec from obligation to pay the fine. The SEC filed an appeal, which at September 30, 2013 has not been resolved by the Supreme Court. Probable outcome: It is expected that the Supreme Court will confirm the previous instance decision.

5. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on September 24, 2011 (S/E Ancoa). Fine applied: UTA 1,300 (one thousand three hundred tax units) equal to ThCh$ 630,973 as of September 30, 2013, Current status: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals (Rol 2266-13) that has not been resolved to date. Probable outcome: Given the Court´s historical behavior in similar cases the most likely scenario is that the fine will be upheld.

6. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on November 28, 2011 (Polpaico-Cerro Navia line). Fine applied: UTA 100 (one hundred tax units) equal to ThCh$ 48,536 as of September 30, 2013, Current status: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals (Rol 2476-13) that has not been resolved to date. Probable outcome: Given the Court´s historical behavior in similar cases the most likely scenario is that the fine will be upheld.

7. Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on December 13, 2011 (Itahue-Parral congestion). Fine applied: UTA 300 (three hundred tax units) equal to ThCh$ 145,609 as of September 30, 2013, Current status: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals (Rol 2519-13) that has not been resolved to date. Probable outcome: Given the Court´s historical behavior in similar cases the most likely scenario is that the fine will be upheld.

As of September 30, 2013 the Company has established a provision for these contingent liabilities totaling to ThCh$ 1,711,597, considering for the purpose of this estimate that there are similar cases in the Court of Appeals in which the Court of Appeals rejected the claim, pending the hearing of the appeal before Supreme Court, that in such cases has confirmed the decisions of the SEC. In addition, there are cases with appeals before the SEC and for which the body normally and to some extent has kept the fine charged.

8. As of September 30, 2013, the company Campanario Generación S,A, has not fulfilled its obligation to pay invoices issued by Transelec for the injection and withdrawal balances issued by the CDEC-SIC in June, July, August and September 2011. On August 3, 2011, Transelec notified the SEC of this company's failure to comply with its obligation so it could adopt legally appropriate measures.

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

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

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

   In relation with the final tolls and IT for 2011, the CDEC-SIC issued the corresponding settlement, which was also impugned by Transelec before the Panel of Experts, which through Opinion No, 2-2012 ordered CDEC-SIC to determine new settlements of tolls and final IT for 2011, declaring that Transelec S,A, is not responsible for the payments of amounts owed by Campanario Generación S.A. to generators, and also that they must pay the IT related to Campanario Generación S,A, to Transelec S.A. This new settlement issued was objected by Endesa through discrepancy filed with the Panel of Experts, which to date did not issue a final resolution. The distribution of the amount already recovered by Transelec in bankruptcy proceeding (ThCh$ 3,161,082) 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, out of which amount of ThCh$ 1,766,780 has been already recovered.

In connection with this case, the SEC presented charges against Transelec S.A., accusing it of having broken the chain of payments in the system. Transelec responded the charges and after obtaining a favorable opinion from the Panel of Experts, made a presentation to the SEC requesting to set aside the punitive process. The SEC rejected this request and fined Transelec of 600 UTA, equivalent as of September 30, 2013 to ThCh$ 288,612. An appeal for reconsideration was filed, which was also rejected. Current status: Transelec filed an appeal before the Honorable Court of Appeals of Santiago (Rol 3718-13), which to date has not been resolved. Probable outcome: given the background information supporting the appeal, it is estimated that the Court of Appeals should accept it.

In relation with this case (Campanario Generación S.A.), on May 29, 2012, Transelec was notified of the lawsuit filed by a group of generators, led by Colbún S.A. seeking the recovery of ThCh$ 1,374,898 from Transelec S.A. which corresponds to a debt of Campanario Generación S,A, consequence of its default, Transelec S.A. defense is to show that, as stated by the Panel of Experts in its Opinion No, 2-2012 cited above, it does not assume the payment of an obligation to a third party, in this case Campanario Generación S.A., as Transelec S.A. did not participate as a debtor in the "Balance of Injections and Withdrawals of Energy and Power" prepared by the CDEC-SIC, and only acts as collector of such settlements. Finally, the parties clarified their differences and proceeded to set off outstanding balances between them, and after that the plaintiffs withdrew their demand.

**Transelec Norte S.A. and subsidiaries**

As of September 30, 2013 there are no administrative sanctions

## NOTE 17 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS

### 17.1 Detail of account

| Post-employment and other benefit obligations | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Staff severance indemnity provision – current | 196,941 | 690,072 |
| Staff severance indemnity provision non – current | 3,481,743 | 3,228,405 |
| Total current and non-current obligations for post-employment benefits | 3,678,684 | 3,918,477 |

### 17.2 Detail of post-employment and other similar obligations

As of September 30, 2013 and December 31, 2012, this account is detailed as follows:

| Post-employment and other benefits obligations | Staff severance indemnity September 30, 2013 ThCh$ | Staff severance indemnity December 31, 2012 ThCh$ |
|---|---|---|
| Present value of defined benefit plan obligations opening balance | 3,918,477 | 3,856,893 |
| Current service cost of defined benefit plan obligations | 259,433 | 200,047 |
| Interest cost of defined benefit plan obligations | 336,654 | 260,253 |
| Payments | (835,880) | (398,716) |
| Present value of defined benefit obligations ending balance | 3,678,684 | 3,981,477 |

### 17.3 Balance of post-employment and other similar obligations

| | Staff severance indemnity September 30, 2013 ThCh$ | Staff severance indemnity December 31, 2012 ThCh$ |
|---|---|---|
| **Present value of defined benefit obligations, ending balance** | 3,678,684 | 3,918,477 |
| Present obligation with defined benefit plan funds | 3,678,684 | 3,918,477 |
| **Fair value of defined benefit plan assets, ending balance** | -.- | -.- |
| **Balance of defined benefit obligations, ending balance** | 3,678,684 | 3,918,477 |

### 17.4 Expenses recognized in income statement

| | Staff severance indemnity January 1, 2013 to September 30, 2013 ThCh$ | Staff severance indemnity January 1, 2012 to September 30, 2012 ThCh$ | Income statement line item where recognized |
|---|---|---|---|
| Current service cost of defined benefit plan | 259,433 | 142,140 | Cost of sales Administrative and sales expenses |
| Interest cost of defined benefit plan | 336,654 | 202,968 | Cost of sales Administrative and sales expenses |
| Total expense recognized in income statement | 596,087 | 345,108 | |

### 17.5 Actuarial hypothesis

| Detail | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Discount rate used | 3.2% | 3.2% |
| Inflation rate | 4% | 4% |
| 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,

## NOTE 18 - EQUITY

### 18.1 Subscribed and paid capital

As of September 30, 2013 and December 31, 2012, authorized, subscribed and paid share capital amounts to ThCh$857,944,548.

### 18.2 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,

### 18.3 Dividends

On April 27, 2012, the Company held its ordinary meeting of shareholders, in which it was agreed to unanimously approve a final dividend for the year 2011 for the sum of Ch$ 20,789,620,729, It was also agreed to distribute a dividend corresponding to retained earnings for 2008 for Ch$ 41,148,907,284, As of December 31, 2012 this dividend is fully paid,

On the Board of Directors meeting held on November 21, 2012, it was agreed to distribute an interim dividend for the financial year 2012, amounting to the sum of Ch$ 44,867,250,000, As of December 31, 2012 this dividend is fully paid.

On April 26, 2013, the ordinary shareholders meeting of the Company was celebrated, on which it was unanimously agreed to approve a final dividend for the year 2012, amounting to $ 16,882,000,000. As of September 30, 2013 this dividend is fully paid.

### 18.4 Other reserves

Other reserves as of September 30, 2013 and December 31, 2012 are detailed as follows:

| Description | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|
| Translation adjustment | 94,908 | (29,911) |
| Net investment hedge | 4,040,776 | 2,443,127 |
| Cash flow hedge (revenue) | 59,274 | (134,116) |
| Cash flow hedge (base interest rate) | 2,478,518 | -.- |
| Deferred taxes | (1,334,695) | (455,820) |
| Total | 5,338,781 | 1,823,280 |

The Movement and reclassifications of other comprehensive income for the period 2013 are presented below:

| | Foreign translation reserve ThCh$ | Cash flow hedges reserve ThCh$ | Total ThCh$ |
|---|---|---|---|
| **Opening balance as of January 1, 2013** | 1,930,573 | (107,293) | 1,823,280 |
| Translation adjustment | 1,915,859 | -.- | 1,915,859 |
| Valuation of derivatives | -.- | 2,478,518 | 2,478,518 |
| Deferred tax | (383,172) | (495,704) | (878,876) |
| **Closing balance as of September 30, 2013** | 3,463,260 | 1,875,521 | 5,338,781 |

### 18.5 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 sold 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:

- Maintain individual and consolidated indebtedness levels (Total debt / Total capitalization ratio) no greater than 0.7 based on the definitions of these terms in the respective prospectuses.
- Maintain minimum individual and consolidated equity of fifteen million UF equivalents to ThCh$ 346,365,450 as of September 30, 2013.

The following tables present – as of September 30, 2013 and December 31, 2012 - the calculation of the two covenants mentioned above and also a calculation of a third ratio that the Company has to comply, which does not depend on capital (equity) amount.

| **Covenant 1** | **Total debt / Total capitalization ratio**<br>**Lower or equal to 0,70** | **September 30, 2013 ThCh$** | **December 31, 2012 ThCh$** |
|---|---|---|---|
| A | Other financial liabilities, current | 10,969 | 66,783 |
| B | Payables to related parties, current | - | - |
| C | Other financial liabilities, non-current | 1,124,088 | 892,623 |
| D | Payables to related parties, non-current | 38,814 | 36,947 |
| **E=A+B+C+D** | **Covenants debt** | 1,173,871 | 996,353 |
| G | Debt with guarantees (1) | 26,161 | 19,621 |
| **DT=E+G** | **Total debt** | 1,200,032 | 1,015,974 |
| H | Non-controlling interest | 4 | 4 |
| P | Equity attributable to owners of the parent | 873,635 | 876,968 |
| I | Accumulated amortization of goodwill (as of the date of transition to IFRS) | 24,970 | 24,970 |
| **CT=DT+H+I+P** | **Total capitalization** | 2,098,641 | 1,917,916 |
| **DT/CT** | **Total debt / Total capitalization ratio** | 0.57 | 0.53 |

(1) Amount of the debt with guarantees corresponds to a guarantee issued by Transmisora Huepil Limitada, indirect subsidiary of Transelec S.A.

| **Covenant 2** | **Minimum equity**<br>**Greater than or equal to UF 15 million** | **September 30, 2013 ThCh$** | **December 31, 2012 ThCh$** |
|---|---|---|---|
| **P** | Equity attributable to owners of the parent | 873.635 | 876,968 |
| I | Accumulated amortization of goodwill (as of the date of transition to IFRS) | 24,970 | 24,970 |
| **P+I** | **Equity (in MCh$)** | 898,605 | 901,938 |
| UF | UF value | 23,091.03 | 22,840.75 |
| **(I+P)/UF** | **Equity (in UF millions)** | 38.92 | 39.49 |

| Covenant 3 | Restricted payments test<br><br>Funds from operations (FNO) / Financial costs > 1,5 | September 30, 2013 ThCh$ | December 31, 2012 ThCh$ |
|---|---|---|---|
| FO | Cash flow from operations | 198,793 | 151,603 |
| CF | Financial costs | 45,344 | 37,253 |
| IG | Income tax expense | 13,721 | 8,508 |
| **FNO=FO+CF+IG** | **Funds from operations** | 257,858 | 197,364 |
| **FNO/CF** | **Funds from operations / Financial costs** | 5.69 | 5.30 |

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

## NOTE 19 - INCOME

### 19.1 Revenue

The following table details revenue for the nine month periods ended September 30, 2013 and 2012:

| Revenue | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Revenues from regulated transmission services | 71,632,615 | 83,403,997 |
| Revenues from contractual transmission services | 84,634,733 | 77,919,014 |
| Leases revenue | 2,686,857 | -.- |
| Total revenues | 158,954,205 | 161,323,011 |

### 19.2 Other operating income

The following table details operating income for the nine month periods ended September 30, 2013 and 2012:

| Other operating income | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Financial income (Note 20,4) | 8,079,037 | 4,482,176 |
| Other gains (losses), net | 719,966 | 1,233,042 |
| Total other operating income | 8,799,003 | 5,715,218 |

## NOTE 20 - RELEVANT INCOME STATEMENT ACCOUNTS

### 20.1 Expenses by nature

The composition of cost of sales and administrative expenses by nature in the periods ended September 30, 2013 and 2012 is as follows:

| Detail | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Personnel expenses | 13,008,726 | 12,314,812 |
| Operating expenses | 10,178,781 | 18,935,206 |
| Maintenance expenses | 3,529,744 | 2,837,183 |
| Depreciation and write-offs | 37,755,854 | 34,334,537 |
| Other | 2,344,507 | 1,755,690 |
| Total | 66,817,612 | 70,177,428 |

### 20.2 Personnel expenses

As of September 30, 2013 and 2012, this account is detailed as follows:

| Detail | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Salaries and wages | 11,201,230 | 11,649,080 |
| Short-term employee benefits | 519,296 | 831,427 |
| Staff severance indemnity | 596,087 | 498,266 |
| Other long-term benefits | 743,229 | 852,020 |
| Other personnel expenses | 4,161,330 | 3,865,547 |
| Expenses capitalized on construction in progress | (4,212,446) | (5,381,528) |
| Total | 13,008,726 | 12,314,812 |

### 20.3 Depreciation and amortization

The following table details depreciation and amortization for the nine month periods ended September 30, 2013 and 2012:

| Detail | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Depreciation | 34,947,146 | 33,760,202 |
| Amortization | 293,715 | 227,374 |
| Losses from damages | 2,514,993 | 346,961 |
| Total | 37,755,854 | 34,334,537 |

### 20.4 Financial results

The Company's financial result for the nine month periods ended September 30, 2013 and 2012, is detailed as follows:

| Detail | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| **Financial income:** | **8,079,037** | **4,482,176** |
| Commercial interest earned | 318,319 | 28,108 |
| Bank interest earned | 1,235,558 | 1,839,198 |
| Interest earned from related parties | 6,525,160 | 1,334,759 |
| Other income | -.- | 631,170 |
| **Financial expenses:** | **(35,442,235)** | **(27,350,706)** |
| Interest on bonds | (30,606,782) | (25,806,718) |
| Interest on bank loans | (2,771,390) | -.- |
| Commercial interest incurred | (430,835) | (163,723) |
| Interest costs on related parties transactions | (1,188,150) | (1,192,446) |
| Other expenses | (445,078) | (187,819) |
| **Gain (loss) from indexation of UF** | **(9,037,360)** | **(10,177,396)** |
| **Foreign exchange gains (losses), net** | **(4,055,232)** | **(298,761)** |
| Positive | 8,452,614 | 2,094,188 |
| Negative | (12,507,846) | (1,795,427) |
| **Total financial result, net** | **(40,455,790)** | **(33,344,687)** |

## NOTE 21 - INCOME TAX RESULT

| Income tax expense (income) | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Current tax expense | 737,710 | 768,623 |
| Tax benefit arising from previously unrecognized tax assets used to reduce current tax expenses | -.- | -.- |
| Adjustments to current tax of prior period | -.- | -.- |
| Other current tax expenses | -.- | -.- |
| **Current tax expense, net, total** | 737,710 | 768,623 |
| Deferred tax expense relating to origination and reversal of temporary differences | 9,480,582 | 6,278,165 |
| Other deferred tax expense | -,- | -,- |
| **Deferred tax expense, net, total** | 9,480,582 | 6,278,165 |
| **Effect of change in tax situation of the entity or its shareholders** | -.- | -.- |
| **Income tax expense** | 10,218,292 | 7,046,788 |

**Reconciliation of Tax Expense Using Statutory Rate with Tax Expense**

The following table reconciles income taxes resulting from applying statutory tax rate to the "Profit Before Taxes" to the income tax expense recorded in the consolidated income statement for the periods 2013 and 2012:

| Using Effective Rate | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Tax expense at statutory rate | (10,480,154) | (11,806,788) |
| Price level restatement of equity | 1,448,430 | 1,604,950 |
| Fines | (179,028) | -.- |
| Prior year adjustments | -.- | 3,649,430 |
| Other differences increase (decrease) | (1,007,540) | (494,380) |
| Total adjustments to tax expense using statutory rate | (261,862) | 4,760,000 |
| Tax Expense at effective Rate | (10,218,292) | (7,046,788) |

| | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Statutory Tax Rate | 20.00% | 20.00% |
| Price level restatement of equity | (2.76)% | (2.72)% |
| Fines | 0.34% | -.- |
| Prior year adjustments | -.- | (6.18)% |
| Other differences increase (decrease) | 1.92% | 0.84% |
| Adjustments to Statutory Tax Rate, Total | 0.50% | (8.06)% |
| Effective Tax Rate | 19.50% | 13.70% |

The tax rate used for the period 2013 and 2012 reconciliations corresponds to 20%, a corporate tax rate that entities should pay on taxable profits based on current tax regulations.

**NOTE 22 - 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 | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Profit attributable to equity holders of parent (ThCh$) | 42,182,477 | 51,987,150 |
| Earnings available to common shareholders, basic (ThCh$) | 42,182,477 | 51,987,150 |
| Total basic shares | 1,000,000 | 1,000,000 |
| Basic earnings per share (Ch$) | 42,182 | 51,987 |

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

## NOTE 23 - SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

**Information about products and services**

| | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|
| Revenues from regulated transmission services | 71,632,615 | 83,403,997 |
| Revenues from contractual transmission services | 87,321,590 | 77,919,014 |
| Total revenues | 158,954,205 | 161,323,011 |

**Information about sales and principal customers**

The Company has four customers that individually represent more than 10% of total revenues for the period ended on September 30, 2013. The amounts of revenues recognized from these customers were: ThCh$ 45,063,675, ThCh$ 42,709,703, ThCh$ 32,797,477 and ThCh$20,322,409 respectively, For the period ended September 30, 2012 the Company had four customers that individually exceeded 10% of total revenues. The amounts of revenues recognized from these customers were: ThCh$ 65,720,790, ThCh$19,560,954, ThCh$ 17,917,017 and ThCh$16,428,120, respectively.

## NOTE 24 - THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS

As of September 30, 2013, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh$ 36,479,569(ThCh$ 31,520,390 as of September 30, 2012), In addition, in order to guarantee repayment of housing loans, mortgages have been constituted in favor of the Company.

In addition, indirect subsidiary Transmisora Huepil Limitada, has guaranteed its debt amounting to ThUS$ 18,608.

## NOTE 25 - DISTRIBUTION OF PERSONNEL

As of September 30, 2013 and December 31, 2012, personnel employed by Transelec S.A. are detailed as follows:

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Manager and executives | Professionals and technical personnel | Other employees | Total | Average of the year |
| Total | 16 | 334 | 155 | 505 | 508.6 |

| | December 31, 2012 | | | | Average of the year |
|---|---|---|---|---|---|
| | Manager and executives | Professionals and technical personnel | Other employees | Total | |
| Total | 14 | 328 | 168 | 510 | 491.1 |

**NOTE 26 - ENVIRONMENT**

Transelec and its subsidiaries, 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 nine month periods ended September 30, 2013 and 2012, the Company has not made the following environmental disbursements:

| Company making disbursement | Project | September 30, 2013 ThCh$ | September 30, 2012 ThCh$ |
|---|---|---|---|
| Transelec S.A. | Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors | 471,665 | 590,976 |
| Total | | 471,665 | 590,976 |

**NOTE 27 - SUBSEQUENT EVENTS**

Between September 30, 2013, the closing date of these interim consolidated financial statements, and the date of issue, no significant events of financial and accounting nature have occurred that may affect the assets of the Company or the interpretation of these financial statements.

transelec

**TRANSELEC S.A. AND SUBISIDIARIES**

**REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2013**

## INTRODUCTION

During the first nine months of 2013, Transelec S.A. and subsidiaries recorded a net income of MCh$42,182 (MCh$51,987 in the same period 2012) which is 18.9% lower than the same period in 2012. This decrease is mainly due to a higher loss of non-operating income (MCh$39,736 in 2013 and MCh$32,743 in 2012), mainly explained by an increase in financial costs and loss for indexed assets and liabilities, reaching MCh$35,442 and MCh$4,055 respectively (MCh$27,351 and MCh$299 in the same period of 2012). However, the EBITDA for the period was MCh$130,612, which is 2.6% higher than the same period in 2012 (MM$51,987) with an EBITDA over revenues of 82.2% (78.6% in 2012), mainly due to lower operating costs, that reached MM$55,864 to September 2013 (MM$62,220 in 2012).
On July 23rd, 2013, Transelec S.A. closed an international bond issuance for an amount of US$300 million under rule 144A Regulation S of the United State Securities Act of 1933. This bond was placed at 10-year maturity, with an annual nominal rate of 4.625%. Interests will be paid on a semiannual basis and the principal will be repaid in a single payment at the due date.
Transelec S.A. and its subsidiary Transelec Norte S.A. have prepared their financial statements as of September 30, 2013, in conformity with International Financial Reporting Standards (IFRS) and correspond to the comprehensive, explicit and non-reserved adoption of the above mentioned international standard. The figures of this ratio analysis are expressed in million of Chilean pesos (MCh$) as the Chilean peso is the functional currency of Transelec S.A.

## 1. INCOME STATEMENT ANALYSIS

| Items | September 2013 MCh$ | September 2012 MCh$ | Variation 2013/2012 % |
|---|---|---|---|
| Operating Revenues | 158,954 | 161,954 | -1.9% |
| Toll sales (*) | 154,988 | 148,527 | 4.4% |
| Work and services | 3,966 | 13,427 | -70.5% |
| Operating costs | -55,864 | -62,220 | -10.2% |
| Fixed costs | -20,090 | -28,295 | -29.0% |
| Depreciation | -35,774 | -33,925 | 5.4% |
| Administraton and sales expenses | -10,954 | -7,957 | 37.7% |
| Fixed costs | -8,972 | -7,548 | 18.9% |
| Depreciation | -1,981 | -409 | 384.4% |
| **Operating Income** | **92,137** | **91,777** | **0.4%** |
| Interest from Leasing | 0 | 0 | - |
| Other Financial Income (*) | 8,079 | 3,851 | 109.8% |
| Financial Costs | -35,442 | -27,351 | 29.6% |
| Foreign exchange differences, net | -4,055 | -299 | 1257.3% |
| Gain (loss) for indexed assets and liabilities | -9,037 | -10,177 | -11.2% |
| Other income | 720 | 1,233 | -41.6% |
| **Non-Operating Income** | **-39,736** | **-32,743** | **21.4%** |
| **Income before Income Taxes** | **52,401** | **59,034** | **-11.2%** |
| Income tax | -10,218 | -7,047 | 45.0% |
| **Net Income** | **42,182** | **51,987** | **-18.9%** |
| **EBITDA** | **130,612** | **127,344** | **2.6%** |

EBITDA= Net income +abs(Income tax)+abs(Depreciation)+abs(Non-operating income)+abs(Other gains)+Lease financial income.
(*) In order to show a comparable presentation, MM$631.2 in 2012 balance have been reclassified from Other Financial Income to Toll sales, because they correspond to operational revenues resulting from leasing contracts.

### a) Operating income

During the first nine months of 2013, revenues reached MCh$158,954 (MCh$161,954 in 2012), which is 1.9% lower compared with the same period in 2012 (MM$161,954). This decrease is mainly explained by lower engineering services revenues that reached MM$3,966 in 2013 and MM$13,427 in 2012. During this period of 2013, these engineering services resulted in 2.5% of the total revenues and 8.3% during the same period in 2012. On the other hand, Toll sales revenues are higher mainly due to new commissioned projects with an investment of MM$72,991 during 2013 (MM$62,089 in 2012) that resulted in revenues of MM$6,431. In addition, the Transam S.A acquisition by Transelec Norte S.A contributed MM$2,473 during this period of 2013. Retroactive tariff adjustments have a negative impact of MM$4,807 in Toll sales revenues.

During this period the operating costs reached MCh$55,864 (MCh$62,220 in 2012). These costs are mainly related to the maintenance and operation of the Company´s facilities and, in percentage terms, 64.0% of the company's cost correspond to property, plant and equipment depreciation (54.5% in 2012), while the remaining 36.0% (45.5% in the comparison period) correspond to personnel, supplies and contracted services. The decrease, compared to the same period of 2012, is mainly due to lower engineering services hired that amounted MM$9,371 for the first nine months of 2012.

Administrative and selling expenses amounted MCh$10,954 (MCh$7,957 during the same period of 2012) and primarily consist in 81.9% (94.9% in 2012) of personnel and work expenses, supplies and services contracted, and 18.1% of depreciation (5.1% in 2012). The increase in administrative and selling expenses is mainly due the retirement of assets by obsolescence.

### b) Non-operating income

Net income for the first nine months of 2013, was negatively impacted by the non-operating loss of MCh$39,736 (MCh$32,743 in the same period of 2012), mainly generated by higher financial costs that reached MCh$35,442 (MCh$27,351 in 2012). This higher Financial Costs are mostly explained by short terms loans obtained from the Revolving Credit Facility (RCF), the Q series bond issuance and Senior Notes bonds issuance. The interests paid due to these liabilities reached MM$4,479 during this first 9 months of .2013. The remaining higher financial costs in 2013 compared with the same period of 2012 correspond mainly to a lower capitalized interest.

Loss from Foreign exchange differences amounted MCh$4,055, which is 1,257.3% higher in comparison with the same period of 2012 (MCh$299), mainly explained by the increase of the exchange rate related to the use of the RCF (MM$7,416) and other capital market transactions in US dollars (MM$ 2,576). This negative impact is partially offset by accounts receivable to related companies (accrued and realized), that reached MM$7,197 during this period of 2013 compared to MM$67 in 2012.

Loss for indexed assets and liabilities reached MM$9,037, which is 11.2% lower than the same period of 2012 (MM$10,177), mainly due to a lower variation of the UF value that reach a 1.1% in 2013 and 1.3% in 2012.

## 2. BALANCE SHEET ANALYSIS

The increase in current assets between September 2013 and December 2012 is explained by an increase in cash and cash equivalents. The increase in non-current assets is due to an increase in accounts receivable to related entities, mainly to Transelec Holdings Rentas Ltda and an increase in fixed assets.

The increment in equity and liabilities is mainly explained by the increase in non-current liabilities mostly generated by the international Senior Notes bond issuance, and the national Q series bond issued in the prior quarter. The decrease in current liabilities is mainly due to lower bank loans payable and other financial liabilities.

| Items | September 2013 MCh$ | December 2012 MCh$ | Variation 2013/2012 % |
|---|---|---|---|
| Current assets | 249,165 | 189,399 | 31.6% |
| Non-current assets | 1,916,896 | 1,808,124 | 6.0% |
| **Total Assets** | **2,166,061** | **1,997,524** | **8.4%** |
| Current liabilities | 112,973 | 178,058 | -36.6% |
| Non current liabilities | 1,179,450 | 942,493 | 25.1% |
| Equity | 873,638 | 876,971 | -0.4% |
| **Total liabilities & Equity** | **2,166,061** | **1,997,524** | **8.4%** |

**VALUE OF THE MAIN PP&E IN OPERATION**

| Assets | September 2013 MCh$ | December 2012 MCh$ | Variation 2013/2012 % |
|---|---|---|---|
| Land | 21,190 | 20,983 | 1.0% |
| Building, Infraestucture, works in progress | 958,790 | 930,526 | 3.0% |
| Machinery and equipment | 492,733 | 458,330 | 7.5% |
| Other fixed assets | 4,356 | 4,468 | -2.5% |
| Depreciation (less) | -287,817 | -254,764 | 13.0% |
| **Total** | **1,189,252** | **1,159,544** | **2.6%** |

**CURRENT DEBT**

| | | | | | Amount in original currency (million) Unpaid capital | |
|---|---|---|---|---|---|---|
| Debt | Currency or index | Interest rate | Type of rate | Maturity Date | September 2013 | December 2012 |
| Series C bond | UF | 3.50% | Fixed | Sep 1st, 2016 | 6.0 | 6.0 |
| Series D bond | UF | 4.25% | Fixed | Dec 15 th, 2027 | 13.5 | 13.5 |
| Series E bond | UF | 3.90% | Fixed | Aug 1st, 2014 | 3.3 | 3.3 |
| Series F bond | CLP | 5.70% | Fixed | Aug 1st, 2014 | 33,600.0 | 33,600.0 |
| Series H bond | UF | 4.80% | Fixed | Aug 1st, 2031 | 3.0 | 3.0 |
| Series I bond | UF | 3.50% | Fixed | Sep 1st, 2014 | 1.5 | 1.5 |
| Series K bond | UF | 4.60% | Fixed | Sep 1st, 2031 | 1.6 | 1.6 |
| Series L bond | UF | 3.65% | Fixed | Dec 15 th, 2015 | 2.5 | 2.5 |
| Series M bond | UF | 4.05% | Fixed | Jun 15 th, 2032 | 3.4 | 3.4 |
| Series N bond | UF | 3.95% | Fixed | Dec 15 th, 2038 | 3.0 | 3.0 |
| Series Q bond | UF | 3.95% | Fixed | Oct 15 th, 2042 | 3.1 | - |
| Series Senior Notes bond | USD | 4.63% | Fixed | Jul 26 th, 2023 | 300.0 | - |
| Revolving Credit Facility | USD | 2.76% | Variable | | 0.0 | 120.0 |
| Portigon Westlb | USD | 1.77% | Variable | Oct 10 th, 2023 | 22.7 | 23.1 |

## 3. MAIN CASH FLOWS DURING THE YEAR

| Items | September 2013 MCh$ | September 2012 MCh$ | Variation 2013/2012 % |
|---|---|---|---|
| Cash flows provided by (used in) operating activities | 123,076 | 77,610 | 59% |
| Cash flows provided by (used in) investing activities | -94,998 | -79,504 | 19% |
| Cash flows provided by (used in) financing activities | 116,178 | -33,790 | -444% |
| **Net increase (decrease) of cash and cash equivalent** | **144,256** | **-35,684** | **-504%** |
| Cash and cash equivalent at the begining of the period | 37,956 | 64,212 | -41% |
| **Cash and cash equivalent at the end of the period** | **182,212** | **28,528** | **539%** |

During the first nine months of 2013, cash flows from operating activities reached MCh$123,076 (MCh$77,610 in the same period of 2012), which represent an increase of 59%, mainly explained by lower payments to suppliers for goods and services, that reached MCh$27,560 as of September 30, 2013, in comparison to the same period of 2012 MCh$56,548.

During this period, investing activities generated a negative cash flow for an amount of MCh$94,998, mainly due to loans to related parties (MCh$92,316), sale of property, plant and equipment (MCh$85,558) and investments in fixed assets (MCh$64,530). For the comparison period in 2012, cash flows from investing activities were negative by MCh$79,504, as a result of net additions of fixed assets.

During the same period, financing activities generated a positive net cash flows of MCh$116,178, due to long and short term loans for an amounts of MCh$121,126 and MCh$222,842 respectively, partially offset by repayment of loans (MCh$182,434) and dividends payment (MCh$48,753).

The closing balance of cash and cash equivalents as of September 30, 2013, amounted to MCh$182,212 considering an initial balance of MCh$37,956. As of September 30, 2012, the final balance of cash and cash equivalents amounted to MCh$28,528, with an initial balance of MCh$64,212.

In addition, the Company has secured the following committed credit line to ensure funds are available to cover working capital needs:

| Bank | Amount (up to) | Maturity | Type of Credit |
|---|---|---|---|
| Scotiabank, Bank of Tokyo-Mitsubishi y DnB NOR | US$250,000,000 | Jul 9th, 2015 | Working Capital |

## 4. INDICATORS

| Bonds | Covenant | Limit | September 2013 | December 2012 |
|---|---|---|---|---|
| All local Series | Distribution Test ( **) | FNO/Financial Expenses > 1,5 | 5.69 | 5.30 |
| | Capitalization Ratio (***) | < 0,7 | 0.57 | 0.53 |
| | Shareholder's Equity (million UF) | > ThUF15.000 | 38.92 | 39.49 |

(*) FNO = Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.
(**) This is only a test to distribute restricted payments such as dividends.
(***) Equity = Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and September 30, 2013 amounted to MCh$24.970.

| Ratios<br>*Figures as of June are annualized | June<br>2013 | December<br>2012 | Variation<br>2012/2011 |
|---|---|---|---|
| **Profitability** | | | |
| Shareholders' Equity profitability * | 8.82% | 7.04% | 25.3% |
| Assets profitability * | 3.79% | 3.09% | 22.7% |
| Operating assets profitability * | 6.01% | 4.70% | 27.9% |
| Earnings per share ($) * | 79,620.85 | 61,749.31 | 28.9% |
| **Liquidity & Indebtedness** | | | |
| Current Ratio | 1.11 | 1.06 | 4.7% |
| Acid-Test Ratio | 1.11 | 1.06 | 4.5% |
| Debt to Equity | 1.32 | 1.28 | 3.1% |
| % Short term debt | 14.69 | 15.89 | -7.5% |
| % Log term debt | 85.31 | 84.11 | 1.4% |
| Financial expenses coverage | 4.20 | 4.65 | -9.7% |

## 5. THE MARKET

Transelec S.A. carries out its activities in the electricity market, which has been divided into three sectors: generation, transmission and distribution. The generation sector includes companies that are dedicated to generating 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 the electricity. Lastly, the primary goal of the transmission sector is to transport the generated electricity from where it is produced (electrical power plants) to the "points of entry" of the distribution company networks or those of large end users.

Transelec's business mainly focuses on commercializing the capacity of its facilities to transport and transform electricity, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary, which stretches between "Arica y Parinacota" Region to "Los Lagos" Region, encompasses the majority of the trunk 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 all of the 500 kV electricity transport lines, approximately 51% of the 220 kV lines and 86% of the 154 kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL No. 1/82) and its subsequent modifications, including Law 19,940 ("Ley Corta I") published on March 13, 2004, Law 20,018 ("Ley Corta II") published on May 19, 2005, Law 20,257 (Generation with Non-Conventional Renewable Energy Resources) published April 1, 2008, Law 20,701 (Procedure to grant Electrical Concessions) published on October 14, 2013, and Law 20,698 (Contribute with the Generation mix expansion through Non-Conventional Renewable Energy) published on October 22, 2013. These standards are complemented by the Regulations of the General Electricity Services Law of 1997 (Supreme Decree No. 327/97 from the Ministry of Mining) and its respective modifications; the Regulations to Establish the Structure, Functioning and Financing of Load Dispatch Centers (Supreme Decree No. 291/2007), the Regulations of Complementary Services in 2012 (Supreme Decree No. 130, Ministry of Energy) and also the Technical Standard on Reliability and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

Law 19,940, also called "Ley Corta I", modified the General Electricity Services Law of 1982 in matters relating to electricity transmission activity, subdividing the transmission network into three types of systems: trunk transmission, sub-transmission and additional transmission. It also establishes that electricity transmission – both by trunk transmission as well as sub-transmission systems – is considered a public service and is subject to regulated tariffs.

Finally, Law 19,940 established that the new payment regime for using trunk facilities would become effective as of March 13, 2004 and determined a transitory period that was in effect until the first trunk transmission decree was issued. Thus, from 2004 to 2007, collection and payment for using transmission facilities was carried out provisionally using subsequent recalculations in accordance with legal and regulatory standards in effect until "Ley Corta I" was published.

On January 15, 2008, a decree from the Ministry of Economy, Development and Reconstruction was published and set the new Investment Value (VI), the Annuity of the Investment Value (AVI), the Operation, Maintenance and Administration Costs (COMA) and the Annual Transmission Value per Segment (VATT) for trunk facilities for the period from March 14, 2004 to December 31, 2010, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007. The determination of trunk facilities and their Annual Transmission Value (VATT) is updated every four years using an internationally-tendered study. During 2010, the second Trunk Transmission Study was conducted which will allow setting the tariffs and the corresponding indexation formulas for the period 2011-2014.

Decree 61, published on November 17, 2011 contains the tariffs that will be retroactively applicable from January 1, 2011. During 2012 and 2013 the new tariffs have been applied and particularly the assessment process form 2011 was published on March and April for SING and SIC respectively. The SIC assessment for 2011 was modified on September 2012 according to the Expert Panel Report N°2-2012.

Decree No. 320 from the Ministry of Economy, Development and Reconstruction, which sets tariffs for subtransmission facilities, was published in the Official Gazette on January 9, 2009 and the new tariffs begin to be applied on January 14, 2009 and will be in effect until December 31, 2010. On April 9, 2013, the Supreme Decree N°14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014 has been issued. The difference between amounts invoiced using these provisional tariffs since January 2011 to the decree publish date will be reassessment by the CDEC based on the difference between the provisional tariff and the definitive values on decree N°14.

## 6. MARKET RISK FACTORS

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

### 6.1 Regulatory Framework

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 Trunk Transmission Studies could place the Company at risk of new tariffs that are detrimental or less attractive given the investments it has made.

The Company cannot guarantee that other regulatory changes will not negatively affect it or its clients or creditors, thus compromising Transelec's income.

### 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 environment ("Environmental Law"), enacted in 1994. According to its recent modification, through Law N° 20.417 which was published in the official journal on January 26, 2010, created, among others, new institutions consisting of: (i) the Ministry of Environmental Affairs; (ii) the Minister Council for Sustainability; (iii) the Environmental Evaluation Service; and (iv) the Superintendence of Environmental Affairs; these institutions are in charge of the regulation, evaluation and inspection of the activities involving environmental impacts. These new institutions replaced the National Commission of Environmental Affairs ("CONAMA") and the Regional Commissions of Environmental Affairs and are fully operative through the enactment of an updated regulation, that is under review by the Comptroller General of the Republic.

Law No. 20.600 of the official journal was published on June 28, 2012 that creates the environmental courts, last step so the Superintendence of Environmental Affairs (SMA) can begin to implement in full its powers of control and sanction. On December 28 with the implementation of the Environmental Court (Second Environmental Court in Santiago) the SMA assumes the full monitoring and control of the Environmental Qualification Resolution (RCA) among other matters.

Notwithstanding that Transelec meets the environmental requirements of the environmental law, it is not possible to assure that these filings (EIA o DIA) before the environmental authority will be approved by government authorities, neither that the possible opposition of public opinion will not generate delays or changes in the proposed projects, nor that the laws and regulations will not change or will be interpreted in a way that may adversely affect the company's operations and plans, as the new institutional structure is just in progress.

### 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 financing cost and availability. 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 important technological changes in the equipment at its 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:

- The revenues of its subsidiary Transelec Norte are denominated in U.S. dollars.
- Transelec carries out several types of transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Transelec uses forward contracts to sell U.S. dollars to hedge future revenues denominated in the U.S. dollars. Transelec also uses a currency forward contract with its parent; this allows it to finance U.S. dollar-denominated assets of its subsidiary.

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 as of September 30, 2013 and December 31, 2012:

| | September 2013 | | December 2012 | |
|---|---|---|---|---|
| In million pesos | Assets | Liabilities | Assets | Liabilities |
| Dollar (amounts associated with balance sheet items) | 188,447 | 205,909 | 75,916 | 102,918 |
| Dollar (amounts associated with income statement items) | 0 | 18,605 | 0 | 31,389 |
| Chilean peso | 1,982,882 | 1,084,747 | 1,878,852 | 974,211 |

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

**EXCHANGE RATES (Observed exchange rates)**

| Month | Average 2013 ($) | Last Day 2013 ($) | Average 2012 ($) | Last Day 2012 ($) |
|---|---|---|---|---|
| January | 472.67 | 471.44 | 501.34 | 488.75 |
| February | 472.34 | 472.96 | 481.49 | 476.27 |
| March | 472.48 | 472.03 | 485.40 | 487.44 |
| April | 472.14 | 471.31 | 486.00 | 484.87 |
| May | 479.58 | 499.78 | 497.09 | 519.69 |
| June | 502.89 | 507.16 | 505.63 | 501.84 |
| July | 504.96 | 515.42 | 491.93 | 481.94 |
| Agoust | 512.59 | 509.74 | 480.99 | 480.25 |
| September | 504.57 | 504.2 | 474.97 | 473.77 |
| **Average of the period** | **488.25** | **491.56** | **489.43** | **488.31** |

The indexation formulas, updated semiannually for toll contracts and sub-transmission fees and updated monthly for regulated trunk income, take into account variations in the value of the facilities and operating costs, maintenance and administrative costs. In general, those indexation formulas take into consideration variations in the international prices of equipment, materials and local 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 to clients, which explain the fact of not having large accumulated amounts

As of September 30, 2013, the company has four main clients which represent individually more than 10% of the total revenues. These are Endesa Group (MCh$42,710), Colbún Group (MCh$45,064), Pacific Hydro-LH-LC (MCh$32,797) and AES Gener Group (MCh$20,322). The total revenues recognized for these clients represent an 88.6% of the total revenues of the company. In the period of comparison, the company has the same structure of clients which represent individually more than 10% of the total revenues, whose amounts reached to MCh$65,721, MCh$17,917, MCh$16,428 and MCh$19,561 respectively, with a percentage of the total incomes of 74.2%.

Income from these companies 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 the year 2011, it's observed some punctual problems insolvency of some integrants of CDEC-SIC.

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 from Company's Management Processes

In order to guarantee that Transelec is able to quickly react 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$126,050. Until now this line doesn´t file a utilized amount. This committed line of credit was contracted on July 9, 2012, is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi and DnB NOR.

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 September 30, 2013 and December 31, 2012.

| Debt Maturity (Capital) MCh$ | 0 to 1 year | 1 to 3 years | 3 to 5 years | 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| September 30, 2013 | 145,451 | 198,551 | 2,763 | 156,016 | 637,425 | 1,140,206 |
| December 31, 2012 | 57,640 | 200,293 | 137,045 | - | 559,598 | 954,576 |

| Debt Maturity (Interest) MCh$ | 0 to 1 year | 1 to 3 years | 3 to 5 years | 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| September 30, 2013 | 46,847 | 80,546 | 67,713 | 168,854 | 223,669 | 587,629 |

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

According to Decree N°4/20.018 from the Ministry of Economy, Fomentation and Reconstruction, in its articles 81, 101, 104 and 106, and complementary rules, Transelec has the right to perceive on a provisory basis the real tariff income (IT for its name in Spanish) of the trunk transmission system generated for every period. In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20.018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by the respective CDEC (Center of Economic Dispatch of Charge) through the collection or payment to the different companies, owners of generation facilities.

Transelec could face the risk of not timely collecting the IT that some of the companies owners of generation facilities should pay as determined in the energy balances prepared by CDEC, what may temporarily affect the Company's liquidity position. In this sense, and in the opinion of the Company, the 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.

The majority of the debt as of September 30, 2013, and as of December 31, 2012, was at 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 2013 ($) | Last Day 2013 ($) | Average 2012 ($) | Last Day 2012 ($) |
|---|---|---|---|---|
| January | 22,811.83 | 22,807.54 | 22,346.12 | 22,408.36 |
| February | 22,818.59 | 22,838.48 | 22,447.54 | 22,462.79 |
| March | 22,857.28 | 22,869.38 | 22,492.50 | 22,533.51 |
| April | 22,898.59 | 22,940.02 | 22,567.73 | 22,591.21 |
| May | 22,933.69 | 22,885.95 | 22,608.96 | 22,620.80 |
| June | 22,857.11 | 22,852.67 | 22,626.49 | 22,627.36 |
| July | 22,949.89 | 22,888.71 | 22,609.47 | 22,579.16 |
| Agoust | 23,002.78 | 23,038.71 | 22,562.02 | 22,559.48 |
| September | 23,067.92 | 23,091.03 | 22,571.05 | 22,591.05 |
| **Average of the period** | **22,910.85** | **22,912.50** | **22,536.88** | **22,552.64** |