

03

# Sustainability focal points



## Commitment to Ethics and Solid Corporate Governance

**We have implemented organizational mechanisms at Board of Directors and executive levels to discuss issues related to integrity and corporate governance and to monitor progress in this regard.**

### CORPORATE GOVERNANCE

#### Why is this important?

We believe that solid corporate governance is fundamental to ensure the development of our organization, since this guarantees consideration of a future perspective and the interests of the different stakeholders involved in our business. It identifies challenges, sets priorities and formulates strategies for addressing these priorities, while supervising performance and risks. In all, corporate governance oversees the creation of sustainable value.

#### Context

Transelec is an open stock corporation. Its shares are not traded on the stock market, but it complies with Superintendence of Securities and Insurance guidelines, as well as corporate governance laws and regulations currently in force in Chile. In addition, the company complies with the incorporation of good practices indicated in Standard N° 385 in this regard.





Challenges and actions for making headway in terms of ethical business management

It is public knowledge that confidence levels regarding almost all public and private institutions are at historically low levels and companies are no exception. According to the eighth “Corporate Confidence” survey conducted by CADEM and SOFOFA, only 35% of those interviewed say they trust large private companies, slightly down from 41% for public companies. This is due to cases of corruption, collusion and others reported in recent years.

In order to address this challenge, in 2016 Transelec appointed its first Compliance Officer, who is responsible for ethical leadership. However, our efforts focus on strengthening confidence at Transelec and respect for Transelec, as well as respect for our surroundings. We hosted a “Connecting Conversations” seminar in Santiago, Talca and Concepción in 2016 where we invited people to create discussion spaces to address this loss of confidence. In addition, we have an “Ethics Hotline” to handle anonymous questions and grievances. We created a Corporate Governance Committee, an Ethics Committee and an Investigations Protocol. We trained our workers by means of Ethical Dilemma workshops, among others. This work eventually led to the Fundación Generación Empresarial and Diario Financiero “Commitment to Integrity” award presented to Transelec in June 2017. In 2018 we hope to continue making headway in this area, training and inviting our suppliers to create a culture committed to ethics so that we can contribute at a corporate level toward improving the climate of distrust currently affecting Chile.

How do we manage this?

BOARD OF DIRECTORS

The Board of Directors establishes general company management guidelines, such as formulating annual, medium- and long-term goals, the business plan and the strategic plan. In general terms, it is responsible for: strategic direction of the Company; determining its fundamental principles, mission, values, policies, strategies and priorities; monitoring value creation and the efficient use of resources; supervision of performance, risks and management control systems, including sustainability.

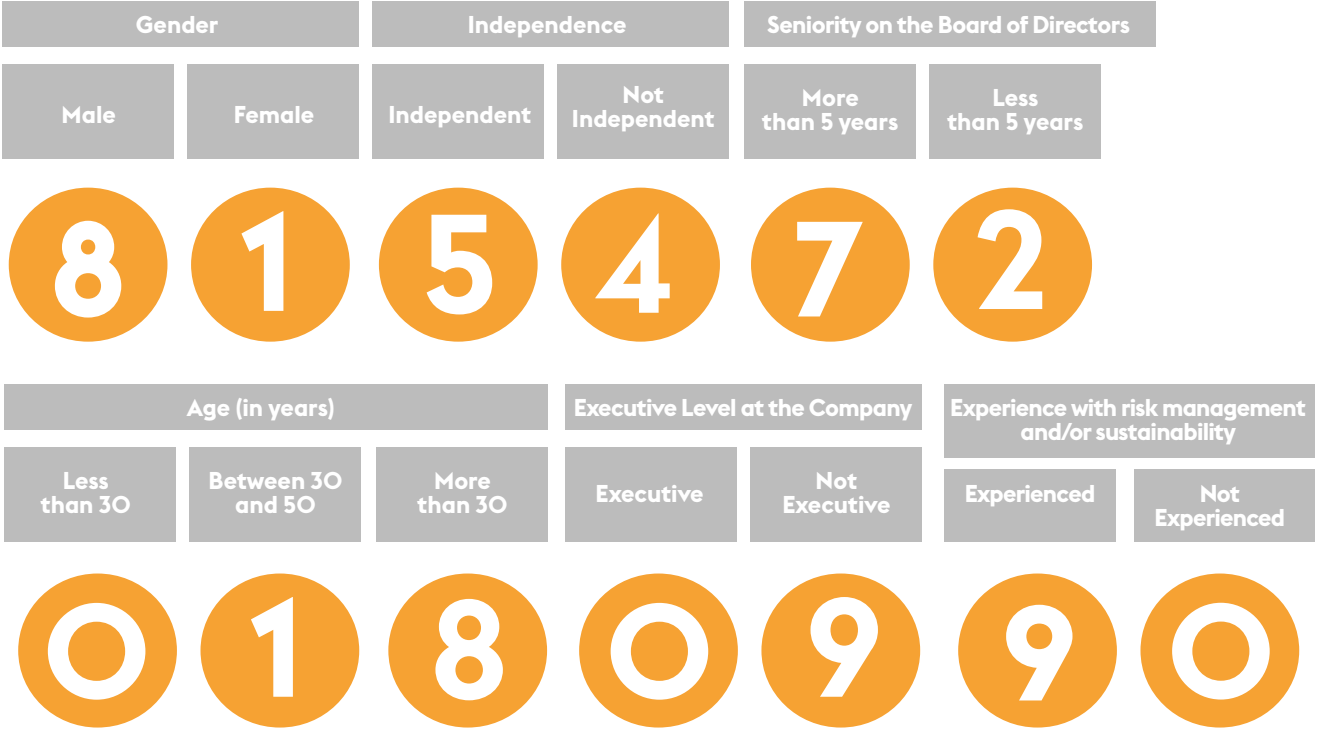
The Board of Directors is assisted by Corporate Governance, Audit, Human Resources, Regulatory and Corporate Reputation, Finance, Investment Advisory and Integral Management System committees in order to execute these tasks. Information about the role of these committees is available at [www.transelec.cl/quienes-somos/#q-gobierno-corporativo](http://www.transelec.cl/quienes-somos/#q-gobierno-corporativo)

Our Board of Directors is made up of nine members who fill their positions for two years and are eligible for re-election. No director fills executive positions at the company. The Board is comprised of three Canadians and six Chileans. One of the directors is a woman. Five directors are considered to be independent<sup>8</sup>.

In order to improve corporate governance standards, Transelec has had guidelines for Board of Directors member induction and training processes since 2016. These guidelines consist of specific procedures for visits to Company facilities and several opportunities for addressing issues related to teamwork, crisis management, etc.

In addition, and in order to develop and empower collective Board of Directors knowledge of economic, environmental, social and ethical issues, we hosted two training sessions in 2017. The first session addressed national and international progress in terms of inclusion, diversity, sustainability reports and risk management. The second session addressed new corporate governance and good ethical practices trends based on theory and actual cases.

BOARD OF DIRECTORS STRUCTURE



<sup>8</sup> In the case of Transelec, “independence” does not refer to the definition in the Corporation Law. This not apply to the Company because it does not fulfill the requirements. This refers to directors who are “independent” from the Corporation’s shareholders.

<sup>9</sup> Sustainability experience is considered to be expertise in economic, social and/or environmental issues.





SUSTAINABILITY GOVERNANCE

Transelec has implemented Board of Directors and executive mechanisms for discussing important issues related to sustainability and monitoring progress.

The Corporate Governance Committee was created in 2016. Its role is to propose and nominate Board members; evaluate Board administration; approve codes and manuals (as well as modifications); respond to Superintendence of Securities and Insurance requirements with regard to corporate government standards; and to examine and evaluate guidelines regarding these issues in order to make recommendations to the Board of Directors. The committee is comprised of the Chairman of the Board of Directors, two directors, the company's general manager, the Vice-president of Legal Affairs and the Compliance Officer.

The Investment Advisory Committee is responsible for identification and management of economic, environmental and social issues, as well as their impact, risks and opportunities (including their function in the application of due diligence processes). In turn, the Investment Advisory Committee and the Corporate Governance Committee are responsible for the management of economic, social, environmental and governance risks, the evaluation of risk management process effectiveness for these issues and for reporting these issues to the Board of Directors.

The Corporate Reputation and Regulations Committee is responsible for formulating and supervising strategies for Transelec regulatory aspects, as well as progress in terms of company reputation performance in relation to its main stakeholders and approval of the corresponding strategies.

We have had a Corporate Governance Committee directing our administration since 2016.

The Executive Committee meets with the general manager and the company's vice-presidents on a weekly basis to supervise Company progress. The most important environmental compliance aspects for projects underway are discussed at these meetings, together with safety for Transelec collaborators and contractors, community relations, risk management and compliance model progress, among others.

As previously mentioned, Transelec has Business, Projects, Operations, Operational Excellence and Results, and Regulatory Agenda committees. The Integral Management System (IMS) Committee –comprised of all vice-presidents– provides oversight and monitoring for all issues related to safety and risk prevention, quality and maintenance, occupational health and compliance with environmental regulations.

RISK MANAGEMENT

The Board of Directors is ultimately responsible for determining the nature and scope of significant risks for the Group, as well as ensuring the use of appropriate internal control systems. Strategic risks and respective control status are reported to the Board of Directors on a regular basis by means of the Audit Committee.

Information is regularly pooled from different areas in order to determine the main risks for the business, including sustainability risks. The objective is for these to identify and describe the most important risk factors and to determine corresponding mitigation measures. This work considers strategic pillars that were complemented in 2017 by a strategic online outlook with the method used by the World Economic Forum.

The Board of Directors regularly revises the corporate risk matrix together with Company administration and delegates the monitoring of action plans and updating the corporate risk matrix to the Audit Committee.

Main risks for sustainability

The main risk factors our Company is currently facing are related to asset administration, specifically with service quality (interruptions) and with the safety of facilities (the safety strip, fires and other natural disasters). These factors are managed by means of ongoing maintenance work at our facilities, coordination with the competent authorities and the creation of relationships of trust with communities living near our facilities.

Issues related to power regulation, new markets, collaborator and contractor integrity, the eventual impact of natural disasters on our operations, alignment between contractors developing projects in the field and Transelec policies, labor issues, safety and relations with neighboring communities have become increasingly important in recent years. In fact, we have developed contractual safeguards that include fines and bonuses, ongoing monitoring and improved bidding conditions so that companies awarded contracts will be integrally suited to the task in order to ensure positive interaction between contractors and communities.

We are ISO 14001 (environment), ISO 9001 (quality) and OHSAS 18001 (occupational health and safety) certified.

Monitoring and results

A monthly report known as a Flash Report is formulated and sent to the Board of Directors. This report addresses different issues related to sustainability as well as other important issues: occupational safety, grievances, the environment, community relations, etc. In turn, The Regulatory and Corporate Affairs Committee submits a quarterly five-year outlook regarding issues that could have an impact at regulatory and corporate levels.

We at Transelec have determined ten key variables that need to be monitored, which are consolidated in the Integral Management System (ISM) dashboard. Each of these indicators is revised at the ISM Committee meetings, which address occupational safety, operations, certification upkeep, community relations, evaluation of social investment programs in communities, as well as environmental, labor and social compliance.

**The monthly Flash Report is used to report our economic, operational and sustainability performance to the Board of Directors.**



ETHICS AND COMPLIANCE

Why is this important?

Because we believe the way we achieve our goals is as important as achieving them. Our stakeholders’ confidence is an invaluable asset for us, in that it lays the groundwork of our business. Millions of Chileans are depending on us for the power that fuels their daily lives. This confidence means impeccable service provision and integrity in everything that we do. We work to ensure that our actions reflect our values and principles. We therefore place special emphasis on our collaborators holding to high ethical standards and keeping the commitments they make.

Context

We are a company in constant renewal that employs different generations of collaborators. A first major challenge is to ensure that our outstanding values permeate and are reflected by the daily actions of our different workers. A second challenge is to face increasing demands from society and society’s distrust of companies due to scandals, cases of corruption and collusion, among other reasons.

Cases of corruption and other crimes have increased and heightened public scrutiny as well as standards designed to guarantee corporate integrity. We have consequently implemented a series of internal measures to safeguard our own integrity.

How do we manage this?

Code of Ethics and the 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. Eleven grievances were filed in 2016; all of these were investigated and settled.

We have had a compliance investigations protocol since the end of 2016. This protocol explains how to settle concerns regarding possible cases of ethics conflicts, information constituting grievances, available grievance channels, the investigation process and sanctions.

Prevention of Corruption and Bribery



We have had a Crime Prevention Model for bribery, the handling of stolen goods, asset laundering and the financing of terrorism in accordance with the provisions of 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.

The Transelec Board of Directors approved a policy for regulating relations with Politically Exposed Persons (PEPs) in 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 a 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.

Compliance



The Compliance Program: an ethics and standards diagnostic was executed in 2016. Gaps were identified, initiatives were formulated for bridging those gaps and the position of Compliance Officer was officially created (see page 42). We continued to implement this program throughout 2017 with a training program for all workers regarding compliance area functions, Ethics Hotline promotion; launch of an explanatory video about the area and the compliance officer's duties; and formulation of a Compliance Risk Matrix was started.

Training



Corporate Governance and Crime Prevention Model training sessions for all collaborators joining the Company were provided starting in 2014.

In addition, we hosted 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.

Talks, training sessions and online “ethical dilemma games” are some of the tools used to train our collaborators.



Monitoring and results

**Compliance Officers:** the Board of Directors approved creation of this role at Transelec in September 2016. The compliance officer's authority and empowerment duties go beyond legal compliance because this officer evaluates whether conduct is in line with values implemented and made public by the company. The authority and the compliance officer contribute to making a cultural change required at the organization and to prevent situations that could compromise values, standards or regulations.

Different roles with a common purpose, safeguarding integrity at Transelec

Compliance

- Has a preventive function.
- Is audited just like any other process.

Internal audit

- Has a detection function.
- Audits the compliance process.

One prevents actions *"before they happen ..."* while the other detects *"when they happened"*. This alliance is perfect because these are internal consultants that add value and *completely protect Transelec*.

**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.

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



Some results

Ethics

100%

11 grievances were filed; 100% were settled within the period



incidents of discrimination

Crime Prevention Model

66%

66% of our collaborators received anti-corruption procedure and policy training



10 significant fines<sup>10</sup> stemming from non-compliance of laws and regulations.



We were presented the Generación Empresarial-Diario Financiero Award for Commitment to Integrity in 2017 (See page 30)



We applied the corporate ethics barometer once again in 2017 in order to assess our performance in this area

<sup>10</sup> Transelec considers fines over US\$ 1,000,000 to be significant.



## STAKEHOLDER RELATIONS

### Our focus

Open, ongoing and proactive relations with our stakeholders enable the evaluation and improved formulation of our business strategy and priorities. Building and maintaining fluent relationships of trust with these groups while providing clear and timely information about our operations is essential for Transelec.

We have determined that our priority stakeholders are those that could be significantly affected by our activities, products and/or services, as well as those whose actions could affect our capacity to successfully execute the strategies and objectives we have formulated and set.

We conducted a third Corporate Reputation Survey in 2016 the survey was directed to collaborators, regulators, authorities, customers, contractors, communities, think tanks, the media, NGOs and universities. This instrument enables us to evaluate their opinions regarding Transelec's performance in different dimensions of the business, identifying gaps and formulating action plans to bridge these gaps.

Based on this survey, our priority stakeholders for our work in 2017 and 2018 are communities, the regulator, customers and opinion leaders.



SNAPSHOT OF OUR MAIN STAKEHOLDERS

Who are they?



Shareholders

72.3% of Transelec’s shares belong to the Canadian consortium comprised by Canadian Pension Plan Investment Board (CPP), British Columbia Investment Management Corp. (bcIMC) and Public Sector Pension Investment Board (PSP). In December 2017, Brookfield Asset Management (BAM) made a sales commitment for an interest it held in Transelec (27.7%), to the Asian company China Southern Power Grid.



Authorities and regulatory entities

The Company mainly relates with the following regulatory entities: Ministry of Energy, Ministry of the Environment, National Energy Commission (CNE), Superintendence of Electricity and Fuel (SEC), and the National Electricity Coordinator (CEN).  
  
 At a political level, Transelec relates with the members of the Senate and Chamber of Deputies Mining and Energy Commission.



Customers

Transelec’s customers are companies that generate different types of energy that require connection to the power transmission system. Non-conventional renewable energy (NCRE) has become increasingly important in recent years. In addition, non-regulated customers (such as mining companies) require exclusive transmission lines for project development.



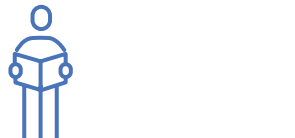
Collaborators and contractors

All direct workers at Transelec are collaborators and their actions are important when it comes to reaching the company’s goals. We currently employ 529 collaborators.  
  
 Contractors are workers who are indirectly employed by Transelec. Contractors work in four areas and presently amount to 2,160 persons.What are the main relations mechanisms?



Communities

For Transelec, communities are all the inhabitants of cities, towns and settlements neighboring the company’s facilities, while also considering authorities at local or district levels. This work is divided into two main groups:  
  
 a) Communities living in areas neighboring the Company’s substations.  
  
 b) Individual landowners living in transmission line areas of influence.



Informed Leaders

These are all persons whose expertise or position means that they have extensive knowledge and important opinions about what is happening in the power sector and how it can influence Chile.  
  
 Most are related to think tanks, the academic world and specialized external consultants.



Corporate and financial sectors

These are comprised by all industry associations (SOFOFA, CPC and power companies, among others) that promote growth and discussion of country issues.  
  
 The financial sector is comprised by national and international banking institutions, risk classification agencies and insurance companies.

What are the main relations mechanisms?

Telephone meetings and live meetings in Chile and in Canada every month, scheduled videoconferences, reports and the Annual Report.

Live meetings when required, information regarding the Company’s operations provided by means of the monthly corporate newsletter, Annual Report, Sustainability Report and corporate website. Relations are forged when the company is invited to explain its position when hearings are requested by means of the transparency law.

Meeting with each customer when necessary; breakfast meetings to discuss solutions and matters of interest; Company information dissemination by means of our corporate newsletter; the Annual Report; the corporate website; Transelec attends important events for the power sector; and publications in the national and regional media.

With collaborators by means of workshops, working sessions, breakfast meetings with the general manager, zonal newsletters, newsletters, the El Trasmisor magazine, Transelec TV, Intranet and our website, among others.

With contractors by means of training workshops, working sessions, issue-specific pamphlets and direct relations via corresponding ITOMS with the Transelec Projects Area.

Working tables with neighborhood leaders and local authorities, social investment programs and projects, early and formal citizen participation activities for projects, distribution of zonal newsletters featuring important information, airplay on local radio stations, community visits to substations and media publications, among others. These initiatives are developed in the framework of our community relations and corporate social responsibility strategy, which includes a social investment program development model for prioritized communities and an early relations strategy for the development of investment projects.

We have a landowner relations model for the owners of property where our facilities are located (see page 80).

One-on-one meetings, the corporate newsletter, Annual Report, Sustainability Report, our website, social networks and media publications.

We have been executing a "Connecting Conversations" seminar cycle since 2016. These conversations feature participation of representatives from different levels of local society in the different zones.

Meetings, breakfast meetings, corporate newsletter, Annual Report, Sustainability Report, our website and media publications.

The first Investors Day was hosted in 2017.



Main issues of interest and concern for our stakeholders



**Communities:** there are two priorities for the communities neighboring our facilities. Firstly, the genuine interest stemming from the fact that our operations in the territory will contribute to local development. This is to say that our operations will have a significant impact on the community's possibilities for growth. We have consequently developed a community relations strategy that includes a town prioritization model. We are currently executing social investment projects in over 20 communities between Antofagasta and Puerto Montt. These projects consist of community infrastructure, the improvement of public spaces, production development and entrepreneurship, agricultural development, and energy and environmental education.

Secondly, our communities are keenly interested in the socio-environmental impacts of transmission line and substation construction and operation, together with mitigation and compensation measures the company implements for these impacts, especially communities in the area of influence where our projects will be developed. Considering this interest, Transelec has community relations, early citizen participation and social investment strategies for each of our new projects. Our goal is to ensure that new projects and our operations are developed in an environment of trust with communities and that communities can gain a detailed comprehension of the company's environmental actions.



**Customers:** power service availability is essential for our customers and their projects. Improving our contingency response capacity is therefore a constant concern. In order to mitigate unforeseeable climatic or environmental risks, we must improve our plans, procedures and processes.



**Regulators:** the regulator and government agencies aim to make daily progress in terms of transparency with all companies from the sector, promoting discussion tables between private companies and the regulator that are all moderated by academic institutions. Transelec has participated at these levels, contributing to discussions regarding regulatory affairs that affect the power transmission market.



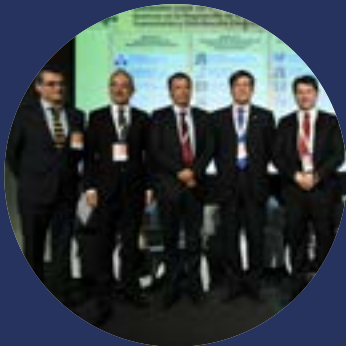
**Opinion Leaders:** in turn, this group of leaders also places emphasis on interests addressed by the regulator and other agencies. In addition, these people continuously monitor Transelec's leadership in the market in terms of service quality, innovation and sustainability.

Follow-up

We conduct a Corporate Reputation Survey (see page 22) every two years in order to evaluate stakeholder perception. In addition, we have applied PROhumana indicators to assess the company since 2016. We have been working on areas with the largest gaps ever since. Transelec and Ernst & Young are developing a methodology to evaluate the social impacts of our local development projects.

We formulated an impact evaluation methodology in 2017 and this methodology will be applied as a pilot program in 2018 by means of the Play More energy and environmental education program.

ORGANIZATIONS AND FOUNDATIONS WE PARTICIPATE IN



**Sustainability and integrity:** Global Compact, Fundación Acción Empresas<sup>11</sup>, PROhumana, Fundación Generación Empresarial.

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**Corporate:** SOFOFA, AMCHAM, Power Companies Association AG, International Council on Large Electric Systems (CIGRE), Industrial Suppliers for the Mining Industry Association (APRIMIN<sup>13</sup>), International Transmission Operations & Maintenance Survey<sup>14</sup> (ITOMS) and the Chilean-Canadian Chamber of Commerce.

**Innovation:** Innovation Club.

<sup>11</sup> Transelec's Vice-president of Corporate Affairs and Sustainability, David Noe, is the director of this organization.  
<sup>12</sup> The Vice-president of Sales and Business Development, Eric Ahumada, was appointed to be the director of this organization.  
<sup>13</sup> The Vice-president of Sales and Business Development was appointed to be the director of APRIMIN.  
<sup>14</sup> Transelec's Vice-president of Operations, Rodrigo López, was appointed director representing the Americas for the ITOMS Consortium Executive Group in 2017.