



Green Finance Framework

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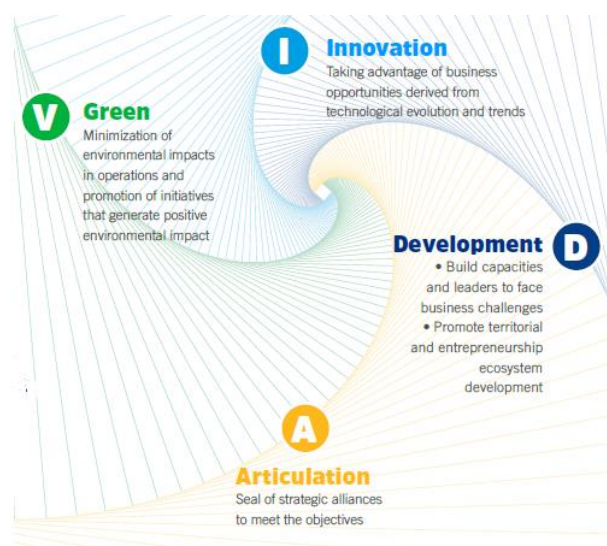
1. Introduction

Interchile S.A. (“Interchile” or “the company”), an affiliate company of ISA Group, is focused on the construction, operation, and maintenance of electric power transportation, road concessions, telecommunications transportation and intelligent systems management in Chile. Interchile operates approximately 1,954 kilometers (km) of transmission line circuits throughout the country with transmission capacity of 4,500 MVa. As a regulated activity under the Ministerio de Energía and Coordinador Eléctrico Nacional, Interchile designs, constructs and operates energy transmission systems, connecting energy generators (largely in the north of Chile) with network operators, regional transporters, and large consumers to the energy system and local grid. A majority of the country’s renewable energy (or *energía renovable no convencional* (ENRC)), is generated in the north of Chile. Interchile S.A. is a wholly owned subsidiary of parent company ISA Group¹, the latter of which is majority owned by the Colombian government. The company is currently one of the largest transmission companies in the country, with 18% market share.

2. Approach to Sustainability

2.1 Sustainability Strategy of ISA Group

ISA Group and its operating entities, including Interchile, are focused on supporting the Chile government’s commitment to phase out coal by 2040 and target to reach net zero emissions for the country by 2050. In 2018, ISA Group launched the ISA2030 Strategy for Sustainable Value, focused on growth with sustainable value, a balanced portfolio across current businesses and new geographies, and support of the four “V.I.D.A.” pillars of Green, Innovation, Development and Articulation (*Verde, Innovación, Desarrollo, Articulación*).²



¹ ISA Shareholding Participation in Its Companies, <https://www.interchilesa.com/wp-content/uploads/2021/pdfs/Participacion-de-ISA-en-sus-empresas.pdf>

² ISA Group Integrated Management Report 2020, <https://www.interchilesa.com/wp-content/uploads/2021/pdfs/INTEGRATED-MANAGEMENT-REPORT-ISA-2020-1.pdf>

- **Green:** Minimize the environmental impacts of the business and promote positive environmental initiatives.
- **Innovation:** Take advantage of business opportunities derived from technological evolution and trends
- **Development:** Build capacities and leaders to face business challenges and promote the development of the territory and an entrepreneurship ecosystem.
- **Articulation:** Seal strategic alliances to meet objectives.

Under the VIDA strategy, ISA has set specific environmental goals across the group and its companies. ISA intends to reduce and offset 11 million tons of CO₂e by 2030, with group companies including Interchile reporting annual progress. ISA has also committed to invest USD 6 bn into new energies, including bringing additional solar generation capacity online, and investing in energy storage research and technologies.

2.2 Sustainability Strategy and Initiatives of Interchile

As an operating company under ISA Group, Interchile is required to follow corporate-level policies of ISA Group, with implementation of relevant local policies as well as legal standards. Interchile's sustainability progress and environmental and social metrics are reported each year in ISA Group's Integrated Management report, which is third-party verified in accordance with the Global Reporting Initiative. ISA Group is also a signatory to the UN Global Compact, and reports its environmental and social disclosures in alignment to the UN Sustainable Development Goals (SDGs). Additional information is shared on Interchile's corporate website. Interchile has a dedicated sustainability team that reports bimonthly to the company's board of directors on sustainability topics. The Director of Sustainability at Interchile also reports to the ISA Group Sustainability Committee on Interchile's progress on sustainability programs and targets. As of 2019, Interchile also strengthened its sustainability governance in tying executive variable compensation to ESG goals in 2019, including those related to enabling renewable energy and large-scale energy storage.

Interchile is responsible for reporting progress on goals towards the ISA2030 strategy. As part of achieving ISA's 2030 carbon reduction goal, each operating company has annual carbon reduction targets to achieve. Interchile has set a target to reduce and offset 1.2 million tCo₂e from its operations by 2030, and annually reports its carbon emissions reductions through ISA Group. In terms of broader greenhouse gas emissions reporting, Interchile also tracks its annual sulfur hexafluoride (SF₆) gas emissions, a gas used in most of its installed equipment due to its insulation capabilities. As a greenhouse gas, Interchile has a SF₆ management program in place, and is committed to complying with the International Electrotechnical Commission standard of releases no greater than 0.5% of total SF₆ inventory installed. Interchile exceeds this requirement at 0.000806%, which was offset through Interchile's carbon offset program. In 2020, Interchile participated in certified carbon credit program to offset its GHG emissions of 837 tons of CO₂e, which it also reports annually through ISA.³ In the longer term, Interchile has also committed to invest USD 400 million into research and development for energy battery storage technologies to support the corporate and country-wide carbon reduction targets.

³ ISA Group Integrated Annual Report 2020, page 100.

Interchile is also the only energy transmission company to become a member in Asociación Chilena de Energías Renovables y Almacenamiento (ACERA), a national association focused on the development and promotion of renewable energy and its associated technologies for Chile.

Interchile also operates its own local biodiversity conservation program, “Conexion Puma”, under ISA Group’s broader biodiversity conservation program “Conexion Jaguar”. In 2020, Interchile launched a joint research program with the Institute of Agricultural Research (INIA) to build a biodiversity plan for the Atacama and Metropolitan regions of Chile. The company continues to align with Chile’s National Biodiversity Strategy (2017-2030) to improve transmission line design and layout to reduce environmental impacts, enhance efficiencies for water use, and focus on soil restoration.

2.3 Environmental and Social Risk Management

Interchile participates in ISA Group’s global comprehensive risk management program, which includes following ISA Group’s Environmental Policy, and has implemented an Environmental Management system across their operation. Company wide risk assessments are performed across all ISA Group companies on a quarterly basis. Under ISA’s Climate Change Strategy, Interchile undertakes and integrates climate change risk assessments, including physical, political, regulatory and emerging risks, to identify adaptation and mitigation measures, as well as opportunities for new business lines. ISA Group has also implemented its Social Management Model (2021 – 2025) to oversee relationships and investments with local communities.

For each transmission project, Interchile follows a formal biodiversity management process. First, through ARPEX (Analysis of Restrictions of Expansion Plans) and ARA (Analysis of Environmental Restrictions) Interchile identifies and evaluates the environmental and social impacts of the project, aiming to minimize the impact of its network design and routes through ecosystems. The company will then specifically assess the biodiversity risks and impacts through its DAA initiative (Diagnosis of Environmental Alternatives), and EIA (Environmental Impact Assessment) to minimize biodiversity and land conservation risks.

2.4 Climate Strategy of Chile and the Greening of the Grid

Since 2014, the government of Chile has released public policies and a national climate strategy, including its National Action Plan for Climate Change. The country has committed to reducing its CO₂ emissions per unit of GDP by 30% by 2030, along with a commitment to switch to renewable energy sources in cooperation with utility companies, and close Chile’s coal-fired generational plants by 2040. Most recently in April 2020, Chile updated its Nationally Determined Contribution (NDC)⁴ under the Paris Climate Agreement to reach net zero carbon emissions as a country by 2050. The government recognizes the energy and power sector is a key contributor (78%) of the country’s overall GHG emissions, and will require investment to reduce the sector’s emissions in line with national climate goals. In supporting the national climate strategy, Interchile is making critical investments in energy transmission infrastructure

⁴ Chile’s Nationally Determined Contribution, April 2020

https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Chile%20First/Chile%27s_NDC_2020_english.pdf

that is enabling the transition to renewables and phase-out of coal, such as Interchile's Cardones – Polpaico Line, Encuentro – Lagunas Line, and the future high-voltage direct-current HVDC Line (Kimal – Lo Aguirre), to be tendered.

Given its geographic structure and prior to full interconnection of the grid through the Cardones-Polpaico Line in 2019, Chile operated its electrical grid in four separate grid systems: the Sistema Interconectado Central (SIC), Sistema Interconectado del Norte Grande (SING), Sistema Eléctrico de Aysén (SEA) and Sistema Eléctrico de Magallanes (SEM). This fragmented structure created challenges for bringing the solar and wind generating capacity of northern Chile to higher demand areas like central Chile (where the Santiago region is located) as well as the southern part of the country and more remote regions. Prior to the commissioning of Cardones-Polpaico the northern regions of Chile also had experienced the dumping of wind and solar power, with curtailment rates of up to 17% in 2017, due to inability to get renewable power to larger city centers like Santiago in central Chile, as well as unstable energy prices.

2.5 The Cardones - Polpaico Line and the Role of Transmission Infrastructure

Since 2017, Interchile has actively been investing in the integration of the fragmented electrical grid system in Chile. In order to first facilitate the connection of the solar-rich regions of northern Chile with an inter-connected national grid, Interchile was active in the development of the double circuit 220 kV Encuentro-Lagunas transmission line, which came into operation in June 2017. The line connected the two northernmost regions of Chile, Tarapaca and Antofagasta, a key enabler in connecting future generating capacity of solar and wind power along the new line.⁵ Smaller trunk lines like the Encuentro-Lagunas line along the vertical spine of Chile were crucial in transmission capacity keeping pace with installed capacity, particularly in the solar-dominant northern regions.⁶

Interchile further facilitated the transition of the Chilean grid through the Cardones-Polpaico Line, a 753 km, double circuit 500 kV trunk line constructed through the Atacama, Coquimbo, Valparaíso, and Metropolitan regions of Chile. The Cardones -Polpaico Line was constructed in stages from October 2017 to May 2019, when it came online.

From the initial construction phases of the Cardones – Polpaico Line in 2017 to 2020, the increase in renewable energy capacity has grown for wind (by 78%) and solar (by 58%) according to Chile's National Electrical Coordinator.⁷ A similar trajectory has been seen for energy generation, with growth rates in solar (95%) and wind (57%) from 2017 to 2020 over the period of grid interconnectivity.⁸ Over this same period, installed capacity for coal in the grid declined by 6%, with generation of thermal power from coal and natural gas declining by 14% and 30%, respectively. The line has facilitated the connection of new renewable energy to the National Electric System of Chile, bringing renewable energy to approximately 5.7 million homes.⁹

⁵ Comisión Nacional de Energía, <https://www.cne.cl/en/normativas/electrica/consulta-publica/electricidad/>

⁶ IAA 2020, PLANIFICACIÓN ENERGÉTICA DE LARGO PLAZO (PELP), Ministerio de Energía, December 2020

⁷ Coordinador Eléctrico Nacional, <https://www.coordinador.cl/operacion/graficos/operacion-real/generacion-real-del-sistema/>

⁸ Coordinador Eléctrico Nacional, <https://www.coordinador.cl/operacion/graficos/operacion-real/potencia-transitada-por-el-sistema-de-transmision/>

⁹ Valgesta Energía, Análisis Beneficios Proyecto Cardones – Polpaico, December 2018

A key benefit of the Encuentro-Lagunas and Cardones-Polpaico lines is the elimination of the curtailment of renewable energy generation.¹⁰ It is estimated that in 2021, the Cardones-Polpaico line will avoid the curtailment of 1,800 MW in renewable energy produced in Chile's northern region.¹¹

As of March 2021, the Chilean energy matrix is made up of 51% renewable sources, projecting this mix to reach 70% by 2030.¹² The emissions intensity of the integrated grid began to show a decline, from 449.73 kg CO₂ eq/MWh in 2017 to 418.70 kg CO₂ eq/MWh in 2018 as tracked by Coordinador Eléctrico Nacional.

According to the Comisión Nacional de Energía, from 2021-2023 92% of committed new generation projects coming online will be from renewable sources (hydro, solar, wind and geothermal), with 8% from natural gas. The national government is predicting to double the clean energy capacity coming online to its grid over the next three years. The energy generation, installed capacity, and strategic alignment of the Chilean national government with Interchile indicate an upward trajectory of the integration of wind, solar, hydro and geothermal into the national electric system of Chile in line with the national strategy to net zero carbon emissions, displacing thermal power sources of coal and natural gas.

There are also social benefits of Interchile's work in connecting the northern grids to the central electrical system. It is anticipated that the Cardones-Polpaico line will result in lower end fees for customers by 2025, particularly for those in the metropolitan area of Santiago.¹³ Interchile's expansion of the Cardones-Polpaico Line also helped to stabilize volatile energy prices for renewable energy, benefiting customers and producers alike.

Interchile's investments into the Encuentro-Lagunas Line and the Cardones – Polpaico Line and related transmission infrastructure are a key catalyst to the 'greening of the grid' in Chile, to support the achievement of Chile's net zero carbon emissions goal by 2050, while also bringing more climate friendly power sources and social benefits to both metropolitan centers and rural communities in the country.

3. Rationale for Issuance

We recognize our role as transformation agents and promoters of social development in Chile. In order to enhance the ability of our company to address environmental change, we intend to issue Green Financing Instruments to finance green projects that align with our sustainability priorities.

¹⁰Curtailment is the deliberate reduction of renewable energy generation output due to transmission constraints.

¹¹ Valgesta Energía, Análisis Beneficios Proyecto Cardones – Polpaico, December 2018

¹² IAA 2020, PLANIFICACIÓN ENERGÉTICA DE LARGO PLAZO (PELP), Ministerio de Energía, December 2020.

¹³ Valgesta Energía, Análisis Beneficios Proyecto Cardones – Polpaico, December 2018.

4. Overview of Framework

In support of these practices, Interchile established the following Green Financing Framework (the “Framework”) which complies with the Green Bond Principles (the “GBP”)¹⁴ developed by the International Capital Markets Association as of June 2018, the Green Loan Principles (the “GLP”)¹⁵ developed by the Loan Market Association as of February 2021. This Framework is based on the four core components of the GBP and GLP:

1. Use of Proceeds
2. Process for Evaluation and Selection
3. Management of Proceeds
4. Allocation and Impact Reporting

Interchile has developed a Green Financing Framework under which Interchile may issue Green Financial Instruments including Green Bonds, Green Loans, or other financial instruments (hereinafter referred to as the “Green Financing Instruments”).

4.1 Use of Proceeds

The net proceeds of the green financing instruments will be exclusively used to finance and/or refinance eligible green projects (the “Eligible Green Projects” or the “Projects”). An amount equal to the net proceeds of Interchile's Green Financing Instruments will be used to finance and/or refinance, in whole or in part, new or existing green projects, assets or activities (hereafter “Eligible Green Projects”).

We have identified Eligible Green Projects in three main categories. These projects are in service of our carbon footprint reduction strategy and the strategic areas where we believe we can make the most positive environmental impact.

Interchile anticipates that its Green Financing Instruments will support the achievement of the United Nations Sustainable Development Goals noted below and fall within our key sustainability priorities. Eligible green projects include projects and expenditures that meet, among others, the following eligibility criteria:

¹⁴ ICMA Green Bond Principles (2018), <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

¹⁵ LSTA, LMA and APLMA Green Loan Principles (2021), <https://www.lsta.org/content/green-loan-principles/>

Eligible Project Category	Questions	Alignment to the UN SDGs
Renewable Energy	<p>Investments in the installation of electricity transmission lines that facilitate increased development and connection of renewable electricity generation sources, including:</p> <ul style="list-style-type: none"> • Capital investments into integrating the grid through interconnections across Chile in order to: <ul style="list-style-type: none"> - Improve transmission of low-carbon and renewable energy sources into the grid, specifically solar, wind, hydro and geothermal - Reduce the curtailment of existing renewable electricity generation capacity - Facilitate the development of new renewable energy generation through better connecting regions with high renewable generation potential and low demand with areas of high demand and low potential 	
Energy Efficiency	<p>Investments related to energy efficiency improvements to transmission infrastructure</p> <ul style="list-style-type: none"> • Installation, replacement, or refurbishment of equipment in existing transmission lines to increase energy efficiency of network and substations and reduce energy losses • Construction, development, and/or maintenance of facilities, systems or equipment aiming at reducing greenhouse gas emissions (including SF6) or replacement projects and/or greenhouse gas control devices (i.e. release monitoring equipment) • Investments including smart grid projects, smart sensors/meters, and automation systems to improve energy efficiency of the grid <p>Investments into energy storage systems</p> <ul style="list-style-type: none"> • Acquisition, connection, construction, development and/or operation of energy storage and battery systems to support stabilizing of the grid and management of peak/valley energy generation 	
Climate Change Adaptation	<p>Investments related to upgrading, improving and/or retrofitting of transmission infrastructure and substations to enhance resiliency to weather-related events</p>	

4.2 Process for Project Evaluation and Selection

Interchile will appoint a Green Financing Working Committee (the “Committee”) to oversee the implementation of its Framework. The Committee will consist of members from the Sustainability, Finance, and Project Management departments. From time to time, other representatives of Interchile may be admitted as additional members of the Committee. Interchile’s sustainability team will select and recommend projects for the review and approval. The Committee will be responsible for the allocation of the net proceeds from the financing instrument offering(s) to (i) refinance the debt initially used to finance Eligible Green Projects, and (ii) finance new Eligible Green Projects.

4.3 Management of Proceeds

Interchile will establish internal tracking systems to monitor and account for allocation of an amount equal to the net proceeds from the offering of the financing instrument(s) to (i) refinance the financing instrument(s) (the proceeds of which were initially used to finance Eligible Green Projects), and (ii) finance new Eligible Green Projects. Pending such allocation, we may use the funds for general corporate purposes, dividend payments and/or hold funds in cash or cash equivalents in accordance with our internal liquidity policy.

Interchile intends to issue Green Financing Instruments for Eligible Green Projects that have been originated and approved, however net proceeds may be used to refinance investments associated with Eligible Green Projects made by Interchile in the 60 months preceding the issuance of a Green Financing Instrument. Interchile intends to utilize net proceeds within 24 months of an offering.

4.4 Reporting

Annually, until full allocation of the net proceeds from the offering of the financing instrument(s), we will make available a allocation report on the following website <https://www.interchilesa.com/>.

The annual allocation report will include details of (i) the amount of net proceeds allocated to Eligible Green Projects, (ii) project descriptions, (iii) expected impact metrics, if available, (iv) the amount of net proceeds not yet allocated to Eligible Green Projects, and (v) assertions by our management with respect to the amount of net proceeds that have been or will be allocated to Eligible Green Projects.

We will provide information on environmental impact metrics for applicable Eligible Green Projects and if feasible and practical, we may provide information such as:

- Renewable Energy Sources connected to Chile’s grid (MW)
- CO2 emissions avoided (tco₂e)

These updates and assertions may be accompanied by a report from an independent accountant in respect of the independent accountant’s examination of management’s assertions conducted in accordance with attestation standards established by the International Standard on Assurance Engagements (ISAE) 3000.

5. External Review

Interchile S.A.'s Green Bond Framework has been reviewed by Sustainalytics. The Second Party Opinion prepared by Sustainalytics and the Green Bond Framework will be made available to investors and stakeholders on Interchile's corporate sustainability website at <https://www.interchilesa.com/>.