Consolidated Financial Statements (Audited)

TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile
December 31, 2019

Deloitte
Auditores y Consultores Limitada
Rut: 80.276.200-3
Rosario Norte 407
Las Condes, Santiago
Chile
Fono: (56) 227 297 000
Fax: (56) 223 749 177
deloittechile@deloitte.com
www.deloitte.cl

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Shareholders of
Transelec S.A.

We have audited the accompanying consolidated financial statements of Transelec S.A. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Information

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

Auditor's Responsibility

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making, those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the entity's consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express such opinion. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the significant estimates made by the Company's Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transelec S.A. and its subsidiary as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB").

Other-matter – Translation into English

The accompanying consolidated financial statements have been translated into English solely for the convenience of Shareholder's readers outside of Chile.

Deloitte

Santiago, Chile
March 11, 2020

Consolidated Financial Statements (Audited)

TRANSELEC S.A. AND SUBSIDIARY

As of December 31, 2019 and 2018

(Translation of the Financial Statements originally issued in Spanish)

$: Chilean Pesos
ThCh$: Thousands of Chilean Pesos
UF : Unidad de Fomento or UF, is an inflation- indexed, Chilean-peso denominated monetary unit. The UF is set daily in advance based on the changes in the Chilean Consumer Price Index (CPI) of the previous months.
US$: US Dollars
ThUS$: Thousands of US Dollars

INDEX

Consolidated Financial Statements (Audited)

TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile
As of December 31, 2019 and 2018

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position
As of December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	(Audited) December 31, 2019 ThCh$	(Audited) December 31, 2018 ThCh$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	(5)	108,642,362	104,059,274
Other financial assets	(8)	1,223,578	1,221,307
Other non-financial assets		2,966,635	2,334,336
Trade and other receivables, net	(6)	87,044,078	72,332,105
Receivables from related parties	(7)	22,005,672	2,607,684
Inventory		315,202	34,919
Sub - Total current assets		**222,197,527**	**182,589,625**
NON-CURRENT ASSETS			
Other financial assets	(8)	71,361,110	28,981,627
Other non-financial assets		7,770,805	6,566,917
Receivables from related parties	(7)	242,808,336	228,259,514
Intangible assets other than goodwill, net	(9)	182,202,369	181,259,765
Goodwill	(10)	343,059,078	343,059,078
Property, plant and equipment, net	(11)	1,543,335,368	1,479,773,753
Total non-current assets		**2,390,537,066**	**2,267,860,654**
Total Assets		**2,612,734,593**	**2,450,450,279**

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position
As of December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	(Audited) December 31, 2019 ThCh$	(Audited) December 31, 2018 ThCh$
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Other financial liabilities	(13)	24,892,053	22,293,883
Trade and other payables	(14)	31,123,907	47,433,325
Provisions, current	(17)	6,153,716	6,906,978
Current tax liabilities		153,399	103,886
Other non-financial liabilities		2,434,524	3,645,911
Total current liabilities		**64,757,599**	**80,383,983**
NON-CURRENT LIABILITIES			
Other financial liabilities	(13)	1,533,707,053	1,453,091,243
Deferred tax liabilities	(12)	156,348,593	104,804,361
Provisions, non-current	(17)	5,821,598	5,730,553
Other non-financial liabilities		5,149,580	5,547,152
Total non-current liabilities		**1,701,026,824**	**1,569,173,309**
Total liabilities		**1,765,784,423**	**1,649,557,292**
EQUITY			
Paid-in capital	(19)	776,355,048	776,355,048
Retained earnings		110,543,991	66,149,755
Other reserves	(19)	(39,948,869)	(41,611,816)
Total equity attributable to owners of the parent		**846,950,170**	**800,892,987**
Non-controlling interest		-	-
Total equity		**846,950,170**	**800,892,987**
Total Equity and Liabilities		**2,612,734,593**	**2,450,450,279**

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	(Audited) 01/01/2019 12/31/2019 ThCh$	(Audited) 01/01/2018 12/31/2018 ThCh$
Statement of comprehensive income by function			
Operating revenues	(20.1)	378,591,271	329,217,206
Cost of sales	(21.1)	(88,115,298)	(82,876,930)
GROSS MARGIN		**290,475,973**	**246,340,276**
Administrative expenses	(21.1)	(23,153,903)	(25,790,585)
Other gains (losses), net	(20.2)	3,041,021	3,104,065
Financial income	(20.2)	13,588,488	10,097,097
Financial expenses	(21.4)	(73,454,495)	(68,691,583)
Foreign exchange differences, net	(21.4)	1,200,755	(1,461,203)
Income by indexed units	(21.4)	(19,942,029)	(20,544,496)
Profit Before Income Taxes		**191,755,810**	**143,053,571**
Income tax expense	(22)	(51,143,574)	(37,585,869)
Profit from continuing operations		140,612,236	105,467,702
Profit (loss) from discontinued operations		-	-
Profit (loss)		**140,612,236**	**105,467,702**
PROFIT (LOSS) ATTRIBUTABLE TO:			
Profit attributable to the owners of the parent company		140,612,236	105,467,702
Profit (loss) attributable to non – controlling interest		-	-
PROFIT		**140,612,236**	**105,467,702**
EARNINGS PER SHARE			
Basic earnings per share/diluted			
Basic earnings per share/diluted from continuing operations	(23)	140,612	105,468
Basic earnings (loss) per share/diluted from discontinued operations		-	-
Basic earnings per share/diluted	(23)	140,612	105,468

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	(Audited) 01/01/2019 12/31/2019 ThCh$	(Audited) 01/01/2018 12/31/2018 ThCh$
PROFIT (LOSS)	**140,612,236**	**105,467,702**
Components of other comprehensive income, before taxes		
Foreign Currency Translation		
Gains (losses) on foreign currency translation differences, before taxes	(279,008)	(1,969,805)
Employees benefits plan	(171,122)	1,157,577
Cash flow hedges		
Gains (losses) on cash flow hedges, before taxes	2,728,140	(43,483,133)
Income taxes related to components of other comprehensive income		
Income taxes related to components of foreign currency translation	75,332	531,847
Income taxes related to components of cash flow hedge	(736,598)	11,740,446
Income taxes related to actuarial calculation	46,203	(312,546)
Other comprehensive income	1,662,947	(32,335,614)
Total comprehensive income	**142,275,183**	**73,132,088**
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	142,275,183	73,132,088
Comprehensive income attributable to non-controlling interest	-	-
Total comprehensive income	**142,275,183**	**73,132,088**

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	Paid-in capital ThCh$	Reserve for foreign translation adjustment ThCh$	Reserve for cash flow hedges ThCh$	Other reserves ThCh$	Total Other reserves ThCh$	Retained Earnings ThCh$	Equity attributable to owners of the parent ThCh$	Non-controlling interest ThCh$	Total equity ThCh$
Opening balance as of January 1, 2019		776,355,048	420,308	(42,562,401)	530,277	(41,611,816)	66,149,755	800,892,987	-	800,892,987
Changes in equity:										
Comprehensive income:										
Profit		-	-	-	-	-	140,612,236	140,612,236	-	140,612,236
Other comprehensive income		-	(203,676)	1,991,542	(124,919)	1,662,947	-	1,662,947	-	1,662,947
Total comprehensive income		-	(203,676)	1,991,542	(124,919)	1,662,947	140,612,236	142,275,183	-	142,275,183
Dividends	(19.3)	-	-	-	-	-	(96,218,000)	(96,218,000)	-	(96,218,000)
Total changes in equity		-	(203,676)	1,991,542	(124,919)	1,662,947	44,394,236	46,057,183	-	46,057,183
Closing balance as of December 31, 2019 (Note 19)		**776,355,048**	**216,632**	**(40,570,859)**	**405,358**	**(39,948,869)**	**110,543,991**	**846,950,170**	**-**	**846,950,170**

	Note	Paid-in capital ThCh$	Reserve for foreign translation adjustment ThCh$	Reserve for cash flow hedges ThCh$	Other reserves ThCh$	Total Other reserves ThCh$	Retained Earnings ThCh$	Equity attributable to owners of the parent ThCh$	Non-controlling interest ThCh$	Total equity ThCh$
Opening balance as of January 1, 2018		776,355,048	1,858,266	(10,250,663)	(314,754)	(8,707,151)	18,712,014	786,359,911	-	786,359,911
Changes in equity:										
Comprehensive income:										
Profit		-	-	-	-	-	105,467,702	105,467,702	-	105,467,702
Other comprehensive income		-	(1,437,958)	(31,742,687)	845,031	(32,335,614)	-	(32,335,614)	-	(32,335,614)
Total comprehensive income		-	(1,437,958)	(31,742,687)	845,031	(32,335,614)	105,467,702	73,132,088	-	73,132,088
Dividends	(19.3)	-	-	-	-	-	(58,599,012)	(58,599,012)	-	(58,599,012)
Other increases (decreases)		-	-	(569,051)	-	(569,051)	569,051	-	-	-
Total changes in equity		-	(1,437,958)	(32,311,738)	845,031	(32,904,665)	47,437,741	14,533,076	-	14,533,076
Closing balance as of December 31, 2018 (Note 19)		**776,355,048**	**420,308**	**(42,562,401)**	**530,277**	**(41,611,816)**	**66,149,755**	**800,892,987**	**-**	**800,892,987**

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

Direct Statement of Cash Flows	**Note**	**(Audited) December 31, 2019 ThCh$**	**(Audited) December 31, 2018 ThCh$**
Cash flows provided by (used in) operating activities			
Classes of receipts from operating activities			
Cash receipts from sales of goods and services		477,734,583	425,029,480
Cash receipts from related party for services rendered		559,842	424,976
Other proceeds from operating activities		121,679	545,550
Proceeds from interest received		12,425,160	9,073,497
Classes of payments			
Payments to suppliers for goods and services		(128,245,060)	(103,792,202)
Other payments for operating activities		(54,855,483)	(45,895,440)
Payments to employees		(16,819,933)	(16,352,329)
Interest paid		(71,188,566)	(65,844,302)
Net cash flows provided by operating activities		**219,732,222**	**203,189,230**
Cash Flows Provided by (Used in) Investing Activities			
Additions of property, plant and equipment and Intangible		(107,958,311)	(97,828,973)
Amounts from the sale of property, plant and equipment		26,300	2,596,624
Loans to related parties		(113,968,788)	(99,788,665)
Receivables from related parties		102,969,665	113,423,614
Net cash flows used in investing activities		**(118,931,134)**	**(81,597,400)**
Cash Flows Provided by (Used in) Financing Activities			
Loan payment		-	(20,561,613)
Dividends paid	(19.3)	(96,218,000)	(58,599,012)
Net cash flows used in financing activities		**(96,218,000)**	**(79,160,625)**
Net Increase (Decrease) in Cash and Cash Equivalents		4583,088	42,431,205
Cash and Cash Equivalents, at the beginning of the year (Note 5)		104,059,274	61,628,069
Cash and Cash Equivalents, at the ending of the year (Note 5)		**108,642,362**	**104,059,274**

The accompanying notes number 1 to 29 form an integral part of these consolidated financial statements

1 - GENERAL INFORMATION

Rentas Eléctricas III Limitada was formed as a limited liability company by public deed on June 6, 2006. According to public deed dated May 9, 2007, the Company acquired 100 shares owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of the share capital of Transelec S.A. (formerly Nueva Transelec S.A.), leaving the Company with 100% ownership. Thus, the merger took place by absorption, and the assets, liabilities, rights and obligations of Transelec S.A. (formerly Nueva Transelec S.A.) passed to the Company. In this way, the Company directly assumed operation of the electricity transmission business previously conducted by the aforementioned subsidiary.

On March 26, 2007, it changed its name to Rentas Eléctricas III S.A. and became a corporation and June 30, 2007, Rentas Eléctricas III S.A. changed its name to its current name, Transelec S.A. (here and after “the Company” or “Transelec”).

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

On December 1, 2014, Transelec S.A., merged with its subsidiary Transelec Norte S.A. through an acquisition of 0.01% of the shares of Transelec Norte S.A. owned by Transelec Holdings Rentas Limitada, becoming the owner of the 100% shares.

On September 1, 2015, Transelec S.A merged with its subsidiary Inversiones Electricas Transam Chile Ltda., which on August 1, 2015, had absorbed its subsidiaries: Transmisora Huepil Ltda, Transmisora Abenor Ltda y Transmisora Araucana de Electricidad Ltda. Through the acquisition of the investment complement which completes 100% of the ownership, in the merger processes mentioned above.

On March 31, 2017, Transelec S.A acquired 100% shares of the company Transmisión Del Melado SpA.; thus, taking control of this entity during April 2017. For this reason, Transelec S.A. changes from preparing the individual financial statements as of December 31, 2016, to preparing consolidated financial statements as of June 30, 2017.

The Company is domiciled at Orinoco No. 90, floor 14, Las Condes, Santiago, Chile.

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

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

1 - GENERAL INFORMATION (continued)

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

The Consolidated Financial Statements of the Company for the year ended December 31, 2019, were approved by the Board at its meeting N°197 held on March 11, 2020.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing the consolidated financial statements are detailed below. These policies have been based on IFRS in effect as of December 31, 2019 and applied uniformly for the periods presented.

2.1 Basis of preparation of the consolidated financial statements

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking into account the presentation regulations of the SVS, which are not in conflict with IFRS.

These Consolidated Financial Statements have been prepared from the accounting records maintained by the Company. The figures in these Consolidated Financial Statements and their notes are expressed in thousands of Chilean pesos.

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

The information contained in these Consolidated Financial Statements is the responsibility of the Company's management.

The accounting policies adopted in the preparation of the Consolidated Financial Statements are consistent with those applied in the preparation of the annual individual financial statements of the Company for the year ended December 31, 2018, except for the adoption of new standards and interpretations in effect as of January 1, 2019, which did not materially affect the consolidated financial statements.

The Company made reclassifications to its financial statements regarding balances as of December 31, 2018. However, these reclassifications do not have a significant effect due to they were made only for comparative purposes.

2.2 Basis of Consolidation of the Financial Statements

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, including all its assets, liabilities, revenue, expenses and cash flows after carrying out the amendments and eliminations related to the transactions between the companies that form part of the consolidation.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.2 Basis of Consolidation of the Financial Statements (continued)

A subsidiary is a company over which Transelec S.A. exercises control in accordance with IFRS 10. In order to comply with the definition of control according to IFRS 10, three criteria must be complied with, namely: (a) an investor has the power over the relevant activities of the investee, (b) the investor is exposed, or has rights to, variable returns from the share in the investee, (c) the investor has the ability to use its power over the investee to exercise influence over the amount of income of the investor. Non-controlling interest represents the amount of net assets and profit or loss that are not property of the Parent Company, which is presented separately in the comprehensive income statement and within equity in the consolidated statement of financial situation.

Acquisition of a subsidiary is recorded in accordance with IFRS 3 “Business Combinations”, using the equity method. This method requires the recognition of identifiable assets (including intangible assets previously unrecognized and goodwill) and liabilities acquired at fair value on the acquisition date. Non-controlling interest is recognized by the portion owned by minority shareholders on the value of recognized assets and liabilities.

The excess of acquisition cost on the fair value of the share of the Company in the acquired identifiable net assets is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

The financial statements of the subsidiary have been prepared on the same date as those of the Parent Company and the accounting policies have been applied uniformly, considering the specific nature of each business unit.

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

Rut	Subsidiary	Participation Share 12-31-2019	Participation Share 12-31-2018	Country of origin	Functional currency
76.538.831-7	Transmisión del Melado SpA	100%	100%	Chile	Ch$

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3 New standards and interpretations accounting

The following new standards, amendments and interpretations has been adopted in this Financial Statements:

	New standards, amendments and interpretations	Date of obligatory application
IFRS 16	Leases	January 01, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 01, 2019
IFRS 3	Business combinations	January 01, 2019
IFRS 9	Financial Instruments	January 01, 2019
IFRS 11	Joint arrangements	January 01, 2019
IAS 12	Income tax	January 01, 2019
IAS 19	Employee benefits - Modification, reduction or liquidation of the plan	January 01, 2019
IAS 23	Borrowing costs	January 01, 2019
IAS 28	Investments in associates	January 01, 2019

The effects of the application of IFRS 16 - *Lease*s are described in more detail in note 2.17.

The standards and interpretations, as well as the improvements and amendments to IFRS, which have been issued but are not yet effective at the date of these consolidated financial statements, are detailed below. The Company has not adopted these standards in advance:

	New Standards	Date of obligatory application
IFRS 17	Insurance Contracts	January 1, 2021

2.3.1. New Standards

IFRS 17 Insurance Policies

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3.2 Enhancements and Modifications

The enhancements and modifications, which have been issued but are not yet effective at the date of these consolidated financial statements, are detailed below. The Company has not adopted these standards in advance:

	Enhancements and Modifications	Date of obligatory application
IFRS 10 and IAS 28	Consolidated financial statements	TBD
IAS 1 – IAS 8	Definition of Material	January 1, 2020
IFRS 3	Business Combinations	January 1, 2020
Conceptual Framework	Updating references to the conceptual framework	January 1, 2020
IFRS 9 - IFRS 7 - IAS 39	Interest Rate Benchmark Reform	January 1, 2020

IAS 28 - “Investments and Joint Ventures”, IFRS 10 “Consolidated Financial Statements”

The amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) address an inconsistency recognized between the requirements of IFRS 10 and those of IAS 28 (2011) in the treatment of the sale or contribution of assets between an investor and its associate or joint venture.

Amendments issued in September 2014 establish that when the transaction involves a business (found in a subsidiary or not), a complete profit or loss is recognized. A partial profit or loss is recognized when the transaction involves assets that do not constitute a business, even when the assets are found in a subsidiary. The date of obligation application of these modifications is yet to be determined as the IASB is planning an in-depth investigation that may result in a simplification of the accounting of associates and joint ventures. Early adoption is permitted.

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

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB issued “Definition of Material (Amendments to IAS 1 and IAS 8)” to clarify the definition of “material” and to align the definition used in the Conceptual Framework and the standards themselves.

The changes all relate to a revised definition of “material” which is quoted below from the final amendments: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

Three new aspects of the new definition should especially be noted:

Obscuring: The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

Could reasonably be expected to influence: The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything ‘could’ influence the decisions of some users even if the possibility is remote.

Primary users: The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 Presentation of Financial Statements. The definition of material in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been replaced with a reference to IAS 1.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

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

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB published “Definition of a Business (Amendments to IFRS 3)” aimed at resolving the difficulties that arise when an entity determines whether it has acquired a Business or a group of assets.

The amendments are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3.2 Enhancements and Modifications (continued)

Definition of a Business (Amendments to IFRS 3) (continued)

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

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

Revised Conceptual Framework for Financial Reporting

On March 19, 2018, the IASB published its revised “Conceptual Framework for Financial Reporting” (the “Framework”). The Conceptual Framework is not a Standard and none of the concepts override those in any standard or any requirements in a standard. The main purpose of the Framework is to guide the IASB when it develops International Financial Reporting Standards. The Framework can also be helpful for preparers of financial statements when there are no specific or similar standards that address a particular issue. The new Framework has an introduction, eight chapters and a glossary. Five of the chapters are new, or have been revised substantially.

The new Framework:

- Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument.
- Removes from the asset and liability definitions references to the expected flow of economic benefits–this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.
- Discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.
- States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.
- Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

The new Framework came into effect on its publication on March 29, 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3.2 Enhancements and Modifications (continued)

Revised Conceptual Framework for Financial Reporting (continued)

In addition, the IASB published a separate document "Updating References to the Conceptual Framework" which contains consequential amendments to affected Standards so that they refer to the new Framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

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

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS)

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. (IAS 39 is amended as well as IFRS 9 because entities have an accounting policy choice when first applying IFRS 9, which allows them to continue to apply the hedge accounting requirements of IAS 39). There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

The changes in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7): (i) modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform; (ii) are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform; (iii) are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and (iv) require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The amendments are be effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 Transactions and balances

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

2.4.3 Exchange rates

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

Currency	Chilean pesos per unit	
	December 31, 2019	December 31, 2018
Unidad de Fomento	28,309.94	27,565.79
US$	748.74	694.77
Euro	839.58	794.75

2.5 Financial reporting by operating segments

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

The source of the revenues that generates the company and its assets are located in Chile.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.6 Property, plant and equipment

Property, plant and equipment are valued at acquisition cost, net of its corresponding 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 items:

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

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.6 Property, plant and equipment (continued)

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

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

2.7 Intangible assets

2.7.1 Goodwill

Goodwill represents the excess of acquisition cost on the fair value of net assets acquired in a business combination. Goodwill is not amortized, it is annually tested for impairment, regardless if there is any indication of impairment.

For impairment testing, goodwill acquired in a Business combination is assigned as of the acquisition date to the cash generation units that are expected to benefit from said combination.

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

2.7.2 Rights of way

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

2.7.3 Computer software

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

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

2.7.4 Non-current assets or groups of assets for disposal classified as held for sale

Non-current assets or groups of assets for disposal classified as held for sale are recognized at the lower of their book value and the fair value less the cost of sale.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.8 Impairment of non-financial assets

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

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

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

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

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

Variable	December 2019	December 2018	Description
Discount rate	5.96%	7.16%	The discount rate used is the weighted average cost of capital (WACC) of the Company, measured before taxes.
Growth rate	3.00%	3.00%	The growth rate is applied to the perpetuity and is based on the estimation of the long-term inflation expectation established by the Central Bank of Chile.
Period of estimation of flows	5 years	6 years	The estimation period is 5 years, based on the Company's internal business plan plus perpetuity.

Impairment losses from continuing operations are recognized in the income statement in the expenses categories in accordance with the function of the impaired assets. In the case of goodwill see Note 2.7.1.

Non-financial assets other than goodwill that suffered an impairment loss are reviewed at each reporting date for possible reversal of the impairment, in which case the reversal may not exceed the amount originally impaired less accumulated depreciation. Reversals are included in the income statement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial instruments

A financial instrument is any contract that generates, at the same time, a financial asset in an Entity and a financial liability or an equity instrument in other Entity.

1) Non-derivatives Financial Assets

The Company classifies its non-derivatives financial assets into the following categories:

a) Amortized Cost:

In this category are classified the financial assets within the Business Model of the Company whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Non-derivatives financial assets that that accomplish with the conditions stated in IFRS 9 to be classified at amortized cost are: account receivables, loans granted and cash equivalents. This assets are recorded at amortized cost which is its initial fair value, minus the payments of principal, plus the non-collected accrued interests calculated according to the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

b) Fair value through other comprehensive income (Equity):

In this category are classified the financial assets within the Business Model of the Company whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are recognized into the Consolidated Financial Statement at its fair value when it can be feasible determined. Changes in its fair value, net of tax effect, are recorded into the Other Comprehensive Income Statement until those financial assets are derecognized which is the moment when the accumulated effect is recycle into the Profit or Loss of the period. If the fair value of the financial assets is lower than the acquisition cost, and if there is objective evidence that the financial assets has an impairment that is not reversible, the difference has to be recorded as a loss of the period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial instruments (continued)

1) Non-derivatives Financial Assets (continued)

c) Fair value through profit or loss

For financial assets that were defined as such at the moment of their initial recognition and those that are not measured at amortized cost or fair value through other comprehensive income.

These financial assets are measured in the Consolidated Financial Statement at its fair value and the changes on its fair value are recorded directly in profit or loss at the moment when they occurred, Purchases or sales of financial assets are recorded at the date of the transaction.

2) Cash and Cash Equivalent

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

3) Impairment of financial assets

According to IFRS 9, the Company the impairment model based of expected credit losses. These model is used on the financial assets measured at amortized cost or fair value through other comprehensive income, except for the investments in equity instruments. The Company uses a simplify scope for account receivables, contractual assets and account receivables for leasing in order to ensure that any impairment recorded is made in reference to the expected losses for all the life of the asset.

4) Non-derivatives financial liabilities

Financial liabilities are initially recognized at its fair value. In the case of loans they also include the direct transactions costs. For its subsequent measurement, these liabilities are measured at amortized cost using the effective interest rate method. For the fair value of debt calculation it has been performed using the discounted cash flows method according to the interest rate curves available in the market depending on the payment currency.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial instruments (continued)

5) Derivatives and Hedge activities

The Company selectively uses derivative and non-derivative instruments, to manage its exposure to exchange rate risk (See Note 16).

Derivatives instrument used by the Company are mainly related to hedge the interest rate/exchange rate risks. Derivatives instruments are recorded at its fair value at the date of the transaction on the Consolidated Financial Statements. If the fair value of the derivative instrument is positive, it is recorded into the "Other financial assets" item and in case that the fair value of the derivative instrument is negative it is recorded into the "Other financial liabilities" item. Changes in the fair value of the derivative instruments are recorded into profit or loss unless the derivative had been designated as a hedge instrument and comply with all the requirement stated in IFRS 9 in order to use Hedge Accounting. Regarding to hedge accounting, the Company is still under the IAS 39 scope. The different types of hedge accounting that the Company perform are:

5.1) Fair value Hedge: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, along with any change in the fair value of the hedged asset or liability that is attributable to the hedged risk. The Company has not used fair value hedges during the years presented.

5.2) Cash Flow Hedge: 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.

5.3) Net Investment Hedge: 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial instruments (continued)

5) Derivatives and Hedge activities (continued)

Gains or losses relating to the ineffective portion are recognized immediately in the income statement in the line item “Other gains (losses)”.

The Company does not have any Net Investment Hedge transaction on its records.

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.

6) Embedded derivatives

Derivatives embedded in other financial instruments or other contracts are treated as derivatives when their risks and characteristics are not closely related to the principal contracts and the principal contracts are not measured at fair value through profit and loss. In the case that they are not closely related, they are recorded separately, and any changes in value are recognized in the income statement. In the periods presented in these Consolidated Financial Statements, the Company did not identify any contracts that met the conditions for embedded derivatives.

7) Derecognition of financial assets and liabilities

Financial assets are derecognized when, and only when:

a) The contractual rights to the cash flows from the financial asset expire or, the Company retains the contractual rights to receive the cash flows but assumes a contractual obligation to pay those cash flows to one or more entities.

b) The entity transfers substantially all the risks and rewards of ownership of the financial asset, or, if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity has lose control of the asset.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial instruments (continued)

8) Compensation of financial assets and liabilities

The Company compensate financial assets and liabilities, presenting the net amount in its Consolidated Financial Statements, only when:

a) Exist a legal right to compensated both amounts; and

b) Exist the intention of settle the transaction on a net basis, or to collect the asset and pay the liability simultaneously.

These rights can only be legally enforceable during the normal course of the business, or in case insolvency, payment problems or bankruptcy, of any one or all of the parties involved in the transaction.

2.10 Inventory

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

2.11 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.

2.12 Income tax and deferred taxes

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.12 Income tax and deferred taxes (continued)

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.

2.13 Employee benefits

2.13.1 Staff severance indemnity

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

This benefit is recorded at nominal value.

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

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

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

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

2.13.2 Profit sharing

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.14 Provisions

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

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

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

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

2.15 Classification of current and non-current balances

In the 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.

2.16 Revenue recognition

The regulatory framework that governs electrical transmission activity in Chile comes from the by - Law of the Electric Services dated 1982 (DFL (M) No. 1/82), and subsequent amendments thereto, including Law 19.940 (called also the "Short Law") enacted on March 13, 2004, Law 20,018 ("Short Law II"), enacted on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Sources of Energy), enacted on April 1, 2008. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto. On July 11, 2016, the new Transmission Law was enacted, which creates an Independent Coordinating entity of the National Electrical System (NES), called National Electrical Coordinator (CEN, according to the Spanish acronym), which groups the previous DEC SIC and CDEC SING; in addition, it establishes a new Electrical Transmission System in which the trunk transmission system, the subtransmission system and additional systems now form part of National, Zone and Committed Transmission System, respectively. To the remuneration received from the transmitter, a variable discount rate will be applied with a minimum of 7% and a maximum of 10% after taxes. The las enters into effect immediately and gradually until its full application as of 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.16 Revenue recognition (continued)

Company’s revenues are generated by the remuneration from customers for the use of its transmission facilities. The Company has two types of contracts with customers: regulated and contractual. The first one is subject to regulatory rates while the second one is related to contractual agreements with the user of the transmission facilities.

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

The Company has the right to collect from its customers a “toll” which is composed by an “AVI+COMA” related to the use of its transmission facilities. The Electrical Law stablishes these “AVI+COMA” as integral components in rendering the transmission service. Therefore, due to these services are substantially the same and they have the same stream of transference to customers, in other words, both services are satisfied through the time with a similar progress measurement; The company has defined that there is a unique performance obligation and it is satisfied during a period of time, therefore revenues are recognized in the same base.

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from 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.

2.17 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.

2.17.1 The Company as lessor

The assets held under a finance lease are presented in other financial assets at an amount equal to the net investment in the lease, being the aggregate of: (i) minimum lease payments receivable and (ii) any unguaranteed residual value accruing to the Company discounted at the interest rate implicit in the lease. The income (interest) is recognized on a pattern reflecting a constant periodic rate of return on the net investment in the lease; this income is presented in the statement

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.17 Leases (continued)

2.17.1 The Company as lessor (continued)

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.

2.17.2 The Company as lessee

Finance leases in which acts as lessee are recognized when the agreement begins, recording an asset based on the nature of the lease and a liability for the same amount, equal to the lesser of the fair value of the leased asset or the present value of the minimum lease payments.

Subsequently, the minimum lease payments are divided between finance expense and reducing the debt. The finance expense is recorded in the income statement and distributed over the period of the lease term so as to obtain a constant interest rate for each period over the balance of the debt pending amortization. The asset is amortized in the same terms as other similar depreciable assets, as long as there is reasonable certainty that the lessee will acquire ownership of the asset at the end of the lease. If no such certainty exists, the asset will be amortized over the lesser term between the useful life of the asset and the term of the lease.

2.17.3 Rights from Use of Lease

The company has lease agreements on several Property, Plant and Equipment items. Under IAS 17, the Company classified each of its assets on the date of origin as a finance lease or an operating lease. Leases were classified as finance leases if they substantially transferred to the company all the risks and rewards incidental to ownership of the leased asset; otherwise, they were classified as operating leases.

In adopting IFRS 16, the Company applied a single recognition and measurement approach to all leases (in which the Company acts as lessee), except for short-term leases and low-value assets.

In addition, the standard provides specific transition requirements and practical solutions, which the Company has applied.

2.17.3.1 Leases previously classified as operating leases

The Company recognized assets for right of use and lease liabilities in regards to leases previously classified as operating leases (in which the Company acts as lessee), except in the case of short-term leases and leases of low-value assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.17.3 Rights from Use of Lease (continued)

2.17.3.1 Leases previously classified as operating leases (continued)

The right-of-use assets in the case of most leases were recognized based on book value as if the Standard had always been applied, except for the use of the passive rate on the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liability, adjusted for the amount of any advance or accumulated (accrued) lease payment that has been previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted through the use of the increasing passive rate at the date of initial application.

The practical solutions used by the Company in the application of IFRS 16 were:

a) Single discount rate for a lease portfolio with reasonably similar characteristics.

b) Evaluation of onerous leases before the date of initial application.

c) Application of the exceptions for short-term leases (maturity less than 12 months) on the date of the initial application.

d) Exclusion of the initial direct costs of measuring the right of use asset on the date of initial application.

e) Retrospective evaluation to determine the term of the lease in those cases in which the contracts contain renewal options or termination of the lease.

2.17.3.2 Right of Use Assets

The Company recognizes right of use assets at the inception date of the lease (i.e., the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, less any accumulated depreciation and impairment loss, and are adjusted for any new measurement of lease liabilities.

The cost of the right of use assets includes the amount of the recognized lease liabilities, the initially incurred direct costs and the lease payments on or before the inception date minus any received lease incentives.

Recognized right-of-use assets are depreciated on a straight-line basis for the shortest of their estimated useful life and the term of the lease and are subject to impairment review.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.17.3 Rights of Use Assets (continued)

2.17.3.3 Lease Liabilities

On the inception date of the lease, the Company recognizes the lease liabilities at the present value of the lease payments that must be made during the term of the lease. In calculating the present value of the lease payments, the Company uses the incremental indebtedness rate at the inception date of the lease if the interest rate implicit in the lease can not be determined. After the inception date, the amount of lease liabilities is increased to reflect the accrued interest and is reduced as per the lease payments made. In addition, the book value of the lease liabilities is remeasured if there is a revision, a change in the term of the lease, a substantial change in the fixed lease payments or a change in the evaluation of the purchase of the underlying asset.

2.17.3.4 Short-term leases and lease of low-value assets

The Company applies the exception for recognition of short-term leases to its leases that have a term of 12 months or less from the inception date and that do not contain a renewal option. The lease recognition exception also applies for contracts that involve low value assets (less than USD 5,000). Short-term lease payments and leases of low-value assets are recognized as expenses on a straight-line basis over the term of the lease.

Significant judgment in determining the lease term for contracts with renewal options. The Company determines the lease term as the non-cancelable term of the lease, along with any period covered by an option to extend the lease if there is reasonable assurance that it will be exercised, or any period covered by an option to terminate the lease, if there is reasonable assurance that it will not be exercised.

The Company includes the renewal period as part of the term of the lease in the case of leases of assets of significant importance for its operations. These leases have a short non-cancelable period (i.e., three to five years) and there would be a significant negative effect on production if a replacement is not available.

At the time of initial recognition as of January 1, 2019, right of use assets and lease liabilities (net of deferred interest) were recognized for an amount of ThCh$ 6,032,968.

2.18 Distribution of dividends

Dividends payable to the Company's shareholders are recognized as a liability in the Consolidated Financial Statements in the period in which they are approved by the Company's shareholders. Company makes a provision at the end of each year for the 30% of the profit of the year, in accordance with Law N° 18,046.

On the Company's Board meeting No. 57 held on December 31, 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. As of December 31, 2019, the company has distributed and paid dividends for ThCh$96,218,000 (see note 19.3).

3 - RISK MANAGEMENT POLICY

3.1 Financial risk

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

3.1.1 Market risk

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

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

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

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

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

3.1.1.1 Interest rate risk

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

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

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

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

3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.1 Interest rate risk (continued)

The table below compares the debts of the Company and shows that all of the debt of the Company as of December 31, 2019 and as of December 31, 2018 was at fixed rate (taken at a fixed rate or at a variable rate and fixed by means of derivatives). In addition, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

Debt	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (thousand) December 31, 2019	Amount in Original Currency (thousand) December 31, 2018
Series D Bond	UF	4.25%	Fixed	13,500	13,500
Series H Bond	UF	4.80%	Fixed	3,000	3,000
Series K Bond	UF	4.60%	Fixed	1,600	1,600
Series M Bond	UF	4.05%	Fixed	3,400	3,400
Series N Bond	UF	3.95%	Fixed	3,000	3,000
Series Q Bond	UF	3.95%	Fixed	3,100	3,100
Senior Notes	USD	4.625%	Fixed	300,000	300,000
Senior Notes	USD	4.250%	Fixed	375,000	375,000
Senior Notes	USD	3.875%	Fixed	350,000	350,000
Revolving Credit Facility	USD	3.16%	Floating (*)	-	-
Revolving Credit Facility	UF	0.37%	Floating (**)	-	-

(*) The floating rate 3.16% of the Revolving credit facility breaks down in 3M LIBOR plus a margin of 1.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay such interest, and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

(**) The floating rate 0.37% of the Revolving credit facility breaks down in TAB UF 180 plus a margin of 0.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay such interest, and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

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

3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.1 Interest rate risk (continued)

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

The following table shows the effects of the debt indexed to the UF (the debt of Transmisión del Melado SpA is excluded since it was prepaid) on the company's financial result.

	Position in UF	Annual Effect on income (ThCh$)		
Serie	Long / (Short)	Inflation (3%)	Inflation (4%)	Inflation (2%)
Series D Bond	(13,397,930)	(16,826)	(20,618)	(13,033)
Series H Bond	(3,000,850)	(3,769)	(4,618)	(2,919)
Series K Bond	(1,598,822)	(2,008)	(2,461)	(1,555)
Series M Bond	(1,470,382)	(1,847)	(2,263)	(1,430)
Series M1 Bond	(1,858,941)	(2,334)	(2,861)	(1,808)
Series N Bond	(2,871,773)	(3,606)	(4,419)	(2,793)
Series Q Bond	(3,073,166)	(3,860)	(4,730)	(2,990)
Total	**(27,271,864)**	**(34,250)**	**(41,970)**	**(26,528)**

3.1.1.2 Exchange rate risk

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

- Transelec carries out several types of transactions in U.S. dollars (certain construction contracts, import purchases, etc.).
- Transelec Maintains accounts receivables in US dollars.
- Transelec maintains Cross Currency Swap contracts, which offset exchange rate risks of international emissions made in 2014 and 2016, for notional amounts equivalent to US$ 375 million and US$ 350 million, respectively (Long-term position).
- Maintains lease contracts that generate income indexed to US dollars.

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

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.2 Exchange rate risk (continued)

The exposure to exchange rate risk is managed through a policy approved by senior management, which includes fully hedging the net exposure (monetary items) of the balance sheet, which is carried out through various instruments such as positions in US dollars, forward contracts and cross currency swaps.

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

	Liabilities		Assets	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$	December 31, 2019 ThCh$	December 31, 2018 ThCh$
U.S. dollar (amounts associated with balance sheet items)	774,341	760,791	773,997	759,919
Chilean peso	1,596,539	1,610,090	1,596,884	1,610,961

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

3.1.1.2.1 Sensivity analysis

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

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

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.2 Exchange rate risk (continued)

3.1.1.2.1 Sensitivity analysis (continued)

	Position	Net income (gain)/loss		Position	OCI	
Item (Currency)	**Long /(Short)**	**Change (-10%)**	**Change (+10%)**	**Long /(Short)**	**Change (-10%)**	**Change (+10%)**
Cash (US$)	4,274	(6)	6	-	-	-
Leasing (US$)	31,493	(47)	47			
Forwards (US$)	9,284	-	-	73	-	-
Senior Notes (US$)	(774,341)	1,149	(1,149)	-	-	-
Swaps	535,002	(794)	794	40,977	(61)	61
Intercompany loan (US$)	193,944	(288)	288	-	-	-
Total	**(344)**	**14**	**(14)**	**41,050**	**(61)**	**61**

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 year ended December 31, 2019 ThCh$**	**For the year ended December 31, 2018 ThCh$**
Enel Group	132,055,320	113,261,927
CGE Group	60,554,392	20,809,253
AES Gener Group	51,258,777	39,962,071
Colbún Group	51,919,220	45,570,526
Engie (E-CL) Grouo	9,736,157	22,548,721
Pacific Hydro Group	2,637,975	4,917,620
Others	70,429,430	82,147,088
Total	**378,591,271**	**329,217,206**
% of concentration of top customers	**81.40%**	**75.05%**

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.2 Credit risk (continued)

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

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

3.1.3 Liquidity risk

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

To guarantee that it is able to respond financially both the investment opportunities and to the timely payment of its obligations.Transelec separately records its available cash and short-term accounts receivable with a dedicated Revolving Credit (RC) for working capital divided in two tranches; for US$ 150 million and UF 2,5 million, both amount equivalents to Ch$165,090 billion. To date, this committed line doesn't register amounts used. 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.

Additionally, this line was renegotiated and extended on October 15, 2014 until October 15, 2017. Posteriorly, was done a new amendment to extend the expiration of the credit line for three more years.

In this opportunity the bank syndicate was formed by Scotiabank and Banco Estado for the UF tranche and by The Bank of Nova Scotia, Bank of Tokyo-Mitsubishi, DnB Bank y Export Development Canadá for USD tranche. In this last negotiation was keeping the conditions previously negotiated.

(a) Commissions payable on committed unused amounts (Commitment Fee) from 0.6% to 0.4375%.
(b) The margin or spread over used amounts from 2.35% to 1.25%.
(c) Other restrictions clauses more favorable to Transelec.

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

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

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.3 Liquidity risk (continued)

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

The following table presents the capital amortizations and estimated interest payments corresponding to the Company's financial liabilities (debt), according to their maturity date, as of December 31, 2019 and December 31, 2018.

Debt maturity	Less than 1 Years	1 to 3 Years	3 to 5 Years	5 to 10 Years	More than 10 years	Total
December 31, 2019	65,254,362	130,508,724	344,741,957	1,108,424,936	495,527,134	2,144,457,113
December 31, 2018	62,051,823	124,103,646	332,534,646	840,329,917	746,647,575	2,105,667,606

The maturity of derivatives is presented Note 15.2.

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

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

In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20,018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by the respective CEN (National Electrical Coordinator) through the collection or payment to the different companies, owners of generation facilities.

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

4 - CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT

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

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

- The estimates of recoverable values of assets and goodwill to determine potential existence of impairment losses;
- Useful lives of property, plant and equipment and intangible assets;
- The assumptions used to calculate the fair value of financial instruments;
- The actuarial assumptions used to calculate obligations with employees;
- Future tax results for the purposes of determining the recoverability of deferred tax assets.
- Deferred tax assets.
- Contingent assets and liabilities.
- Determination of existence and classification of financial or operating leases based on the transfer of risks and rewards of the leased assets (IFRS16), considerate the following:
  - Identification of whether a contract (or part of a contract) includes a lease.
  - Estimate the lease term.
  - Determine if it is reasonably true that it is an extension or termination option will be exercised.
  - Determination of the appropriate rate to discount lease payments.

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

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

5 - CASH AND CASH EQUIVALENTS

a) As of December 31, 2019 and December 31, 2018, this account is detailed as follows:

Cash and Cash Equivalents	Balance as of December 31, 2019 ThCh$	Balance as of December 31, 2018 ThCh$
Bank and cash balances	1,680,122	60,079,795
Short term deposits	3,404,498	-
Reverse repurchase agreements and mutual funds	103,557,742	43,979,479
Total	**108,642,362**	**104,059,274**

Cash and cash equivalents included in the statement of financial position as of December 31, 2019 and December 31, 2018 does not differ from those presented in the statement of cash flows.

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

Detail of Cash and Cash Equivalents	Currency	Balance as of December 31, 2019 ThCh$	Balance as of December 31, 2018 ThCh$
Amount of cash and cash equivalents	U.S. dollars	4,021,429	58,070,904
Amount of cash and cash equivalents	Euros	252,235	289,637
Amount of cash and cash equivalents	Chilean pesos	104,368,698	45,698,733
Total		**108,642,362**	**104,059,274**

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

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

6 - TRADE AND OTHER RECEIVABLES

The detail as of December 31, 2019 and 2018 is as follows:

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Trade receivables	86,831,886	72,098,730
Miscellaneous receivables	212,192	233,375
Total trade and other receivables	**87,044,078**	**72,332,105**

Refer to Note 7 for the amounts, terms and conditions of receivables from related parties.

As of December 31, 2019 and 2018, the aging of trade and other receivables is as follows:

	Balance as of	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Maturing in less than 30 days	56,760,654	63,975,047
Maturing in more than 30 days up to 1 year	30,283,424	8,357,058
Total	**87,044,078**	**72,332,105**

Fair values do not differ significantly from book values due to the short term maturity of these instruments.

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

7.1 Balances and transactions with related parties

The balances of accounts receivables and payables between the company and its unconsolidated related companies are as follows:

Account receivables from related companies

Tax ID Number	Company	Country	Description	Start Date	Maturity Date	Relation	Currency	Balance as of: Current December 31, 2019 ThCh$	Current December 31, 2018 ThCh$	Non-current December 31, 2019 ThCh$	Non-current December 31, 2018 ThCh$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan Mercantile current Account	Not defined	Not defined	Parent Company	CH$	13,955,738	658,327	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	08-31-2017	08-31-2020	Parent Company	CH$	1,773,786	772,240	27,212,850	27,212,850
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	09-21- 2015/ 11-28-2017	21-09-2025/ 28-11-2027	Parent Company	UF	-	-	21,651,517	21,082,389
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	06-30-2015/ 11-28-2017	06-30-2025/ 11-28-2027	Parent Company	US$	-	-	193,943,969	179,964,275
76.248.725-K	CYT Operaciones SPA	Chile	Accounts receivable	Not defined	Not defined	Indirect	CH$	5,802,554	256,883	-	-
20601047005	Conelsur LT SAC	Peru	Accounts receivable	Not defined	Not defined	Indirect	CH$	120,358	173,177	-	-
76.524.463-3	Transelec Concesiones S.A	Chile	Accounts receivable	Not defined	Not defined	Indirect	CH$	353,236	360,769	-	-
76.920.929-8	Transmisora del Pacifico S.A.	Chile	Mercantile current Account	Not defined	Not defined	Indirect	CH$	-	386,288	-	-
	Total							**22,005,672**	**2,607,684**	**242,808,336**	**228,259,514**

The company does not maintain accounts payable balances to unconsolidated related companies as of December 31, 2019 and 2018.

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.1 Balances and transactions with related parties (continued)

Most significant transactions and their effect on income

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

Tax ID Number	Company	Country	Relation	Description of the transaction	December 31, 2019		December 31, 2018	
					Amount ThCh$	Effect on Income ThCh$	Amount ThCh$	Effect on Income ThCh$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Parent Company	Amounts provided	113,968,788	-	99,395,737	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Parent Company	Dividend payable	101,341,749	-	113,423,614	-
76.920.929-8	Transmisora del Pacífico S.A.	Chile	Indirect	Amounts provided	-	-	386,288	-
76.524.463-3	Transelec Concesiones S.A.	Chile	Indirect	Dividend payable	1,490,235	-	-	-
76.248.725-K	CYT Operaciones SpA	Chile	Indirect	Dividend payable	137,681	-	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Parent Company	Interest earned	8,929,331	8,929,331	8,091,215	8,091,215
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Parent Company	Exchange difference	14,020,200	14,020,200	20,592,263	20,592,263
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Parent Company	Indexed to UF	573,752	573,752	590,496	590,496

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.2 Board of Directors and management

In accordance with the Company's by-laws, the Board of Directors is composed of nine members appointed by shareholders at the respective shareholders' meeting. They hold their positions for two years and may be re-elected. For each Board Member there is an alternate Board Member.

The current Board of Directors was elected at the Ordinary Shareholders Meeting dated April 26, 2019, which was composed as follows: Mrs. Brenda Eaton as Director and Mr. Jordan Anderson as her alternate Director, Mr. Rui Han as Director and Mrs. Sihong Zhong as his alternate Director; Mr. Richard Cacchione as Director and Mr. Michael Rosenfeld as his alternate Director; Mr. Alfredo Ergas Segal as Director and Mr. Ricardo Szlejf as his alternate Director; Mr. Mario Valcarce Durán as Director and Mr. José Miguel Bambach Salvatore as his alternate Director; Mr. Blas Tomic Errázuriz as Director and Mr. Patricio Reyes Infante as his alternate Director; Mr. Alejandro Jadresic Marinovic as Director and Mr. Juan Agustín Laso Salvatore as his alternate Director; Mr. Juan Benabarre Benaiges as Director and Mr. Roberto Munita Valdés as his alternate Director; and Mrs. Patricia Núñez Figueroa as Director and Mr. Claudio Campos Bierwirth as her alternate Director.

At the Board meeting held on May 15, 2019, Mrs. Brenda Eaton was elected Chairman of Transelec.

After the sensitive death of Mr. Alejandro Jadresic Marinovic, he replaced Mr. Juan Agustín Laso Bambach from June 5, 2019.

Mrs. Brenda Eaton submitted her waive as Chairman of the Board of Directors on November 14, 2019, which was approved by the Board of Directors of Transelec S.A.

On November 14, 2019, was approved by the members of the Board of Directors of Transelec S.A. a new composition accepting the waives of Messrs. Alfredo Ergas Segal and Ricardo Szlejf as of this date and appointing Mr. Scott Lawrence, who will be officially appointed at the next Ordinary Shareholders Meeting as the Replacement Director. It was also agreed to appoint Mr. Scott Lawrence as Chairman of the Board.

7.2.1 Board of Directors' compensation

According to Article No. 33 of Law No. 18,046 on Corporations, at the Tenth Ordinary Shareholders' Board Meeting of Transelec S.A., held on April 26, 2019, it was agreed to maintain annual directors' allowance of US$ 90,000, gross value, with the exception of its President, who will receive a gross amount of US$155,000 per year, regardless of the number of meetings actually attended or held. The allowance is paid quarterly.

The Directors, Mr Rui Han, Mr. Alfredo Ergas Segal and Mr. Richard Cacchione waived their allowance corresponding to the years 2019.

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.2 Board of Directors and management (continued)

7.2.1 Board of Directors' compensation (continued)

At the Ordinary Shareholders' Meeting for 2019, it was decided that the alternate directors would not receive an allowance.

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Brenda Eaton (Presidente) *	107,731	73,912
Alejandro Jadresic Marinovic	46,046	58,720
Blas Tomic Errázuriz	62,431	58,720
Mario Alejandro Valcarce Durán	62,431	58,720
Patricia Angelina Nuñez Figueroa	62,431	20,585
Juan Ramon Benabarre Benaiges	62,431	20,585
Bruno Pedro Philippi Irarrázabal	-	13,576
José Ramón Valente Vias	-	9,050
María Josefina Court Spikin	-	10,305
Marco Nicolas Ubilla Pareja	-	10,305
Juan Agustín Laso Bambach	-	-

Messrs Scott Lawrence (Chairman), Rui Han, Richard Cacchione, Alfredo Ergas Segal and Juan Agustín Laso Bambach did not receive remuneration during the 2019 period.

7.3 Board expenses

As of December 31, 2019, there have been no expenses related to consulting for the Board. During the period between January 1 and December 31, 2018, advice was made for an amount of UF 216,73.

7.4 Audit committee

In April 2007, the Company approved creation of an Audit Committee, separate from that established in the Corporations Law. Its functions include, among others, reviewing the reports of the external auditors as well as the Company's balance sheets, other Consolidated Financial Statements and internal systems.

Transelec's Audit Committee is composed of four Directors, all of whom are qualified in financial matters and apply their specialized knowledge to diverse topics of interest to the Company, Committee members are appointed by the Board of Directors. 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. The Audit Committee has held two in the 2019 period.

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.4 Audit committee (continued)

As of April 18, 2018, in a Meeting of Directors, the Audit Committee members were composed by its President Mr, Mario Valcarce Durán, Directors Mr, Alfredo Ergas, Mrs, Brenda Eaton and Mr, Juan Ramón Benabarre Benaiges, and Mrs. Patricia Angelina Nuñez Figueroa, besides the Secretary, Mr, Arturo Le Blanc Cerda.

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

At the twelfth Ordinary Shareholders' Meeting of Transelec S.A., held on April 26, 2019, it was agreed to keep as compensation of the members of the Committee, the gross amount of US$ 10,000 per year regardless of the number of meetings that they actually attend or that are actually held.

The following compensation was received by members of the Audit Committee as of December 31, 2019 and 2018:

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Patricia Angelina Nuñez	6.948	-
Mario Alejandro Valcarce Duran	6.948	6.148
Jose Ramon Valente	-	6.148

7.5 Compensation of key management that are not Directors

Members of Key Management

Andrés Kuhlmann Jahn	Chief Executive Officer
Sebastían Fernandez Cox	Vice-President of Business Development
Francisco Castro Crichton	Vice-President of Finance
Alexandros Semertzakis Pandolfi	Vice-President of Engineering and Construction
Claudio Aravena Vallejo	Vice-President of Human Resources
Arturo Le Blanc Cerda	Vice-President of Legal Matters
Rodrigo Lopéz Vergara	Vice-President of Operations
David Noe Scheinwald	Vice-President of Electrical Development

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

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

7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Compensation of key management personnel by concept for the years 2019 and 2018 is detailed as follows:

	Balance as of	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Salaries	1,900,765	1,838,049
Short-term employee benefits	767,533	1,300,543
Long-term employee benefits	700,880	1,996,891
Total compensation received by key management personnel	**3,369,178**	**5,135,483**

8 - OTHER FINANCIAL ASSETS, LEASES

As of December 31, 2019 and 2018, this account is detailed as follows:

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Finance lease receivables current	1,150,194	1,030,014
Swap Contracts (See note 15)	-	20,902
Forward Contracts (See note 15)	73,384	170,391
Sub-total Other financial assets current	**1,223,578**	**1,221,307**
Finance lease receivables non-current	30,342,702	28,924,095
Swap Contracts (See note 15)	40,976,656	42,246
Other financial assets	41,752	15,286
Sub-total Other financial assets non-current	**71,361,110**	**28,981,627**
Total	**72,584,688**	**30,202,934**

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

8 - OTHER FINANCIAL ASSETS, LEASES (continued)

8.1 Finance lease receivables

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

	December 31, 2019		
Period in years	**Present Value ThCh$**	**Interest receivable ThCh$**	**Gross investment ThCh$**
Less than 1	1,150,194	3,474,714	4,624,908
1-5	6,320,066	16,229,841	22,549,907
Over 5	24,022,636	38,442,162	62,464,798
Total	**31,492,896**	**58,146,717**	**89,639,613**

	December 31, 2018		
Period in years	**Present Value ThCh$**	**Interest receivable ThCh$**	**Gross investment ThCh$**
Less than 1	1,030,014	1,214,092	2,244,106
1-5	5,750,550	15,218,631	20,969,181
Over 5	23,173,545	50,456,813	73,630,358
Total	**29,954,109**	**66,889,536**	**96,843,645**

Movements in finance leases:

	Balance as of	
	December 31, 2019 ThCh$	**December 31, 2018 ThCh$**
Opening balance	**29,954,109**	**24,993,959**
Additions	203,497	2,330,201
Amortization	(1,053,041)	(907,043)
Translation difference	2,388,331	3,536,992
Ending balance	**31,492,896**	**29,954,109**

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

9 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of December 31, 2019 and 2018:

Intangible assets, net	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Rights of way (*)	176,327,213	176,039,780
Software	5,875,156	5,219,985
Total intangible assets	**182,202,369**	**181,259,765**

(*) As of December 31, 2019 and 2018 Transelec S.A. present intangible assets with indefinite useful lives under the classification of rights of way.

Intangible assets, gross	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Rights of way	176,327,213	176,039,780
Software	19,465,387	15,944,534
Total intangible assets	**195,792,600**	**191,984,314**

Accumulated amortization and impairment	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Software	(13.590.231)	(10,724,549)
Total accumulated amortization	**(13.590.231)**	**(10,724,549)**

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

9 - INTANGIBLE ASSETS (continued)

The composition and movements of intangible assets as of December 31, 2019 and 2018 are the following:

Movements in intangible assets	Rights of way ThCh$	Software ThCh$	Net intangible assets ThCh$
Opening balance as of January 1, 2019	**176,039,780**	**5,219,985**	**181,259,765**
Movements in intangible assets			
Additions	441,349	3,520,853	3,962,202
Retirements	(153,916)	-	(153,916)
Amortization	-	(2,865,682)	(2,865,682)
Ending balance of intangible assets as of December 31 , 2019	**176,327,213**	**5,875,156**	**182,202,369**

Movements in intangible assets	Rights of way ThCh$	Software ThCh$	Net intangible assets ThCh$
Opening balance as of January 1, 2018	**173,991,593**	**6,370,762**	**180,362,355**
Movements in intangible assets			
Additions	2,048,187	1,312,862	3,361,050
Retirements	-	-	-
Amortization	-	(2,463,639)	(2,463,640)
Ending balance of intangible assets as of December 31 , 2018	**176,039,780**	**5,219,985**	**181,259,765**

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of December 31, 2019 and 2018 to be recovered.

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

10 – Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the group's identifiable net assets acquired.

10.1 Measurement of the recoverable value of goodwill

The Company has defined its only operating segment of Electric Power Transmission as the Cash Generating Unit (CGU) for the purpose of performing the impairment tests and therefore the surplus value at the date of the impairment test is fully assigned to this CGU.

The breakdown of this item as of December 31, 2019 and 2018 is as follows:

Detail	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Goodwill	343,059,078	343,059,078
	343,059,078	**343,059,078**

10.2 Movement of goodwill in the Consolidated Financial Statements:

The goodwill movements during the period ended December 31, 2019 and 2018 are:

	ThCh$
Opening balance as of January 1, 2019	343,059,078
Changes:	
Increase (decrease) for Exchange difference	-
Ending balances as of December, 2019	**343,059,078**

	ThCh$
Opening balance as of January 1, 2018	343,059,078
Changes:	
Increase (decrease) for Exchange difference	-
Ending balances as of December, 2018	**343,059,078**

10.3 Impairment test

Management considers that the value in use approach, determined by the discounted cash flow model, is the most reliable method for determining the recoverable values of the CGU. (The variables used by the Company are found in Note 2.8 Impairment of non-financial assets).

The result of the impairment test, which includes a sensitivity analysis of its main variables, showed that the calculated recoverable values exceed the book value of the net assets of the respective cash-generating unit, and therefore no impairment was detected.

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

11 - PROPERTY, PLANT AND EQUIPMENT

11.1 Detail of accounts

The composition corresponds to the following detail:

Property, plant and equipment, net	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Land	20,983,646	20,696,130
Buildings and infrastructure	896,902,191	912,272,233
Work in progress	135,552,321	73,919,836
Machinery and equipment	478,838,192	466,735,333
Other property, plant and equipment	5,932,186	6,110,221
Assets for Rights of Way Leasing	5,126,832	-
Property, plant and equipment, net	**1,543,335,368**	**1,479,733,753**

Property, plant and equipment, gross	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Land	20,983,646	20,696,130
Buildings and infrastructure	1,210,139,071	1,198,912,973
Work in progress	135,552,321	73,919,836
Machinery and equipment	726,472,407	693,226,181
Other property, plant and equipment	5,932,186	6,110,221
Assets for Rights of use	6,721,268	-
Total property, plant and equipment, gross	**2,105,800,899**	**1,992,865,341**

Total accumulated depreciation of property, plant and equipment, net	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Buildings and infrastructure	(313,236,880)	(286,640,740)
Machinery and equipment Assets from Rights of use	(247,634,215)	(226,490,848)
Assets from Rights of use	(1,594,436)	
Total accumulated depreciation of property, plant and equipment	**(562,465,531)**	**(513,131,588)**

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

11 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

11.2 Reconciliation of changes in property, plant and equipment

The following table details the reconciliation of changes in property, plant and equipment by class during the periods ended December 31, 2019 and 2018:

		Land ThCh$	Buildings and infrastructure ThCh$	Machinery and equipment ThCh$	Work in progress ThCh$	Other property, plant and equipment ThCh$	Assets rights of use ThCh$	Property, plant and equipment, net ThCh$
Opening balance January 1, 2019		**20,696,130**	**912,272,233**	**466,735,333**	**73,919,836**	**6,110,221**	**-**	**1,479,733,753**
Movement	Additions	-	-	-	110,795,192	715,371	6,721,268	118,231,831
	Retirements	-	(1,154,194)	(1,046,337)	(445,701)	-	-	(2,646,232)
	Transfer to operating assets	287,516	12,751,849	36,571,047	(48,717,006)	(893,406)	-	-
	Depreciation	-	(26,967,697)	(23,421,851)	-	-	(1,594,436)	(51,983,984)
Closing balance as of December 31, 2019		**20,983,646**	**896,902,191**	**478,838,192**	**135,552,321**	**5,932,186**	**5,126,832**	**1,543,335,368**

		Land ThCh$	Buildings and infrastructure ThCh$	Machinery and equipment ThCh$	Work in progress ThCh$	Other property, plant and equipment ThCh$	Assets rights of use ThCh$	Property, plant and equipment, net ThCh$
Opening balance January 1, 2018		**20,696,130**	**897,872,721**	**439,189,740**	**92,667,010**	**5,842,010**	**-**	**1,456,268,115**
Movement	Additions	-	-	-	77,878,304	267,707	-	78,146,011
	Retirements	-	(2,114,742)	(2,438,050)	(1,427,799)	-	-	(5,980,591)
	Transfer to operating assets	-	41,337,129	53,860,550	(95,197,679)	-	-	-
	Depreciation	-	(24,822,875)	(22,876,907)	-	-	-	(48,699,782)
Closing balance as of December 31, 2018		**20,969,130**	**912,272,233**	**466,735,333**	**73,919,836**	**6,110,221**	**-**	**1,479,733,753**

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

11 - PROPERTY, PLANT AND EQUIPMENT (continued)

11.3 Additional information on property, plant and equipment (continued)

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

The Company held as of December 31, 2019 and December 31, 2018 commitments to purchase items of property, plant and equipment arising from construction contracts under EPC (Engineering-Procurement-Construction) in the amount of ThCh$ 204,714,968 and ThCh$70,701,154, respectively.

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

	December 31, 2018	December 31, 2019
Capitalization rate (Annual basis)	4,71%	5.10%
Capitalized interest costs (ThCh$)	2,147,489	3,146,911

Work in progress balances amounts to ThCh$135,552,321 and ThCh$73,919,836 as of December 31, 2019 and 2018 respectively.

11.4 – Lease right of use

The following are the carrying amounts of the right-of-use assets, and the movements during the period:

Movement in Right of Use Assets 2019 Period	Right of use Land ThCh$	Right of use Buildings ThCh$	Right of use Vehicles ThCh$	Total Right of use , net ThCh$
Opening balances as of January 01, 2019	-	-	-	-
Movements:				
Additions	101,788	5.322,615	608,565	6,032,968
Amortization Expense	(15,626)	(1,122,386)	(456,424)	(1,594,436)
Closing balance as of December 31, 2019	**86,162**	**4,888,529**	**152,141**	**5,126,832**

As of December 31, 2019, one of the main assets for use rights and liabilities for leases, comes from the contract between Seguros Vida Security visión S.A and Transelec S.A. This contract has a duration of 5 years from January 2019 and accrues interest at an annual rate of 2.3%.

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

12 - DEFERRED TAXES

12.1 Detail of deferred tax liabilities

The origin of deferred taxes recorded as of December 31, 2019 and 2018; corresponding to the company Transelec is detailed as follows:

Temporary differences	Net deferred taxes	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Depreciable fixed assets	(167,226,971)	(146,156,576)
Financial expenses	(210,162)	(385,544)
Leased assets	(5,573,603)	(3,704,520)
Materials and spare parts	141,951	102,495
Tax losses	16,974,715	47,864,178
Staff severance indemnities provision	(76,642)	(100,932)
Deferred income	1,443,835	1,551,179
Investment value provision	-	12,955
Obsolescence provision	1,082,703	926,866
Work in progress	1,236,783	855,845
Vacation provisions	514,547	491,460
Intangible assets	(4,614,934)	(5,842,609)
Adjustment of effective interest rate of bonds	(2,709,734)	(2,978,885)
Land	1,804,089	1,597,531
Goodwill	864,830	962,196
Net deferred tax assets/(liabilities)	**(156,348,593)**	**(104,804,361)**
Reflected in the statement financial position as follows:		
Deferred tax assets	-	-
Deferred tax liabilities	(156,348,593)	(104,804,361)
Net deferred tax assets/(liabilities)	**(156,348,593)**	**(104,804,361)**

Tax losses balances amounts to ThCh$62,869,317 and ThCh$177,274,733 as of December 31, 2019 and 2018 respectively.

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

12 - DEFERRED TAXES (CONTINUED)

12.2 Deferred tax movements in statement of financial position

The movements of balances of deferred taxes in the statement of financial position for the periods December 31, 2019 and 2018 are as follows:

Deferred tax movements	Asset ThCh$	Liability ThCh$
Balance as of January 1, 2018	**34,410**	79,303,942
Increase (decrease)	(34,410)	25,500,419
Balance as of December 31, 2018	**-**	**104,804,361**
Increase (decrease)	-	51,544,232
Balance as of December 31, 2019	**-**	**156,348,593**

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.

13 - FINANCIAL LIABILITIES

The current and non-current portion of this account as of December 31, 2019 and 2018 is as follows:

Interest bearing loans	December 31, 2019		December 31, 2018	
	Current ThCh$	Non- current ThCh$	Current ThCh$	Non- current ThCh$
Bonds payable	19,415,009	1,529,919,065	18,223,395	1,453,091,243
Total bonds payable	**19,415,009**	**1,529,919,065**	**18,223,395**	**1,453,091,243**
Swap contract (Note 15)	4,070,487	-	4,070,488	-
Total Banks borrowings	**4,070,487**	**-**	**4,070,487**	**-**
Right of use liabilities	1,406,557	3,787,988	-	-
Total Right of use liabilities	**1,406,557**	**3,787,988**	**-**	**-**
Total Other Financial Liabilities	**24,892,053**	**1,533,707,053**	**22,293,883**	**1,453,091,243**

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

13 - FINANCIAL LIABILITIES (continued)

13.1 Detail of other financial liabilities

a) Bonds payable

The obligations with the public by series, currency, effective rate and expiration as of December 31, 2019 and 2018 are shown below:

Taxpayer ID number	Debtor name	Country	Placement in Chile or abroad	Instrument registration number	Series	Indexation unit	Nominal interest rate	Effective interest rate	Interest payments	Periodicity principal payments	Final maturity	December 31, 2019 ThCh$	December 31, 2018 ThCh$
76.555.400-4	Transelec S.A	Chile	Chile	480	D	UF	4,37%	4,25%	At maturity	Semiannually	12-15-2027	380,060,600	369,698,027
76.555.400-4	Transelec S.A	Chile	Chile	599	H	UF	4,80%	4,80%	At maturity	Semiannually	08-01-2031	86,675,039	84,379,227
76.555.400-4	Transelec S.A	Chile	Chile	599	K	UF	4,61%	4,60%	At maturity	Semiannually	09-01-2031	45,970,408	44,750,388
76.555.400-4	Transelec S.A	Chile	Chile	599	M	UF	4,26%	4,05%	At maturity	Semiannually	06-15-2032	41,701,200	40,557,478
76.555.400-4	Transelec S.A	Chile	Chile	599	M-1	UF	4,23%	4,05%	At maturity	Semiannually	06-15-2032	52,722,915	51,271,136
76.555.400-4	Transelec S.A	Chile	Chile	599	N	UF	4,29%	3,95%	At maturity	Semiannually	12-15-2038	81,404,518	79,146,501
76.555.400-4	Transelec S.A	Chile	Chile	744	Q	UF	4,02%	3,95%	At maturity	Semiannually	10-15-2042	87,739,660	85,417,989
76.555.400-4	Transelec S.A	Chile	Foreign	1st issuance	Sr N	US$	5,10%	4,63%	At maturity	Semiannually	07-26-2023	227,748,936	210,977,924
76.555.400-4	Transelec S.A	Chile	Foreign	2nd issuance	Sr N	US$	4,66%	4,25%	At maturity	Semiannually	01-14-2025	283,538,652	262,645,250
76.555.400-4	Transelec S.A	Chile	Foreign	3rd issuance	Sr N	US$	4,31%	3,88%	At maturity	Semiannually	01-12-2029	261,772,146	242,470,718
											Total	**1,549,334,074**	**1,471,314,638**

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh$ 1,754,552,977 and ThCh$1,553,921,792 as of December 31, 2019 and December 31, 2018, respectively (it does not include other current and non-current liabilities such as swap agreements which are presented in the Consolidated Financial Statements at fair value). The fair value of the bonds is estimated by discounting future cash flows using discount rates available for debt with similar terms of credit risk and similar maturities. This value is categorized as level 2 according to the hierarchy of fair value.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
As of December 31, 2019 and 2018
(Expressed in thousands of Chilean pesos (ThCh$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

13 - FINANCIAL LIABILITIES (continued)

13.1 Detail of other financial liabilities (continued)

a) Bonds payable (continued)

			Current			Non-current			
Debtor taxpayer ID number	Debtor Name	Instrument registration number	Maturity less than 90 days ThCh$	Maturity more than 90 days ThCh$	Total Current December 31, 2019 ThCh$	Maturity 1 to 3 years ThCh$	Maturity 3 to 5 years ThCh$	Maturity more than 5 years ThCh$	Total Non-current December 31, 2019 ThCh$
76.555.400-4	Transelec S.A	480	-	703,805	703,805	-	-	379,356,795	379,356,795
76.555.400-4	Transelec S.A	599	1,673,554	-	1,673,554	-	-	85,001,485	85,001,485
76.555.400-4	Transelec S.A	599	684,445	-	684,445	-	-	45,285,962	45,285,962
76.555.400-4	Transelec S.A	599	-	74,407	74,407	-	-	41,626,793	41,626,793
76.555.400-4	Transelec S.A	599	-	94,501	94,501	-	-	52,628,414	52,628,414
76.555.400-4	Transelec S.A	599	-	146,308	146,308	-	-	81,258,210	81,258,210
76.555.400-4	Transelec S.A	744	-	722,248	722,248	-	-	87,017,412	87,017,412
76.555.400-4	Transelec S.A	1st issuance	4,647,652	-	4,647,652	-	223,101,284	-	223,101,284
76.555.400-4	Transelec S.A	2nd issuance	5,722,840	-	5,722,840	-	-	277,815,812	277,815,812
76.555.400-4	Transelec S.A	3rd issuance	4,945,249	-	4,945,249	-	-	256,826,898	256,826,898
		Total	**17,673,740**	**1,741,269**	**19,415,009**	**-**	**223,101,284**	**1,306,817,781**	**1,529,919,065**

			Current			Non-current			
Debtor taxpayer ID number	Debtor Name	Instrument registration number	Maturity less than 90 days ThCh$	Maturity more than 90 days ThCh$	Total Current December 31, 2018 ThCh$	Maturity 1 to 3 years ThCh$	Maturity 3 to 5 years ThCh$	Maturity more than 5 years ThCh$	Total Non-current December 31, 2018 ThCh$
76.555.400-4	Transelec S.A	480	-	685,600	685,600	-	-	369,012,426	369,012,426
76.555.400-4	Transelec S.A	599	1,630,172	-	1,630,172	-	-	82,749,055	82,749,055
76.555.400-4	Transelec S.A	599	666,660	-	666,660	-	-	44,083,730	44,083,730
76.555.400-4	Transelec S.A	599	-	72,367	72,367	-	-	40,485,110	40,485,110
76.555.400-4	Transelec S.A	599	-	91,900	91,900	-	-	51,179,236	51,179,236
76.555.400-4	Transelec S.A	599	-	142,251	142,251	-	-	79,004,250	79,004,250
76.555.400-4	Transelec S.A	744	-	707,128	707,128	-	-	84,710,861	84,710,861
76.555.400-4	Transelec S.A	1st issuance	4,311,338	-	4,311,338	-	206,666,586		206,666,586
76.555.400-4	Transelec S.A	2nd issuance	5,328,330	-	5,328,330	-	-	257,316,920	257,316,920
76.555.400-4	Transelec S.A	3rd issuance	4,587,649	-	4,587,649	-	-	237,883,069	237,883,069
		Total	**16,524,149**	**1,699,246**	**18,223,395**	**-**	**206,666,586**	**1,246,424,657**	**1,453,091,243**

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

13 - FINANCIAL LIABILITIES (continued)

13.2 Lease liabilities for use rights

The following are the carrying amounts of the lease liabilities and the movements during the period:

Movement Lease liabilities 2019 Period	Right of use Land ThCh$	Right of use Buildings ThCh$	Right of use Vehicles ThCh$	Total Right of use , net ThCh$
Opening balances as of January 01, 2019	-	-	-	-
Movements:				
Right of Use from lease	104,075	6,373,869	615,092	7,093,036
Interest expenses	(2,029)	(112,580)	(6,097)	(120,706)
Payments	(12,299)	(1,054,872)	(458,587)	(1,525,758)
Deferred interest	(4,982)	(246,132)	(913)	(252,027)
Closing balance as of December 31, 2019	**84,765**	**4,960,285**	**149,495**	**5,194,545**

a) Additional information of rights of use from leases

The following is the detail of the incremental discount rates for contracts subject to the adoption of IFRS 16 - Leases:

Currencies	5 Years	10 Years
Rate in CLP ($)	4.73%	5.32%
Rate in UF	1.52%	2.30%

b) Detail of other Right of use financial liabilities for short- and long-term leases as of December 31, 2019 and December 31, 2018:

Right of Use from lease	Balance as of December 31, 2019		Balance as of December 31, 2018	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Right of Use Liabilities	1,439,238	4,007,334	-	-
Total Right of Use Liabilities	**1,439,238**	**4,007,334**	**-**	**-**
Right of Use deferred interest	(32,681)	(219,346)	-	-
Total Right of Use deferred interest	**(32,681)**	**(219,346)**	**-**	**-**
Total Right of Use financial liabilities	**1,406,557**	**3,787,988**	**-**	**-**

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

13 - FINANCIAL LIABILITIES (continued)

13.2 Lease liabilities for use rights (continued)

c) Detail of future lease rights of use liabilities.

	Current			Non-current			
Right of use	Maturity Less than 90 days ThCh$	Maturity More than 90 days ThCh$	Total Current as of December 31, 2019 ThCh$	Maturity 1 and up to 3 years ThCh$	Maturity 3 and up to 5 years ThCh$	Maturity More than 5 years ThCh$	Total Non-current as of December 31, 2019 ThCh$
Land	-	14,781	14,781	46,228	23,756	-	69,984
Buildings	290,521	951,760	1,242,281	3,428,907	205,104	83,993	3,718,004
Vehicles	112,047	37,448	149,495	-	-	-	-
Total Right of Use financial liabilities	**402,568**	**1,003,989**	**1,406,557**	**3,475,135**	**228,860**	**83,993**	**3,787,988**

13.3 Other aspects

As of December 31, 2019, Transelec had available a credit line of US$250 million, which has not been used as of said dates.

Many of the Company's debt agreements include an obligation to comply with certain covenants, including certain financial ratios (see Note 19.5), which is customary for agreements of this nature. This also includes affirmative and negative obligations that require these commitments to be monitored.

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

14 - TRADE AND OTHER PAYABLES

Trade and other payables as of December 31, 2019 and 2018, are detailed as follows:

Trade and other payables	Current December 31, 2019 ThCh$	 December 31, 2018 ThCh$
Trade and other payables	29,227,990	45,621,741
Other accounts payable	1,895,917	1,811,584
Total	**31,123,907**	**47,433,325**

The average payment period for suppliers in the periods ended 2019 and 2018 was 30 days and, therefore, the fair value of these liabilities does not differ significantly from their book value.

15 - DERIVATIVE INSTRUMENTS

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

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

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

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

15 - DERIVATIVE INSTRUMENTS (continued)

15.1 Hedge assets and liabilities

	December 31, 2019				December 31, 2018			
	Asset		Liability		Asset		Liability	
	Current ThCh$	Non – current ThCh$	Current ThCh$	Non - current ThCh$	Current ThCh$	Non - current ThCh$	Current ThCh$	Non – current ThCh$
Currency hedge Swap	-	40,976,656	(4,070,487)	-	-	42,246	(4,070,488)	-
Currency and rate hedge swap (non-hedging)(*)	-	-	-	-	20,902	-	-	-
Forward (non-hedging))	73,384	-	-	-	170,391	-	-	-
Total	**73,384**	**40,976,656**	**(4,070,487)**	**-**	**191,293**	**42,246**	**(4,070,488)**	-

(*) The balance of ThCh$ 20,902, as of December 31, 2018, corresponded to an interest rate swap, whose maturity was January 7 , 2019

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

15 - DERIVATIVE INSTRUMENTS (continued)

15.2 Other information

The following is the a detail of the derivatives contracted by Transelec as of December 31, 2019 and December 31, 2018, their fair value and the breakdown by maturity

Financial derivatives	Fair value ThCh$	Maturity Before 1 year ThCh$	2019 ThCh$	2020 ThCh$	2021 ThCh$	2022 ThCh$	Subsequent years ThCh$	December 31, 2019 Total ThCh$
Currency hedge Swap	36,906,169	(4,070,487)	-	-	-	-	40,976,656	36,906,169
Forward	73,384	73,384	-	-	-	-	-	73,384

Financial derivatives	Fair value ThCh$	Maturity Before 1 year ThCh$	2019 ThCh$	2020 ThCh$	2021 ThCh$	2022 ThCh$	Subsequent years ThCh$	December 31, 2018 Total ThCh$
Currency hedge Swap	(4,028,242)	(4,070,488)	-	-	-	-	42,246	(4,028,242)
Currency and rate hedge swap	20,902	20,902	-	-	-	-	-	20,902
Forward	170,391	170,391	-	-	-	-	-	170,391

The contractual notional amount of these contracts does not represent the risk assumed by Transelec as it is only in response to the basis with which derivative settlements are calculated. In the periods presented December 31, 2019 and 2018, 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 swap valuation models using present value calculations. The models include several inputs including the credit risk of the counterparty, foreign exchange spot rates and interest rate curves.

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

15 - DERIVATIVE INSTRUMENTS (continued)

15.3 Fair value hierarchies

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

The following table details financial assets and liabilities measured at fair value as of December 31, 2019 And 2018

Financial instrumental measured at fair value	December 31, 2019	Fair value measured at the end of the reporting period using Level 1 ThCh	Level 2 ThCh$	Level 3 ThCh$
Financial asset (liability)				
Currency hedge Swap	36,906,169	-	36,906,169	-
Cash flows derivatives (non-hedging)	73,384	-	73,384	-
Total, net	**36,979,553**	**-**	**36,979,553**	**-**

Financial instrumental measured at fair value	December 31, 2018	Fair value measured at the end of the reporting period using Level 1 ThCh	Level 2 ThCh$	Level 3 ThCh$
Financial asset (liability)				
Currency hedge Swap	(4,028,242)	-	(4,028,242)	-
Cash flows derivatives (non-hedging)	191,293	-	191,293	-
Total, net	**(3,836,949)**	**-**	**(3,836,949)**	**-**

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

16 - FINANCIAL INSTRUMENTS

The classification of financial assets in the categories described in Note 2.9 is shown below:

December 31, 2019	Cash and cash equivalents ThCh$	Loans and receivables ThCh$	Derivatives at fair value through profit or loss ThCh$	Derivatives at fair value through equity ThCh$	Available for sale investments ThCh$	Total ThCh$
Cash and cash equivalents	-	108,642,362	-	-	-	108,642,362
Other financial assets, current	1,150,194	-	-	-	73,384	1,223,578
Trade and other receivables	87,044,078	-	-	-	-	87,044,078
Other financial assets, non-current	30,342,702	41,752	-	40,976,656	-	71,361,110
Receivables from related parties, current	22,005,672	-	-	-	-	22,005,672
Receivables from related parties, non-current	242,808,336	-	-	-	-	242,808,336
Total	**383,350,982**	**108,684,114**	**-**	**40,976,656**	**73,384**	**533,085,136**

December 31, 2018	Financial Assets to Amortized Cost	Financial Assets to Fair Value		Derivative Instruments		Total
			For other comprehensive income			
	ThCh$	For profit or loss ThCh$	ThCh$	Hedge ThCh$	No Hedge ThCh$	ThCh$
Cash and cash equivalents	-	104,059.274	-	-	-	104,059,274
Other financial assets, current	1,030,014	-	-	-	191,293	1,221,307
Trade and other receivables	72,332,105	-	-	-	-	72,332,105
Other financial assets, non-current	28,924,095	15,286	-	42,246	-	28,981,627
Receivables from related parties, current	2,607,684	-	-	-	-	2,607,684
Receivables from related parties, non-current	228,259,514	-	-	-	-	228,259,514

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

Total	**333,153,412**	**104,074,560**	**-**	**42,246**	**191,293**	**437,461,511**

16 - FINANCIAL INSTRUMENTS (continued)

The classification of financial liabilities in the categories described in Note 2.9 is shown below:

	Financial Liabilities to Amortized Cost	Financial Liabilities to Fair Value		Derivatives Instruments		Total
		For Profit or Loss	For other comprehensive income		For Profit or Loss	
December 31, 2019	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**
Other financial liabilities, current	20,821,566	-	-	4,070,487	-	24,892,053
Trade and other payables	31,123,907	-	-	-	-	31,123,907
Other financial liabilities, non-current	1,533,707,053	-	-	-	-	1,533,707,053
Total	**1,585,652,526**	**-**	**-**	**4,070,487**	**-**	**1,589,723,013**

	Financial Liabilities to Amortized Cost	Financial Liabilities to Fair Value		Derivatives Instruments		Total
		For Profit or Loss	For other comprehensive income		For Profit or Loss	
December 31, 2018	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**
Other financial liabilities, current	18,223,395	-	-	4,070,488	-	22,293,883
Trade and other payables	47,433,325	-	-	-	-	47,433,325
Other financial liabilities, non-current	1,453,091,243	-	-	-	-	1,453,091,243
Total	**1,518,747,963**	**-**	**-**	**4.070,488**	**-**	**1,522,818,451**

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

17 - PROVISIONS

17.1 Detail of provisions

The detail as of December 31, 2019 and 2018, is as follows:

Detail	Current		Non-current	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Staff severance indemnities	365,539	384,004	5,821,598	5,730,553
Accrued vacations	1,905,730	1,820,222	-	-
Profit sharing benefits	3,677,000	4,497,305	-	-
Other provisions	205,447	205,447	-	-
Total	**6,153,716**	**6,906,978**	**5,821,598**	**5,730,553**

17.2 Provision movements

The movement of these obligations in the period ended as of December 31, 2019 and December 31, 2018 is as follows:

December 31, 2019

Movements in provisions	Staff severance indemnities ThCh$	Profit sharing benefits ThCh$	Accrued vacations ThCh$	Other provisions ThCh$	Total ThCh$
Opening balance as of January 1, 2019	**6,114,557**	**4,497,305**	**1,820,222**	**205,447**	**12,637,531**
Movements in provisions:					
Provisions during the year	379,684	6,365,580	1,396,460	-	8,141,724
Payments	(307,104)	(7,185,885)	(1,310,952)	-	(8,803,941)
Ending balance as of December 31, 2019	**6,187,137**	**3,677,000**	**1,905,730**	**205,447**	**11,975,314**

December 31, 2018

Movements in provisions	Staff severance indemnities ThCh$	Profit sharing benefits ThCh$	Accrued vacations ThCh$	Other provisions ThCh$	Total ThCh$
Opening balance as of January 1, 2018	4,723,415	4,735,588	1,692,184	205,447	11,356,634
Movements in provisions:					
Provisions during the year	3,403,764	5,440,184	1,263,835	-	10,107,783
Payments	(2,012,622)	(5,678,467)	(1,135,797)	-	(8,826,886)
Ending balance as of December 31, 2018	**6,114,557**	**4,497,305**	**1,820,222**	**205,447**	**12,637,531**

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

17 - PROVISIONS (continued)

17.2 Provision movements (continued)

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

As of December 31, 2019

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 (nota 18)	365,539	484,907	1,051,093	4,285,598
Accrued vacations	1,905,730	-	-	-
Profit sharing benefits	3,677,000	-	-	-
Other provisions	205,447	-	-	-
Total	**6,153,716**	**484,907**	**1,051,093**	**4,285,598**

As of December 31, 2018

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 (nota 18)	384,004	509,338	340,522	4,880,693
Accrued vacations	1,820,222	-	-	-
Profit sharing benefits	4,497,305	-	-	-
Other provisions	205,447	-	-	-
Total	**6,906,978**	**509,338**	**340,522**	**4,880,693**

17.3 Provision for employee benefits

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

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

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

17 - PROVISIONS (continued)

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

17.4 Lawsuits and arbitration proceedings

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

   As of December 31, 2019 the Company has established a provision for these and other contingents liabilities totaling to ThCh$ 1, 347,732 (US$1,800,000) considering for the purpose of this estimate that there are similar cases in the Court of Appeals in which the Court of Appeals rejected the claim, pending the hearing of the appeal before Supreme Court, that in such cases has confirmed the decisions of the SEC.

2) As of December 31, 2019 the Company has established a provision of UTM 6,000 equivalent to 50% of two fines applied by the Superintendence of Electricity and Fuels related to the interruption of the electricity supply due to failure of the Maitencillo-Vallenar power line occurred on 1 August 2018. Claims of illegality were filed before the Court of Appeals of Santiago, without sentence to date. As of December 31, 2019, this provision amounts to ThCh$ 297,738.

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

18 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS

18.1 Detail of account

Employee benefit obligations	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Staff severance indemnity provision – current	365,539	384,004
Staff severance indemnity provision non – current	5,821,598	5,730,553
Total Employee benefit obligations Current and Non-current	**6,187,137**	**6,114,557**

18.2 Detail of obligations to employees

As of December 31, 2019 and 2018, this account is detailed as follows:

	Staff severance indemnity	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Present value of defined benefit plan obligations opening balance	6,114,557	4,723,415
Current service cost of defined benefit plan obligations	550,637	1,592,351
Liquidations obligation defined benefit plan	(484,057)	(201,209)
Present value of defined benefit obligations ending balance	**6,187,137**	**6,114,557**

19.3 Balance of obligations to employees

	Staff severance indemnity	
	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Present value of defined benefit obligations, ending balance	**6,187,137**	**6,114,557**
Present obligation with defined benefit plan funds	6,187,137	6,114,557
Balance of defined benefit obligations, ending balance	**6,187,137**	**6,114,557**

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

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

18.4 Expenses recognized in income statement

	Staff severance indemnity		Income statement line item where recognized
	January 1, 2019 to December 31, 2019 ThCh$,	January 1, 2018 to December 31, 2018 ThCh$	
Current service cost of defined benefit plan	178,066	965,221	Cost of sales and Administrative expenses
Interest cost of defined benefit plan	379,683	311,271	Cost of sales and Administrative expenses
Total expense recognized in income statement	**557,749**	**1,276,492**	

18.5 Actuarial hypothesis

Detail	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Discount rate used	0,75%	1,65%
Inflation rate	3,00%	3,00%
Future salary increase	1,10%	1,10%
Mortality table	RV-2014	RV-2014
Disability table	30% RV-2014	30% RV-2014
Rotation table	2,77%/0,92%	2,77%/0,92%

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

18.6 Sensitivity analysis

The following chart shows the sensitivity analysis of the significant hypotheses as of December 31, 2019:

Level of Sensitivity	Discount rate used		Inflation rate		Future salary increase	
	Increase 1% (ThCh$)	Decrease 1% (ThCh$)	Increase 1% (ThCh$)	Decrease 1% (ThCh$)	Increase 1% (ThCh$)	Decrease 1% (ThCh$)
Impact on current and non-current of employment benefit obligation	(200,379)	219,385	-	-	223,080	(207,339)

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

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

18.6 Sensitivity analysis (continued)

To evaluate impact, the sensitivity analysis has been determined based on the extrapolation method obtaining reasonable results in terms of the changes in the significant hypotheses used as of December 31, 2019.

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

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
During the upcoming 12 month	365,539	384,004
Between 2 to 5 years	1,536,000	1,204,336
Between 5 to 10 years	2,005,839	1,835,101
More than 10 years	2,279,759	2,691,116
Total Payments Expected	**6,187,137**	**6,114,557**

19 - EQUITY

19.1 Subscribed and paid capital

As of December 31, 2019 and 2018 authorized, subscribed and paid share capital amounts to ThCh$ 776,355,048.

19.2 Number of subscribed and paid shares

	Number of shares subscribed	Number of shares paid	Number of shares with voting rights
Sole series	1,000,000	1,000,000	1,000,000

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

19.3 Dividends

As of December 31, 2019, the company has distributed provisional dividends charged to the 2019 fiscal year amounting to ThCh$96.218.000, which was paid in full during the year. A first payment was made on July 18, 2019 for an amount of ThCh$32,875,000 and a second payment on September 25, 2019 for an amount of ThCh$30,671,000 and a third payment dated December 17, 2019 for an amount of M $ 32,672,000.

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

19 – EQUITY (continued)

19.3 Dividends (continued)

On April 27, 2018, the company's Ordinary Shareholders' Meeting was held, where it was agreed to distribute a definitive dividend for 2017 for a total of ThCh$18,712,012 which shall be paid as of May 29, 2018, to shareholders listed in the respective registry on May 23, 2018, As of June 30, 2018, this dividend has been fully paid.

At Board of Directors' Meeting held on May 23, 2018, it was agreed to distribute a provisional dividend with debit to the 2018 income, in the amount of ThCh$19,404,000, which will be paid as of June 19, 2018, to the shareholders listed in the respective registry as of June 13, 2018, As of June 30, 2018, this dividend has been fully paid.

At Board of Directors' Meeting held on August 22, 2018, it was agreed to distribute a provisional dividend with debit to the 2018 income, in the amount of ThCh$20,483,000, which will be paid as of December 25, 2018, to the shareholders listed in the respective registry as of December 15, 2018, As of December 31, 2018, this dividend has been fully paid.

19.4 Other reserves

Other reserves as of December 31, 2019 and 2018 are detailed as follows:

Description	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Net investment hedge	296,756	575,763
Cash flow hedge (Exchange rate)	(55,576,519)	(58,304,659)
Actuarial calculation exchange differences	555,285	726,408
Deferred taxes	14,775,609	15,390,672
Total	**(39,948,869)**	**(41,611,816)**

The Movement and reclassifications of other comprehensive income for the period 2019 are presented below:

	Foreign translation reserve ThCh$	Cash flow hedges reserve ThCh$	Other Reserves ThCh$	Total ThCh$
Opening balance as of January 1, 2019	**420,308**	**(42,562,401)**	**530,277**	**(41,611,816)**
Increase/(decrease)	(279,008)	2,728,140	(171,122)	2,278,010
Deferred tax	75,332	(736,598)	46,203	(615,063)
Closing balance as of December 31, 2019	**216,632**	**(40,570,859)**	**405,358**	**(39,948,869)**

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

19 – EQUITY (continued)

19.5 Capital management

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

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

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

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

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

2) a) Maintain minimum individual and equity of fifteen million UF equivalent to ThCh$ 420.735.000 as of December 31, 2018. As that term is defined in the respective prospectuses of local bond series C, D, H, K, M and N.

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

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

The following tables present – as of December 31, 2019 and 2018 - the calculation of the two covenants mentioned above and also a calculation of a third ratio that the Company has to comply, which does not depend on capital (equity) amount.

Covenant 1	**Total debt / Total capitalization ratio** **Lower or equal to 0.70**	**December 31, 2019 MCh$**	**December 31, 2018 MCh$**
A	Other financial liabilities, current	24,892	22,294
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,533,707	1,453,091
D	Payables to related parties, non-current	-	-
E=A+B+C+D	**Covenants debt**	**1,558,599**	**1,475,385**
G	Debt with guarantees (1)	-	-
DT=E+G	**Total debt**	**1,558,599**	**1,475,385**
H	Non-controlling interest	-	-
P	Equity attributable to owners of the parent	846,950	800,893
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
CT=DT+H+I+P	**Total capitalization**	**2,430,519**	**2,301,248**
DT/CT	**Total debt / Total capitalization ratio**	**0.64**	**0.64**

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

19 – EQUITY (continued)

19.5 Capital management (continued)

Covenant 2	Minimum equity Greater than or equal to UF 15 million/ Greater or equal to ThCh$ 350,000	December 31, 2019 MCh$	December 31, 2018 MCh$
P	Equity attributable to owners of the parent	846,950	800,893
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
P+I	**Equity (in ThCh$)**	**871,920**	**825,863**
UF	UF value	28,309.94	27,565.79
(I+P)/UF	**Equity (in UF millions)**	**30.80**	**29.96**

Covenant 3	Restricted payments test Funds from operations (FNO) / Financial costs > 1.5	December 31, 2019 MCh$	December 31, 2018 MCh$
FO	Cash flow from operations	219,732	203.189
CF	Financial costs	73,454	68,692
IG	Income tax expense	51,144	37,586
FNO=FO+CF+IG	**Funds from operations**	**344,330**	**309,467**
FNO/CF	**Funds from operations / Financial costs**	**4.69**	**4.51**

Covenant N° 4	Total debt / Adjusted EBITDA Lower or equal to 0.70	December 31, 2019 MCh$	December 31, 2018 MCh$
A	Other financial liabilities, current	24,892	22,294
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,533,707	1,453,091
D	Payables to related parties, non-current	-	-
E=A+B+C+D	**Covenants debt**	**1,558,599**	**1,475,385**
F	Debt with guarantees	-	-
G=E+F	**Total debt**	**1,558,599**	**1,475,385**
H	Cash and cash equivalents	(108,642)	(104,059)
DN=G-H	**Net debt**	**1,449,957**	**1,371,326**
I	Operating revenues	378,591	329,217
J	Cost of sales	(88,115)	(82,877)
K	Administrative expenses	(23,154)	(25,791)
L	Depreciation and amortization	57,396	53,592
N	Other gains	3,041	3,104
O	Finance lease amortization	1,053	907
EA=I+J+K+L+N+O	**Adjusted EBITDA**	**328,812**	**278,152**
(I+P)/UF	**Net debt /Adjusted EBITDA**	**4.41**	**4.93**

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

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

20 - REVENUE

20.1 Revenue

The following table details revenue for the years ended December 31, 2019 and 2018:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Revenues from regulated transmission services	279,921,560	229,197,558
Revenues from contractual transmission services	95,160,524	96,375,854
Leases revenue	3,509,187	3,643,794
Total revenues	**378,591,271**	**329,217,206**

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Customers from regulated transmission services	279,921,560	247,018,431
Customers from contractual transmission services	95,160,524	78,554,981
Otros	3,509,187	3,643,794
Total	**378,591,271**	**329,217,206**
National Revenue	214,416,814	188,712,149
Local Revenue	77,144,769	76,138,536
Dedicated Revenue	69,554,872	54,508,818
Revenue from services	13,965,629	6,213,909
Other	3,509,187	3,643,794
Total	**378,591,271**	**329,217,206**
Transferred services by a long time	378,591,271	329,217,206
Total Revenues	**378,591,271**	**329,217,206**

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

20 – REVENUE (continued)

20.2 Other operating income

The following table details operating income for the years ended December 31, 2019 and 2018:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Financial income (Note 21.4)	13,558,488	10,097,097
Other gains (losses), net	3,041,021	3,104,065
Total other operating income	**16,599,509**	**13,201,162**

21 - RELEVANT INCOME STATEMENT ACCOUNTS

21.1 Expenses by nature

The composition of cost of sales and administrative expenses for the years ended December 31, 2019 and 2018:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Personnel expenses (Nota 21.2)	22,651,010	25,688,290
Operating expenses	19,355,346	18,072,161
Maintenance expenses	9,391,648	8,996,564
Depreciation and write-offs (Nota 21.3)	57,395,815	53,592,248
Other	2,475,382	2,318,252
Total	**111,269,201**	**108,667,515**

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

21 - RELEVANT INCOME STATEMENT ACCOUNTS (continued)

21.2 Personnel expenses

As of December 31, 2019 and 2018, this account is detailed as follows:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Salaries and wages	20,397,821	19,053,731
Short-term employee benefits	1,354,917	2,653,983
Staff severance indemnity	557,749	1,276,492
Other long-term benefits	1,393,055	1,256,738
Other personnel expenses	7,727,178	10,030,175
Expenses capitalized on construction in progress	(8,779,710)	(8,582,829)
Total	**22,651,010**	**25,688,290**

21.3 Depreciation and amortization

The following table details depreciation and amortization for the years ended December 31, 2019 and 2018:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Depreciation	50,389,548	48,699,782
Amortization	2,865,682	2,463,639
Amortization (Rights of use)	1,594,436	-
Losses from damages (1)	2,546,149	2,428,827
Total	**57,395,815**	**53,592,248**

(1)The losses for the withdrawal and damages are a replacement of equipment by technical conditions, not significantly affecting the deterioration of the Cash Generating Unit.

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

NOTE 21 - RELEVANT INCOME STATEMENT ACCOUNTS (continued)

21.4 Financial results

The Company's financial result for the years ended December 31, 2019 and 2018 is detailed as follows:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Financial income:	**13,588,488**	**10,097,097**
Commercial interest earned	1,327,067	609,028
Bank interest earned	3,059,545	1,396,855
Interest earned from related parties	9,201,876	8,091,214
Financial expenses:	**(73,454,495)**	**(68,691,583)**
Interest on bonds	(64,086,034)	(59,235,015)
Interest rate Swap	(8,709,102)	(8,706,468)
Other expenses	(659,359)	(750,100)
Gain (loss) from indexation of UF	**(19,942,029)**	**(20,544,496)**
Foreign exchange gains (losses), net	**1,200,755**	**(1,461,203)**
Obligations with public	(55,530,446)	(81,604,098)
Intercompany Loan	14,020,278	20,952,263
Financial Instruments	39,220,717	57,059,914
Other	3,490,206	2,130,718
Total financial result, net	**(78,607,281)**	**(80,600,185)**

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

22 - INCOME TAX RESULT

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Current tax expense	214,405	91,292
Current tax expense, net, total	**214,405**	**91,292**
Deferred tax expense relating to origination and reversal of temporary differences	50,929,169	37,494,577
Deferred tax expense, net, total	**50,929,169**	**37,494,577**
Effect of change in tax situation of the entity or its shareholders	-	-
Income tax expense	**51,143,574**	**37,585,869**

The following table reconciles income taxes resulting from applying statutory tax rate to the "Profit before Taxes" to the income tax expense recorded in the income statement for the periods December 31, 2019 and 2018:

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Tax rate using statutory rate	**(51,774,069)**	**(38,624,464)**
Price-level restatement of capital	(149,143)	78,152
Price-level restatement of tax loss	1,001,125	1,497,788
Others differences	(221,487)	(537,345)
Total adjustments to tax expense using statutory rate	630,495	1,038,595
Tax expense using effective tax rate	**(51,143,574)**	**(37,585,869)**

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

22 - INCOME TAX RESULT (continued)

	01.01.2019 12.31.2019 ThCh$	01.01.2018 12.31.2018 ThCh$
Statutory Tax Rate	27.00%	27.00%
Price-level restatement of capital	0,08%	(0.05%)
Price-level restatement of tax loss	(0.52%)	(1.05%)
Others differences	0.11%	0.37%
Total adjustments to tax expense using statutory rate	(0.33%)	(0.73%)
Effective tax rate	26.67%	26.27%

The tax rate used for the years 2019 and 2018 reconciliations corresponds to 27%, a corporate tax rate that entities should pay on taxable profits based on current tax regulations

Chilean Tax Reform

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

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

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

23 - EARNINGS PER SHARE

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

Basic Earnings per Share	December 31, 2019	December 31, 2018
Profit attributable to equity holders of parent (ThCh$)	140,612,236	105,467,702
Earnings available to common shareholders, basic (ThCh$)	140,612,236	105,467,702
Total basic shares	1,000,000	1,000,000
Basic earnings per share (Ch$)	140,612	105,468

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

24 - SEGMENT REPORTING

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

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

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

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

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

The law distinguishes between the different systems in order to ensure that tariffs are appropriate for each case, Nevertheless, facilities of a given voltage (220 KV, for example) are identical, whether national (former trunk), Zonal

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

24 - SEGMENT REPORTING (CONTINUED)

(former subtransmission) or committed (former additional. Thus, a 220 KV facility requires a given type of maintenance, fundamentally because of its geographic location, its proximity to the ocean, the climate, etc., but in no case does this maintenance depend on whether that 220 KV facility is national (former trunk), zonal (former subtransmission) or additional. Thus, for Transelec this classification into national (former trunk), zonal (former subtransmission) or additional systems is merely for tariff purposes and has no other consequences.

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

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

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

Information about products and services

	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Transmission services	378,591,271	329,217,206

Information about sales and principal customers

Information about the main customers of the Company is contained in note 3.1.2 Credit risk.

25 - THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS

As of December 31, 2019, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh$33,869,143 (ThCh$15,878,679 as of December 31, 2018).

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

26 - DISTRIBUTION OF PERSONNEL

As of December 31, 2019 and 2018, personnel employed by Transelec S.A. are detailed as follows:

	December 31, 2019				
	Manager and Executives	Professionals and technical personnel	Other employees	Total	Average of the year
Total	**17**	**413**	**132**	**562**	**548**

	December 31, 2018				
	Manager and Executives	Professionals and technical personnel	Other employees	Total	Average of the year
Total	**15**	**396**	**127**	**538**	**532**

27 - ENVIRONMENT

Transelec, in compliance with current environmental regulations and in line with its sustainability policy have undergone environmental assessment projects or amendments thereto to the environmental authority through the Environmental Evaluation System (SEIA). To this end, several studies were conducted to substantiate the presentations have allowed environmental documents. These documents are an Environmental Impact Statement (EIS for Spanish acronym) or an environmental impact study concerned, met the requirements of Law No, 19,300 on General Environment, amended by Law No, 20,417, and its regulations of SEIA, For projects that have started their implementation the Company has been following the conditions and measures imposed by environmental authority in the respective resolutions of environmental qualification.

During for the six-month ended December 31, 2019 and 2018, the Company has made the following environmental disbursements:

Company making disbursement	Project	December 31, 2019 ThCh$	December 31, 2018 ThCh$
Transelec S.A.	Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors)	1,701,397	554,367
Total		**1,701,397**	**554,367**

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

28 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY

a) Current assets and liabilities

Current Assets	Foreign Currency	Functional Currency	December 31, 2019		December 31, 2018	
			Maturity less than 90 days ThCh$	Maturity more than 91 to 1 year ThCh$	Maturity less than 90 days ThCh$	Maturity more than 91 to 1 year ThCh$
Cash and cash equivalents	Dollars	CH$	4,021,429	-	58,070,904	-
	Other Currency	CH$	252,235	-	289,637	-

Current Liabilities	Foreign Currency	Functional Currency	December 31, 2019		December 31, 2018	
			Maturity less than 90 days ThCh$	Maturity more than 91 to 1 year ThCh$	Maturity less than 90 days ThCh$	Maturity more than 91 to 1 year ThCh$
Other financial liabilities, current	Dollars	CH$	19,386,228		18,297,804	-

Non-Current Liabilities	Foreign Currency	Functional Currency	December 31, 2019			December 31, 2018		
			1 to 3 year ThCh$	3 to 5 year ThCh$	More than 5 year ThCh$	1 to 3 year ThCh$	3 to 5 year ThCh$	More than 5 year ThCh$
Other financial liabilities, non-current	Dollars	CH$	-	223,101,284	534,642,710	-	206,666,586	495,199,989

29. SUBSEQUENT EVENTS

On January 8, 2020, Transelec S.A. received the exempt resolution No. 31501 from the SEC (Superintendencia de Electricidad y combustibles (SEC), in Spanish), notifying a sanction imposed to Transelec for the failure in the 220 kV Cóndores – Parinacota Line, which occurred on December 14, 2018. Currently, the failure is in an administrative claim for reversal pending its conclusion.

Since December 31, 2019, closing date of these consolidated financial statements and their issuance date, there has been no other significant financial and accounting events that may affect the equity of the Company or the interpretation of these consolidated financial statements.

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

TRANSELEC S.A AND SUBSIDIARY

Santiago, Chile
December 31, 2019

SUMMARY

As of December 31, 2019, Transelec obtained an EBITDA[1] of MCh$328,812, a 18.2% higher than the one obtained in the same period of 2018 (MCh$278,153), with an EBITDA Margin[2] of 86.9%. The EBITDA increase is almost totally due to higher Revenues explained below.

As of December 31, 2019, Revenues reached MCh$378,591 showing an increase of 15.0% compared to the same period of 2018 (MCh$3229,217). The increase is explained by commissioning of new projects and macroeconomic effects, mostly explained by USD/CLP exchange rate. The raise is also explained by the entry into force of Decree 6T that mainly establishes the new Zonal tariffs.

The loss in Non-Operating Income as of December 2019 was MCh$75,566, representing a decrease of 2.5% compared to the same period of 2018 (MCh$77,496). This is mostly explained by higher Financial Income, lower losses for indexed assets and liabilities and Foreign Exchange Differences. The raise is partially offset by higher Financial Costs.

Net Income recorded by the Company as of December 31, 2019, was MCh$140,612, which is 33.3% higher compared to the same period of 2018, in which was registered a Net Income of MCh$105,467.

In 2019, the Company incorporated US$50.5 million of new facilities, which correspond to the commissioning of six upgrade projects of the national segment and one upgrade in the zonal segment.

[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:

- In August 2019, the international risk rating agency Standard & Poors ratified Transelec's rating in BBB, Moody's and Fitch Ratings, on the other hand, did so in January 2019, ratifying the classification in Baa1 and BBB, respectively.

- The local risk rating agencies Feller and Fitch Ratings ratified the classifications in AA- during December and January 2019 respectively, while Humphrey's upgraded the Company's rating from AA- to AA with stable outlook in November 2018, ratified in January 2019.

- During 2019, the effect on income of Decree 6T (published in October 2018) is noticed. It establishes the new rates for the Zonal and Dedicated segment and will be valid from January 1, 2018 to December 31, 2019.

- According to the transmission law of 2016 as of January 2020, the rate of return on assets should fall from 10% before taxes to 7% after taxes, but because the tariff study to determine the remuneration of the transmission in the period 2020 – 2023 (valuation process) is delayed, the regulator (CNE) through resolution 815, has determined to stabilize the transmission rates until the rate study is complete (estimated within 2021), in order to advance the estimated reduction and not apply rises that are later reversed.

- The Ordinary Shareholders' Meeting held on April 26 of 2019 agreed a total dividend distribution charged to the 2018 profit of MCh$39,887, equivalent to the first and second interim dividends paid in June and September of 2018, so there will not be additional distributions associated to the year 2018.

- During 2019, Transelec have distributed a total of MCh$96,218 dividend in the following amounts to the shareholders:

    - MCh$32,875 as the first provisory dividend of 2019, distributed on July 18, 2019.
    - MCh$30,671 as the second provisory dividend of 2019, distributed on September 25, 2019.
    - MCh$32,672 as the third provisory dividend of 2019, distributed on December 16, 2019.

- As of this year, the Company has adopted IFRS 16, which ceases to classify as operating costs the lease contracts with identifiable underlying assets (for example, leasing of offices, cars, etc.), classifying them now as fixed assets and financial liabilities, reflecting in the income statement a depreciation of the asset and a financial expense of the liability. This has limited effects in the financial statements do to the small amount that they represent.

1- INCOME STATEMENT ANALYSIS

ITEMS	December 2019 MCh$	December 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Revenues	**378,591**	**329,217**	**49,374**	**15.0%**
Toll sales	364,626	323,003	41,623	12.9%
Services	13,966	6,214	7,752	124.7%
Operation Costs and Expenses	**-111,269**	**-108,668**	**-2,601**	**-2.4%**
Sales Costs	-34,114	-31,783	-2,331	-7.3%
Administrative Expenses	-19,759	-23,293	3,534	15.2%
Depreciation and Amortization	-57,396	-53,592	-3,804	-7.1%
Operating Income	**267,322**	**220,549**	**46,773**	**21.2%**
Financial Income	13,588	10,097	3,491	34.6%
Financial Costs	-73,454	-68,692	-4,762	-6.9%
Foreign exchange differences	1,201	-1,461	2,662	N/A
Gain (loss) for indexed assets and liabilities	-19,942	-20,544	602	2.9%
Other income (Losses)	3,041	3,104	-63	-2.0%
Non-Operating Income	**-75,566**	**-77,496**	**1,930**	**2.5%**
Income before Taxes	**191,756**	**143,053**	**48,703**	**34.0%**
Income Tax	-51,144	-37,586	-13,558	-36.1%
Net Income	**140,612**	**105,467**	**35,145**	**33.3%**
EBITDA[1]	**328,812**	**278,153**	**50,659**	**18.2%**
EBITDA Margin[2]	**86.9%**	**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 2019, Revenues reached MCh$378,591 increasing a 15.0% compared to the same period of 2018 (MCh$329,217). The increase is explained by higher revenues from Toll Sales which as of December, 2019, reached MCh$364,626, a 12.9% higher than the obtained in the same period of 2018 (MCh$323,003). The Services revenues as of December 31, 2019 reached MCh$13,966, a 124.7% higher than the same period of 2018 (MCh$6,214), mostly explained by an extraordinary service provided to a related company (the amount is also presented as cost).

The increase in Toll Sales Revenues is explained by an increase of MCh$25,705 in the National segment, MCh$1,006 in the Zonal segment and MCh$14,911 in the Dedicated segment.

As a whole, the increase in Revenues is mainly explained by: (i) associated effects with the implementation of 6T Decree in the Dedicated system, for MCh$9,155, (ii) macroeconomic effects by MCh$22,110, and (iii) new revenues in 2019 of projects commissioned in last 12 months for MCh$10,692.

Total Transelec Operational Costs and Expenses as of December 31, 2019 were MCh$111,269, a 2.4% higher than the comparison period in 2018 that reached MCh$108,668. Total Costs and Expenses are composed by the following main items.

Cost of sales during the analysis period totaled MCh$34,114, a 7.3% higher than the same period of 2018 (MCh$31,783). The increase is mainly explained by higher services provided to related companies, which is partially offset by: (i) lower personnel costs due to the end of a negotiation with one of the unions in 2018 and (ii) lower lease costs due to the application of new IFRS 16 for leases and rentals, which establishes that as of 2019, these are reflected in the Balance Sheet and not as costs.

Administrative Expenses amounted to MCh$19,759 in December 2019, 15.2% lower than those obtained in the same period in 2018 (MCh$23,293). The decrease is mainly explained by (i) lower personnel costs associated to the end of a negotiation with one of the unions in 2018, (ii) less fines and (iii) lower lease costs due to the application of new IFRS 16 for leases and rentals, which establishes that as of 2019, these are reflected in the Balance Sheet and not as costs. Partially compensated by expenses associated with the valuation study of the transmission system and higher expenses in software maintenance.

Total Depreciation and Amortization as of December 31, 2019 reached MCh$57.396, a 7,1% higher than the same period in 2018 (MCh$53,592). The increase is mainly due to higher amortization associated with the implementation of the new IFRS standard explained above and the commissioning of new projects.

b) Non-Operating Income

The Non-Operating Income of 2019 was a loss of MCh$75,566, a 2.5% lower than the same period of 2018 (MCh$77,496). It is mainly explained by higher Financial Income, lower losses for indexed assets and liabilities and positive Foreign Exchange Differences. This is partially offset by higher Financial Costs.

Financial Income registered as of December 2019 reached MCh$13,588, 34.6% higher than what was recorded in the same period of 2018 (MCh$10,097). The increase is mainly due to higher interest received from related companies and a higher cash stock, higher commercial interests and higher interests received from related parties.

The exchange differences as of December 2019 reached MCh$1,201. During 2019, negative effects that impacted in 2018 were corrected. The Foreign Exchange Differences keep controlled, associated with the hedging policy of our balance sheet.

The loss for Indexed Assets and Liabilities was MCh$19,942 as of December 31, 2019, a 2.9% lower than the same period of 2018 (MCh$20,544). This is mainly explained by the revaluation of the local debt denominated in UF due to the variation in the value of the UF which for the year 2019 corresponds to 2.70% compared to 2.86% for 2018, due to higher inflation in that period.

The Financial Costs registered to December 2019 amounted to MCh$73,454, increasing by 6.9% compared to the same period of 2018 (MCh$68,692). The increase is mainly due to higher interest payments on USD and UF bonds, since the average exchange rate for 2019 increased by 9.67% compared to 2018, likewise, the average UF value of 2019 increased by 2.53% compared to the previous year. In the Financial Costs item, since this year the interests of the financial liability for leases are registered, associated with the implementation of IFRS 16, which is a smaller amount compared to other financial costs.

Other Income, as of December 2019, were MCh$3,041, 2.0% lower than the same period of 2018 (MCh$3,104). As of December 31, 2019, the gain is mainly explained by adjustments with suppliers. As of December 31, 2018, the gain was mostly associated to adjustments for the absorption of subsidiaries in 2014.

c) Income tax

Income Tax as of December 31, 2019 was MCh$51,144, increasing by 36,1.8% in relation to the same period of 2018 (MCh$37,586). The increase is mainly due to higher Income before Taxes.

2. BALANCE SHEET ANALYSIS

ITEMS	December 2019 MCh$	December 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Current assets	222,198	182,590	39,608	21.7%
Non-current assets	2,390,537	2,267,861	122,676	5.4%
Total Assets	**2,612,735**	**2,450,450**	**162,285**	**6.6%**
Current liabilities	64,758	80,384	-15,626	-19.4%
Non current liabilities	1,701,027	1,569,173	131,854	8.4%
Equity	846,950	800,893	46,057	5.8%
Total Liabilities & Equity	**2,612,735**	**2,450,450**	**162,285**	**6.6%**

As of December 2019, a reclassification between Current and Non-Current Liabilities was made. To maintain figures comparable between periods, the same reclassification was made as of December 2018. It should be noted that this reclassification does not affect 2018 total Liabilities.

The increase in Assets between December 2018 and December 2019 is explained both by an increase in Non-Current Assets and Current Assets. The increase in Non-Current Assets is mostly due to a higher Property, Plant and Equipment, financial assets and accounts receivable from related entities. Higher Current Assets are mainly due higher balance of accounts receivable from related entities, higher cash and cash equivalent and higher balance of commercial accounts receivable.

The increase in Liabilities and Equity is due to an increase in Non-Current Liabilities and Equity, partially offset by a decrease in Current Liabilities. The increase in Non-Current Liabilities is mainly due to higher financial liabilities due to the implementation of IFRS 16 which recognizes as financial debt the outstanding installments of lease contracts and the greater balance of deferred tax liabilities. The increase in equity is mainly due to higher accumulated earnings. The decrease in Current Liabilities is mainly due to lower accounts payable to suppliers.

Value of the Main PP&E in Operation

ASSETS	December 2019 MCh$	December 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Land	20,984	20,696	288	1.4%
Building, Infraestucture, works in progress	1,210,139	1,198,913	11,226	0.9%
Work in progress	135,552	73,920	61,632	83.4%
Machinery and equipment	726,472	693,226	33,246	4.8%
Other fixed assets	5,932	6,110	-178	-2.9%
Right of use	6,721	0	6,721	N/A
Depreciation (less)	-562,466	-513,132	-49,334	-9.6%
Total	**2,105,801**	**1,992,865**	**112,936**	**5.7%**

-

Current Debt

					Amount in original currency (million) (unpaid capital)	
Debt	**Currency or index**	**Interest rate**	**Type of rate**	**Maturity Date**	**December 2019**	**December 2018**
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	3.16%	Floating	03-Aug-20	-	-
Revolving Credit Facility[1]	UF	0.37%	Fixed	03-Aug-20	-	-

[1] Revolving Credit Facility: USD Tranche MM US$150: The floating rate of 3.16% breaks down in 3 months Libor rate plus a margin of 1.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay interest of 3.16% 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 0.37% breaks down in TAB UF 180 rate plus a margin of 0.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay interest of 0.37% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn.

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

3. CASH FLOWS ANALYSIS

ITEMS	December 2019 MM$	December 2018 MM$	Variation 2019/2018 MM$	Variation 2019/2018 %
Cash flows provided by (used in) operating activities	219,732	203,189	16,543	8.1%
Cash flows provided by (used in) investing activities	-118,931	-81,597	-37,334	-45.8%
Cash flows provided by (used in) financing activities	-96,218	-79,161	-17,057	-21.5%
Net increase (decrease) of cash and cash equivalent	**4,583**	**42,431**	**-37,848**	**-89.2%**
Cash and cash equivalent at the begining of the period	104,059	61,628	42,431	68.9%
Cash and cash equivalent at the end of the period	**108,642**	**104,059**	**4,583**	**4.4%**

As of December 31, 2019, cash flow from activities of the operation reached MCh$219,732, which increased by 8.1% compared to the same period of 2018 (MCh$203,189). The increase is due to higher payments from customers, partially offset by higher payments to suppliers.

During the same period, the cash flow used in investment activities was MCh$118,931, a 45.8% higher than the amount allocated as of December 31, 2018 (MCh$81,597). The increase is mainly explained by the fact that during 2019 the net balance of loans to related entities increased by MCh$24,634, and investments on PP&E were higher by MCh$10,129.

As of December 2019 the cash flow used in financing activities was MCh$96,218 which corresponds to dividend payments. As of December 2018, the cash flow used in financing activities totaled MCh$79,161 which corresponds to dividend payment and a Promissory Note held with Banco BCI.

As of December 31, 2019 the company has the following committed credit line (Revolving Credit Facility) to ensure the immediate availability of funds to cover working capital needs, 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 debt agreements are presented in the next table:

Covenants	Debt Contract	Limit	December 2019	December 2018
Capitalization Ratio[1]	All local Bonds	< 0.70	0.64	0.64
Shareholder's Equity[1] MMUF	D, H, K, M and N local Bonds	> 15.00	30.80	29.96
Shareholder's Equity[1] MCh$	Q local Bond and Revolving Credit Facility	> 350,000	871,920	825,863
Net Debt/Ebitda	Revolving Credit Facility	<= 7,0x	4.41	4.93

Test	Bonds	Limit	December 2019	December 2018
Distribution Test[2] FNO[3]/Financial Expenses	D, H, K, M and N local Series	> 1.50	4.69	4.51

[1]Equity= Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and December 31, 2019 amounted to MCh$24.970.
[2]Test to distribute restricted payments such as dividends.
[3]FNO= Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.

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

RATIOS		December 2019	December 2018	Variation 2019/2018
Profitability[1]				
Shareholders' Equity profitability[2]	(%)	16.6%	13.2%	340 pbs
Assets profitability[3]	(%)	5.4%	4.3%	110 pbs
Operating assets profitability[4]	(%)	6.7%	5.3%	140 pbs
Earnings per share[5]	($)	140,612	105,467	33.3%
Liquidity & Indebtedness				
Current Ratio	(times)	3.43	2.27	51.1%
Acid-Test Ratio	(times)	3.43	2.27	51.1%
Debt to Equity	(times)	2.08	2.06	1.0%
Short term debt/Total debt	(%)	3.7%	4.9%	-120 pbs
Log term debt/Total debt	(%)	96.3%	95.1%	120 pbs
Financial expenses coverage	(times)	4.48	4.05	10.6%

[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 TRANSMISION MARKET

5.1. The transmission activity and its regulation

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

The transmission system of Transelec which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' Region, encompasses the majority of the transmission lines and substations in the National Electrical System. This transmission system transports the electricity that supplies approximately 98.5% of Chile's population. The Company owns the 35% of all of the 500 kV electricity transport lines, 40% 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, which stablishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explodes and operates transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Resolution No. 299 of April 26, 2018).

The Transmission Law 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 Dedicated System by users liable to price regulation, among other topics.

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. Transelec has the right to annually receive the annual transmission value (VATT) for its facilities belonging to the National and Zonal Transmission Systems, defined in the tariff processes or in the Decree for the award of expansion works, as the case may be. In the case of the installations of the Dedicated Transmission System, Transelec agrees private transport contracts with the respective users, to define the payment for the use of this type of facilities.

5.2. Valuation and pricing of facilities

Prices associated to transmission activity are determined by the Commission every four years by conducting internationally tendered studies, 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 values, which are annualized considering the assets life determined every three tariff periods and whit a variable discount rate, which will not be less than 7% or higher than 10%. The owners of regulated transmission facilities must receive the Annual Transmission Value from the sum of the real tariff revenues and a single charge associated to each segment and applied directly to end users.

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

The 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 a single charge of transmission paid by 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 the Transmission Law, during the period between the January 1, 2016 and December 31, 2017, remain in force Decree No. 14 and subtransmission tariffs, excluding payment corresponding to the generating companies. The Ministry of Energy issued on May 27, 2017 the 1T Decree where the Decree No. 14 adjustments were defined to implement the exemption from power plants and for harmonious and consistent implementation with the application decree 23T. Because of this the subtransmission revenues that have been collected since is 1 January 2016 were reassessed under the provisions containing the decree.

On the other hand, in accordance with the provisions of the twelfth article of the Transmission Law, during the period of the extended term of Decree 14 or Decree 1T, continuity and termination of the process of setting the new subtransmission rates were given which will have valid from January 1, 2018 to December 31, 2019. Thus, on July 19, 2018, the CNE published Exempt Resolution No. 531 which replaces the technical report that defines the VATT of the Zonal Transmission Systems and the proportion of use of the dedicated transmission of users subject to price regulation in the 2018-2019 biennium, approved through CNE Exempt Resolution No. 414 of July 31, 2017, in accordance with the provisions of the new Transmission Law. This technical report served as the basis for the enactment of Decree 6T, published in the official gazette on October 5, 2018, which establishes annual value per tranche of the zonal and dedicated transmission facilities used by users subject to price regulation, their rates and indexation formulas for the 2018-2019 biennium.

6. <u>MARKET RISK FACTORS</u>

Due to the characteristics of the Chilean electricity market and strict standards regulating the sector, Transelec S.A. is not exposed to substantial risk in the course of operating its main line of business.

Transelec manages its risks through a corporate program, including the vision and information from the board of directors and employees in direct contact with the risks, with in the company strategy, workshops are utilized to analyzed past and potential risks. Carrying out concrete actions to prevent and / or mitigate them, to lower their probability of occurrence or its impact.

At project level, the company develop the process of Stages and Decisions, which ensures that projects are guided by stablished protocols from develop of a business idea, going through the proposal presentation, adjudication and later construction or acquisition, even its launch, to ensure that the decision makers have the necessary information available and mitigate the risks in the different parts of the projects.

The main risks of the company are presented and discussed quarterly in the Board of Directors. However, the following risk factors should be mentioned and taken into consideration:

6.1. Regulatory Framework

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

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

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. Environmental Institutionalism and the Application of Environmental Standards and/or Policies

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

6.4. Construction Delays for New Transmission Facilities

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

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

Transelec has Chilean peso as its functional currency, therefore the following factors expose Transelec to foreign exchange risk:

- Transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Leasing contracts that generate income indexed to US dollars.
- Accounts payables in US dollars associated to debt issued in U.S. America.
- Accounts receivables in US dollars associated to intercompany loans.
- 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	December 2019 Assets	December 2019 Liabilities	December 2018 Assets	December 2018 Liabilities
Dollar (amounts associated with balance sheet items)	773,997	774,341	759,919	760,791
Chilean peso	1,596,884	1,596,539	1,610,961	1,610,090

Below are the exchange rates (Observed Dollar) in Chilean pesos to the United States dollar; in the periods indicated.

MONTH	Average 2019 ($)	Last Day 2019 ($)	Average 2018 ($)	Last Day 2018 ($)
January	677.06	657.81	605.53	603.25
February	656.30	651.79	596.84	593.61
March	667.68	678.53	603.45	603.39
April	667.40	678.71	600.55	610.98
May	692.00	709.80	626.12	631.29
June	692.41	679.15	636.15	651.21
July	686.06	700.82	652.41	639.20
August	713.70	720.20	656.25	680.48
September	718.44	728.21	680.91	660.42
October	721.03	735.05	676.84	698.56
November	776.53	812.13	677.61	671.09
December	770.39	748.74	681.99	694.77
Average of the period	**703.25**	**708.41**	**641.22**	**644.85**

-

The income that Transelec is entitled to receive for its facilities belonging to the national and zonal transmission systems (VATT) and for the installations of the dedicated systems (toll contracts), are indexed in order to maintain their real values during the period of validity of these rates or tolls. These revenues are expressed in accordance with their base value, in dollars, and are updated according to components whose cost variation over time correlates with national or international economic indicators, considering the availability and stability of the source that issues it.

6.7. Credit Risk

Credit risk corresponding to receivables from commercial activities, is historically very limited in the industry given the nature of the stable regulatory framework, and the business of the Company's customers, which also have excellent credit level; and the short term payment of customers, which does not accumulate significant amounts.

BILLING	December 2019 MM$	December 2019 %	December 2018 MM$	December 2018 %
Enel Group	132,055	34.9%	113,262	34.4%
CGE Group	60,554	16.0%	20,809	6.3%
AES Gener Group	51,919	13.7%	45,571	13.8%
Colbún Group	51,259	13.5%	39,962	12.1%
Engie Group	9,736	2.6%	22,549	6.8%
Pacific Hydro Group	2,638	0.7%	4,918	1.5%
Others	70,429	18.6%	82,147	25.0%
Total	**378,591**		**329,217**	
% Concentration	**81.4%**		**75.0%**	

As of December 31, 2019, the Company has six main clients which represent individually between 0.7% and 34.9% of total revenues. These are Enel Group (MCh$132,055), CGE Group (MCh$50,554), AES Gener Group (MCh$51,919), Colbún Group (MCh$51,259), Engie Group (MCh$9,736) and Pacific Hydro Group (MCh$2,638). The total sum of these main customers corresponds to an 81.4% of the total income of the Company. In the same period of 2018, the Company had a similar structure of clients, whose revenues reached to MCh$113,262, MCh$20,809, MCh$45,571, MCh$32,767 and MCh$17,526 respectively, with a percentage of total incomes of 80.05%.

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. This risk is compensated by the excellent credit level of these clients, together with the “take or pay” type of payment of the Transelec transmission income.

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 approximately US$250 million, equivalent to MCh$179,352,825. 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 other 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 December 31, 2019 and December 31, 2018.

Debt Maturity (capital and interests) MCh$	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than 10 years	Total
December 31, 2019	65,254	130,509	344,742	1,108,425	495,527	2,144,457
December 31, 2018	62,052	124,104	332,535	840,330	746,648	2,105,668

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 used to finance such assets consist primarily of long-term liabilities at fixed rates. This debt is recorded in the balance sheet at amortized **cost**.

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

All the debt as of December 31, 2019, and as of December 31, 2018, was at a fixed rate. However, in the case of UF indexed debt, variations in inflation rates could potentially affect the Company's financial expenses.

UF Values

MONTH	Average 2019 ($)	Last Day 2019 ($)	Average 2018 ($)	Last Day 2018 ($)
January	27,558.53	27,546.22	26,811.97	26,824.94
February	27,546.04	27,556.90	26,864.09	26,923.70
March	27,564.62	27,565.76	26,961.32	26,966.89
April	27,601.09	27,662.17	26,980.73	27,004.63
May	27,720.11	27,762.55	27,040.06	27,078.32
June	27,826.20	27,903.30	27,119.59	27,158.77
July	27,946.95	27,953.42	27,187.19	27,202.48
August	27,968.13	27,993.08	27,237.98	27,287.57
September	28,021.53	28,048.53	27,329.01	27,357.45
October	28,063.18	28,065.35	27,393.34	27,432.10
November	28,122.86	28,222.33	27,480.95	27,532.80
December	28,288.60	28,309.94	27,561.53	27,565.79
Average of the period	**27,852.32**	**27,882.46**	**27,163.98**	**27,194.62**

6.10. Other Risks

In addition to the aforementioned, the company faces other risks such as cybersecurity, legal, market, counterpart and reputational risks.

RELEVANT CONSOLIDATED FACTS

TRANSELEC S.A.

RELEVANT FACTS

1) In conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 issued by the Securities and Insurance Commission, presently the Commission for the Financial Market, the following relevant fact was reported 15 January 2019, that Mr. Paul Dufresne announced his resignation from the position of director to the Chairman of the Transelec S.A Board of Directors. In addition, it was also announced by the same action that the Board of Directors had agreed to suspend temporary dividends corresponding to the 2018 fiscal year.

2) In compliance with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30, the following relevant fact was reported 21 March 2019, that at a Transelec S.A. Board of Directors meeting held that same date, Mr. Jean Daigneault announced his resignation from the position of Deputy Director for Mr. Paul Dufresne to the Chairman of the Transelec S.A. Board of Directors. In virtue of the foregoing, Mr. Richard Cacchione was appointed to the position of alternate director at the same meeting.

3) In compliance with the provisions of Article 9 and the second paragraph of Stock Market Law Nº 18,045 Article 10, the following relevant fact was reported 21 March 2019:

   At a meeting held 21 March 2019, the Transelec S.A. Board of Directors agreed to announce the notice of a shareholders meeting 26 April 2019 in in order to announce the following issues to the shareholders and request their approval:

   1. The Annual Report, General Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2019.

   2. Final dividend distribution. In this regard, the Transelec S.A. Board of Directors agreed to propose distribution of amounts that had already been distributed as temporary dividends in 2018 as a final dividend corresponding to the 2018 fiscal year amounting to a total CLP 39,887,000,000.

   3. Dividend Policy. Due to a correction that needed to be incorporated into the current dividend policy, the Board of Directors recommended the shareholders in attendance at the shareholders meeting to approve the following: "Dividends

corresponding to up to 100% of the net profit reported by the Company shall be distributed, considering acquisitions and investment opportunities, the Company's financial standing, obligations taken on by the Company, commitments made by Transelec when it issued bonds any debt instruments, and considering impacts related to the implementation of IFRS. The Board of Directors shall determine the amount to be distributed as temporary dividends on a quarterly basis, in accordance with the conditions previously indicated."

4. Board of Directors election.

5. Board of Directors and Audit Committee salaries.

6. Appointment of External Auditors.

7. The newspaper to be used to announce shareholder meetings.

8. Agreements reached by the Board of Directors regarding issues contained in Articles 146 and following of the Corporations Law.

9. Other issues of interest for the corporation and for consideration by the Board of Directors.

4) In compliance with the provisions of Article 9 and the second paragraph of Stock Market Law Nº 18,045 Article 10 and the provisions of General Standard N° 30, the following was reported as a relevant fact 26 April 2019 that agreements were reached regarding the following issues at a Transelec S.A. shareholders meeting held that same date:

   1. To approve the Annual Report, Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2018.

   2. To approve distribution of amounts distributed as temporary dividends during the 2018 fiscal year as a final dividend corresponding to 2018 amounting to CLP 39,887,000,000.

   3. To approve the dividends policy proposed by the Transelec Board of Directors.

   4. It was agreed that the members of the Board of Directors were to be replaced and therefore the Board is now comprised as follows: Mrs. Brenda Eaton as director and Mr. Jordan Anderson as her respective deputy director, Mr. Rui Han as director and Mrs. Sihong Zhong as his respective deputy director; Mr. Richard Cacchione as director and Mr. Michael Rosenfeld as his respective deputy director; Mr. Alfredo Ergas Segal as director and Mr. Ricardo Szlejf as his respective deputy director; Mr. Mario Valcarce Durán as director and Mr. José Miguel Bambach Salvatore as his

respective deputy director; Mr. Blas Tomic Errázuriz as director and Mr. Patricio Reyes Infante as his respective deputy director; Mr. Alejandro Jadresic Marinovic as director and Mr. Juan Agustín Laso Salvatore as his respective deputy director; Mr. Juan Benabarre Benaiges as director and Mr. Roberto Munita Valdés as his respective deputy director; and Mrs. Patricia Núñez Figueroa as director and Mr. Claudio Campos Bierwirth as her respective deputy director.

5. Board of Directors and Audit Committee salaries were determined.

6. Approval of the appointment of the firm Deloitte as the corporation's external auditors for the 2019 fiscal year.

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

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

5) On 15 May 2019, in conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 issued by the Securities and Insurance Commission, presently the Commission for the Financial Market, it was reported as a relevant fact that Brenda Eaton was elected as Chairperson of the Board of Directors Transelec S.A. at a Board of Directors meeting held that same date.

6) In conformity with Newsletter N° 660 issued by the Insurance and Securities Commission, presently the Commission for the Financial Market, the following relevant fact was reported 19 June 2019 that at a Transelec Board of Directors meeting held that same date, the corporation agreed to distribute temporary dividends to be taken from the 2019 fiscal year amounting to CLP 32,875,000,000. The dividend was paid 18 July 2019 to shareholders registered in the respective shareholders' registry as of 11 July 2019. This was done in conformity with the provisions of the Dividends Policy approved by the corporation's Board of Directors and was reported at the shareholders meeting held in the month of April 2019.

7) In conformity with Newsletter N° 660 issued by the Insurance and Securities Commission, presently the Commission for the Financial Market, it was reported as a relevant fact 23 August that at the corporation's Board of Directors meeting held 22 August 2019, the corporation agreed to distribute temporary dividends to be taken from the 2019 fiscal year amounting to CLP $30,671,000,000, which was paid 25 September 2019 to shareholders registered in the respective shareholders' registry as of 16 September 2019. This was done in conformity with the provisions of the Dividends Policy approved by the corporation's Board of Directors and was reported at the shareholders meeting held in the month of April 2019.

Form N° 1 on the distribution of dividends was attached in accordance with the aforementioned Newsletter.

8) In conformity with Newsletter N° 660 issued by the Insurance and Securities Commission, presently the Commission for the Financial Market, it was reported as a relevant fact 14 November that at the corporation's Board of Directors meeting held 14 November 2019, the corporation agreed to distribute temporary dividends to be taken from the 2019 fiscal year amounting to CLP 32,672,000,000, which was paid 10 December 2019 to shareholders registered in the respective shareholders' registry as of 16 September 2019. This was done in conformity with the provisions of the Dividends Policy approved by the corporation's Board of Directors and was reported at the shareholders meeting held in the month of April 2019.

   Form N° 1 on the distribution of dividends was attached in accordance with the aforementioned Newsletter.

9) In conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 it was reported as a relevant fact 14 November 2019 that at Transelec S.A. Board of Directors meeting held that same date, that the Transelec S.A. Board of Directors acknowledged and accepted the resignation filed by Mr. Alfredo Ergas from his position as corporation director, as well as the resignation filed by his deputy director Mr. Ricardo Szlejf.
   In virtue of the foregoing, Mr. Scott Lawrence was appointed alternate director at the same Board of Directors meeting.
   Moreover, at the same Board of Directors meeting, Mrs. Brenda Eaton resigned from her position as President of the Corporation. Mr. Scott Lawrence was elected to be President.