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

TRANSELEC S.A AND SUBSIDIARY

Santiago, Chile
September 30, 2019

SUMMARY

As of September 30, 2019, Transelec obtained an EBITDA[1] of MCh$230,288, a 25.4% higher than the one obtained in the same period of 2018 (MCh$183,610), with an EBITDA Margin[2] of 86.2%. The EBITDA increase is almost totally due to higher Revenues explained below.

As of September 30, 2019, Revenues reached MCh$267,154 showing an increase of 21.2% compared to the same period of 2018 (MCh$220,429). The increase is explained by the entry into force of Decree 6T in last quarter of 2018 that mainly establishes the new Zonal tariffs. The raise is also explained by commissioning of new projects and macroeconomic effects, mostly explained by USD/CLP exchange rate.

The loss in Non-Operating Income as of September, 2019 was MCh$54,755, representing a decrease of 5.0% compared to the same period of 2018 (MCh$57,633). This is mostly explained by higher Financial Income and lower losses for indexed assets and liabilities. The raise is partially offset by higher Financial Costs.

Net Income recorded by the Company as of September 30, 2019, was MCh$96,415, which is 55.6% higher compared to the same period of 2018, in which was registered a Net Income of MCh$61,976.

During the first nine months of 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. Likewise, in the 12-months period ended September 2019, facilities for US$165.5 million were incorporated.

[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 also ratified the classifications in AA- during January 2019, while Humphrey's upgraded the Company's rating from AA- to AA with stable outlook in November 2018.

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

- The Ordinary Shareholders' Meeting held on April 26 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 in the meantime, there will not be additional distributions associated to the year 2018.

- During 2018, Transelec have distributed 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.

- 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.

1- INCOME STATEMENT ANALYSIS

ITEMS	September 2019 MCh$	September 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Revenues	**267.154**	**220.429**	**46.725**	**21,2%**
Toll sales	261.230	215.735	45.495	21,1%
Services	5.924	4.694	1.230	26,2%
Operation Costs and Expenses	**-80.988**	**-79.059**	**-1.929**	**-2,4%**
Sales Costs	-23.950	-23.572	-378	-1,6%
Administrative Expenses	-15.373	-15.958	585	3,7%
Depreciation and Amortization	-41.666	-39.530	-2.136	-5,4%
Operating Income	**186.166**	**141.369**	**44.797**	**31,7%**
Financial Income	10.570	7.155	3.415	47,7%
Financial Costs	-54.378	-50.907	-3.471	-6,8%
Foreign exchange differences	844	-884	1.728	N/A
Gain (loss) for indexed assets and liabilities	-12.894	-14.953	2.059	13,8%
Other income (Losses)	1.103	1.956	-853	-43,6%
Non-Operating Income	**-54.755**	**-57.633**	**2.878**	**5,0%**
Income before Taxes	**131.411**	**83.737**	**47.674**	**56,9%**
Income Tax	-34.996	-21.760	-13.236	-60,8%
Net Income	**96.415**	**61.977**	**34.438**	**55,6%**
EBITDA[1]	**230.288**	**183.610**	**46.678**	**25,4%**
EBITDA Margin[2]	**86,2%**	**83,3%**		

[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

In the first nine months of 2019, Revenues reached MCh$267,154 increasing a 21.2% compared to the same period of 2018 (MCh$220,429). The increase is explained by higher revenues from Toll Sales which as of September, 2019, reached MCh$261,230, a 21.1% higher than the obtained in the same period of 2018 (MCh$215,735). The Services revenues as of September 30, 2019 reached MCh$5,942, a 26.2% higher than the same period of 2018 (MCh$4,694).

The increase in Toll Sales Revenues is explained by an increase of MCh$18,566 in the National segment, MCh$22,992 in the Zonal segment and MCh$3,937 in the Dedicated segment.

As a whole, the increase in Revenues is mainly explained by: (i) the entry into force of 6T Decree, which establishes the new tariffs of transmission for the Zonal Segment, for 2018-2019 period, for MCh$23,139, (ii) macroeconomic effects by MCh$11,754, and (iii) new revenues in 2019 of projects commissioned in last 12 months for MCh$9,188.

Total Transelec Operational Costs and Expenses as of September 30, 2019 were MCh$80,988, a 2.4% higher than the comparison period in 2018 that reached MCh$79,059. Total Costs and Expenses are composed by the following main items.

Cost of sales during the analysis period totaled MCh$23,950, a 1.6% higher than the same period of 2018 (MCh$23,572). 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$15,373 in September 2019, 3.7% lower than those obtained in the same period in 2018 (MCh$15,958). The decrease is mainly explained by lower personnel costs associated to the end of a negotiation with one of the unions in 2018, compensated almost entirely by higher expenses in consultations, expenses associated with the valuation study of the transmission system and higher fines.

Total Depreciation and Amortization as of September 30, 2019 reached MCh$41,666, a 5.4% higher than the same period in 2018 (MCh$39,530). The increase is mainly due to the entry into operation of new projects and greater amortization associated with the implementation of the new IFRS standard explained above. The foregoing is partially offset by exceptional right-offs made in 2018.

b) Non-Operating Income

The Non-Operating Income of the first nine months 2019 was a loss of MCh$54,755, a 5.0% lower than the same period of 2018 (MCh$57,633). 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 September 2019 reached MCh$10,570, 47.7% higher than what was recorded in the same period of 2018 (MCh$7,155). 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 loss for Indexed Assets and Liabilities was MCh$12,894 as of September 30, 2019, a 13.8% lower than the same period of 2018 (MCh$14,953). 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 first nine months of 2019 corresponds to 1.75% compared to 2.09% for the same period of 2018, due to higher inflation in that period.

Foreign Exchange Differences as of September, 2019 resulted in a gain of MCh$844. During 2019, negative effects that impacted in 2018 were corrected. The Foreign Exchange Differences are bounded, associated with the hedging policy of our balance.

The Financial Costs registered to September 2019 amounted to MCh$54,378, increasing by 6.8% compared to the same period of 2018 (MCh$50,907). The increase is mainly due to higher interest payments on USD and UF bonds, since the average exchange rate for the first nine months of 2019 increased by 9.06% compared to 2018, likewise, the average UF value for the first nine months of 2019 increased by 2.55% 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 September 2019, were MCh$1,103, 43.6% lower than the same period of 2018 (MCh$1,956). As of September 30, 2019, the gain is mainly explained by adjustments with suppliers. As of September 30, 2018, the gain was mostly associated to adjustments for the absorption of subsidiaries in 2014.

c) Income tax

Income Tax as of September 30, 2019 was MCh$34,996, increasing by 60.8% in relation to the same period of 2018 (MCh$21,760). The increase is mainly due to higher Income before Taxes.

2. BALANCE SHEET ANALYSIS

ITEMS	September 2019 MCh$	December 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Current assets	226.717	182.590	44.127	24,2%
Non-current assets	2.323.834	2.267.861	55.973	2,5%
Total Assets	**2.550.551**	**2.450.450**	**100.101**	**4,1%**
Current liabilities	67.606	80.384	-12.778	-15,9%
Non current liabilities	1.656.018	1.569.173	86.845	5,5%
Equity	826.927	800.893	26.034	3,3%
Total Liabilities & Equity	**2.550.551**	**2.450.450**	**100.101**	**4,1%**

As of September 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 September 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 balance of commercial accounts receivable and higher cash and cash equivalent were registered.

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 financial liabilities, lower accounts payable to suppliers and lower Provisions balance.

Value of the Main PP&E in Operation

ASSETS	September 2019 MCh$	December 2018 MCh$	Variation 2019/2018 MCh$	Variation 2019/2018 %
Land	20.484	20.696	-212	-1,0%
Building, Infraestucture, works in progress	1.208.001	1.198.913	9.088	0,8%
Work in progress	98.745	73.920	24.825	33,6%
Machinery and equipment	723.127	693.226	29.901	4,3%
Other fixed assets	5.741	6.110	-369	-6,0%
Right of Use	6.033	0	6.033	N/A
Depreciation (less)	-551.404	-513.132	-38.272	-7,5%
Total	**2.062.132**	**1.992.865**	**69.267**	**3,5%**

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital) September 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	3,34%	Floating	03-Aug-20	-	-
Revolving Credit Facility[1]	UF	0,35%	Fixed	03-Aug-20	-	-

[1] Revolving Credit Facility: USD Tranche MM US$150: The floating rate of 3.34% breaks down in 3 months Libor rate plus a margin of 1.25%. At September 30, 2019, the Company did not utilize this line therefore does not pay interest of 3.34% 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 0.35% breaks down in TAB UF 180 rate plus a margin of 0.25%. At September 30, 2019, the Company did not utilize this line therefore does not pay interest of 0.35% 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	September 2019 MM$	September 2018 MM$	Variation 2019/2018 MM$	Variation 2019/2018 %
Cash flows provided by (used in) operating activities	155.973	131.740	24.233	18,4%
Cash flows provided by (used in) investing activities	-80.830	-73.798	-7.032	-9,5%
Cash flows provided by (used in) financing activities	-63.546	-79.161	15.615	19,7%
Net increase (decrease) of cash and cash equivalent	**11.597**	**-21.219**	**32.816**	**N/A**
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	**115.657**	**40.409**	**75.248**	**186,2%**

As of September 30, 2019, cash flow from activities of the operation reached MCh$155,973, which increased by 18.4% compared to the same period of 2018 (MCh$131,740). The increase is due to higher payments from customers related to the 6T Decree, partially offset by higher payments to suppliers.

During the same period, the cash flow used in investment activities was MCh$80,830, a 9.5% higher than the amount allocated as of September 30, 2018 (MCh$73,798). The increase is mainly explained by the fact that during 2019 the net balance of loans to related entities increased by MCh$9,820.

As of September 2019 the cash flow used in financing activities was MCh$63,546 which corresponds to dividend payments. As of September 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 September 30, 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	September 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	30,37	29,96
Shareholder's Equity[1] MCh$	Q local Bond and Revolving Credit Facility	> 350,000	851.897	825.863
Net Debt/Ebitda	Revolving Credit Facility	<= 7,0x	4,33	4,93

Test	Bonds	Limit	September 2019	December 2018
Distribution Test[2] FNO[3]/Financial Expenses	D, H, K, M and N local Series	> 1.50	4,85	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 September 30, 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		September 2019	December 2018	Variation 2019/2018
Profitability[1]				
Shareholders' Equity profitability[2]	(%)	16,9%	13,2%	370 pbs
Assets profitability[3]	(%)	5,5%	4,3%	120 pbs
Operating assets profitability[4]	(%)	6,8%	5,3%	150 pbs
Earnings per share[5]	($)	139.905	105.467	32,7%
Liquidity & Indebtedness				
Current Ratio	(times)	3,35	2,27	47,6%
Acid-Test Ratio	(times)	3,35	2,27	47,6%
Debt to Equity	(times)	2,08	2,06	1,0%
Short term debt/Total debt	(%)	3,9%	4,9%	-100 pbs
Log term debt/Total debt	(%)	96,1%	95,1%	100 pbs
Financial expenses coverage	(times)	4,23	4,05	4,4%

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

6.1. Regulatory Framework

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

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

In addition, it should also be considered that the Law of Transmission established that the Commission, every four years, must carry out the process of qualification of the lines and electrical substations of the system to determine to which segment of the transmission they belong, that is if they belong to the system of national transmission, for development poles, of zonal transmission, denominated regulated transmission segments, or belong to the dedicated systems. Therefore, every four years there is the possibility that facilities belonging to regulated transmission segments are qualified as part of the dedicated segment and vice versa. This change in rating will imply a change also in the form of economic compensation of the facilities, based on regulated tariffs or according to private contracts. In the latter case, Transelec must first identify the users of these facilities and then negotiate the respective transport contracts with them.

The Transmission Law considers the promulgation of several regulations, has some already published (Reglamento del Coordinador Eléctrico, del Panel de Expertos, de Determinación de Franjas Preliminares, para Dictación de Normas Técnicas y para la Determinación, Pago de Compensaciones y de Servicios Complementarios) and others are in development such as Coordinación y operación, and Planificación y de Valorización, waiting for its publication in 2019. Notwithstanding that for the elaboration of the great majority of these regulations, the authority has contemplated the participation of the private agents of the sector through workshops and of the citizenship in general through the procedures of public consultation, the authority is not obliged to incorporate the comments and observations made to the preliminary versions of the regulations, and finally may include what it deems pertinent or necessary, always in accordance with the law.

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

6.2. Operating Risks

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

6.3. Application of regulations and/or Environmental Law

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

This specialization in the institutional framework generates a scenario of greater control and oversight in the actions of the company. Notwithstanding the foregoing, on July 31, 2018, the government entered into the National Congress a bill that modernizes the Environmental Impact Assessment System (SEIA) as an environmental management instrument. With the modifications, the Executive intends to reduce the political component in the environmental qualification procedure through the creation of macrozones and the elimination of the Council of Ministers; expand and improve spaces for citizen participation and resolve historical legal controversies. To date, the legislature has not ruled on the amendments.

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

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

6.4. Delays in the Construction of New Transmission Facilities

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

6.5. Technological Changes

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

6.6. Foreign Exchange Risk

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:

	September 2019		December 2018	
In million pesos	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Dollar (amounts associated with balance sheet items)	742.005	742.128	759.919	760.791
Chilean peso	1.628.876	1.628.753	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
Average of the period	**685,67**	**689,45**	**628,69**	**630,43**

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	September 2019 MM$	September 2019 %	September 2018 MM$	September 2018 %
Enel Group	103.631	38,8%	76.996	34,9%
CGE Group	47.160	17,7%	14.977	6,8%
AES Gener Group	43.112	16,1%	30.848	14,0%
Colbún Group	41.661	15,6%	32.767	14,9%
Engie Group	6.299	2,4%	3.338	1,5%
Pacific Hydro Group	3.477	1,3%	17.526	8,0%
Others	21.813	8,2%	43.978	20,0%
Total	**267.154**		**220.429**	
% Concentration	**91,8%**		**80,0%**	

As of September 30, 2019, the Company has six main clients which represent individually between 1.3% and 38.8% of total revenues. These are Enel Group (MCh$103,631), CGE Group (MCh$47,160), AES Gener Group (MCh$43,112), Colbún Group (MCh$41,661), Engie Group (MCh$6,299) and Pacific Hydro Group (MCh$3,477). The total sum of these main customers corresponds to a 91.83% 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$76,996, MCh$14,977, MCh$30,848, 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 others improvements. Is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi, EDC DnB NOR and Banco Estado. This line does not include any material clause of adverse change.

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

The following table presents the capital amortizations corresponding to the Company's financial liabilities, according to their maturity date, as of September 30, 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
September 30, 2019	64.061	128.122	336.482	1.095.341	496.210	2.120.216
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 September 30, 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
Average of the period	**27.750,36**	**27.776,88**	**27.059,10**	**27.089,42**