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

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital) December 2019	Amount in original currency (million) (unpaid capital) 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. MARKET RISK FACTORS

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**

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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.