

# Annual Report 2019

---

**transelec**<sup>®</sup>  
Uniendo a Chile con Energía<sup>®</sup>





# Índex

07

14

24

46

52

60

74

80

150

01

02

03

04

05

06

07

08

09

The company

Corporate Government

The Business

The Operation

Our People

Finance

Legal Incorporation and Amendments

Financial Statements

Statement of Responsibility

# Identification

Name or Firm Name: Transelec S.A.  
Domicile: Santiago, while not restricting the establishment of agencies, branches or offices in other parts of the country or overseas  
Tax list number: 76.555.400-4  
Address: Orinoco N°90, 14th floor, Las Condes  
Entity type: Open Stock Corporation  
National Securities Registration: Number 974  
Telephone: (56-2) 2467 7000  
E-mail: transelec@transelec.cl  
Webpage: www.transelec.cl

# Share Ownership

Transelec capital is divided into 1,000,000 nominative ordinary shares with no nominal value. Transelec Holding Rentas Limitada owns 999,900 shares and Rentas Eléctricas I Limitada owns 100 shares.  
Transelec S.A.'s final shareholders are China Southern Power Grid International (CSG, with a 27.79% stake), Canada Pension Plan Investment Board (CPP, with 27.73%), British Columbia Investment Management Corporation (BCI, with 26.00%) and Public Sector Pension Investment Board (PSP, with 18.48%).  
Corporate structure is indicated in the organizational chart in Chapter 02..



# Letter from the Chairman of Board of Directors

## Scott Lawrence

**Messrs. Shareholders,**

On behalf of the Transelec Board of Directors, I am pleased to present to you our 2019 Annual Report.

This was undoubtedly a unique year for Chile, with social demands catalyzing profound changes in the country and challenging the status quo; the progress we've witnessed so far and constructive exchanges of ideas are impressive and speak to a vibrant country with lots of potential. Through it all, Transelec's shareholders have been resolute and constant in their commitment to Chile, supporting the management team in its interactions with the government and key stakeholders, and actively working to build new assets in the country. We trust these events will help Chile develop even stronger institutions, and continue to solidify the country's democratic path.

As a company, Transelec serves Chile every day by providing quality transmission service to our users and contributing to the local development of the communities we operate in. In addition, following a number of highly participatory internal dialogue between collaborators from all of our offices, we have formulated -within the scope of our company's actions- a roadmap comprised of twenty-four concrete initiatives in order to support the society's effort to have a more inclusive Chile. These initiatives are focused on three areas of application: (i) lead an improvement in the working conditions for collaborators throughout the entire value chain, starting with our contractors and SMEs; (ii) improve the quality of the society in our neighboring communities; and (iii) continue to improve our own collaborators' work-life balance.

2019 was a very positive year for Transelec from a financial perspective. Our revenues amounted to CLP 378,591 million, 15% higher than last year thanks to the commissioning of new projects, indexation and the recognition of regulated revenues of dedicated assets from 2018. Increased revenue also drove an increase in EBITDA to CLP 328,812 million, an indication of liquidity and cash flow generation enabling the company to comfortably face its commitments.

In terms of operations, it's worth highlighting the efforts put forth by our collaborators and subcontractors, who constantly aim to guarantee high power transmission standards at our facilities in order to provide power to 98% of the homes between Arica and Chiloé.

Transelec continued working on its asset management program for system operation in 2019. This work focused on the definition of specific action plans and measures to ensure the highest service quality at our facilities in order to generate direct impacts on our end customers. Preventive actions and corrective procedures were executed in order to address eventual outages. These efforts have led to an impressive operational performance and significant reductions in substation and transmission line outage rates.

One of the most important achievements in 2019 was reaching the lowest accident rate in a decade. This is the result of our company's commitment to all the people working with us, evidenced by the safety culture we've developed over the years with concrete plans and programs at Transelec and working with contractors who also prioritize safety.

As for project development, we wish to highlight contracts awarded for four dedicated power transmission solutions. Three of these aim to connect non-conventional renewable energy (NCRE) companies to the National Power Grid, which is a stepping stone toward achieving Chile's ambitious carbon reduction goals. The fourth contract awarded corresponds to a power transmission system for the Quebrada Blanca Phase 2 mining project, which will reaffirm our company's experience partnering with the mining industry and demonstrates the confidence investors place in Transelec. All of these projects will be executed over the next few years.

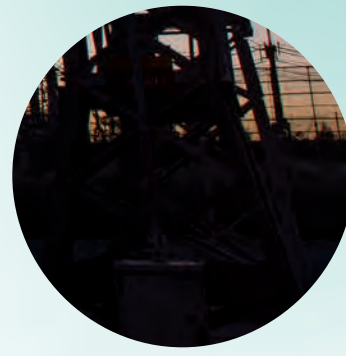
2019 also marked the ten-year anniversary of our Sustainability Report. This document is an excellent complement to the Annual Report, providing important information about Transelec's non-financial results. It outlines our commitment to environmental, social and corporate governance issues, and demonstrates how sustainability is at the core of our business strategy.

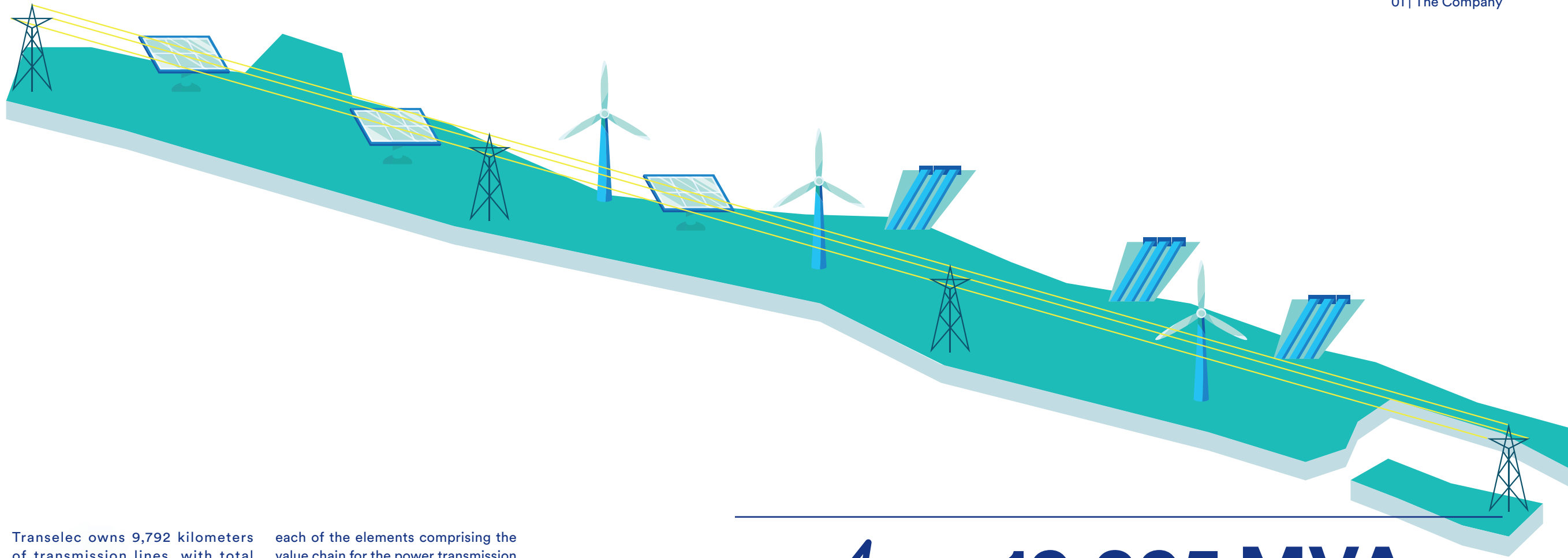
Although 2019 was a good year for the company, I cannot conclude this letter without mentioning the very sad passing of one of our board members, and friend, Alejandro Jadresic. Alejandro was an outstanding professional, great contributor to our board discussions, and drove us all to be better. We will dearly miss the energy, commitment, passion and love he gave to the company and the board over the last ten years. Finally, I wish to especially thank all Transelec employees for their commitment to the company's continued development. Chile wouldn't have its highly reliable power transmission service without them and this is an essential feature of the country's economic development and well-being for all the people of Chile.

**Scott Lawrence**  
Chairman of the Board of Directors



# The Company —





Transelec owns 9,792 kilometers of transmission lines, with total transformation capacity amounting to 19,095 MVA distributed into 61 substations. This considers all substations where Transelec is the owner, lessee, usufructuary or operates an important number of power transmission facilities in any capacity. Transelec is consequently the leading stakeholder in the National Power Grid spanning from Arica to Chiloé. Power infrastructure developed and operated by the Company provides electrical energy to 98% of Chile's population.

From the very beginning, Transelec has gained extensive experience with

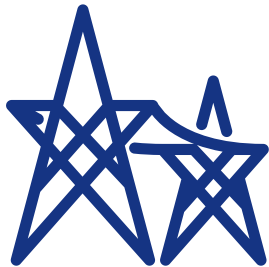
each of the elements comprising the value chain for the power transmission industry: ranging from project evaluation, conceptual and basic engineering, power transmission and connection design to project management and construction, consultancy for commissioning, operation, maintenance and administration of new facilities.

Transelec contributes 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.



**19,095 MVA**

is the total transformation capacity distributed in 61 station.



**9,792 Km**

of transmission lines, part of the National Electric System of the country, that goes from Arica to the island of Chiloé.



**98%**

of Chile's population is supplied of energy thanks to the electric infrastructure developed and operated by Transelec.



# Our corporate history,

## Transelec: uniting Chile with energy

**1943**

Corfo created Empresa Nacional de Electricidad (Endesa) in order to execute a national plan featuring construction of new power generation units and especially a network of regional power transmission lines.

**1955**

The SIC power grid (Central Interconnected System) was created by connecting the recently built Cipreses Power Plant by means of 154 kV power transmission lines to consumption centers in Santiago and Concepción.

**1965**

A submarine cable (presently an aerial cable) was laid across the Chacao Channel, supplying power to Isla Grande de Chiloé for the first time.

**1966**

Another important milestone was construction of the first 220 kV transmission line, the Rapel-Cerro Navia line connecting the Rapel Power Plant to growing power demand in Chile's central zone.

**1978**

Interconnection with Chile's Near North was enhanced with power transmission lines connecting San Isidro (presently Quillota) and Cardones. In the early 80s, the SIC power grid was extended as far as Diego de Almagro in order to connect El Salvador mining Company, while 220 kV power transmission lines were extended as far as Puerto Montt.

**1986**

The extra high voltage era started with the commissioning of the first 500 kV power transmission lines (Ancoa-Alto Jahuel 1 and 2). These were essential for the injection of power generated by Colbún-Machicura plant into the SIC power grid.

**1993**

Endesa transformed its Power Transmission Division into the subsidiary Compañía Nacional de Transmisión Eléctrica S.A., followed by the creation of Transelec S.A., which was designed to plan, operate and maintain the system. In addition, the aerial crossing of the Chacao Channel was commissioned, consisting of two 179-meter towers and power transmission lines spanning a total length of 2,680 meters.

**1996**

Transelec built its first 220 kV transmission line between Charrúa and Ancoa in order to connect Pangué power plant (460 MW), which was later upgraded to connect Ralco power plant.

**2000**

The Canadian Company Hydro-Québec purchased all Transelec shares.

**2003**

Transelec entered the SING power grid after purchasing 924 kilometers of 220kV transmission lines.

**2004**

The largest power transmission development project in history was completed: upgrading the system between Charrúa y Alto Jahuel to 550 kV, thus enabling the connection of Ralco hydroelectric power plant (690 MW).

**2006**

The Canadian consortium comprised of Brookfield Asset Management (BAM), Canada Pension Plan Investment Board (CPP), British Columbia Investment Management Corporation (bcIMC) and Public Sector Pension Investments (PSP) purchased 100% of Transelec's shares, contributing its solid financial strength to meet Chile's growth requirements.

**2008**

Energization of the 500 kV Alto Jahuel-Polpaico double circuit transmission line brought northbound network saturation to an end and was largely responsible for creation of a 500 kV ring surrounding Santiago, one of the key developments for the system's future.

**2010**

Transelec purchased Punta Colorada substation from Barrick Gold in order to consolidate service provision to the mining sector. In addition, Transelec commissioned Las Palmas substation, which is the core wind power contribution to the SIC power grid.

**2014**

Transelec commissioned its National Transmission Operation Center (CNOT), which enabled the operation of our facilities to be centralized in real time, keeping with the highest standards.

**2015**

Lo Aguirre sectioning substation featuring total capacity of 1,000 MVA was commissioned in order to boost power supply to the Metropolitan Region and to enable potential future connection of continuous current transmission lines.

**2018**

The Company China Southern Power Grid (CSG) purchased shares held by BAM in March, making CSG shareholder of the 27.79% interest in Transelec indirectly owned by BAM. Transelec share ownership was consequently comprised of CPP, bcIMC, PSP and CSG.

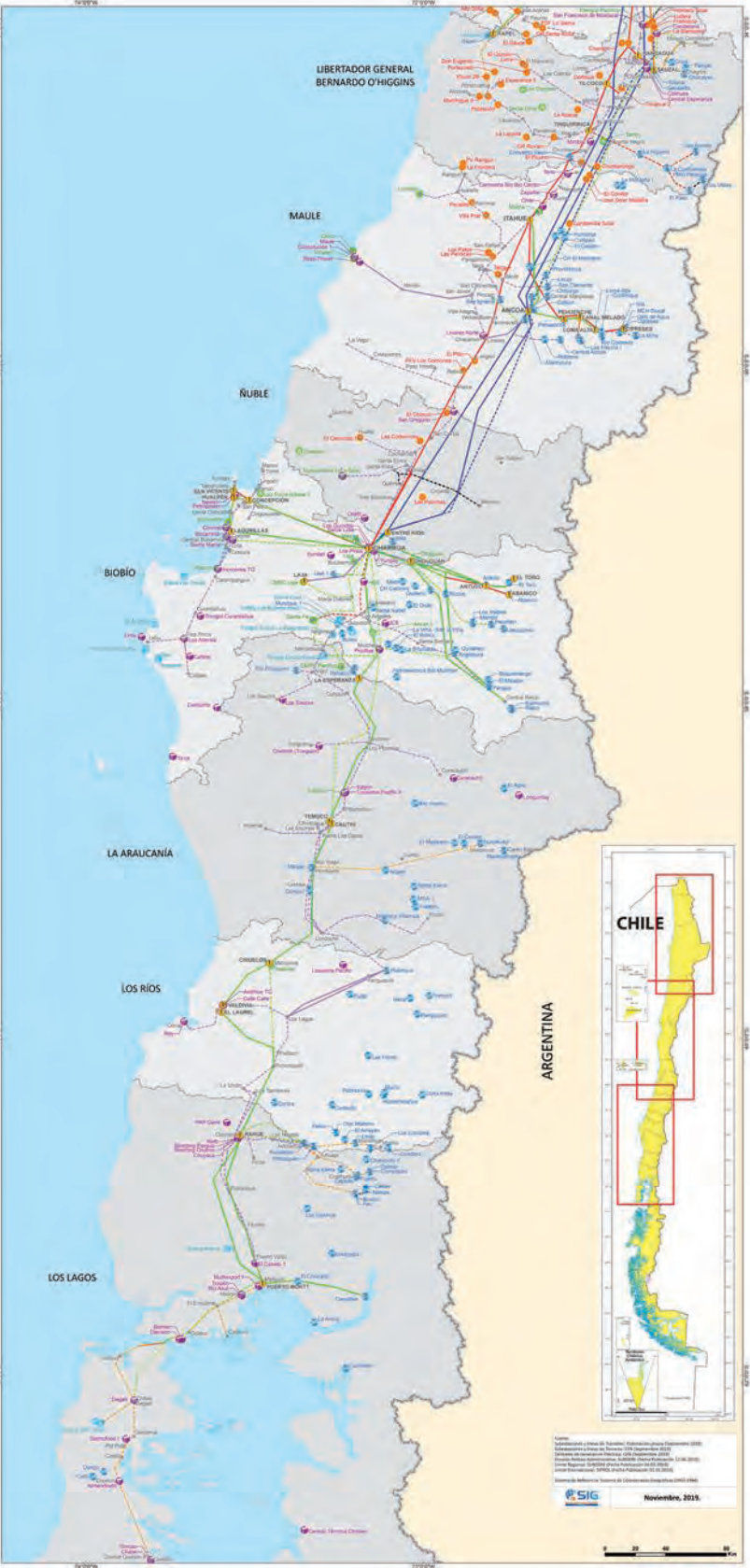
Transelec powered up the new Lo Aguirre – Cerro Navia, 2x220 kV transmission line in November. This is the only power line featuring an urban section with an underground transmission line.

**2019**

Transelec is awarded the development, operation and maintenance of the transmission solution for Quebrada Blanca Phase 2 mining project and for some important NCRE projects. Additionally, Transelec achieves the lowest accident rate of the last 10 years.



# Power transmission system map







# Corporate Government

---







# Board of Directors

<b>1</b> <b>Scott Lawrence*</b> <b>Chairman</b> Foreigner Alternate Director: to be announced	<b>2</b> <b>Brenda Eaton</b> <b>Director</b> Foreigner Alternate Director: Jordan Anderson	<b>3</b> <b>Rui Han</b> <b>Director</b> Foreigner Alternate Director: Sihong Zhong
<b>4</b> <b>Richard Cacchione</b> <b>Director</b> Foreigner Alternate Director: Michael Rosenfeld	<b>Juan Agustin Laso Bambach**</b> <b>(Not pictured)</b> <b>Director</b> Tax identity number: 7.021.933-6 Alternate Director: to be announced	<b>5</b> <b>Blas Tomic Errázuriz</b> <b>Director</b> Tax identity number: 5.390.891-8 Alternate Director: Rodrigo Ferrada Celis
<b>6</b> <b>Mario Valcarce Durán</b> <b>Director</b> Tax identity number: 5.850.972-8 Alternate Director: José Miguel Bambach	<b>7</b> <b>Patricia Núñez Figueroa</b> <b>Director</b> Tax identity number: 9.761.676-0 Alternate Director: Claudio Campos Bierwirth	<b>8</b> <b>Juan Benabarre Benaiges</b> <b>Director</b> Tax identity number: 5.899.848-6 Alternate Director: Roberto Munita Valdés

\* Mr. Scott Lawrence was announced Alternate Director and Chairman at a Board of Directors meeting held on November 14, 2019. This will be ratified at the next Shareholders meeting in April 2020.

\*\* Due to the decease of Mr. Alejandro Jadresic Marinovic during 2019, his Alternate Mr. Juan Agustín Laso Bambach assumed his position in the Board of Directors.

According to the Company’s articles of incorporation, the Board of Directors is comprised of nine 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. There is one Deputy Director for each Director elected. The Chairman is elected by directors chosen at the shareholders meeting.

On November 14, 2019 Don Alfredo Ergas Segal and its Alternate Director, Mr. Ricardo Szlejf, submitted their resignations as members of the Board of Directors, appointing Mr. Scott Lawrence as Substitute Director, who will be appointed as Deputy Director at the next Shareholders Meeting.

In conformity with the law and its by-laws, the Board of Directors meets at least once per month. Transelec S.A. corporation held twelve ordinary meetings during the 2019 fiscal year and two extraordinary meetings.

Board of Directors salaries

Directors Mr. Alfredo Ergas, Han Rui and Richard Cacchione resigned from their 2019 allowances. Remunerations received by directors during year 2019 were as follows:

Brenda Eaton	USD \$142,000 *
Alejandro Jadresic Marinovic	USD \$45,000 **
Mario Valcarce Durán	USD \$90,000
Blas Tomic Errázuriz	USD \$90,000
Patricia Nuñez Figueroa	USD \$90,000
Juan Benabarre Benaiges	USD \$90,000

\* Proportional allowance to the time served as Chairman of the Board

\*\* Proportional allowance as Director prior to his death

Board of Directors expenses

Total payment for director expenses throughout the fiscal year amounted to CLP 10,598,286.

Diversity on the board of Directors

In terms of diversity, there are two women serving on the board of directos and one as deputy director. The following graphs and figures show Board of Directors distribution by nationality, age and seniority at the Company.





## Audit Committee

Creation of an Audit Committee different from that established in the Corporations Law was approved in April 2007. Its functions, among others, are to revise auditor reports, balance sheets and other financial statements of the Company, to review the annual (internal and external) audit plan, as well as its progress and reports, and to supervise the application, operation and certification of the Company's Crime Prevention Model.

Transelec Audit Committee is comprised of five directors who are appointed by the Board of Directors; they serve for a period of two years and are eligible for re-election. The Committee elects a Chairman among its members and a Secretary, who may be one of its members or the Secretary of the Board of Directors. The Committee held four meetings in 2019.

As of 31 December 2019, the Audit Committee was comprised of its Chairman, Mr. Mario Valcarce Durán, directors Mr. Alfredo Ergas, Mrs. Brenda Eaton, Mrs. Patricia Núñez Figueroa and Mr. Juan Benabarre Benaiges, and its Secretary, Mr. Arturo Le Blanc Cerda.

The salary paid to Mr. Mario Valcarce Durán, Mrs. Patricia Núñez Figueroa and Mr. Juan Benabarre Benaiges as members of the Audit Committee between 1 January 2019 and 31 December 2019 amounted to USD\$10,000 per person.

## Investment Advisory Committee

The Investment Advisory Committee is responsible for improving information presented to the Board of Directors regarding the Company's different projects, thus facilitating decision making by the Board of Directors. The Company's main objectives are to recommend investment returns for projects, tendering strategies, risk mitigation and other specific project factors to the Board of Directors and to make it possible for the Administration to gain access to shareholders' resources and experience.

## Regulatory and Corporate Reputation Committee

The Regulatory and Corporate Reputation Committee meets on a bimonthly basis to revise the Regulatory and Corporate Reputation Strategy to be executed with regard to the main legal and regulatory amendments in the power and environmental sectors, and to manage tariff processes in the National and Zonal Power Transmission Systems. The committee comprises everyone who is on the entire board as a signal of the importance of this matter.

## Finance Committee

The Finance Committee meets regularly to review the Company's financial strategy. The Committee also provides consultancy and approves different proposals made by Transelec. Issues such as financing, hedging, risk management, distribution, tax issues and forecasts are reviewed, among others. Issues requiring approval are subsequently presented to the Board of Directors.

## Human Resources Committee

People and Organization Committee meets at least once per year to review issues related to the people comprising Transelec team. Among other issues, the Committee reviews financial KPIs, which are the base of the incentive pyramid for the Company's current variable bonus system, as well as other issues related to personal development, training, etc.

## Corporate Governance Committee

The Corporate Government Committee was created in 2016. The Committee's mandate is to propose and nominate members of the Board of Directors and to evaluate their management, approve codes and manuals and modifications made to these, to examine and evaluate Transelec's corporate governance guidelines and to make recommendations to the Board of Directors, among others.

## Operations Committee

The purpose of this Committee is to give Transelec Administration the opportunity to discuss operational issues in detail with the members of the Board of Directors, either before or after Board of Directors meetings. The Committee is also responsible for supervising health and safety programs set out in Transelec recommendations regarding health, safety and operational KPIs.

## Other Committees

A) Coordination Committees: these involve the different Transelec Vice-Presidencies. The Committees meet regularly to coordinate the most important issues for the Company. These are listed as follows:

- Executive Committee
- Business Committee
- Projects Committee
- Ethics Committee
- Results and Value Management Committee
- Regulatory Agenda Committee
- IT Committee
- Supply Committee

B) Integrated Management System Committee: this Committee's mission is to discuss all issues related to Occupational Health and Safety, Environment and Quality. The Committee meets on a regular basis to approve programs and plans for monitoring these issues.

# Management team



**1\_Andrés Kuhlmann Jahn**  
**General Manager**  
Civil Industrial Engineer  
Pontificia Universidad Católica de Chile  
Tax identification number: 6.554.568-3

**2\_Rodrigo López Vergara**  
**Vice-president of Operations**  
Civil Electrical Engineer  
Universidad de Chile  
Tax identification number: 7.518.088-8

**3\_Claudio Aravena Vallejo**  
**Vice-President of People and Organization**  
Commercial Engineer  
Pontificia Universidad Católica de Chile  
Tax identification number: 9.580.875-1

**4\_Francisco Castro Crichton**  
**Vice-president of Finance**  
Civil Industrial Engineer  
Pontificia Universidad Católica de Chile  
Tax identification number: 9.963.957-1

**5\_Arturo Le Blanc Cerda**  
**Vice-President of Regulatory and Legal Affairs**  
Attorney  
Universidad de Chile  
Tax identification number: 10.601.441-8

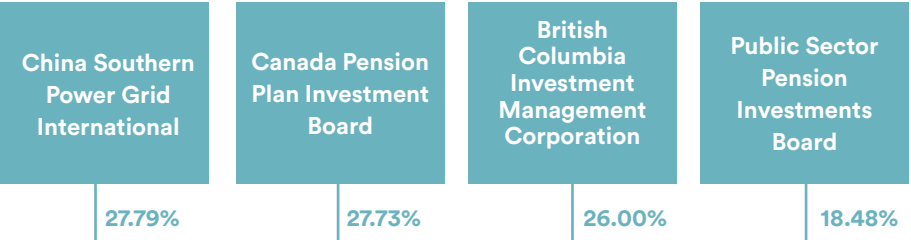
**6\_David Noe Scheinwald**  
**Vice-President of Corporate Affairs and Sustainability**  
Civil Industrial Engineer  
Pontificia Universidad Católica de Chile  
Tax identification number: 10.502.232-8

**7\_Alexandros Semertzakis Pandolfi**  
**Vice-President of Engineering and Project Development**  
Civil Engineer  
Universidad de Santiago de Chile  
Tax identification number: 7.053.358-8

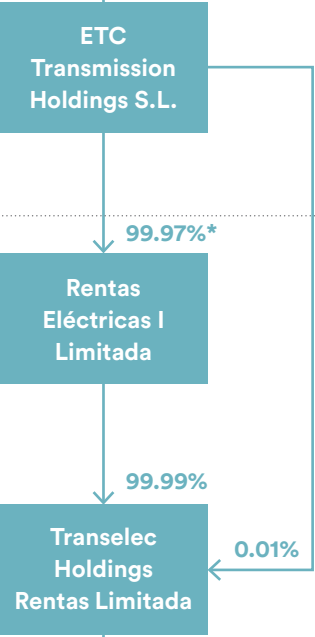
**8\_Sebastián Fernandez Cox**  
**Vice-President of Business Development**  
Commercial Engineer  
Universidad de los Andes  
Tax identification number: 10.673.365-1

# Organizational Structure

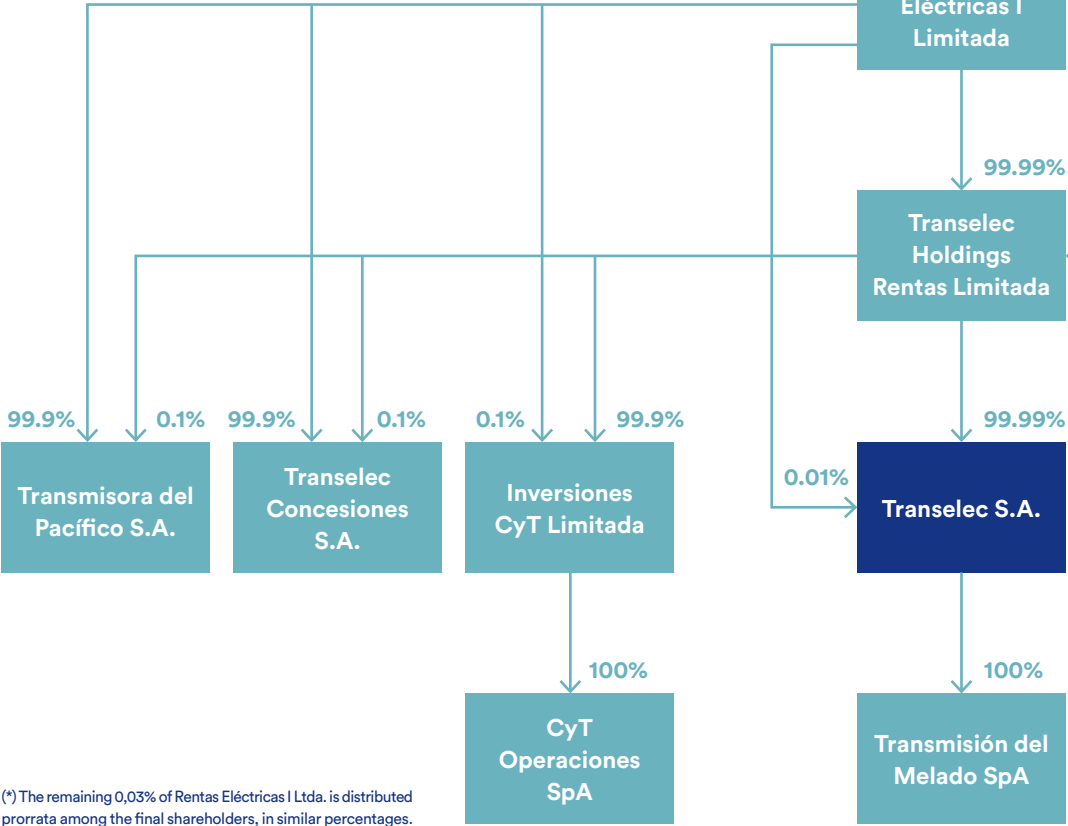
## Canada / China



## Spain



## Chile



(\*) The remaining 0,03% of Rentas Eléctricas I Ltda. is distributed prorrata among the final shareholders, in similar percentages.





# The Business —







**Transelec participates in both the national and zonal (regulated) systems and in the dedicated system (bilateral contracts with large customers) that comprise Chile's power transmission business. In Chile, the Company owns transmission assets appraised at US\$ 3,942 million as of 31 December 2019.**

## 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 approved Law N° 20,936/2016, which incorporated the following important amendments:

- An exclusive National Electricity System Coordinator that is independent from market stakeholders, which replaces the Economic Load Dispatch Centers.
- 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.
- 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.
- 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.
- Open Access to universal Power Transmission Systems.
- 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.



Transelec's business mainly focuses on economic compensation for the power transmission service provided by its facilities in accordance with safety standards and service quality indicated in current legislation. The current legal framework that regulates the power transmission business in Chile defines transmission facilities into four<sup>1</sup> 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 power generation facility availability scenarios, 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 Systems:** 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 Dedicated System power transmission facilities as long as there is available technical transmission capacity that 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° 20,936/2016 have been published to date, determining necessary provisions for the execution of issues related to the National Electricity Coordinator, the Panel of Experts, energy planning, preliminary easement strips, international interconnections and compensation for power supply outages, as well as the passing of Technical Standards and Complementary Services. Regarding issues for which no regulations have yet been formulated, the National Energy Commission, 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.

There are other regulations currently being formulated that will be published by the Ministry of Energy, such as National Power Grid Coordination and Operation Regulations, Regulations for the Qualification, Valuation Tariff Setting and Remuneration of power transmission facilities and Planning and Open Access Regulations based on a participatory process involving all power market stakeholders.

These regulations should be published in 2020. Regulations for Coordinating the Operation, Valuation, Tariff Setting and Remuneration of power transmission facilities are currently being acknowledged by the General Comptrollership of the Republic prior to publication and application.

## System Growth

The CNE must conduct a power transmission planning process each year. This process must consider a timeline of at least twenty years. This planning encompasses upgrade projects required for the National Transmission System, the Zonal Transmission System, Development Poles and Dedicated Transmission Systems used by public distribution service concessionaries to supply users subject to price regulation. These expansion plans feature investments that must be classified as new projects or upgrades for existing facilities. As the result of this process, the CNE formulates a technical report and the Ministry of Energy will use this report to determine the power transmission Upgrade Plan for the following 12 months. The National Electricity Coordinator, hereinafter the "Coordinator", is responsible for hosting annual international tenders to award said power transmission projects according to the level of robustness and growth it considers appropriate and necessary for the system.



<sup>1</sup> Article 73 of LGSE: "International interconnection systems, which will be subject to special standards determined for this purpose, are also part of the power transmission system".





## Remuneration for the national and zonal transmission systems, development poles and dedicated facilities used by users subject to price regulation

Revenue generated by existing facilities in the National and Zonal Transmission Systems and for Development Poles is constituted by the Annual Transmission Value by Segment (VATT), which is calculated based on Annual Investment Value (AVI) and Operating, Maintenance and Administration Costs (COMA) for each of the segments comprising these systems. In addition, the proportion of their VATT assignable to said users constitutes revenue generated by the use of dedicated transmission facilities by users subject to price regulation.

### System valuation studies

The National Energy Commission determines segments comprising these systems and their corresponding VATT once every four years based on a Transmission System Valuation Study or Studies conducted by a consultant chosen by means of an international public tender. As the result of this process, the CNE will formulate a technical report and based on this report the Ministry of Energy will set National and Zonal Transmission and Development Pole tariffs for the next four-year period as well as payment for the use of dedicated transmission facilities by users subject to price regulation. During the four-year period between two consecutive tariff-setting processes, both AVI and COMA for each segment will be indexed using formulas designed to maintain the real value of AVI and COMA during said period. Indexing formulas and their application frequency are determined in the corresponding tariff setting process.

### Transmission system payment

Free and regulated end user's payments for usage of National, Zonal and Dedicated Transmission Systems are subject to price regulation. Transmission System payment for Development Poles determines a single rate in such a way that collection for this service will compensate for the proportion of facilities to be used as development poles that are not used for existing power generation. Power generation companies injecting their production into the corresponding pole will pay VATT not covered by this rate. In the case of the National Transmission System, Law N°20,936/2016 established a transmission period determined between 2019 and 2034, to gradually replace the former payment and remuneration regime with the aforementioned new regime. In the case of Zonal Transmission Systems, the new payment and remuneration regime came into force as of 1 January 2018.

The Coordinator will be responsible for international public tenders for new projects, regardless of whether these are expansions or upgrades. Tenders for the construction and execution of upgrades for existing facilities will be settled depending on the offered VI, and the owner of these facilities will pay the respective awarded Company, as opposed to the case of expansion projects, for which exploitation and execution rights will be awarded to the bidder indicating the lowest VATT for the project tendered. The upgrade project owner will receive VATT comprised of the corresponding AVI and COMA, in which AVI will be determined considering the awarded VI, which will remain in force for five tariff-setting periods of four years each. In the case of expansion projects, VATT resulting from the tender will constitute compensation and will be applied for the five tariff setting periods. Following the aforementioned five tariff setting periods, upgrades and expansion projects will start to be considered as existing facilities for the purpose of valuation and remuneration, with tariff review every four years.

Because of the social unrest that began in October 2019 in Chile, the Ministry of Energy announced that electricity rates would be stabilized for end consumers. Therefore, the authority carried out the following measures:

- i) on November 2, 2019, Law No. 21,185 was published in the Official Gazette where a transitional mechanism for the stabilization of electric energy prices for consumers subject to tariff regulation was established, associated with the supply contracts of generation companies and their consumers,
- ii) on December 21, 2019, Law No. 21,194 was published in the Official Gazette that, among other things, temporarily stabilizes the price levels associated with the added value of distribution costs that are being applied or the rates below the maximum rates that are being billed, both at the date of publication of Law 21,194, and
- iii) on December 26, 2019 the CNE through Exempt Resolution N° 815, set the single charges referred to in articles 115 and 116 of the General Law of Electric Services, including single charges associated with transmission, indicating that since the tariff process of the National and Zonal transmission systems is ongoing and that will end by mid-2021, it will still be effective (retroactively) as of January 1, 2020 and that a reduction of charges, among other reasons, due to the decrease in the discount rate provided for in Law 20,936 / 2016, the CNE established maintaining the transferable charges to end consumers in effect as of December 2019, making only minor adjustments on these charges with the objective not to affect end consumers negatively.



## Dedicated system remuneration

Revenue generated by the use of facilities belonging to Dedicated Transmission Systems is obtained in keeping with the provisions of transmission contracts signed between users and the owners of these facilities. Prices are normally set by calculating AVI + COMA that is determined by mutual agreement between the parties.

Even if these dedicated facilities are essentially being used to inject power produced by power plants into the system or to supply electrical energy to free customers, the authority could eventually declare these facilities to be National, Zonal or Development Poles if operating conditions are changed and if these facilities meet the corresponding requirements.

## Tariff studies

### National Power Transmission/Trunk Transmission System

The Ministry of Energy published Supreme Decree N° 23 T in February 2016, bringing new tariffs for Trunk Transmission and National System facilities into force for the 2016-2019 period as required.

Application of the new Law N° 20,936/2016 enabled the identification of two temporary collection, payment and remuneration periods for the National Transmission System, which are regulated as follows:

- The 2016-2018 Period: the collection, payment and remuneration regime established by Law N° 19,940 (Short Law I) in March 2004 will be applied.
- The 2019-2034 Period: the collection, payment and remuneration regime established by Temporary Article 25 of the new Law N° 20,936/2016 will be applied. This temporary standard was designed to prevent double payment for transmission due to current power supply contracts between power generation companies and free, end or regulated customers that were signed before the aforementioned law came into force.

### Zonal Transmission/Subtransmission System

Temporary Article Eleven of Law N°20,936/2016 indicates that Supreme Decree 14/2013<sup>2</sup> will remain in force between 1 January 2016 and 31 December 2017, including adjustments made by the Ministry of Energy by means of a decree issued under the “by order of the President of the Republic” formula. These adjustments to Supreme Decree 14/2013 were determined by the Ministry of Energy by means of Decree 1T dated February 2017. In turn, Temporary Article Twelve of Law N° 20,936/2016 indicates that continuity and termination will be provided for the process of setting the annual value of subtransmission systems for application during the 2018-2019 period throughout the extended term of Decree 14/2013.

Therefore, during the extended term of Supreme Decree N° 14/2013, the process for setting the annual value for subtransmission and additional transmission systems used by users subject to price regulation under way at the time the new Law Ley N°20,936/2016 was published has now been completed. Therefore, the CNE published Exempt Resolution N°53119 19 July 2018. This resolution replaced the technical report determining VATT for Zonal Transmission Systems and the proportion of dedicated transmission use by users subject to price regulation during the 2018-2019 two-year period, approved by means of CNE Exempt Resolution N°414 dated 31 July 2017, in accordance with the provisions of the new Law N°20,936/2016. This technical report was used as the basis for formulating Decree 6T, published in the Official Gazette 5 October 2018, which sets the annual value by section of zonal and dedicated transmission facilities used by users subject to price regulation, as well as tariffs and indexing formulas for the 2018-2019 period.

<sup>2</sup> Ministry of Energy Decree N° 14, 2012, sets tariffs for Subtransmission and Additional Transmission systems and tariff indexing formulas for the 2011-2014 four-year period. A one-time extension was made to this decree up until 31 December 2015 by means of Decree N° 8T dated March 2015.

### New 2020-2023 Tariff Setting Process – National And Zonal Transmission System

The 2020-2023 tariff setting process for the National and Zonal Power Transmission Systems started and continued in 2019 with the first power transmission facilities qualification process executed in conformity with Law N°20,936/2016. The Panel of Experts completed this qualification process in April 2019 with the publication of CNE Exempt Resolution N° 244 approving the Final Facility Qualification Technical Report considering a ruling. In addition, CNE Exempt Resolution N°272 approving Technical and Administrative Bases for conducting Valuation Studies was published, thus enabling the call to an international public tender for execution of these studies and constitution of a Supervision Committee for these studies. Transelec was chosen to represent companies from the National Power Grid.

The National Power Transmission System Valuation Study was awarded to Consorcio Synex Ingenieros Consultores Ltda., Studies Energéticos Consultores S.A. and Elequipos Servicios de Ingeniería S.A. in July 2019 and study development began in August 2019. The Zonal Transmission Systems Valuation Study tender was declared void because the bidders failed to comply with the bidding conditions. A second call to international public tender was made for this study and the contract was finally awarded to the Company SIGLA S.A. Study development started in October 2019.

The Consultant hired to conduct the National Transmission System Valuation Study published its Progress Report N°1 in October 2019. The next stages of this tariff setting process are the formulation and completion of Tariff Studies, formulation and publication of the Final CNE Technical Report and the setting and publication of 2020-2023 tariffs by the Ministry of Energy. This tariff setting process should be finished by the beginning of 2021.

Market Share As Of  
31 December 2019

Transelec is an important stakeholder in Chile’s power transmission system, as a pioneering Company and a leader that has substantial know-how and expertise. Given the remuneration system of the transmission market, the Company receives revenue as profit over installed capacity and therefore market share is not a significant factor. However, Transelec has the following market share for power transmission lines, which indicates its important presence in the operational high voltage transmission lines:

Transelec  
Others

500 kV

78.3%  
21.7%



220 kV

39.4%  
60.6%



154 kV

83%  
17.2%



66+110 kV

9.4%  
90.6%



National Power Grid Projects

New Projects  
1. Studies

Transelec S.A. is currently developing studies in order to participate in the new projects tendering process executed by the National Electricity Coordinator. The project portfolio has a reference investment value amounting to approximately US\$1.83 billion and is outlined as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0004/2019	New 500/220 kV Parinas Sectioning Substation	54.3	1Q 2023
0004/2019	New 220 kV JMA Sectioning Substation	19.1	1Q 2023
0004/2019	New 2×220 kV Lagunas - Nueva Pozo Almonte transmission line, laying the first circuit	19.2	1Q 2024
0004/2019	New 2×500 kV Parinas – Likanantai transmission line, energized at 220 kV	105.6	1Q 2024
0231/2019	New 220 kV Roncacho Sectioning Substation	4.9	3Q 2022
0231/2019	New 220 kV Agua Amarga Sectioning Substation	6.8	3Q 2022
0004/2019	New 2×500 kV Entre Ríos – Ciruelos transmission line, energized at 220 kV	359.3	Easement Strip Study*
0004/2019	New 2×500 kV Ciruelos – Pichirropulli transmission line, energized at 220 kV	84.5	Easement Strip Study*
0231/2019	HVDC Kimal Lo Aguirre transmission line	1,176.0	Easement Strip Study*

2. Contracts Awarded

No projects were awarded during the period.

3. Project Development

Execution of projects with reference investment value amounting to approximately US\$ 19.3 million continued throughout the period. These projects are listed as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0422/2017	220 kV Malleco Substation	8.1	3Q 2020
0422/2017	220 kV Frutillar Norte Substation	11.2	2Q 2021

4. Commissioning

No projects were energized during the period.

(\*) Easement Strip Study: Is an specific instrument, participative and transparent. It decide where to locate new lines of transmission, establish in the Art. 92 and next LGSE (introduced by the law 20,936), which objective is to submit new projects (defined by the energy ministry) to a process of evaluation obtaining more certainty for the project execution, assigning the state a protagonist role in the route definition, lowering the risk, and legitimate the project in environmental and social aspects before its bidding and awarding.



Upgrades

1. Studies

The National Electricity Coordinator started a national upgrade works tendering process amounting to a reference investment value of US\$47.0 million:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0293/2018	Upgrade at the Lagunas Substation	2.4	1Q 2022
0198/2019	Upgrade at the Ciruelos Substation	1.1	3Q 2022
0198/2019	Upgrade at the Polpaico Substation	1.3	3Q 2022
0198/2019	2×500 kV Alto Jahuel - Lo Aguirre transmission line capacity upgrade and upgrade at the Lo Aguirre Substation	42.2	3Q 2023

2. Contracts Awarded

Transelec S.A. awarded one project amounting to a reference investment value of US\$1.3 million in 2019 and started developing the following project:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
Art. 102	Adjustments at the Lagunillas Substation to connect the 2×220 kV MAPA – Lagunillas transmission line	1.3	2Q 2020

3. Project Development

Transelec S.A. continued developing projects amounting to a reference investment value of US\$27.8 million. These projects are listed as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0373/2016	Bay incorporation for the 1×220 kV Cndores - Parinacota transmission line at the Parinacota Substation	2.3	1Q 2020
0373/2016	J3 and J4 bay normalization at the 220 kV Chena Substation	1.2	1Q 2020
0373/2016	Bay incorporation for the 1×220 kV Tarapac - Cndores transmission line at the Cndores Substation	3.6	1Q 2020
0373/2016	New 220 kV Quillagua (Frontera) Sectioning Substation	18.0	1Q 2020
0158/2015	2×220 kV Crucero – Lagunas transmission line extension	2.5	1Q 2020
0373/2016	Upgrade at 220 kV Punta Colorada Substation	2.5	3Q 2020

4. Commissioning

Projects amounting to a reference investment value of US\$31.0 million were energized in 2019:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0373/2016	220 kV Charra Substation normalization	2.6	1Q 2019
0373/2016	220 kV Nueva Valdivia Sectioning Substation	11.6	3Q 2019
0422/2017	Upgrade at 220 kV Ciruelos Substation	3.7	3Q 2019
0373/2016	Second circuit sectioning for the 2×500 kV Polpaico - Lo Aguirre transmission line at the 500 kV Lo Aguirre Substation	10.8	3Q 2019

Investment in 2019

National Power Grid  
*Values in CLP million*

Project type	Actual investment
New Works	6,625
Upgrades	18,448
Carry Over (*)	8,524
<b>Total Projects in the National Power Grid</b>	<b>33,597</b>

(\*) Corresponding to payment made in 2019 for projects commissioned in 2019 or earlier.

## Zonal System Projects

### New projects

#### 1. Studies

Transelec S.A. is currently developing studies in order to participate in the tendering process executed by the National Electricity Coordinator. The project portfolio has an approximate reference investment value of US\$ 137.9 million and the projects are listed as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0004/2019	New 220/110 kV La Negra Sectioning Substation	14.7	1Q 2023
0004/2019	Nueva 220/66 kV La Señoraza Substation	8.7	1Q 2023
0004/2019	Bypass construction and dismantling for the 1x220 kV Atacama – Esmeralda transmission line, the 1x110 kV Esmeralda – La Portada transmission line and the 1x110 kV Mejillones – Antofagasta transmission line	13.4	1Q 2024
0004/2019	New 2x220 kV Candelaria - Nueva Tuniche transmission line and 220 kV Nueva Tuniche Substation	19.6	1Q 2024
0231/2019	New 110 kV Litueche Sectioning Substation	4.5	3Q 2022
0231/2019	New 110 kV Ilque Sectioning Substation	1.8	3Q 2022
0231/2019	New 110 kV Damascal Sectioning Substation	5.7	3Q 2022
0231/2019	New 110 kV Loncura Sectioning Substation	5.7	3Q 2022
0231/2019	New 2x66 kV Nueva Nirivilo – Constitución transmission line, laying the first circuit	11.4	3Q 2023
0231/2019	New 2x110 kV Alto Melipilla - Bajo Melipilla transmission line, laying the first circuit	3.2	3Q 2023
0231/2019	New 110-66 kV Codegua Sectioning Substation	11.6	3Q 2023
0231/2019	New 220 kV Loica Sectioning Substation and 2x220 kV Loica – Portezuelo high-voltage transmission line	37.6	3Q 2023

#### 2. Contracts Awarded

No project contracts were awarded during the period.

#### 3. Project Development

Transelec S.A. continued project development with reference investment value amounting to US\$ 39.1 million. These projects are listed as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0418/2017	New 220/66 kV Lastarria Substation	14.9	1Q 2021
0418/2017	New 220/110 kV Río Aconcagua Substation	24.2	3Q 2021

#### 4. Commissioning

No projects were commissioned during the period.

### Upgrades

#### 1. Studies

The National Electricity Coordinator started a tendering process for the following zonal upgrades with investment value amounting to US\$ 32.7 million:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0418/2017	Circuit change for the 1x154 kV Charrúa - TAP Chillán and 1x154 kV Charrúa – Monterrico transmission line	2.5	1Q 2022
0418/2017	Upgrade at the 220 kV Nueva Valdivia Substation	7.2	1Q 2023
0293/2018	Upgrade at the Laja Substation	0.6	1Q 2022
0293/2018	Laying the second circuit of the 2x154 kV Tinguiririca - San Fernando transmission line and upgrade at the Tinguiririca Substation	5.9	1Q 2022
0293/2018	2x220 kV Punta de Cortés – Tuniche transmission line upgrade: line bay incorporation	6.7	1Q 2023
0198/2019	Upgrade at the Charrúa Substation	2.8	3Q 2022
0198/2019	1x66 kV San Javier - Constitución transmission line sectioning at the Nueva Nirivilo Substation	1.4	3Q 2022
0198/2019	1x66 kV Ninivilo - San Javier transmission line capacity upgrade	5.6	1Q 2023



2. Contracts Awarded

No project contracts were awarded during the period.

3. Project Development

Transelec S.A. continued executing zonal upgrade projects with investment value amounting to approximately US\$28.5 million in 2019. These projects are listed as follows:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
0418/2017	Sectioning at the Panimavida Substation	0.9	1Q 2020
0418/2017	220/110 kV autotransformer bank at the Pan de Azúcar Substation	12.9	2Q 2020
0418/2017	1x110 kV Maitencillo – Algarrobo high-voltage transmission line capacity upgrade	4.3	3Q 2020
0418/2017	2x154 kV Alto Jahuel - Tinguiririca high-voltage transmission line sectioning at the Punta Cortés Substation	4.5	3Q 2020
0418/2017	110 kV GIS upgrade at the Cerro Navia Substation	2.8	3Q 2021
0418/2017	Upgrade at the Itahue Substation	3.1	3Q 2022

4. Commissioning

Projects with investment value amounting to approximately US\$ 13.5 million were commissioned in 2019:

Decree	Project	Ref. IV (US\$ mn)	Commissioning
Art. 102	New 220/154 kV transformer and adjustments at the Tinguiririca Substation	13.5	1Q 2019

Investment in 2019

Zonal System  
Values in CLP million

Project type	Actual investment
New Works	2,174
Upgrades	9,424
Carry Over (*)	2,115
Total Projects in the National Power Grid	13,712

(\*) Corresponding to payment made in 2019 for projects commissioned in 2018 or earlier.

Dedicated System Projects

1. Studies

Transelec has continued its pursuit of new business opportunities in 2019, aiming to establish and strengthen relations with its customers while contributing its expertise in the provision of technical, innovative and competitive solutions.

2. Projects Awarded

During 2019, Transelec S.A. was awarded contracts and started power transmission project development with reference investment value amounting to US\$ 200.0 million:

Type of connection	Project	Ref. IV (US\$ mn)	Commissioning
Wind	Malleco Wind Park	3.0	3Q 2020
Solar	Atacama Solar	24.0	4Q 2020
Solar	Río Escondido Power Transmission Project	18.0	4Q 2020
Mining	Quebrada Blanca (Phase II), Teck	155.0	2Q 2021

3. Commissioning

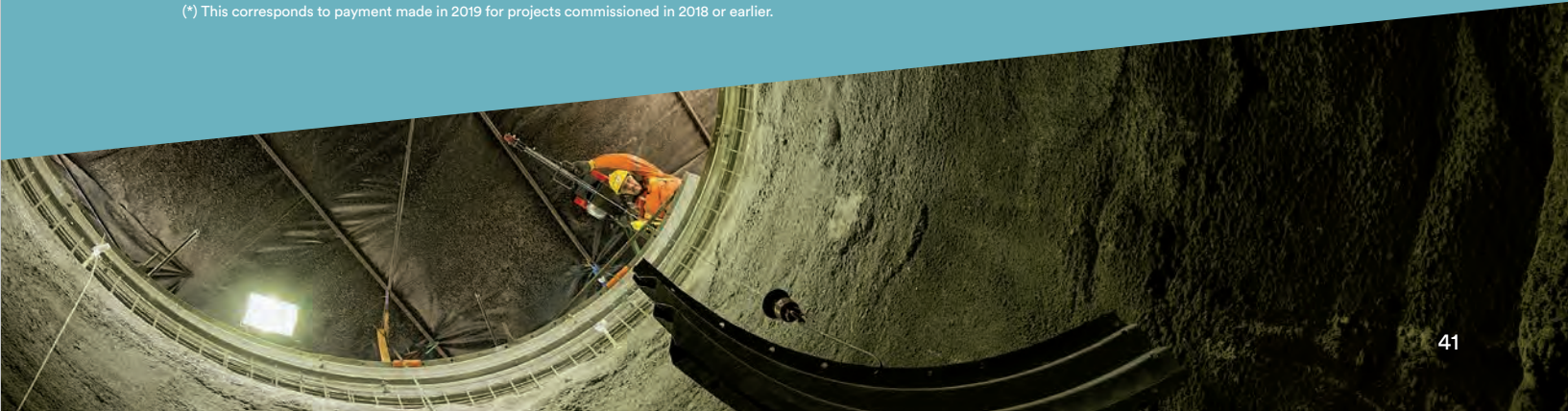
No projects were commissioned in 2019.

Investment in 2019

Dedicated Transmission System  
Values in millions of Chilean pesos

Project type	Actual investment
Dedicated Works	30,827
Carry Over (*)	256
Total Dedicated System Projects	31,083

(\*) This corresponds to payment made in 2019 for projects commissioned in 2018 or earlier.





# Environment

Transelec operations are subject to Law N°19,300/1994 on General Environmental Guidelines (“Environmental Law”) and its subsequent amendments. The Environmental Law requires the principals of new projects or modifications of high voltage transmission lines and electrical substations to comply with the Environmental Impact Evaluation System (SEIA) and submit Environmental Impact Studies (EIA) or Environmental Impact Declarations (DIA) as required so that these projects can be environmentally evaluated and qualified by the respective Environmental Evaluation Commissions and then finally approved by means of an environmental qualification resolution. In addition, these regulations indicate that the project principal will be entitled to request the Environmental Evaluation Service to make an official announcement as to whether a project or its modification should be submitted to the SEIA. These documents to be submitted are known as letters of pertinence to be submitted to the SEIA. More specifically, the main reform made to the Environmental Law came about through the passing of Law 20,417/2010 that introduced important changes to current institutionalism, creating new environmental management instruments and modifying existing instruments. Transelec consequently had to adjust to these new requirements. The institutional framework was therefore constituted by the following entities:

- i. Ministry of the Environment
- ii. Council of Ministers for Sustainability
- iii. Advisory Councils
- iv. Environmental Evaluation Service
- v. Environmental Superintendence
- vi. Environmental Courts

These institutions are responsible for the design and application of environmental policies, plans and programs, the proposal of sustainability criteria for the formulation of planning process and policies at ministries, the formulation of regulations, SEIA administration, project inspection and sanctions, among others. Environmental Evaluation System Regulations (SD N°40/2012) came into force 24 December 2013. Among other issues, these regulations indicate requirements for environmental impact evaluation procedures for Environmental Impact Studies and Environmental Impact Declarations and community participation, as well as consultation with first nations throughout this process.

We wish to highlight that the creation and commissioning of Environmental Courts 28 December 2012 was also accompanied by entry into force of inspection and sanction capacity for the Environmental Superintendence.

Transelec is an active user of environmental institutionalism. The Company submitted four projects for environmental evaluation in 2019, all of which have been environmentally certified. In addition, 53 environmental sector permits were lobbied for projects under construction and currently operating. These permits are currently in different stages of approval.

The Company’s outstanding environmental performance has meant that no fines have been applied this year due to non-compliance with environmental commitments, despite the fact that we are managing 34 projects in development stages.

Moreover, in June 2019 the Ministry of the Environment presented at new SEIA modernization package by means of a new reform bill for this system. The most important points highlighted from this initiative are listed as follows:

- A proposal to eliminate Early Citizen Consultation (ECC).
- Strengthening regional commissions as the final administrative decision making level for projects.
- Greater involvement of Environmental Courts in dispute settlement.
- Elimination of the Committee of Ministers.

Finally, with regard to of climate change, the Ministry of the Environment’s Climate Change Office spearheaded a formulation process for the Climate Change Framework Bill by means of a multi-stakeholder participatory process (June-July 2019) in order to bring together outlooks and experience from different key societal stakeholders.

This law aims to implement:

- Principles
- A governance system
- Management instruments
- Financing mechanisms
- Low greenhouse gas emission development
- Reduced vulnerability
- Increased resilience
- Guaranteed compliance with international commitments taken on by the Chilean government in order to address challenges inherent to Climate Change





Our Customers

Transelec transmits electrical energy that is fundamental for energy market operation. We are the link between power generation and daily demand created by Chile's inhabitants. We are consequently one of the parties responsible for ensuring that residential and industrial customers have a steady and uninterrupted power supply, thus improving the country's quality of life and development.

The Company is the leading provider of power transmission services in the National Power Grid and plays an essential role in Chile's energy development. Our customers are those users that withdraw and/or inject energy into/out of power transmission systems, which is to say; power generation, final customer (through power distribution) and industrial and mining customers.

During 2019, Transelec was awarded the development, operation and maintenance of the transmission solution to allow the supply of energy to Quebrada Blanca Phase 2 Project, owned by Teck. The high voltage project includes a 122-kilometer line located in the Tarapacá region, with an investment value close to US\$ 150 million. This project considers a great execution challenge, because the construction of a section of the line of approximately 20 km is contemplated above 4,000 meters above sea level.

We understand that being leaders in the power transmission market not only means managing large-scale projects, which Transelec has been doing throughout its corporate history, but also providing better solutions for each type of customer and adapting to the new requirements of a constantly changing market. We are facing the future with innovative vision, in which digital transformation leverages our commitment with quality and reliability.

Transelec's commitment not only focuses on its customers, but also involves the future of Chile's energy, which can be understood as a development engine. We work to streamline how we use resources and to always have a positive impact on our surroundings.

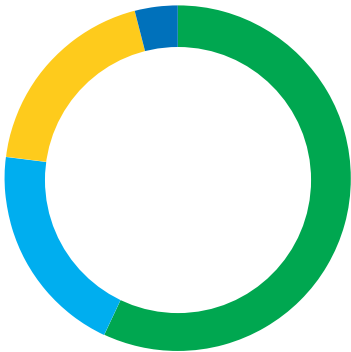
Transelec is looking toward the new decade with a view to new leadership committed to service management in a scenario bringing together irreproachable customer relations management, new technologies, sustainable development, well-informed and conscientious citizenry and a world moving toward digitalization in smart cities at a breakneck pace. We at Transelec are prepared for this new world.



Transelec customer share\*

- 35% Enel Group
- 16% CGE Group
- 14% Colbún Group
- 13% AES Gener Group
- 2% Engie
- 1% Pacific Hydro Group
- 19% Others

\* According to invoicing.



Income distribution by system\*

- 57% National
- 20% Zonal
- 19% Dedicated
- 4% Services

\* According to invoicing.

Our customer service policy

Our policy is to interpret and understand our customers' needs, identifying optimum technical and economic solutions for each project and executing these projects keeping with the highest quality, safety and environmental parameters. We seek to reach a commitment that will forge long-term relations over the years.

Our commitment is to provide service and consultancy using our extensive and specialized knowledge of power transmission in order to provide tailor-made services for project execution. Customer service and trust in our knowledge as system specialists are the foundation for close relations with our customers and the market.

The pursuit and provision of a specialized power supply allows us to develop the best and most innovative power transmission solutions, especially for highly complex projects with tight deadlines, incorporating cutting-edge technological solutions.

Our projects are executed in compliance with the highest standards in a framework of sustainability throughout their entire life cycle, using technology and designs that are compatible with the environment, communities, our employees and contractors.

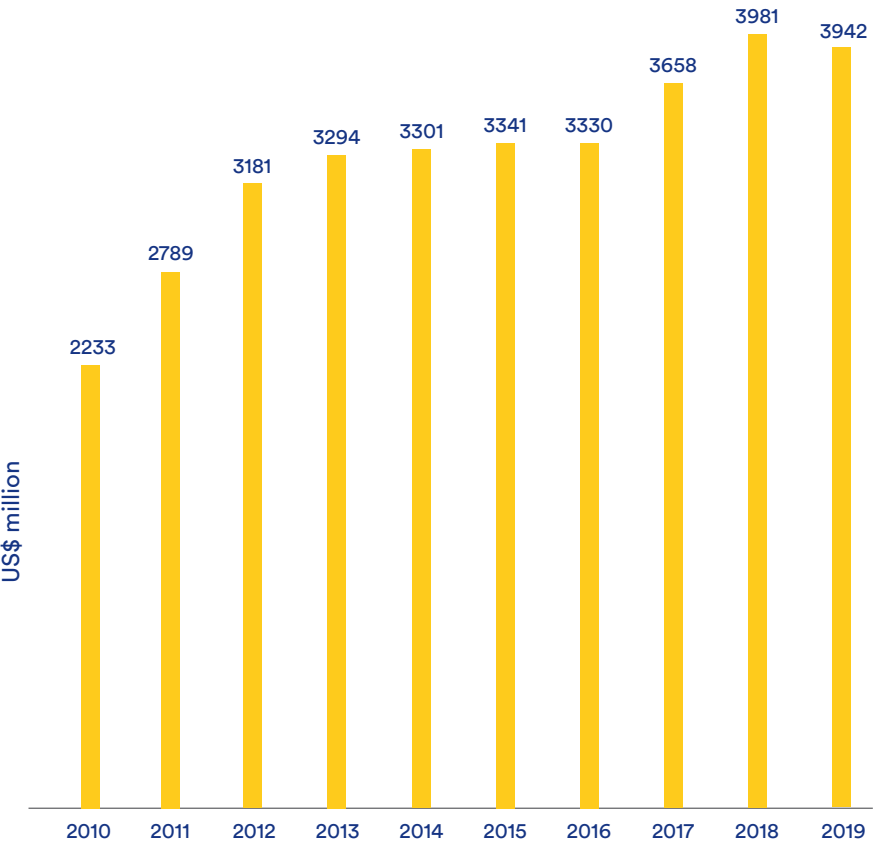
Just like every year, we examine the opinions and perceptions of our customers by means of an annual Customer Service Survey applied to our Connection relationships. Our efforts have led to a constant and sustainable increase in satisfaction levels.

Investment Value (VI)

The current regulatory framework establishes mechanisms for calculating and publishing power transmission Company investment valuation at market prices. This information is used to set service tariffs

Transelec power transmission facilities were appraised at US\$ 3,942 million as of December 31, 2019.

Investment Value (VI)





# The Operation





As a public service Company, Transelec is strongly committed to providing power transmission service in compliance with stringent quality and safety standards, while focusing on its customers and optimal asset management. The Company consequently employs its own personnel and highly qualified contractors, as well as technology-intensive processes and resources based on risk models.

In this context, and in pursuit of operating assets meeting excellent standards of excellence, we have worked on updating the operations and asset management strategy while incorporating innovation and digital transformation as a key strategic tool for meeting these goals.

Enabling digital technologies have led to radical improvement of our operating processes, which are focused on three lines of work:

- Asset condition monitoring
- Asset management intelligence
- Operational management tools

Progress was made with the development of seven digital transformation initiatives at the Vice-presidency of Operations and some initiatives that will be used to enable different stages of the operations process were incorporated.

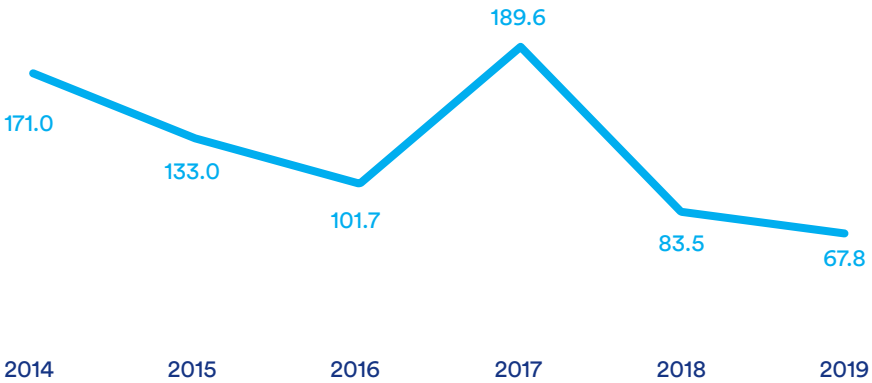
## Asset Management

One of the strategic focal points for power transmission asset management in 2019 was the formulation of specific and exclusive action plans and measures designed to ensure service quality at facilities for which disconnection impacts regulated customers. In this same vein, we conducted two initiatives whose guiding purpose was to formulate preventive activities for pre- and post-failure management. On the one hand, preventive actions were formulated in order to prevent transmission line faults, which led to prioritized investment in OPEX and Sustainable CAPEX\*. On the other hand, activities have been implemented for procedures to manage corrective actions during repairs in order to mitigate the impact of events on these critical facilities.

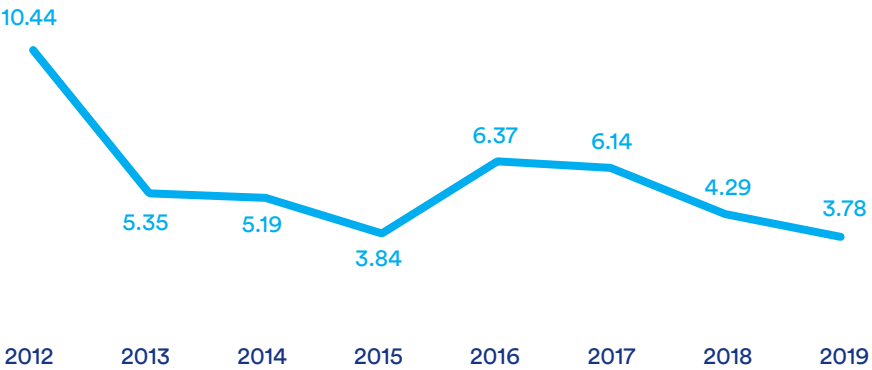
With regard to facility performance, the Disconnection Rate indicator, which measures the number of faults stemming from internal causes at Transelec facilities, indicated positive performance in 2019 compared to the goals set for the year. In general, terms, the three technical areas assessed by this indicator are listed as follows:

- The line outage rate was down 11% compared to the goals set for 2019. These results were mostly generated by a substantial reduction in power outages caused by birds, which is mainly due to reliability initiatives implemented as part of Sustainable CAPEX works executed to reduce the number of birds at our facilities.
- The control and protection outage rate was down 29% compared to the goals set for this year. This is the result of two main concepts: on the one hand, systematic adjustment errors were reduced by quality and standardization initiatives that have been under way for a few years now. On the other hand, power outages caused by intervention errors have been reduced as the result of quality initiatives for intervention and protection work that have been executed.
- Power outage rate indicator results for high voltage assets behaved similarly to results reported in 2018, amounting to 22%. However, these results are below the goal set for this year. Preventive maintenance execution, predictive activities and compliance with the replacement plan are fundamental for improving performance for these assets. Maintenance activities have consequently been formulated and improved leading up to a new technical operations contract award.

**Substation disconnection rate**  
Disconnections every 1000 circuit end



**Transmission line disconnection rate**  
Disconnections every 1000 km of circuit



One of the focal points this year was progress of the Asset Management 4.0 project, which was designed to use asset data (technical features and performance indicators, which are measured using sensors, together with maintenance and inspection results) in order to determine asset condition using state-of-the-art analytical tools in order to finally optimize maintenance and replacement action planning based on the prediction of future behavior for assets to be analyzed. At the end of 2019, following the culmination of a long study and tendering process, the Company was deciding on who would provide this strategic tool in order to begin the implementation stage in 2020. An important part of the project will consist of digitizing historical Transelec asset information and making this information available.

In addition, the Company has been systematically improving and standardizing data as part of its digital transformation strategy. More specifically, data for over 150,000 transmission lines and substations were registered into the Electricity Coordinator platform in 2019. These consist of information about existing facilities, Sustainable CAPEX projects and connection projects. In addition, the Company continued to assess elemental and wiring blueprints in the south and central zones in order to formulate blueprints meeting quality requirements for decision-making and project execution. Data reliability was revised and confirmed in order to load over ten VI projects into the SAP platform and incorporate the respective maintenance plans.

Finally, an IT system was incorporated for maintenance planning observation monitoring. This platform enables the following:

- Channeling planning observations generated by zone divisions, improving quality and response time.
- Classifying tickets for the analysis of points most affecting planning in order to focus on these and assign persons responsible, thus achieving planning excellence.

This and other initiatives helped improve maintenance-planning quality, consequently enabling compliance with maintenance goals for the year.

(\*) Sustainable CAPEX: Is the materialization of improvement in quality service, the value preservation of our assets and the growth of our productivity, through the development of replacement projects and the modernization of our installations.



## Operation

Transelec Operational Continuity Plan (PCOT) brings together guidelines for the efficient and effective prevention, mitigation of, and response to emergencies to recover and preserve operational continuity at our facilities. A study was conducted together with an international consultant in 2019 to gauge good practices for operational continuity plans. Conclusions drawn from this study and the climate change study are being incorporated into the PCOT, together with process improvements such as Emergency Management and the incorporation of technology into operational risk assessment. Transelec National Transmission Operation Center (CNOT) plays a fundamental role in ensuring service continuity. CNOT construction was completed in 2014, meeting the highest safety standards and making it possible for Transelec to centralize operation of its facilities in real time. A competency management process for CNOT operators was implemented in 2016. The process included the assessment of model skills. An Operator Training System (OTS) was implemented in 2019. This system has enabled additional improvement of our operators’ technical and behavioral performance in a controlled environment by simulating extreme conditions and events, replicating actual system and workplace features.

During 2019, we continued working in our Safety culture, through a plan called “Systematization of the Safety Culture Model”, whose main objective is the incorporation, adaptation, acceptance and execution of the new and best Occupational Health and Safety management practices (SSO) and that during the year 2019 focused on three Constant Vellums or Attributes of the model:

- **Informed Organization to combat Organizational Silence.**  
Promote, develop and manage front-line reporting at all levels of the organization.
- **Learning Organization looking for improvements in the learning process.**  
Review and improve investigation process (procedure, tools, commission of investigation and final report) of safety and operational incidents.
- **Fair Organization where to establish a single criterion for the Sanction and Recognition within the Company.**  
Develop a formal Sanction and Recognition protocol that allows objectivity in the delivery of a recognition or sanction in case of a violation of the SSO norms.

This Safety Culture model has allowed us to optimize our OHS management with a focus on High Risk Activities (Driving, Working at Height and Working with Energized Equipment and Lines). We have a strong participation of our workers and those of contractor companies. For Transelec, no operational goal or emergency justifies a worker's exposure to uncontrolled risks.

In 2019, Transelec achieved the lowest accident index of the last 10 years thanks to the high compliance in the SSO Plans and Programs with direct involvement of contractor companies, and the support of two of our shareholders (best practices and lessons learned).

## Occupational Health and Safety Indicators 2019

### Accident Index\*

Historical maximum (year 2008)	Historical minimum (year 2018)	2019
1.20	0.23	0.07

### Siniestrality Index\*

Historical maximum (year 2008)	Historical minimum (year 2014)	2019
48.04	3.23	2.12

### Professional illnesses\*

Historical maximum	Historical minimum	2019
0	0	0

Note # 1: indicators of Transelec S.A. consider all its own personnel and contractor companies that work in maintenance, construction and services.

Note # 2: The maximum and minimum values consider values from 2008 to 2018.

(\*) Accident Index: Quotient between Lost Time Injury and Worker (N° LTI\*100 / N° Workers)

Siniestrality Index: Quotient between Lost days and worker (Lost Days\*100/ N° Workers)

**Professional illnesses:** It's caused directly by the profession exercise by a person resulting in disability or death.

## Service quality

Service quality is one of the Company’s strategic pillars, which is the result of Transelec management’s work to maintain and modernize its assets, together with response capacity in the event of a network incidents.

Network topology evolution, improvements made to quality standards and the increasing demands of society mean that we set loftier performance improvement goals each year. In order to measure service quality, Transelec considers Equivalent Interruption Time (TEI), which measures service safety by means of total energy not supplied to free and regulated customers as compared to maximum system demand for the period in question.

Transelec performance has improved considerably in 2019 compared to results over the last few years, reporting 56 forced disconnections with power outages the Company was responsible for at Transelec facilities, which meant TEI amounting to 2.82 system minutes.



# Our People





Employees play a key role as part of the pillars of Transelec’s strategic plan. The high quality standards we keep our work up to and the growing challenges being faced by the Company lead us to recruit and retain the best professionals in the market for our different divisions.

Transelec therefore has compensation, benefits and bonus policies that keep our Company competitive in terms of training, motivating and retaining talent.

In terms of professional development for our employees, the Company regularly hosts training programs that to keep our professional quality standards high. We have also developed the concept of knowledge management to retain current knowledge at the Company and transfer this knowledge to new generations

Quality of life

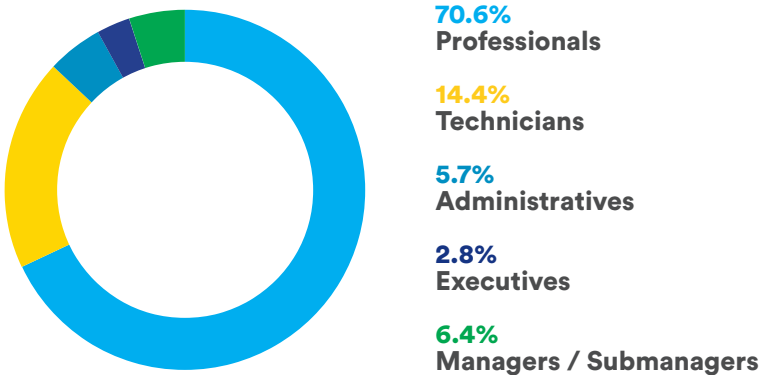
Transelec has several initiatives:

- One of the most appreciated initiatives is a shorter workday on Fridays, which is the case throughout the entire year. A recent incorporation is bridge days when legal holidays fall on a Tuesday or Thursday.
- Another outstanding benefit is the 5-minute Workout Program that started in 2011. This program has been implemented in Santiago and in Chile’s regions.
- Along the same lines, we also wish to highlight Club Transelec that hosts recreational, sports and cultural activities by matching employee contributions on a 1+1 basis.
- As part of our plan to integrate family members and the Company, “Open Day” was held once again for the ninth year in a row in Santiago and in Chile’s regions. On this day, Transelec opens its office doors so that our employees’ children can visit the place where their parents work and see how they contribute to the Company.
- In addition, our Christmas party has become a tradition, bringing together workers and their families. This year regular contractors and external personnel, together with their families, also joined us.

Our staff

Transelec’s staff came to 562 workers as of 31 December 2019. Over 96% of these workers are technically or professionally specialized, proving that the Company is highly knowledge intensive, in line with the service quality it requires. 72.4% of the Company’s staff is employed in Operations, Engineering and Project Development.

Staff distribution %



Note: this does not include projects personnel.

In terms of diversity at Transelec, we can mention that one woman works at the Senior Management and reporting level, while 21% of the rest of our staff are women (114). The following graphs and figures indicate employee distribution by nationality, age and seniority at the Company.

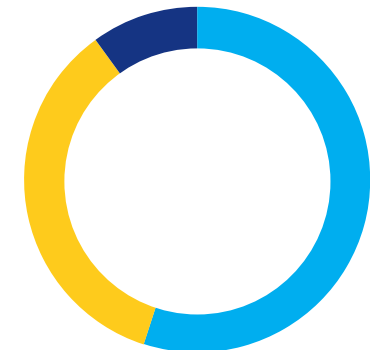
i) Nationality

Nationality	Senior Management and reports			Organization		
	M	F	Total	M	F	Total
Chilean	9	1	10	419	106	525
Foreigners	-	-	-	19	8	27
Overall Total	9	1	10	438	114	552





ii) Distribution by age

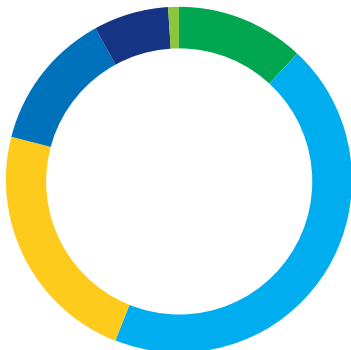


a. Senior Management and reports

Staff by age (men)

- 5 between 41 and 50
- 3 between 51 and 60
- 1 between 61 and 70

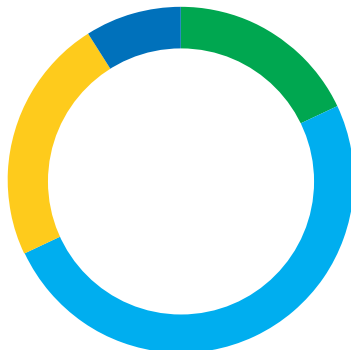
The age range for women is between 41 and 50.



b. Organization

Staff by age (men)

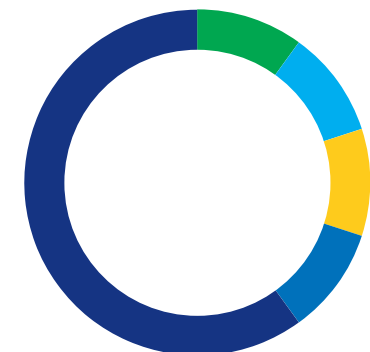
- 53 less than 30 years
- 190 between 30 and 40 years
- 101 between 41 and 50 years
- 60 between 51 and 60 years
- 32 between 61 and 70 years
- 2 older than 70 years



Staff by age (women)

- 21 less than 30 years
- 57 between 30 and 40 years
- 27 between 41 and 50 years
- 9 between 51 and 60 years

iii) Distribution by seniority

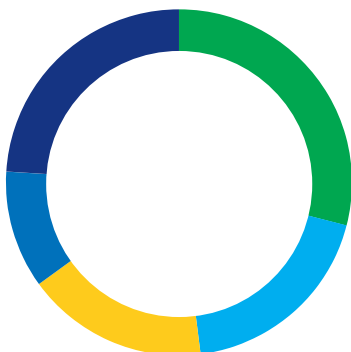


a. Senior Management and reports

Staff by seniority (men)

- 1 less than 3 years
- 1 between 3 and 6 years
- 1 between 6 and 9 years
- 1 between 9 and 12 years
- 5 more than 12 years

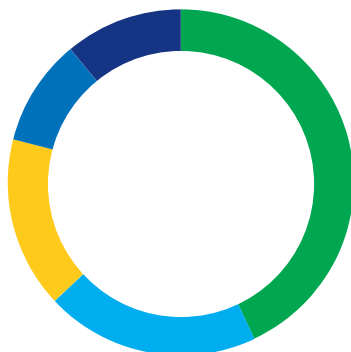
The seniority range for women is between 9 and 12 years.



b. Organization

Staff by seniority (men)

- 125 less than 3 years
- 86 between 3 and 6 years
- 74 between 6 and 9 years
- 48 between 9 and 12 years
- 105 more than 12 years



Staff by seniority (women)

- 49 less than 3 years
- 23 between 3 and 6 years
- 18 between 6 and 9 years
- 11 between 9 and 12 years
- 13 more than 12 years



iv) Salary gap

The following figures indicate the salary gap between men and women in percentages. The salary gap is determined based on average gross salary for women compared to men. (AGS for Women / AGS for Men).

Position	AGS W / AGS M
Administrative Worker	131%
Analyst	105%
Manager/Assistant Manager	89%
Engineer	91%
Supervisor	98%
Technician	110%

Labor relations and organizational climate

Transelec has been working to continue empowering good labor relations in 2019. In fact, the Company has been given several awards in this category over recent years. The main thrust of this work is the Company's open house policy with its two unions. Regular meetings addressing different labor issues that have helped to build a relationship of trust between the two parties testify this.

An Organizational Health Index (OHI) survey is conducted once every two years. This survey measures nine key dimensions at an organization, such as working climate and leadership. Over the years, this survey has evidenced positive development for each of these factors. Transelec scored 80 points on the last OHI survey conducted at the end of 2018, positioning our Company in the upper decile for this evaluation at a global level. This excellent news proves that work executed in recent years has come to fruition. We analyzed these results in 2019 to determine areas of organizational health that require further development.

Our "Adding Energies" Diversity and Inclusion Program continued to deliver positive results this year. We are pleased to announce that the 1% of personnel required by Law 21,015 have already been hired. In addition, we have participated in different initiatives fostered by the Ministry of Energy, such as the "Energy and Women" program, which led to an actionable commitments, such as encouraging women to participate in the electricity market by means of talks and educational institutions and job fairs, actions hosted by Transelec throughout the entire year. At the same time, we hosted Workshops for Raising Awareness that were attended by Transelec workers from Chile's different regions and accessibility analysis was conducted for all of our regional offices. In turn, we finished analyzing all job positions to identify openings for the inclusion of persons with disabilities. Finally, discussion rounds were hosted in order to brainstorm new ideas and respond to worker questions and perception regarding these issues. All of the above was supported by a powerful communications plan directed to the entire Company: #esdiscriminar.

Knowledge management

Training time came to 28,757 hours in 2019, amounting to a monthly average of 4.26 hours per worker. 89.5% of Transelec’s workers participated in training programs related to operating areas, management support, safety, engineering, innovation, graduate degrees, languages and information technology, among others.

In addition, we consolidated new learning methodologies that have streamlined the scope of our training programs in 2019. The e-learning training program has enabled us to provide critical knowledge training for an important number of people, including issues such as power transmission regulation, reading electrical safeguards and substation operation.

Leadership Training Center

In 2019, Leadership Training Center, which was founded in 2014 and is backed by Universidad Adolfo Ibáñez, started this fourth year with 23 new Transelec management positions. Most of these were the result of promotions recognizing the performance and talent of our collaborators. This program continues to provide outstanding cultural advantage at our divisions, while maintaining excellent organizational health indicators and strengthening leadership practices that are highly appraised by our collaborators.

Change and Digital Transformation

2019 was the year of digital transformation at Transelec. This initiative required a cultural change and the incorporation of new skills. In order to further this transformation process, the Company decided to incorporate people with expertise and profiles that would help facilitate data-centered culture into its teams. Profiles incorporated into Transelec include a data architect, a data scientist and an agile coach, all of whom were trained and experienced in digital project development.

Another important milestone was the creation of a change management model to support with the development and implementation of technology and new ways of doing things. This model was installed as the basic cultural tool for people leading digital projects at the Company.

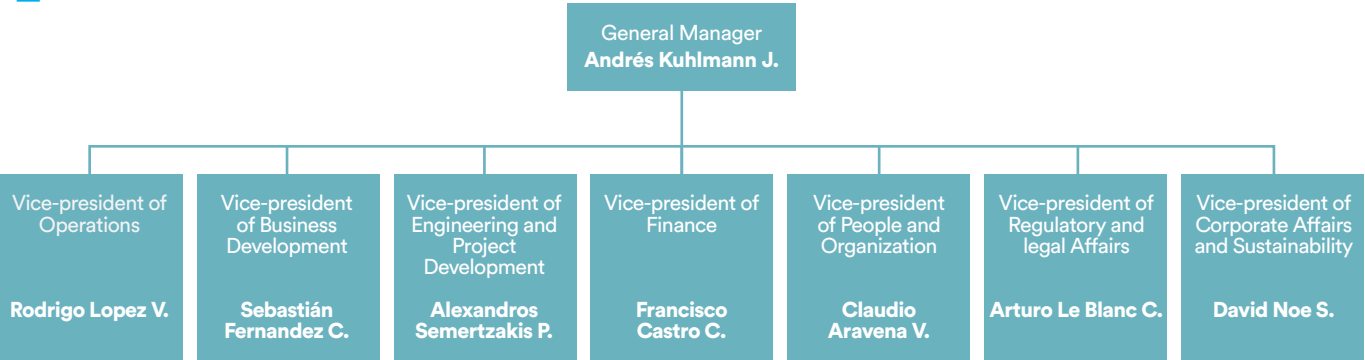
Vice-president salaries

Salaries paid to vice-presidents employed by Transelec as of 31 December 2019 amounted to CLP 3.37 billion.

Bonus plans

Transelec personnel participate in a bonus program determined by meeting objectives aligned with the Company strategy. These are developed in accordance with the level of detail and responsibility in the Transelec hierarchy scale.

Organizational Chart





# Finance



Permanent communication with our investors

One of Transelec’s main objectives is to ensure constant access to capital markets and banks in order to secure funds for developing projects and making purchases that have been determined. The ongoing confidence of the Company’s investors is therefore essential in order to sign deals that will further Transelec’s development.

Ongoing relations with debt investors consist of direct communication and quarterly reporting of the Company’s financial results.

Transelec is a Company that has committed to ongoing contact with local and international investors. The Company continues to have close relationships of trust with different financial institutions, risk rating agencies and other institutions involved in its financing.

Risk rating

The Company’s international and local risk ratings were ratified in 2019, recognizing Transelec’s outstanding results and financial strength in recent years..

International Rating

Risk Rating Agency	Current Rating
Moody’s	Baa1
Fitch- Ratings International	BBB
S&P	BBB

Local Rating

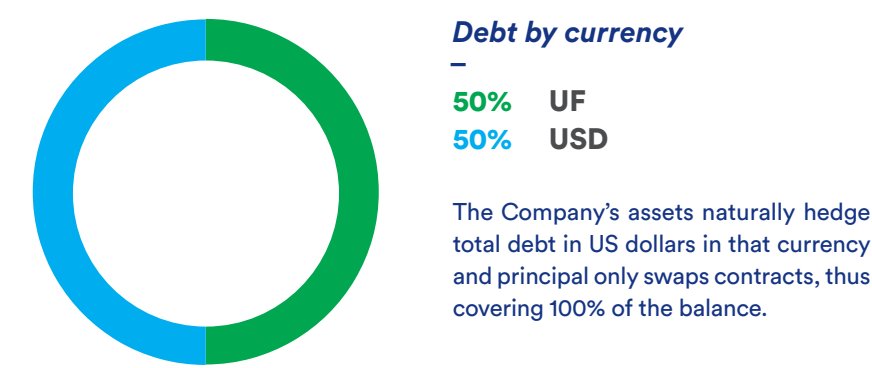
Risk Rating Agency	Current Rating
Humphrey’s	AA
Feller-Rate	AA-
Fitch- Ratings Chile	AA-

Current public debt

Debt	Date Issued	Interest Rate	Expiry Date	Current Amount	Currency
Bond D	14 Dic 06	4.25%	15 Dic 27	13,500,000	UF
Bond H	13 Ago 09	4.80%	01 Ago 31	3,000,000	UF
Bond K	04 Dic 09	4.60%	01 Sep 31	1,600,000	UF
Bond M	19 Ene 11	4.05%	15 Jun 32	3,400,000	UF
Bond N	19 Ene 11	3.95%	15 Jun 38	3,000,000	UF
Bond Q	03 May 13	3.95%	08 Oct 42	3,100,000	UF
Bond US\$	26 Jul 13	4.63%	26 Jul 23	300,000,000	US\$
Bond US\$	09 Jul 14	4.25%	14 Ene 25	375,000,000	US\$
Bond US\$	12 Jul 16	3.88%	12 Ene 29	350,000,000	US\$

UF: Unidad de Fomento (a price level restatement unit set by the Chilean Central Bank, Law 18,840). All bonds are bullet bonds (principal payment upon expiry of the last coupon).

Company debt as of 31 December 2019 is broken down as follows:



Debt Service Reserve

Starting in December 2006, Transelec has had a debt service reserve required for bond issuing contracts to make restricted payment (according to the definition of these in debt contracts). This debt service reserve considers each of the Company’s public debts and benefits all bondholders, both local (D, H, K, M, N and Q bonds) and international (144A bonds issued in 2013, 2014 and 2016). This reserve goes as high as the amount of interest and main capital amortization –with the exception of final payment– corresponding to a six-month period for the aforementioned bonds in which the Bank of New York acts as Trustee. As of December 2019, the debt service reserve account amount to US\$ 50,000,000, which further strengthens the Company’s liquidity position.

Available revolving credit facility

In order to ensure that funds are available in order to cover working capital requirements, fixed asset investment project financing (projects currently underway and potential projects), procure power transmission lines and possible debt refinancing, the Company has the following unsecured revolving credit line, all of which was available at the end of the 2019 fiscal year according to the following conditions:

Banks	Maturity	Amount (up to)	Credit Type	Use
Tokyo-Mitsubishi, The Bank of Nova Scotia, Export Development Canada, DnB Bank ASA	03 AGO 2020	US\$ 150,000,000	Unsecured revolving credit line	Working capital/ Capex/ Short-term refinancing
Scotiabank Chile, Banco Estado	03 AGO 2020	UF\$ 2,500,000	Unsecured revolving credit line	Working capital/ Capex/ Short-term refinancing

The credit line will be renegotiated during 2020 to ensure that it remains in full force.



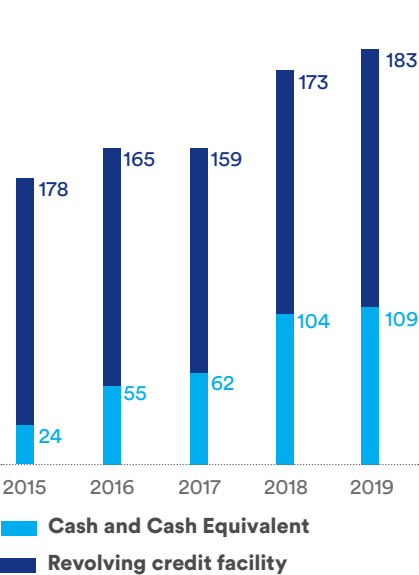
Performance indicators

Liquidity

Considering positive results in 2019, Transelec has a solid liquidity level, together with the following:

- a) An available revolving credit line
- b) Partial reinvestment of its own cash generation, which will enable the Company to finance its future plans to invest in new power transmission assets
- c) An available debt service reserve
- d) The firm commitment of its shareholders to invest or reinvest in the Company when necessary

Liquidity  
CLP Billion



Operating income in 2019

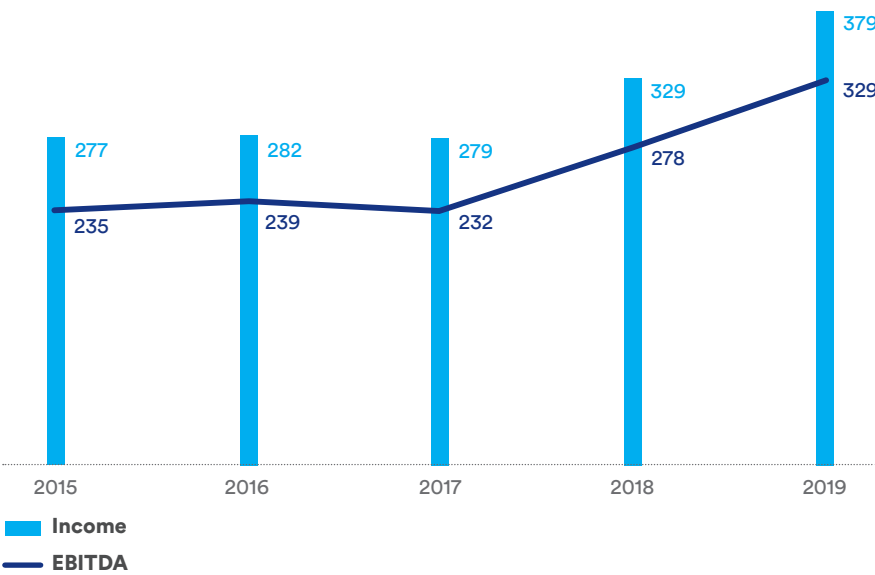
The Company has two main sources of income generation:

- a) Regulated income from services provided by assets belonging to the national power transmission systems and the zonal systems.
- b) Contractual revenue stipulated in bilateral contracts, which consider dedicated transmission assets, among others.

Transelec's properly secured 'take or pay' revenue structure, market conditions, legislation, Chile's current regulatory framework, customer quality and solvency have ensured stable results for the Company over the years.

Predictability and certainty of revenues and stable costs of the Company, which mainly consist of personnel and maintenance, ensure Ebitda margins consistently over 80%.

Income evolution and EBITDA\*  
CLP Billion



\*EBITDA= Earnings from Ordinary Activities + Fixed Sales Costs + Fixed Administrative Expenses + Other Income (Losses) + Financial Leasing Amortization

Risk factors

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

Transelec manages its risks through a corporate program that considers the vision and information from the board of directors to employees in direct contact with the risks. This program consists of workshops where past and potential risks are analyzed, carrying out concrete actions to mitigate and/or prevent them, reducing their probability of occurrence or impact.

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

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

The regulatory framework

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

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

Liquidation of national and zonal revenue

According to the provisions of temporary Article twenty-five of the General Electricity Services Law "LGSE", the collection, payment and remuneration regime specified in the standards that the new Law N° 20,936/2016 abolished are to be applied between the period starting 20 July 2016, which corresponds to the entry into force of the new Law N° 20,936/2016 and ending 31 December 2018. This is to say that the former regime established in Law N° 19.940/2004 (Short Law I) will continue to be applied. By virtue of the above, Transelec is entitled to the collection procedure set out in Ministry of Energy Supreme Decree N° 23 T/2016. Transelec annually collects Annual Transmission Value by Section for its existing national facilities, for which it receives monthly tolls from each section and temporarily receives actual tariff revenue that is subsequently reassessed compared to estimated tariff revenue.

The Company could face the risk of failing to collect revenue in a timely manner from any of the companies owning power generation assets established in the CDEC payment charts, which could temporarily affect the Company's liquidity status. In this sense and in the Company's opinion, work executed by Transelec in terms of the aforementioned collection does not consist of collection management of its own, but is rather the mere collection and transfer of external appraised surplus and deficit revenue, with the exception of estimated tariff revenue.

**Single customer revenue concentration**

35% of Transelec’s revenue comes from a single customer, Enel Generación Chile S.A., and its power generation subsidiaries. Transmission tolls to be paid by Enel and its subsidiaries will generate a substantial percentage of Transelec’s future cash flow and any substantial change made to its business model, financial status or operating income could be detrimental for Transelec.

**Renegotiation of bilateral contracts for dedicated (additional) facilities**

Revenue generated by certain dedicated (additional) facilities stems from long-term contracts. Once these contracts have expired, a conditional renegotiation process must be executed. This includes new payment and tariff terms, as well as the determination of which transmission services will continue to be provided. Therefore, we cannot guarantee that the economic terms will remain in force once the renegotiation process has concluded.

**Increasing competition in the power transmission market**

Chile’s power transmission industry is becoming increasingly competitive. We believe that this trend will continue over the short term and that we will face increased competition during tendering processes. This could mean lower project awarding and transmission network upgrades, which would reduce our market share and could hamper our estimated operating results in the future.

**Operating risks**

Although the Transelec administration believes the Company will continue to hedge its risks appropriately in keeping with industry practices including a complete annual analysis of Enterprise Risk Management, there is no guarantee that preventive actions and mitigations implemented (asset management, safety strip management, insurance policies, etc.) will be enough to cover certain operating risks, including the forces of nature, damage to transmission facilities, work-related accidents and equipment failure.

**Labor conflicts**

Delays, suspensions or other labor conflicts affecting Transelec could have an adverse material effect on the corporation’s business, financial conditions, operating income and expectations. Approximately 74% of the Transelec workforce belongs to one of its two unions and is covered by collective agreements, which expire in 2020 and 2021. Although Transelec’s administration believes that current labor relations evidence mutual collaboration between the Company and its workers, there is no guarantee that strikes, delays or suspensions will not occur prior to or at the time the current group contracts expire, which may lead to subsequent arbitration. Management cannot estimate the effect of such events on Transelec operations. Finally, Transelec S.A. is designated as part of the “Strategic Companies” list that cannot go on strikes as long as conditions indicated in the labor code are being met.

**Fines stemming from power transmission service suspension**

As of 31 December 2019, Transelec had four sanction procedures pending with the Superintendence of Electricity and Fuel (SEC) due to charges pressed by the authority stemming from four forced electricity transmission service disconnections. The SEC applied fines amounting to a total seven thousand four hundred Monthly Taxation Units for three of these. Transelec subsequently filed claims of illegality and proceedings have not yet been completed. Settlement by SEC remains pending for the rest of the sanctionary proceedings.

**Environmental institutionalism and the application of environmental standards and/or policies**

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

**Construction delays for new power transmission facilities**

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

**Exchange rate risk**

Depending on market fundamentals, specific financial characteristics of the business and other considerations, when necessary Transelec has conducted hedging operations such as cross-currency swaps or currency forwards in order to set the underlying portion of Chilean pesos contained in its revenue that will be invoiced in keeping with Chilean peso-US dollar parity and/or be used to cover asset and liability imbalances.

However, there is no guarantee that Transelec will be totally protected by the fact that it holds exchange rate hedging contracts. In addition, cross-currency swaps and forwards bear credit risk for the counterpart, cash requirements at maturity dates or recouping clauses (if this is the case) and other associated risks.

In the event that debt is incurred in a currency other than the Transelec functional currency, this will be balanced with assets in the same currency maintained in the balance or a financial derivative to counteract exchange rate variation for this currency, thus eliminating exchange rate risk.



### Technological Changes

As previously indicated, compensation for Transelec investment in power transmission facilities is obtained by means of an annual existing facility valuation (AVI) fee at market rates, which is regularly recalculated according to the process established in current regulations. If important technological advances are made for equipment at Transelec facilities, this valuation could be lower and thus hamper overall recovery of investments made.

### Credit Risk

Credit risk corresponding to accounts receivable stemming from power transmission activities has historically been very low due to the limited number of customers, their risk ratings and short collection time.

However, revenue is highly concentrated in a few customers that will produce most of Transelec's future cash flow. Any substantial change to these companies' goods, financial standing and/or operating income could be detrimental for the Company.

### Liquidity Risk

Liquidity risk is the risk of the Company not being able to meet a monetary requirement in cash or make debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets at a reasonable price and in a timely manner.

The Company is exposed to risks associated to its debt, including the risk of refinancing debt upon maturity. These risks are mitigated by the use of long-term debt and the structure of debt maturity over time.

In order to ensure that the Company is able to react quickly to investment opportunities and to pay its obligations upon maturity, Transelec had a fully available revolving credit line amounting to US\$ 150 million and UF 2.5 million as of 31 December 2019 in addition to the Company's cash surplus and short-term accounts receivable. Moreover, Transelec has unused credit lines that have been approved by local banks.

### Interest rate risk

Company assets are mainly long lasting fixed assets and intangibles. Therefore, financial liabilities used to finance these assets mainly consist of long-term liabilities at fixed rates.

In addition, current loans held by the Company with related companies are indicated in Chilean pesos, UF and US dollars feature a fixed interest rate for long-term loans that also helps to mitigate this risk.

### Inflation risk

Although higher inflation in Chile could affect debt costs expressed in UF and consequently affect the Company's income from readjustable units, these impacts are partly mitigated by the Company's revenue, which is also partially adjusted according to local inflation variation by means of contract indexing formulas.

### Other risks

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

## Insurance

Throughout the 2019 fiscal year, the Company continued its policy of holding insurance policies to protect all of its fixed assets at substations owned by Transelec and its fixed asset goods at facilities owned by the third parties. This coverage is provided by means of an industrial multi-risk policy that includes physical damage caused by fire, machinery breakdown, earthquakes and the forces of nature. Good international construction practices and strict compliance with Chilean standards led Transelec to consider physical damage coverage for power transmission lines and towers unnecessary, except for some exceptions considered to be strategic and others involving contractual issues with customers.

With regard to sociopolitical risks, the Company holds terrorism insurance, which covers actions classified by law as terrorist actions, Strike, Mutiny, Civil Commotion and Vandalism. In addition, the Company continues to hold civil responsibility and professional civil liability insurance. The latter covers eventual damage stemming from actions taken by the Company's engineers. Moreover, the Company has continued to insure its vehicles and mobile equipment and an insurance policy was taken out to cover sabotage operations and the international transport of equipment and materials. With regard to engineering projects, Transelec took out insurance policies to cover all construction, assembly, civil liability and transport risks when required.

Finally, with regard to personal accidents, the Company continues to hold insurance contracts for its workers to cover complementary health insurance, travel assistance and service commissions, among other.

During insurance renewal carried out by the end of 2019, some changes in the insurance market appeared associated with fires in the northern hemisphere and the social unrest in the country, resulting in slightly higher premiums, and the incorporation of social risk in the terrorism policy, due to the exclusion of this risk from the policy that previously covered it (property).



Dividends

2019 Dividends Policy

The Dividends Policy states that 100% of the net profit reported by the Company shall be distributed as dividends, considering acquisitions and investment opportunities, the Company’s financial situation, obligations assumed by the Company, commitments made by the Company when it issued bonds or any other debt instrument, considering the impacts of the implementation of new standards of IFRS. The Board of Directors will determinate quarterly the amount to distribute as temporary dividend, according to the conditions set before.

Dividends distributed

Transelec has distributed the following dividends to its shareholders in 2019:

Dividends paid each year (\*)

(Temporary, eventual and final)

Year	Historical Value (CLP million)
2015	88,166
2016	80,894
2017	79,294
2018	58,599
2019	96,218

(\*): Values as of December each year.

Profit sharing

(Taken from each fiscal year)

Year	CLP million (*)	% of Profit from Fiscal Year
2015	82,989	99%
2016	80,983	100%
2017	78,249	99%
2018	39,887	38%
2019(**)	96,218	68%

(\*) : Values as of December of each year.

(\*\*): This exclusively corresponds to temporary dividends paid during the year 2019, since final dividends corresponding to the 2019 fiscal year have not been announced as of 31 December 2019. These will be announced at the ordinary shareholders meeting to be held in 2020.

Relevant Facts

- 1) In conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 issued by the Securities and Insurance Commission, presently the Commission for the Financial Market, the following relevant fact was reported 15 January 2019, that Mr. Paul Dufresne announced his resignation from the position of director to the Chairman of the Transelec S.A Board of Directors. In addition, it was also announced by the same action that the Board of Directors had agreed to suspend temporary dividends corresponding to the 2018 fiscal year.
- 2) In compliance with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30, the following relevant fact was reported 21 March 2019, that at a Transelec S.A. Board of Directors meeting held that same date, Mr. Jean Daigneault announced his resignation from the position of Deputy Director for Mr. Paul Dufresne to the Chairman of the Transelec S.A. Board of Directors. In virtue of the foregoing, Mr. Richard Cacchione was appointed to the position of alternate director at the same meeting.
- 3) In compliance with the provisions of Article 9 and the second paragraph of Stock Market Law N° 18,045 Article 10, the following relevant fact was reported 21 March 2019:

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

1. The Annual Report, General Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2019.
2. Final dividend distribution. In this regard, the Transelec S.A. Board of Directors agreed to propose distribution of amounts that had already been distributed as temporary dividends in 2018 as a final dividend corresponding to the 2018 fiscal year amounting to a total CLP 39,887,000,000.
3. Dividend Policy. Due to a correction that needed to be incorporated into the current dividend policy, the Board of Directors recommended the shareholders in attendance at the shareholders meeting to approve the following: “Dividends corresponding to up to 100% of the net profit reported by the Company shall be distributed, considering acquisitions and investment opportunities, the Company’s financial standing, obligations taken on by the Company, commitments made by Transelec when it issued bonds any debt instruments, and considering impacts related to the implementation of IFRS. The Board of Directors shall determine the amount to be distributed as temporary dividends on a quarterly basis, in accordance with the conditions previously indicated.”
4. Board of Directors election.
5. Board of Directors and Audit Committee salaries.
6. Appointment of External Auditors.



7. The newspaper to be used to announce shareholder meetings.
  8. Agreements reached by the Board of Directors regarding issues contained in Articles 146 and following of the Corporations Law.
  9. Other issues of interest for the corporation and for consideration by the Board of Directors.
- 4) In compliance with the provisions of Article 9 and the second paragraph of Stock Market Law N° 18,045 Article 10 and the provisions of General Standard N° 30, the following was reported as a relevant fact 26 April 2019 that agreements were reached regarding the following issues at a Transelec S.A. shareholders meeting held that same date:
1. To approve the Annual Report, Balance Sheet, Financial Statements and External Auditors Report corresponding to the period ending 31 December 2018.
  2. To approve distribution of amounts distributed as temporary dividends during the 2018 fiscal year as a final dividend corresponding to 2018 amounting to CLP 39,887,000,000.
  3. To approve the dividends policy proposed by the Transelec Board of Directors.
  4. It was agreed that the members of the Board of Directors were to be replaced and therefore the Board is now comprised as follows: Mrs. Brenda Eaton as director and Mr. Jordan Anderson as her respective deputy director, Mr. Rui Han as director and Mrs. Sihong Zhong as his respective deputy director; Mr. Richard Cacchione as director and Mr. Michael Rosenfeld as his respective deputy director; Mr. Alfredo Ergas Segal as director and Mr. Ricardo Szlejf as his respective deputy director; Mr. Mario Valcarce Durán as director and Mr. José Miguel Bambach Salvatore as his respective deputy director; Mr. Blas Tomic Errázuriz as director and Mr. Patricio Reyes Infante as his respective deputy director; Mr. Alejandro Jadresic Marinovic as director and Mr. Juan Agustín Laso Salvatore as his respective deputy director; Mr. Juan Benabarre Benaiges as director and Mr. Roberto Munita Valdés as his respective deputy director; and Mrs. Patricia Núñez Figueroa as director and Mr. Claudio Campos Bierwirth as her respective deputy director.
5. Board of Directors and Audit Committee salaries were determined.
6. Approval of the appointment of the firm Deloitte as the corporation's external auditors for the 2019 fiscal year.
7. Approval of Diario Financiero as the newspaper to be used for publishing notices of shareholders meetings.
8. Agreements reached by the Board of Directors regarding matters contained in Corporations Law Article 146 and following articles were reported.
- 5) On 15 May 2019, in conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 issued by the Securities and Insurance Commission, presently the Commission for the Financial Market, it was reported as a relevant fact that Brenda Eaton was elected as Chairperson of the Board of Directors Transelec S.A. at a Board of Directors meeting held that same date.

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

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

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

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

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

- 9) In conformity with Article 9 and paragraph 2 of Stock Market Law N° 18,045 Article 10 and General Standard N° 30 it was reported as a relevant fact 14 November 2019 that at Transelec S.A. Board of Directors meeting held that same date, that the Transelec S.A. Board of Directors acknowledged and accepted the resignation filed by Mr. Alfredo Ergas from his position as corporation director, as well as the resignation filed by his deputy director Mr. Ricardo Szlejf.

In virtue of the foregoing, Mr. Scott Lawrence was appointed alternate director at the same Board of Directors meeting.

Moreover, at the same Board of Directors meeting, Mrs. Brenda Eaton resigned from her position as President of the Corporation. Mr. Scott Lawrence was elected to be President.



# Legal Incorporation and Amendments —





Transelec S.A. is an open stock corporation founded for an indefinite period that was originally founded as a limited liability Company with the firm name “Rentas Eléctricas III Limitada”, by public deed dated 6 June 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract corresponding to its incorporation is inscribed in sheet 22,031, N°15,264 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38,485 dated 9 June 2006.

The assignment of rights and actions for the corporation was executed by means of a public deed dated 15 June 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, with the corporations Rentas Eléctricas I Limitada and Rentas Eléctricas II Limitada established as partners. In addition, the corporation’s share capital was increased and its administration was changed. An extract corresponding to this corporate modification is inscribed in sheet 25,168, N°17,510 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38,501 dated 30 June 2006. The aforementioned amendment extract inscribed in sheet 28,355, N°19,800 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006 was corrected and published in the Official Gazette N°38,518 dated 20 July 2006.

The corporation’s share capital was increased by means of a public deed dated 11 December 2006 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of this deed was inscribed in sheet 53,096, N°37,999 of the Santiago Real Estate Registrar Commercial Registry corresponding to the year 2006, and was published in the Official Gazette N°38,650 dated 29 December 2006.

A public deed dated 26 March 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo recorded that the corporation became an open stock corporation with the firm name “Rentas Eléctricas III S.A.”. An extract corresponding to the corporation’s transformation is inscribed in page 12,696, N° 9,344, of the Santiago Real Estate Registrar Commercial Registry corresponding to 2007 and was published in the Official Gazette N°38,727 dated 30 March 2007.

It was agreed at the Company’s first special shareholders meeting held 24 April 2007 that the Company would be incorporated as an open stock corporation by means of the voluntary registration of the Company and its shares in the Securities Registry of the Securities and Insurance Commission. The minutes of this first special shareholders meeting were reduced to a document of public record dated 25 April 2007.

In June 2007, Rentas Eléctricas III S.A. took over Transelec S.A., tax list number 76.555.430-6, as stated in a public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, an extract of which was inscribed in sheet 27,509, N°19,936 corresponding to the year 2007 and was published in the Official Gazette N°38,812 dated 13 July 2007.

It was agreed at the second special shareholders meeting held 30 June 2007 that the Company’s corporate bylaws would be changed. The firm name was changed to “Transelec S.A.” and a new Board of Directors was elected. The minutes of this second special shareholders meeting were reduced to a document of public record dated 30 June 2007 at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of this reform was inscribed in sheet 27,530, N°19,941 dated 2007 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°38,812 dated 13 July 2007.

It was agreed at the Company’s tenth special shareholders meeting held 24 May 2011 that price level restatement corresponding to the year 2009 would be capitalized. This came to CLP 19,732,724,601 following amendment of the corporate bylaws that increased the Company’s share capital. The minutes of this tenth special shareholders meeting were reduced to a document of public record dated 6 June 2011 at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo. An extract of the reform was inscribed in sheet 33,736, N°25,194 dated 2011 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°39,994 dated 24 June 2011.

It was agreed at the eleventh special shareholders meeting held 22 January 2014 that the corporation’s capital would be reduced by CLP 857,944,547,865, divided into 1,000,000 ordinary nominative shares with no nominal value to CLP 776,355,047,865, divided into 1,000,000 ordinary nominative shares with no nominal value. This reduction was made considering the current stakes in the Corporation owned by shareholders, in such a way that the partner Rentas Eléctricas I Limitada would continue to own 100 shares amounting to CLP 77,635,505 and 0.01% of the corporation’s share capital, and that Transelec Holdings Rentas Limitada would continue to own 999,900 shares amounting to CLP 776,277,412,360 and 99.99% of the corporation’s share capital, amending Article Five and the First Temporary Article of the corporate bylaws. The minutes for this meeting were reduced to a document of public record 30 January 2014, at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, and an extract was inscribed in sheet 17,669 N° 11,117 dated 2014 of the Santiago Real Estate Registrar Commercial Registry and was published in the Official Gazette N°40,811 dated 19 March 2014.

It was reported at the corporation’s twentieth special shareholders meeting held 23 January 2015 that takeover mergers would be executed with the corporations Transmisora Abenor Limitada, Transmisora Araucana de Electricidad Limitada and Transmisora Huepil Limitada by Inversiones Eléctricas Transam Chile Limitada as agreed at a special Board of Directors Meeting held 23 December 2014. In addition, it was agreed at this special shareholders meeting to approve the merger between the subsidiary Inversiones Eléctricas Transam Chile Limitada and Transelec S.A., assigning the Corporation’s Board of Directors to announce when this merger would take place. Moreover, it was agreed at the Company’s eighth shareholders meeting held 28 April 2015 that in accordance with an official letter from the Securities and Insurance Commission that the purpose of said agreement was to approve the takeover merger of the subsidiary Inversiones Eléctricas Transam Chile Limitada by Transelec S.A., and to authorize the Corporation’s Board of Directors to determine the occasion and mechanism to be used in order to proceed with this takeover merger, which finally took place 31 August 2015.

## The corporation’s historical background

Transelec S.A., formerly Rentas Eléctricas III S.A., is the successor of the following companies whose incorporation, firm name change, mergers or transformations are summarized as follows:

### Takeover merger with **Compañía Nacional de Transmisión Eléctrica S.A. by HQI Transelec Chile s.a.**

A public deed of dissolution dated 30 January 2001, granted at the Notary Office owned by Mr. Fernando Opazo Larraín, reduced to a document of public records the fact that Compañía Nacional de Transmisión Eléctrica S.A. was dissolved in virtue of Article 103 N°2 of Law 18,046 on Corporations because all of its shares were purchased by HQI Transelec Chile S.A., its successor. The extract was inscribed in page 4,662; N°3,720 of the Santiago Real Estate Registrar Commercial Registry dated 2001 and was published in the Official Gazette dated 30 January 2001. This dissolution was reported at the 113th Board of Directors Meeting 30 January 2001 and was reduced to a document of public record at that same date at the Santiago Notary Office owned by Mr. Fernando Opazo Larraín.

### Firm name changed from **HQI Transelec Chile S.A. to Transelec S.A.**

A public deed dated 23 August 2006 granted at the Notary Office owned by Mr. Iván Tamargo Barros, reduced the minutes of the 8th HQI TRANSELEC CHILE S.A. Special Shareholders Meeting held 16 August 2006 to a document of public record, indicating that the firm name HQI TRANSELEC CHILE S.A., tax list number 77.498.870-K was changed to TRANSELEC S.A., with the same tax list number. The extract was inscribed in page 34,753; N°24,453 of the Santiago Real Estate Registrar Commercial Registry dated 2006 and was published in the Official Gazette dated 23 August 2006.

### Takeover merger with **Transelec S.A. by Nueva Transelec S.A.**

A public deed granted at the Notary Office owned by Mr. Iván Tamargo Barros 30 November 2006 reduced the minutes of the Transelec S.A. special Board of Directors meeting 101 held 22 November 2006, declares dissolution following takeover by the aforementioned corporation since its shares were now held by New Transelec S.A., tax list number 76.555.430-6. The extract was inscribed in page 49,292, N°35,195, of the Santiago Real Estate Registrar Commercial Registry del year 2006 and published in the Official Gazette dated 6 December 2006.

### Firm name changed from **Nueva Transelec S.A. to Transelec S.A.**

A public deed dated 30 November 2006, granted at the Notary Office owned by Ms. María Gloria Acharán Toledo, reduced the minutes of the corporation's third Special Shareholders Meeting to a document of public record, indicating that the firm name New Transelec S.A. was changed to Transelec S.A. The extract was inscribed in page 49,963, N°35,710, of the Santiago Real Estate Registrar Commercial Registry dated 2006, indicating that the firm name was changed and this was published in the Official Gazette dated 9 December 2006.

### Takeover merger with **Transelec s.a. by Rentas Eléctricas iii s.a.**

A public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo reduced the minutes of the 16th Transelec S.A. Special Board of Directors Meeting dated 6 June 2007 to a document of public record, indicating a takeover merger with Transelec S.A., tax list number 76.555.430-6 by Rentas Eléctricas III S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. The extract was inscribed in page 27,509; N°19,936 of the Santiago Real Estate Registrar Commercial Registry dated 2007 and was published in the Official Gazette dated 13 July 2007. A public deed dated 30 June 2007 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán T. reduced the minutes of the 5th Rentas Eléctricas III S.A. Special Board of Directors meeting held on the same date to a document of public record, indicating the takeover merger with Transelec S.A., tax list number 76.555.430-6 by Rentas Eléctricas III S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. Rentas Eléctricas III S.A. declares that is the legal successor of Transelec S.A., assuming all of its rights and obligations, and declares that it is jointly and severally responsible for any taxes that it currently owes or may owe.

### Firm name changed from **Rentas Eléctricas III S.A. to Transelec S.A.**

A public deed dated 30 June 2007, granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo, reduced the minutes of the Rentas Eléctricas III S.A. Second Special Shareholders Meeting dated 30 June 2007 to a document of public record, stating that the name of Rentas Eléctricas III S.A. was changed to Transelec S.A. The extract was inscribed in page 27,530; N° 19,941 of the Santiago Real Estate Registrar Commercial Registry dated 2007 and was published in the Official Gazette dated 13 July 2007.

### Transelec Norte S.A. takevoer merger with **Transelec S.A.**

A public deed dated 4 December 2014 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo reduced the minutes of the Transelec Norte S.A. 131st Special Board of Directors Meeting dated 26 November 2014 to a document of public record and constituted the takeover merger with Transelec Norte S.A., tax list number 99.521.950 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. The extract was inscribed in page 94,440; N° 57,701 of the Santiago Real Estate Registrar Commercial Registry dated 2014 and was published in the Official Gazette 31 December 2014. A public deed dated 27 November 2014 granted at the Santiago Notary Office owned by Ms. María Gloria Acharán Toledo reduced the minutes of the Transelec Norte S.A. 116th Special Board of Directors Meeting dated 26 November 2014 to a document of public record, constituting the takeover merger with Transelec Norte S.A., tax list number 99.521.950 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. Transelec S.A. declares that is the legal successor of Transelec Norte S.A., assuming all of its rights and obligations, and declares that it is jointly and severally responsible for any taxes owed or that may be owed.

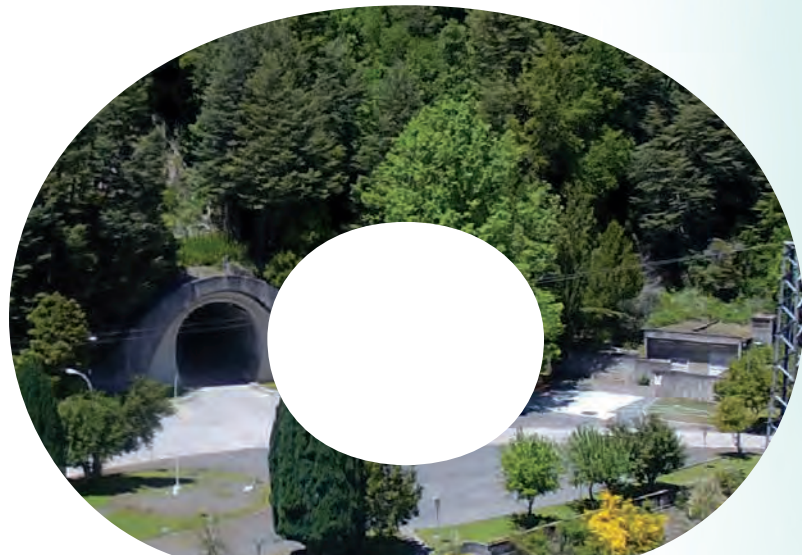
### Transelec S.A. takeover merger with **Inversiones Eléctricas Transam Chile Limitada**

A public deed dated 31 August 2015 granted at the Santiago Notary Office owned by Mr. Raúl Undurraga Laso constituted the takeover merger with Eléctricas Transam Chile Limitada, tax list number 76.384.810-8 by Transelec S.A., tax list number 76.555.400-4, which purchased all of the corporation's shares. The extract was inscribed in page 71,421, N° 41,726 of the Santiago Real Estate Registrar Commercial Registry dated 30 September 2015.



# Financial Statements

---



Consolidated Financial Statements (Audited)  
TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile  
December 31, 2019

Independent Auditors’ Report

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

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

Management’s Responsibility for the Consolidated Financial Information

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

Auditor’s Responsibility

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

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

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

Opinion

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

Other-matter – Translation into English

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

Santiago, Chile March 11, 2020



Consolidated Financial Statements (Audited)  
TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile  
December 31, 2019

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

Index

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION	88
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME BY FUNCTION	90
CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY	92
CONSOLIDATED STATEMENT OF CASH FLOWS	93
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	94
1. GENERAL INFORMATION	94
2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES	95
2.1 Basis of preparation of the consolidated financial statements	95
2.2 Basis of Consolidation of the Financial Statements	95
2.3 New standards and interpretations accounting	96
2.4 Foreign currency translation	100
2.5 Financial reporting by operating segments	101
2.6 Property, plant and equipment	101
2.7 Intangible assets	102
2.8 Impairment of non-financial assets	102
2.9 Financial instruments	103
2.10 Inventory	106
2.11 Paid-in capital	106
2.12 Income tax and deferred taxes	106
2.13 Employee benefits	106
2.14 Provisions	107
2.15 Classification of current and non-current balances	107
2.16 Revenue recognition	108
2.17 Leases	109
2.18 Distribution of dividends	110
3. RISK MANAGEMENT POLICY	110
3.1 Market risk	110
4. CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT	116
5. CASH AND CASH EQUIVALENTS	117
6. TRADE AND OTHER RECEIVABLES	117

<b>7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES</b>	<b>118</b>
7.1 Balances and transactions with related parties	118
7.2 Board of Directors and management	119
7.3 Board expenses	120
7.4 Audit committee	121
7.5 Compensation of key management that are not Directors	121
<b>8 . OTHER FINANCIAL ASSETS, LEASES</b>	<b>122</b>
8.1 Finance lease receivables	122
<b>9. INTANGIBLE ASSETS</b>	<b>123</b>
<b>10. GOODWILL</b>	<b>124</b>
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>	<b>125</b>
11.1 Detail of accounts	125
11.2 Reconciliation of changes in property, plant and equipment	126
11.3 Additional information on property, plant and equipment	127
11.4 Lease right of use	127
<b>12. DEFERRED TAXES</b>	<b>128</b>
12.1 Detail of deferred tax liabilities	128
12.2 Deferred tax movements in statement of financial position	128
<b>13. FINANCIAL LIABILITIES</b>	<b>129</b>
13.1 Detail of other financial liabilities	129
13.2 Lease liabilities for use rights	131
13.3 Other aspects	132
<b>14. TRADE AND OTHER PAYABLES</b>	<b>133</b>
<b>15. DERIVATIVE INSTRUMENTS</b>	<b>133</b>
15.1 Hedge assets and liabilities	133
15.2 Other information	134
15.3 Fair value hierarchies	134
<b>16. FINANCIAL INSTRUMENTS</b>	<b>137</b>
<b>17. PROVISIONS</b>	<b>138</b>
17.1 Detail of provisions	138
17.2 Provision movements	138
17.3 Provision for employee benefits	140
17.4 Lawsuits and arbitration proceedings	140

<b>18. POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS</b>	<b>141</b>
18.1 Detail of account	141
18.2 Detail of obligations to employees	141
18.3 Balance of obligations to employees	141
18.4 Expenses recognized in income statement	142
18.5 Actuarial hypothesis	142
18.6 Sensitivity analysis	142
<b>19. EQUITY</b>	<b>143</b>
19.1 Subscribed and paid capital	143
19.2 Number of subscribed and paid shares	143
19.3 Dividends	143
19.4 Other reserves	144
19.5 Capital management	144
<b>20. REVENUE</b>	<b>147</b>
20.1 Revenue	147
20.2 Other operating income	147
<b>21. RELEVANT INCOME STATEMENT ACCOUNTS</b>	<b>148</b>
21.1 Expenses by nature	148
21.2 Personnel expenses	148
21.3 Depreciation and amortization	148
21.4 Financial results	148
<b>22. INCOME TAX RESULT</b>	<b>149</b>
<b>23. EARNINGS PER SHARE</b>	<b>150</b>
<b>24. SEGMENT REPORTING</b>	<b>150</b>
<b>25. THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS</b>	<b>150</b>
<b>26. DISTRIBUTION OF PERSONNEL</b>	<b>151</b>
<b>27. ENVIRONMENT</b>	<b>152</b>
<b>28. ASSETS AND LIABILITIES IN FOREIGN CURRENCY</b>	<b>153</b>
<b>29. SUBSEQUENT EVENTS</b>	<b>150</b>



TRANSELEC S.A. AND SUBSIDIARY  
Consolidated Statements of Financial Position  
As of December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

ASSETS	Note	(Audited) December 31, 2019 ThCh\$	(Audited) December 31, 2018 ThCh\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	(5)	108,642,362	104,059,274
Other financial assets	(8)	1,223,578	1,221,307
Other non-financial assets		2,966,635	2,334,336
Trade and other receivables, net	(6)	87,044,078	72,332,105
Receivables from related parties	(7)	22,005,672	2,607,684
Inventory		315,202	34,919
<b>Sub - Total current assets</b>		<b>222,197,527</b>	<b>182,589,625</b>
<b>NON-CURRENT ASSETS</b>			
Other financial assets	(8)	71,361,110	28,981,627
Other non-financial assets		7,770,805	6,566,917
Receivables from related parties	(7)	242,808,336	228,259,514
Intangible assets other than goodwill, net	(9)	182,202,369	181,259,765
Goodwill	(10)	343,059,078	343,059,078
Property, plant and equipment, net	(11)	1,543,335,368	1,479,733,753
Total non-current assets		2,390,537,066	2,267,860,654
<b>Total Assets</b>		<b>2,612,734,593</b>	<b>2,450,450,279</b>

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

TRANSELEC S.A. AND SUBSIDIARY  
Consolidated Statements of Financial Position  
As of December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function  
For the years ended December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

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

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income by Function  
For the years ended December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Consolidated Statement of Changes in Equity  
For the years ended December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

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

	Note	Paid-in capital	Reserve for foreign translation adjustment	Reserve for cash flow hedges	Other reserves	Total other reserves	Retained Earnings	Equity attributable to owners of the parent	Non- con- trolling interest	Total equity
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2018		776,355,048	1,858,266	(10,250,663)	(314,754)	(8,707,151)	18,712,014	786,359,911	-	786,359,911
Changes in equity:										
Comprehensive income:										
Profit		-	-	-	-	-	105,467,702	105,467,702	-	105,467,702
Other comprehensive income		-	(1,437,958)	(31,742,687)	845,031	(32,335,614)	-	(32,335,614)	-	(32,335,614)
Total comprehensive income		-	(1,437,958)	(31,742,687)	845,031	(32,335,614)	105,467,702	73,132,088	-	73,132,088
Dividends	(19.3)	-	-	-	-	-	(58,599,012)	(58,599,012)	-	(58,599,012)
Other increases (decreases)		-	-	(569,051)	-	(569,051)	569,051	-	-	-
Total changes in equity		-	(1,437,958)	(32,311,738)	845,031	(32,904,665)	47,437,741	14,533,076	-	14,533,076
Closing balance as of December 31, 2019 (Note 19)		776,355,048	420,308	(42,562,401)	530,277	(41,611,816)	66,149,755	800,892,987	-	800,892,987

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

TRANSELEC S.A. AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	(Audited) December 31, 2019 ThCh\$	(Audited) December 31, 2018 ThCh\$
DIRECT STATEMENT OF CASH FLOWS			
Cash flows provided by (used in) operating activities			
Classes of receipts from operating activities			
Cash receipts from sales of goods and services		477,734,583	425,029,480
Cash receipts from related party for services rendered		559,842	424,976
Other proceeds from operating activities		121,679	545,550
Proceeds from interest received		12,425,160	9,073,497
Classes of payments			
Payments to suppliers for goods and services		(128,245,060)	(103,792,202)
Other payments for operating activities		(54,855,483)	(45,895,440)
Payments to employees		(16,819,933)	(16,352,329)
Interest paid		(71,188,566)	(65,844,302)
Net cash flows provided by operating activities		219,732,222	203,189,230

Cash Flows Provided by (Used in) Investing Activities

Additions of property, plant and equipment and Intangible	(107,958,311)	(97,828,973)
Amounts from the sale of property, plant and equipment	26,300	2,596,624
Loans to related parties	(113,968,788)	(99,788,665)
Receivables from related parties	102,969,665	113,423,614
Net cash flows used in investing activities	(118,931,134)	(81,597,400)

Cash Flows Provided by (Used in) Financing Activitiess

Loan payment	-	(20,561,613)
Dividends paid	(19.3)	(96,218,000)
Net cash flows used in financing activities	(96.218.000)	(79,160,625)

Net Increase (Decrease) in Cash and Cash Equivalents	4,583,088	42,431,205
Cash and Cash Equivalents, at the beginning of the year (Note 5)	104,059,274	61,628,069

Cash and Cash Equivalents, at the ending of the year (Note 5)	108,642,362	104,059,274
---	-------------	-------------

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

**TRANSELEC S.A. AND SUBSIDIARY**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**1. GENERAL INFORMATION**

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

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

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

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

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

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

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

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

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

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

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

**TRANSELEC S.A. AND SUBSIDIARY**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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

**2.1 Basis of preparation of the consolidated financial statements**

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

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

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

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

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

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

**2.2 Basis of Consolidation of the Financial Statements**

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

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

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



TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.2 Basis of Consolidation of the Financial Statements (Continued)

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

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

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

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

2.3 New standards and interpretations accounting

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

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.3 New standards and interpretations accounting (Continued)

2.3.1. New Standards

IFRS 17 Insurance Policies

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

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

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

2.3.2 Enhancements and Modifications

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

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

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

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

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

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

**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**  
**2.3 New standards and interpretations accounting**  
**2.3.2 Enhancements and Modifications** *(Continued)*

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

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

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

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

**Obscuring:** The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A). Could reasonably be expected to influence: The existing definition referred to ‘could influence’ which the Board felt might be understood as requiring too much information as almost anything ‘could’ influence the decisions of some users even if the possibility is remote.

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

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

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

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

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

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

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

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

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.

**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**  
**2.3 New standards and interpretations accounting**  
**2.3.2 Enhancements and Modifications** *(Continued)*

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

**Revised Conceptual Framework for Financial Reporting**

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

The new Framework:

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

- Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES  
2.3 New standards and interpretations accounting  
2.3.2 Enhancements and Modifications (Continued)

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.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 Transactions and balances

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

2.4.3 Exchange rates

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

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

2.5 Financial reporting by operating segments

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

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

2.6 Property, plant and equipment

Property, plant and equipment are valued at acquisition cost, net of its corresponding accumulated depreciation and any impairment losses it may have experienced. In addition to the price paid to acquire each item, the cost also includes, where appropriate, the following items:

- a) All costs directly related placing the asset in the location and condition that enables it to be used in the manner intended by management.
- b) Borrowing costs incurred during the construction period that are directly attributable to the acquisition, construction or production of qualified assets, which require a substantial period of time before being ready for use are capitalized.

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES  
2.6 Property, plant and equipment (Continued)

The interest rate used is that of the specific financing or, if none exists, the average financing rate of the company carrying out the investment.

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

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

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

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

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

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

2.7 Intangible assets

2.7.1 Goodwill

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

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

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

2.7.2 Rights of way

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.7 Intangible assets (Continued)

2.7.3 Computer software

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

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

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

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

2.8 Impairment of non-financial assets

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

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

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

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

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

2.9 Financial instruments

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

1) Non-derivatives Financial Assets

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

a) Amortized Cost:

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

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

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

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

These financial assets are recognized into the Consolidated Financial Statement at its fair value when it can be feasible

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

c) Fair value through profit or loss

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

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

2) Cash and Cash Equivalent

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

3) Impairment of financial assets

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



**TRANSELEC S.A. AND SUBSIDIARY**

**Notes to the Consolidated Financial Statements**

**As of December 31, 2019 and 2018**

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**2.9 Financial instruments** *(Continued)*

**4) Non-derivatives financial liabilities**

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

**5) Derivatives and Hedge activities**

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

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

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

**5.2)** Cash Flow Hedge: Changes in the fair value of the effective portion of derivatives are recorded in equity account "Reserve for cash flow hedges". The cumulative loss or

gain in this account is transferred to the income statement to the extent that the underlying item impacts the income statement because of the hedged risk, netting the effect in the same income statement account. Gains or losses from the ineffective portion of the hedge are recorded directly in the income statement. A hedge is considered highly effective when changes in the fair value or the cash flows of the underlying item directly attributable to the hedged risk are offset by changes in the fair value or the cash flows of the hedging instrument, with effectiveness ranging from 80% to 125%.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedged item expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity is retained and is recognized when the forecasted transaction is ultimately recognized in the income statement.

**5.3)** Net Investment Hedge: Hedges of net investments in foreign operations are accounted for on a similar basis to cash flow hedges. Foreign currency translation originated by a net investment in a foreign entity and derived from the hedge transaction should be registered in equity reserve (under "Other reserves" heading) until the investment's disposal.

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

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

At the inception of the transaction, the Company documents the relationship existing between the hedge instruments and the hedged items, as well as its risk management objectives and its strategy for handling various hedge transactions. The Company also documents its assessment,

**TRANSELEC S.A. AND SUBSIDIARY**

**Notes to the Consolidated Financial Statements**

**As of December 31, 2019 and 2018**

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

(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**2.9 Financial instruments** *(Continued)*

both at inception and subsequently on an ongoing basis, of the effectiveness of the hedge instruments in offsetting movements in the fair values or cash flows of the hedged items. A derivative is presented as a non-current asset or liability if its maturity is greater than 12 months and it is not expected to be realized within 12 months. Other derivatives are presented as current assets or liabilities.

**6) Embedded derivatives**

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

**7) Derecognition of financial assets and liabilities**

Financial assets are derecognized when, and only when:

- a) The contractual rights to the cash flows from the financial asset expire or, the Company retains the contractual rights to receive the cash flows but assumes a contractual obligation to pay those cash flows to one or more entities.
- b) The entity transfers substantially all the risks and rewards of ownership of the financial asset, or, if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity has lose control of the asset.

**8) Compensation of financial assets and liabilities**

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

- a) Exist a legal right to compensated both amounts; and
- b) Exist the intention of settle the transaction on a net basis, or to collect the asset and pay the liability simultaneously.

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

**2.10 Inventory**

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

**2.11 Paid-in capital**

Paid-in capital is represented by one class of ordinary shares with one vote per share. Incremental costs directly attributable to new share issuances are presented in equity as a deduction, net of taxes, from issuance proceeds.

**2.12 Income tax and deferred taxes**

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

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

**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**  
**2.12 Income tax and deferred taxes** *(Continued)*

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

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

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

Deferred tax liabilities are recognized for all temporary differences, except those derived from the initial recognition of goodwill and those that arose from valuing investments in subsidiaries, associates and jointly-controlled companies in which Transelec can control their reversal and where it is likely that they are not reversed in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**2.13 Employee benefits**

**2.13.1 Staff severance indemnity**

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

This benefit is recorded at nominal value.

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

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

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

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

**2.13.2 Profit sharing**

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

**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES** *(Continued)*

**2.14 Provisions**

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

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

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

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

**2.15 Classification of current and non-current balances**

In the statement of financial position, balances are classified based on maturity i.e., current balances mature in no more than twelve months and non-current balances in more than twelve months.

Should the Company have any obligations that mature in less than twelve months but can be refinanced over the long term at the Company's discretion, through unconditionally available credit agreements with long-term maturities, such obligations may be classified as non-current liabilities.

**2.16 Revenue recognition**

The regulatory framework that governs electrical transmission activity in Chile comes from the by - Law of the Electric Services dated 1982 (DFL (M) No. 1/82), and subsequent amendments thereto, including Law 19,940 (called also the "Short Law") enacted on March 13, 2004, Law 20,018 ("Short Law II"), enacted on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Sources of Energy), enacted on April 1, 2008. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto. On July 11, 2016, the new Transmission Law was enacted, which creates an Independent Coordinating entity of the National Electrical System (NES), called National Electrical Coordinator (CEN, according to the Spanish acronym), which groups the previous DEC SIC and CDEC SING; in addition, it establishes a new Electrical Transmission System in which the trunk transmission system, the subtransmission system and additional systems now form part of National, Zone and Committed Transmission System, respectively. To the remuneration received from the transmitter, a variable discount rate will be applied with a minimum of 7% and a maximum of 10% after taxes. The law enters into effect immediately and gradually until its full application as of 2020.

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

The total revenues for the use of the transmission facilities for both regulated and contractual arrangements includes in general two components: i) the AVI, which is the annuity of the Investment Value (VI), calculated in such a way that the present



**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**  
**2.12 Income tax and deferred taxes** *(Continued)*

value of these annuities, using an annual real discount rate and the economic useful life of each of the facilities equals the cost of replacing the existing transmission facilities with new facilities with similar characteristics at current market prices, plus, ii) the COMA, which corresponds to the cost required to operate, maintain and administrate the corresponding transmission facilities.

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

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from values stipulated in the contracts or resulting from the regulated tariffs and indexed as applicable. The transmission service is invoiced usually at the beginning of the month following the month when the service was rendered and thus the revenue recognized each month includes transmission service provided but not invoiced up to the month end.

**2.17 Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether or not the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

**2.17.1 The Company as lessor**

The assets held under a finance lease are presented in other financial assets at an amount equal to the net investment in the lease, being the aggregate of: (i) minimum lease payments receivable and (ii) any unguaranteed residual value accruing to the Company discounted at the interest rate implicit in the lease. The income (interest) is recognized on a pattern reflecting a constant periodic rate of return on the net investment in the lease; this income is presented in the statement of income in operating revenues. Lease payments relating to the period, excluding costs for any separate services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Assets subject to operating leases are presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative to reflect time pattern in which use benefit derived from the leased asset is diminished.

**2.17.2 The Company as lessee**

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

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

**TRANSELEC S.A. AND SUBSIDIARY**  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**  
**2.17 Leases** *(Continued)*

**2.17.3 Rights from Use of Lease**

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

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

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

**2.17.3.1 Leases previously classified as operating leases**

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

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

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

- a) Single discount rate for a lease portfolio with reasonably similar characteristics.
- b) Evaluation of onerous leases before the date of initial application.
- c) Application of the exceptions for short-term leases (maturity less than 12 months) on the date of the initial application.
- d) Exclusion of the initial direct costs of measuring the right of use asset on the date of initial application.
- e) Retrospective evaluation to determine the term of the lease in those cases in which the contracts contain renewal options or termination of the lease.

**2.17.3.2 Right of Use Assets**

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

2. SUMMARY OF SIGNIFICANT  
ACCOUNTING PRINCIPLES

2.17 Leases (Continued)

2.17.3.3 Lease Liabilities

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

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

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

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

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

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

2.18 Distribution of dividends

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

On the Company’s Board meeting No. 57 held on December 31, 2010, the policy used for the determination of distributable net profit was approved. This policy does not contemplate adjustments to the profit attributable to owners of the parent. As of December 31, 2019, the company has distributed and paid dividends for ThCh\$96,218,000 (see note 19.3).

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT  
POLICY

3.1 Financial risk

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

3.1.1 Market risk

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

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

- a) Investing cash surpluses in instruments maturing within no more than 90 days.
- b) Entering into swap contracts and other instruments to maintain a balanced foreign exchange position.
- c) Entering into long-term fixed rate indebtedness thus limiting risk from variable interest rates.

3.1.1.1 Interest rate risk

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to floating interest rates and changes in the value of financial instruments with fixed cash flows. The Company’s assets are primarily fixed and long-lived intangible assets. Consequently, financial liabilities that are used to finance such assets consist primarily of long-term liabilities at fixed rates. This debt is recorded in the balance sheet at amortized cost.

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT POLICY  
3.1 Financial risk

3.1.1.1 Interest rate risk (Continued)

Debt	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (thousand)	
				12.31.2019	12.31.2018
Series D Bond	UF	4.25%	Fixed	13,500	13,500
Series H Bond	UF	4.80%	Fixed	3,000	3,000
Series K Bond	UF	4.60%	Fixed	1,600	1,600
Series M Bond	UF	4.05%	Fixed	3,400	3,400
Series N Bond	UF	3.95%	Fixed	3,000	3,000
Series Q Bond	UF	3.95%	Fixed	3,100	3,100
Senior Notes	USD	4.625%	Fixed	300,000	300,000
Senior Notes	USD	4.250%	Fixed	375,000	375,000
Senior Notes	USD	3.875%	Fixed	350,000	350,000
Revolving Credit Facility	USD	3.16%	Floating (*)	-	-
Revolving Credit Facility	UF	0.37%	Floating (**)	-	-

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

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT POLICY  
3.1 Financial risk (Continued)

3.1.1.2 Exchange rate risk

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

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

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

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

	Liabilities		Assets	
	12.31.2019 ThCh\$	12.31.2018 ThCh\$	12.31.2019 ThCh\$	12.31.2018 ThCh\$
U.S. dollar (amounts associated with balance sheet items)	774,341	760,791	773,997	759,919
Chilean peso	1,596,539	1,610,090	1,596,884	1,610,961

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

3.1.1.2.1 Sensivity analysis

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT POLICY  
3.1 Financial risk

3.1.1.2.1 Sensivity analysis (Continued)

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

3.1.2 Credit risk

With respect to credit risk related to accounts receivable from the electricity transmission activity, this risk is historically very low in the industry given the nature of business of the Company's customers and the short-term period of collection of receivables from clients leads to the situation in which they do not accumulate very significant amounts.

However, revenues are highly concentrated in major customers as shown in the following table:

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT POLICY  
3.1 Financial risk

3.1.2 Credit risk (Continued)

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

3.1.3 Liquidity risk

Liquidity risk is the risk of the Company not satisfying a need for cash or debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

a) Risk associated to Company's management

To guarantee that it is able to respond financially both the investment opportunities and to the timely payment of its obligations. Transelec separately records its available cash and short-term accounts receivable with a dedicated Revolving Credit (RC) for working capital divided in two tranches; for US\$ 150 million and UF 2.5 million, both amount equivalents to Ch\$165,090 billion. To date, this committed line doesn't register amounts used. This committed line of credit was contracted on July 9, 2012, is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi and DnB NOR.

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

The maturity of derivatives is presented Note 15.2.

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

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

(a) Commissions payable on committed unused amounts (Commitment Fee) from 0.6% to 0.4375%.

(b) The margin or spread over used amounts from 2.35% to 1.25%.

(c) Other restrictions clauses more favorable to Transelec.

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3. RISK MANAGEMENT POLICY  
3.1 Financial risk

3.1.3 Liquidity risk (Continued)

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

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

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

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

4. CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

5. CASH AND CASH EQUIVALENTS

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

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

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

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

Detail of Cash and Cash Equivalents	Currency	Balance as of	Balance as of
		12.31.2019 ThCh\$	12.31.2018 ThCh\$
Amount of cash and cash equivalents	U.S. dollars	4,021,429	58,070,904
Amount of cash and cash equivalents	Euros	252,235	289,637
Amount of cash and cash equivalents	Chilean pesos	104,368,698	45,698,733
<b>Total</b>		<b>108,642,362</b>	<b>104,059,274</b>

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

6. TRADE AND OTHER RECEIVABLES

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

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

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

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

	Balance as of 12.31.2019 ThCh\$	Balance as of 12.31.2018 ThCh\$
Maturing in less than 30 days	56,760,654	37,437,229
Maturing in more than 30 days up to 1 year	30,283,424	34,894,876
<b>Total</b>	<b>87,044,078</b>	<b>72,332,105</b>

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

7. BALANCES AND TRANSACTIONS  
WITH RELATED PARTIES

7.1 Balances and transactions with related parties

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

Account receivables from related companies

										Balance as of		Balance as of	
										Current		Non-current	
										12.31.2019 ThCh\$	12.31.2018 ThCh\$	12.31.2019 ThCh\$	12.31.2018 ThCh\$
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan Mercantile current Account	Not defined	Not defined	Parent Company	CH\$	13,955,738	658,327	-	-	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	08-31-2017	08-31-2020	Parent Company	CH\$	1,773,786	772,240	27,212,850	27,212,850	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	09-21-2015/ 11-28-2017	21-09-2025/ 28-11-2027	Parent Company	UF	-	-	21,651,517	21,082,389	-	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Chile	Loan	06-30-2015/ 11-28-2017	06-30-2025/ 11-28-2027	Parent Company	US\$	-	-	193,943,969	179,964,275	-	-
76.248.725-K	CYT Operaciones SPA	Chile	Accounts receivable	Not defined	Not defined	Indirect	CH\$	5,802,554	256,883	-	-	-	-
20601047005	Conelsur LT SAC	Perú	Accounts receivable	Not defined	Not defined	Indirect	CH\$	120,358	173,177	-	-	-	-
76.524.463-3	Transelec Concesiones S.A.	Chile	Accounts receivable	Not defined	Not defined	Indirect	CH\$	353,236	360,769	-	-	-	-
76.920.929-8	Transmisora del Pacifico S.A	Chile	Mercantile current Account	Not defined	Not defined	Indirect	CH\$	-	386,288	-	-	-	-
TOTAL								22,005,672	2,607,684	242,808,336	228,259,514	-	-

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES  
7.1 Balances and transactions with related parties (Continued)

Most significant transactions and their effect on income

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

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

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

7.2 Board of Directors and management

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

The current Board of Directors was elected at the Ordinary Shareholders Meeting dated April 26, 2019, which was composed as follows: Mrs. Brenda Eaton as Director and Mr. Jordan Anderson as her alternate Director, Mr. Rui Han as Director and Mrs. Sihong Zhong as his alternate Director; Mr. Richard Cacchione as Director and Mr. Michael Rosenfeld as his alternate Director; Mr. Alfredo Ergas Segal as Director and Mr. Ricardo Szlejf as his alternate Director; Mr. Mario Valcarce Durán as Director and Mr. José Miguel Bambach Salvatore as his alternate Director; Mr. Blas Tomic Errázuriz as Director and Mr. Patricio Reyes Infante

as his alternate Director; Mr. Alejandro Jadresic Marinovic as Director and Mr. Juan Agustín Laso Salvatore as his alternate Director; Mr. Juan Benabarre Benaiges as Director and Mr. Roberto Munita Valdés as his alternate Director; and Mrs. Patricia Núñez Figueroa as Director and Mr. Claudio Campos Bierwirth as her alternate Director.

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

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES  
7.2 Board of Directors and management (Continued)

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

7.2.1 Board of Directors' compensation

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

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

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

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

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

7.3 Board expenses

As of December 31, 2019, there have been no expenses related to consulting for the Board. During the period between January 1 and December 31, 2018, advice was made for an amount of UF 216.73.

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

7.4 Audit committee

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

Transelec's Audit Committee is composed of four Directors, all of whom are qualified in financial matters and apply their specialized knowledge to diverse topics of interest to the Company, Committee members are appointed by the Board of Directors. They hold their positions for two years and may be re-elected. The Committee appoints a Chairman from among its members and a Secretary, who may be one of its members or the Secretary of the Board. The Audit Committee has held two in the 2019 period.

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

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

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

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

	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Patricia Angelina Nuñez Figueroa	6,948	-
Mario Alejandro Valcarce Duran	6,948	6,148
Jose Ramon Valente	-	6,148

7.5 Compensation of key management that are not Directors

Members of Key Management

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

8. OTHER FINANCIAL ASSETS, LEASES

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

	Balance as of	Balance as of
	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
Finance lease receivables current	1,150,194	1,030,014
Swap Contracts (See note 15)	-	20,902
Forward Contracts (See note 15)	73,384	170,391
<b>Sub-total Other financial assets current</b>	<b>1,223,578</b>	<b>1,221,307</b>
Finance lease receivables non-current	30,342,702	28,924,095
Swap Contracts (See note 15)	40,976,656	42,246
Other financial assets	41,752	15,286
<b>Sub-total Other financial assets non-current</b>	<b>71,361,110</b>	<b>28,981,627</b>
<b>Total</b>	<b>72,584,688</b>	<b>30,202,934</b>

8.1 Finance lease receivables

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

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

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

Movements in finance leases:		
	Balance as of	Balance as of
	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
<b>Opening balance</b>	<b>29,954,109</b>	<b>24,993,959</b>
Additions	203,497	2,330,201
Amortization	(1,053,041)	(907,043)
Translation difference	2,388,331	3,536,992
<b>Ending balance</b>	<b>31,492,896</b>	<b>29,954,109</b>

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

9. INTANGIBLE ASSETS

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

	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
<b>Intangible assets, net</b>		
Rights of way (*)	176,327,213	176,039,780
Software	5,875,156	5,219,985
<b>Total intangible assets</b>	<b>182,202,369</b>	<b>181,259,765</b>

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

	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
<b>Intangible assets, gross</b>		
Rights of way	176,327,213	176,039,780
Software	19,465,387	15,944,534
<b>Total intangible assets</b>	<b>195,792,600</b>	<b>191,984,314</b>

	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
<b>Accumulated amortization and impairment</b>		
Software	(13,590,231)	(10,724,549)
<b>Total accumulated amortization</b>	<b>(13,590,231)</b>	<b>(10,724,549)</b>

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

Movements in intangible assets	Rights of way	Software	Net intangible assets
	ThCh\$	ThCh\$	ThCh\$
<b>Opening balance as of January 1, 2019</b>	<b>176,039,780</b>	<b>5,219,985</b>	<b>181,259,765</b>
Movements in intangible assets			
Additions	441,349	3,520,853	3,962,202
Retirements	(153,916)	-	(153,916)
Amortization	-	(2,865,682)	(2,865,682)

<b>Ending balance of intangible assets as of December 31 , 2019</b>	<b>176,327,213</b>	<b>5,875,156</b>	<b>182,202,369</b>
---	--------------------	------------------	--------------------

Movements in intangible assets	Rights of way	Software	Net intangible assets
	ThCh\$	ThCh\$	ThCh\$
<b>Opening balance as of January 1, 2018</b>	<b>173,991,593</b>	<b>6,370,762</b>	<b>180,362,355</b>
Movements in intangible assets			
Additions	2,048,187	1,312,862	3,361,050
Retirements	-	-	-
Amortization	-	(2,463,639)	(2,463,640)

<b>Ending balance of intangible assets as of December 31 , 2018</b>	<b>176,039,780</b>	<b>5,219,985</b>	<b>181,259,765</b>
---	--------------------	------------------	--------------------

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

10. GOODWILL

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

10.1 Measurement of the recoverable value of goodwill

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

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

Detail	December 31, 2019 ThCh\$	December 31, 2018 ThCh\$
Goodwill	343,059,078	343,059,078
	<b>343,059,078</b>	<b>343,059,078</b>

10.2 Movement of goodwill in the Consolidated Financial Statements

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

	12.31.2019 ThCh\$
Opening balance as of January 1, 2019	343,059,078
Changes:	
Increase (decrease) for Exchange difference	-
Ending balances as of December, 2019	<b>343,059,078</b>

	12.31.2018 ThCh\$
Opening balance as of January 1, 2018	343,059,078
Changes:	
Increase (decrease) for Exchange difference	-
Ending balances as of December, 2018	<b>343,059,078</b>

10.3 Impairment Test

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Detail of accounts

The composition corresponds to the following detail:

Property, plant and equipment, net	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Land	20,983,646	20,696,130
Buildings and infrastructure	896,902,191	912,272,233
Work in progress	135,552,321	73,919,836
Machinery and equipment	478,838,192	466,735,333
Other property, plant and equipment	5,932,186	6,110,221
Assets for Rights of Way Leasing	5,126,832	-
Property, plant and equipment, net	<b>1,543,335,368</b>	<b>1,479,733,753</b>

Property, plant and equipment, gross	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Land	20,983,646	20,696,130
Buildings and infrastructure	1,210,139,071	1,198,912,973
Work in progress	135,552,321	73,919,836
Machinery and equipment	726,472,407	693,226,181
Other property, plant and equipment	5,932,186	6,110,221
Assets for Rights of use	6,721,268	-
Total property, plant and equipment, gross	<b>2,105,800,899</b>	<b>1,992,865,341</b>

Total accumulated depreciation of property, plant and equipment, net	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Buildings and infrastructure	(313,236,880)	(286,640,740)
Machinery and equipment	(247,634,215)	(226,490,848)
Assets from Rights of use	(1,594,436)	-
Total accumulated depreciation of property, plant and equipment	<b>(562,465,531)</b>	<b>(513,131,588)</b>

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

11. PROPERTY, PLANT  
AND EQUIPMENT *(Continued)*

11.2 Reconciliation of changes in property, plant and equipment

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

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

	Land	Buildings and infrastructure	Machinery and equipment	Work in progress	Other property, plant and equipment	Assets rights of use	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance January 1, 2018	20,696,130	897,872,721	439,189,740	92,667,010	5,842,514	-	1,456,268,115
Movement Additions	-	-	-	77,878,304	267,707	-	78,146,011
Retirements	-	(2,114,742)	(2,438,050)	(1,427,799)	-	-	(5,980,591)
Transfer to operating assets	-	41,337,129	53,860,550	(95,197,679)	-	-	-
Depreciation	-	(24,822,875)	(23,876,907)	-	-	-	(48,699,782)
Closing balance as of December 31, 2018	20,696,130	912,272,233	466,735,333	73,919,836	6,110,221	-	1,479,733,753

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

11. PROPERTY, PLANT  
AND EQUIPMENT *(Continued)*

11.3 Additional information on property, plant and equipment

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

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

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

	December 31, 2019	December 31, 2018
Capitalization rate (Annual basis)	4.71%	5.10%
Capitalized interest costs (ThCh\$)	2,147,489	3,146,911

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

11.4 Lease right of use

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

Movement in Right of Use Assets 2019 Period	Right of use Land	Right of use Buildings	Right of use Vehicles	Right of use, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balances as of January 01, 2019	-	-	-	-
Movements:				
Additions	101,788	6,010,915	608,565	6,721,268
Amortization Expense	(15,626)	(1,122,386)	(456,424)	(1,594,436)
Closing balance as of December 31, 2019	86,162	4,888,529	152,141	5,126,832

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

12. DEFERRED TAXES

12.1 Detail of deferred tax liabilities

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

Net deferred taxes		
Temporary differences	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Depreciable fixed assets	(167,226,971)	(146,156,576)
Financial expenses	(210,162)	(385,544)
Activos en Leasing	(5,573,603)	(3,704,520)
Materials and spare parts	141,951	102,495
Tax losses	16,974,715	47,864,178
Staff severance indemnities provision	(76,642)	(100,932)
Deferred income	1,443,835	1,551,179
Investment value provision	-	12,955
Obsolescence provision	1,082,703	926,866
Work in progress	1,236,783	855,845
Vacation provisions	514,547	491,460
Intangible assets	(4,614,934)	(5,842,609)
Adjustment of effective interest rate of bonds	(2,709,734)	(2,978,885)
Land	1,804,089	1,597,531
Goodwill	864,830	962,196

**Net deferred tax assets/(liabilities) (156,348,593) (104,804,361)**

Reflected in the statement financial position as follows:

Deferred tax assets		
Deferred tax liabilities	(156,348,593)	(104,804,361)

**Net deferred tax assets/(liabilities) (156,348,593) (104,804,361)**

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

12.2 Deferred tax movements in statement of financial position

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

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

Recovery of deferred tax assets will depend on whether sufficient tax profits are obtained in the future. Based on its projections the Company believes that its future profits will allow these assets to be recovered.

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

13. FINANCIAL LIABILITIES

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

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

13.1 Detail of other financial liabilities

a) Bonds payable

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

Taxpayer ID number	Debtor name	Country	Placement in Chile or abroad	Instrument registration number	Series	Index-ation unit	Nominal interest rate	Effective interest rate	Interest payments	Periodicity principal payments	Final maturity	December 31, 2019 ThCh\$	December 31, 2018 ThCh\$
76.555.400-4	Transelec S.A.	Chile	Chile	480	D	UF	4.37%	4.25%	At maturity	Semiannually	12-15-2027	380,060,600	369,698,027
76.555.400-4	Transelec S.A.	Chile	Chile	599	H	UF	4.79%	4.80%	At maturity	Semiannually	08-01-2031	86,675,039	84,379,227
76.555.400-4	Transelec S.A.	Chile	Chile	599	K	UF	4.61%	4.60%	At maturity	Semiannually	09-01-2031	45,970,408	44,750,388
76.555.400-4	Transelec S.A.	Chile	Chile	599	M	UF	4.26%	4.05%	At maturity	Semiannually	06-15-2032	41,701,200	40,557,478
76.555.400-4	Transelec S.A.	Chile	Chile	599	M-1	UF	4.23%	4.05%	At maturity	Semiannually	06-15-2032	52,722,915	51,271,136
76.555.400-4	Transelec S.A.	Chile	Chile	599	N	UF	4.29%	3.95%	At maturity	Semiannually	12-15-2038	81,404,518	79,146,501
76.555.400-4	Transelec S.A.	Chile	Chile	744	Q	UF	4.02%	3.95%	At maturity	Semiannually	10-15-2042	87,739,660	85,417,989
76.555.400-4	Transelec S.A.	Chile	Foreign	1 <sup>st</sup> issuance	Sr N	US\$	5.10%	4.63%	At maturity	Semiannually	07-26-2023	227,748,936	210,977,924
76.555.400-4	Transelec S.A.	Chile	Foreign	2 <sup>nd</sup> issuance	Sr N	US\$	4.66%	4.25%	At maturity	Semiannually	01-14-2025	283,538,652	262,645,250
76.555.400-4	Transelec S.A.	Chile	Foreign	3 <sup>rd</sup> issuance	Sr N	US\$	4.31%	3.88%	At maturity	Semiannually	01-12-2029	261,772,146	242,470,718
<b>Total</b>												<b>1,549,334,074</b>	<b>1,471,314,638</b>

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

13. FINANCIAL LIABILITIES  
13.1 Detail of other financial liabilities (Continued)

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

Debtor taxpayer ID number	Debtor Name	Instrument registration number	CURRENT			NON CURRENT			
			Maturity less than 90 days	Maturity more than 90 days	Total Current	Maturity 1 to 3 years	Maturity 3 to 5 years	Maturity more than 5 years	Total Non-current
			ThCh\$	ThCh\$	December 31, 2019 ThCh\$	ThCh\$	ThCh\$	ThCh\$	December 31, 2019 ThCh\$
76.555.400-4	Transelec S.A.	480	-	685,600	685,600	-	-	369,012,426	369,012,426
76.555.400-4	Transelec S.A.	599	1,630,172	-	1,630,172	-	-	82,749,055	82,749,055
76.555.400-4	Transelec S.A.	599	666,660	-	666,660	-	-	44,083,730	44,083,730
76.555.400-4	Transelec S.A.	599	-	72,367	72,367	-	-	40,485,110	40,485,110
76.555.400-4	Transelec S.A.	599	-	91,900	91,900	-	-	51,179,236	51,179,236
76.555.400-4	Transelec S.A.	599	-	142,251	142,251	-	-	79,004,250	79,004,250
76.555.400-4	Transelec S.A.	744	-	707,128	707,128	-	-	84,710,861	84,710,861
76.555.400-4	Transelec S.A.	1ra. emisión	4,311,338	-	4,311,338	-	206,666,586	-	206,666,586
76.555.400-4	Transelec S.A.	2da. emisión	5,328,330	-	5,328,330	-	-	257,316,920	257,316,920
76.555.400-4	Transelec S.A.	3ra. emisión	4,587,649	-	4,587,649	-	-	237,883,069	237,883,069
Total			16,524,149	1,699,246	18,223,395	-	206,666,586	1,246,424,657	1,453,091,243

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

13. FINANCIAL LIABILITIES (Continued)

13.2 Lease liabilities for use rights

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

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

a) Additional information of rights of use from leases

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

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

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

13. FINANCIAL LIABILITIES  
13.2 Lease liabilities for use rights *(Continued)*

c) Detail of future lease rights of use liabilities.

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

13.3 Other aspects

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

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

14. TRADE AND OTHER PAYABLES

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

15. DERIVATIVE INSTRUMENTS

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

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

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

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

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

15.2 Other information

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

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

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

The contractual notional amount of these contracts does not represent the risk assumed by Transelec as it is only in response to the basis with which derivative settlements are calculated. In the periods presented December 31, 2019 and 2018, Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

15 - DERIVATIVE INSTRUMENTS

15.2 Other information *(Continued)*

Derivatives are valued considering valuation techniques which include observable data, the most commonly used valuation techniques include swap valuation models using present value calculations. The models include several inputs including the credit risk of the counterparty, foreign exchange spot rates and interest rate curves.

15.3 Fair value hierarchies

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

16. FINANCIAL INSTRUMENTS

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

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

	Financial Assets to Amortized Cost	Financial Assets to Fair Value		Derivative Instruments		Total
		For profit or loss	For other comprehensive income	Hedge	No Hedge	
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	
<b>December 31, 2018</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>
Cash and cash equivalents	-	104,059.274	-	-	-	104,059,274
Other financial assets, current	1,030,014	-	-	-	191,293	1,221,307
Trade and other receivables	72,332,105	-	-	-	-	72,332,105
Other financial assets, non-current	28,924,095	15,286	-	42,246	-	28,981,627
Receivables from related parties, current	2,607,684	-	-	-	-	2,607,684
Receivables from related parties, non-current	228,259,514	-	-	-	-	228,259,514
<b>Total</b>	<b>333,153,412</b>	<b>104,074,560</b>	<b>-</b>	<b>42,246</b>	<b>191,293</b>	<b>437,461,511</b>



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

16. FINANCIAL INSTRUMENTS *(Continued)*

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

	Financial Liabilities to Amortized Cost	Financial Liabilities to Fair Value		Derivatives Instruments		Total
		For Profit or Loss	For other comprehensive income	Cobertura	No Cobertura	
December 31, 2019	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Other financial liabilities, current	20,821,566	-	-	4,070,487	-	24,892,053
Trade and other payables	31,123,907	-	-	-	-	31,123,907
Other financial liabilities, non-current	1,533,707,053	-	-	-	-	1,533,707,053
<b>Total</b>	<b>1,585,652,526</b>	<b>-</b>	<b>-</b>	<b>4,070,487</b>	<b>-</b>	<b>1,589,723,013</b>

	Financial Liabilities to Amortized Cost	Financial Liabilities to Fair Value		Derivatives Instruments		Total
		For Profit or Loss	For other comprehensive income	Cobertura	No Cobertura	
December 31, 2018	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Otros pasivos financieros corrientes	18,223,395	-	-	4,070,488	-	22,293,883
Cuentas comerciales y otras cuentas por pagar	47,433,325	-	-	-	-	47,433,325
Otros pasivos financieros no corrientes	1,453,091,243	-	-	-	-	1,453,091,243
<b>Total</b>	<b>1,518,747,963</b>	<b>-</b>	<b>-</b>	<b>4,070,488</b>	<b>-</b>	<b>1,522,818,451</b>

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

17. PROVISIONS

17.1 Detail of provisions

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

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

17.2 Provision movements

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

17. PROVISIONS  
17.2 Provision movements (Continued)

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

As of December 31, 2019				
Detalle	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Staff severance indemnities (nota 18)	365,539	484,907	1,051,093	4,285,598
Accrued vacations	1,905,730	-	-	-
Profit sharing benefits	3,677,000	-	-	-
Other provisions	205,447	-	-	-
<b>Total</b>	<b>6,153,716</b>	<b>484,907</b>	<b>1,051,093</b>	<b>4,285,598</b>

As of December 31, 2018				
Detalle	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Staff severance indemnities (nota 18)	384,004	509,338	340,522	4,880,693
Accrued vacations	1,820,222	-	-	-
Profit sharing benefits	4,497,305	-	-	-
Other provisions	205,447	-	-	-
<b>Total</b>	<b>6,906,978</b>	<b>509,338</b>	<b>340,522</b>	<b>4,880,693</b>

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

17. PROVISIONS (Continued)

17.3 Provision for employee benefits

Severance pay for years of service

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

Vacation accrual

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

Annual benefits

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

Other provisions

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

17.4 Lawsuits and arbitration proceedings

1) With regard to delays in two of the important milestones of Nogales-Polpaico project, the Ministry of Energy proceeded in June 2016 to collect two guarantees for a total of US \$ 2,960,000. In September 2016, the CDEC-SIC (currently CEN) settled the fine for delays to start the operations of

the Project and reported that Transelec was obliged to pay the maximum fine, that is, US\$1,800,000. Transelec filed an appeal for protection against the CDEC-SIC (currently CEN) and the Ministry of Energy, since there are requests for extension of time they have not been resolved by the Ministry, so it is entirely inappropriate to act CDEC-SIC (currently CEN) and the failure of the Ministry of Energy. The Court of Appeals declared admissible and ordered injunction. By judgment dated December 13, 2016, the Court of Appeals rejected the protection. . The Supreme Court rejected the appeal presented. TGR's report of the fine is pending, to then proceed with its payment.

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

18. POST-EMPLOYMENT AND  
OTHER BENEFIT OBLIGATIONS

18.1 Detail of account

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

18.2 Detail of obligations to employees

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

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

18.3 Balance of obligations to employees

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

18. POST-EMPLOYMENT AND OTHER  
BENEFIT OBLIGATIONS *(Continued)*

18.4 Expenses recognized in income statement

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

18.5 Actuarial hypothesis

Detail	December 31, 2019 ThCh\$	December 31, 2018 ThCh\$
Discount rate used	0.75%	1.65%
Inflation rate	3.00%	3.00%
Future salary increase	1.10%	1.10%
Mortality table	RV-2014	RV-2014
Disability table	30% RV-2014	30% RV-2014
Rotation table	2.77% / 0.92%	2.77% / 0.92%

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

18.6 Sensitivity analysis

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

18. POST-EMPLOYMENT AND OTHER  
BENEFIT OBLIGATIONS

18.6 Sensitivity analysis (Continued)

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

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

	12.31.2019	12.31.2018
	ThCh\$	ThCh\$
During the upcoming 12 month	365,539	384,004
Between 2 to 5 years	1,536,000	1,204,336
Between 5 to 10 years	2,005,839	1,835,101
More than 10 years	2,279,759	2,691,116
<b>Total Payments Expected</b>	<b>6,187,137</b>	<b>6,114,557</b>

19. EQUITY

19.1 Subscribed and paid capital

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

19.2 Number of subscribed and paid shares

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

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

19.3 Dividends

As of December 31, 2019, the company has distributed provisional dividends charged to the 2019 fiscal year amounting to ThCh\$96,218,000, which was paid in full during the year. A first payment was made on July 18, 2019 for an amount of ThCh\$32,875,000 and a second payment on September 25, 2019 for an amount of ThCh\$30,671,000 and a third payment dated December 17, 2019 for an amount of M \$ 32,672,000.

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

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

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

As of December 31, 2018, this dividend has been fully paid.

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

19. EQUITY (Continued)

19.4 Other reserves

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

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

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

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

19.5 Capital management

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

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

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

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

- 1) Maintain individual and indebtedness levels (Total debt / Total capitalization ratio) no greater than 0.7 based on the definitions of these terms in the respective prospectuses of local bond series C, D, H, K, M, N and Q.
- 2) a) Maintain minimum individual and equity of fifteen million UF equivalent to ThCh\$ 420,735,000 as of December 31, 2018. As that term is defined in the respective prospectuses of local bond series C, D, H, K, M and N.  
  
b) Maintain at all times during the validity period of the bond issuance a minimum Equity of ThCh\$ 350,000,000; as this term is defined in the respective prospectus of local bond Series Q.

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

19. EQUITY  
19.5 Capital management (Continued)

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

Covenant 1	Total debt / Total capitalization ratio Lower or equal to 0.70	December 31, 2019 MCh\$	December 31, 2018 MCh\$
A	Other financial liabilities, current	24,892	22,294
B	Payables to related parties, current	-	-
C	Other financial liabilities, non-current	1,533,707	1,453,091
D	Payables to related parties, non-current	-	-
E=A+B+C+D	Covenants debt	1,558,599	1,475,385
G	Debt with guarantees (1)	-	-
DT=E+G	Total debt	1,558,599	1,475,385
H	Non-controlling interest	-	-
P	Equity attributable to owners of the parent	846,950	800,893
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
CT=DT+H+I+P	Total capitalization	2,430,519	2,301,248
DT/CT	Total debt / Total capitalization ratio	0.64	0.64
Covenant 2	Minimum equity Greater than or equal to UF 15 million/ Greater or equal to ThCh\$ 350,000	December 31, 2019 MCh\$	December 31, 2018 MCh\$
P	Equity attributable to owners of the parent	846,950	800,893
I	Accumulated amortization of goodwill (as of the date of transition to IFRS)	24,970	24,970
P+I	Equity (in ThCh\$)	871,920	825,863
UF	UF value	28,309,94	27,565,79
(I+P)/UF	Equity (in UF millions)	30.80	29.96
Covenant 3	Restricted payments test Funds from operations (FNO) / Financial costs > 1.5	31.12.2019 MCh\$	31.12.2018 MCh\$
FO	Cash flow from operations	219,732	203,189
CF	Financial costs	73,454	68,692
IG	Income tax expense	51,144	37,586
FNO=FO+CF+IG	Funds from operations	344,330	309,467
FNO/CF	Funds from operations / Financial costs	4.69	4.51

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

19. EQUITY  
19.5 Capital management (Continued)

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

20. REVENUE

20.1 Revenue

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

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

	01.01.2019 12.31.2019 ThCh\$	01.01.2018 12.31.2018 ThCh\$
Customers from regulated transmission services	279,921,560	247,018,431
Customers from contractual transmission services	95,160,524	78,554,981
Other	3,509,187	3,643,794
<b>Total</b>	<b>378,591,271</b>	<b>329,217,206</b>

National Revenue	214,416,814	188,712,149
Local Revenue	77,144,769	76,138,536
Dedicated Revenue	69,554,872	54,508,818
Revenue from services	13,965,629	6,213,909
Other	3,509,187	3,643,794
<b>Total</b>	<b>378,591,271</b>	<b>329,217,206</b>

Transferred services by a long time	378,591,271	329,217,206
<b>Total Revenues</b>	<b>378,591,271</b>	<b>329,217,206</b>

20.2 Other operating income

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

21. RELEVANT INCOME STATEMENT ACCOUNTS

21.1 Expenses by nature

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

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

21.2 Personnel expenses

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

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

21.3 Depreciation and amortization

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

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

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

21.4 Financial results

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

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



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

22. INCOME TAX RESULT

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

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

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

	01.01.2019 12.31.2019 ThCh\$	01.01.2018 12.31.2018 ThCh\$
Statutory Tax Rate	27.00%	27.00%
Price-level restatement of capital	0.08%	(0.05%)
Price-level restatement of tax loss	(0.52%)	(1.05%)
Others differences	0.11%	0.37%
<b>Total adjustments to tax expense using statutory rate</b>	<b>(0.33%)</b>	<b>(0.73%)</b>
<b>Effective tax rate</b>	<b>26.67%</b>	<b>26.27%</b>

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

Chilean Tax Reform

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

23. EARNINGS PER SHARE

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

	01.01.2019 12.31.2019	01.01.2018 12.31.2018
<b>Basic Earnings per Share</b>		
Profit attributable to equity holders of parent (ThCh\$))	140,612,236	105,467,702
Earnings available to common shareholders, basic (ThCh\$)	140,612,236	105,467,702
Total basic shares	1,000,000	1,000,000
<b>Basic earnings per share (Ch\$)</b>	<b>140,612</b>	<b>105,468</b>

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

24. SEGMENT REPORTING

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

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

Transelec’s revenue from the national system (former trunk system) consists of the “annual transmission value per segment” (VATT for its Spanish acronym), which is calculated every 4

years based on the "annual investment value" (AVI for its Spanish acronym), plus "operating, maintenance and administrative costs" (COMA for its Spanish acronym) for each segment that forms the national system (former trunk system).

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

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

The law distinguishes between the different systems in order to ensure that tariffs are appropriate for each case, Nevertheless,

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

24. SEGMENT REPORTING *(Continued)*

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

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

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

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

Information about products and services

	December 31, 2019 ThCh\$	December 31, 2018 ThCh\$
Transmission services	378,591.271	329,217,206

Information about sales and principal customers

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

26. DISTRIBUTION OF PERSONNEL

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

	December 31, 2019	December 31, 2018
Manager and Executives	17	15
Professionals and technical personnel	413	396
Other employees	132	127
Total	562	538
Average of the year	548	532

27. ENVIRONMENT

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

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

Company making disbursement	Project	12.31.2019 ThCh\$	12.31.2018 ThCh\$
Transelec S.A.	Environmental management, elaboration of DIA and EIA and the follow up of environmental matters (includes environmental permissions for sectors)	1,701,397	554,367
Total		1,701,397	554,367



TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

28. ASSETS AND LIABILITIES IN FOREIGN CURRENCY

a) Current assets and liabilities

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

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

b) Non-Current Liabilities

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

TRANSELEC S.A. AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
As of December 31, 2019 and 2018

(Expressed in thousands of Chilean pesos (ThCh\$))  
(Translation of financial statements originally issued in Spanish-See Note 2.1)

29. SUBSEQUENT EVENTS

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

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

MANAGEMENT DISCUSSION  
AND ANALYSIS (MD&A) OF THE  
CONSOLIDATED FINANCIAL STATEMENTS

TRANSELEC S.A. Y FILIAL

December 31, 2019

SUMMARY

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

As of December 31, 2019, Revenues reached MCh\$378,591 showing an increase of 15.0% compared to the same period of 2018 (MCh\$329,217). The increase is explained by commissioning of new projects and macroeconomic effects, mostly explained by USD/CLP exchange rate. The raise is also explained by the entry into force of Decree 6T that mainly establishes the new Zonal tariffs.

The loss in Non-Operating Income as of December 2019 was MCh\$75,566, representing a decrease of 2.5% compared to

the same period of 2018 (MCh\$77,496). This is mostly explained by higher Financial Income, lower losses for indexed assets and liabilities and Foreign Exchange Differences. The raise is partially offset by higher Financial Costs.

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

RELEVANT EVENTS OF THE PERIOD

- In August 2019, the international risk rating agency Standard & Poors ratified Transelec’s rating in BBB, Moody’s and Fitch Ratings, on the other hand, did so in January 2019, ratifying the classification in Baa1 and BBB, respectively.
- The local risk rating agencies Feller and Fitch Ratings ratified the classifications in AA- during December and January 2019 respectively, while Humphrey’s upgraded the Company’s rating from AA- to AA with stable outlook in November 2018, ratified in January 2019.
- During 2019, the effect on income of Decree 6T (published in October 2018) is noticed. It establishes the new rates for the Zonal and Dedicated segment and will be valid from January 1, 2018 to December 31, 2019.
- According to the transmission law of 2016 as of January 2020, the rate of return on assets should fall from 10% before taxes to 7% after taxes, but because the tariff study to determine the remuneration of the transmission in the period 2020 – 2023 (valuation process) is delayed, the regulator (CNE) through resolution 815, has determined to stabilize the transmission rates until the rate study is complete (estimated within 2021), in order to advance the estimated reduction and not apply rises that are later reversed.
- The Ordinary Shareholders’ Meeting held on April 26 of 2019 agreed a total dividend distribution charged to the 2018 profit of MCh\$39,887, equivalent to the first and second interim dividends paid in June and September of 2018, so there will not be additional distributions associated to the year 2018.
- During 2019, Transelec have distributed a total of MCh\$96,218 dividend in the following amounts to the shareholders:
  - MCh\$32,875 as the first provisory dividend of 2019, distributed on July 18, 2019.
  - MCh\$30,671 as the second provisory dividend of 2019, distributed on September 25, 2019.
  - MCh\$32,672 as the third provisory dividend of 2019, distributed on December 16, 2019.
- As of this year, the Company has adopted IFRS 16, which ceases to classify as operating costs the lease contracts with identifiable underlying assets (for example, leasing of offices, cars, etc.), classifying them now as fixed assets and financial liabilities, reflecting in the income statement a depreciation of the asset and a financial expense of the liability. This has limited effects in the financial statements do to the small amount that they represent.

<sup>1</sup> EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization  
<sup>2</sup> EBITDA Margin= EBITDA/Revenues



TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

1. INCOME STATEMENT ANALYSIS

ITEMS	December 2019	December 2018	Variation 2019/2018	Variation 2019/2018
	MCh\$	MCh\$	MCh\$	%
<b>Revenues</b>	<b>378,591</b>	<b>329,217</b>	<b>49,374</b>	<b>15.0%</b>
Toll sales	364,626	323,003	41,623	12.9%
Services	13,966	6,214	7,752	124.7%
<b>Operation Costs and Expenses</b>	<b>-111,269</b>	<b>-108,668</b>	<b>-2,601</b>	<b>-2.4%</b>
Sales Costs	-34,114	-31,783	-2,331	-7.3%
Administrative Expenses	-19,759	-23,293	3,534	15.2%
Depreciation and Amortization	-57,396	-53,592	-3,804	-7.1%
<b>Operating Income</b>	<b>267,322</b>	<b>220,549</b>	<b>46,773</b>	<b>21.2%</b>
Financial Income	13,588	10,097	3,491	34.6%
Financial Costs	-73,454	-68,692	-4,762	-6.9%
Foreign exchange differences	1,201	-1,461	2,662	N/A
Gain (loss) for indexed assets and liabilities	-19,942	-20,544	602	2.9%
Other income (Losses)	3,041	3,104	-63	-2.0%
<b>Non-Operating Income</b>	<b>-75,566</b>	<b>-77,496</b>	<b>1,930</b>	<b>2.5%</b>
<b>Income before Taxes</b>	<b>191,756</b>	<b>143,053</b>	<b>48,703</b>	<b>34.0%</b>
Income Tax	-51,144	-37,586	-13,558	-36.1%
<b>Net Income</b>	<b>140,612</b>	<b>105,467</b>	<b>35,145</b>	<b>33.3%</b>
<b>EBITDA<sup>1</sup></b>	<b>328,812</b>	<b>278,153</b>	<b>50,659</b>	<b>18.2%</b>
<b>EBITDA Margin<sup>2</sup></b>	<b>86.9%</b>	<b>84.5%</b>		

<sup>1</sup> EBITDA= Operating Revenues + Operating Fixed Costs + Administration and Sales Fixed Costs + Other Income + Finance Leases Amortization

<sup>2</sup> EBITDA Margin= EBITDA/Revenues

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

a) Operating Income

During 2019, Revenues reached MCh\$378,591 increasing a 15.0% compared to the same period of 2018 (MCh\$329,217). The increase is explained by higher revenues from Toll Sales which as of December, 2019, reached MCh\$364,626, a 12.9% higher than the obtained in the same period of 2018 (MCh\$323,003). The Services revenues as of December 31, 2019 reached MCh\$13,966, a 124.7% higher than the same period of 2018 (MCh\$6,214), mostly explained by an extraordinary service provided to a related company (the amount is also presented as cost).

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

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

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

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

Administrative Expenses amounted to MCh\$19,759 in December 2019, 15.2% lower than those obtained in the same period in 2018 (MCh\$23,293). The decrease is mainly explained by (i) lower personnel costs associated to the end of a negotiation with one of the unions in 2018, (ii) less fines and (iii) lower lease costs due

to the application of new IFRS 16 for leases and rentals, which establishes that as of 2019, these are reflected in the Balance Sheet and not as costs. Partially compensated by expenses associated with the valuation study of the transmission system and higher expenses in software maintenance. Total Depreciation and Amortization as of December 31, 2019 reached MCh\$57,396, a 7.1% higher than the same period in 2018 (MCh\$53,592). The increase is mainly due to higher amortization associated with the implementation of the new IFRS standard explained above and the commissioning of new projects.

b) Non-Operating Income

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

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

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

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

c) Income tax

Income Tax as of December 31, 2019 was MCh\$51,144, increasing by 36.18% in relation to the same period of 2018 (MCh\$37,586). The increase is mainly due to higher Income before Taxes.

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

2. BALANCE SHEET ANALYSIS

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

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

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

from related entities, higher cash and cash equivalent and higher balance of commercial accounts receivable.

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



TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

Value of the Main PP&E in Operation

ASSETS	December 2019	December 2018	Variation2019/2018	Variation 2019/2018
	MCh\$	MCh\$	MCh\$	%
Land	20,984	20,696	288	1.4%
Building, Infraestructure, works in progress	1,210,139	1,198,913	11,226	0.9%
Work in progress	135,552	73,920	61,632	83.4%
Machinery and equipment	726,472	693,226	33,246	4.8%
Other fixed assets	5,932	6,110	-178	-2.9%
Right of use	6,721	0	6,721	N/A
Depreciation (less)	-562,466	-513,132	-49,334	-9.6%
<b>Total</b>	<b>2,105,801</b>	<b>1,992,865</b>	<b>112,936</b>	<b>5.7%</b>

Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) (unpaid capital)	
					December 2019	December 2018
Series D bond	UF	4.25%	Fixed	15-dic-27	13.50	13.50
Series H bond	UF	4.80%	Fixed	01-ago-31	3.00	3.00
Series K bond	UF	4.60%	Fixed	01-sep-31	1.60	1.60
Series M bond	UF	4.05%	Fixed	15-jun-32	3.40	3.40
Series N bond	UF	3.95%	Fixed	15-dic-38	3.00	3.00
Series Q bond	UF	3.95%	Fixed	15-oct-42	3.10	3.10
Series Senior Notes bond @2023	USD	4.625%	Fixed	26-jul-23	300.00	300.00
Series Senior Notes bond @2025	USD	4.25%	Fixed	14-ene-25	375.00	375.00
Series Senior Notes bond @2029	USD	3.875%	Fixed	12-ene-29	350.00	350.00
Revolving Credit Facility <sup>1</sup>	USD	3.16%	Floating	03-ago-20	-	-
Revolving Credit Facility <sup>2</sup>	UF	0.37%	Fixed	03-ago-20	-	-

<sup>1</sup> Revolving Credit Facility: USD Tranche MM US\$150: The floating rate of 3.16% breaks down in 3 months Libor rate plus a margin of 1.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay interest of 3.16% and currently is paying a fixed commission of 0.4375% per annum of the committed amount undrawn.

<sup>2</sup> Revolving Credit Facility: UF Tranche MM UF\$2.5: The floating rate of 0.37% breaks down in TAB UF 180 rate plus a margin of 0.25%. At December 31, 2019, the Company did not utilize this line therefore does not pay interest of 0.37% and currently is paying a fixed commission of 0.15% per annum of the committed amount undrawn

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

3.CASH FLOWS ANALYSIS

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

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

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

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

As of December 31, 2019 the company has the following committed credit line (Revolving Credit Facility) to ensure the immediate availability of funds to cover working capital needs, and is fully available:

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank, Bank of Tokyo-Mitsubishi, DnB NOR and Export Development Canada	US\$150,000,000	03-Aug-2020	Working Capital
Scotiabank and Banco Estado	UF\$2,500,000	03-Aug-2020	Working Capital

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

4. INDICATORS

Financial restrictions contained in local debt agreements are presented in the next table:

Covenants	Debt Contract	Límite	Diciembre 2019	Diciembre 2018
Capitalization Ratio <sup>1</sup>	All local Bonds	< 0.70	0.64	0.64
Shareholder's Equity <sup>1</sup> MMUF	D, H, K, M and N local Bonds	> 15.00	30.80	29.96
Shareholder's Equity <sup>1</sup> MCh\$	Q local Bond and Revolving Credit Facility	> 350,000	871,920	825,863
Net Debt/Ebitda	Revolving Credit Facility	< 7.0x	4.41	4.93
Test	Bonos	Límite	Diciembre 2019	Diciembre 2018
Distribution Test <sup>2</sup> FNO <sup>3</sup> /Financial Expenses	Series Locales D, H, K, M y N	> 1.50	4.69	4.51

<sup>1</sup> Equity= Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and December 31, 2019 amounted to MCh\$24,970.

<sup>2</sup> Test to distribute restricted payments such as dividends.

<sup>3</sup> FNO= Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.

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

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

<sup>1</sup> Profitability ratios are presented under last twelve months criteria.

<sup>2</sup> Shareholders' Equity profitability is calculated as Net Income over Equity.

<sup>3</sup> Assets profitability is calculated as Net Income over Total Assets.

<sup>4</sup> Operating assets profitability is calculated as Net Income over total value of the Main Pp&E.

<sup>5</sup> Earnings per share is calculated as Net Income over total shares.

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

5. THE TRANSMISION MARKET

5.1 The transmission activity and its regulation

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

The transmission system of Transelec which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' Region, encompasses the majority of the transmission lines and substations in the National Electrical System. This transmission system transports the electricity that supplies approximately 98.5% of Chile's population. The Company owns the 35% of all of the 500 kV electricity transport lines, 40% of the 220 kV lines, 83% of the 154 kV lines and 10% of the 110kV and 66kV lines.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; and the General Electricity Services Law. (DFL No. 1/82) and its subsequent modifications, including Law 19,940 ('Ley Corta I') published on March 13, 2004, and the Law 20,936 issued on July 20, 2016, which stablishes a new electric transmission system and creates an independent coordinator of the National Electric System. Additionally, those who explodes and operates transmission facilities must follow at every time the Technical Standard on Reliability and Service Quality (Exempt Resolution No. 299 of April 26, 2018).

The Transmission Law redefines transmission systems classifying them into five segments: National Transmission System (previously trunk), the Transmission Systems Zonal (previously subtransmission) Systems Dedicated (previously additional

transmission), Systems for Development Poles and International Systems Interconnection. Additionally the bill of law addresses the transmission planning a long-term horizon and regulates the pricing of National, Zonal and for Development Poles Systems and payment for use of Dedicated System by users liable to price regulation, among other topics.

Transelec's business is focused on the economic retribution that can obtain for tolls by use of the transport and transformation capacity of its facilities, aligned to the security and quality service standards. Transelec has the right to annually receive the annual transmission value (VATT) for its facilities belonging to the National and Zonal Transmission Systems, defined in the tariff processes or in the Decree for the award of expansion works, as the case may be. In the case of the installations of the Dedicated Transmission System, Transelec agrees private transport contracts with the respective users, to define the payment for the use of this type of facilities.

5.2 Valuation and pricing of facilities

Prices associated to transmission activity are determined by the Commission every four years by conducting internationally tendered studies, and processes that include the participation of companies, users and interested institutions and the Panel of Experts in the event of any discrepancies.

Pricing of the existing facilities recognizes the efficient acquisition and installation costs according to market values, which are annualized considering the assets life determined every three tariff periods and whit a variable discount rate, which will not be less than 7% or higher than 10%. The owners of regulated transmission facilities must receive the Annual Transmission Value from the sum of the real tariff revenues and a single charge associated to each segment and applied directly to end users.

During 2014 and 2015 were developed the third trunk facilities tariff process in order to determinate the tariffs and indexation formulas corresponding to the period 2016 - 2019, that were fixed by Decree N° 23T by the Minister of Energy on February



**TRANSELEC S.A. AND SUBSIDIARY**  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

3, 2016 and its application is retroactive from January 1, 2016. These regulations established the trunk transmission facilities and the new Investment Values (VI), the Annuity of the Investment Value (AVI) and the Operating, Maintenance and Administration Costs (COMA), plus the VATT of the trunk facilities, and the Indexation formulas applicable during that period.

The Transmission Law establishes a new payment regime for using national facilities that would become effective as of January 1, 2019 starting on that date and a transitory period that will extend until December 31, 2034, period during which the payments of the generating companies for the associated use to the supply agreements for free and regulated customers, concluded prior to the publication of enactment of this new law, will apply the same general rules for calculating the payment of the trunk transmission with some adjustments. These resulting injections tolls will be reduced year by year and the payment of the corresponding amounts will be transferred to a single charge of transmission paid by the demand.

In relation to the Zonal transmission system facilities (previously subtransmission), on April 9, 2013, the Supreme Decree No. 14 was published by the Ministry of Energy, setting subtransmission tariffs from January 2011 to December 2014. The difference between invoiced amounts using these provisional tariffs since January 2011 until the publishing date of this decree were reassessed by the CDEC based on the difference between the provisional tariff and the definitive values established by Decree No. 14. According to what is indicated in the transitory third article of Law 20,805 published on January 29, 2015, and to what is established in the Decree No. 7T of April 22, 2015, the validity of the Decree No. 121/2010, which fixes the tariffs of subtransmission facilities, and of the Exempt Decree No. 14/2013, which fixes the qualification of subtransmission facilities, is extended until December 31, 2015.

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

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

**TRANSELEC S.A. AND SUBSIDIARY**  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

**6. MARKET RISK FACTORS**

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

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

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

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

**6.1 Regulatory Framework**

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

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

**6.2 Operating Risks**

Although the Company's management believes it has adequate risk coverage, in line with industry practices, it cannot guarantee

the sufficiency of its insurance policy coverage for certain operating risks to which it is exposed, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could negatively affect the Company's financial statements.

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

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

**6.4 Construction Delays for New Transmission Facilities**

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

**6.5 Technological Changes**

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

6.6 Foreign Exchange Risk

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

- Transactions in U.S. dollars (construction contracts, import purchases, etc.).
- Leasing contracts that generate income indexed to US dollars.
- Accounts payables in US dollars associated to debt issued in U.S. America.
- Accounts receivables in US dollars associated to intercompany loans.
- Cross Currency Swap contracts that compensates the risks of exchange rates on the international issuances.

Exchange rate exposure is managed using a policy that involves fully hedging the Company’s net balance sheet exposure using diverse instruments such as foreign exchange forward contracts and cross currency swaps.

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

In million pesos	December 2019		December 2018	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	773,997	774,341	759,919	760,791
Chilean peso	1,596,884	1,596,539	1,610,961	1,610,090

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

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

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements  
December 31, 2019

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

6.7. Credit Risk

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

BILLING	December 2019	December 2019	December 2018	December 2018
	MCh\$	%	MCh\$	%
Enel Group	132,055	34.9%	113,262	34.4%
CGE Group	60,554	16.0%	20,809	6.3%
AES Gener Group	51,259	13.5%	39,962	12.1%
Colbún Group	51,919	13.7%	45,571	13.8%
Engie Group	9,736	2.6%	22,549	6.8%
Pacific Hydro Group	2,638	0.7%	4,918	1.5%
Others	70,429	18.6%	82,147	25.0%
Total	378,591		329,217	
% Concentration	81.40%		75.05%	

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

The toll agreements signed with these clients, including its subsidiaries, will generate a large part of the Company’s future cash flows and, therefore, a substantial change in their assets, financial condition and/or operating income could negatively affect the Company. This risk is compensated by the excellent credit level of these clients, together with the “take or pay” type of payment of the Transelec transmission income.

In terms of the Company’s credit risk associated with financial assets (time deposits, fixed-return mutual funds and sell-back agreements), its treasury policy establishes certain limits on a particular institution’s exposure; such limits depend on the risk rating and capital of each institution. Likewise, for investments in mutual funds, only funds with a risk rating qualify.

6.8. Liquidity Risk

Liquidity risk is the risk of the Company not satisfying a need for cash or debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

a) Risk associated to Company’s Management

In order to guarantee that Transelec is able to quickly react financially to investment opportunities and pay its obligations by their maturity dates, in addition to its cash balances and short-term receivables, the Company has committed line of credit for



TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of the Consolidated  
Financial Statements  
December 31, 2019

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

working capital of approximately US\$250 million, equivalent to MCh\$179,352,825. As of the balance sheet date, does not register balance of used amounts. This committed line of credit was contracted on July 9, 2012, being renegotiated in 2014 and 2017. The last renovation was on August 03, 2017 maintains the total amount, but it includes a local tranche and a USD tranche with other improvements. Is granted for a period of three years by a bank syndicate consisting of Scotiabank, Bank of Tokyo-Mitsubishi, EDC DnB NOR and Banco Estado. This line does not include any material clause of adverse change.

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

The following table presents the capital amortizations corresponding to the Company’s financial liabilities, according to their maturity date, as of December 31, 2019 and December 31, 2018.

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

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

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

In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20.018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by

the respective CEN (National Electrical Coordinator) through the collection or payment to the different companies, owners of generation facilities.

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

TRANSELEC S.A. AND SUBSIDIARY  
Management Discussion and Analysis (MD&A) of the Consolidated  
Financial Statements  
December 31, 2019

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

6.9. Interest Rate Risks

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

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

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

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

UF Values

MES	Average 2019 (\$)	Last Day 2019 (\$)	Average 2018 (\$)	Last Day 2018 (\$)
January	27,558.53	27,546.22	26,81.97	26,824.94
February	27,546.04	27,556.90	26,864.09	26,923.70
March	27,564.62	27,565.76	26,961.32	26,966.89
April	27,601.09	27,662.17	26,980.73	27,004.63
May	27,720.11	27,762.55	27,040.06	27,078.32
June	27,826.20	27,903.30	27,119.59	27,158.77
July	27,946.95	27,953.42	27,187.19	27,202.48
August	27,968.13	27,993.08	27,237.98	27,287.57
September	28,021.53	28,048.53	27,329.01	27,357.45
October	28,063.18	28,065.35	27,393.34	27,432.10
November	28,122.86	28,222.33	27,480.95	27,532.80
December	28,288.60	28,309.94	27,561.53	27,565.79
Average of the period	27,852.32	27,882.46	27,163.98	27,194.62

6.10. Other Risks

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



# Statement Of Responsibility —



Both the Directors and the CEO of Transelec S.A., which are signing this declaration, are responsible, under oath, regarding the accuracy of the information provided in this 2018 Annual Report, pursuant to General Norm No. 30, issued by the Superintendency of Securities and Insurance, today the Commission for the Financial Market.



**Scott Lawrence**  
Chairman  
Foreign



**Brenda Eaton**  
Director  
Foreign



**Rui Han**  
Director  
Foreign



**Richard Cacchione**  
Director  
Foreing



**Juan Agustin Laso Bambach**  
Director  
I.D.: 7.021.933-6



**Blas Tomic Errázuriz**  
Director  
I.D.: 5.390.891-8



**Mario Valcarlos Durán**  
Director  
I.D.:5.850.972-8



**Patricia Nuñez Figueroa**  
Director  
I.D.: 9.761.676-0



**Juan Benabarre Benaiges**  
Director  
I.D.: 5.899.848-6



**Andrés Kuhlmann Jahn**  
CEO  
I.D.: 6.554.568-3

