

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

**TRANSELEC S.A AND SUBSIDIARY**

*Santiago, Chile  
December 31, 2023*



## **SUMMARY**

As of December 31, 2023, revenues reached MCh\$471,267 showing an increase of 7.2% compared to the same period of 2022 (MCh\$439,952), mainly explained by an accounting effect due to the record in the first quarter of this year, under IFRS 16 criteria, of a leasing contract for a dedicated project commissioned (one-time effect, which will not be kept over time), macroeconomic effects and partially compensated by the reverse of the overestimated provision for lower revenues in 2020 and 2021 made in 2022 associated to the tariff review. For December 2023 Financial Statements, revenues are determined in accordance with Supreme Decree 7T published on February 16, 2023. In December 2022, revenues were also provisioned according to DS7T, but additionally an adjustment was made to the lower revenue provision made in 2020 and 2021 associated with the entry into force of the new transmission facilities valuation study 2020- 2023, that has been overestimated.

As of December 31, 2023, Transelec obtained an EBITDA<sup>1</sup> of MCh\$376,198, a 2.0% higher than the one obtained in the same period of 2022 (MCh\$368,765), mainly due to the increase in revenues mentioned above, with an EBITDA Margin<sup>2</sup> of 79.8%. The EBITDA as of December 31, 2023 has excluded the income associated to a one-time effect of the accounting effect of the leasing contract, so that the EBITDA better reflects cash.

The loss in Non-Operating Income as of December 2023 was MCh\$88,423, representing a decrease of the loss of 46.2% compared to the same period of 2022 (MCh\$164,371). This result is mostly explained by a lower loss for indexed assets and liabilities.

Net Income recorded by the Company as of December 31, 2023, was MCh\$179,486, and MCh\$ 109,095 in the same period of 2022.

During 2023, the Company has incorporated the equivalent of US\$418 million of new facilities, which correspond to the commissioning of three upgrades and three expansions of the National System, two acquisitions, three upgrades and one expansion in the Zonal system and one dedicated project.

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

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

**Relevant events of the period:**

Supreme Decree 7T (DS7T) was published on February 16 of this year, which mainly regulates transmission rates in the country. The application of the DS7T considers the Company's revenues as of January 1, 2020. At the closing of these Financial Statements, the Company is recording income in accordance with the DS7T, however, in the same period of 2022 it recognized and received revenues according to the previous tariff studies (DS23T and DS6T) so lower income provisions were included according to the information available at that time of what would be the final tariffs for the 2020-2023 period. Due to all of the above, the Company has no longer made the provision for lower revenues that it had been recording until December 2022.

- On April 19, 2023, Transelec S.A. issued local corporate bonds Series "V" and Series "X" for a total of UF 7,000,000. Series "X" matures on March 1, 2034, it is bullet with a coupon rate of 3.2% annually and Series "V" matures on March 1, 2048, bullet and a coupon rate of 3.3% annually, both with semi-annual payments.
- On April 26, 2023, the Company made the pre-payment of the Senior Bond issued in 2013 for US\$300 million maturing on July 26, 2023.
- Due to the prepayment of the Senior Bond in April, the company had to adjust its hedge:
  - During April 2023, the Company settled two Cross Currency Swaps held with Banco Santander and Goldman Sachs for a total notional amount of US\$300 million,
  - In June, a partial unwind of a Goldman Sachs Cross Currency Swap, leaving the notional at MUS\$23.5. The monetizing of the market value of said instruments generated a gain of Ch\$70 billion.
- On April 28, 2023, the Ordinary Shareholder's Meeting agreed to distribute a definitive dividend for the results of the 2022 period for an amount of MCh\$32,337, which was paid in May 2023.
- On July 9th, 2023, the Extraordinary Shareholder's Meeting agreed to distribute retained earnings for an amount of MCh\$201,630, which was paid in August 2023.
- In November and December, S&P and Moody's ratified Transelec's international risk classification of BBB and Baa1 respectively.
- Recognizing the financial strength of the company, Fitch Ratings upgraded Transelec S. A. 's local risk rating to AA from AA- in December 2023. In addition, it ratified the international risk classification of BBB.

## 1. INCOME STATEMENT ANALYSIS

ITEMS	December 2023 MCh\$	December 2022 MCh\$	Variation 2023/2022 MCh\$	Variation 2023/2022 %
<b>Revenues</b>	<b>471.267</b>	<b>439.592</b>	<b>31.675</b>	<b>7,2%</b>
Sales	462.502	432.308	30.194	7,0%
Services	8.765	7.284	1.481	20,3%
<b>Operation Costs and Expenses</b>	<b>-131.097</b>	<b>-128.275</b>	<b>-2.822</b>	<b>-2,2%</b>
Sales Costs	-40.618	-41.150	532	1,3%
Administrative Expenses	-33.044	-31.345	-1.699	-5,4%
Depreciation and Amortization	-57.435	-55.780	-1.655	-3,0%
<b>Operating Income</b>	<b>340.170</b>	<b>311.317</b>	<b>28.853</b>	<b>9,3%</b>
Financial Income	45.885	48.641	-2.756	-5,7%
Financial Costs	-84.016	-75.068	-8.948	-11,9%
Foreign exchange differences	3.251	-225	3.476	1548,2%
Gain (loss) for indexed assets and liabilities	-53.732	-137.690	83.958	61,0%
Other income (Losses)	189	-30	219	741,6%
<b>Non-Operating Income</b>	<b>-88.423</b>	<b>-164.371</b>	<b>75.948</b>	<b>46,2%</b>
<b>Income before Taxes</b>	<b>251.748</b>	<b>146.947</b>	<b>104.801</b>	<b>71,3%</b>
Income Tax	-72.262	-37.852	-34.410	-90,9%
<b>Net Income</b>	<b>179.486</b>	<b>109.095</b>	<b>70.391</b>	<b>64,5%</b>
<b>EBITDA<sup>1</sup></b>	<b>376.198</b>	<b>368.765</b>	<b>7.433</b>	<b>2,0%</b>
<b>EBITDA Margin<sup>2</sup></b>	<b>79,8%</b>	<b>83,9%</b>	<b>23,5%</b>	<b>28,0%</b>

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

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

### a) Operating Income

During 2023, Revenues reached MCh\$471,267 increasing a 7.2% compared to the same period of 2022 (MCh\$439,592). The increase is mainly explained by higher revenues from sales which as of December 2023, reached MCh\$462,502, 7.0% higher compared to December 2022 (MCh\$432,308).

Overall, higher revenues are mainly due to an accounting effect generated by the registration of the contract for the start-up of the transmission solution for the Quebrada Blanca 2 mine, where the works in progress are counted as leasing, generating a one-time accounting effect. Also affected by macroeconomic effects (mainly associated with inflation), higher revenues from new projects commissioned in last 12 months, partially compensated by the provision for higher revenues made in 2022 associated to the reverse of the overestimated provision for lower revenues in 2020 and 2021.

It should be noted that the financial statements as of December 31, 2023, consider the DS7T in the revenues.

Total Transelec Operational Costs and Expenses as of December 31, 2023, were MCh\$131,097, a 2.2% higher than the comparison period in 2022 that reached MCh\$128,275. Total Costs and Expenses are composed by the following main items.



Sales Costs during the analysis period amounted MCh\$40,618, a 1.3% lower than the same period of 2022 (MCh\$41,150). The decrease is explained by lower fine provisions partially compensated by higher maintenance costs.

Administrative Expenses amounted to MCh\$33,044 in December 2023, 5.4% higher than those obtained in the same period in 2022 (MCh\$31,345). The increase is mainly explained by higher provisions for fines, partially offset by penalties for unsuccessful projects.

Total Depreciation and Amortization as of December 31, 2023, reached MCh\$57,435, a 3.0% higher than the same period in 2022 (MCh\$55,780).

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

The Non-Operating Income at the end of December 2023, was a loss of MCh\$88,423, a 46.2% lower loss than the same period of 2022 (MCh\$164,371). This is mainly explained by lower loss for indexed assets and liabilities.

The loss for Indexed Assets and Liabilities was MCh\$53,732 as of December 31, 2023. This is mainly due to a variation of 4.78% in the value of the UF during 2023, which mainly affects our UF bonds, and due to other effects. In the same period of 2022, the loss was MCh\$137,690, associated to a 13.29% variation in UF value.

The Financial Income registered until December 2023 amounted to MCh\$45,885. The amount registered in the same period of 2022 was MCh\$48,641. This decrease is mainly due to higher interests earned in 2022 by the unwind of a T-Lock.

The Exchange Differences as of December 2023 result in a profit of MCh\$3,251, while during the same period of 2022, the balance was a loss of MCh\$225. The Exchange Differences remain limited, associated with the foreign currency hedging policy.

Financial Costs registered as of December 2023 reached MCh\$84,016, increasing by 11.9% compared to the same period of 2022 (MCh\$75,068). The increase is mainly due to effect of the unwind of CCS (associated to the payment of USD bond) and by lower interest earned on ongoing projects.

Other Income, as of December 2023, were a profit of MCh\$189, while in December 2022 were a loss of MCh\$30. This difference is mainly due to the regularization of accounts from prior years.

### **c) Income tax**

Income Tax as of December 31, 2023, was MCh\$72,262, while in the same period of 2022 was MCh\$37,852. This rise in income tax expenditure is mainly explained by an increase in the company's Income before Taxes in MCh\$251,748, which directly impacts on higher tax expenditure.

## 2. BALANCE SHEET ANALYSIS

ITEMS	December 2023 MCh\$	December 2022 MCh\$	Variation 2023/2022 MCh\$	Variation 2023/2022 %
Current assets	304.495	516.058	-211.563	-41,0%
Non-current assets	3.075.033	2.939.870	135.163	4,6%
<b>Total Assets</b>	<b>3.379.527</b>	<b>3.455.928</b>	<b>-76.401</b>	<b>-2,2%</b>
Current liabilities	213.584	608.146	-394.562	-64,9%
Non current liabilities	2.231.423	1.841.809	389.614	21,2%
Equity	934.521	1.005.973	-71.452	-7,1%
<b>Total Liabilities &amp; Equity</b>	<b>3.379.527</b>	<b>3.455.928</b>	<b>-76.401</b>	<b>-2,2%</b>

The decrease in Assets between December 2022 and December 2023 is mainly explained by a decrease in Current Assets. This decrease is mostly due to lower balance in cash and cash equivalent.

The decrease in Liabilities and Equity is mainly due to a decrease in Trade and Other Payables, which corresponds mainly to the reassessment payment that the company had to do because of the publication of the DS7, and because of lower retained earnings. It is noteworthy that, in April, the company issued local bond series V and X for MUF7 with which it pre-paid the US\$ 300 million senior bond maturing in July 2023 in the international market.

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

ASSETS	December 2023 MCh\$	December 2022 MCh\$	Variation 2023/2022 MCh\$	Variation 2023/2022 %
Land	21.769	21.556	213	1,0%
Building, Infraestructure, works in progress	1.315.531	1.281.377	34.154	2,7%
Work in progress	419.194	533.291	-114.097	-21,4%
Machinery and equipment	882.531	809.716	72.815	9,0%
Other fixed assets	6.396	6.176	220	3,6%
Right of use	8.667	8.465	202	2,4%
Depreciation (less)	-757.988	-708.824	-49.164	-6,9%
<b>Total</b>	<b>1.896.101</b>	<b>1.951.757</b>	<b>-55.656</b>	<b>-2,9%</b>

## Current Debt

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million)	
					(unpaid capital)	
					December 2023	December 2022
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 V bond	UF	3,30%	Fixed	01-Mar-48	3,00	-
Series X bond	UF	3,20%	Fixed	01-Mar-34	4,00	-
Series Senior Notes bond @2023	USD	4,63%	Fixed	26-Jul-23	-	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	SOFR	Floating	28-May-24	-	-

<sup>1</sup> Revolving Credit Facility of US\$250 million: The floating rate breaks down in SOFR plus a margin. As of December 31, 2023, the Company maintains this line fully available. This facility was renegotiated for 3 additional years in February 2024.

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.

In April 2023 the company paid the Senior Notes bond @2023 and issued two new local bonds for a total amount of UF 7 million (series V and X)

### 3. CASH FLOW ANALYSIS

ITEMS	December 2023 MM\$	December 2022 MM\$	Variation 2023/2022 MM\$	Variation 2023/2022 %
Cash flows provided by (used in) operating activities	196.888	421.784	-224.896	-53,3%
Cash flows provided by (used in) investing activities	-251.776	-243.256	-8.520	-3,5%
Cash flows provided by (used in) financing activities	-161.182	-19.309	-141.873	-734,7%
<b>Net increase (decrease) of cash and cash equivalent</b>	<b>-216.070</b>	<b>159.218</b>	<b>-375.288</b>	<b>N/A</b>
Effect of changes in the exchanges rate	590	79	511	647,0%
<b>Net increase (decrease) of cash and cash equivalent</b>	<b>-215.480</b>	<b>159.297</b>	<b>-374.777</b>	<b>N/A</b>
Cash and cash equivalent at the beginning of the period	393.816	234.519	159.297	67,9%
<b>Cash and cash equivalent at the end of the period</b>	<b>178.336</b>	<b>393.816</b>	<b>-215.480</b>	<b>-54,7%</b>

As of December 31, 2023, cash flow from activities of the operation reached MCh\$196,888, which decreased by 53.3% compared to the same period of 2022 (MCh\$421,784). The decrease is mainly due to the payment the company had to do related to the revenue's reassessment because of DS7.

During the same period, cash flow used in investment activities was MCh\$251,776. As of December 31, 2022, the cash flow used in investment activities was MCh\$243,256. The increase is due to the difference between collections from, and payments to related companies.

As of December 2023, the cash flow from financing activities was MCh\$161,182, while as of December 2022 it was MCh\$19,309. In both cases, it is mainly explained by the payments of dividends and the payment of retained earnings in August 2023.

It should also be noted that, to ensure the immediate availability of funds to cover working capital needs, as of December 31, 2023, the company has the following revolving credit facility for an amount of US\$ 250 million (this revolving credit facility was renegotiated and extended during February 2024 for three additional years).

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., China Construction Bank, Barclays Bank and Bonco de Sabadell.	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	December 2023	December 2022
Capitalization Ratio <sup>1</sup>	All local Bonds	< 0.70	0,67	0,65
Shareholder's Equity <sup>1</sup> MMUF	D, H, K, M and N local Bonds	> 15.00	26,08	29,36
Shareholder's Equity <sup>1</sup> MCh\$	Q, V & X local Bonds and Revolving Credit Facility	> 350,000	959.491	1.030.943
Net Debt/Ebitda*	V & X local Bonds and Revolving Credit Facility	< 7.0x	4,21	3,58

Test	Bonds	Limit	December 2023	December 2022
Distribution Test <sup>2</sup> FNO <sup>3</sup> /Financial Expenses	D, H, K, M and N local Series	> 1.50	4,2	7,12

<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, 2023, 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.

\*EBITDA= Operating Revenues + Operating Costs + Administrative Expenses + Other Income (Losses) + Finance Leases Amortization. Operating Costs and Administrative Expenses do not include Depreciation and Amortization.



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

RATIOS		December 2023	December 2022	Variation 2023/2022
<b>Profitability<sup>1</sup></b>				
Shareholders' Equity profitability <sup>2</sup>	(%)	22,6%	19,0%	360 pbs
Assets profitability <sup>3</sup>	(%)	6,2%	5,5%	70 pbs
Operating assets profitability <sup>4</sup>	(%)	11,1%	9,8%	130 pbs
Earnings per share <sup>5</sup>	(\$)	211.003	109.095	93,4%
<b>Liquidity &amp; Indebtedness</b>				
Current Ratio	(times)	1,43	0,85	68,2%
Acid-Test Ratio	(times)	1,43	0,85	68,2%
Debt to Equity	(times)	2,62	2,44	7,4%
Short term debt/Total debt	(%)	8,7%	24,8%	-1610 pbs
Log term debt/Total debt	(%)	28,0%	75,2%	-4720 pbs
Financial expenses coverage	(times)	4,48	4,91	-8,8%

<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 establishes a new

electric transmission system and creates an independent coordinator of the National Electric System "The Transmission Law". Additionally, those who explore and operate 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.
- 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 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 was delayed by over 3 years but the corresponding decree was published in *El Diario Oficial* (Official Gazette) On February 16<sup>th</sup>, 2023. It is expected that the Companies affected by regulated tariffs in the National and Zonal Systems will receive the new tariff from the second semester of 2023, 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, which was reviewed by the Office of the General Comptroller of the Republic, and subsequently the Ministry of Energy promulgated Decree 7T of 2022.

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. Conducting 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, fires, 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	December 2023		December 2022	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	653.646	654.736	888.932	889.100
Chilean peso	2.724.361	2.723.271	2.560.317	2.560.149

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

MONTH	Average 2023 (\$)	Last Day 2023 (\$)	Average 2022 (\$)	Last Day 2022 (\$)
January	826,34	810,37	822,05	810,12
February	798,26	831,24	807,07	805,25
March	809,50	789,32	799,19	787,16
April	803,84	801,61	815,12	856,58
May	798,64	803,94	849,39	826,26
June	799,87	802,68	857,77	919,97
July	813,40	827,84	953,71	911,42
August	855,66	854,22	904,35	882,11
September	884,40	906,84	921,01	966,00
October	926,35	910,28	955,89	945,31
November	886,61	867,86	917,05	905,70
December	874,67	884,59	875,66	859,51
<b>Average of the period</b>	<b>839,80</b>	<b>840,90</b>	<b>873,19</b>	<b>872,95</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	December	December	December	December
	2023	2023	2022	2022
	MM\$	%	MM\$	%
Enel Group	138.599	29,4%	164.026	37,3%
Quebrada Blanca TECK	48.929	10,4%	0	0,0%
CGE Group	46.243	9,8%	54.751	12,5%
Colbún Group	38.050	8,1%	44.951	10,2%
AES Gener Group	33.952	7,2%	47.094	10,7%
Engie Group	29.343	6,2%	35.632	8,1%
Others	136.151	28,9%	93.138	21,2%
<b>Total</b>	<b>471.267</b>		<b>439.592</b>	
<b>% Concentration</b>	<b>71,11%</b>		<b>78,81%</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. In January 2023, Barclays Bank incorporated to the bank syndicate, and Banco Sabadell in February 2023.





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 December 31, 2023, and December 31, 2022.

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, 2023	76.547	467.534	592.662	734.014	603.907	2.474.664
December 31, 2022	303.869	402.253	475.411	598.111	230.145	2.009.790

### 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 December 31, 2023, and as of December 31, 2022, 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 2023 (\$)</b>	<b>Last Day 2023 (\$)</b>	<b>Average 2022 (\$)</b>	<b>Last Day 2022 (\$)</b>
January	35.227,24	35.287,50	31.096,09	31.212,65
February	35.382,14	35.509,68	31.365,30	31.539,20
March	35.579,62	35.575,48	31.669,70	31.727,74
April	35.666,65	35.838,55	31.905,76	32.176,49
May	35.969,53	36.032,89	32.453,99	32.679,54
June	36.069,31	36.089,48	32.894,82	33.086,83
July	36.079,89	36.049,05	33.268,63	33.417,26
August	36.068,70	36.130,31	33.616,11	33.836,51
September	36.175,90	36.197,53	34.059,41	34.258,23
October	36.273,59	36.388,07	34.446,46	34.600,35
November	36.489,40	36.489,40	34.722,91	34.811,80
December	36.669,38	36.789,36	34.948,74	35.110,98
<b>Average of the period</b>	<b>35.970,95</b>	<b>36.031,44</b>	<b>33.037,33</b>	<b>33.204,80</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.