

*Management Discussion and Analysis (MD&A) of  
the Consolidated Financial Statements*

**TRANSELEC S.A AND SUBSIDIARY**

*Santiago, Chile  
March 31, 2022*



## **SUMMARY**

As of March 31, 2022, revenues reached MCh\$87,143 showing an increase of 10.3% compared to the same period of 2021 (MCh\$79,036). In March 2022, as has been done in 2021, a provision of lower income was made associated with the entry into force of the new study for the valorization of transmission facilities 2020 – 2023. For March 2022 Financial Statements, as was done for the end of 2021, the provision was determined according to our interpretation of the Expert Panel's opinion prior to the Final Technical Report (ITD). This increase in the first quarter of 2022 compared to the same period of 2021, is mainly explained by macroeconomic effects and new revenues from commissioning facilities, partially offset by the provision.

As of March 31, 2022, Transelec obtained an EBITDA<sup>1</sup> of MCh\$74,107, an 10.6% higher than the one obtained in the same period of 2021 (MCh\$67,009), with an EBITDA Margin<sup>2</sup> of 85%. The EBITDA increase is mainly due to the increase in income explained above.

The loss in Non-Operating Income as of March 2022 was MCh\$31,722, representing a rise of 34.8% compared to the same period of 2021 (MCh\$23,526). This increase is mostly explained by higher losses for indexed assets and Liabilities, associated with the effect of higher inflation on our UF-denominated bonds this year, partially offset by higher financial income.

Net Income recorded by the Company as of March 31, 2022, was MCh\$20,044, which is 8.2% less compared to the same period of 2021, in which a Net Income of MCh\$21,844 was registered.

During the first quarter of 2022, the Company has incorporated the equivalent of US\$4 million of new facilities, which correspond to the commissioning of one expansion of the National System. Likewise, in last 12 months period ending in March 2022, facilities for US\$67 million were added.

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<sup>1</sup> EBITDA= Operating Revenues + Operating Costs + Administrative Expenses + Other Income (Losses) + Finance Leases Amortization. Operating Costs and Administrative Expenses do not include Depreciation and Amortization.

<sup>2</sup> EBITDA Margin= EBITDA/Revenues



**Relevant events of the period:**

- So far, the situation of COVID-19 has had a limited impact on our Company in operational and financial aspects. The Company has taken preventive actions that allow maintaining the continuity of its operations, considering the impact of this situation.
- The CNE (National Energy Commission) has issued the final technical report of the study of the transmission facilities valorization for the period 2020-2023 of the National Electric System that regulates mostly the transmission rates in the country and has sent the report to the Ministry of Energy in accordance with the law and it is expected that the decree with the tariff will be published in 2022. The application of the transmission facilities valorization study considers the Company's revenues from January 1st, 2020, which implies that in the meantime, the result of previous tariff studies shall be applied until the new tariffs enter into force. At the closing of these financial statements, the Company continues to recognize and receiving revenues according to the previous tariff studies (DS23T and DS6T) pending the publication and the effective date of the new tariff study. Due to all mentioned above, the Company has made an estimate of the impact that would have the entry into force of the new tariff study on revenues, considering the opinion of the panel of experts prior to the Final Technical Report, and has proceeded to make a provision as of March 31, 2022 (which was also carried out at the end of 2021).

## 1. INCOME STATEMENT ANALYSIS

ITEMS	March 2022 MCh\$	March 2021 MCh\$	Variation 2022/2021 MCh\$	Variation 2022/2021 %
<b>Revenues</b>	<b>87.143</b>	<b>79.036</b>	<b>8.107</b>	<b>10,3%</b>
Sales	85.033	77.001	8.032	10,4%
Services	2.111	2.035	76	3,7%
<b>Operation Costs and Expenses</b>	<b>-26.807</b>	<b>-25.747</b>	<b>-1.060</b>	<b>-4,1%</b>
Sales Costs	-7.795	-8.011	216	2,7%
Administrative Expenses	-5.647	-4.663	-984	-21,1%
Depreciation and Amortization	-13.365	-13.073	-292	-2,2%
<b>Operating Income</b>	<b>60.337</b>	<b>53.289</b>	<b>7.048</b>	<b>13,2%</b>
Financial Income	5.483	2.091	3.392	162,2%
Financial Costs	-17.630	-17.310	-320	-1,8%
Foreign exchange differences	97	-46	143	N/A
Gain (loss) for indexed assets and liabilities	-19.703	-8.683	-11.020	-126,9%
Other income (Losses)	30	422	-392	-92,8%
<b>Non-Operating Income</b>	<b>-31.722</b>	<b>-23.526</b>	<b>-8.196</b>	<b>-34,8%</b>
<b>Income before Taxes</b>	<b>28.614</b>	<b>29.763</b>	<b>-1.149</b>	<b>-3,9%</b>
Income Tax	-8.571	-7.920	-651	-8,2%
<b>Net Income</b>	<b>20.044</b>	<b>21.844</b>	<b>-1.800</b>	<b>-8,2%</b>
<b>EBITDA<sup>1</sup></b>	<b>74.107</b>	<b>67.009</b>	<b>7.098</b>	<b>10,6%</b>
<b>EBITDA Margin<sup>2</sup></b>	<b>85,0%</b>	<b>84,8%</b>		

<sup>1</sup> EBITDA= Operating Revenues + Operating Costs + Administrative Expenses + Other Income (Losses) + Finance Leases Amortization. Operating Costs and Administrative Expenses do not include Depreciation and Amortization.

<sup>2</sup> EBITDA Margin= EBITDA/Revenues

### a) Operating Income

During the first quarter of 2022, Revenues reached MCh\$87,143 increasing a 10.3% compared to the same period of 2021 (MCh\$79,036). The increase is mainly explained by higher revenues from sales which as of March 2022, reached MCh\$85,033, 10.4% higher compared to the same period of 2021 (MCh\$77,001) and due to higher revenues from services to third parties that reached MCh\$2,111 in March 2022, 3.7% higher than the same period of 2021 (MCh\$2,035), which partially differs from the provision recorded in March 2021.

The Revenues increase is mainly due to macroeconomic effects (mainly associated with the exchange rate) and new revenues from facilities commissioned in the last 12 months, partially offset by the provision for lower revenues mentioned above.

It should be noted that the provision of lower revenues associated with the effect of the entry into force of the new tariff study 2020 – 2023 (is expected to be issued during 2022, nevertheless, it considers the Company's revenues from January 1, 2020) continues in process and incorporates our assessment of early 2022 expert panel's opinion.

Total Transelec Operational Costs and Expenses as of March 31, 2022, were MCh\$26,807, a 4.1% higher than the comparison period in 2021 that reached MCh\$25,747. Total Costs and Expenses are composed by the following main items.



Sales Costs during the analysis period amounted MCh\$7,795, a 2.7% lower than the same period of 2021 (MCh\$8,011). The decrease is explained by higher costs in 2021 associated with services with third parties and lower insurance costs in 2022 which is partially offset by higher personnel costs in 2022 associated with the CPI and a higher provision for fines.

Administrative Expenses amounted to MCh\$5,647 in March 2022, 21.1% higher than those obtained in the same period in 2021 (MCh\$4,663). The increase is mainly explained by higher personnel costs.

Total Depreciation and Amortization as of March 31, 2022, reached MCh\$13,365, a 2.2% higher than the same period in 2021 (MCh\$13,073).

## **b) Non-Operating Income**

The Non-Operating Income at the end of March 2022, was a loss of MCh\$31,722, a 34.8% higher than the same period of 2021 (MCh\$23,526). This is mainly explained by higher losses for indexed Assets and Liabilities, lower Other Gains and higher financial costs, partially offset by higher financial income.

The loss for Indexed Assets and Liabilities was MCh\$19,703 as of March 31, 2022. This is mainly due to a variation of 2.37% in the value of the UF during 2022, which mainly affects our UF bonds. In the same period of 2021, the loss was MCh\$8,683, associated to a 1.12% variation in UF value.

The Financial Income registered to March 2022 amounted to MCh\$5,483. The amount registered in the same period of 2021 was MCh\$2,091. This increase is mainly due to higher bank interests earned in local currency.

The Exchange Differences as of March 2022 result a profit of MCh\$97, while during the same period of 2021, the balance was a loss of MCh\$46. The Exchange Differences remain limited, associated with the foreign currency hedging policy.

Financial Costs registered as of March 2022 reached MCh\$17,630, increasing by 1.8% compared to the same period of 2021 (MCh\$17,310). The increase is mainly due to higher interest payments on USD and UF bonds, and partially offset by higher interest earned on ongoing projects, due to a higher number of projects with high progress in the portfolio.

Other Income, as of March 2022, were MCh\$30, while in March 2021 were MCh\$422. This difference is mainly explained by a higher exceptional gain due to the renewal of a swap in 2021.

## **c) Income tax**

Income Tax as of March 31, 2022, was MCh\$8,571, increasing by 8.2% in relation to the same period of 2021 (MCh\$7,920). This increase in income tax is mainly explained by a decrease in assets by deferred taxes, mostly associated to the valuation of derivatives.

## 2. BALANCE SHEET ANALYSIS

ITEMS	March 2022 MCh\$	December 2021 MCh\$	Variation 2022/2021 MCh\$	Variation 2022/2021 %
Current assets	373.461	331.639	41.822	12,6%
Non-current assets	2.777.534	2.824.749	-47.215	-1,7%
<b>Total Assets</b>	<b>3.150.995</b>	<b>3.156.388</b>	<b>-5.393</b>	<b>-0,2%</b>
Current liabilities	252.842	233.561	19.281	8,3%
Non current liabilities	1.917.587	1.950.919	-33.332	-1,7%
Equity	980.566	971.908	8.658	0,9%
<b>Total Liabilities &amp; Equity</b>	<b>3.150.995</b>	<b>3.156.388</b>	<b>-5.393</b>	<b>-0,2%</b>

The increase in Assets between December 2021 and March 2022 is explained by an increase in Current Assets. The increase in Current Assets is mostly due to higher cash balance and cash equivalents.

The increase in Liabilities and Equity is due to an increase in Current Liabilities. The increase in Current Liabilities is mainly due to higher accounts payable to third parties.

### Value of the Main PP&E in Operation

ASSETS	March 2022 MCh\$	December 2021 MCh\$	Variation 2022/2021 MCh\$	Variation 2022/2021 %
Land	22.071	22.071	0	0,0%
Building, Infraestructure, works in progress	1.272.485	1.270.052	2.433	0,2%
Work in progress	431.908	402.151	29.757	7,4%
Machinery and equipment	772.412	769.601	2.811	0,4%
Other fixed assets	5.797	5.812	-15	-0,3%
Right of use	7.857	7.857	0	0,0%
Depreciation (less)	-671.527	-658.652	-12.875	-2,0%
<b>Total</b>	<b>1.841.003</b>	<b>1.818.892</b>	<b>22.111</b>	<b>1,2%</b>

## Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million)	
					(unpaid capital)	
					March 2022	December 2021
Series D bond	UF	4,25%	Fixed	15-Dec-27	13,50	13,50
Series H bond	UF	4,80%	Fixed	01-Aug-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-Dec-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-Jan-25	375,00	375,00
Series Senior Notes bond @2029	USD	3,875%	Fixed	12-Jan-29	350,00	350,00
Revolving Credit Facility <sup>1</sup>	USD	1,962%	Floating	28-May-24	0,00	-

<sup>1</sup> Revolving Credit Facility of US\$250 million: The floating rate of 1.9616% breaks down in 3 months Libor rate plus a margin of 1.00%. As of March 31, 2022, the Company maintains this line fully available.

Although increases in inflation may have an impact on the costs of debt denominated in UF and therefore on the Company's financial expenses, these impacts are partially offset by inflation-indexed revenues.

### 3. CASH FLOW ANALYSIS

ITEMS	March 2022 MM\$	March 2021 MM\$	Variation 2022/2021 MM\$	Variation 2022/2021 %
Cash flows provided by (used in) operating activities	91.339	87.595	3.744	4,3%
Cash flows provided by (used in) investing activities	-52.884	-60.216	7.332	12,2%
Cash flows provided by (used in) financing activities	-426	-357	-69	-19,5%
<b>Net increase (decrease) of cash and cash equivalent</b>	<b>38.028</b>	<b>27.022</b>	<b>11.006</b>	<b>40,7%</b>
Effect of changes in the exchanges rate	-340	319	-659	N/A
<b>Net increase (decrease) of cash and cash equivalent</b>	<b>37.688</b>	<b>27.340</b>	<b>10.348</b>	<b>37,8%</b>
Cash and cash equivalent at the beginning of the period	234.519	105.840	128.679	121,6%
<b>Cash and cash equivalent at the end of the period</b>	<b>272.207</b>	<b>133.181</b>	<b>139.026</b>	<b>104,4%</b>

As of March 31, 2022, cash flow from activities of the operation reached MCh\$91,339, which increased by 4.3% compared to the same period of 2021 (MCh\$87,595). The increase is mainly due to lower payments to suppliers in 2021 and less other payments for operating activities.



During the same period, cash flow used in investment activities was MCh\$52,884. As of March 31, 2021, the cash flow used in investment activities was MCh\$60,216. The decrease is mainly due to fewer purchases of property, plant and equipment than in the same period of 2021.

As of March 2022, the cash flow from financing activities was MCh426, while as of March 2021 it was MCh\$357. In both cases, it is mainly explained by capital payment for rights of use.

It should also be noted that, to ensure the immediate availability of funds to cover working capital needs, as of March 31, 2022, the company has the following revolving credit facility which was renegotiated and extended during May 2021 for three years in the amount of US\$ 250 million.

Bank	Amount (up to)	Maturity	Type of Credit
The Bank of Nova Scotia, MUFG Bank Ltd, Banco Santander, Bank of China Ltd, Sumitomo Mitsui Banking Corporation, JP Morgan Chase Bank N.A. and China Construction Bank.	US\$250,000,000	28-May-24	Working Capital

#### 4. INDICATORS

Financial restrictions contained in debt agreements of the company are presented in the next table:

Covenants	Debt Contract	Limit	March 2022	December 2021
Capitalization Ratio <sup>1</sup>	All local Bonds	< 0.70	0,63	0,64
Shareholder's Equity <sup>1</sup> MMUF	D, H, K, M and N local Bonds	> 15.00	31,69	32,17
Shareholder's Equity <sup>1</sup> MCh\$	Q local Bond and Revolving Credit Facility	> 350,000	1.005.536	996.878
Net Debt/Ebitda	Revolving Credit Facility	< 8.0x <sup>4</sup>	5,02	5,26

Test	Bonds	Limit	March 2022	December 2021
Distribution Test <sup>2</sup> FNO <sup>3</sup> /Financial Expenses	D, H, K, M and N local Series	> 1.50	6,67	6,64

<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, 2021, 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.

<sup>4</sup>Revolving Credit Facility Covenant Limit was renegotiated in May 2021, from 7.0x to 8.0x. As of December 2020, the limit considered is 7.0x.



Rates of profitability, liquidity and indebtedness of the company are presented in the next table:

RATIOS		March 2022	December 2021	Variation 2022/2021
<b>Profitability<sup>1</sup></b>				
Shareholders' Equity profitability <sup>2</sup>	(%)	14,2%	10,6%	360 pbs
Assets profitability <sup>3</sup>	(%)	4,4%	3,3%	110 pbs
Operating assets profitability <sup>4</sup>	(%)	7,5%	5,7%	180 pbs
Earnings per share <sup>5</sup>	(\$)	56.950	58.750	-3,1%
<b>Liquidity &amp; Indebtedness</b>				
Current Ratio	(times)	1,48	1,42	4,2%
Acid-Test Ratio	(times)	1,47	1,42	3,5%
Debt to Equity	(times)	2,21	2,25	-1,8%
Short term debt/Total debt	(%)	11,7%	10,7%	100 pbs
Log term debt/Total debt	(%)	88,4%	89,3%	-90 pbs
Financial expenses coverage	(times)	4,20	3,53	19,0%

<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> Asset's 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.

## **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. In the other hand, 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. Finally, the purpose of the distribution sector is to carry electricity to the physical location where each end user will use this electricity.

The transmission system of Transelec which stretches between 'Arica y Parinacota' Regions to 'Los Lagos' Region, encompasses most 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 28% of all the 500 kV electricity transport lines, 40% of the 220 kV lines, 90% 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), hereafter LGSE, 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 "The Transmission Law". Additionally, those who explodes and operates transmission facilities must comply at every time with the provisions of the Regulations of Law N°20.936, and in its Technical Standards, highlighting the Current Technical Standard for Safety and Service Quality, as well as their respective Technical Annexes.

The last reform to the LGSE for the Transmission segment was the enactment of Law N°20.936 / 2016, which introduced the following relevant modifications:

- A single Coordinator of the National Electric System independent of the market players, replacing the Economic Load Dispatch Centers, CDEC-SIC and CDEC- SING.
- The redefinition of the transmission systems qualifying them as the National Transmission System (formerly trunk), the Zonal Transmission Systems (formerly sub-transmission), the Dedicated Systems (formerly additional), and will incorporate two new segments: Transmission Systems for Development Poles and International Interconnection Systems. Further.
- The incorporation of energy and transmission planning with a long-term horizon, which considers gaps in the systems and where it seeks to achieve a more robust and secure system.
- Preliminary definition of routes for new works, through a procedure of Strip Study by the Ministry for the routes of new power transmission works of public interest.
- Universal open access to regulated Transmission Systems and dedicated Transmission Systems when technical capacity is available.
- Regulates the pricing and remuneration of National, Zonal Transmission Systems for Development Poles and payment for use of Dedicated Transmission System facilities by users subject to price regulation, among other matters.
- Establishes a scheme that regulates the definition, determination, and implementation of the Complementary Services that the electrical system requires to maintain the quality and safety of the electrical supply.

Additionally, to date, various regulations associated with Act No. 20.936 have been published, establishing the necessary provisions for the regulation of issues related to: (i) The National Electrical Coordinator, (ii) Panel of Experts, (iii) energy planning, (iv) preliminary strips, (v) international exchanges, (vi) compensation for supply unavailability, (vii) the issuance of Technical Standards (viii) Coordination and Operation of the National Electrical System; (ix) Qualification, Valuation, Tariff and Remuneration of transmission facilities, (x) Transmission and Transmission Planning Systems; (xi) Facilities safety; (xii) Complementary services; (xiii) Distributed generation for self-consumption; (xiv) small-scale generating facilities.

Regarding Transelec's business, it is mainly focused on the economic retribution for the transport service delivered by its facilities, aligned to the security and quality service standards previously established by the regulations in force. 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**

Revenues associated to transmission activity are determined by the Commission every four years by conducting internationally tendered studies for transmission assets valuation, and processes that include the participation of companies, users and interested institutions and the Panel of Experts in the event of any discrepancies.

The owners of regulated transmission facilities must receive the Annual Value of Transmission per Section (VATT), made up of the sum of the real tariff income and the single charge associated with the section, which will depend on the transmission segment to which the installation belongs, the latter applied directly to the corresponding end users.

VATT of the existing facilities is calculated on an Annuity of the Value of Investment (AVI) that recognizes the efficient acquisition and installation costs according to market values (except land-use rights, expenses and compensation, which recognize what has actually been paid), which are annualized considering the assets life determined every three tariff periods and with a variable discount rate, which will not be less than 7% or higher than 10%, plus the Costs of Operation, Maintenance and Administration (COMA), adjusted by income taxes.

The Transmission Law establishes a transitory 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 and that were concluded prior to the publication of enactment of the law N°20.936, year 2016, will apply the same general rules for calculating the payment of the trunk transmission with some adjustments. These adjustments provide for a progressive reduction in the injection tolls paid by generators to the transmission companies, according to a proportion defined in the Transitional Article 25 of the Transmission Law, with the aim that these amounts will gradually be transferred to the single charge of transmission, which is paid by the end customers of the system.

For the National System, Decree 23T of the Ministry of Energy is issued on February 3, 2016, and for the Zonal system, Decree 6T is issued on October 5, 2018, both decrees end their validity on December 31, 2019. However, until the Decree of the valuation process of the 2020-2023 four-year period is issued, they continue to apply, and the corresponding differences must be incorporated in the determination of the Single Charge of the corresponding semester.

Through Exempt Resolution No. 815 of December 26, 2019, the CNE established that, from January 2020 and until such time as the final values that are established in the valorization decree of the facilities of National and Zonal transmission corresponding to the 2020-2023 four-year period, the Commission will fix the single charges for the use of the transmission based on those established in the semi-annual resolution in force in the second half of 2019 (stabilization of Transmission Charges). For the above, the CNE took into consideration that: i) the process of valorization of the transmission facilities that is currently underway will have a validity (retroactive) to January 1, 2020, and ii) that in said process a reduction of charges, among other reasons, due to the decrease in the discount rate calculated in accordance with the provisions of article 118 of the General Law of Electric Services. In accordance with the provisions of Exempt Resolution No. 815, the CNE decided to make these adjustments to the charges transferable to final customers "in order to preserve the principle of procedural economy established in Article 9 of Law No. 19,880, according to the which, the Administration must respond to the maximum economy of means effectively, avoiding delaying procedures ", since not doing it" the charges to the final clients should suffer an increase, to later originate a reduction, giving rise to re-liquidations when they come into force the new process of valorization ". The CNE indicates that the above has the final objective of reducing the risk of affectation to end customers. Once the valorization decree for the period 2020-2023 has been published, the calculations for the corresponding Single Charge, established in article 113 and 115 of the Law must be carried out and, therefore, the companies that own the transmission facilities will receive the remuneration (VATT) in accordance with the provisions of Article 114 of the same, in order to ensure that the transmission companies receive an annual value of the transmission per section (VATT) that constitutes the total of their remuneration.

The tariff valuation process 2020 – 2023 has been delayed by over 2 years and it is expected that the corresponding decree will be published in *El Diario Oficial* (Official Gazette) in July 2022. Companies affected by regulated tariffs in the National and Zonal Systems, will receive the new tariff from the next semester as the decree that sanctions it is published, and at that time, the amount to be redistributed among the transmission companies (for or against) will be calculated from the differences between the tariff currently in force and the new 2020 – 2023 tariff, according to the procedures applied by the National Electrical Coordinator.

The National Energy Commission issued the exempt Resolution No. 199 dated March 25, 2022, approving the Final Technical Report with the valorization of transmission systems facilities for the quadrennium 2020-2023, now it remains to wait for the review of the Office of the General Comptroller of the Republic, so that the Ministry can subsequently promulgate the corresponding Decree.

In the other hand, in relation to the state of catastrophe due to COVID19, on Saturday, August 8, 2020, Law 21,249 was published in the Official Gazette, which exceptionally provides for measures in favor of end users of health services, electricity and network gas (Basic Services Law).

The law establishes the following:

- It prohibits the cut of basic services to a group of customers, including residential users, hospitals, prisons, etc., for past due payment of this type of service during the ninety days following the publication of the law.
- For certain types of customers, such as customers who are within the 60% most vulnerable population, they may choose whether the debts generated between March 18, 2020 and up to ninety days after the publication of this law, will be prorated in a number of equal and successive monthly installments determined by the user, which may not exceed twelve and may not incorporate fines, interest or associated costs.

- During the ninety days following the publication of this law, the power generation and transmission companies shall continue to provide their services normally to the domestic energy distribution companies and to the electricity cooperatives.
- Within a period of thirty days prior to the publications of this law and ninety days thereafter, exceptionally, the payment by electric cooperatives to generating and transmission companies may be made in installments, in the same number of months in which the accounts of their beneficiaries will be prorated, without fines, interest or associated expenses.

Then, on January 5, 2021, Law No. 21,301 was published in the Official Gazette, by means of which the effects of Law No. 21,249 were extended, increasing the scope for suspension of payment of basic services affected from 90 days from its publication to 270 days and extending the proration months for the payment of debts from 12 months to 36 months.

Subsequently, on May 22, 2021, Law No. 21,340 was published in the Official Gazette, by means of which the measure of not cutting off supply due to debts and the possibility of postponing the payment of debts until December 31, 2021. The number of installments to pay the debt is extended from 36 to 48, and the reach of vulnerable users is increased from 60% to 80%, for the purpose of postponing the payment of debts.

Finally, on February 11, 2022, Law 21.423 was published, regulating the apportionment and payment of debts for health and electrical services generated during the pandemic by COVID-19 and providing for subsidies to vulnerable customers to pay them. Said fiscal charge subsidies will be to contribute to the payment of debts for drinking water consumption and for the payment of debts for electricity consumption. The benefited users will correspond to those who are delinquent in the debt generated by the postponement in the payment of basic services and have an average electricity consumption of no more than 250 kilowatt hours per month. The subsidies will be deducted monthly by the sanitation service companies and the electricity distribution companies and cooperatives to the beneficiary users.

On the other hand, the debts contracted will be paid in 48 monthly installments, counted from the month of entry into force of this law, where each installment may not exceed 15% of the collection associated with the average consumption of the year 2021. Once the 48 installments, if there is a balance of the debt, it will be extinguished through agreements entered by the Ministry of Energy with the electric companies and cooperatives, respectively, which must be approved by the corresponding administrative act.

## **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 while 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 for 4-year periods and include a six-monthly indexation 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. There is no guarantee that the previous tariff level will be maintained in subsequent tariff cycles.

### **6.2. Operating Risks**

Although the Company's management believes it has adequate risk coverage, in line with industry practices, including a full annual exercise of Enterprise Risk Management, it is not possible to ensure that the preventive actions and mitigations implemented (asset management, safety fringe management, insurance policies, etc.) will be sufficient to cover certain operating risks, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure.

### **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.

Preventive and mitigative measures have been identified and defined for all risks related to the environment and communities surrounding the company's facilities.

### **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 and periodically recalculated according to the process established in the current regulation. 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.

## 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 compensate 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	March 2022		December 2021	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	808.579	808.388	868.719	875.783
Chilean peso	2.342.775	2.342.966	2.282.636	2.275.571

Below are the exchange rates (Observed Dollar) in Chilean pesos to the United States dollar; in the periods indicated.

MONTH	Average 2022 (\$)	Last Day 2022 (\$)	Average 2021 (\$)	Last Day 2021 (\$)
January	822,05	810,12	723,56	734,62
February	807,07	805,25	722,63	719,91
March	799,19	787,16	726,37	721,82
<b>Average of the period</b>	<b>809,44</b>	<b>800,84</b>	<b>724,19</b>	<b>725,45</b>

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 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.

However, it cannot be ensured that Transelec will be fully protected by maintaining hedging contracts for the exchange rate. In addition, cross currency swaps and forwards contain counterparty credit risk, cash requirements on maturity dates or recouping clauses (if any) and other associated risks.

### 6.7. Credit Risk

Regarding the credit risk associated with accounts receivable from the electricity transmission business, this risk is systematically incredibly low given the limited number of customers, their risk classification, and the short collection period.

However, revenues are highly concentrated on few customers that make up a large part of Transelec's future cash flow. A substantial change to the assets, financial condition and/or operating results of these particular companies could adversely affect the Company.

The following table shows the top five customers and their comparison with to the previous year:

REVENUES	March 2022 MM\$	March 2022 %	March 2021 MM\$	March 2021 %
Enel Group	35.250	40,5%	26.299	33,3%
AES Gener Group	12.274	14,1%	16.940	21,4%
CGE Group	11.732	13,5%	14.210	18,0%
Colbún Group	10.672	12,2%	10.685	13,5%
Engie Group	7.999	9,2%	6.986	8,8%
Others	9.215	10,6%	3.917	5,0%
<b>Total</b>	<b>87.143</b>		<b>79.036</b>	
<b>% Concentration</b>	<b>89,43%</b>		<b>95,04%</b>	

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 those that have a risk classification and are bank subsidiaries.





## 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.

To guarantee that Transelec can quickly react financially to investment opportunities and pay its obligations by their maturity dates, the company has a stable and predictable remuneration over time, associated with the “take or pay” income, i.e., the company has income associated with its installed capacity of assets, and not with the volume transported. In addition, it has short-term receivables and a committed line of credit for working capital of US\$250 million. This committed line of credit was first contracted on July 9, 2012, being renegotiated, and extended in 2014, 2017, 2020 and 2021. The last renovation was on May 28, 2021, maintaining only a dollar tranche of US\$250 million and other improvements for the company. Is granted for a period of 3 years by a bank syndicate consisting of The Bank of Nova Scotia, MUFG Bank Ltd, Bank of China Ltd, Banco Santander, Sumitomo Mitsui Banking Corporation and JP Morgan Chase Bank N.A. In July 2021, China Construction Bank incorporated to the bank syndicate. This line does not include any material clause of adverse change.

The Company is exposed to risks associated with its 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 March 31, 2022, and December 31, 2021.

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
March 31, 2022	67.424	650.447	87.856	914.749	336.558	2.057.034
December 31, 2021	67.424	360.358	389.692	923.181	336.558	2.077.215

## 6.9. 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 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 March 31, 2022, and as of December 31, 2021, 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

<b>MONTH</b>	<b>Average 2022 (\$)</b>	<b>Last Day 2022 (\$)</b>	<b>Average 2021 (\$)</b>	<b>Last Day 2021 (\$)</b>
January	31.096,09	31.212,65	29.085,91	29.123,74
February	31.365,30	31.539,20	29.194,81	29.287,38
March	31.669,70	31.727,74	29.360,08	29.394,77
<b>Average of the period</b>	<b>31.377,03</b>	<b>31.493,20</b>	<b>29.213,60</b>	<b>29.268,63</b>

### **6.10. Other Risks**

In addition to the previously mentioned, the company faces other risks such as cybersecurity, legal, market, counterpart, and reputational risks.

### **7. SUBSEQUENT EVENTS:**

- On April 29, 2021, the Ordinary Shareholders' Meeting agreed to distribute a definitive dividend for the results of the 2021 period for an amount of MCh\$17,404, which will be paid in May 2022.
- On the same date, the Extraordinary Shareholders' Meeting authorized the completion of all the necessary procedures for the issuance of bonds in the local and/or international market in foreign and/or local currency, for a total amount equivalent to up to US\$500 million.
- On May 1, 2022, the Chief Executive Officer of the Company, Mr. Arturo Le Blanc Cerda, took over the position, replacing Mr. Andrés Kuhlmann Jahn.