



02 Our challenges and focus on sustainability

Sustainability is an integral part of our business and one of the five strategic pillars in our Value Creation Strategy.

TRANSELEC'S BUSINESS CONTEXT AND MAIN CHALLENGES

There are upcoming transformations in the power business, for Chile and the rest of the world, that will affect how we operate over the coming years. These changes accurately predict that the future of mankind will be much more intensive in terms of electrical energy use.

▪ **The increasing use of renewable energy:** the incorporation of renewable energy –due to lower prices stemming from technological changes and successful tendering processes– enables the provision of clean, accessible and competitive energy to Chile's inhabitants and industries. This involves a radical change in the energy matrix and its diversification, enables additional electrification of cities and the reduction of costs associated to energy consumption. This poses a huge challenge when it comes to transmitting cleaner energy to increasingly more remote corners of Chile. One of our working focal points has consequently been to strengthen our processes in order to facilitate and accelerate the connection of new power generation projects to the transmission network.

64%* of the renewable energy installed over the last five years has been connected by Transelec. * Percentage measured based on installed capacity in MW. Source: NEC and Transelec.

▪ **Regulatory changes and increased competition:** regulatory changes and increasingly tighter competition at tenders for power generation and transmission project development will substantially reduce electricity costs. This poses the challenge of innovating and implementing new business models that will enable us to be more and more competitive.

▪ **An increasingly demanding society:** more empowered and demanding communities when it comes to the development of certain projects that are important for the country and low tolerance of failure to provide basic services (blackouts caused by fire, storms and blizzards, among others), are some of the characteristics of empowered citizenry, whose members often question the way things are being done by companies and the authorities.

We at Transelec are committed to the quality of our service in order to ensure that Chile's population and companies have access to a continuous and reliable power supply. In addition, we create relationships of trust with our neighboring communities, listening to their concerns and expectations, acting with respect and contributing to local development by means of social investment programs and projects. This is particularly challenging if we consider that our transmission lines span throughout Chile's territory between Arica and Chiloé. We have consequently determined which zones are considered to be essential for our operations and thus prioritized our actions by implementing community relations actions between Antofagasta and Puerto Montt.

▪ **The effects of climate change:** we believe that climate change affects the way we see the business and our operations. Most fires and climatic emergencies require major efforts in order to maintain service security and continuity while ensuring sustainability at all levels of our work.

In fact, large-scale forest fires in early 2017 led us to redesign the way we work at operational and technological levels. Some initiatives we undertook were to reinforce training in order to face this type of emergencies, increase site visits, apply new risk evaluations and to work in closer coordination with other stakeholders involved (forestry companies, Conaf, fire departments, the Chilean Army and Onemi, among others).

• **SING-SIC interconnection:** SIC-SING interconnection, which was completed in November 2017, will produce major benefits for the entire country. One of these is to specifically facilitate the development of renewable energy in order to reach all corners of Chile, creating a more sustainable future for the national power grid. The Transelec Group, like other important works that have made important contributions to Chile's development, is part of this interconnection process by means of two specific projects; Los Changos-Kapatur and Los Changos-Kimal. These two projects account for a joint investment amounting to approximately US\$ 175 million.

• **Copper conductor theft:** although copper conductor theft went down in 2017, this crime is still a problem for our Company. Eight important thefts were reported last year, amounting to over five kilometers of copper conductors stolen and serious damage to infrastructure. These thefts caused average outages amounting to nearly 15 hours of service in the towns affected, which were located in Biobio and southward, as opposed to what happened in 2016. Our challenge is to work together with communities, government authorities and institutions responsible for public order to ensure prevention and timely response to these offenses.



Socio-Environmental Challenges for Project Development

Transelec is at the service of Chile, transmitting energy and developing the new high-voltage transmission systems the country needs: lines, substations, complementary services, etc. Transelec's contribution is producing growth and prosperity, incorporating new technologies into the national power grid, improving service quality and transmission capacity while providing more and lower-cost energy for the country's households and industries.

These projects are mainly executed in three stages: project design, environmental, social and territorial licensing and construction. For the first stage, the main objective is to develop design that will balance competitiveness and compliance with environmental and social requirements and baseline restrictions, generating a project that will feasibly obtain permits, be constructible and feature safe operation. During this stage, Transelec focuses on innovation, efficiency and sustainability for each project.

During the permit lobbying stage, Transelec conducts a detailed assessment of restrictions and announces the project to communities, technical government agencies, municipalities and other stakeholders. The objective is to explain project scope before submission to the Evaluation System (construction methods, mitigation and compensation plans, etc.). Sensitive environmental issues are clarified and the number of communities that could be affected by the transmission line route are indicated during this stage.

Our efforts focus on conducting our operations in line with project design, compliance with environmental and social commitments made, the Environmental Qualification Resolution (RCA) and our vision of sustainability during the construction stage, training our personnel and incorporating our contractors into this focus.

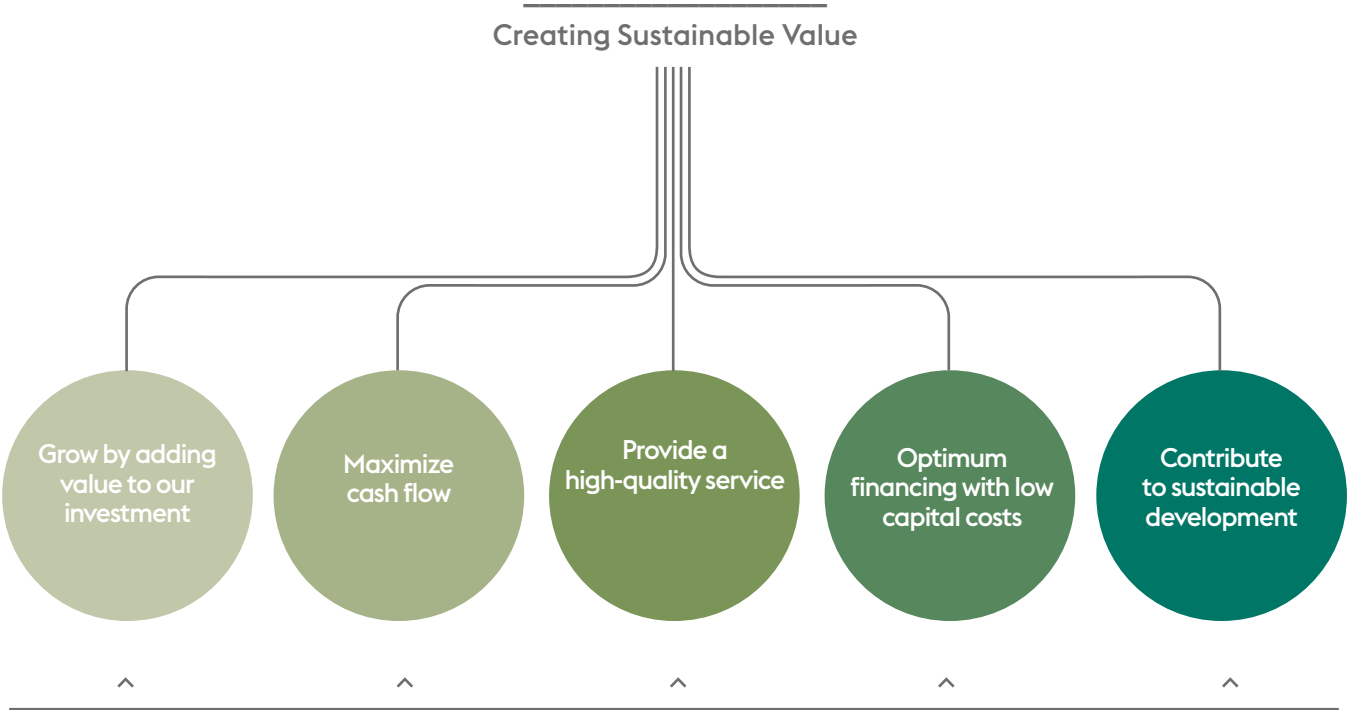
Addressing projects this way has enabled Transelec to be competitive over time, ensuring sustainable growth and providing solutions that add value to our customers and to the country.

SUSTAINABILITY POLICIES AND GUIDELINES

SUSTAINABILITY IN OUR STRATEGY

Our Sustainable Value Creation Strategy places sustainability as an integral part of our business. In fact, sustainability is one of its five strategic pillars and it aims to focus the Company's

contribution on the sustainable development of society, the communities we interact with and the environment surrounding our operations.



Management and risks · Innovation with results · Effective organization and people

THE “CONTRIBUTE TO SUSTAINABLE DEVELOPMENT” PILLAR

MAIN ADVANCES IN 2017

- 1

We updated the focus of the fifth pillar of our Strategy from “Ensure a good corporate reputation” to “Contribute to sustainable development”. Although our work was already sustainability oriented, this change enables us to substantially center our company’s focus on sustainability.
- 2

We worked to update a new Sustainability Policy that will be presented for Board of Directors approval at a meeting scheduled for the end of March 2018. We review the best national and international sustainability practices in order to formulate these standards.
- 3

We hosted a second “Connecting Conversations” seminar cycle in Talca and Concepción. This time the focus was on emergency preparedness.
- 4

Transelec was presented an award by the PROHumana Ranking for our sustainability management. In addition, the company was recognized for our integrity and innovation practices, among others (see page 30).
- 5

A Corporate Reputation Survey was conducted in order to evaluate stakeholder perception. The results of the survey were positive, especially in terms of opinion leaders, customers, companies, the financial world and our communities.
- 6

We develop different initiatives in order to associate with regulators and other public services, such as CONAF (for fire prevention).
- 7

No environment-related sanctions were applied to Transelec.

THE GLOBAL COMPACT

Transelec has been participating in the Chilean chapter of the United Nations Global Compact since 2014. This means that the company has committed to implement ten universal principles related to human rights, the environment, anti-corruption and labor standards.

SUSTAINABILITY STARTING WITH PROJECT DESIGN

The Lo Aguirre – Cerro Navia transmission line, built in 2017, is an example of integrating sustainability starting from the design phase so that these lines will have a reduced impact on the surrounding area.



Urban posts or “mono posts” use 90% less surface area, thus reducing occupied public space and visual impact. These are consequently perceived as more user-friendly by the community.



Burying a section of the transmission line prevents impacts on public space when the line is commissioned. In the case of the Lo Aguirre - Cerro Navia transmission line, this is highly important because the underground section of the line goes through a public park. Thanks to this project, there will be no towers or transmission lines on the surface.

OUR SUSTAINABILITY POLICY

Transelec’s commitment to sustainable development and operating excellence of its power transmission system is reflected in the daily work of its collaborators. This commitment is made in the Company’s Sustainability Policy and is summarized in eight fundamental principles.



1. We value and protect the life of each internal and external collaborator and member of the community where we operate. No operational goal or emergency justifies exposing an internal or external collaborator or member of the community to uncontrolled risks or affecting his or her dignity in any way. We are committed to occupational health and safety and the promotion of favorable working environments for the integral development of our collaborators



2. We prioritize care of the environment, maintaining a preventive attitude. We care for our natural and social environment and seek to use natural resources efficiently in all our activities



3. We understand the social context where we operate. We create relationships of trust and mutual benefit with the community and local authorities. We recognize the wealth of diversity in each area touched by our operations



5. We promote collaboration and alliances for the sustainable development and operation of the power transmission system. We seek to constantly apply the best practices together with the authority, our collaborators, landowners, contractors, suppliers, other companies and civil society organizations for sustainable development of the power transmission



We ensure compliance with regulations related to our activities. We also honor each of the commitments we have voluntarily signed with communities



6. We innovate in order to continuously improve the quality of our work. We reaffirm our culture of service in order to satisfy our customers

A Sustainability Policy updating process was executed in 2017. Collaborators at a corporate level and at the zone divisions participated in the process and the best national and international sustainability practices were pooled. The process was completed in March 2018 and approved by the Transelec Board of Directors. An internal and external dissemination process will be subsequently started.



35 projects are currently being developed thanks to the Innova Program

INNOVATION MANAGEMENT

Innovation was declared to be the transforming engine for generating new value at Transelec. This conviction is evidenced by existence of the INNOVA Program, which started in 2016 and is directed by the Strategy and Innovation Subdivision and the Innovation Committee, which meet on a monthly basis. The latter is comprised of the first line of vice-presidents and is presided by the general manager.

INNOVA has four action focal points: 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 Committee supervision. 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.

INNOVA became a part of the Transelec collective by means of different initiatives in 2017:

- We presented the new “Innovative Spirit” award to three collaborators who designed feasible Innova Program projects. The three award recipients traveled to Silicon Valley 12-16 June 2017. This experience provided insight into the innovative spirit at leading companies and institutions along the west coast of the United States, such as Google, Stanford Research Institute and IBM, among others.
- We launched the Innova section at the Big Bang knowledge management portal. It operates as a repository of active projects and contains information about the Management Model, the Company’s innovation process and projects portfolio.
- We hosted an innovation workshop cycle at the zone divisions in order to encourage collaborators from the different zones to identify their own challenges and to propose solutions to meet local activity requirements.

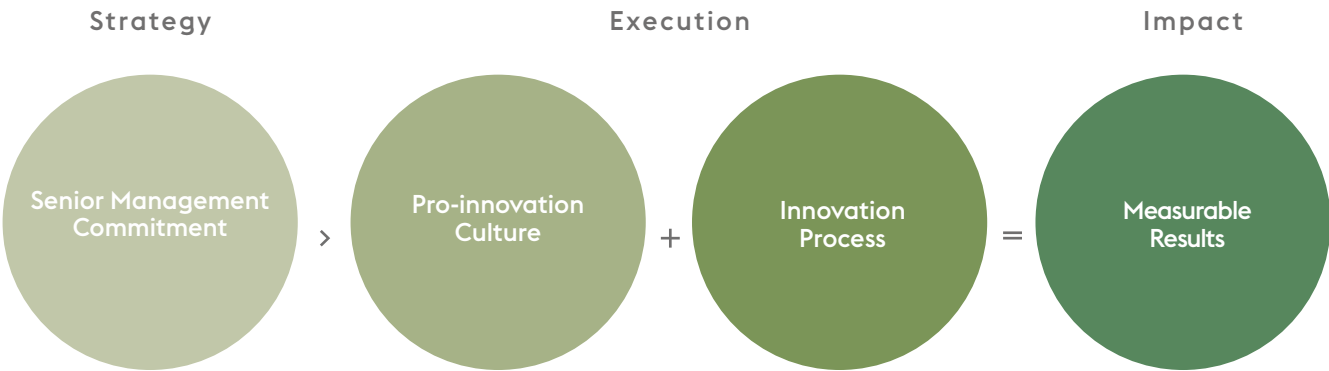
- The company was presented two important awards for our commitment to innovation (see page 29).
- We published the "Innovation Process Manual", a document formulated by the Strategy and Innovation Subdivision. This manual provides a detailed description of each of the stages, roles and different roles comprising the innovation process.
- We were invited to participate as a member of the SOFOFA Innovation Center Steering Committee.

2017 started with 30 projects in the innovation portfolio and ten of these are already being productive for the Company. Another fifteen new initiatives were incorporated throughout the year. There are currently 35 projects underway that are going through the corresponding process.

The success of the INNOVA program shows how innovation is thriving at Transelec. In 2018 the objective will continue to be active development of projects contributing value to the Company, with a special focus on digital transformation.



The Transelec Innovation Management Model



2017

35 projects in the portfolio in different stages of development	Active participation of over 100 collaborators	16 projects focused on Digital Transformation
10 projects operating throughout the year	10 Innovation Committee sessions and 16 workshops hosted	5 press articles 2 innovation awards 16 internal publications
5 pilot programs	Co-creation of technological solutions with third parties	Public portfolio updated on an Intranet platform Innovation manual available for the entire company



Silicon Valley

Journey to the center of innovation

We presented the 2017 “Innovative Spirit” award to three collaborators whose projects are part of the INNOVA portfolio. The award recipients traveled to Silicon Valley, the cradle of innovation, for one week. Mauricio Retamal from the Central South Zone Division, Felipe Riquelme from the South Zone Division and Felipe Olivos from the Vice-presidency of Project Engineering and Development visited seven companies and two universities. They also held some 15 meetings with representatives from organizations such as Google, LG, IBM, SAP, Silicon Valley Forum, Zendesk, Stanford Research Institute and the University of Berkeley, among others.

AWARDS AND RECOGNITION

INNOVATION

Best Place to Innovate Ranking

The fourth awards ceremony for this ranking highlighted 50 companies perceived as the most innovative in the country from the thirteen different industries. Transelec was awarded in the energy sector for our systematic work to place innovation at the core of our business strategy.

Universidad de la Frontera Award for Excellence

Universidad de La Frontera (UFRO) presented this award to Transelec in the innovation category. The award promotes human capital management and good practices in human resources for tomorrow’s economy.



Best Place to Innovate awards ceremony



Best Place to Innovate awards ceremony

INTEGRITY

Generación Empresarial – DF Award for Commitment to Integrity

This award from Fundación Generación Empresarial and Diario Financiero recognized our commitment to ethical management and best practices at the organization. The other two companies to receive awards were VTR and Antofagasta Minerals.

SUSTAINABILITY

The PROhumana Ranking

We obtained an outstanding level in this ranking for the second year in a row. The ranking measures sustainable management aspects with regard to environmental, social and corporate governance issues, among others. We were given an honorable mention in 2016 and were listed on the honor roll in 2017.



Generación Empresarial-DF awards



PROhumana awards ceremony



CIGRE Country Contribution Awards Ceremony



Evelyn Bello, Women´s Energy Awards

ENVIRONMENT

Chile Global Compact Network

The Chile Global Compact Network presented us the 2017 Nominee Practice award in the environmental category. This award highlighted our efforts to protect birds that interact with transmission lines, which led to the Transelec alliance with “AvesChile”.

The 2017 Women’s Day Award

Evelyn Bello, Transelec Environment Manager, was presented this award as a representative from the regional private sector. The award was presented by the Metropolitan Region Regional Ministerial Secretariat of Energy to highlight women’s contribution in the framework of the Energy and Gender Agenda promoted by the government agency.

BUSINESS

ITOMS Executive Group

We have served on the steering committee of ITOMS (International Transmission Operations & Maintenance Survey) since 2017. This consortium brings together 33 of the most important power transmission companies in the world, which jointly account for 25% of power transmitted in the world. Our Company was appointed to represent the Americas.

CIGRE Country Contribution Award

The International Council on Large Electric Systems (CIGRE) presented this award to Transelec, Engie and ISA for their contribution to the development of works to interconnect the SIC and SING power grids and create a single National Power Grid.