

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

TRANSELEC S.A.

*Santiago, Chile
March 31, 2018*



SUMMARY

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

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

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

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

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

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

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

² EBITDA Margin= EBITDA/Revenues



Relevant events of the period:

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

1. INCOME STATEMENT ANALYSIS

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

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

² EBITDA Margin= EBITDA/Revenues

a) Operating Income

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

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

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

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



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

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

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

b) Non-Operating Income

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

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

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

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

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

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

c) Income tax

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

2. BALANCE SHEET ANALYSIS

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

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

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

Value of the Main Pp&E in Operation

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

Current Debt

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

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

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

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

Although increases in inflation may have an impact on the costs of debt denominated in UF and therefore on the Company's finance expenses, these impacts are slightly lessened by accounts receivable denominated in UF.

3. CASH FLOWS ANALYSIS

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

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

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

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

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

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

4. INDICATORS

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

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

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

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

²Test to distribute restricted payments such as dividends.

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

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

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

¹ Profitability ratios are presented under last twelve months criteria.

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

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

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

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

5. THE TRANSMISSION MARKET

5.1. The transmission activity and its regulation

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

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

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



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

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

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

5.2. Valuation and pricing of facilities

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

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

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

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

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

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

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

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

6. MARKET RISK FACTORS

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

6.1. Regulatory Framework

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

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

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

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



6.2. Operating Risks

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

6.3. Application of regulations and/or Environmental Law

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

The Environmental Impact Assessment System (SEIA) Bylaw, modified through the Supreme Decree No. 40/2012, has introduced changes in the assessment process of the projects, implying the adaption of the formulation of these projects to the new scenario, mainly regarding the level of details in its description, analysis of alternatives and the impacts assessment.

In April 2015 by Decree No. 20 from the Ministry of Environment, the President of the Republic created the Presidential Advisory Commission to evaluate the SEIA to find the structural weaknesses of the system and elaborate proposals that contribute to correct implementation and operation of the process and environmental management tool. The Final Report of the referred Presidential Commission issued in July 2016, 25 measures aimed at strengthening and improving the SEIA through legal, policy and procedural changes are proposed. However, at this time the Ministry of Environment has not established any priority on modifications to be introduced in Law 19,300 and Decree 40/2012 as result of the report.

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

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



6.4. Delays in the Construction of New Transmission Facilities

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

6.5. Technological Changes

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

6.6. Foreign Exchange Risk

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

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

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

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

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

EXCHANGE RATES (Observed exchange rates)

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

Semiannual Indexation formulas included into toll contracts and subtransmission tariffs as well as the monthly Indexation formulas for regulated trunk revenues, allow to reflect changes in the value of the facilities and operating, maintenance and administration costs. In general, those indexation formulas contemplate variations in international prices of equipment, supply prices and domestic labor.

6.7. Credit Risk

Credit risk corresponding to receivables from commercial activities, is historically very low due to the nature of the business of the Company's clients and the short term of collection of receivables from clients, which explain the fact of not having significant accumulated amounts.

As of March 31, 2018, the Company has five clients which represent individually between 2.3% and 40.4% of total revenues. These are Enel Group (MCh\$24,336), Colbún Group (MCh\$11,430), AES Gener Group (MCh\$9,417), Engie (MCh\$4,308) and Pacific Hydro-LH-LC Group (MCh\$1,518). The total sum of these main customers corresponds to a 74.5% of the total income of the Company. In the same period of 2017, the Company had a similar structure of clients, whose revenues reached to MCh\$27,928, MCh\$12,762, MCh\$11,424, MCh\$3,243 and MCh\$1,773 respectively, with a percentage of total incomes of 84, 5%.

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

In terms of the Company's credit risk associated with financial assets (time deposits, fixed-return mutual funds and sell-back agreements), its treasury policy establishes certain limits on a particular institution's exposure; such limits depend on the risk rating and capital of each institution. Likewise, for investments in mutual funds, only funds with a risk rating qualify.



6.8. Liquidity Risk

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

a) Risk associated to Company's Management

In order to guarantee that Transelec is able to quickly react financially to investment opportunities and pay its obligations by their maturity dates, in addition to its cash balances and short-term receivables, the Company has committed line of credit for working capital of US\$250 million, equivalent to MCh\$157,925,725. As of the balance sheet date, does not register balance of used amounts. This committed line of credit was contracted on July 9, 2012, being renegotiated in 2014 and 2017. The last renovation was on August 03, 2017 maintains the total amount but it includes a local tranche and a USD tranche with others improvements. Is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi, EDC DnB NOR and Banco Estado. This line does not include any material clause of adverse change.

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

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

Debt Maturity (capital and interests) MCh\$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
31 de marzo de 2018	77,626	114,790	114,790	991,792	720,312	2,019,308
December 31, 2017	77,923	115,384	115,384	1,006,579	728,358	2,043,629

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

According to Decree N°4/20,018 from the Ministry of Economy, Fomentation and Reconstruction, in its articles 81, 101, 104 and 106, and complementary rules, Transelec has the right to perceive on a provisory basis the real tariff income (IT for its name in Spanish) of the Sistema Nacional (Ex Troncal) generated for every period.

In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20.018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by the respective CEN (National Electrical Coordinator) through the collection or payment to the different companies, owners of generation facilities.

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



6.9. Interest Rate Risks

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

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

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

All the debt as of March 31, 2018, and as of December 31, 2017, was at a fixed rate. However, in the case of UF indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

UF Values

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

Subsequent Events

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