

# 01 Transelec at a glance

**We are the leading power transmission company in Chile and we transmit electrical energy that lights the homes of 98% of Chile's population between Arica and Chiloé.**

## OUR BUSINESS

Transelec's business is the transmission of electrical energy. Our company transmits power that lights the homes of 98% of Chile's population between Arica and Chiloé by means of 9,648 kilometers of transmission lines and 61<sup>1</sup> substations, ranging from power generation zones to populated and industrial centers.

We own and operate most of the power transmission facilities that make up the National Power Grid.

The Group started international operations in 2016, entering Peru by means of the company CONELSUR.

Transelec is owned by a consortium comprised by the Canadian funds Canadian Pension Plan Investment Board, British Columbia Investment, Management Corp. and Public Sector Investment Board, and by the company China Southern Power Grid

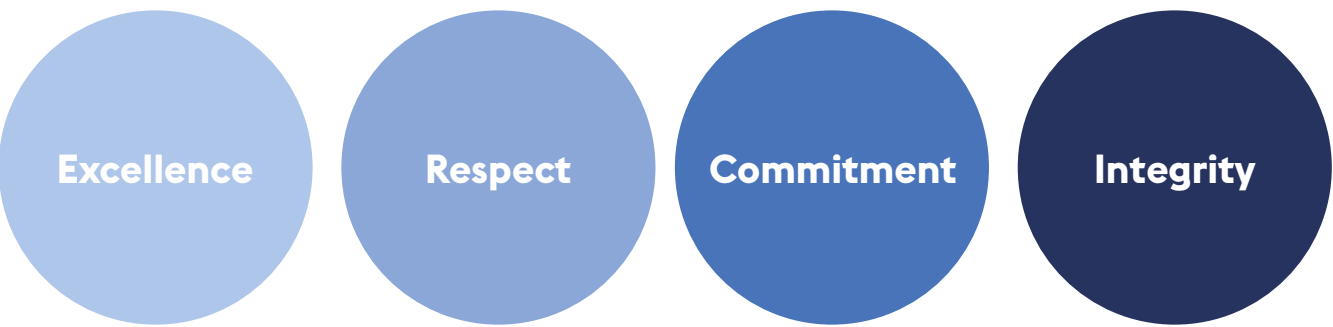
<sup>1</sup> Corresponding to power substations where Transelec is the owner, lessee, usufructuary, or exploits an important number of transmission facilities in any way.

# WHAT INSPIRES US

## OUR MISSION

To lead the power transmission business in Chile by appropriately meeting the country's needs and our customers' requirements by developing efficient, quality solutions and appropriate system operation while upholding high occupational health and safety standards. We create sustainable value for our shareholders, creating relationships of trust with our communities and operating sustainably with regard to the environment.

## OUR VALUES



## POWER TRANSMISSION IN CHILE

Power is transmitted from power generation sources to cities, industrial and mining users by means of high-voltage transmission lines. Power is then connected to substations where it is converted to low-voltage power and distributed to end users.

Interconnecting the SIC (Central Interconnected System) to the SING (Far North Interconnected System), thus creating the National Power Grid, was a historical milestone in 2017. Transelec had the honor of participating in this important initiative, together with the companies Engie and ISA.

Interconnection between the SING and SIC power grids was the fulfillment of a longstanding ambition for different stakeholders

in the industry, considering the major benefits it will provide for the entire country. The current power grid spans over 3,100 km and encompasses almost all of Chile's territory from the northern city of Arica to the island of Chiloé in southern Chile.

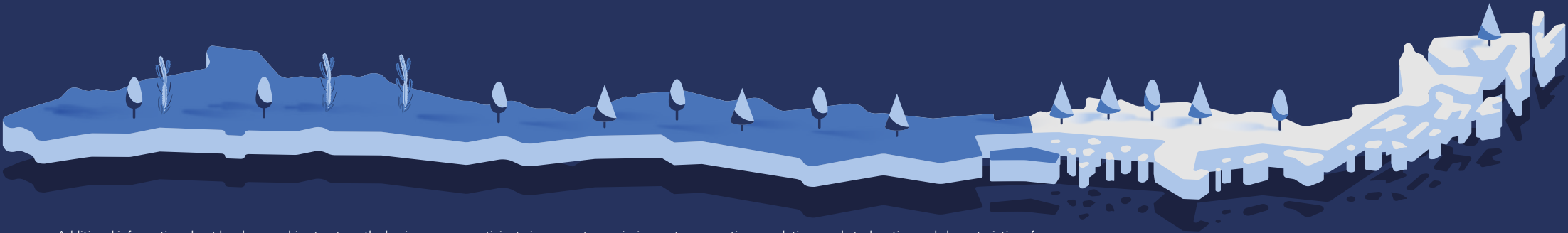
The National Electricity Coordinator (NEC) controls system operation, while implementing new tasks set out in the Power Transmission Law, such as monitoring competency and promoting Research and Development (R&D), among other issues. The NEC also coordinates specific tasks for planning transmission system expansion and specifies complementary services. The Coordinator also incorporates new technologies for system operation security.



2017 FIGURES



OUR OPERATIONS IN CHILE



Additional information about legal ownership structure, the businesses we participate in, power transmission system operation, regulation, markets, location and characteristics of our facilities is available at [www.transelec.cl](http://www.transelec.cl) and in the 2017 Annual Report, which is available at our website.

The Transelec Group started international operations in 2016, entering Peru with the company CONELSUR

<sup>2</sup> Internal information was used to calculate the kilometers of transmission lines associated to Transelec. Data published at the National Electricity Coordinator technical information website was used to calculate the kilometers of transmission lines associated to other companies.  
<sup>3</sup> We believe fines over US\$ 1,000,000 to be significant.  
<sup>4</sup> As of 31 December 2017.  
<sup>5</sup> Percentage determined based on installed capacity in MW. Source: CNE and Transelec.  
<sup>6</sup> See page 74.



# THE ELECTRICITY ROUTE

Power generation, transmission and distribution companies come together in interconnected systems in order to supply energy to end consumers.

## Power Generation

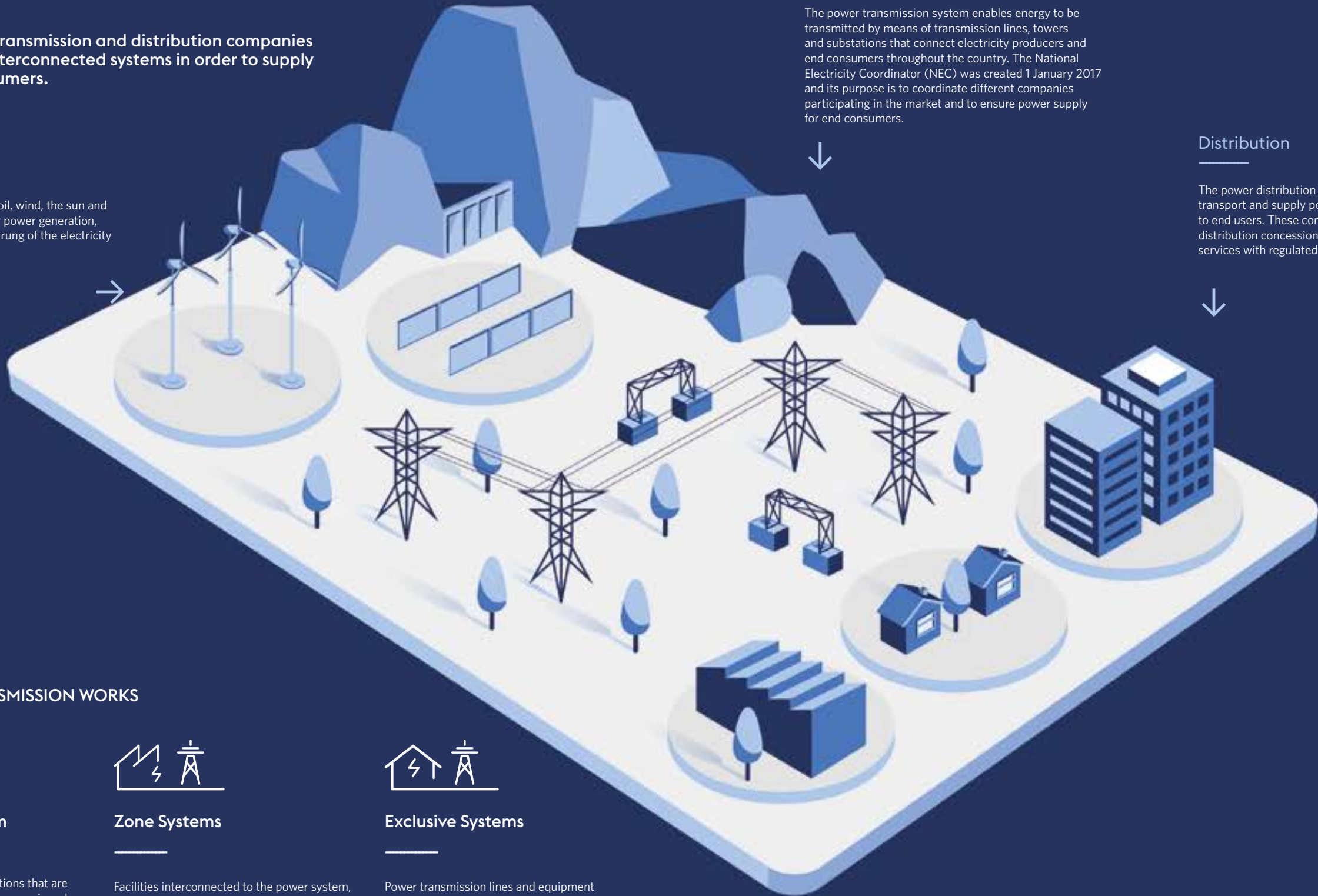
Chile uses water, natural gas, oil, wind, the sun and biomass as energy sources for power generation, among others. This is the first rung of the electricity market.

## The Power Transmission System

The power transmission system enables energy to be transmitted by means of transmission lines, towers and substations that connect electricity producers and end consumers throughout the country. The National Electricity Coordinator (NEC) was created 1 January 2017 and its purpose is to coordinate different companies participating in the market and to ensure power supply for end consumers.

## Distribution

The power distribution network was mainly designed to transport and supply power from distribution substations to end users. These companies operate as public service distribution concessions and are required to provide services with regulated tariffs.



## HOW POWER TRANSMISSION WORKS



### The National System

Transmission lines and substations that are economically efficient and necessary in order to meet overall demand, under different power generation availability scenarios.



### Zone Systems

Facilities interconnected to the power system, arranged to exclusively supply power to groups of free or regulated end consumers located in distribution company concession zones.



### Exclusive Systems

Power transmission lines and equipment mainly used to supply power to non-regulated customers or to evacuate production of a power plant or a limited group of power plants. Transport using these systems is regulated by private contracts between the parties.

THE SUPPLY CHAIN

Appropriate supply chain management is essential for provision of the top-quality power transmission service that is our hallmark. Together with cost and quality management, we consequently place special emphasis on the timely supply of replacement parts, equipment and services, identifying and managing risks in the supply chain and incorporating Transelec sustainability standards, especially for our suppliers and contractors.

358 companies providing supplies and services have made up our supply chain over the last three years (198 in 2017 alone). Workers from companies providing services (contractors) account for 2,160 persons from this total, amounting to 80% of the overall workforce that also includes our own employees (526 persons).

Service providers (contractors) providing engineering, supply and construction services are of critical importance during the project design and construction stages, specifically when

addressing integral (non-EPC) projects in which each stage of the process is executed by a different stakeholder. This level of complexity stems from engineering services requiring input from equipment suppliers, and builders needing engineering in order to obtain permits and execute fieldwork. Transelec’s role in this value chain is to ensure that quality standards and execution deadlines agreed to with end customers are met, while controlling costs for each project at all times.

Service providers are crucial for preventive and corrective maintenance of transmission lines, electrical substations, telecommunications and SCADA (Supervision, Control and Data Acquisition) during power transmission line and substation operation and maintenance stages.

Information regarding initiatives undertaken with suppliers in order to integrate sustainability in their practices and risk evaluation procedures related to these practices is provided on page 66.

<sup>7</sup>Suppliers who received purchase orders throughout the year.

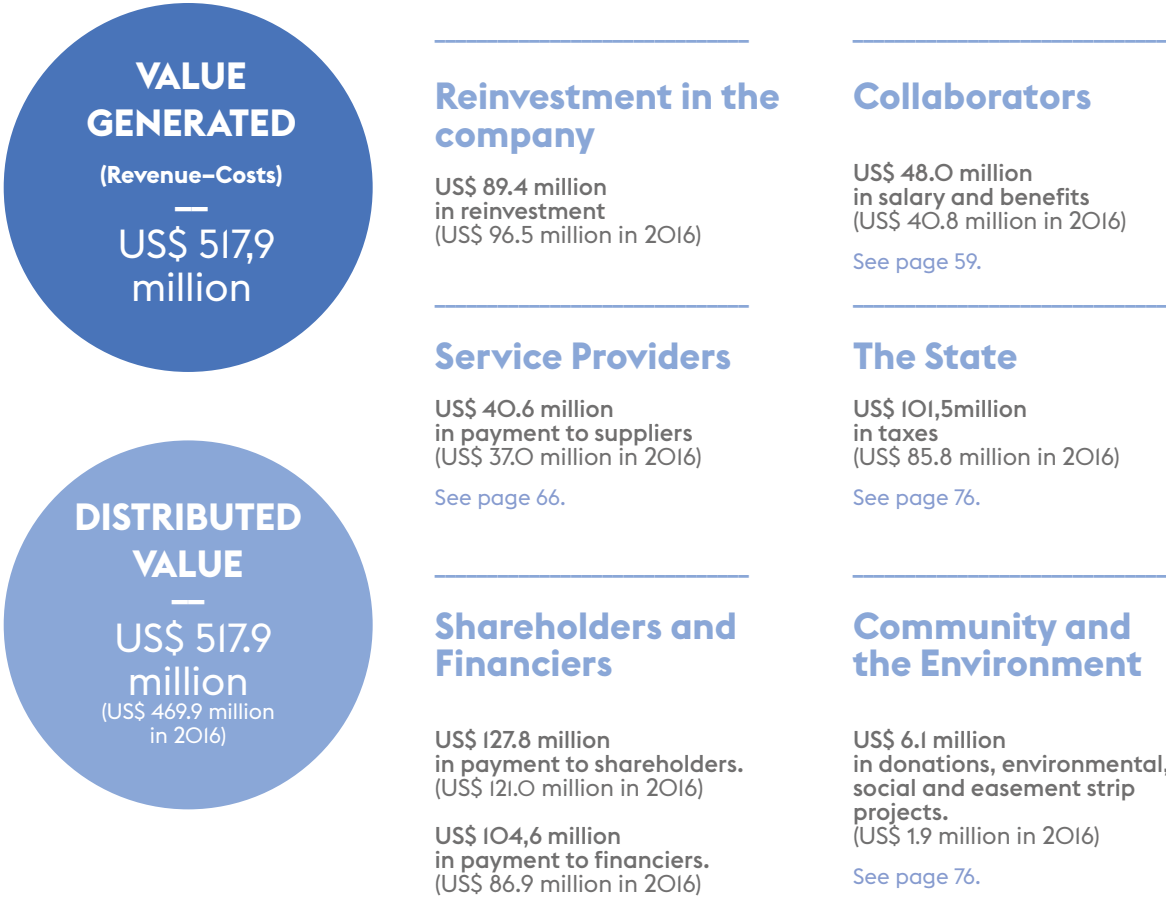
OUR VALUE FOOTPRINT

Our Value Footprint shows how financial value generated by Transelec is distributed between its main stakeholders.

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.

Value distribution corresponds to the operational context of a company that requires ongoing investment in new transmission lines and maintenance; providing consistent returns for its shareholders and other providers of long-term funding; contributing value to the workings of the State; providing quality employment to qualified group of people; and respecting the community and environment where the company operates.



2017 investment was up compared to 2016. This was due to a transversal increase in environmental studies and environmental impact declarations, investment in environmental and community measures, as well as social investment. Easement strips were also excluded from the amounts reported in 2017.