

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

DECEMBER 31, 2020

TRANSELEC CONCESIONES S.A.

EXECUTIVE SUMMARY

Transec Concesiones, is awarded three new projects in the National Transmission System.

As of December 31, 2020, the following projects are operational:

- “New Line 2x500 kV 1500 MW between E/S Los Changos and E/S Nueva Crucero Encuentro, 2x750 MVA 500/220 kV Autotransformer Banks in E/S Nueva Crucero Encuentro, 750 MVA 500/220 kV Autotransformer Banks in E/S Los Changos (Stage I) and New Line 2x220 kV 1500 MW between E/S Los Changos and E/S Kapatut (Stage II)”, recognizing the commissioning 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, the construction of the remaining Project “Line 2x500 kV Pichirropulli – Nueva Puerto Montt” has continued.

As of December 31, 2020 Transec Concesiones has financing for its projects, through the modality of Project Finance with the participation of the following Banks: MUFG, EDC, KfW and Bank of China. Total, disbursements of US\$199 million have already been received, which corresponds to part of the full financing of the Project, however, no disbursement has been made during 2020.

The CET, (Transmission Equivalent Charge) is a transactional process that occurred due to the change of the transmission’s paying agent, according to the Transmission Law of 2016. In June, Transec Concesiones made the payment of the CET (CLP 2.5 Billion) to the generating companies. This amount does not affect the Statement of Income and the company started to recover payment from free clients in the third quarter of the year. Full recovery of the amount is expected to be achieved by the end of 2022.

INCOME STATEMENT ANALYSIS

As of December 31, 2020, Revenues reached MUS\$22,723, increasing a 138% compared to the same period of 2019 (MUS\$9,562). The increase is mainly due to the commissioning of the Project Nueva línea Los Changos – Crucero Encuentro at the end of 2019, receiving revenues from that project throughout the year 2020, while, in 2019, these incomes were immaterial. Revenues come mainly

from four clients: Enel Group, Aes Gener Group, CGE Group and Colbún Group, concentrating 62.1% of the income.

As of December 31, 2020, Transelec Concesiones obtained an EBITDA of MUS\$21,967, an 148% higher than the one obtained in the same period of 2019 (MUS\$8,848). The EBITDA increase is mainly due to the rise in revenues explained above.

In the Non-Operating Income as of December 2020, a significant increase in Financial Costs stands out, reaching MUS\$11,519, a 78% higher than that registered in 2019 (MUS\$6,484). The increase is mainly due to higher Interest associated with the swaps and higher Interest to Related Companies.

Net Income recorded by the Company as of December 31, 2020, was MUS\$4,883, which is 331% higher compared to the same period of 2019, in which a Net Income of MUS\$1,132 was registered.

BALANCE SHEET ANALYSIS

As of December 31, 2020, Total Assets reached MUS\$389,279, presenting an increase of 3.5% compared to the same period of 2019 (MUS\$375,965). The increase in Total Assets is mainly explained by an increase in Non-Current Assets associated with Property, Plant and Equipment, due to the progress of projects under construction. On the other hand, Current Assets have a decrease associated with Other Non-Financial Assets due to a VAT art 27 bis refund. However, accounts receivable from customers increased by 97% compared to the previous year, due to the CET that is yet to recover.

As of December 31, 2020, Total Liabilities and Equity reached MUS\$389,279, higher than the same period in 2019 (MUS\$375,965). The increase in total Liabilities and Equity is mainly due to an increase in Non-Current Liabilities. The rise in Non-Current Liabilities is mainly due to an increase in Other Financial Liabilities and Accounts Payable to Related Entities due to the financing of the projects. The decrease in Equity is due to lower Other Reserves, which were affected by the mark to market of the derivatives contracted by the company and by deferred taxes.

CASH FLOW ANALYSIS

As of December 31, 2020, cash flow from operating activities reached a cash income of MUS\$47,760. This is mainly explained by Receivables for Operating Activities related to a VAT refund of approximately US\$35 million.

During the same year, the cash flow used in investment activities was a disbursement of MUS\$47,760, which is due to the disbursements required to continue developing its projects under construction.

As of December 2020, the cash flow from financing activities reached MUS\$8,667. The flow is mainly explained by the movements in Accounts payable to Related Entities for the financing of projects under development.

THE TRANSMISSION MARKET

The electricity transmission infrastructure in Chile extends mainly along the National Electricity System (SEN by its Spanish acronym), which is located across the Chilean territory between Arica in the north of Chile and the island of Chiloé in the south. The operation of the SEN is coordinated by and independent technical organization called National Electricity Coordinator (CEN by its Spanish acronym). Chile has two other smaller electric transmission systems, The Aysén and Magallanes Systems, which are in the southern tip 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 evolved for more than 30 years.

The regulatory framework that determines the operation of the transmission segment in Chile is based on Decree No. 4 of the Ministry of Economy, Development and Reconstruction of 2006, which establishes the consolidated, coordinated, and systematized text of the General Law of Electrical Services, hereinafter referred to as “General Law of Electrical Services” or “LGSE” by its Spanish acronym. The LGSE and its complementary legislation regulates the activities of generation, transmission and distribution, the concessions and electric easements and the tariffs applicable to each segment, as well as the organization responsible for coordinating the operation of the system and its operation in accordance with the conditions of quality and safety of the facilities established in the current technical regulation and the relations of companies and individuals with the State.

The latest major amendment to the LGSE is the Law No. 20.936 published on July 20th, 2016, which establishes a new Electrical Transmission System and creates an Independent Coordinating Body for the National Electrical System, incorporating the following amendments:

1. New functional definition of Transmission Systems.
2. New process of long-term energy planning and transmission planning.
3. New pricing and remuneration scheme for the different segments of the Transmission System.
4. Preliminary definition of transmission lines for certain new Works, by means of a Strip Study Procedure, by the Ministry of Energy.
5. New universal open Access regime.
6. New rules on compensation to end-users for unauthorized unavailability of supply, based on pre-established safety and quality standards.
7. It creates a new Independent Coordinator of the National Electricity System, hereinafter referred to as “The Coordinator”, which replaces the former Economic Dispatch Freight Centers (CDEC’s).

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

RISK FACTORS

Due to the characteristics of the Chilean electricity market and strict standards regulating the sector, Transelec Concesiones is not exposed to substantial risk while operating its main line of business. However, is appropriate to highlight and consider the following risk factors:

OPERATING RISKS

Although administration believes the company maintains its risks appropriately covered according with industry practices, 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 forces of nature, damage to transmission facilities, cybersecurity incidents, work-related accidents, and equipment failure.

CONSTRUCTION DELAYS FOR NEW POWER TRANSMISSION FACILITIES

Success of the upgrades and expansion projects program for the transmission network will depend on several factors, including the cost and availability of financing. The construction of new facilities could be hampered by factors commonly associated with projects, including delays in 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 financing under favorable conditions and at reasonable rates. Any of the aforementioned factors could lead to delays in the partial or total completion of the capital investment program, while increasing the cost of the projects considered in this program.

FINANCIAL RISKS

Interest Rate Risk

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to floating interest rates and changes in the value of financial instruments with fixed cash flows may affect the Company. This risk is mitigated by hedge agreements that offset the increases in interest rates.

Foreign Exchange Risk

Most of the Company's operating cash flows are dollar denominated and since this is its functional currency, there is no significant exposure to the exchange rate. 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 one, the risk is covered through hedging operations with derivatives.

Liquidity Risk

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

Credit Risk

Credit risk corresponding to receivables from commercial activities, is historically very limited in the industry given the nature of the stable regulatory framework, and the business of the Company's customers, which also have excellent credit level; and the short-term payment of customers, which does not accumulate significant amounts.

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

ENVIRONMENTAL INSTITUTIONALISM AND THE APPLICATION OF ENVIRONMENTAL STANDARDS AND/OR POLICIES

Transelec Concesiones projects are subject to Law N° 19,300/1994 on General Environmental Guidelines (“Environmental Law”) and its subsequent amendments. Transelec Concesiones 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.

OTHER RISKS

In addition to the aforementioned, the company faces other risks such as cybersecurity, legal, market, counterpart, and reputational risks. During 2020, the risk associated with the effects of the Covid-19 pandemic arises, which were mitigated with various actions, which will continue during 2021.