

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

TRANSELEC S.A.

*Santiago, Chile
September 30th, 2018*



SUMMARY

As of September 30th, 2018, Revenues reached MCh\$220,429 showing an increase of 6.0% compared to the same period of 2017 (MCh\$207,926). The increase of Revenues is mainly explained by commissioning of new projects in 2017 and 2018 and macroeconomic effects, explained mostly by higher Consumer Price Index (local and international) partly compensated by the revaluation of the Peso (CLP / USD exchange rate).

As of September 30th, 2018, Transelec obtained an EBITDA¹ of MCh\$183,610, a 4.5% higher than the obtained in the same period of 2017 (MCh\$175,677), with an EBITDA Margin² of 83.3%.

Net Income recorded by the Company as of September 30th, 2018 was MCh\$61,976, which is 0.6% higher compared to the same period of 2017 (MCh\$61,581).

The loss in Non-Operating Income as of September 30th, 2018 was MCh\$57,633, representing an increase of 13.4% compared to the same period of 2017 (MCh\$50,816). The main item that explain this increase is higher losses for indexed assets and liabilities of MCh\$6,505, which mostly measures the inflation impact on the UF denominated debt of the Company.

During the nine-month period ended on September 30th, 2018, the Company incorporated US\$48.2 million of new facilities, which correspond to a new National project commissioning, two expansions in the National System and one expansion in the Zonal segment. Similarly, on the last 12 months, the Company incorporated facilities for US\$97.6 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 27.8% 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)).
- On April 27, 2018, the Ordinary Shareholders Meeting was held, it was approved, among others:
 - Approve the Financial Statements
 - Approve Deloitte as the External Auditors for 2018 exercise.
- During 2018, international risk rating agencies, Moody's, Fitch Ratings and Standard & Poors affirmed Transelec's ratings in Baa1, BBB 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).
- On August 3rd, 2018, Transelec paid MCh\$20,000 for the Promissory Note held with Banco BCI at its maturity.
- During 2018, Transelec have distributed the following amounts to the shareholders:
 - MCh\$18,712 as the definitive dividend of 2017 exercise, distributed on May 23rd, 2018.
 - MCh\$19,404 as the first provisory dividend of 2018, distributed on June 19th, 2018.
 - MCh\$20,483 as the second provisory dividend of 2018, distributed on September 25th, 2018.



1- INCOME STATEMENT ANALYSIS

ITEMS	September 2018 MCh\$	September 2017 MCh\$	Variation 2018/2017 MCh\$	Variation 2018/2017 %
Revenues	220,429	207,926	12,503	6.0%
Toll sales	215,735	202,289	13,446	6.6%
Services	4,694	5,637	-943	-16.7%
Operation Costs and Expenses	-79,059	-75,735	-3,324	-4.4%
Sales Costs	-23,572	-21,804	-1,768	-8.1%
Administrative Expenses	-15,958	-13,937	-2,021	-14.5%
Depreciation	-39,530	-39,994	464	1.2%
Operating Income	141,369	132,191	9,178	6.9%
Financial Income	7,155	6,762	393	5.8%
Financial Costs	-50,907	-52,063	1,156	2.2%
Foreign exchange differences	-884	196	-1,080	N/A
Gain (loss) for indexed assets and liabilities	-14,953	-8,448	-6,505	-77.0%
Other income (Losses)	1,956	2,737	-781	-28.6%
Non-Operating Income	-57,633	-50,816	-6,817	-13.4%
Income before Taxes	83,736	81,375	2,361	2.9%
Income Tax	-21,760	-19,795	-1,965	-9.9%
Net Income	61,976	61,581	395	0.6%
EBITDA¹	183,610	175,677	7,933	4.5%
EBITDA Margin²	83.3%	84.5%		

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 9 months ended in September 30th, 2018, the Revenues reached MCh\$220,429 increasing a 6.0% compared to the same period of 2017 (MCh\$207,926). The increase is explained by higher revenues from Toll Sales which at the end of September totaled MCh\$215,735, a 6.6% higher than the obtained in the same period of 2017 (MCh\$202,289). The Services revenues as of September 30th, 2018 reached MCh\$4,694, a 16.7% lower than the same period of 2017 (MCh\$5,637).

The increase in Toll Sales Revenues is explained by an increase of MCh\$8,341 in the National segment, MCh\$1,257 in the Zonal segment and MCh\$3,847 in the Dedicated segment.

As a whole, the increase in Revenues is mainly explained by new projects in 2018 that became operative between 2017 and 2018 of MCh\$9,521 and macroeconomic effects by MCh\$1,567.

Total Transelec Operational Costs and Expenses as of September 30th, 2018 were MCh\$79,059, a 4.4% higher than the comparison period in 2017 that reached MCh\$75,735. Total costs are composed by the following main items.



Cost of sales during the analysis period totaled MCh\$23,572, an 8.1% higher than the same period of 2017 (MCh\$21,804). 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 a payment associated to the end of a negotiation with one of the unions. 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\$15,958 in September 2018, 14.5% higher than those obtained in the same period in 2017 (MCh\$13,937). The increase is mainly due to higher personnel expenses in 2018, related to the end of a negotiation with one of the unions and higher expenses in business consultant.

Total Depreciation (considering Costs and Expenses) as of September 30th, 2018 reached MCh\$39,530, a 1.2% lower than the same period in 2017 (MCh\$39,994). The decrease is mainly to higher wright-off in 2017 due to equipment replacement. This is partially compensated by new commissioning and higher amortizations due to software investments between both periods.

b) Non-Operating Income

The Non-Operating Income of the first nine months of 2018 was a loss of MCh\$57,633, a 13.4% higher than the same period of 2017 (MCh\$50,816), mainly explained by higher Losses for Indexed Assets and Liabilities.

The loss for Indexed Assets and Liabilities was MCh\$14,953 as of September 30th, 2018, a 77.0% higher than the loss recorded in the same period of 2017 (MCh\$8,448). 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 first nine months of 2018 corresponds to 2.09% compared to a 1.17% 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 September, 2018 amounted to MCh\$50,907, a 2.2% lower than the same period of 2017 (MCh\$52,063), the decrease is mainly explained by lower bank fees. Revolving Credit Facility renegotiation and the Promissory Note with Banco BCI took place in 2017 which incremented costs in that year.

Other Income as of September 30th, 2018, reached MCh\$1,956 a 28.6% lower than the same period of 2017 (MCh\$2,737). This is mainly explained by regularization with suppliers and revenues due to

Foreign Exchange Differences as of September, 2018 remain low, associated with the foreign currency hedging policy of the balance sheet, resulting in a loss of MCh\$884.

Financial Income registered as of September, 2018 reached MCh\$7,155, being a 5.8% higher than the same period of 2017 (MCh\$6,762).



c) Income tax

Income Tax as of September 30th, 2018 was MCh\$21,760, increasing by 9.9% in relation to the same period of 2017 (MCh\$19,795). The increase is mainly due higher Income before taxes and effects due to an adjustment made in 2017 decreasing taxes that year.

2. BALANCE SHEET ANALYSIS

ITEMS	September 2018 MCh\$	December 2017 MCh\$	Variation 2018/2017 MCh\$	Variation 2018/2017 %
Current assets	129,038	145,839	-16,801	-11.5%
Non-current assets	2,243,328	2,199,796	43,532	2.0%
Total Assets	2,372,366	2,345,635	26,731	1.1%
Current liabilities	77,023	116,590	-39,567	-33.9%
Non current liabilities	1,535,147	1,442,685	92,462	6.4%
Equity	760,196	786,360	-26,164	-3.3%
Total Liabilities & Equity	2,372,366	2,345,635	26,731	1.1%

The increase in Assets between December 2017 and September 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 by lower Cash and lower balance of accounts receivable from related entities, partially compensated by higher accounts receivable from customers.

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 the revaluation of the debt and, to a lesser extent, to hedge contracts. The lower current liabilities are mainly due to lower financial liabilities due to the Promissory Note payment of MCh\$20,000 to Banco BCI. The decrease in Equity is almost entirely due to a lower accumulated balance in Other Reserves.



Value of the Main PPE in Operation

ASSETS	September 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	1,163,415	1,160,963	2,452	0.2%
Work in progress	108,785	92,667	16,118	17.4%
Machinery and equipment	671,389	643,509	27,880	4.3%
Other fixed assets	6,252	5,843	409	7.0%
Depreciation (less)	-502,233	-467,409	-34,824	-7.5%
Total	1,468,304	1,456,268	12,036	0.8%

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital)	
					September 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	3.65%	Floating	03-Aug-20	-	-
Revolving Credit Facility ¹	UF	0.46%	Fixed	03-Aug-20	-	-
Local Promissory Note	CLP	2.77%	Fixed	03-Aug-18	-	20,000.00

¹ Revolving Credit Facility: USD Tranche MM US\$150: The floating rate of 3.65% 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 3.65% 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 0.46% 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 0.46% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

On August 3rd, 2018, Transelec paid MCh\$20,000 for the Promissory Note held with Banco BCI at its maturity.

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	September 2018 MM\$	September 2017 MM\$	Variation 2018/2017 MM\$	Variation 2018/2017 %
Cash flows provided by (used in) operating activities	131,740	131,262	478	0.4%
Cash flows provided by (used in) investing activities	-73,798	-117,878	44,080	37.4%
Cash flows provided by (used in) financing activities	-79,161	-46,999	-32,162	-68.4%
Net increase (decrease) of cash and cash equivalent	-21,219	-33,614	12,395	36.9%
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	40,409	21,032	19,377	92.1%

As of September 30th, 2018, the flow of activities of the operation reached MCh\$131,740, which increased by 0.4% than the same period of 2017 (MCh\$131,262). The difference is mainly explained by lower payment to suppliers by MMCh\$6,514 which is compensated almost totally by lower sales charges of MCh\$6,169.

During the same period, the cash flow used in investment activities was MCh\$73,798, a 37.4% lower than the amount allocated as of September 30th, 2017 (MCh\$117,878). The decrease is mainly explained by lower loan to related entities of MCh\$39,722.

As of September 2018, the cash flow used in financing activities reached MCh\$79,161, increasing by 68.4% in relation to the same period of 2017 (MCh\$46,999). The increase is explained by the debt acquired in 2017 with Banco BCI which reduce the cash flow used in that period. The payment of that debt increases the cash flow used in this period.

It should also be noted that, in order to ensure the immediate availability of funds to cover working capital needs, as of September 30th, 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	Debt Contract	Limit	September 2018	December 2017
Capitalization Ratio ¹	All local Bonds	< 0.70	0.65	0.63
Shareholder's Equity ¹ MMUF	D, H, K, M and N local Bonds	> 15.00	28.70	30.28
Shareholder's Equity ¹ MCh\$	Q local Bond and Revolving Credit Facility	> 350,000	785,166	811,330
Net Debt/Ebitda	Revolving Credit Facility	<= 7,0x	5.86	5.78

Test	Bonds	Limit	September 2018	December 2017
Distribution Test ² FNO ³ /Financial Expenses	D, H, K, M and N local Series	> 1.50	4.15	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		September 2018	December 2017	Variation 2018/2017
Profitability¹				
Shareholders' Equity profitability ²	(%)	10.3%	10.0%	30 pbs
Assets profitability ³	(%)	3.3%	3.3%	0 pbs
Operating assets profitability ⁴	(%)	5.4%	5.4%	0 pbs
Earnings per share ⁵	(\$)	78,644	78,249	0.5%
Liquidity & Indebtedness				
Current Ratio	(times)	1.68	1.25	34.4%
Acid-Test Ratio	(times)	1.67	1.25	33.6%
Debt to Equity	(times)	2.12	1.98	7.1%
Short term debt/Total debt	(%)	4.8%	7.5%	-270 pbs
Log term debt/Total debt	(%)	95.2%	92.5%	270 pbs
Financial expenses coverage	(times)	3.61	3.35	7.8%

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 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. Finally, the purpose of the distribution sector is to carry electricity to the physical location where each end user will use this electricity.

The transmission system of Transelec which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' Region, encompasses the majority of the national transmission lines and substations in the Central Interconnected System (SIC) and the Great North Interconnected System (SING). This transmission system transports the electricity that supplies approximately 98.5% of Chile's population. The Company owns the 66% of all of the 500 kV electricity transport lines, 39% of the 220 kV lines, 83% of the 154 kV lines and 10% of the 110kV and 66kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL No. 1/82) and its subsequent modifications, including Law 19,940 ('Ley Corta I') published on March 13, 2004, and the Law 20.936 issued on July 20, 2016, establishes a new electric transmission system and creates an independent coordinator of the National Electric System (The Transmission Law). Additionally, those who explore and operates transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Resolution CNE No. 40 of May 16, 2005) and its subsequent modifications.

The The Transmission Law redefines transmission systems classifying them into: National Transmission System (previously trunk), the Transmission Systems Zonal (previously subtransmission) Systems Dedicated (previously additional transmission), and create two new segments: 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, among other topics.

Transelec's business is focused on the economic retribution for the transmission service delivered by its facilities, aligned to the security and quality service standards established. Transelec has the right to annually receive the Annual Value of Transmission per tranche (VATT) for its National and Zonal transmission facilities, defined in the tariff processes or in the expansion projects adjudication decrees. For the Dedicated System facilities, Transelec signs private agreements of transmission with the respective users to define the payment for the use of these.

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 (in case of the rights of way it is considered the effective payment), which are annualized considering the assets life determined every three tariff periods and with a variable discount rate, which will not be less than 7% or higher than 10% after taxes. 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 Transmission Law 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 Transmission Law, 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, without prejudice to which this decree is still in force until the new Decree establishes the Zonal and Dedicated transmission facilities tariffs for 2018-2019 period. These payments will not be covered or absorbed by the subtransmission users. The Ministry of Energy, on May 27th, 2017 issued the 1T Decree to define adjustments to the Decree No. 14 to implement the exemption from power plants and for consistent implementation of 23T Decree. Therefore, subtransmission revenues collected since January 1st, 2016 until 1T Decree issuance are being reassessed under the provisions contained in the decree.

According to the twelfth article of the Transmission Law, during the period of Decree 14 or 1T Decree is in place the new Subtransmission tariffs will be set for the January 1st, 2018 to December 31st, 2019. These tariffs and indexation formulas will be set through 6T Decree to be published, they are determined according to the Subtransmission Systems Studies that began in 2014 for the period 2016 - 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.

Additionally, must also be considered that the Transmission Law establishes that The Commission, every four years, has to qualify lines and substations of the System to determine to which transmission segment they belong. Therefore, every four years there is the possibility that the facilities are moved from a regulated system to a dedicated one, or vice versa. This change implies a modification in the payment received from the facilities.

The Transmission Law considers the promulgation of several regulations, has some already published (Reglamento del Coordinador Eléctrico, del Panel de Expertos, de Determinación de Franjas Preliminares, para Dictación de Normas Técnicas y para la Determinación y Pago de Compensaciones) and others are in development such as Coordinación y Operación, Planificación y de Valorización and publication is expected in the second half of 2018. 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 Transmission 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 30th, 2017 the Excent CNE 154 Resolution and its modifications that regulates in detail this matter, 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.

On July 31st, 2018, the Government presented a project of law to modernize the SEIA and has for main objective to strengthen this instrument as the main environmental tool.

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.

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	September 2018		December 2017	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	670,409	674,531	637,899	632,905
Chilean peso	1,700,471	1,696,349	1,704,719	1,733,231



The Exchange rates (Observed Dollar) in Chilean peso per US Dollar are shown below:

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
April	600.55	610.98	655.74	665.41
May	626.12	631.29	671.54	672.35
June	636.15	651.21	665.15	664.29
July	652.41	639.20	658.17	652.23
August	656.25	680.48	644.24	628.89
September	680.91	660.42	625.54	637.93
Average of the period	628.69	630.43	654.00	653.35

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 September 30th, 2018, the Company has five clients which represent individually between 1.5% and 34.9% of total revenues. These are Enel Group (MCh\$76,996), Colbún Group (MCh\$32,363), AES Gener Group (MCh\$30,848), Engie (MCh\$3,338) and Pacific Hydro-LH-LC Group (MCh\$17,526). The total sum of these main customers corresponds to a 73.25% 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\$87,717, MCh\$37,827, MCh\$35,803, MCh\$10,397 and MCh\$5,218 respectively, with a percentage of total incomes of 85.1%.

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\$165,085,225. 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 September 30th, 2018 and December 31st, 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
September 30, 2018	60,321	120,641	318,767	828,164	735,751	2,063,645
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 June 30, 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
April	26,980.73	27,004.63	26,512.42	26,561.42
May	27,040.06	27,078.32	26,603.14	26,630.98
June	27,119.59	27,158.77	26,651.22	26,665.09
July	27,187.19	27,202.48	26,643.94	26,597.33
August	27,237.98	27,287.57	26,584.37	26,604.10
September	27,329.01	27,357.45	26,631.13	26,656.79
Average of the period	27,059.10	27,089.42	26,527.42	26,544.22

Subsequent events:

On October 5, 2018, the 6T Decree was published in the Official Gazette which establishes the value and revenues of the Zonal and Dedicated transmission facilities for 2018 and 2019. This implies a change in the revenue recognition for the entire 2018 period. The effect will be retroactively recognized as revenues in 2018's last quarter.