

Financial Results 2Q20
Questions & Answers

06/08/2020

The Q&As that could not be addressed during the ISA 2020 second quarter conference on August 6, 2020 are attached.

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1. Where do sustainable development goals intersect with profit maximization goals?

Compliance with environmental regulations and with our commitments to all the stakeholders contributes to sustainable development, but at the same time it allows us to participate and be more competitive in the different bidding processes in the market, which is aligned with our profit maximization goal. Today, sustainability is the only way to grow in the long term.

2. What is ISA's strategy for reduced vehicle traffic on highways?

The impact of traffic reduction on road concessions is partially offset by the guaranteed minimum revenue mechanism stipulated in our contracts in that country. This mechanism offsets lower toll revenues with a longer concession time, thus guaranteeing the profitability of each concession. We expect, nevertheless, that once the pandemic is over traffic will return to normal.

3. What percentage of the overall traffic in concessions was reduced?

To date, traffic has decreased by an average of nearly 30%. We expect that when the quarantine is over, traffic will return to normal. However, under the guaranteed minimum revenue mechanism, when mobility is reduced, the end date of the concessions is extended to guarantee profitability to shareholders.

4. What is the estimated maturity date for Bosque and Maule concessions, which could be in the next few years?

For Maule and Bosque it would be 3 years, although this depends on the evolution of traffic there. It is worth noting that ISA's strategy considers the rebidding of these concessions through its affiliate in Chile, Intervial.

5. Due to the quarantine imposed by the Chilean government, traffic in the concessions has been reduced. What is the expected impact on collections? What is the impact on the company's liquidity? How long was the delay for concessions under construction?

Collections have decreased by 16% as of June and by the end of the year the total decrease is expected to be 13%, both compared with 2019. The company's liquidity has not been impacted because, although collections have decreased, the reserve account scheme allows us to cover the operation, debt payment, and other commitments seamlessly. Besides reserve accounts, the concessions have been approved credit lines; however, according to our closing perspective, we don't expect to use them.

It should be noted that works in Maipo (Third Lanes -section 3- and complementary works) have progressed as budgeted with no delays. Delays of approximately two months are estimated for Rutas del Loa, not so much as a result of the pandemic, but rather due to delays to obtain the Environmental Assessment Resolution for Section B; in turn, delays of two months are expected for Araucanía and Ríos due to the delay in the approval of engineering projects.

6. Given the news about CTEEP on 2Q20, higher profits in 2020 and higher cash in the next years is foreseeable. Is there a possible increase in dividends from that affiliate, which can be transferred to ISA shareholders?

To the extent that ISA CTEEP's profits are higher, dividends will also be higher, given its policy of distributing 75% of regulatory profits. Therefore, it is possible that ISA will receive higher dividends from ISA CTEEP.

7. Considering that there is a decrease in costs, how could the impact of COVID-19 on the operation be estimated numerically?

- Revenue collection in this situation is above 98% for the whole Group.
- Administration, operation and maintenance (AOM) costs and expenses totaled COP 908.865 million, a decrease by 1,7% compared with June 2019, which shows an efficient management of the control of AOM costs and expenses on which the company is constantly working, in particular due to the current COVID-19 pandemic.
- Additional energy transmission projects costs were USD 29 million.

8. With respect to the road concession scheme in Peru, what are the similarities and differences with the schemes in Chile and Colombia?

In both Colombia and Chile we have a Guaranteed Total Revenue scheme. In Peru, the scheme is a bit different as investment, operation, maintenance, and commissioning are the items being remunerated. In this country, as in Colombia and Chile, there is no commercial or traffic risk, so revenues are guaranteed.

9. Are problems with collections expected, given the high indebtedness of the countries in the region to control the health emergency?

So far, we haven't seen any problem with respect to collections, as governments have implemented measures to help vulnerable communities defer their energy bills, while maintaining the service. In addition, successful measures have been applied to protect the energy system payment chain.

So far this year, energy transmission revenues for the Group have been collected by more than 98%.

10. Is the tariff adjustment at ISA CTEEP a cash or an accounting adjustment? What is expected for the second semester?

There is a material accounting effect recorded in the financial results for the first half of the year, where the impact of the tariff adjustments is recognized (including the retroactive period between 2018 and 2020). As of the second half of 2020, the corresponding cash effect of the tariff adjustments will start being perceived (retroactive adjustment proportionally deferred until July 2023). No additional material accounting impacts are expected.

11. Where is the proposal to extend the transmission line in Chile?

It is normal, as part of the ISA Group's strategy, to inform grantors in different countries how demand grows and how our service is affected. With this information, we propose to expand our investment in order to guarantee service availability.

Therefore, we began the negotiation process with the grantor to try to reach an agreement to build and expand our investment. For now, the process is in the conversation stage with the grantor, and we will be reporting the results.

12. Can you provide us with more details on the construction margin in this quarter?

The construction activity amount is directly related to the investment dynamics for the period. Construction revenues from energy transmission (Peru and Brazil) and road concessions (Chile) must be accounted for, and are equal to construction costs. However, by definition, road construction revenues in Chile include a margin of 13% in 2019 and 15% in 2020, so the total 2Q20 construction margin is 5%.

However, in the second quarter of 2019 construction gains from some projects that entered into operation in Brazil were recorded, which explains the variation between the 44% margin in 2Q19 and 5% in 2Q20.

13. Why the high interest in investing in road concessions?

Operating this business for more than 10 years in Chile has allowed us to know it and confirm its profitability. This is also a business unit similar to energy transmission, that is, long-term concession contracts with governments and guaranteed revenues. In addition, it complements ISA's investment portfolio positively due to its contribution to diversification. All this means that now, besides maintaining the business unit in Chile, we are also seeking relevance in the Colombian and Peruvian markets, which will positively impact our portfolio's risk-return ratio.

14. Are regulatory changes in the short term expected in countries where ISA is present that may affect a business segment?

For the next few years, we do not foresee major regulatory changes. The only issue pending is the change in the remuneration of revenues in Colombia. Although this issue is on the CREG's agenda, we cannot determine when it will come into effect. In any case, it is important to point out that regulations are dynamic and we are unsure whether the pandemic may cause subsequent changes in the regulatory frameworks, although we have no signs of this for the moment.

15. What is your view on ANEEL's payment of the Ke, was it what you were expecting? Do you expect any additional compensation from the RBSE? What will be the use of cash flows from these compensations?

The recognition of the Ke is a direct result of ISA CTEEP's previous arrangements with the regulator, derived from the early termination of concession 059 by the Government in 2012. With respect to the RBSE, no additional compensation is expected, only the payment of the account receivable. Cash flows will be used to finance ISA CTEEP's growth strategy, as well as to pay dividends to its shareholders.

16. How do you expect to structure the debt for the ISA2030 plan? How much would you like to finance the CAPEX growth?

Our investments are financed with an equity/debt combination, which considers 3 factors: it must maximize profitability to shareholders; debt indicators must not exceed limits established by rating agencies and the margin must allow us to continue growing and; finally, the debt must represent natural hedging benefits for our revenues.

17. Could we have new guidance on when projects that were deferred because of COVID-19 restrictions would be delivered?

The current COVID-19 crisis has caused the suspension or total or partial stoppage of on-site activities in the countries where we are present. Depending on regulations of each country, the necessary measures were taken to resume on-site activities in a manner that is safe for the communities, project developers, and infrastructure. To date, works have been resumed in the 15 projects which construction activities had been suspended, and an average delay of 3 months in the progress of the projects is expected. ISA and its companies will continue to make every effort necessary to mitigate the impacts of this situation on projects, guaranteeing staff safety.

18. Why is the financing structure increasingly moving towards the capital market?

ISA analyzes the different market options in advance each time it incurs new debt. To date, we see that the banks have not yet achieved the interest rate drops made by the Central Banks, nor are they offering long terms as the capital market does, with lower rates. Therefore, within the possibilities, the capital market today is offering us better conditions, although this is not static and we will always analyze case by case.

19. What are ISA's main strategies? Has it fulfilled them?

ISA's current strategy is based on three pillars: generating value to shareholders, creating social and environmental impact, and ensuring corporate sustainability. For each of these pillars we have set goals for 2030. These goals are constantly monitored and we are working daily to achieve them. We have already made progress on each goal, such as the higher profitability reflected in the growing ROE; in the environmental aspect, the achievements of the Conexión Jaguar program; and in ensuring corporate sustainability, we are preparing to participate in large-scale storage projects and distributed energy solutions in Latin America.

20. When does ISA expect to materialize the first concession in Peru with its partner El Condor?

We have been analyzing the Peruvian market for some time now. At this moment, together with El Condor, we are studying the alternatives offered by this country and we hope that in the next few years, as defined in our strategy, we will be present there.

21. What strategies have been implemented to deal with the exchange rate risk to which the ISA group is exposed?

The natural hedging strategy, implemented by ISA many years ago, consists of getting into debt in the same currency in which revenues are generated, which avoids high volatility in our net income. That is why, despite volatile exchange rates in this crisis, we do not see a material impact on our financial statements. At the end of June, the exchange rate effect on net income was 0,3%, confirming strategy effectiveness.

22. It is understood that the Colombian government is considering selling its share of the company, how can this affect profitability to shareholders? And what benefit would this sale bring to you as a company?

So far, we have no evidence of the government's intention to sell its share of the company. If this happens, and as in any M&A process, the impact on profitability to shareholders and on the company would depend on the terms of negotiation.

23. How do ANNEEL's regulations impact the company's revenues?

The energy transmission business unit is regulated. In Brazil, the Agência Nacional de Energia Elétrica (ANEEL) regulates the energy sector, and within this sector, the transmission activity. One of the main aspects regulated is remuneration, which is based on a "maximum revenue" based on the efficient service provision principle.

Regulatory revenues come from:

- Concessions of bid facilities, where revenues are defined by the lowest amount offered in the bidding process (competitive bidding).
- Concessions of non-bid facilities, where revenues are defined by the periodic tariff review process (every five years) in accordance with the concession contract. The periodic tariff review processes are regulated and, through them, the companies have the possibility of participating with their contributions.

24. Is ISA planning to expand its market to other countries outside those already mentioned?

In accordance with the ISA2030 strategy, growth is expected for the energy transmission business in Colombia, Peru, Chile and Brazil. Although other countries in the region are not excluded, the focus is now on investing in the countries where we are present today. For the Road Concessions business unit, growth is focused on Colombia, Peru, and Chile.

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ISA has prepared the following report for information purposes. The Company is not liable for any investment decision based on this report.

The statements contained herein reflect our current points of view regarding future events, are based on assumptions, and are subject to risks and factors that may cause the results, performance, and achievements of the Company to change at any time.

These factors include overall changes in the energy sector, economic conditions, national and international government policies, as well as variations in interest rates, inflation, volatility of exchange rates and tax levels.

As a result of these risks and factors, the current results may differ materially from estimates provided. The company accepts no liability from any variation or information provided by official sources. ISA assumes no obligation to update these statements as a result of new information, future events or any other factor.

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