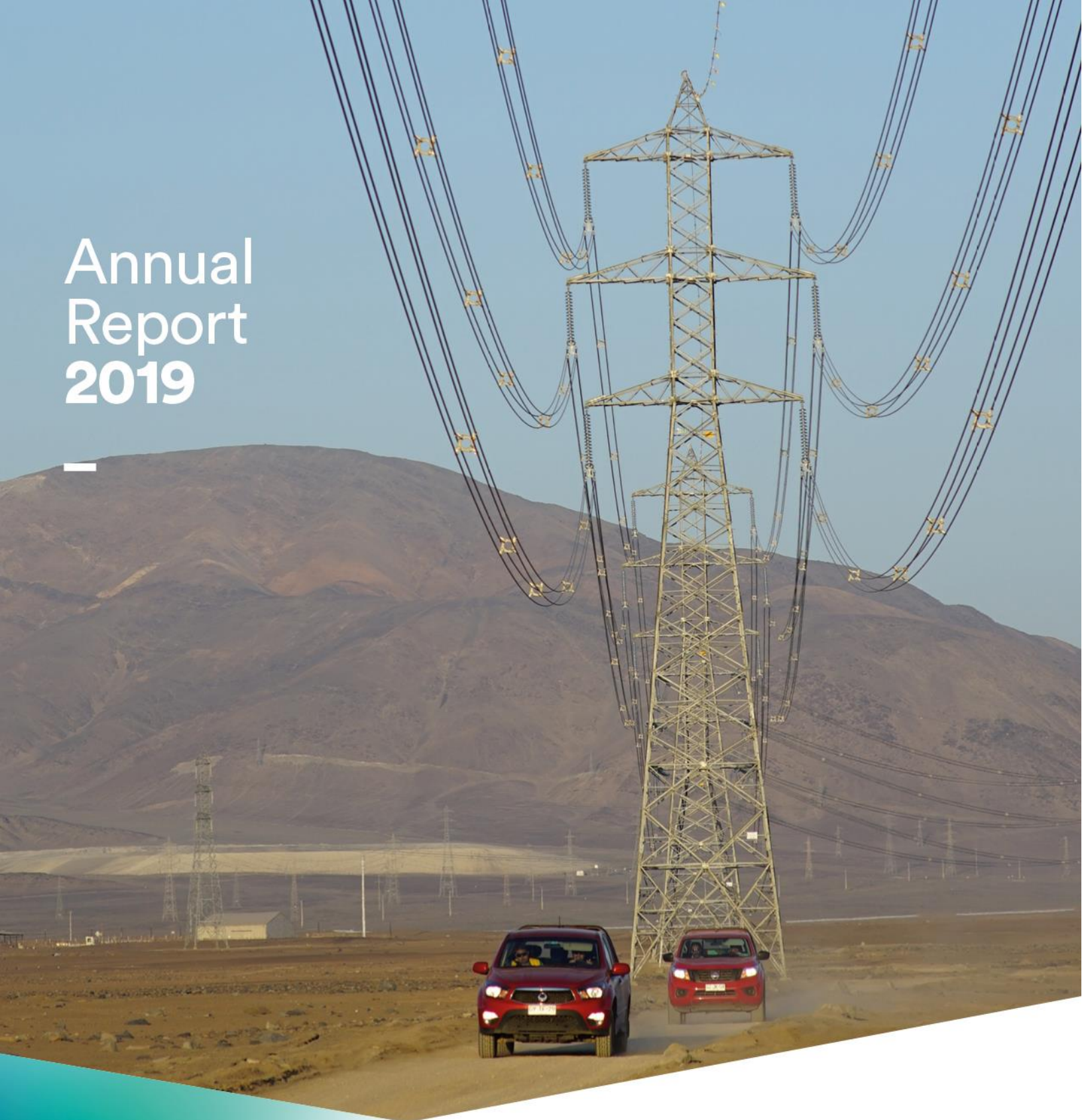


Annual Report 2019



concesiones s.a.
transelec

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IDENTIFICATION

Name or Firm Name:	Transelec Concesiones S.A.
National Securities Registration:	406
Legal Domicile:	Santiago, while not restricting the establishment of agencies, branches or offices in other parts of the country or overseas.
Address:	Orinoco 90, 14 th floor, Las Condes
Telephone:	(56-2) 2246 7000
Tax list number:	76.524.463-3
Entity type:	Closed Stock Corporation
E-mail:	transelec@transelec.cl
Web page:	www.transelec.cl/empresas-relacionadas/

PROPERTY

The equity amounts \$ 5,000,000. of United States dollars divided into 5,000,000 registered shares, of a single serial and without par value.

Transelec Holdings Rentas Limitada owns 4,995,000 shares while Rentas Eléctricas I Limitada owns 5,000 shares.

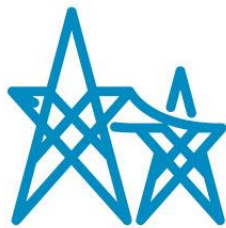
The Company





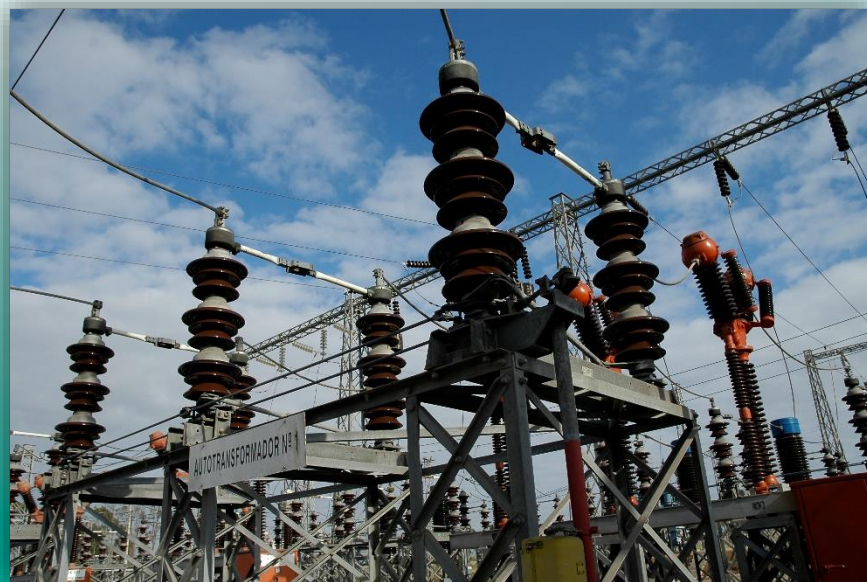
3,750 MVA

is the transformation capacity,
distributed in 1 station.



671.4 Km

of transmission lines, are part of the
National Electric System.



Transelec Concesiones is part of Transelec Group, which provides its extensive experience and knowledge of power projects to a wide range of customers in the power, mining and industrial sectors throughout Chile. These customers trust in the support and excellence provided by the Company's integral power transmission solutions.

COMPANY HISTORY

Transelec Concesiones S.A. was constituted by Transelec Holding Rentas Limitada and Rentas Eléctricas I Limitada due to the awarding of exploiting rights and execution of the work "Nueva Charrúa Substation, 2x500 kV Charrúa - Ancoa lines 1 and 2 sectioning and new 2x220 line kV Nueva Charrúa - Charrúa" which is part of the bidding process for the new works indicated in the Exempt Decree No. 201 of 2014 of the Ministry of Energy.

Transelec Concesiones S.A.'s incorporation was established on November 6, 2015 and filed in the public deed document under registration N°1767 (constitution consists of a public deed dated November 6, 2015), granted by Public Notary of Santiago of Mr. Raúl Undurraga Laso, whose extract is registered in sheet 85,649, N°50,023, in the Metropolitan Trade Registry of the Santiago Real Estate Property Curator (Commercial Registry) in the city of Santiago, (2015,) and published in the Official Gazette dated November 14, 2015.

In addition, on March 9, 2016, the Securities and Insurance Superintendency certified that Transelec Concesiones S.A. had been registered in the Especial Registry of Informing Entities, under the number 406.

On February 17, 2017, Transelec Holding Rentas Limitada and Rentas Eléctricas I Limitada sold to Transelec Concesiones S.A. the amount of 2,497,500 and 2,500 subscribed and paid shares, respectively, of the company Pichirropulli Transmisora de Energía S.A., which, according to the Register of Shareholders of said company, represent the totality of its shares.

Because of the aforementioned purchase and sale of shares, as Transelec Concesiones S.A. gained control over all shares of Pichirropulli Transmisora de Energía S.A., the dissolution by absorption of the latest occurred, in accordance with the law.

On the same day, through two shares sale agreements held through private instruments, Transelec Holding Rentas Limitada and Rentas Eléctricas I Limitada sold to Transelec Concesiones S.A. the amount of 4,995 and 5 subscribed and paid shares, respectively, of the company Interconexión Los Changos S.A., which, according to the Shareholders' Registry of said company, represent the totality of its shares.

Because of the aforementioned purchase and sale of shares, as Transelec Concesiones S.A. gained control over all shares of Interconexión Los Changos S.A., the dissolution by absorption of the latest occurred, in accordance with the law.

Final Group's Shareholders are: China Southern Power Grid International (CSGI), Canada Pension Plan (CPP), British Columbia Investment Management Corporation (BCI) y Public Sector Pension Investment (PSP). The Group benefits from an important and vast operational knowledge, both by Transelec S.A., the most important electricity transmission company in the country, and by the experience of CSGI, China's second largest operator.

BUSINESS ACTIVITY

Transelec Concesiones S.A. has the exclusive purpose of exploiting and developing electrical systems of its own, intended for the transportation or transmission of electrical energy, being able to obtain, acquire and enjoy the respective concessions and permits, and exercise all the rights and powers that the legislation confer to the electric companies.

The corporate purpose includes the commercialization of the transmission lines transport and substations transformation capacity, and any equipment associated to them, so that generation plants, both national and foreign, can transmit the electrical energy they produce and reach their consumption centers. Additionally, it looks to allow the development of other commercial and industrial activities related to the use of electrical transmission infrastructure.

In the fulfillment of its corporate purpose, the company may act directly or through subsidiaries or affiliated companies, both inside the country and abroad.



Corporate Governance



BOARD OF DIRECTORS

According to the Sixth Article of its Bylaws, the Board of Directors is comprised of three members elected by the shareholders at the respective shareholders meeting. Board members serve for a period of two years and are eligible for re-election. To be a director, it is not necessary to be a shareholder of the company.

The current Board of Directors of the company was elected at the Ordinary Meeting of Shareholders on April 26, 2019, and is composed as follows:

1. Francisco Castro Crichton (Chairman, Chilean, T.I.N.: 9.963.957-1).
2. Arturo Le Blanc Cerda (Chilean, T.I.N.: 10.601.441-8).
3. Rodrigo López Vergara (Chilean, T.I.N.: 7.518.088-8).

BOARD OF DIRECTORS SALARIES

According with the provisions of the Seventh Article of the social Bylaws, the directors are not remunerated.

BOARD OF DIRECTORS EXPENSES

During the year, no payments made associated with directors' expenses.

PRINCIPAL EXECUTIVES

General Manager : Kuhlmann Jahn, Andrés

T.I.N. : 6.554.568-3

Principal Executives : Castro Crichton, Francisco Javier (T.I.N.: 9.963.957-1).
 López Vergara, Rodrigo Anselmo (T.I.N.: 7.518.088-8).
 Le Blanc Cerda, Arturo Cristián (T.I.N.: 10.601.441-8).
 Semertzakis Pandolfi, Alexandros Georgios (T.I.N.: 7.053.358-8).
 Aravena Vallejo, Claudio (T.I.N.: 9.580.875-1).
 Noé Scheinwald, David (T.I.N.: 10.502.232-8).

Administrative Structure : Board of Director and General Manager

DIVERSITY

a) Board of Directors Diversity

- | | |
|--------------------------------------|--|
| 1. Number of persons by gender: | 3 men. |
| 2. Number of persons by nationality: | 3 Chilean. |
| 3. Number of persons by age range: | 1 between 40 and 50 years.
1 between 51 and 60 years.
1 between 61 and 70 years. |
| 4. Number of persons by seniority: | 3 directors have been in the Company for Less than 3 years. |

b) Diversity of the General Management and other managements that report to this management or to the Board of Directors

- | | |
|--------------------------------------|---|
| 1. Number of persons by gender: | 7 men. |
| 2. Number of persons by nationality: | 7 Chilean. |
| 3. Number of persons by age range: | 2 persons between 40 y 50 years.
4 persons between 51 y 60 years.
1 person between 61 y 70 years. |
| 4. Number of persons by seniority: | 7 persons that has been in the Company for Less than 3 years. |

c) Organization Diversity

Transelec Concesiones does not have any employees, apart from the executive level, so this section does not apply.

d) Wage gap by gender

It does not apply given that there are no women within the organization.

The Business

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REGULATORY SCENARIO

The legal framework that regulates how the power transmission industry operates in Chile is based on Ministry of Economy, Development and Reconstruction Statutory Decree N°4 dated 2006. This decree determines the consolidated, coordinated and systematized text of the General Electricity Services Law, hereinafter and indistinctively the “General Electricity Services Law” or “LGSE”. The LGSE and its complementary regulations determine standards applicable to any power generation, transmission or distribution facility with regard to technical, safety, coordination, quality, information and economic aspects of appropriate power sector operation.

The last important reform made to the LGSE is the recently passed Law N° 20,936/2016, which incorporated the following important amendments:

1. An exclusive National Electricity System Coordinator, independent from the actors of the market stakeholders, which replace the Economic Load Dispatch Centers.
2. Redefinition of power transmission systems, classifying these as the National Power Transmission System (formerly the trunk system), the Zonal Transmission Systems (formerly subtransmission systems), and the Dedicated Systems (formerly additional systems), and incorporating two new segments: Power Transmission Systems for Development Poles and International Interconnection Systems.
3. The incorporation of energy and power transmission planning with a long-term horizon, considering system float and attempting to achieve a safer and more robust system.
4. Preliminary definition of paths for new power transmission projects of public interest, by means of an Easement Strip Study procedure to be executed by the Ministry.
5. Open Access to universal Power Transmission System.
6. This regulates tariff setting for National Power Transmission Systems, Zonal Transmission Systems, for Development Poles and payment for the use of Dedicated Power Transmission System facilities by users subject to price regulation, among other issues.

The current legal framework that regulates the power transmission business in Chile classifies their facilities into four categories:

- **The National Transmission System:** comprised of power transmission lines and electrical substations that enable development of this market, interconnecting all other power transmission segments and enabling power to be supplied for meeting total power system demand in different availability scenarios within power generation facilities, including contingency and fault situations.
- **Zonal Transmission Systems:** comprised of power transmission lines and electrical substations essentially arranged to supply current or future regulated customers that can be identified on a territorial basis, without compromising use by free customers or power generation companies connected directly to or by means of power transmission systems used for the aforementioned power transmission systems.

- **Transmission Systems for Development Poles:** comprised of power transmission lines and electrical substations used to transmit electrical energy generated by a single development pole into a power transmission system, thus making efficient use of national territory.
- **Dedicated Transmission System:** comprised of power transmission lines and electrical substations that are interconnected to the electricity system and essentially arranged to supply electrical energy to users that are not subject to price regulation or to inject power produced by power plants into the power grid.

The first three systems are public services for which the Ministry of Energy sets tariffs. These systems are subject to universal open access under non-discriminatory conditions. Access shall be provided to Exclusive System power transmission facilities as long as there is available technical transmission capacity, which is determined by the Coordinator, without prejudice of the hired capacity or the company's own projects that have been reliably considered upon the interested third party requesting use of these facilities.

Several regulations related to Law N° 20,936 have been published to date, determining necessary provisions for the execution of issues related to the Electricity Coordinator, expert panel, energy planning, preliminary easement strips, international interconnections, compensation for power supply outages, dictates of Technical Standards and Complementary Services. Regarding issues for which no regulations have yet been formulated, the National Commission of Energy, hereinafter and indistinctively the "Commission" or "CNE". has published several resolutions containing temporary provisions in terms of deadlines, requirements and conditions indicated in the new law

Other regulations are currently being prepared and published by the Ministry of Energy, such as the National Electric System Coordination and Operation Regulation, Qualification Regulation, Valuation, Charging and Remuneration for transmission facilities and finally, the Planning and Open Access Regulations.

These regulations should be published during 2020. the Coordination and Operation Regulation and Valuation, Charging and Remuneration of Transmission Facilities are currently being acknowledged by the General Comptrollership of the Republic prior to publication and application.

BUSINESS DESCRIPTION

The National Transmission System, through the interconnection of all the transmission segments (transmission lines and substations), allows the conformation of a common electric market capable of supplying all of the electricity demand, even facing failures and contingencies, maintaining the quality and safety requirements of service established by current regulations.

Transelec Concesiones S.A. is part of this regulated revenue System, having the rights for the exploitation and execution of New projects tendered by the National Electricity Coordinator.

NATIONAL TRANSMISSION SYSTEM REMUNERATION

The projects awarded to Transelec Concesiones S.A. correspond to international tenders, done by the National Electricity Coordinator, for large expansion projects classified as new works. The awarded company is responsible for managing the corresponding permits and carrying out the construction and operation of the projects through a BOOT contract. Annual Transmission Value per Tranche (VATT) and its indexation contained in the tender offer constitute the new project revenues for the next 5 tariff periods (20 years) from the start of operation of the project.

This remuneration is applied for 20 years without any alteration except for the corresponding indexation. Only after this period, the assets and their valuation are considered as “existent facilities”, therefore, reviewed and updated every 4 years through the tariff studies of the Transmission Systems.

The first 20 years’ income for the service is guaranteed, that is, the awarded company has the right by law to receive 100% of the agreed income.

Once the period of 20 years has ended, the revenues from existing installations of the National Transmission System are constituted by the Annual Transmission Value per Tranche (VATT), which is calculated on the basis of the Annuity of the Investment Value (AVI.), plus the Costs of Operation, Maintenance and Administration (COMA) for each section of this system.

The VATT for all sections that build this system are determined every four years by the National Energy Commission (CNE) based on the Study of Valorization of the National Transmission System by a consultant chosen through an international public tender. Because of this process, the CNE prepares a technical report and, based on it, the Ministry of Energy will set the rates for the next four-year period of the National Transmission System.

During the four-year period between two consecutive tariff processes, both the AVI and the COMA of each tranche will be indexed by formulas that aim to maintain their real value during said period. Indexation formulas and the periodicity of their application are determined in the corresponding tariff process.

For the purposes of income collection, a single charge for use will be established, determined by the CNE, so that its collection constitutes the complement to the actual tariff revenues to collect the VATT from each section. "Real tariff income per tranche" shall be understood as the difference resulting from the application of the marginal operational costs of the system, with respect to the injections and withdrawals of power and energy in said section. Payment of the National Transmission System will be charged to regulated and unregulated end users.

Additionally, every year the CNE must implement a transmission planning process, which must consider at least a twenty-year horizon. This planning includes the necessary expansion works of the National Transmission System, which contain investments that must be classified as new works or expansion works of existing facilities. Because of this process, the CNE prepares a technical report and, based on it, the Ministry of Energy will establish the Expansion Plan of the Transmission System for the next 12 months.

The Coordinator has the responsibility to carry out the international public tenders of the expansion projects, whether defined as new or upgrade projects. The tender for the construction and execution of the upgrade projects of existing facilities will be resolved according to the VI offered, and will be remunerated by the owner of the installation to the respective awardee, unlike what happens in the case of new projects, where the exploitation and execution rights will be awarded to the bidder who submits the lowest VATT for the project.

PROJECT ADJUDICATION

The exploitation rights and execution of the project "Nueva Charrúa Substation, sectioning of the 2x500 kV Charrúa - Ancoa lines 1 and 2 and the new 2x220 kV Nueva Charrúa - Charrúa line" was awarded to the Company by Exempt Decree No. 55 dated January 22, 2016, of the Ministry of Energy and published in the Official Gazette on January 29 of the same year. This project was part of the bidding process of the new projects indicated in Exempt Decree No. 201 of the 2014 year of the Ministry of Energy (the "Project").

By virtue of this decree, since these projects are operating, the Company participates in the National Transmission System of the SEN defined by law and will have regulated revenues, in accordance with the Annual Transmission Value per Tranche offered in the bidding process of the project.

On the other hand, after the absorption of Pichirropulli Transmisora de Energía S.A. and Interconexión Los Changos, Transelec Concesiones S.A. obtains:

- Exploitation rights and execution of the work "Line 2x220 kV Pichirropulli-Nueva Puerto Montt, energized in 220 kV" (the "Project") that is part of the bidding process of new projects indicated in Exempt Decree N ° 201 of 2014 of the Ministry of Energy.

The Project consists of the construction of a new transmission line 2x500 kV Pichirropulli - Nueva Puerto Montt, energized in 220 kV, including the necessary works in 220 kV in the substations Nueva Puerto Montt and Pichirropulli. The construction of Nueva Puerto Montt sectioning substation and the sectioning of the 2x220 kV Rahue - Puerto Montt lines in the new substation are included.

- The rights of exploitation and execution of the project "New Line 2x500 kV 1500 MW between S/E Los Changos and S/E Nueva Crucero Encuentro, Autotransformers Banks 2x750 MVA 500/220 kV in S/E Nueva Crucero Encuentro, Autotransformers Banks 750 MVA 500/220 kV in S/E Los Changos and New Line 2x220 kV 1500 MW between S/E Los Changos and S/E Kapatur" which is part of the new projects' bidding process indicated in Exempt Decree N ° 158, 2015, of the Ministry of Energy.

The Project consists of the construction of a new 2x500 kV line between Los Changos substation and Nueva Crucero Encuentro substation, with an approximate length of 140 km in double circuit structures, with a capacity of 1,500 MW. In addition, the work includes the installation of two banks of 500/220 kV autotransformers of 750 MVA each, plus a reserve unit for each bank, in the future Nueva Crucero Encuentro substation, together with the respective 500 kV yard. Additionally, the project contains the

installation of a 500/220 kV 750 MVA autotransformer bank, plus a reserve unit, in Los Changos substation, which is under construction. It also includes the construction of a new 2x220 kV line between the substations under construction Los Changos and Kapatur, of an approximate length of 3 km, in double circuit structures, and a nominal capacity of 1,500 MW.

In the first stage and for the purposes of the SING-SIC interconnection, the new 2x220 kV Los Changos - Kapatur line went into operation in November 2017. In a second stage in December 2019, the rest of the facilities of this project started operating.

As indicated previously, Transelec Concesiones S.A. was established after the award of the projects and by express provision of the Decrees, for the purposes of developing the aforementioned projects. Thus, in 2017, all assets conforming these projects were transferred to the Company, as a single legal universality, which initially, and for reasons of operational and administrative experience, begun to be built by Transelec S.A., a related society with Transelec Concesiones S.A.

NATIONAL SYSTEM PROJECTS

NEW WORKS

1. Studies

No Studies developed during this period.

2. Adjudication

No Projects awarded during this period.

3. Project Development

During this period, the development of the project “Nueva Línea 2x500 kV Pichirropulli – Tineo” with a referential investment value (VI) of USD \$81.51 million:

Decree	Project	VI Ref. (USD million)	Entry into Operation
0201/2014	New Line 2x500 kV Pichirropulli – Tineo	81.51	3er Trim. 2021

4. Entry into Operation

On December 06, Transelec Concesiones S.A. energized the Project “Nueva línea 2x500 kV S/E Los Changos - S/E Kimal” with a referential investment value of USD \$156.6 million:

Decree	Project	VI Ref. (USD million)	Entry into Operation
0158/2015	New Line 2x500 kV S/E Los Changos - S/E Kimal	156.6	4to Trim. 2019

INVESTMENT DURING 2019

Project Type	Real Investment (CLP million)
New Works	66,234
Pull (*)	1,138
Total National System Projects	67,372

(*) Corresponds to payments made in 2019 for projects put into service in 2018 or earlier.

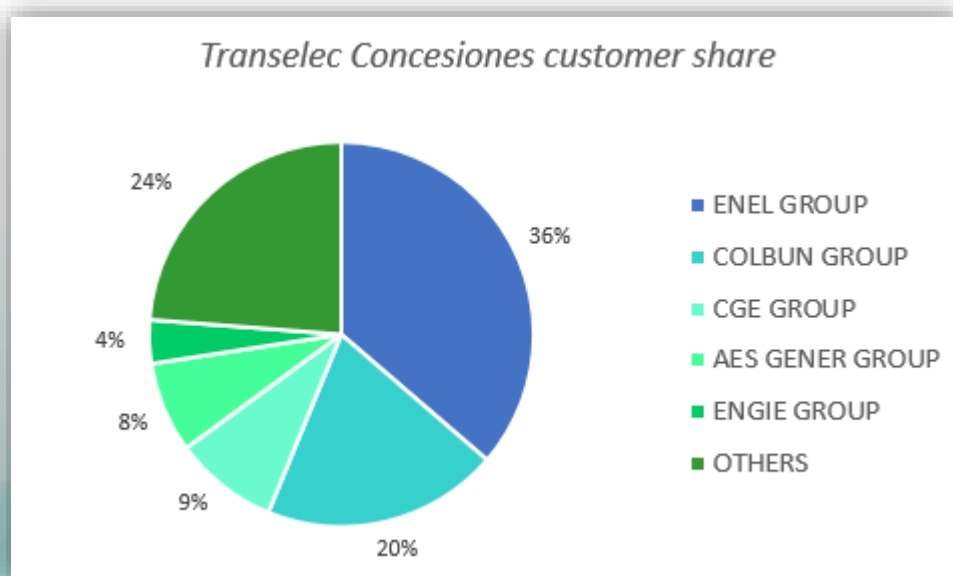
INVESTMENT VALUE (VI)

The current regulatory framework establishes mechanisms for calculating and publishing the investments valuation of transmission companies at market prices. This information is used for service charging.

Transelec Concesiones transmission facilities valuation, as of December 31, 2019, amounts to USD \$279.71 million.

REVENUES

Transelec Concesiones' revenues amount USD \$9.56 million and correspond in their entirety to regulated revenues from the National System. The Company's main clients are shown in the chart below, based on their participation.



The Operation

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Transelec Concesiones is strongly committed to delivering an energy transport service with high quality and safety standards, focused on maximizing service availability for customers through optimal asset management. To fulfill it, Transelec Concesiones has entered into a service provision agreement with Transelec S.A. (operator), which has its own staff and highly qualified contractors, as well as technological resources and processes based on risk models.

ASSETS MANAGEMENT

In 2019, the operator worked on updating operations and asset management strategies, also incorporating innovation and digital transformation as a crucial strategic tool to achieve the objectives of reducing the failure rate.

These new strategies allow the definition, prioritization, and implementation of specific and dedicated measures. Also, action plans to ensure the quality of service of each facility through the renovation, modernization, and maintenance of the assets; activities leveraged by prioritized investments in OPEX and Sustainable CAPEX.

ASSETS PERFORMANCE

During the year 2019, no deviations were registered in the Transelec Concesiones facilities regarding regulatory compliance. Only two forced interruption events were reported that did not record loss of supply in Transelec Concesiones assets, reflecting the commitment to quality and service availability.

OPERATION

The Operational Continuity Plan applied by the operator integrates in the same procedure the guidelines to prevent, mitigate and respond effectively and efficiently to emergencies in order to recover and preserve the operational continuity of their facilities. During 2019, the continuous improvement of procedures was implemented, and a study begun with an international consultant to know and apply the latest advances in good practices of operational continuity plans.

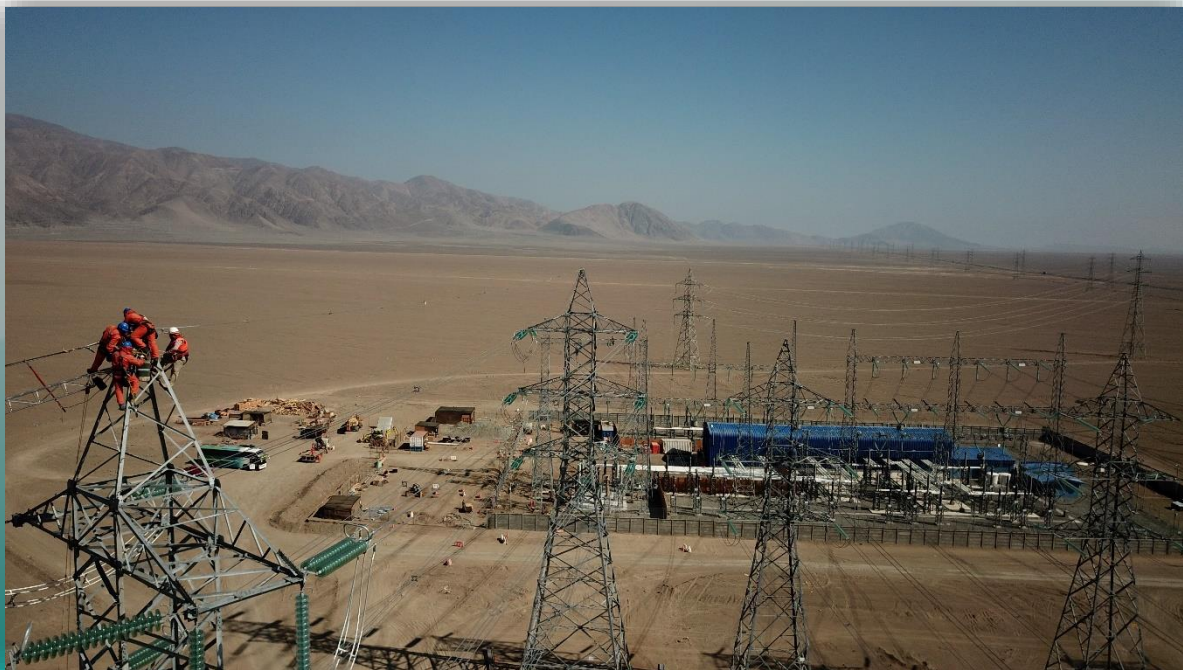
The operator, Transelec, is part of the National Transmission Operation Center (CNOT), which plays a fundamental role in ensuring the continuity of service. In 2014, the construction of the CNOT was completed with the highest safety standards, and it became possible for Transelec to centralize its facilities' operation in real time. In 2016, a competency management process for CNOT operators was established, a process that considered a survey of model skills. In 2019, the newly implemented Operator Training System (OTS) will begin to be utilized. This system has allowed us improve the technical and behavioral performance of operators in a controlled environment through the simulation of extreme events and conditions, replicating the real characteristics of the system and their job.

EQUIVALENT TIME OF INTERRUPTION (TEI)

Quality of service is one of the strategic pillars of Transelec Concesiones, and it is reached thanks to the management carried out in the network operation, maintenance environment and responsiveness to network incidents.

the network topology evolution, as well as changes in quality standards, added to the increasingly exigent demands of society, creates goals that are more challenging every year.

During 2019, this indicator remained at 0, due to the good performance of its assets and risk mitigation management.



Finance



DEBT

On December 21, 2018, a Project Finance Agreement was signed with the following banks:

- Bank of Tokyo-Mitsubishi UFJ (MUFG),
- KfW IPEX-Bank (KfW) y
- Export Development Canada (EDC).

The credit is for an approximate total amount of USD \$358 million. As of December 31, 2019, a total amount of USD \$199 million has been disbursed.

The contract seeks the financing of the new expansion projects of the Company:

- Nueva Charrúa Substation
- Transmission Line Pichirropulli - Puerto Montt
- Transmission Lines Los Changos - New Encuentro Cruise and Los Changos-Kapatur

INVESTMENT AND FINANCING POLICY

Transelec Concesiones S.A. does not have an investment and financing policy.

DIVIDEND POLICY

In the Ordinary Shareholders' Meeting held on April 29, 2016, the distribution of at least 30% of the net profits of each year was approved, according to the provisions of article 79 of the Public Limited Companies Act.

This policy will remain in place as long as no new dividend policy is proposed by the Board of Directors of the Company and approved in a new Ordinary Shareholders' Meeting.

RISK FACTORS

Both the characteristics of the Chilean electricity market and the regulations of this sector, the company is not exposed to significant risks arising from the development of its core business. However, it is appropriate to mention and consider the following risk factors:

REGULATORY FRAMEWORK

The electricity transmission rates are set by law and include readjustments in order to guarantee a real annual return to the operator. The nature of the industry allows the income of the transmitters to be stable over time. These are complemented with the income obtained thanks to the existence of private contracts with large customers.

However, the fact that these rates are reviewed every four years in the National and Zonal Transmission Studies could make the Company to face new rates that are detrimental or less attractive in terms of investments.

TRANSMISSION SERVICE INTERRUPTION FINES

Transelec Concesiones could face proceedings before the Superintendency of Electricity and Fuels (SEC), due to charges made by the Authority for forced disconnections of the electricity transmission service.

OPERATIONAL RISKS

Notwithstanding that, the Administration estimates that Transelec Concesiones maintains adequate risk coverage, according to industry practices, it is not possible to ensure that the coverage of the insurance policies will be sufficient to cover certain operational risks to which it is exposed. Transelec Concessions, including the forces of nature, damage to transmission facilities, work accidents and equipment failures. Any of these events could affect the financial statements of the company.

ENVIRONMENTAL INSTITUTIONALITY AND THE APPLICATION OF NORMATIVES AND / OR ENVIRONMENTAL POLICIES

Notwithstanding that the company complies with the environmental requirements of the Environmental Law, it is not possible to ensure that these presentations (EIA, DIA or Letter of Relevance) before the environmental authority are approved by the government authorities, nor that the possible public opposition will not generate delays or modifications in the proposed projects, nor that the laws and regulations will not change or will be interpreted in a way that could adversely affect the operations and plans of the company, since the new institutionality, in all its capacity, is underway and in perfection.

DELAYS IN THE CONSTRUCTION OF THE NEW TRANSMISSION FACILITIES

The success of the construction of the projects awarded during the tenders of the National Transmission System will depend on numerous factors, including cost and availability of financing. The construction of new facilities could be negatively affected by factors commonly associated with the projects, including delays in obtaining regulatory authorizations such as electrical concessions; shortage of equipment, materials or labor, or changes in their prices; adverse weather conditions; natural catastrophes and circumstances and unforeseen difficulties in obtaining financing under reasonable conditions and rates. Any of the above-mentioned factors could cause delays in the partial or total conclusion of the capital investment program, as well as increase the costs for the contemplated projects.

FINANCIAL RISKS

Interest Rate Risk

Significant changes in fair values and future cash flows of financial instruments, which may be directly attributable to interest rate risks, include changes in the net income of financial instruments whose cash flows are determined by variable interest rates and changes in the value of financial instruments whose cash flows are fixed may affect the Company.

Liquidity Risk

Liquidity risk is the risk that the company cannot satisfy a demand for cash or the payment of a debt at maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

Exchange Rate Risk

The majority of the Company's cash flows are denominated in Dollars and, given that this is its functional currency, there is no significant exposure to the exchange rate. The risk associated with significant costs resulting from investments during the projects' construction, carried out in currencies other than the functional, are covered by hedging operations with derivatives.

Credit Risk

With regard to the credit risk related to accounts receivable from the electricity transmission activity, this risk is historically very limited in the industry given the business nature of the Company's clients and the short term of collection, which means that significant amounts are not accumulated.

RELEVANT FACTS

1. On March 25, 2019, and in compliance with the provisions of article 9 and the second paragraph of article 10 of Law No. 18,045, on the Securities Market, the following essential fact was reported:

That the board of Transelec Concesiones SA, in a meeting held on March 25, 2019, agreed to report as essential fact the summons to the ordinary shareholders' meeting for April 26, 2019, with the purpose of submitting to the knowledge and approval of the shareholders, the following matters:

- Annual Reports, Balanced Sheets, Financial Statements and a Report of the External Auditors, for the period ended on December 31, 2018.
- Final Dividend Distributions.
- Election of the Board. Remuneration of the Board.
- Appointment of External Auditors.
- Diary to call Shareholders' Meetings.
- Agreements adopted by the Board of Directors on matters contained in articles 146 et seq. of the Law on Corporations.
- Other matters of interest to society and of the Board's competence.

2. On April 26, 2019, and in compliance with the provisions of article 9 and the second paragraph of article 10 of Law No. 18,045, on the Securities Market, the following essential fact was reported:

That on April 26, 2019, the ordinary meeting of shareholders of the company was held, at which the following was agreed:

- Approve the Annual Report, the Balance Sheet, the Financial Statements and the Report of the External Auditors, for the period ended on December 31, 2018.
- In relation to the final dividend, it was reported that there are no profits to be distributed for the period ended December 31, 2018.

- It was agreed to elect the members of the Board, composed as follows Mr. Arturo Le Blanc Cerda, Francisco Castro Crichton and Rodrigo López Vergara.
 - In relation to the Directors remuneration, it was informed that according to the bylaws of the company, they would not be remunerated.
 - Approve the appointment of Deloitte as External Auditor of the company for 2018.
 - Approve the appointment of Diario Financiero to publish the Shareholders' Meeting summons.
 - The agreements adopted by the Board on matters contained in articles 146 et seq. of the Law on Corporations were informed.
3. On May 31, 2019, and in compliance with the provisions of article 9 and the second paragraph of article 10 of Law No. 18,045, on the Securities Market, and the provisions of NCG No. 30, the following essential fact was informed:
That at the Second Extraordinary Shareholders' Meeting of Transelec Concesiones S.A., held on May 30, 2019, Mr. Francisco Castro Crichton was pointed as Chairman of the Board of Directors.



Financial Statements

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INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Transelec Concesiones S.A., 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 financial statements have been translated into English solely for the convenience of Shareholder’s readers outside of Chile.

A handwritten signature in blue ink that reads "Deloitte". The letters are cursive and fluid, with the 'D' being particularly large and the 'e' at the end having a long, sweeping tail.

Santiago, Chile
March 20, 2020

Financial Statements

TRANSELEC CONCESIONES S.A.

Santiago, Chile

As of December 31, 2019 and 2018

US\$: United States dollars

THUS\$: Thousands of United States dollars

\$: 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.

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Financial Statements

TRANSELEC CONCESIONES S.A.

As of December 31, 2019 and 2018

TRANSELEC CONCESIONES S.A.

Classified Statements of Financial Position
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

ASSETS	Note	12/31/2019 ThUS\$	12/31/2018 ThUS\$
CURRENT ASSETS			
Cash and cash equivalents	(5)	16,810	3,161
Trade and other receivables	(6)	4,118	1,653
Other financial assets	(12)	-	5,980
Other non-financial assets	(8)	56,187	47,100
Total current assets		<u>77,115</u>	<u>57,894</u>
NON-CURRENT ASSETS			
Intangible assets other than goodwill	(9)	17,386	6,630
Property, plant and equipment, net	(10)	274,159	208,765
Deferred tax assets	(11)	7,305	-
Total non-current assets		<u>298,850</u>	<u>215,395</u>
Total assets		<u>375,965</u>	<u>273,289</u>

TRANSELEC CONCESIONES S.A.

**Classified Statements of Financial Position
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

NET EQUITY AND LIABILITIES	Note	12.31.2019 ThUS\$	12.31.2018 ThUS\$
CURRENT LIABILITIES			
Trade and other payables	(13)	16,430	8,097
Accounts payable to related companies	(7)	10,211	2,751
Current tax liabilities		98	-
Other current financial liabilities	(14-15)	2,149	-
Total current liabilities		<u>28,888</u>	<u>10,848</u>
NON-CURRENT LIABILITIES			
Accounts payable to related companies	(7)	146,501	182,517
Deferred tax liabilities	(11)	-	2,117
Other financial liabilities	(14-15)	211,644	62,738
Total non-current liabilities		<u>358,145</u>	<u>247,372</u>
Total liabilities		<u>387,033</u>	<u>258,220</u>
EQUITY			
Issued capital	(17)	5,000	5,000
Gain accumulated		2,924	1,792
Other reserves	(17.3)	(18,992)	8,277
Total equity attributable to owners of the Parent		<u>(11,068)</u>	<u>15,069</u>
Non- controlling interest		-	-
Total equity		<u>(11,068)</u>	<u>15,069</u>
Total equity and liabilities		<u>375,965</u>	<u>273,289</u>

TRANSELEC CONCESIONES S.A.

Statements of Comprehensive Income By Function
For the years ended December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

	Note	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Statements of Comprehensive Income by Function			
Operating revenue	(18.1)	9,562	4,935
Cost of sales	(19.1)	(2,489)	(1,182)
Gross profit		7,073	3,753
Administrative expenses	(19.1)	(188)	(894)
Other income (losses)		103	-
Finance income	(19.2)	7,367	106
Financial expenses	(19.2)	(13,851)	(896)
Foreign exchange differences	(19.2)	1,292	1,317
Indexation units		-	-
PROFIT BEFORE INCOME TAXES		1,796	3,386
Income tax expense	(20)	(664)	(756)
Profit from continuing operations		1,132	2,630
Profit (loss) from discontinued operations		-	-
PROFIT		1,132	2,630
Profit (loss) attributable to:			
Profit attributable to the owners of the parent company		1,132	2,630
Profit (loss) attributable to non – controlling interest		-	-
Profit (loss)		1,132	2,630
Earnings per share			
Basic earnings per share/diluted			
Basic earnings per share/diluted from continuing operations (\$/a)		0.226	0.526
Basic earnings (loss) per share/diluted from discontinued operations		-	-
Basic earnings per share/diluted (\$/s)		0.226	0.526

TRANSELEC CONCESIONES S.A.

Statements of Comprehensive Income By Function
For the years ended December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
PROFIT	1,132	2,630
Components of other comprehensive income, before taxes		
Cash flow hedges		
Gains (losses) on cash flow hedges	(37,355)	5,064
Income taxes related to components of other comprehensive income		
Income taxes related to cash flow hedges	10,086	(1,367)
Other comprehensive income	(27,269)	3,697
Total comprehensive income (loss)	(26,137)	6,327
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the Parent	(26,137)	6,327
Comprehensive income attributable to non-controlling interests	-	-
Total comprehensive income (loss)	(26,137)	6,327

TRANSELEC CONCESIONES S.A.

Statements of Changes In Net Equity
For the years ended December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

	Note	Issued capital	Reserve for foreign translation adjustment	Reserve for cash flow hedges	Other reserves	Total reserves	Gain Accumulated	Equity attributable to owners of parent	Non-controlling interest	Total equity
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2019	17	5,000	-	8,277	-	8,277	1,792	15,069	-	15,069
Changes in equity										
Comprehensive income		-	-	-	-	-	-	-	-	-
Profit (loss)		-	-	-	-	-	1,132	1,132	-	1,132
Other comprehensive income		-	-	(27,269)	-	(27,269)	-	(27,269)	-	(27,269)
Total comprehensive income		-	-	(27,269)	-	(27,269)	1,132	(26,137)	-	(26,137)
Total changes in equity		-	-	(27,269)	-	(27,269)	1,132	(26,137)	-	(26,137)
Closing balance as of 12/31/2019		5,000	-	(18,992)	-	(18,992)	2,924	(11,068)	-	(11,068)

	Note	Issued capital	Reserve for foreign translation adjustment	Reserve for cash flow hedges	Other reserves	Total reserves	Gain (loss) Accumulated	Equity attributable to owners of parent	Non-controlling interest	Total equity
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2018	17	1	-	4,580	-	4,580	(838)	3,743	-	3,743
Changes in equity										
Comprehensive income		-	-	-	-	-	-	-	-	-
Profit (loss)		-	-	-	-	-	2,630	2,630	-	2,630
Other comprehensive income		-	-	3,697	-	3,697	-	3,697	-	3,697
Total comprehensive income		-	-	3,697	-	3,697	2,630	6,327	-	6,327
Increase (decrease) due to transfers and other changes		4,999	-	-	-	-	-	4,999	-	4,999
Total changes in equity		4,999	-	3,697	-	3,697	2,630	11,326	-	11,326
Closing balance as of 12/31/2018		5,000	-	8,277	-	8,277	1,792	15,069	-	15,069

TRANSELEC CONCESIONES S.A.

Statement of Cash Flows
For the years ended December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

Statement of Cash Flows – Direct method

	Note	12.31.2019 ThUS\$	12.31.2018 ThUS\$
Cash flows provided by (used in) operating activities			
Classes of receipts from operating activities			
Cash receipts from sales of goods and services		7,162	4,826
Other proceeds from operating activities		424	567
Classes of payments			
Payments to suppliers for goods and services		(12,733)	(15,352)
Other payments for operating activities		(4,603)	(4)
Interest paid		(4,296)	(876)
Interest paid Swap		(1,021)	-
Administrative services to related		(2,710)	-
Interest received			91
Net cash flows used in operating activities		<u>(17,777)</u>	<u>(10,748)</u>
Cash flows provided by (used in) investing activities			
Additions of property, plant and equipment e intangibles		<u>(69,209)</u>	<u>(108,686)</u>
Net cash flows used in investing activities		<u>(69,209)</u>	<u>(108,686)</u>
Cash flows provided by (used in) financing activities			
Proceeds from long-term loans		134,434	65,039
Amounts received from related parties	7.1.2	101,208	119,539
Amounts payed to related parties	7.1.2	(135,007)	(67,994)
Other cash inflows (disbursements)		-	(3,337)
Net cash flows provided by (used in) financing		<u>100,635</u>	<u>113,247</u>
Net increase (decrease) in Cash and Cash Equivalents		13,649	(6,187)
Cash and Cash Equivalents, at the beginning of the year	(5)	<u>3,161</u>	<u>9,348</u>
Cash and Cash Equivalents, at the end of the year		<u><u>16,810</u></u>	<u><u>3,161</u></u>

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

NOTE 1 – GENERAL INFORMATION

Transelec Concesiones S.A. was incorporated by means of public deed on November 6, 2015. The corporate capital amounts to US\$ 1,000 divided into 10,000 nominative, single series, no par value shares, which were subscribed and paid in as follows: a) Transelec Holdings Rentas Limitada subscribes and pays in 9,990 shares, for a total of US\$ 999; and b) Rentas Eléctricas I Limitada, subscribes and pays in 10 shares, for a total of US\$1.

As per a public deed dated June 13, 2018, Transelec Concesiones S.A. increased its capital from US\$1,000 divided into 10,000 shares, to US\$5,000,000 divided into 5,000,000 nominative, single series, no par value shares. This capital increase was subscribed and paid in such a way that Transelec Holding Rentas Limitada and Rentas Eléctricas I Limitada maintained their ownership percentages as established in the Company's by-laws.

On February 17, 2017, the Company purchased 99.9% of the shares of Pichirropulli Transmisora de Energía S.A. and Interconexión Los Changos S.A. As a result, the Company became owner of 100% of the shares in the aforementioned companies.

Its registered office is located at Orinoco N°90, Floor 14, district of 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 Rentas Eléctricas I Limitada.

The Company's financial statements for the year ended as of December 31, 2019 were approved by the Company's Board of Directors at its n°26 as of March 20, 2020.

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

2.1 Basis of preparation of the financial statements unaudited

These financial statements as of December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the presentation rules of the CMF, which are not in conflict with IFRS.

These financial statements have been prepared from the accounting records maintained by the Company. The figures in these Financial Statements and their notes are expressed in thousands of United States dollars.

In preparing these financial statements, certain critical accounting estimates have been used to quantify some assets, liabilities, income and expenses. In conformity with IFRS, 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 financial statements are described in Note 4.

The information contained in these financial statements is the responsibility of the Company's management.

The accounting policies adopted in the preparation of the financial statements are consistent with those applied in the preparation of the annual 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 financial statements.

TRANSELEC CONCESIONES S.A.

Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards

2.2.1 New accounting pronouncements

The following new standards, amendments to IFRS and interpretations has been adopted in these financial statements:

New standards, amendments and interpretations		Mandatory application date
IFRS 3	Business combinations	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2019
IFRS 11	Joint arrangements	January 1, 2019
IAS 12	Income taxes	January 1, 2019
IAS 19	Employee benefits - Modification, reduction or liquidation of the plan	January 1, 2019
IAS 23	Borrowing costs	January 1, 2019
IAS 28	Investments in associates	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019

IFRS 16 Leases

During 2018, the Company evaluated the adoption of IFRS 16 from the starting date of this standard, and the evaluation concluded that this Standard has no effects for the Company.

New standards

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		Mandatory application date
IFRS 17	Insurance Contracts	January 1, 2021

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards (continued)

2.2.1 New accounting pronouncements (continued)

New Standards (continued)

IFRS 17 Insurance Contracts

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 evaluated the impacts that this new standard could generate and concluded that these are not significant.

TRANSELEC CONCESIONES S.A.

Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards (continued)

2.2.1 New accounting pronouncements (continued)

2.2.2 Enhancements and Modifications

	Enhancements and Modifications	Mandatory application date
IFRS 10 - IAS 28	Consolidated financial statements	TBD
IAS 1 – IAS 8	Definition of Material	January 1, 2020
IFRS 3	Definition of a Business	January 1, 2020
Conceptual Framework	Updates of references to the Conceptual Framework	January 1, 2020
IFRS 9 - IFRS 7 - IAS 39	Interest Rate Benchmark Reform	January 1, 2020

IAS 28 - Investments in Associates 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 evaluated the impact and concluded that this modification has no effects for the Company.

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).

TRANSELEC CONCESIONES S.A.

Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards (continued)

2.2.2 Enhancements and Modifications (continued)

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

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.

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards (continued)

2.2.2 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 29, 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.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.2 International Financial Reporting Standards (continued)

2.2.2 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.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.3 Foreign currency transactions

2.3.1 Functional and presentation currency

The Company has determined that its functional currency is the United States dollar (US\$). These Financial Statements are presented in United States dollars.

2.3.2 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 hedge strategies.

2.3.3 Exchange rates

As of each year end, assets and liabilities in foreign currency and unidad de fomento have been converted to United States dollars, using the following exchange rates:

Currency or indexation unit	US dollars per unit	
	12.31.2019	12.31.2018
Unidad de Fomento	37,8101	39,6761
Chilean Peso	0.00134	0.00144
Euro	1.1911	1.1439

2.4 Financial reporting by operating segments

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

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.5 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 to 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 Concesiones S.A. must make to close its facilities are incorporated into the value of the asset at present value, recording the corresponding provision in the accounting. 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.

The works in progress are transferred to working assets once the test period when they become available for use has been completed, which is the starting point for their depreciation. 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. Expenditures for periodic maintenance (preventive or required) and repair are recognized directly 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:

Items	Range of estimated useful life	
	Minimun	Maximun
Constructions 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 Expenses.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.6 Intangible assets

2.6.1 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 of whether 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 this Financial Statements, there were no impairment losses of goodwill.

2.6.2 Rights of way

The rights of way are stated 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 or at any moment if there are indicators of impairment.

2.6.3 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 Statement of Income under Costs of sales and Administrative expenses.

2.7 Impairment of non-financial assets

Assets with an indefinite useful life, such as rights of way, are not depreciated or 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use, which is defined as the present value of the estimated future cash flows.

Impairment losses from continuing operations are recognized in the statement of income in the expenses categories in accordance with the function of the impaired assets.

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**Notes to the Financial Statements
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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.7 Impairment of non-financial assets (continued)

Non-financial assets other than goodwill that could have 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.

Impairment of goodwill is not reversed.

Impairment testing of goodwill and intangible assets with indefinite useful lives is performed at November 30 of each year.

2.8 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, which are generated on specified dates and are made up of principal and interest (SPPI criterion).

Financial assets that meet the conditions established in IFRS 9, to be valued at amortized cost are: accounts receivable, loans and cash equivalents. These assets are recorded at amortized cost, which is the initial fair value, less repayments of principal, plus uncollected accrued interest, calculated using the effective interest rate method. The effective interest rate is the discount rate that exactly matches the estimated cash flows to be received or paid over the expected useful life of the financial instrument (or when appropriate in a shorter period of time), with the net carrying amount of the financial asset or financial liability.

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Notes to the Financial Statements
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2 - RESUMEN DE LAS PRINCIPALES POLITICAS CONTABLES (continuación)

2.8 Financial Instruments (continued)

1) Non-derivatives financial assets (continued)

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

For financial assets within the Company's business model whose objective is both to collect contractual cash flows which are generated at specific times and consist of principal and interest (SPPI criterion) and to sell the asset.

These financial assets are recognized into the financial statement at their fair value when it can be feasible determined. Changes in its fair value, net of tax effect, are recorded in the statement of comprehensive income in the item other comprehensive income, until the disposal of such entries is generated, moment when the accumulated amount in this item is charged fully into profit or loss of the period. If the fair value is lower than the acquisition cost, and if there is objective evidence that the financial assets has an impairment that is not considered temporary, the difference has to be recorded as a loss of the period.

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 are measured in the statement of financial position at their fair value and the changes on its fair value are recorded directly in profit or loss when occurred. Purchases or sales of financial assets are recorded at the date of the transaction.

2) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and in banks, time deposits and other short-term investments with maturities in less than 90 days as of the investment date, and which are highly liquid readily convertible to cash and which are subject to an insignificant risk of changes in value.

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2 - RESUMEN DE LAS PRINCIPALES POLITICAS CONTABLES (continuación)

2.8 Financial Instruments (continued)

3) Impairment of financial assets

According to IFRS 9, the Company applies the impairment model based of expected credit losses. This 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 their fair value, net of 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.

5) Derivatives and Hedge activities

The Company selectively uses derivative and non-derivative instruments, to manage its exposure to exchange rate risk (See Note 15).

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 statement of financial position. 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 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 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 periods presented.

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2 - RESUMEN DE LAS PRINCIPALES POLITICAS CONTABLES (continuación)

2.8 Financial Instruments (continued)

5) Derivatives and Hedge activities (continuación)

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. The net investment hedges in foreign operations are those recorded similarly to the 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 the item "Other reserves" until the investment's disposal. Gains or losses relating to the ineffective portion are recognized immediately in the income statement in the line item "Other gains (losses)".

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. The other derivatives are presented as current assets or current liabilities.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.8 Financial Instruments (continued)

6) Embedded derivatives

Derivatives embedded in other financial instruments contracts or other contracts are treated as derivatives when their risks and characteristics are not closely related to the host contracts and the host 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 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:

- a) The contractual rights to receive cash flows from the financial asset expire or have been transferred or, if the contractual rights are retained, the Company has assumed a contractual obligation to pay these cash flows to one or more recipients.
- b) The entity transfers substantially all the risks and rewards of ownership or, if the entity neither transfers nor retains substantially all these, when the entity does not retain the control of the asset.

8) Offsetting of financial assets and liabilities

The Company offsets financial assets and liabilities, and the net amount is presented in the statement of financial position only when:

- a) There is a legally binding right to offset recognized amounts; and
- b) The company intends to settle them on a net basis, or to simultaneously realize the asset and settle the liability.

The right of offset may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

2.9 Inventories

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

2.10 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.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.11 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 carrying 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 are realized and the liabilities are settled.

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 will be sufficient future taxable profits to recover the deductible temporary differences and to make the tax credits effective.

The carrying amount of deferred income tax assets is reviewed at each reporting date of the 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. The unrecognized deferred tax assets are also reviewed at each closing date and are recognized to the extent that it is probable that future taxable profits 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 Concesiones S.A. 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.

2.12 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 constructive, as a result of past events;
- It is probable that a disbursement will be necessary to settle the obligation;
- The amount can be estimated reliably.

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, at the balance sheet date, of the time value of money and the specific risk associated with the particular liability, if applicable. Increases in provisions due to the passage of time are recognized in interest expense.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.12 Provisions (continued)

As of the date of issuance of these financial statements, Transelec Concesiones S.A. has no obligation to establish provision for environmental restoration.

2.13 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.

2.14 Distribution of dividends

The dividends payable to the Company's shareholders is recognized as a liability in the financial statements in the period in which they are approved by the shareholders.

Company records a provision at the end of each year for the 30% of the profit of the year, in accordance with Law N° 18.046.

2.15 Revenue recognition in Contracts with Customers

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 supplemented 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 sub transmission 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 law enters into effect immediately and gradually until its full application as of 2020.

Company's revenues are generated mainly from the marketing of the capacity of the electrical transmission of the transmission facilities. The Company has basically one type of contract with customers, the regulated, which is subject to regulated tariffs.

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2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

2.15 Reconocimiento de ingresos en Contratos con Clientes (continuación)

The total revenues for the use of the Company's facilities 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 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 facilities. The Electrical Law establishes these "AVI+COMA" as integral components in rendering the transmission service. Therefore, as these services are substantially the same and they have the same transference pattern to customers, in other words, both services are satisfied throughout time with a similar progress measurement, the company has defined that there is a single performance obligation and that this is satisfied during a period of time, therefore revenues are recognized in the same temporal base.

Revenues 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.

TRANSELEC CONCESIONES S.A.

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NOTE 3 - RISK MANAGEMENT POLICY

3.1 Financial Risk

Transelec Concesiones S.A. is exposed to the following risks: market risks such as interest rate risk and exchange rate. 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.

The Company's 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 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.

Currently, Transelec Concesiones has a direct exposure to this type of risk because on December 21 a variable rate financing agreement was signed; for this reason Transelec Concesiones has entered into several 3-Month Libor Interest Rate Swaps, which cover 75% of the expected debt balance. The following table shows the main terms, at the aggregate level, of the contracts:

Closing date	Start date	Maturity date	Currency	Notional (asset leg)	Floating rate (asset leg)	Frequency	Currency	Notional (liability leg)	Fixed rate (liability leg)	Frequency
1/7/2019	12/28/2018	6/15/2045	US\$	182,062,274	Libor 3M	Quarterly	US\$	182,062,274	2.7579%	Quarterly

Note that the notional amount of this derivative increases and decreases according to the estimate of the debt structure that the financing would have.

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Note 3 - RISK MANAGEMENT POLICY (continued)

3.1.1.2 Exchange Rate Risk

Currently, Transelec Concesiones S.A.'s only exposure to foreign exchange risk arises from the capital expenditure commitments it will have to incur for the core projects under construction.

As a result, there is currently a CapEx hedging policy to help hedge the exchange rate risk of any capital expenditure in a currency other than the US dollar.

Any other type of exposure to exchange rate risk will be managed through an approved policy that contemplates fully covering the net balance sheet exposure, which is made through various instruments such as: positions in US dollars / Chilean pesos, forward contracts and swaps.

3.1.2 Sensitivity 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 foreign currencies. 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 and/or other comprehensive income. A positive percentage implies a strengthening of the Chilean peso with respect to the foreign currency; a negative percentage implies a weakening of the Chilean peso with respect to the foreign currency.

Entry (Currency)	Position	Net income		Position	OCI	
	Long/ (short)	Change (-10%)	Change (+10%)	Long/ (short)	Change (-10%)	Change (+10%)
Cash (US\$)	4,865	(442)	541	-	-	-
VAT credit S/T (US\$)	37,387	(3,399)	4,154	-	-	-
Inter-Co Loan (US\$)	(42,018)	3,820	(4,669)	-	-	-
Payables to Suppliers (US\$)	(950)	86	(106)	-	-	-
Total	(716)	65	(80)	-	-	-

TRANSELEC CONCESIONES S.A.

Notes to the Financial Statements
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Note 3 - RISK MANAGEMENT POLICY (CONTINUED)

3.1.3 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, which leads to a situation in which clients 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 as of December 31, 2019 ThUS\$	For the year ended as of December 31, 2018 ThUS\$
Endesa Group	3,472	1,602
Colbun Group	1,902	785
CGE Group	836	-
AES Gener Group	729	451
Engie (E-CL) Group	350	268
Other	2,273	1,829
Total	9,562	4,935
% Concentration of the main clients	76.29%	62.94%

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**Notes to the Financial Statements
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NOTE 4 - ESTIMATES AND JUDGMENTS OR CRITICAL CRITERIA USED 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 performs estimates and assumptions about the future. The resulting accounting estimates, per definition, will rarely be equal to the actual outcomes. Estimates and assumptions with a significant risk to the Company are detailed below:

- The estimates of recoverable values of assets to determine potential existence of impairment losses;
- The useful lives and residual values of the properties, plants and equipment and intangible assets;
- The hypothesis used to calculate the fair value of the financial instruments.
- The future fiscal results for 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 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 Financial Statements.

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
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NOTE 5 - CASH AND CASH EQUIVALENTS

(a) The detail of this item as of December 31, 2019 and 2018 is as follows:

Cash and cash equivalents	Balances as at 12.31.2019 ThUS\$	Balances as at 12.31.2018 ThUS\$
Cash and banks	16,810	3,161
Total	16,810	3,161

(b) El detalle por tipo de moneda del saldo anterior es el siguiente:

Detail of cash and cash equivalents	Currency	Balances as at 12.31.2019 ThUS\$	Balances as at 12.31.2018 ThUS\$
Cash and cash equivalents			
	United States dollars	11,728	2,132
	Chilean pesos	5,082	1,029
Total		16,810	3,161

Fair values do not differ significantly from book values due to the short term maturity of these instruments and there are no restrictions.

NOTE 6 - TRADE AND OTHER RECEIVABLES

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

Item	12.31.2019 ThUS\$	12.31.2018 ThUS\$
Trade debtors	4,118	1,653
Total	4,118	1,653

As of December 31, 2019 and December 31, 2018, the analysis of non-impaired debtors is as follows:

	Balances at 12.31.2019 ThUS\$	12.31.2018 ThUS\$
30 days due	4,118	1,653
Total	4,118	1,653

Fair values do not differ significantly from book values due to the short term maturity of these instruments. In addition, the Company does not record any bad debt provisions.

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NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

7.1 Balances and transactions with related companies

7.1.1 Accounts receivable from related companies

There are no accounts receivable as of December 31, 2019 and 2018.

7.1.2 Accounts payable to related companies

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

Accounts payable to related entities			Current balances at		Non-current balances at	
Tax ID Number	Company	Item	12.31.2019 ThUS\$	12.31.2018 ThUS\$	12.31.2019 ThUS\$	12.31.2018 ThUS\$
76.560.200-9	Transec Holding Rentas Ltda. (Parent)	Loans	8,602	1,723	146,501	182,517
76.560.200-9	Transec Holding Rentas Ltda. (Parent)	Mercantile account	1,137	1,028	-	-
76.555.400-4	Transec S.A.	Mercantile account	472	-	-	-
Total			10,211	2,751	146,501	182,517

a) Most significant transactions and their effects in income (loss)

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

Tax ID Number	Company	Country	Relationship	Description of the transaction	12.31.2019		12.31.2018	
					Amount ThUS\$	Effect on profits or loss ThUS\$	Amount ThUS\$	Effect on profits or loss ThUS\$
76.560.200-9	Transec Holdings Rentas Ltda.	Chile	Parent Company	Loans received	101,208	-	119,539	-
76.560.200-9	Transec Holdings Rentas Ltda.	Chile	Parent Company	Loans paid	133,017	-	67,994	-
76.560.200-9	Transec Holdings Rentas Ltda.	Chile	Parent Company	Accrued interest	7,367	7,367	6,223	6,223
76.555.400-4	Transec S.A.	Chile	Indirect	Loans paid	1,990	1,990	-	-
76.560.200-9	Transec Holdings Rentas Ltda.	Chile	Parent Company	Exchange difference	2,797	2,797	2,799	2,799

There operations are in accordance with the provisions of Articles N° 44 and 49 of Law N°. 18.046 on Corporations.

TRANSELEC CONCESIONES S.A.

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NOTE 8 – OTHER NON FINANCIAL ASSETS

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

Other non-financial assets	Balances as at	Balances as at
	12.31.2019	12.31.2018
	ThUS\$	ThUS\$
Expenses to be reported for easements	10,407	9,950
Advance payments to contractors	7,702	7,702
VAT credit	37,387	28,732
Other non-financial assets	691	716
Total	56,187	47,100

NOTE 9 - INTANGIBLE ASSETS OTHER THAN GOODWILL

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

Intangible assets other than goodwill	Balances as at	
	12.31.2019	12.31.2018
	ThUS\$	ThUS\$
Easements	17,136	6,380
Other intangible assets	250	250
Total	17,386	6,630

On January 22, 2016, through an assignment agreement, Abengoa Chile S.A. assigned to Pichirropulli Energy Transmitter S.A. the Right of Exploitation and Execution of the "Line 2x500 KV Pichirropulli Nueva Puerto Montt, energized in 220 KV",. This Right was awarded by Supreme Decree No. 20T of 2015. As it is unlikely that this Right to be revoked, the Company considers that this Right has an indefinite useful life.

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NOTE 9 - INTANGIBLE ASSETS OTHER THAN GOODWILL (CONTINUED)

The following table shows the detail of changes in intangible assets other than goodwill for the years ended as of December 31, 2019 and 2018.

Movements in intangible assets	Right-of-way	Other intangible assets	Intangible assets, net
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of 01.01.2019	6,380	250	6,630
Movements in intangible assets			
Additions	10,756	-	10,756
Closing balance of intangible assets as of December 31, 2019	17,136	250	17,386

Movements in intangible assets	Right-of-way	Other intangible assets	Intangible assets, net
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of 01.01.2018	3,421	250	3,671
Movements in intangible assets			
Additions	2,959	-	2,959
Closing balance of intangible assets as of December 31, 2018	6,380	250	6,630

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

10.1 Detail of items

	12.31.2019	12.31.2018
	ThUS\$	ThUS\$
Property, plant and equipment, net		
Land	889	889
Infrastructure constructions and works	72,698	8,970
Work in progress	73,885	132,662
Machinery and equipment	126,687	66,244
Total Property, plant and equipment	<u>274,159</u>	<u>208,765</u>
Property, plant and equipment, gross	12.31.2019	12.31.2018
	ThUS\$	ThUS\$
Land	889	889
Infrastructure constructions and works	72,954	9,045
Work in progress	73,885	132,662
Machinery and equipment	129,283	67,161
Total Property, plant and equipment	<u>277,011</u>	<u>209,757</u>
Total accumulated depreciation and impairment	12.31.2019	12.31.2018
Property, plant and equipment,	ThUS\$	ThUS\$
Infrastructure constructions and works	(256)	(75)
Machinery and equipment	(2,596)	(917)
Total accumulated depreciation and impairment of PPE	<u>(2,852)</u>	<u>(992)</u>

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (continued)

10.2 Reconciliation of changes in plant and equipment properties

The following table shows the detail of changes in property, plant and equipment per type of assets for the periods ended as of December 31, 2019 and 2018.

	Movement year 2019	Land ThUS\$	Buildings and infrastructure ThUS\$	Machinery and equipment ThUS\$	Work in progress ThUS\$	Property, plant and equipment, net ThUS\$
	Opening balance 01/01/2019	889	8,970	66,244	132,662	208,765
Move	Additions	-	-	-	67,254	67,254
ment	Transfer	-	63,909	62,122	(126,031)	-
	Depreciation expense	-	(181)	(1,679)	-	(1,860)
	Closing balance as of December 31, 2019	889	72,698	126,687	73,885	274,159

	Movement year 2018	Land ThUS\$	Buildings and infrastructure ThUS\$	Machinery and equipment ThUS\$	Work in progress ThUS\$	Property, plant and equipment, net ThUS\$
	Opening balance 01/01/2018	889	-	-	96,341	97,230
Move	Additions	-	-	-	112,527	112,527
ment	Transfer	-	9,045	67,161	(76,206)	-
	Depreciation expense	-	(75)	(917)	-	(992)
	Closing balance as of December 31, 2018	889	8,970	66,244	132,662	208,765

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**Notes to the Financial Statements
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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (continued)

10.3 Additional information on property, plant and equipment

As of December 31, 2019 and 2018, the Company had commitments to acquire property, plant and equipment items derived from EPC (Engineering-Procurement-Construction) construction contracts in the amount of ThUS\$53,182 and ThUS\$130,815, at the close of each year, respectively.

The following is the detail of interest costs capitalized on Property, plants and equipment:

	31.12.2019	31.12.2018
Capitalization rate (annual basis) (%)	4.37%	4.12%
Capitalized interest costs (ThUS\$)	7,367	5,329

Work in progress balances amount to ThUS\$73,885 as of December 31, 2019 and TUS\$132,662 as of December 31, 2018.

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NOTE 11 – DEFERRED TAXES

11.1 Deferred taxes

11.1 Detail of deferred tax assets and liabilities

The origin of deferred taxes recorded as of December 31, 2019 and 2018 is as follows:

Temporary difference	Net deferred taxes	
	12.31.2019 ThUS\$	12.31.2018 ThUS\$
Depreciable fixed assets and intangibles	(11,029)	(4,460)
Tax loss	18,334	2,343
Net deferred taxes assets/(liabilities)	7,305	(2,117)
Presentation in Statement of financial position		
Deferred tax assets	7,305	-
Deferred tax liabilities	-	(2,117)
Net deferred taxes assets/(liabilities)	7,305	(2,117)

Tax losses balances amounts to ThUS\$67,904 and ThUS\$8.678 as of December 31, 2019 and 2018 respectively.

11.2 Deferred tax movements of the statement of financial position

The movements of the "Deferred Taxes" items of the Balance Sheet in the periods as of December 31, 2019 and as of December 31, 2018 are as follows:

Deferred tax movements	Assets ThUS\$	Liabilities ThUS\$
Balances as of January 01, 2018	-	-
Increase (decrease)	-	2,117
Balance as of December 31, 2018	-	2,117
Increase (decrease)	7,305	(2,117)
Balance as of December 31, 2019	7,305	-

The recovery of deferred tax asset depends on whether sufficient tax profits are obtained in the future. The Company considers that future profits projections will allow to recover these assets.

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NOTE 12 – OTHER FINANCIAL ASSETS

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

	Current		Non-current	
	12.31.2019	12.31.2018	12.31.2019	12.31.2018
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Forward Contracts (1)	-	5,980	-	-
Total	-	5,980	-	-

(1) See Note 15

NOTE 13 - TRADE AND OTHER PAYABLES

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

Notes and accounts payable	Current		Non-current	
	12.31.2019	12.31.2018	12.31.2019	12.31.2018
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other accounts payable	16,430	8,097	-	-
Total	16,430	8,097	-	-

NOTE 14 – OTHER FINANCIAL LIABILITIES

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

Interest bearing loans	12.31.2019		12.31.2018	
	Current	Non-current	Current	Non-current
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Bank loan	-	187,570	-	62,738
Total Bank loan	-	187,570	-	62,738
Swap contract (note 15)	2,149	24,074	-	-
Total Banks borrowings	2,149	24,074	-	-
Total Other Financial Liabilities	2,149	211,644	-	62,738

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NOTE 14 – OTHER FINANCIAL LIABILITIES (Continued)

The other financial liabilities correspond to a bank loan held by the Company as of December 31, 2019 and 2018, respectively, and are detailed below:

Creditor	Country	Currency	Effective interest rate	Maturity	Periodicity	12.31.2019 ThUS\$	12.31.2018 ThUS\$
Export Development Canada KfW IPEX-Bank GmbH MUFG Bank Ltd.	Canadá Alemania Estados Unidos	Dólares	2,72%	Dic 15, 2036	Half-yearly	187,570	62,738
Total						187,570	62,738

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NOTE 14 – OTHER FINANCIAL LIABILITIES (CONTINUED)

During the month of November 2019, the Company, in its capacity as borrower, detected the breach of the term of some of its obligations related to obtaining sector permits associated with the projects currently under construction and operation.

These obligations are recorded in the credit agreement signed on December 21, 2018, however, such events do not constitute a material adverse effect for the aforementioned projects, the credit agreement and / or the financial statements of the Company.

On November 29, the company signed a waiver request with the lenders.

NOTE 15 – DERIVATE INSTRUMENTS

Transelec Concesiones S.A., as per its risk management policy, enters primarily into exchange rate derivatives (see Note 3). The Company classifies its hedges as:

- Cash flow hedging: 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.

15.1 Hedge assets and liabilities

	December 31, 2019				December 31, 2018			
	Assets		Liabilities		Assets		Liabilities	
	Current ThUS\$	Non-current ThUS\$	Current ThUS\$	Non-current ThUS\$	Current ThUS\$	Non-current ThUS\$	Current ThUS\$	Non-current ThUS\$
Interest Rate Swap	-	-	2,149	24,074	5,980	-	-	-
Total	-	-	2,149	24,074	5,980	-	-	-

15.2 Other information

Below is a detail of the derivatives contracted by Transelec Concesiones S.A. as of December 31, 2019 and 2018, their fair value and the breakdown by maturity:

Financial derivatives	Fair value ThUS\$	Maturity						12.31.2019
		Prior to year 1 ThUS\$	2020 ThUS\$	2021 ThUS\$	2022 ThUS\$	2023 ThUS\$	After ThUS\$	Total ThUS\$
Interest Rate Swap	(26,223)	(2,149)	(3,097)	(2,999)	(2,598)	(2,175)	(13,205)	(26,223)

Financial derivatives	Fair value ThUS\$	Maturity						30.12.2018
		Prior to year 1 ThUS\$	2020 ThUS\$	Fair value ThUS\$	Prior to year 1 ThUS\$	2020 ThUS\$		Total ThUS\$
Forward Starting Swap	5,980	5,980	-	-	-	-	-	5,980

TRANSELEC CONCESIONES S.A.

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NOTE 15 – DERIVATE INSTRUMENTS (CONTINUED)

The contractual notional amount of these contracts does not represent the risk assumed by Transelec Concesiones S.A., as it is only in response to the basis with which derivative settlements are calculated. As of December 31, 2019 and 2018, Transelec Concesiones S.A. 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, foreign exchange spot rates, forward rates and interest rate curves in Chilean peso and US dollar.

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 instruments at fair value	12.31.2019 ThUS\$	Fair value at the end of the reporting period using		
		Level 1 ThUS\$	Level 2 ThUS\$	Level 3 ThUS\$
Financial assets (liability)				
Cash flow derivatives	(26,223)	-	(26,223)	-
Total net	(26,223)	-	(26,223)	-

Financial instruments at fair value	12.31.2018 ThUS\$	Fair value at the end of the reporting period using		
		Level 1 ThUS\$	Level 2 ThUS\$	Level 3 ThUS\$
Financial assets (liability)				
Cash flow derivatives	5,980	-	5,980	-
Total net	5,980	-	5,980	-

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NOTE 16 – FINANCIAL INSTRUMENTS

16.1 Financial Assets

The classification of financial assets in the categories described in Note 2.8 is detailed below:

	Financial assets at amortized cost	Financial assets at fair value		Derivative instruments		Total
		Through income	Through other comprehensive income	Hedge	Non-hedge	
December 31, 2019	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalent	-	16,810	-	-	-	16,810
Trade and other receivables	4,118	-	-	-	-	4,118
Total	4,118	16,810	-	-	-	20,928

	Financial assets at amortized cost	Financial assets at fair value		Derivative instruments		Total
		Through income	Through other comprehensive income	Hedge		Through income
December 31, 2018	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalent	-	3,161	-	-	-	3,161
Other current financial assets	-	-	-	-	5,980	5,980
Trade and other receivables	1,653	-	-	-	-	1,653
Total	1,653	3,161	-	-	5,980	10,794

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NOTE 16 - FINANCIAL INSTRUMENTS (CONTINUED)

16.2 Financial liabilities

The classification of financial liabilities in the categories described in Note 2.8 is detailed below:

	Financial liabilities at amortized cost	Financial assets at fair value Through income	Through Other Comprehensive income ThUS\$	Derivative instruments Hedge		Total Through income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
December 31, 2019						
Other financial liabilities, current	-	-	-	2,149	-	2,149
Trade and other payables	16,783	-	-	-	-	16,783
Accounts payable to related companies, current	9,858	-	-	-	-	9,858
Accounts payable to related companies, non-current	146,501	-	-	-	-	146,501
Other financial liabilities, non-current	187,570	-	-	24,074	-	211,644
Total	360,712	-	-	26,223	-	386,935

	Financial liabilities at amortized cost	Financial assets at fair value Through income	Through Other Comprehensive income ThUS\$	Derivative instruments Hedge		Total Through income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
December 31, 2018						
Accounts payable to related companies, current	2,751	-	-	-	-	2,751
Accounts payable to related companies, non-current	182,517	-	-	-	-	182,517
Other financial liabilities, non-current	62,738	-	-	-	-	62,738
Total	248,006	-	-	-	-	248,006

TRANSELEC CONCESIONES S.A.

Notes to the Financial Statements
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NOTE 17 – NET EQUITY

17.1 Subscribed and paid-in capital

As of December 31, 2019 and 2018, the authorized, subscribed and paid-in capital is to ThUS\$5,000.

17.2 Number of subscribed and paid-in shares

	No. subscribed shares	No. paid-in shares	Number of shares with voting right
Unique series, with no par value	5,000,000	5,000,000	5,000,000

In July 2018, the Company's shareholders (Transelec Holdings Rentas Ltda. and Rentas Eléctricas I Ltda.) carried out a capital increase in the amount of ThUS\$4,999, thus giving rise to a total capital of ThUS\$5,000 as of December 31, 2018.

The contributions were made in proportion to the participation of each of the shareholders before the capital increase, both maintaining the same percentage of participation once the contribution was made.

17.3 Other reserves

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

Item	12.31.2019 ThUS\$	12.31.2018 ThUS\$
Cash flow hedging	(18,992)	8,277
Total	(18,992)	8,277

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NOTE 17 - PATRIMONIO NETO (continuación)

17.4 Capital management

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

The capital management policy of Transelec Concesiones S.A. is aimed for maintain adequate balance that allows to keep a sufficient capitalization levels to sustain its operations and provide a 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.

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NOTE 18 – REVENUE

18.1 Operating revenue

The detail of net income as of and for the years ended December 31, 2019 and as of December 31, 2018 is as follows:

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Revenues from regulated transmission services	9,562	4,935
Total revenue	9,562	4,935

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Customers from regulated transmission services	9,562	4,935
Total	9,562	4,935

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
National revenue	9,562	4,935
Total	9,562	4,935

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Transferred services over time	9,562	4,935
Total revenue	9,562	4,935

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Notes to the Financial Statements
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NOTE 19– RELEVANT INCOME STATEMENT ACCOUNTS

19.1 Expenses by nature

The composition of expenses by nature, included in cost of sales and administrative expenses for the years ended December 31, 2019 and 2018, is as follows:

Detalle	01.01.2019	01.01.2018
	12.31.2019	12.31.2018
	THUS\$	THUS\$
Depreciations and write-offs	1,860	992
Other expenses	817	1,084
Total	2,677	2,076

19.2 Financial results

The detail of the financial result for the years ended as of December 31, 2019 and 2018 is as follows:

	01.01.2019	01.01.2018
	12.31.2019	12.31.2018
	ThUS\$	ThUS\$
Finance income:	7,367	106
Interest capitalized in projects	7,367	-
Bank interests	-	106
Accrued Interest	(13,851)	(896)
Financial expenses:	(7,367)	-
Bond interest and expenses	(5,397)	-
Accrued Interest	(1,087)	(896)
Other expenses	1,292	1,317
Foreign exchange differences:	182	(1,482)
Bank – Capital Market	2,776	-
Due to related companies	(2,594)	(1,482)
Others	1,110	2,799
Positive	(180)	-
Bank – Capital Market	1,290	-
Others	-	2,799
Total financial income/(loss)	(5,192)	527

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NOTE 20 – INCOME TAX RESULT

The income tax expense for the years of December 31, 2019 and 2018, is the following:

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Result of income taxes		
Deferred tax expense	664	756
Income tax expense (profit), total	664	756

Reconciliation of Tax Expense Using Statutory Rate with Tax Expense

	01.01.2019 12.31.2019 ThUS\$	01.01.2018 12.31.2018 ThUS\$
Tax expense using statutory rate	(485)	(914)
Movement of PPE	(179)	118
Other	-	40
Total adjustments to tax expense using statutory rate	(664)	158
Tax expense using statutory rate	(664)	(756)

	01.01.2019 12.31.2019	01.01.2018 12.31.2018
Statutory Tax Rate	27,00%	27,00%
Movement of PPE	9,97%	(3,48)%
Other	-	(1,19)%
Total adjustments to tax expense using statutory rate	9,97%	(4,67)%
Statutory Tax Rate	36,97%	22,33%

TRANSELEC CONCESIONES S.A.

**Notes to the Financial Statements
As of December 31, 2019 and 2018
(In thousands of US dollars (ThUS\$))**

NOTE 21 –ENVIRONMENT

Transelec Concesiones S.A., in compliance with current environmental regulations and in accordance with its sustainability policy, has submitted its projects or their modifications to the environmental authority through the Environmental Evaluation System (SEIA). To this end, several studies have been carried out that have made it possible to substantiate the presentations of environmental documents. These documents, be they an Environmental Impact Declaration (EID) or an Environmental Impact Study (EIS), are submitted to the respective Evaluation Service, complying with the requirements established by Law No. 19,300 on General Environmental Bases, modified by Law No. 20,417, and its corresponding SEIA regulations. For those projects that have begun their execution, the conditions and measures imposed by the environmental authority in the respective environmental qualification Resolutions have been followed up, including the processing of sectorial environmental permits.

During the years ended December 31, 2019 and 2018, the Company has not made any disbursements related to this matter.

NOTE 22 -LAWSUITS AND CONTINGENCIES

As of December 31, 2019 and 2018, the Company has no lawsuits or arbitrations.

NOTE 23 – SUBSEQUENT EVENTS

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

Reasoned Analysis

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Summary

Transec Concesiones S.A. is the winner of three new construction projects in the National Transmission System.

As of December 31, 2019, the following projects are operational:

- “New Line 2x500 kV 1500 MW between S/E Los Changos and S/E Nueva Crucero Encuentro, Autotransformers Banks 2x750 MVA 500/220 kV in S/E Nueva Crucero Encuentro, Autotransformers Banks 750 MVA 500/220 kV in S/E Los Changos and New Line 2x220 kV 1500 MW between S/E Los Changos and S/E Kapatur”, recognizing the entry into operation of Stage I in the last quarter of 2017 and Stage II in the last quarter of 2019.
- Nueva Charrúa Substation, granted by CEN on July 27, 2018, recognizing the entry into operation on July 20, 2018.

On the other hand, progress in the construction of the remaining project "2x500 kV Pichirropulli Line - Nueva Puerto Montt" has continued.

In December 2018 Transec Concesiones closed the Financing of the projects, through the "Project Finance" modality with the participation of the MUFG, EDC and KfW banks. A total of USD \$199 million has been disbursed until December 31, 2019.

Income statement

During 2019 Transec Concesiones S.A. recorded a profit of ThUS \$1,132. This is mainly explained by the Revenues of ThUS \$9,562 associated with projects that are already in operation. Additionally, there is a gain from exchange differences of ThUS \$1,292 and Financial Income of ThUS \$7,367. The foregoing is partially offset by Costs associated with projects in the operation of ThUS \$2,489, Financial costs of ThUS \$13,851 and Administration expenses of ThUS \$188.

During 2018, it registered a profit of ThUS \$2,630. This is mainly explained by the Revenues of ThUS \$4,935 associated with projects that are already in operation. Additionally, there is a gain from exchange differences of ThUS \$1,317 and Financial Income of ThUS \$106. The foregoing is partially offset by Costs associated with projects in operation for ThUS \$1,182, Financial costs for ThUS \$896 mainly for intercompany interests and Administrative expenses for ThUS \$894.

Balance Sheet

As of December 31, 2019, Assets reached ThUS \$375,965, presenting an increase of 38% compared to the same period in 2018 (ThUS \$273,289). The increase in Assets is mainly explained by an increase in Non-Current Assets associated with Property, Plant and Equipment, due to the progress of projects under construction. Current Assets also show a small rise associated with an increase in the cash balance.

As of December 31, 2019, Liabilities and Equity reached ThUS \$375.965 higher than the same period in 2018 (ThUS \$273,289). The increase in total Liabilities and Equity is mostly due to an increase in Non-Current Liabilities. The rise in Non-Current Liabilities is mainly due to an increase in Financial Liabilities due to project financing. The increase in Current Liabilities is explained by higher accounts payable to suppliers and higher accounts payable to related entities.

Statement of cash flows

As of December 31, 2019, the cash flow used in operating activities reached ThUS \$17,777. This is mainly explained by payments to suppliers and interest paid.

During the same period, the cash flow used in investing activities was ThUS \$69,209, which is explained entirely by property, plant and equipment. In 2018, the cash flow used in investing activities was ThUS \$108,686.

As of December 2019, the cash flow from financing activities reached ThUS \$100,365, decreasing 11% compared to the same period in 2018 (ThUS \$113,247). In 2019, the flow is explained by the financing of projects through debt.

Transmission Market

The electricity transmission infrastructure in Chile extends mainly along the National Electric System (SEN for its acronym in Spanish), which is located throughout the Chilean territory between Arica in northern Chile and the island of Chiloé in the south. The SEN operation is coordinated by a technical and independent entity called the National Electric Coordinator. Chile has two other smaller electric transmission systems, the Aysén and Magallanes systems, which are located in the extreme south of the country.

Chile was one of the first countries in the world to segment and regulate (1982) and then privatize (the early 1990s) its electricity system. Consequently, the Chilean electrical regulatory framework has more than 30 years of evolution.

The legal framework that regulates how the power transmission industry operates in Chile is based on Ministry of Economy, Development and Reconstruction Statutory Decree N°4 dated 2006. This decree determines the consolidated, coordinated and systematized text of the General Electricity Services Law, hereinafter and indistinctively the “General Electricity Services Law” or “LGSE”. The LGSE and its complementary regulations determine standards applicable to any power generation, transmission or distribution facility concerning technical, safety, coordination, quality, information and economic aspects of appropriate power sector operation. This include electrical concessions, easements and the rates applicable to each segment, as well as the body in charge of coordinating the operation, the relationships of companies and individuals with the State.

The LGSE and its complementary regulations determine standards applicable to any power generation, transmission or distribution facility with regard to technical, safety, coordination, quality, information and economic aspects of appropriate power sector operation.

The LGSE and its complementary regulations, regulate the activities of generation, transport and distribution,

The last important reform to the LGSE is the recently passed Law N° 20,936/2016, which establishes a new Electric Transmission System and creates an Independent Coordinator for the National Electric System incorporating the following modifications:

1. Redefinition of power transmission systems.
2. The incorporation of energy and power transmission planning with a long-term horizon.
3. New tariff and remuneration scheme for the different segments of the Transmission System.
4. Preliminary definition of paths for new power transmission projects of public interest, by means of an Easement Strip Study procedure to be executed by the Ministry.
5. Open Access to universal Power Transmission System.
6. New regulations on compensation to end users for unauthorized supply cuts, based on previously established safety and quality standards.
7. An exclusive National Electricity System Coordinator, independent from the actors of the market stakeholders, which replace the Economic Load Dispatch Centers.

The new transmission law modifies the names of the Transmission Systems due to the new definition of each one. Therefore, the Trunk, Subtransmission and Additional systems are renamed National, Zonal and Dedicated respectively.

Risk Factors

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

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.

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. 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.

FINANCIAL RISKS

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.

Foreign Exchange Risk

The Company does not have significant exposure to the exchange rate since most of its flows are denominated in Dollars (its functional currency).

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.

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.

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

Operations of Transelec Concesiones are subject to Law N ° 19.300 / 1994 on General Bases of the Environment ("Environmental Law") and its subsequent modifications. The Environmental Law requires that holders of new projects or modifications of high voltage transmission lines and electrical substations submit to the Environmental Impact Assessment System (SEIA) and submit Environmental Impact Assessments (EIA) or Environmental Impact Statements (DIA), as appropriate. These projects must be evaluated and environmentally qualified by the respective Environmental Assessment Commissions, and finally obtain their approval through an environmental qualification resolution. Additionally, the regulation establishes that the project owner may request from the Environmental Assessment Service a ruling on whether a project or its modification must be submitted to the SEIA. These presentations are called letters of relevance to the SEIA.

Notwithstanding that the company complies with the environmental requirements of the Environmental Law, it is not possible to ensure that these presentations (EIA, DIA or Letter of 23 Relevance) before the environmental authority are approved by the government authorities, nor that the possible public opposition will not generate delays or modifications in the proposed projects, nor that the laws and regulations will not change or will be interpreted in a way that could adversely affect the operations and plans of the company, since the new entity, in all its capacity, is underway and in perfection