

Management Discussion And Analysis Transec Concesiones S.A. As of December 31, 2023

EXECUTIVE SUMMARY

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

As of December 31, 2022, the following projects are operational:

- “New 2x500 kV 1500 MW Line between S/E Los Changos and S/E Nueva Crucero Encuentro, 2x750 MVA 500/220 kV Autotransformer Banks in S/E Nueva Crucero Encuentro, 750 MVA 500/220 kV Autotransformer Bank in S /E Los Changos (Phase I) and New Line 2x220 kV 1500 MW between S/E Los Changos and S/E Kapatur (Phase II)”, acknowledging the entry into operation of Phase I in the last quarter of 2017 and the Stage II in the last quarter of 2019.
- Nueva Charrúa Substation, acknowledging the entry into operation in the third quarter of 2018.
- On the other hand, in the second quarter of 2022 the project "Line 2x500 kV Pichirropulli - Nueva Puerto Montt" has been put into operation.

As of December 31, 2023, Transec Concesiones has Financing for its projects, through the Project Finance modality with the participation of the banks MUFG, EDC, KfW and Bank of China. All disbursements for the financing of the project have already been received, at the end of 2023 this debt amounts to a total of ThUS\$307,031 in Other non-current financial liabilities.

INCOME STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME BY FUNCTION	Note	01-01-2023	01-01-2022
		12-31-2023	12-31-2022
		ThUS\$	ThUS\$
Revenue	18	39,565	31,373
Cost of sales	19	(7,960)	(5,195)
Gross profit		31,605	26,178
Administrative expenses	19	(2,037)	(2,062)
Other income (losses)		(51)	(49)
Financial income	19	4,877	2,650
Financial expenses	19	(23,116)	(14,910)
Foreign exchange differences	19	(2,785)	993
Profit Before Income Taxes		8,493	12,800
Income tax expense	20	(3,132)	(3,480)
Profit from continuing operations		5,361	9,320
Profit from discontinued operations		-	-
PROFIT		5,361	9,320

As of December 31, 2023, Income from Ordinary Activities reached ThUS\$39,565, presenting an increase of 26% in relation to the same period of 2022 (ThUS\$31,373). Said increase is fully due to the indexation effect of regulated revenues and to the "2x500 kV Pichirropulli Line - Nueva Puerto Montt" project, which began operations in May 2022.

As of December 31, 2023, Transelec Concesiones registered an EBITDA of ThUS\$37,477, 28% higher than that obtained in 2022 (ThUS\$29,261). The increase in EBITDA was essentially due to the increase in income from ordinary activities during the analysis period.

In the Non-operating Result as of December 2023, a significant difference in the gain from Exchange Difference stands out, which reached a loss of -ThUS\$2,785, contrasted with the gain of ThUS\$993 in 2022. There was also a 55% increase in financial costs, going from ThUS\$14,910 in 2022 to ThUS\$23,116 in 2023, due to the increase in the amount drawn from the bank debt that the company maintains as Project Finance.

In addition to the above, there was a significant increase in financial income, due to interest paid by banking entities, going from ThUS\$2,650 to ThUS\$4,877 due to the increase in rates and investments in financial instruments.

The Profit for the Period (Profits) obtained by the Company as of December 31, 2023, was ThUS\$5,361, registering a decrease of ThUS\$3,959 in relation to the year 2022, in which a profit of ThUS\$9,320 was recorded. Which is explained by the above.

BALANCE SHEET

ASSETS		12-31-2023	12-31-2022
		ThUS\$	ThUS\$
CURRENT ASSETS			
Cash and cash equivalents	5	66,399	48,784
Other financial assets, current	11-15	7,763	8,202
Other current non-financial assets	8	5,350	9,479
Trade and other receivables	6	6,133	15,718
Total current assets		85,645	82,183
NON-CURRENT ASSETS			
Other financial assets, non-current	11-15	26,522	30,022
Intangible assets other than goodwill	9	32,411	29,270
Property, plant and equipment	10	346,120	347,647
Total non-current assets		405,053	406,939
Total assets		490,698	489,122

As of December 31, 2023, Assets reached ThUS\$490,698, which remains in line with the same period in 2022 (ThUS\$489,122). The slight increase in Assets is explained by an increase in Non-Current Assets associated with Cash and Cash Equivalents partially offset by a decrease in Trade Debtors and other accounts receivable and Other non-current financial assets.

LIABILITIES		12-31-2023	12-31-2022
		ThUS\$	ThUS\$
CURRENT LIABILITIES			
Other financial liabilities, current	14	8,882	7,228
Trade and other payables	13	12,511	7,767
Accounts payable to related companies, current	7	34,701	20,961
Other non-financial liabilities, current		729	476
Total current liabilities		56,823	36,432
NON-CURRENT LIABILITIES			
Other financial liabilities, non-current	14	307,031	292,078
Accounts payable to related companies, non-current	7	55,404	93,662
Deferred tax liabilities	12	17,739	15,688
Total non-current liabilities		380,174	401,428
Total liabilities		436,997	437,860
EQUITY			
Issued capital	17	5,000	5,000
Accumulated gains		24,016	18,655
Other reserves	17	24,685	27,607
Total equity		53,701	51,262
Total Equity and Liabilities		490,698	489,122

As of December 31, 2023, Liabilities and Equity reached ThUS\$490,698, similar to the same period in 2022 (ThUS\$489,122). There is a decrease in the total accounts payable to related entities of ThUS\$24,518, which is partially offset by an increase in Other financial liabilities of ThUS\$16,607 and in Trade accounts payable and other accounts payable.

STATEMENT OF CASH FLOWS

Statement of Cash Flows – Direct method	Note	01-01-2023	01-01-2022
		12-31-2023	12-31-2022
		ThUS\$	ThUS\$
Net cash flows provided by (used in) operating activities			
Classes of collections from operating activities:			
Cash receipts from sales of goods and services		68,918	30,011
Cash receipts for interest		9,152	-
Classes of payments from operating activities:			
Payments to suppliers for goods and services		(3,091)	(1,950)
Other payments for operating activities		(4,710)	(2,377)
Interest paid	14	(8,099)	(3,183)
Interest paid to related entities	7	(1,505)	(5,705)
Administrative services paid to related entities	7	(4,011)	(1,873)
Net cash flows provided by operating activities		56,654	14,923
Cash flows provided by (used in) investing activities			
Acquisitions of property, plant and equipment and intangible assets		(7,833)	(19,195)
Net cash flows used in investing activities		(7,833)	(19,195)
Cash flows provided by (used in) financing activities			
Proceed from bank loans	14	24,014	118,056
Payments of loans	14	(23,654)	(6,011)
Payments for loans from related entities	7	(29,755)	(103,966)
Collections received from (payments made to) related companies		-	6,000
Net cash flows (used in) provided by financing activities		(29,395)	14,079
Net increase in Cash and Cash Equivalents, before exchange effect		19,426	9,807
Effect of the variation of the exchange rate in Cash and cash equivalents			
Effect of the variation of the exchange rate in Cash and cash equivalents		(1,811)	477
Net increase (decrease) in Cash and Cash Equivalents		17,615	10,284
Cash and Cash Equivalents, at the beginning of the year	5	48,784	38,500
Cash and Cash Equivalents, at the end of the year	5	66,399	48,784

As of December 31, 2023, the flow used in operating activities reached a cash income of ThUS\$56,654, which is a significant increase in relation to the same flow of the previous year, mainly explained by the increase in collections from sales. of goods and provision of services, which amounted to ThUS\$68,918. This value is explained by the normal operating income that increased this year and by the reliquidation of income related to the 2020-2023 rate.

During the same year, the cash flow used in investment activities was a disbursement of ThUS\$7,833, which represents a decrease compared to the previous period that is due to lower disbursements in the purchase of properties, plants and equipment due to the completion and commissioning of the “2x500 kV Pichirropulli – Nueva Puerto Montt Line” project.

As of December 2023, the cash flow from financing activities reached an outflow of ThUS\$29,395. The flow is mainly explained by higher bank loans related to the Project Finance debt that the company has.

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

Transec 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 INSTITUTIONALITY 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.