Business management, innovation and service quality

Innovation and digital transformation

Innovation, and digital transformation as a part of innovation, is at the core of our business strategy in order to guarantee competitive, efficient and sustainable power supply and create new value for the company and for society.

Context

Society is increasingly dependent on electricity and will be even more so in the future. Ensuring reliable and sustainable power transmission is therefore an economic, social and environmental imperative for countries around the world. This is coupled with increasing competitiveness in the power transmission segment and has led Transelec to conduct innovation and digital transformation at the company, thus incorporating new technologies, construction methods and smarter decision making in a methodical and disciplined manner.

Management

1. Continuing along the path of innovation

Encouraging pro-innovation culture is a strategic pillar for Transelec and this is reflected in the INNOVA Program. The program started in 2016 and is comprised of four focal points for action: growth, competitiveness, productivity and service quality. Based on these focal points, the Company started to manage an innovation projects portfolio and to support "intrapreneurs" during the process with supervision provided by a Committee especially created for this purpose. The system operates as a funnel, in which initiatives move forward simultaneously in different stages established in our innovation model: focus, detect, generate ideas, design, pilot and scale. The feasibility and impacts of these initiatives depend on whether the different projects pass technical and economic evaluations.

Innovation portfolio governance is also encouraged by the Innovation Center. All of the Company's Vice-presidents and its General Manager participate at the Innovation Center, together with the five Innovation Sub-committees at the Operations (Asset Management and Network Management), Business Development, Corporate Affairs, and Legal Affairs Vicepresidencies and the Prosecutor's Office, together with the participation of sponsors and leads for each initiative.

We joined the UC Innovation Center in 2018 as part of the INNOVA Program. The objective is to encourage a pro-innovation culture and environment at the university and in Chile. We have associated with 1,700 academics and researchers, as well as 1,000 regular PhD students, over 100 master's degree and PhD programs at UC, and access to different megatrend and educational workshop activities. In addition, we were ranked among the 50 most innovative companies in Chile in the Best Place to Innovate ranking for the second year in a row

INNOVA en 2018

47 initiatives

in the innovation portfolio, distributed into Conceptualization, Design, Pilot and Scaling stages.

Over 20 areas and **130 collaborators**

are currently developing innovation is the average completion initiatives at the Company's different Vice-presidencies.

20 initiatives

have already been scaled and have become Transelec standards.

18 months

time for the entire innovation process.

Remote support with augmented reality:

- Smart glasses and mobile devices enable virtual and remote collaboration in real time, solving the problems of distance or information centralization between two parties that are not
- at the same location.



2. Digital transformation

We have undertaken a digital transformation process at Transelec that is using different enabling digital technologies to radically improve the company's operating process performance. Automation of respective tasks, the use of robotics, augmented reality, big data and advanced data analysis are some of the technological tools enabling the improvement of work planning and execution while moving boldly toward strategic decision-making based on systematic data analysis.

Digital transformation at Transelec is based on three pillars: management and execution of digital projects; culture and capacities at the organization; and enabling digital technologies and data.

Digital transformation is an essential pillar for the future of the Transelec facilities maintenance strategy. The company continued to develop the operations digitization strategy in 2018 as a focal point for the consolidation and development of our asset management model. Work was jointly developed and executed with the consulting company McKinsey & Co.

In this context, we also designed a digital transformation roadmap in 2018 that was divided into three project implementation waves. As part of the first wave, kickoff was executed for 13 projects to be addressed. Each vice-presidency is responsible for at least one project and results expected for 2019 have already been determined.



DIGITAL TRANSFORMATION: HIGHLIGHTED INITIATIVES

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Digital operational planning

A mathematical model optimizes the planning process for facility intervention during maintenance, equipment renewal, new connections and other procedures. This enables optimum planning of required intervention in a question of minutes, compared to former periods of 15 days. In addition, intervention is planned at the most appropriate time, which is to say with the least impact for our customers. A pilot project was successfully completed in 2018 and the project is currently in the scaling and implementation phase. Commissioning is scheduled for mid-2019.

Cybersecurity

Cybersecurity becomes essential in a scenario that is increasingly dependent on information technologies. Four years ago we created a Cybersecurity Committee and an action plan to prevent, protect and prosecute those responsible in the event of any cybersecurity event. In addition, we are working together with the Chilean Association of Electric Companies to share experiences and determine joint working methods with other companies in the sector. These issues should be addressed jointly because we are working in an interconnected system. Our Board of Directors approved a Cybersecurity Policy in 2018.



Advanced analytics for asset management

This uses data about technical characteristics, performance indicators, operating conditions and the results of inspections and maintenance in order to determine asset condition and predict when it could fail over the short and medium term. This optimizes the planning of maintenance and/ or asset replacement, improving power supply reliability and availability. The project is currently in the design stage and will soon move up to the pilot and scaling phase where it will be applied to Transelec assets.



Digitization of operational risk management

A digital tool that works based on a probabilistic model. This provides support for evaluating operational risk and decision making related to mitigation measures. By modelling all risks related to facilities and their association with relevant external information in real time -such as weather, fire, etc.- this tool aims to weigh each of these risks and to efficiently manage the implementation of effective mitigation measures. The project is currently in the prototype phase for short-term scaling.



Digital construction of substations and facilities

This corresponds to the development of virtual models for substations and transmission lines before these facilities are physically built, thus enabling the early detection of opportunities, risks, interference and/or disruptions in project development. These models also enable the mitigation and optimization of variables affecting the environment (minimizing the use of paper, optimizing resources and reducing waste), as well as variables affecting communities (presenting virtual models of facilities to communities prior to construction) and personal safety (developing construction sequences with minimum risk for people). The initiative is currently in an initial pilot phase that includes collaborative project management methodology training for collaborating companies. The next phases consider the development of 3D (3-dimensional) virtual models and 4D conceptual models. Business management, innovation and service quality

Financial responsibility and the value footprint

Generating value for our stakeholders is a key objective for Transelec. Ensuring sufficient liquidity for project development is one of our most important tasks at hand, together with honoring the trust of financial institutions and investors. Risk monitoring and control has provided stability and certainty for Transelec's business.

Context

We participate in the regulated power transmission business in Chile (National and Zone Systems) and by means of bilateral contracts with large customers (Exclusive System). The Ministry of Energy sets tariffs and regulates a universal open access regime under non-discriminatory conditions for the National and Zone systems. In addition, current legislation sets the criteria and formulates procedures to determine compensation the owners of power transmission facilities are entitled to receive. Our revenue from these systems is consequently received as profitability over installed capacity.

The power transmission business requires substantial financial resources to fund current and potential fixed asset investment projects and working capital, purchase transmission lines and possible debt refinancing, among others. Although risk is controlled because revenue mainly stems from the regulated business, return on investment is generated over a long-term timeframe. These factors mean that responsible financial and risk management are a critical aspect for the power transmission business, especially if we consider that Transelec S.A. develops power transmission projects in Chile and operates assets appraised at US\$ 3.98 billion as of 31 December 2018.

Management Financial responsibility

One of our main objectives is to ensure permanent access to capital markets and banks in order to always have funds required for acquisitions and project development. This means that investor confidence in our Company is essential when it comes to addressing business that drives our development.

Additional understanding of our Company enables investors to evaluate the business and potential risks in the future. Appropriate credit quality evaluation allows Transelec to finance its endeavors at competitive interest rates.

An appropriately safeguarded take or pay revenue structure, market conditions, legislation and the current regulatory framework, together with the quality and financial solvency of our customers and shareholders have ensured stable results over time. Costs, which are also stable, are mainly constituted by personnel and maintenance items and enable us to constantly keep our Ebitda margin over 80%.



REVENUE AND EBITDA (TRANSELEC S.A.)

INVESTMENT VALUE (TRANSELEC S.A.)



LIQUIDITY (TRANSELEC S.A.)



For additional information about financial performance, see the 2018 Annual Report available at www.transelec.cl



2. Risk Management

Our Company is not exposed to significant risks while conducting its main business. This is due to the characteristics of the Chilean electricity market and strict legislation regulating the sector.

The role of the board of directors

The Board of Directors is responsible for ensuring appropriate risk identification and management while implementing control measures and responsibilities in order to prevent and/or mitigate these risks. It regularly revises the corporate risk matrix together with Company management and delegates action plan monitoring to the risk management area in order to control and mitigate risks and update the risk matrix.

Information is regularly pooled from different areas in order to determine the main business risks, including sustainability risks. The objective is for these to identify and describe the most important risk factors and to determine corresponding mitigation measures.

In keeping with recent years, we hosted risk workshops in 2018 in order to analyze whether these risks are appropriately identified in the risk matrix, determine how effective control (mitigation) measures have been and determine whether additional control measures are required. In addition, we formulate a Board of Directors report on a quarterly basis. This report indicates the effectiveness of control measures for the main risks, potential changes in risk level for the most important risk factors, and how the administration is acting and reacting to emerging risks.

Main risks

The main risk factors our Company is facing are related to possible changes in the regulatory framework, increasing competition, technological changes, service quality (power supply outages and cable theft, as well as impacts on power supply) and facility security (easement strip, fire and other natural disasters). The latter factors are managed by ongoing maintenance work at our facilities, coordination with competent authorities and the creation of relationships of trust with communities living near our facilities. Additional information about risk factors is provided in the 2018 Annual Report, which is available at www.transelec.cl

Issues such as electricity regulation, the impact of natural disasters on our operation and cybersecurity have become increasingly important in recent years. Additional information on cybersecurity is provided on page 29.

3. Value footprint

The value footprint shows the economic value we generate and how it is distributed between our main stakeholders. This is measured as the difference between revenue and operating costs. We generated economic value amounting to US\$ 535 million in 2018. US\$ 350 million of this value is distributed between different stakeholders and US\$ 185 million was retained by the Company and mainly used for reinvestment.

The financial value we generate is distributed to:

- The company itself, by reinvesting value annually retained as earnings.
- Shareholders, in terms of the amount they actually receive that is taken from each year's income.
- Financiers, in terms of interest accrued throughout each year, which is used to finance operations and infrastructure.
- Collaborators, in terms of the value they receive as salary and benefits.
- The Chilean government, in terms of money accrued as taxation.
- The community and the environment, by means of financial items associated with actions directly benefiting the environment, people and society as a whole.

ECONOMIC VALUE GENERATED AND DISTRIBUTED (TRANSELEC S.A.)*

US\$ 535** million

Chilean government	US\$ 114 million	in taxes
Workers	US\$ 50 million	in salaries and benefits
Service providers	US\$ 35 million	in payment to suppliers
Shareholders and financiers	US\$ 148 million	in payment to shareholders
Community and environment	US\$ 3 million	in environmental and social projects, as well as donations
Reinvestment in the company	US\$ 185 million	reinvested in the company

* Exchange rate used US\$ 1 = CLP 694.7

** Includes revenue from ordinary activities (US\$ 474 million), additional revenue and net VAT (US\$ 61 million).

