

Reasoned Analysis

Executive Summary

Transelec Concesiones has been awarded three new construction projects in the National Transmission System.

As of December 31, 2021, the following projects are operational:

- "New Line 2x500 kV 1500 MW between S/E Los Changos and S/E Nueva Crucero Encuentro, Autotransformer Banks 2x750 MVA 500/220 kV in S/E Nueva Crucero Encuentro, 750 MVA 500/220 kV Autotransformer Banks at S/E Los Changos (Stage I) and New 2x220 kV 1500 MW Line between S/E Los Changos and S/E Kapatur (Stage II)", recognizing the entry into operation of Stage I in the last quarter of 2017 and Stage II in the last quarter of 2019.
- Nueva Charrúa substation, recognizing the entry into operation in the third quarter of 2018.

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

As of December 31, 2021, Transelec Concesiones has financing for its projects, through the Project Finance modality with the participation of the banks MUFG, EDC, KfW and Bank of China. Disbursements totaling US\$199 million have already been received, which corresponds to part of the complete financing of the project, however, no disbursement has been made during 2021.

The CET (Transmission Equivalent Charge) is a transitory process that occurred due to the change of the transmission paying agent according to the 2016 Transmission Law. In June 2020, Transelec Concesiones made the payment of the CET (CLP2.5 billion) to the generation companies. This amount does not affect the Income Statement, and for free customers began to be recovered in the third quarter of 2020. It is estimated that the total recovery of the amount will be reached by the end of 2022.

Income Statement Analysis

As of December 31, 2021, Revenues from Ordinary Activities reached MUS\$23,276, presenting an increase of 2.43% in relation to the same period of 2020 (MUS\$22,723). This increase is fully due to the indexation effect of regulated revenues.

As of December 31, 2021, Transelec Concesiones recorded an EBITDA of MUS\$20,464, 6.8% lower than that obtained in 2020 (MUS\$21,967). The decrease in EBITDA was due to the increase in administrative expenses during the period, mainly expenses for Operation and Maintenance services provided by Transelec (+MUS\$2.400 approx.) corresponding to 2020 but charged in 2021.

In the Non-Operating Result as of December 2021, there is a relevant increase in the loss from Exchange Difference, which reached - MUS\$2,667, compared to the gain of MUS\$775 in 2020. This was mainly due to the depreciation of the CLP during the year, which impacted the value of the Company's Recoverable Taxes.

The Profit for the Period (Earnings) obtained by the Company as of December 31, 2021 was MUS\$1,528, registering a drop of 68.7% in relation to 2020, in which a profit of MUS\$4,883 was recorded.

Balance Sheet Analysis

As of December 31, 2021, Assets amounted to MUS\$426,378, presenting an increase of 9.5% compared to the same period of 2020 (MUS\$389,279). The increase in Assets is explained, on the one hand, by an increase in Non-Current Assets associated to Property, Plant and Equipment due to the progress of the projects under construction, and, on the other hand, by an increase in the Cash and cash equivalents.

As of December 31, 2021, Liabilities and Shareholders' Equity reached MUS\$426,378, higher than the same period of 2020 (MUS\$389,279). The increase in total Liabilities and Shareholders' Equity is mostly due to an increase in Accounts Payable to Related Entities (both current and non-current), which were affected by project financing. A large part of the increase in the Equity account is due to the improvement in the mark-to-market position resulting from derivatives contracted by the company that act under hedge accounting to mitigate exposure to financial risks.

Cash Flow Analysis

As of December 31, 2021, the cash flow used in operating activities reached a cash inflow of MUS\$16,747, which is 63.4% lower than the same flow of the previous year, mainly explained by the VAT refund that occurred in 2020 that affected the account of Other Collections from Operating Activities, for approximately US\$35 million.

During the same year, the cash flow used in investing activities was a disbursement of MUS\$38,733, which is due to the disbursements required to continue developing its projects under construction.

As of December 2021, the cash flow from financing activities reached MUS\$39,325. The flow is mainly explained by the positive difference between the loans received from related entities and the payments made for this concept.

Electric Transmission Market

The electricity transmission infrastructure in Chile extends mainly along the National Electric System (SEN), which is located throughout the Chilean territory between the town of Arica in northern Chile and the island of Chiloé in the south. The operation of the SEN is coordinated by an independent technical body called the National Electric Coordinator (CEN). Chile has 2 other smaller electrical transmission systems, the Aysén and Magallanes systems, which are in the extreme south of the country.

Chile was one of the first countries in the world to segment and regulate (1982) and then privatize (early nineties) its electricity system. As a result, the Chilean electricity regulatory framework has been evolving for more than 30 years.

The regulatory framework that determines the operation of the transmission segment in Chile is based on the Decree with Force of Law No. 4 of the Ministry of Economy, Development and Reconstruction of 2006, which establishes the revised, coordinated, and systematized text of the General Law of Electric Services, hereinafter and indistinctly referred to as the "General Law of Electric Services" or "LGSE". The LGSE and its complementary regulations regulate the generation, transmission and distribution activities, the concessions and electric easements and the tariffs applicable to each segment, as well as the body in charge of coordinating the operation of the system and its functioning in accordance with the quality and safety conditions of the facilities established in the technical regulations in force and the relations of the companies and individuals with the State.

The last important reform to the LGSE is Law No. 20,936 published on July 20, 2016, which establishes a new Electric Transmission System and creates an Independent Coordinating Body of the National Electric System incorporating the following modifications:

1. New functional definition of the Transmission Systems.

2. New long-term Energy Planning and Transmission Planning process.
3. New pricing and remuneration scheme for the different segments of the Transmission System.
4. Preliminary definition of transmission line layouts for certain new projects, through a Strip Study Procedure, in charge of the Ministry of Energy.
5. New universal Open Access regime.
6. New regulation of compensation to end users for unauthorized unavailability of supply, based on security supply, based on previously established safety and quality standards.
7. Creates a new Independent Coordinator of the National Electric System, hereinafter the Coordinator, which replaces the former Economic Load Dispatch Centers (CDECs).

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

Risk Factors

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

Regulatory Framework

Electricity transmission tariffs are set by law and include readjustments in order to guarantee a real annual return to the operator. The nature of the industry allows transmitter revenues to be stable over time. These are supplemented by revenues obtained through the existence of private contracts with large customers.

However, the fact that these tariffs are reviewed every four years in the National and Zonal Transmission Studies could confront the Company with new tariffs that are detrimental or less attractive in relation to the investments incurred in the case of those assets that are not governed by a 20-year adjudication tariff decree.

Transmission Service Interruption Penalties

Transelec Concesiones could face proceedings before the Superintendency of Electricity and Fuels (SEC), as a result of charges filed by the Authority for forced disconnections in the electric transmission service, once the facilities enter service.

Operational Risks

Notwithstanding that management believes that Transelec Concesiones maintains adequate risk coverage in accordance with industry practices, there can be no assurance that the preventive actions and mitigations implemented (asset management, buffer strip management, insurance policies, etc.) will be sufficient to cover certain operating risks,

including forces of nature, damage to transmission facilities, cybersecurity incidents, labor accidents and equipment failures. Any of these events could affect the company's financial statements.

Environmental Institutionalality and Enforcement of Environmental Regulations and/or Policies

Transelec Concesiones' projects are subject to Law No. 19,300/1994 on General Bases of the Environment ("Environmental Law") and its subsequent amendments. Transelec Concesiones could face that the processing of its projects and environmental permits take longer than expected, which would delay the construction of projects and increase the possibility of being subject to fines. Preventive and mitigating measures have been identified and defined for all risks related to the environment and communities surrounding the company's facilities.

During 2021, there were no fines or sanctioning processes associated with the operation of assets or construction of Transelec Concesiones' projects.

Delays in the Construction of New Transmission Facilities

The successful construction of projects that were awarded during the National Transmission System bids will depend on numerous factors, including cost and availability of financing. The construction of new facilities could be adversely affected by factors that are commonly associated with projects, including delays in obtaining regulatory approvals such as electrical concessions; shortages of equipment, materials or labor, or changes in their prices; adverse weather conditions; natural disasters; and unforeseen circumstances and difficulties in obtaining financing on reasonable terms and at reasonable rates. Any of the aforementioned factors could cause delays in the partial or total completion of the capital investment program, as well as increase the costs for the contemplated projects.

Technology Changes

As mentioned above, the remuneration of the investments that Transelec Concesiones makes in electricity transmission facilities is obtained through an annuity of the valuation of existing facilities (AVI), at market prices, which are periodically

recalculated according to the process established in the current regulations. If there were important technological advances in the equipment that make up the company's facilities, this valuation could be reduced, which, at the same time, would prevent the total recovery of the investments made.

Financial Risks

Interest Rate Risk

Significant variations in interest rates influence all income and expenses that are determined with a variable rate. One of the main financial expenses of this type is the interest on the debt with which the Company is financed. Interest rate fluctuations result in a risk of cost variation that may affect the Company. This risk is mitigated by contracting derivatives that offset the effects of interest rate increases.

Exchange Rate Risk

Most of the Company's operating cash flows are denominated in U.S. dollars, and since this is its functional currency, there is no significant exposure to exchange rate risk. Those flows resulting from investments during the construction of projects in which the company may have significant costs in a currency other than the functional currency, the risk is hedged through hedging operations with derivatives.

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet a demand for cash or the payment of a debt when due. It is also the risk of not being able to liquidate assets in a timely manner at a reasonable price. This risk is managed through timely cash flow planning that allows the company's cash needs to be anticipated.

Credit Risk

Credit risk arises mainly from the possibility of uncollectibility of accounts receivable from the electricity transmission activity. This risk is historically very limited in the industry, given the nature of the business, the customers, the Company and the short term of collection from customers, which means that significant amounts do not accrue.

However, revenues are highly concentrated in a few customers that make up a large part of Transelec Concesiones' projected cash flow. A material change in the assets, financial condition and/or operating results of those companies could adversely affect the Company.

Other Risks

In addition to the above, the Company faces other risks such as cybersecurity, legal, market, counterparty and reputational risks. During 2020, the risk associated with the effects of the Covid-19 pandemic arose, which were mitigated with various actions, which were maintained during 2021.