



Governance and integrity

Ethics and compliance⁷

We guarantee compliance with regulations related to our activities and commit to the highest ethical standards.

We act integrally and honor each of the commitments we have voluntarily taken on.

Context

One million Chileans are depending on us for the energy they need in their daily lives. Trust is therefore essential in our business. This trust is earned by the exemplary service we provide and our integrity while providing it. We work to ensure that our values and principles are reflected in our actions and take great pains to ensure that our collaborators comply with high ethical standards and come through on their commitments.

We are a company in constant renewal that employs different generations of collaborators. A constant challenge is to ensure that our outstanding values permeate and are reflected by the daily actions of all our workers.

In addition, we know that cases of corruption and other crimes have heightened public scrutiny, leading to legislation designed to guarantee corporate integrity. We have consequently implemented a series of internal measures to safeguard our own integrity.

Management

Our Integrity Model installs two focal points for action: prevention and early detection of unethical conduct.

GOVERNANCE



1. Integrity governance

- a. Corporate Government Committee:** this committee is responsible for leading the organization with regard to the prevention of illicit or unethical conduct.
- b. Compliance Officer:** we have had a Compliance Officer since 2016. The compliance officer's duties go beyond legal compliance because this officer evaluates whether conduct is in line with the company's values and promotes cultural change required at the organization.
- c. Audit Committee:** this committee revises audit reports, balance sheets and other financial statements and is responsible for revising the annual audit plan (internal and external), its progress and reports, and for supervising application, operation and certification of our Crime Prevention Model.



2. Code of Conduct and Ethics Hotline

We have a Code of Ethics that is applicable to directors and executives, as well as a Code of Conduct that applies to all of our collaborators. In addition, we have implemented an Ethics Hotline –by means of a web-based platform– to handle questions and claims regarding the breaking of laws, values, the company’s Code of Conduct or other offenses. This hotline can be used by collaborators and persons not employed by the Company and it features a query mechanism. It is a simple and safe system that guarantees anonymous grievances to be filed.

Thirteen grievances regarding ethics issues were filed in 2018 (up from 11 grievances in 2017). 92% of these grievances were settled in 2018.

Claim Investigation Protocol: we have this compliance investigation protocol since the end of 2016. This protocol explains how to settle uncertainty regarding possible cases of ethical conflicts, actions constituting a claim, available claim channels, the investigation process and sanctions.



3. Crime prevention

Crime Prevention Model: we have a Crime Prevention Model to prevent bribery, the handling of stolen goods, asset laundering and the financing of terrorism in accordance with the provisions of Chilean Law N° 20,393 since 2013. A semi-annual and annual audit plan is used to verify appropriate design and operation. This model was recertified for two years in March 2017.

In 2018 we implemented the model in Peru, adjusting it to local conditions and training collaborators regarding the model and use of the ethics hotline.

Politically Exposed Persons: we have had a policy for regulating relations with Politically Exposed Persons (PEPs) since 2016. The policy provides a clear and accurate definition of this issue and states the obligation to report persons in said category by means of a declaration. Transactions with PEPs must be approved by the company’s general manager. A new monitoring procedure including PEP analysis was implemented for suppliers that same year.

Conflicts of interest: we have guidelines and procedures for preventing and managing conflicts of interest. The Code of Ethics includes a chapter on “Conflicts of interest and operations with stakeholders”, which mentions articles 146 and following articles of the Corporations Law in order to understand when a conflict of interest arises. The Code of Conduct, which is applicable to all employees, also includes guidelines regarding conflicts of interest.

Free Competition: we have guidelines to ensure respect for free competition in all our commercial actions. A free competition evaluation was conducted by the law firm Ferrada & Nehme in 2018.



4. Audits

We have an Internal Audit Department created by the Board of Directors that reports to the Audit Committee. Its purpose is to ensure that all operations are executed in compliance with the highest standards by exercising an independent and objective function. The department consequently conducts revisions at different levels, which are approved by the Audit Committee, based on the analysis of strategic risks. These are executed on an annual basis and aim to improve the efficiency of management, control and governance processes.

The 2018 internal audit encompassed revisions related to cybersecurity; transparency for goods and services purchasing processes at zone divisions; accuracy of operating, maintenance and administration cost calculation for projects; implementation of administrative and operating processes at Conelsur (Peru); and the design and operation of controls associated to the Crime Prevention Model, among other essential aspects. These audits have led to improvements in the configuration and operation of control systems related to these processes. In addition, an audit of conflict of interest declarations and PEPs was added near the end of 2018.

In addition, Transelec employs external auditors to issue independent opinions regarding the Company's financial status and results, among other issues.



5. Training collaborators

Crime Prevention Model and Corporate Governance training has been provided for all collaborators joining the Company since 2014.

We annually host a cycle of talks at all of our operations regarding the model and duties of the compliance officer, use of the Ethics Hotline and other issues in 2017. We also developed online "ethics dilemma games" by means of an Intranet platform. The idea is for our collaborators to understand the role played by and the importance of ethics and values in their day-to-day decisions.

Ethics claims

13

received in
2018

92%

settled in
2018

0

discrimination
claims

0

cases of
corruption

100%

of all directors and 59% of all
collaborators trained regarding
anti-corruption procedures in 2018

Compliance

0

significant fines⁹
stemming from non-
compliance with social
or economic laws or
regulations

0

environmental
fines¹⁰

⁹ Fines over US\$ 1,000,000 are considered to be "significant".

¹⁰ Sanctioned by the Chilean Environmental Superintendence and sectorial agencies in 2018.



6. Responsible supply

Our suppliers and contractors are essential for our ability to provide an excellent, reliable and sustainable power transmission service. We therefore place emphasis on developing mutually beneficial relationships of trust with them while ensuring that they are aligned with our Company's policies and standards.

We consequently put special emphasis on the timely supply of equipment, replacement parts and services together with cost and quality management, identification and management of risks for the supply chain and the incorporation of sustainability standards at Transelec, especially between our suppliers and contractors.

Scope: 1,110 companies providing supplies and services¹¹ comprised our supply chain in 2018 and these companies were paid a total US\$ 117 million. In turn, workers employed by companies providing services (contractors) came to a total 3,083 people, which account for 85% of the overall workforce, also considering the company's own employees (538 people).

Compliance: risks associated to the supply chain are part of our risk management system and audits conducted to monitor compliance with control measures we have implemented. Contracts with suppliers consequently contain provisions regarding crime prevention and the hiring of minors. We monitor our contractors' compliance with labor legislation and the company's strict operating and occupational policies. In addition, contractors are required to comply with the Transelec Sustainability Policy.

We provide training for our suppliers regarding our Code of Conduct, the Ethics

Hotline and the Crime Prevention Model, which was also applied to our suppliers in Peru in 2018. In addition, we participate in the Responsible Provisioning Program coordinated by Acción Empresas. This program focuses on timely payment, transparency and greenhouse gas management.

Communication and claims: we encourage our suppliers and contractors to use the Ethics Hotline and other communication and relations mechanisms to discuss any problems they may have regarding their relations with Transelec or its contracts. *Additional information on page 39 and 43.*

Critical services and supplies: service providers (contractors) for engineering, supply and construction services are critical in the project design and construction stage, specifically when integrated (non-EPC) projects are addressed and each process stage is executed by a different stakeholder. Complexity is due to the fact that engineering development requires input from the equipment supplier and the construction company needs engineering in order to obtain permits and execute work on site. Transelec's role in this value chain is to ensure quality standards are met within execution deadlines committed to with end customers while maintaining cost control for each project at all times.

Service providers are crucial in the operating and maintenance stage for transmission lines and substations in order to provide preventive and corrective maintenance for power transmission lines, electrical substations, telecommunications and SCADA (Supervision, Control and Data Acquisition).

¹¹. Suppliers with purchase orders created in 2018 (released, open and closed).