SUSTAINABILITY REPORT

2017


ANDRÉS
KUHLMANN J.

Introduction

“The future of mankind will be much more intensive in the use of clean, accessible and competitive electrical energy. Transelec is part of that future.”

We are living in times of change throughout the world and these changes are taking place in different dimensions and affecting different industries. The power business has undoubtedly gone through transformations that will set the pace for how we operate in coming years. The power industry has been incorporating the use of renewable energy at a breakneck pace to provide power for Chile’s inhabitants and industries and for the rest of the world.

This implies a radical change in the energy matrix and its diversification, while enabling further electrification in Chile at lower energy consumption costs. Other transformations are related to regulatory changes and stiff competition for tenders, power generation and power transmission project development. These changes will lead to steep power cost reductions.

We know that the future of mankind will be much more intensive in terms of electrical energy use. This means that we are going to use more clean, accessible and competitive energy. Power transmission is an essential part of this virtuous equation.

Transelec, the leading power transmission company in Chile, transmits clean energy to increasingly more remote corners of the country. We are consequently enhancing our processes in order to facilitate and accelerate the connection of new generation projects to the power grid.

As part of the dynamic behind the aforementioned changes, society is also experiencing constant transformations that are consistent with its demands as consumers. Greater demands for the development of certain projects that are important for the country and low tolerance of failure to deliver basic services are some of the characteristics of empowered citizenry, whose members often challenge the way things are being done by companies and the authorities.

Our Company will continue to relate with its communities and stakeholders face to face, adapting to these new scenarios.

As part of this same dynamic behind transformation, we believe that climate change affects the way we look at our business and operations. More frequent fires and climatic emergencies require additional efforts to maintain service safety and continuity.

In 2017 we continued working on our strategic thrusts: Innovation, Integrity and Sustainability, and we witnessed some of the rewards for a job well done. We are proud to highlight that the company was presented several awards that reaffirm our culture of leadership in Chile's power sector over the last 60 years.

We were one of three companies to be presented the Diario Financiero Corporate Generation Award for our Commitment to Integrity in June. This award recognizes our commitment to ethical management and the implementation of best practices.

In August, for the second year in a row, we were assigned a high position in the sustainable development area of the PROhumana ranking. Sustainable development is a key issue for Transelec. This time we were ranked in the silver category, up from the honorable mention we were given in 2016.

This ranking assesses sustainable management aspects for environmental, social and corporate governance issues, among others. The PROhumana indicators can be used to identify gaps and to make progress towards bridging these gaps, which is addressed in great detail in our Sustainability Report.

We have been working since 2015 to ensure that innovation is at the core of our business strategy. We have seen that our collaborators are enthusiastic about blazing new paths and providing innovative solutions in different scenarios as part of their daily work.

These efforts are still underway and have given us several rewards, such as joining the ranks of the 50 most innovative companies in Chiles, according to the Best Place to Innovate ranking.

All of the aforementioned awards take on meaning to the extent that Transelec continues to uphold its commitment with Chile's development and future challenges.

We are the leading power transmission company in the country and we have a culture of leadership. We transmit the electrical energy that lights the homes of 98% of the population living between Arica and Chiloé by means of 10,000 kilometers of power transmission lines and 61 substations. Our operations span throughout almost every region of Chile, where we actively related with communities neighboring our facilities by means of social investment agreements, early citizen participation initiatives for the development of projects and energy and environmental educational programs, among others.

These achievements confirm that we are on the right road to what we understand as a sustainable business and committed to values that comprise the pillars of Transelec and the society we live in.

Andrés Kuhlmann
General Manager

Interview with the General Manager

Our commitment with society

To transport electrical energy for the country's current and future development.

What are the most important changes in the power sector, in the world and in Chile?

1. The irruption of renewable energy stemming from lower cost technologies used to generate this energy, which implies more intensive use of this energy and the proliferation of new projects.

2. The incorporation of new distributed power generation models, which changes the role of consumers to "prosumers" (producers and consumers at the same time).

3. Increased competition, supported by the Chilean government's strong encouragement of these new technologies starting with the regulatory modernization of power transmission and distribution. This implies high competition levels in the power generation sector, with the substantial participation of renewable energy and in the power transmission area, which will afford access to more clean energy at lower prices.

What benefits for consumers will all of this entail?

This will provide multiple benefits for the inhabitants of Chile: lower cost access to energy, increased use of electrical energy, polluting devices will be replaced by new clean technologies (electric heaters in southern Chile, electric cars, etc.), diversification of the energy matrix –thus reducing dependency on certain fuels and suppliers– and a steady increase in the generation of energy from internal sources, which should reduce international dependency.

What role does Transelec play in all of this?

Power transmission is fundamental for this to happen, since it enables benefits to reach all corners of our country. Transelec consequently commits to:

- Collaborate with the authorities to ensure a robust power transmission system that has power to spare in order to achieve increasing electrification levels with a focus on renewable energy.
- Actively participate in national and zonal tenders, proposing projects that will add value to the national power grid.
- Perfect its processes in order to facilitate the connection of renewable energy sources to the national grid.

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[1] 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

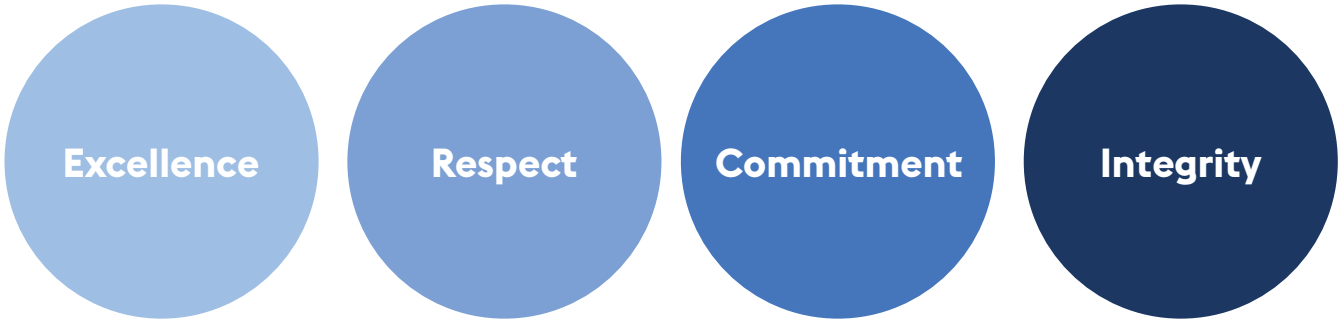
[1] Corresponding to power substations where Transelec is the owner, lessee, usufructuary, or exploits an important number of transmission facilities in any way.

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

Economic

9,648 Km

of transmission lines

58%

participation in the National Power Grid [2]

US$ 445

million in revenue: 63% in the National Power Grid; 16% in Zone Systems; 18% in Exclusive Systems and 3% in Services

US$ 378

million in EBITDA

Governance and Ethics

66%

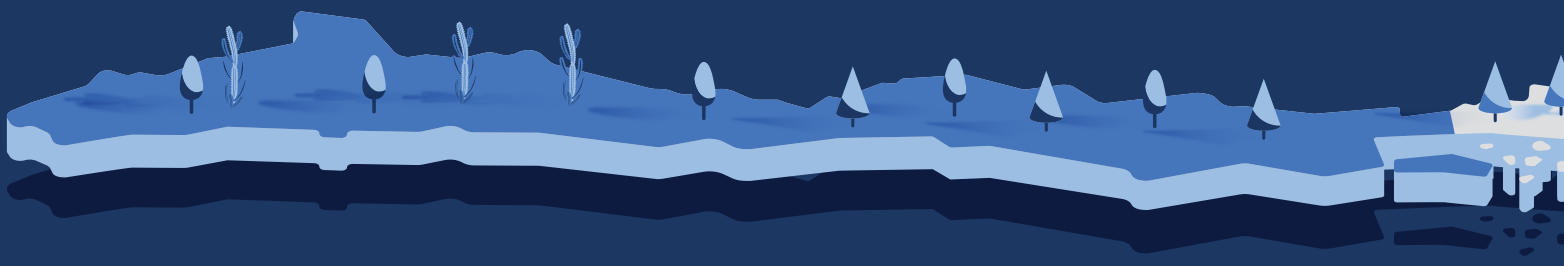
of our collaborators received anti-corruption policy and procedure training

0

Incidents of discrimination

0 significant fines for non-compliance with laws and regulations [3]

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 and in the 2017 Annual Report, which is available at our website.

[2] 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.
[3] We believe fines over US$ 1,000,000 to be significant.
[4] As of 31 December 2017.
[5] Percentage determined based on installed capacity in MW. Source: CNE and Transelec.
[6] See page 74.

Social

Society and Communities

4.1

in Equivalent Interruption Time for the service. We have reported stable results over the last few years, which have been significantly low.

2,706

neighbors from communities neighboring our substations and transmission lines have been benefited by social investment and local development projects.

0

grievances filed due to social impacts.

Labor

529

collaborators[4]

2,160

contractors

0

fatal accidents

25

years without strikes

Environmental

64%[5]

of the renewable energy installed over the last five years has been connected by Transelec

347

MW was connected in 2017 alone

0

incidents with environmental impact[6]

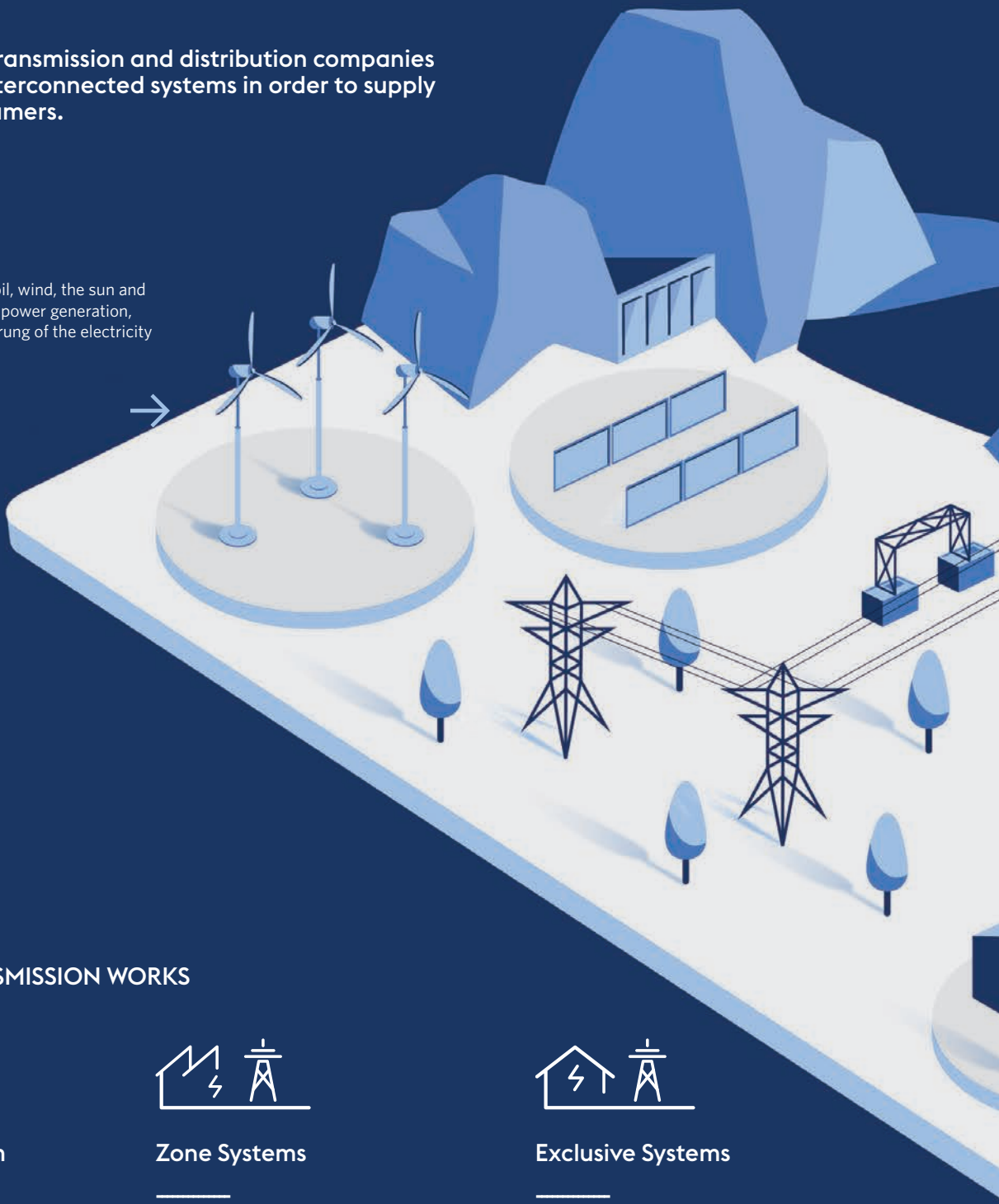
The Transelec Group started international operations in 2016, entering Peru with the company CONELSUR

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.



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

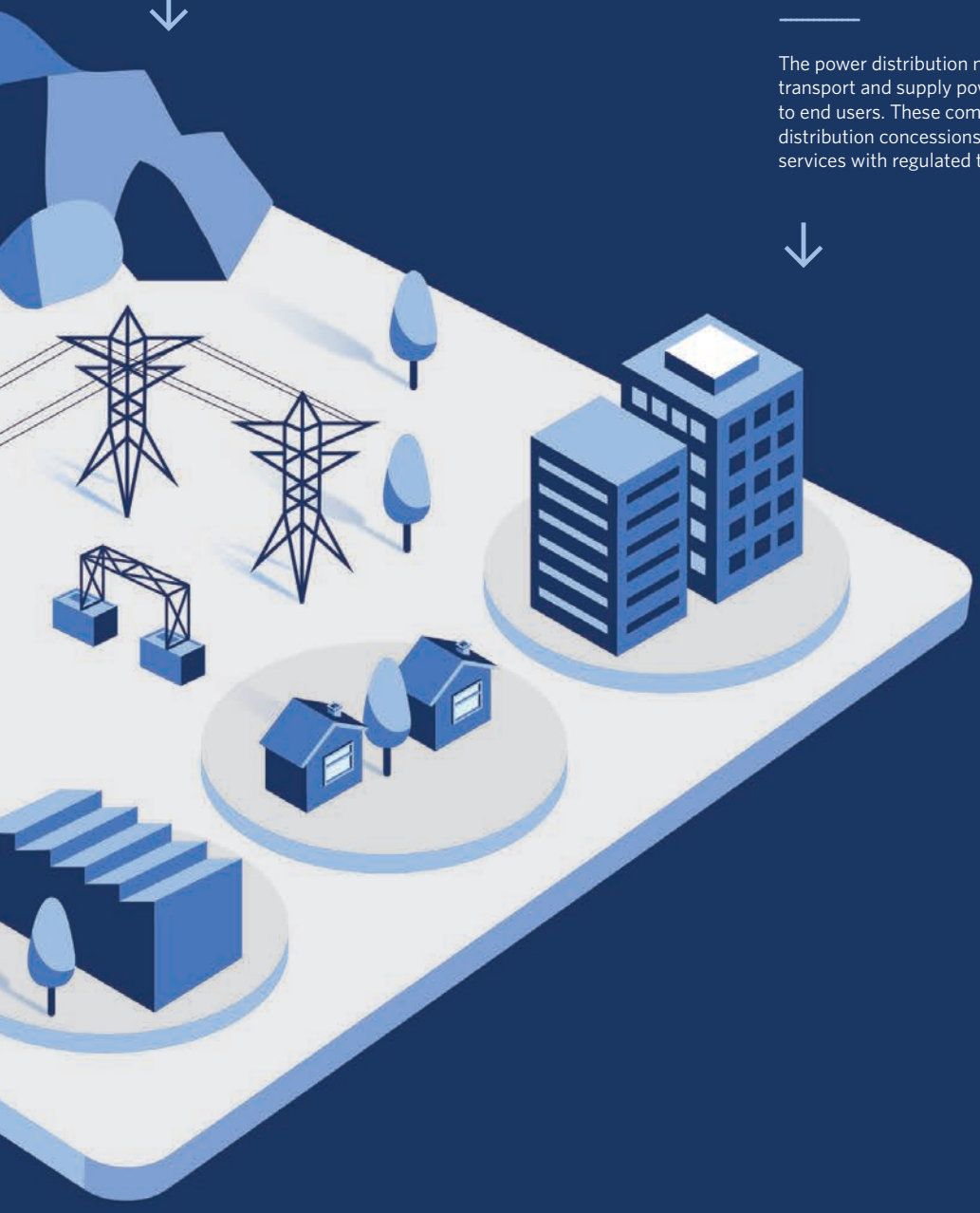
Facilities interconnected to the power system, arranged to exclusively supply power to groups of free or regulated end consumers located in distribution company concession zones.

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 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.

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.

[7] 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.

VALUE GENERATED

(Revenue–Costs)

—

US$ 517,9 million

DISTRIBUTED VALUE

—

US$ 517.9 million

(US$ 469.9 million in 2016)

Reinvestment in the company

US$ 89.4 million in reinvestment
(US$ 96.5 million in 2016)

Collaborators

US$ 48.0 million in salary and benefits
(US$ 40.8 million in 2016)

See page 59.

Service Providers

US$ 40.6 million in payment to suppliers
(US$ 37.0 million in 2016)

See page 66.

The State

US$ 101,5million in taxes
(US$ 85.8 million in 2016)

See page 76.

Shareholders and Financiers

US$ 127.8 million in payment to shareholders.
(US$ 121.0 million in 2016)

US$ 104,6 million in payment to financiers.
(US$ 86.9 million in 2016)

Community and the Environment

US$ 6.1 million in donations, environmental, social and easement strip projects.
(US$ 1.9 million in 2016)

See page 76.

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.

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.

Editorial
ARTICLE

Alexandros Semertzakis, Vice-president of Project Development and Engineering

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.

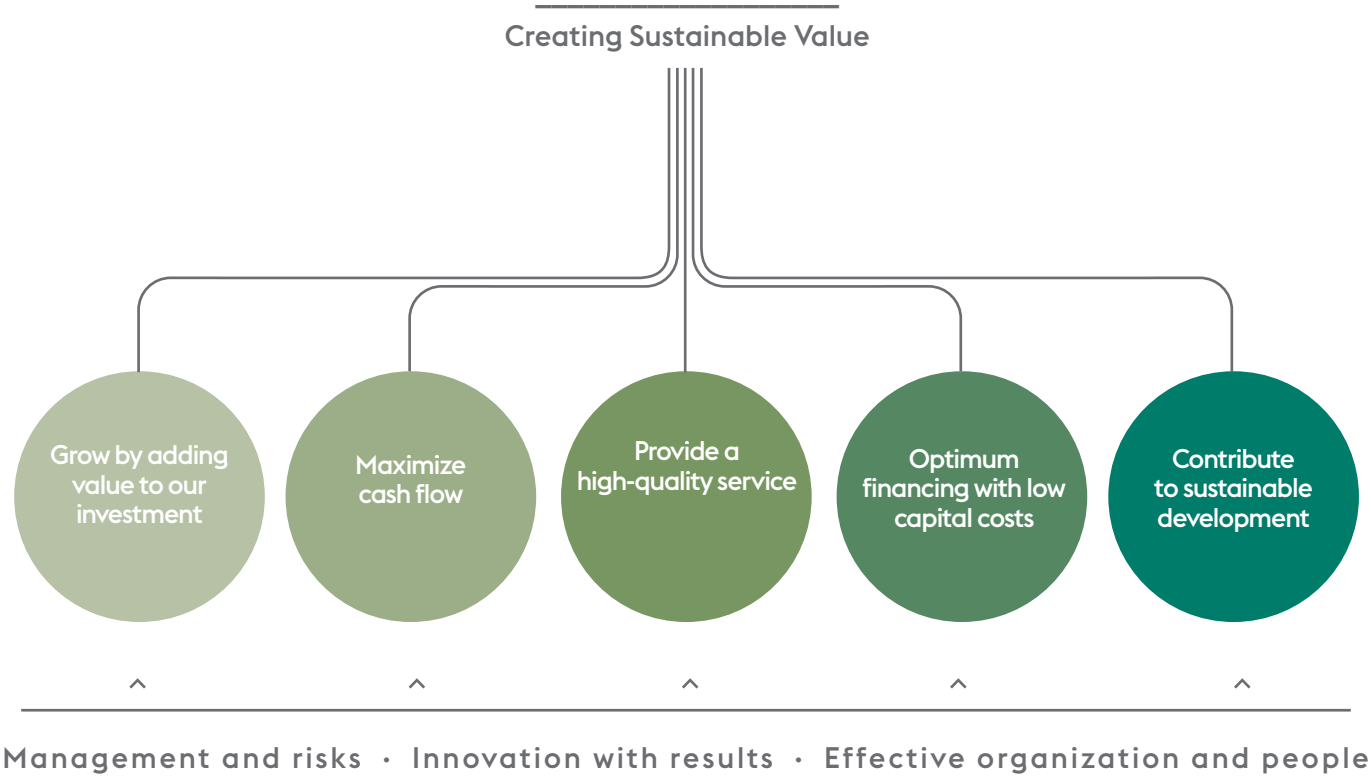
Our efforts focus on conducting our operations in line with project design, compliance with environmental and social commitments made, the Environmental Qualification Resolution (RCA) and our vision of sustainability during the construction stage, training our personnel and incorporating our contractors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



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 voluntary 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.

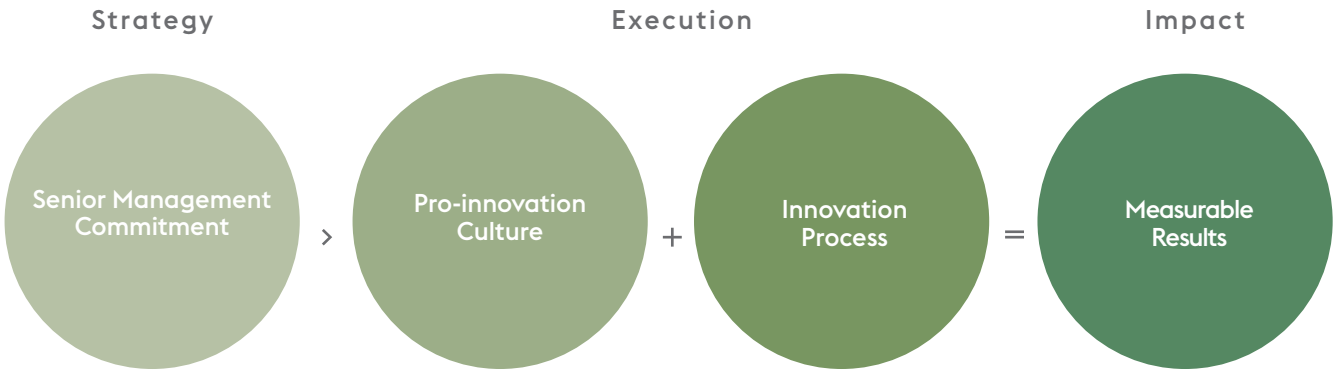
INNOVA became a part of the Transelec collective by means of different initiatives in 2017:

- 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.

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.

Editorial
ARTICLE

Arturo Le Blanc, Vice-president of Legal Affairs and Prosecutor

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

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 [8].

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.

[8] 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.
[9] Sustainability experience is considered to be expertise in economic, social and/or environmental issues.

BOARD OF DIRECTORS STRUCTURE

Gender		Independence		Seniority on the Board of Directors	
Male	Female	Independent	Not Independent	More than 5 years	Less than 5 years
8	1	5	4	7	2

Age (in years)			Executive Level at the Company		Experience with risk management and/or sustainability	
Less than 30	Between 30 and 50	More than 30	Executive	Not Executive	Experienced	Not Experienced
0	1	8	0	9	9	0

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.

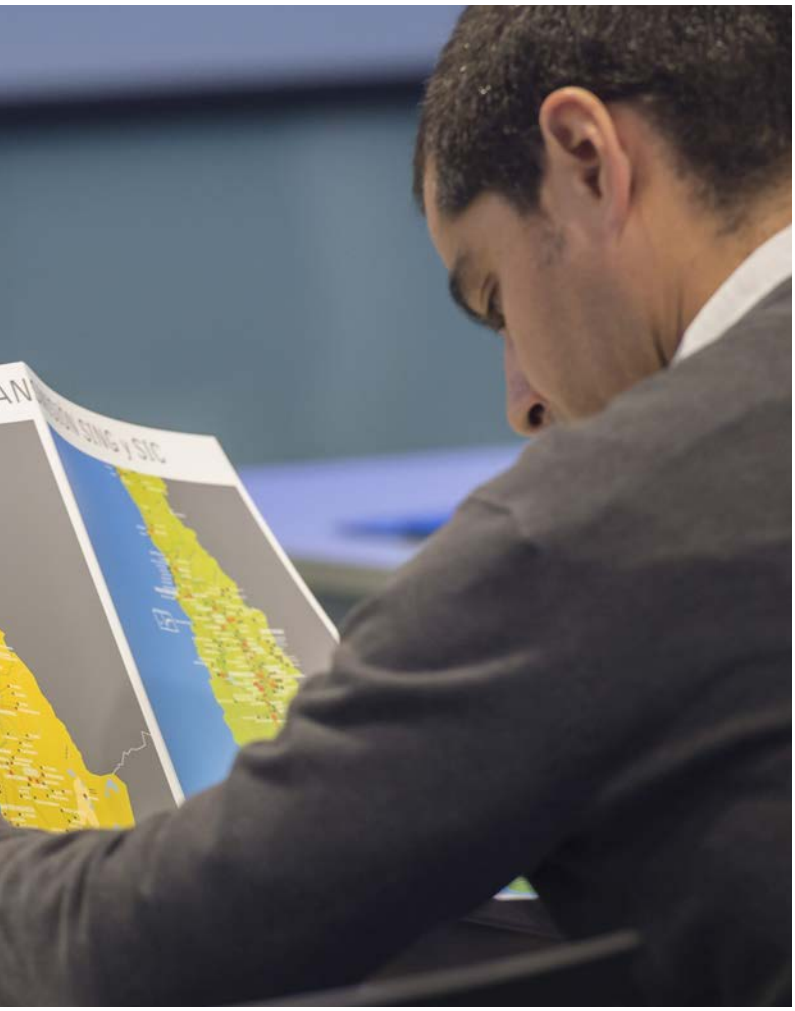
We are ISO 14001 (environment), ISO 9001 (quality) and OHSAS 18001 (occupational health and safety) certified.

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 Nº 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 Officer: 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

0

incidents of discrimination

Crime Prevention Model

66%

of our collaborators received anti-corruption procedure and policy training

Compliance

0

significant fines[10] 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

[10] 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 prioritary 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 prioritary 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.

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.

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?

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.

Communities

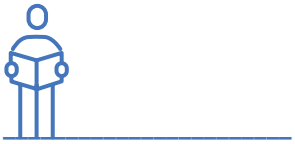
For Transelec, communities are all the inhabitants of cities, towns and settlements neighboring the company's facilities, while also considering authorities at local or district levels. This work is divided into two main groups:

a) Communities living in areas neighboring the Company's substations.

b) Individual landowners living in transmission line areas of influence.

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).



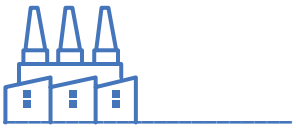
Informed Leaders

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.

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.



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.

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.

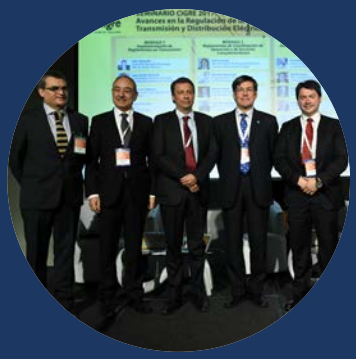
Opinion Leaders: in turn, this group of leaders also places emphasis on interests addressed by the regulator and other agencies. In addition, these people continuously monitor Transelec's leadership in the market in terms of service quality, innovation and sustainability.

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[11], PROhumana, Fundación Generación Empresarial.

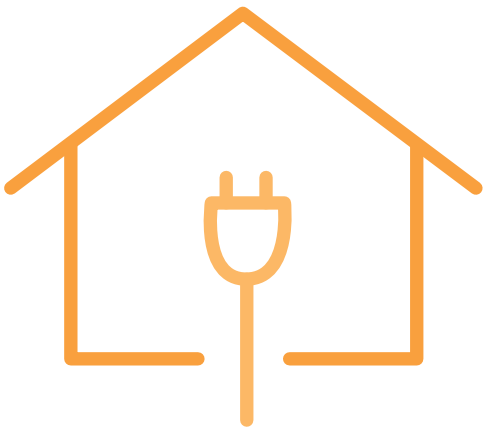
Sustainability and integrity: Global Compact, Fundación Acción Empresas, PROhumana, Fundación Generación Empresarial.

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

Innovation: Innovation Club.

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

Reliable Power Transmission for our Customers and Society



What happens when there's no electrical energy? In addition to domestic problems, this generates safety and communication risks, among many others. Power transmission system reliability is essential and will be even more important for tomorrow's society that will go all in for this type of energy.

POWER TRANSMISSION SYSTEM RELIABILITY, FLEXIBILITY AND SUSTAINABILITY

Why is this important?

Electrical energy is presently the development and operation engine for industries, services and households in today's society. A guaranteed power supply is becoming more and more critical. There are consequently many stakeholders who must operate power generation, transmission and distribution systems in a reliable and efficient manner. Transelec plays a very important role in this chain: power transmission. We have had to adapt to more demanding consumers, end users and society in general over the last few years.

Regulatory context

In 2017, the Ministry of Energy, by means of the National Energy Commission (CNE), continued to formulate technical standards and regulations in accordance with the provisions of the new General Electricity Services Law (LGSE). Transelec actively participated in working tables and consultative committees created by the CNE in order to discuss and identify the best alternatives for this new regulation. Supply Unavailability Compensation Regulations were then published and submitted to the National Electricity System Operation and Coordination (SEN) Comptrollership and Complementary Services (CS) Regulations.

With regard to technical standards, in 2017 the NEC established Technical Service Quality Standards for Distribution Systems, which amended acceptable power supply quality standards for end customers due to power supply interruptions stemming from distribution facility outages or disconnections. New amendments were made for aspects such as facility design, complementary services according to the new law, Small Distributed Generation Facilities (PMGD) connections, Low-voltage Power Generation and Medium-sized Systems, among others in 2018.

Transelec is participating at working tables with the NEC and SEC to determine events classified as force majeure. The formulation and/or amendment process for new power supply quality standards at transmission/generation levels is expected to take place in 2018. This will be essential for the application of unavailable supply compensation determined by the new Law N° 20,936.

Editorial
ARTICLE

Rodrigo López, Vice-president of Operations

Digital Transformation For Power Transmission

The power industry is going through breakneck changes and our country is no exception to the rule. We must understand these changes as the result of different technologies coming together to make radical changes to the business model used by so-called utilities.

A good way to look at these changes is to use the three dimensions of energy, starting with the dimension of carbonization, which means the irruption of renewable energy for power production. Fossil fuels are on the way out and several countries and companies are making concrete commitments in this regard. Discussion regarding the contribution of fossil fuels specifically focuses on how long it will take us to complete the renewal process.

The second dimension refers to energy centralization, in which the model featuring dependent customers is becoming an increasingly more contestable market. Demand aggregators and block chain technology empower consumers, while DERs complete the equation.

Finally, these specific energy trends are accompanied by the dimension of digitalization, in which the Internet of Things (IoT) and big data analysis capacities applied to asset digitization enable companies to strengthen situational awareness of their status, thus enabling predictive maintenance and improved asset health.

TRANSELEC has addressed the challenge posed by these trends, aiming to provide increasingly more intelligent power transmission. The path toward asset digitization we have started along will be of crucial importance in terms of collaborating with the articulation of these markets and reaching service quality objectives required for this new scenario, in which improved systematic performance in recent years must be reproduced and surpassed.

How do we manage this?

Transelec believes that service quality is determined by continuous power supply without interruptions to end customers. The reliability model is based on three elements: facility design, asset management and emergency response plans (see page 54).

These aspects are considered during the preliminary stage of conceptual project design and are fundamental requirements for basic engineering, by specifying highly demanding equipment and systems in accordance with international standards and national regulations. We also conduct a very thorough technical evaluation of bids from different suppliers when it comes to awarding supply and service contracts at Transelec.

In order to operate and achieve our desired quality levels, we have developed several initiatives involving the adjustment of operational processes in keeping with the new energy scenario. We therefore wish to control risk associated to asset conditions or substandard actions. We consequently formulated an ambitious operation digitization plan for asset management and operational process management by means of continuous monitoring. In addition, we implemented and determined new "operating status" indicators in the power transmission system, which could mean a possible reformulation of service quality and facility availability indices.

Cable theft

Cable theft is a crime that seriously compromises power transmission infrastructure, transmission and distribution in several regions throughout Chile. It is also one of the most important factors that compromise service quality for communities. We therefore participated in the 2017 creation of a working table to prevent copper cable theft in La Araucanía Region. The table is comprised of power companies, local authorities and police departments and is coordinated by the Regional Government. Tables of this kind are already operating in the regions of Biobío, Maule and O'Higgins and these also promote coordination between public and private stakeholders.

Organization and reporting

Our responsibility in terms of power transmission reliability, flexibility and sustainability is to the Vice-presidencies of Operations and Engineering & Construction, which in turn report to the General Manager.

Results in terms of these issues are reported internally by means of the Operations Committee. In addition, these are reported to SEC, the institution that supervises our compliance in terms of these issues. The Transelec Disconnections Committee is responsible for inspecting forced disconnections and determining outages that can be managed by the Company in order to improve performance and minimize occurrence. The committee is comprised of the Operations, Sales, Legal Affairs and Finance vice-presidencies, which meet on a monthly basis to discuss opportunities for improvement.

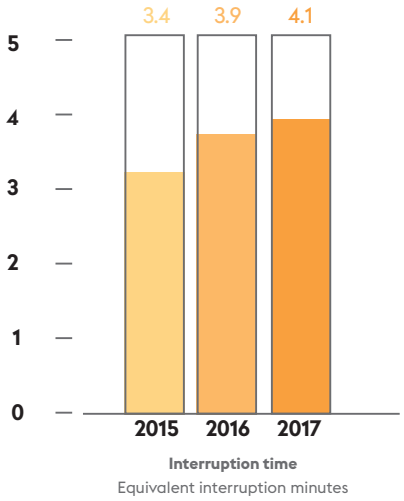
Monitoring and results

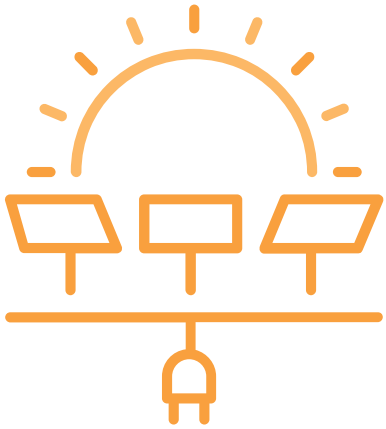
We have a service security measurement system, which is reflected in the EIT "Service Security Index" and encompasses overall power transmission performance. This indicator considers outages at Transelec facilities that can be attributed to our actions. Several improvement plans have been executed to keep these at low and stable levels. We wish to highlight the following: focus on end consumers, emergency management to improve response time to outages, mitigation works to ensure power supply continuity and to focus certain maintenance initiatives on critical points. Increased EIT in 2017 compared to 2016 is considered to be marginal. We have reported stable results that have been significantly low in recent years.

Moreover, in order to focus on service quality provided for end customers, we monitor the System Average Interruption Duration Index (SAIDI), which corresponds to average interruption time when end customers no longer receive electricity services, an indicator calculated by the Superintendence of Electricity and Fuel (SEC) in order to measure the performance and behavior of power supply interruptions in the three sectors of the Chilean power market (Generation, Transmission and Distribution). It is here that the power transmission sector contributes 3% in terms of total disconnection time for end customers.

In addition, the Disconnections Committee formulates an indicator known as the "disconnections rate", which relates the number of outages to the number of facilities.

Service quality and reliability figures





Flexibility for the transmission of clean energy

The irruption of renewable energy has changed the bases of Chile's power transmission system. This has migrated from large-scale production centers with ongoing power generation to atomized production generated intermittently. Chile has unlimited solar and wind energy resources, which it intends to make use of in order to reduce the carbon footprint of electrical energy generated, increasing our diversification and independence while cutting costs.

We are adjusting our facilities and promoting clean energy at Transelec, incorporating new designs, new lines and substations, which have enabled the company to improve its operational flexibility in order to increase the amount of renewable energy being injected into the system.

EMERGENCY PREPAREDNESS AND RESPONSE

Why is this important?

The geography of Chile poses risks for power transmission. This is exacerbated by the effects of climate change throughout the country, which have generated complex scenarios. We have witnessed more frequent intensive rainfall, mudslides, fires, blizzards and storm surges in recent years, among other events. In concrete terms, 2017 was marked by forest fires, floods and extreme winds. Three Transelec transmission lines were damaged by either fire, floods affecting power infrastructure throughout Chile's northern regions or by floods that damaged transmission lines in Santiago.

Regulatory context

Chilean power distribution standards were modified in 2017. These indicate in the event of an "abnormal situation" that a power distribution company is required to reconnect 80% of its customers without power within a maximum deadline of 12 hours. 100% of its customers must have electrical energy after 36 hours. In addition, the definition of "force majeure" was changed. This new regulatory context has occurred in a year that was specifically complicated in terms of service quality for power distribution companies (stemming from unusual weather conditions during the winter of 2017), which had a high public impact due to the number of customers affected.

How do we manage this?

Throughout its years of operation, Transelec has gained substantial preventive experience in order to face emergencies. We have an Operational Continuity Plan (OCP) that includes actions to be taken by each of the company's areas in the event of an emergency. The objective of this plan is to prevent and prepare appropriate and timely emergency response. Year after year we have been incorporating lessons learned from emergencies in the past, specifically from catastrophic forest fires in early 2017, which generated a series of lessons learned that we internalized in order to better respond to eventual emergencies (see highlighted section on page 55).

Organization and reporting
Those responsible for emergency preparedness and response report to the Vice-presidency of Operations, which in turn reports to Transelec's General Manager. We have a crisis committee presided by our General Manager and subrogated by the Vice-president of Operations in order to address emergency situations. Finally, the Disconnections Committee monitors outages attributable to Transelec in cases of emergency (see page 52).

Electricity risk training for fighting forest fires
We have executed different training sessions in central and southern Chile to educate different institutions regarding safety for forest firefighters in areas surrounding high-voltage transmission lines while ensuring power supply continuity. Transelec has hosted a total of eight electricity risk training workshops between the Metropolitan and Los Ríos regions for forest firefighters. This series of training sessions started in late 2016 and has brought together emergency brigade members from Conaf and forestry companies, fire departments, police officers and workers from different public agencies. We will continue to develop this initiative throughout 2018.

Coordination with other stakeholders
Emergencies require coordination between and response from several stakeholders and we therefore create spaces for dialogue or participate in existing spaces. One example is working tables coordinated by authorities and other public and private agencies, the Ministry of Economy Clean Production Council and companies belonging to the Power Companies Association AG (see highlighted section on page 57).

Monitoring and results

Audits and drills were conducted in order to evaluate emergency response capacity, together with reports about real emergency cases. Drills conducted by the National Center for Transmission Operations (CNOT)[15] were evaluated as outstanding. However, possible improvements for reducing response time have been proposed. In addition, we have a Disconnections Committee that supervises issues such as emergency disconnections and executes action plans in order to ensure that we are better prepared to respond to eventual emergencies in the future (see page 52).

[15] CNOT brings together all the regional control centers owned by Transelec throughout Chile, enabling safe and efficient 24-hour surveillance of its operations and maintaining a single, direct relationship with the National Electricity Coordinator (NEC).

THE LARGEST WILDFIRES IN THE HISTORY OF CHILE

Preventive emergency preparedness measures, coordination with important stakeholders and mitigation proposals were the most important lessons learned from the nearly 3,000 wildfires that affected several regions in the country (between Coquimbo Region in northern Chile and Los Lagos Region in southern Chile) at the start of 2017. The scope and range of the emergency meant that 14 people lost their lives as a direct or indirect consequence of the fire. Fire destroyed populated and rural areas, as well as nearly 600,000 hectares, 15,000 hectares of which were native forest.

Lessons learned from this catastrophe were harsh and painful, in that wildfires affected countless power transmission facilities. We consequently implemented a series of initiatives in terms of operational aspects, technological improvement, training and coordination in order to prevent and be prepared for emergencies, specifically at our facilities located in sensitive zones.

Based on this experience, we worked to improve risk control at our most exposed facilities and to analyze possible impacts in the event of a fire simultaneously affecting several transmission lines. In 2017 we designed a specific response procedure for forest fires and implemented several mechanisms to evaluate and mitigate the main risks associated to wildfires.

At an operational level, we doubled the number of emergency brigade members working in the field to control vegetation along safety strips in order to help landowners clear their land. We also hired forestry companies to help analyze preventive tasks for protecting forests along our transmission lines, thus preventing large-scale emergencies. We improved the land access protocol to ensure access and the clearing of vegetation along transmission lines. This was supported by a public communication campaign and direct communication with landowners (see page 80). Finally, we incorporated new technologies, such as the use of drones to ensure appropriate clearing of safety strips.

Emergencies must be addressed by multiple stakeholders and considering the importance of what happened, we decided that the second version of "Connecting Conversations cycle" would be hosted together with other public and private stakeholders who were in the emergency zone during wildfires (see highlighted section on page 57).

1 Source: The National Forestry Corporation (CONAF) Digital Information System for Controlling Operations (SIDCO).

CUSTOMER RELATIONS

Why is this important?

The business where we operate has two types of customers. Most of these are customers that need to connect to the trunk transmission system, which is regulated by the authority, while a lower number of customers require non-regulated transmission services, which are regulated by private contracts. Our regulated customers (78%) and non-regulated customers (22%) expect service quality and excellence, in which operational continuity and emergency response are highly valued (see pages 51 and 54). Our growth and diversification potential is greater with non-regulated customers. Understanding their needs enables us to add real value to their projects and businesses, because these users withdraw and/or inject power into transmission systems. These users are from different industries, such as mining, power generation and power distribution.

Forging and maintaining optimum relations with our customers is one of the Company's strategic pillars. We understand that providing a top-quality service creates a win-win relationship that we wish to create and maintain. We are leaders in the power transmission market and this means that we manage large-scale projects, something Transelec has done throughout its history, while providing the best solutions for each customer and adapting to new requirements of a constantly changing market.

We served 278 customers in 2017 and our power transmission services generated US$ 517.9 million in financial value, which was distributed between different economic system factors by means of distributed value (see page 17).

How do we manage this?

Customer service and customers' confidence in our know-how as system specialists are the foundation for forging close relations with them and with the power transmission business, which operates in accordance with international standards. Transelec was ISO 9001 recertified in 2017 to ensure service quality. In addition, we work to develop improved quality control mechanisms for service compliance, specifically for operation and maintenance, and develop internal platforms to improve our customer service.

In addition, we started using Customer Relationship Management (CRM) platforms for the Company's business operations in order to provide specific tracking of our customer interactions.

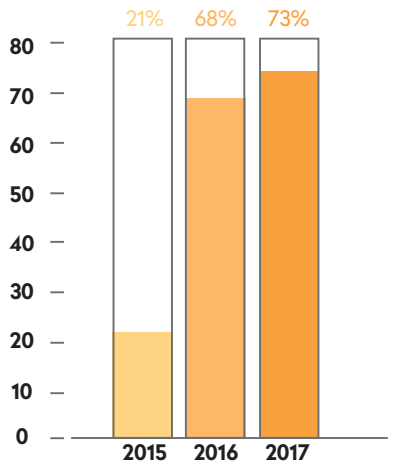
Dialogue with customers

We take concern to create direct dialogue by means of working meetings with our main customers. The objective of these meetings is to revise projects in our portfolio and to create possible initiatives for future collaboration. In addition, we work closely with union associations, consultants and stakeholders in order to hear their opinions regarding technical and regulatory aspects of the power industry. Beyond a relationship based on technical issues, we take concern to provide an integral service. Following suit with what was done in 2016, in 2017 we hosted "Connecting Conversations" seminars throughout the country in order to address key issues that will further our path to development. Our customers were invited to these seminars in order to discuss aspects of mutual interest. The 2017 issue was Emergency Resilience (see page 57).

Monitoring and results

Customer satisfaction is measured by a corporate reputation survey conducted once every two years. We also conduct an annual satisfaction level evaluation for our connection service provided for users connecting to Transelec facilities. Transelec and its users jointly develop an exhaustive system connection process. We have seen vast improvement with these results compared to when we first applied this measurement thanks to customer-focused management. In fact, the satisfaction indicator came to 73% in 2017, up 5% compared to 2016. This increase stemmed from a larger percentage of those surveyed indicating that they were "very satisfied" with the connection process support experience (5 on a scale of 1 to 5).

Service quality figures



Customer Satisfaction
Percentage, measured as connection customers

The Connecting Conversations Cycle

Resilience to natural disasters

The second "Connecting Conversations" cycle was hosted in conjunction with Qué Pasa magazine in the cities of Talca and Concepción. This time the seminars addressed the issues of resilience to natural disasters based on the following questions: How do we prepare? How do we react? and How do we recover?

We aim to "contribute to the development of Chile by means of conversations promoting broad-minded debate", as declared during the opening session by Transelec General Manager Andrés Kuhlmann. We consequently invited different authorities, specialists and civil society who were active protagonists in the emergency caused by wildfires in 2017 to participate in the discussion. The speakers agreed that we need to improve coordination between different institutions, empower civil society solidarity and corporate availability to meet requests made by authorities in situations of this nature, while training the community to respond to contingencies and reconstruction.

The speakers at the workshop in Talca were General Javier Iturriaga, Chief of Chilean Army Operations; Nicolás Birrell, executive director of Desafío Levantemos Chile; and Rodrigo Sepúlveda from the Maule Regional Ministerial Secretariat of Housing and Development. In turn, the panel for the workshop in Concepción was chaired by Rear Admiral Marcelo Gómez, Commander in Chief of the 2nd Naval Zone; Álvaro Miguieles, Governor of Ñuble; Roberto Izikzon, Cadem Public Affairs and Communications Manager; as well as Nicolás Birrell from Desafío Levantemos Chile.

Those in attendance at the seminars in Talca and Concepción amounted to a total of nearly 500 persons, highlighting the attendance of local authorities from the energy sector and other related agencies, as well as academic authorities, workers and executives employed by companies from these zones and from Transelec, members of organizations that responded to the emergencies, the media and members of the Armed Forces.

Commitment to the well-being and development of our people

Tomorrow's society is counting on electrical energy. Are we prepared to address this challenge? Are we developing human capacity to operate increasingly more automated systems? Do we have the skills to adapt to the ongoing technological and cultural changes in store?

HUMAN CAPITAL DEVELOPMENT AND TALENT MANAGEMENT

Why is this important?

The main facilitators for compliance with Transelec's strategic plan are its collaborators. High quality standards required for our work, together with the increasing wide range of challenges the industry is facing, mean that we must attract, recruit, train, motivate and retain prepared professionals in the different areas required by the Company. Our collaborators account for 9% of our Value Footprint (see page 17) Salaries and benefits paid in 2017 came to US$ 48.0 million, which was distributed between 529 persons. 2% of this total corresponds to senior management (general manager and the first line of managers), 21% to middle management, 71% to professionals and technicians, and 6% to administrative workers.

New stakeholders have entered the power sector in recent years and this has generated increased competition in terms of projects offered by the market and specialists working in this industry. In addition, society and the corporate and labor scenarios are changing. Companies must operate in a diverse world that demands flexibility, collaboration and transversal integration with these differences. New generations, specifically Millennials, are trying to make contributions to companies and find meaningful work. Job flexibility and the use of new technology are essential for these people when it comes to choosing a place to work at.

Regulatory context

Labor issues are regulated by the Labor Code in Chile and the Labor Inspection Service is the public entity responsible for inspection and compliance. The 2017 Labor Reform amended this Code, presenting a new regulatory context for companies, workers and unions. New labor inclusion legislation (Law 20,015) was passed in 2017, determining minimum labor inclusion percentages for persons with disabilities[16].

[16] Law 20,015 requires 1% of staff at companies employing more than 100 workers to be persons with disabilities.

Editorial
ARTICLE

Claudio Aravena, Vice-president of Human Resources

Human capital challenges for the future

The way people relate to work has changed radically. Although our parents considered staying in one place to be a privilege, this is unheard of for current generations. Professionals are presently looking for much more than a good salary or stability, which means that companies must generate new talent attraction and retention strategies.

Our focus at Transelec has been to put people at the core of our strategy. This, together with a good benefits structure, has led to a very good work climate. We started this job ten years ago and the Organizational Health Index (OHI) survey conducted by the consulting company McKinsey has been essential when it comes to focusing on points for improvement. The survey is applied to workers in order to evaluate nine dimensions of organizational health.

We set out to bridge gaps the very first year, using leadership as the main leverage for our good work climate. We encouraged our professionals to develop new skills and provided an important space for transversal competencies. We scored 81 points on the last survey, ranking Transelec in the top 10% of the McKinsey & Co. global database.

This task, together with our outstanding labor relations, respect for our corporate values and a constant focus on our environment, has enabled us to build a very attractive organization to work at in terms of professional opportunities afforded and the Transelec seal. This seal sets us apart and is a source of pride, but also challenges us to continue consolidating.

How do we manage this?

Transelec's selection policy consists of finding the best talent to join the organization. We focus on recruiting young people who will be the future of the company. Our efforts in recent years have consequently aimed to make the Company more visible for the market and more attractive for new professionals. We have positioned the Company on the leading job platforms and networks while modernizing information systems to improve process management. All this has been done without abandoning other successful practices, such as company participation at job fairs hosted by some of the best universities in Chile.

Labor relations and organization

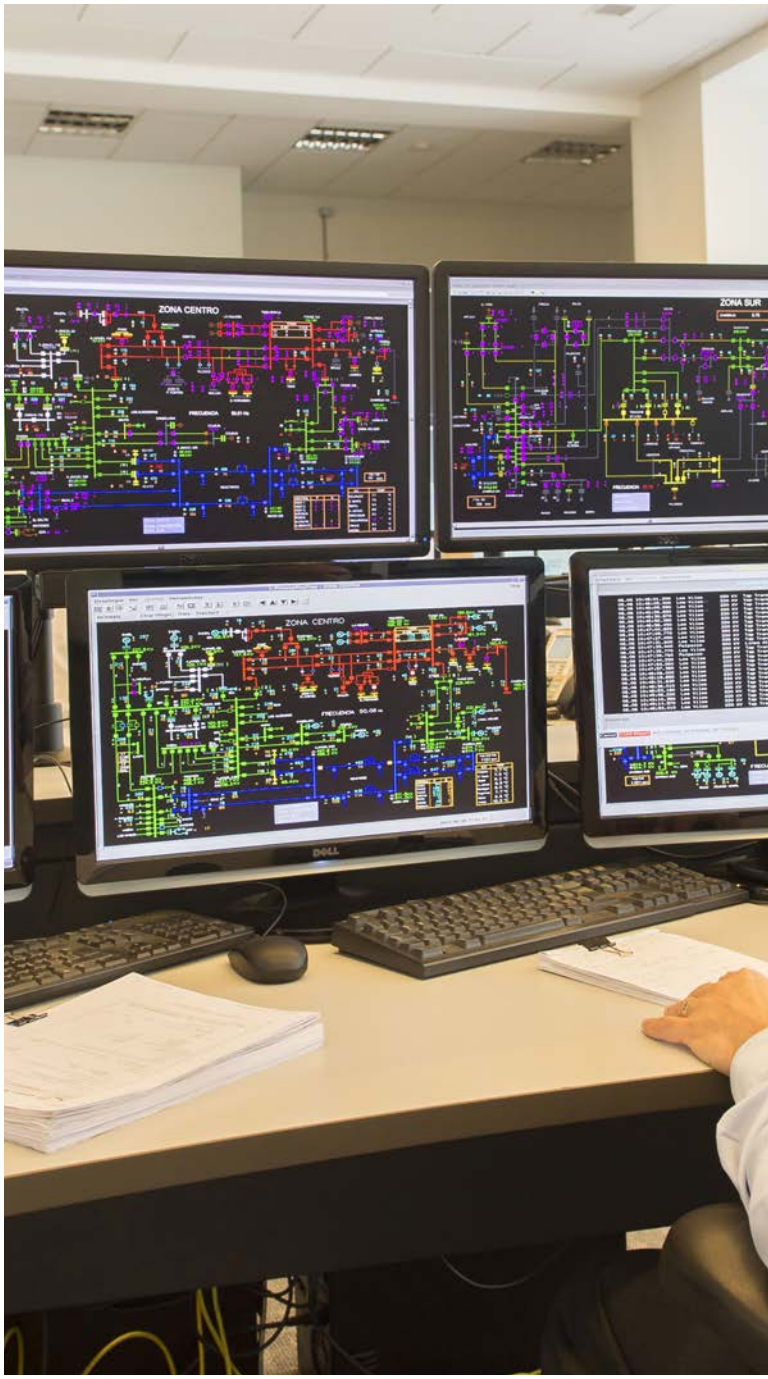
The Vice-presidency of Human Resources is responsible for labor issues and it reports to the company's General Manager. There are two unions at Transelec. We are constantly in touch and build confidence with these unions by means of regular meetings. 69% of our workers belong to either of these unions.

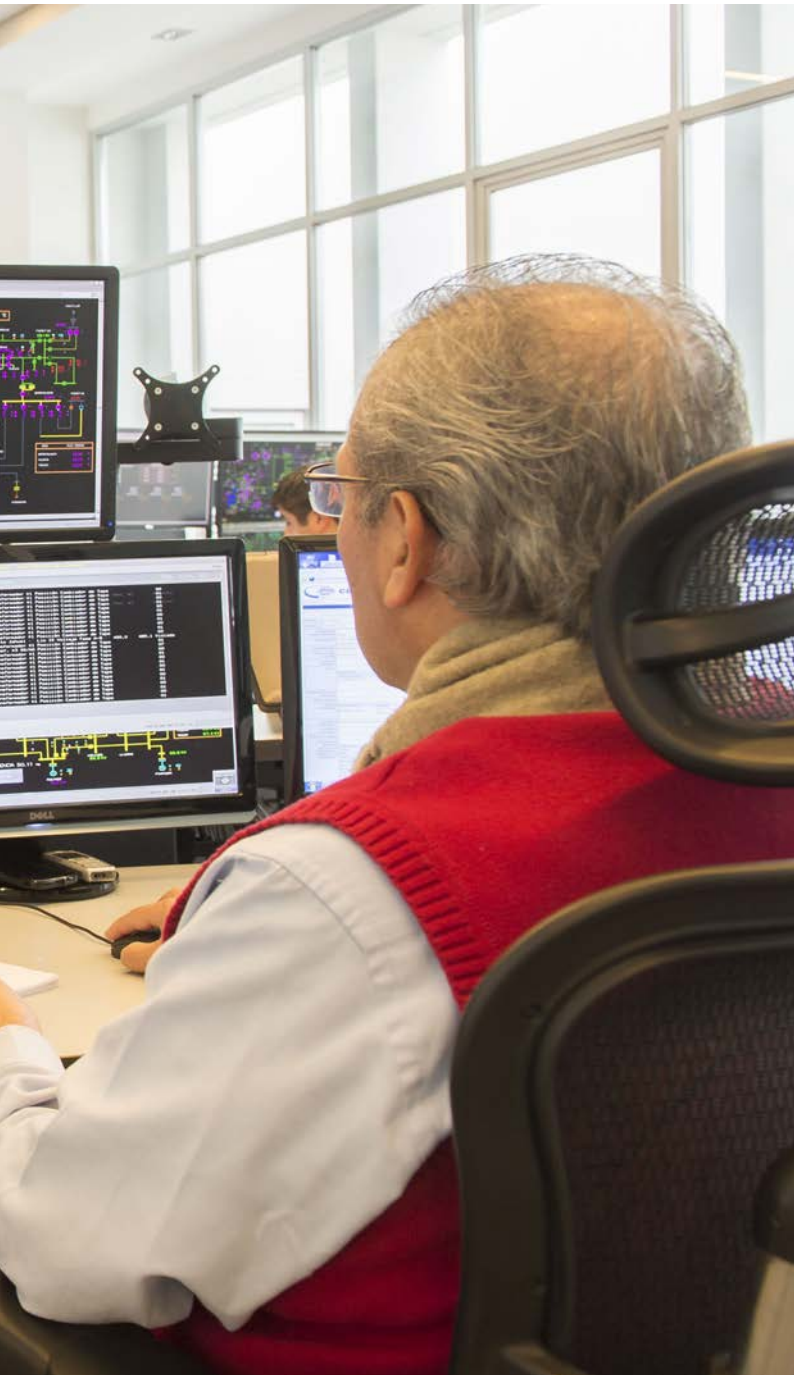
Training and leadership

Aware of our leadership position in the power transmission sector, Transelec implements training programs designed to develop technical specialization and management skills for its collaborators. These programs focus on gaps detected in individual performance evaluations and on the organization's corporate focal points. Total training hours came to 40,400 in 2017, which means an average 76.4 hours per collaborator and investment amounting to US$ 1,752 per collaborator.

In terms of talent development, Transelec has determined that its first source of recruitment is at an internal Company level. In fact, 80% of our new managers were professionals already working at the company.

Preparing leaders for the challenges of the future is one of the central objectives of our personnel policy. The Company has been developing the Transelec Leadership Training Center in conjunction with Universidad Adolfo Ibáñez since 2014. In 2017, emphasis was placed on embedding leadership concepts. 110 managers conducted a maintenance program to reinforce what was learned and align with the company's strategic requirements. Issues addressed during the course were personal leadership, communication and social skills, leading others, readiness for change, leading the business and safety leadership.





There were 24 new managers among the participants. Several of these managers reached these positions thanks to our internal promotion policy.

We continued working on the BIG BANG Knowledge Management Program in 2017. Among other activities, the program features talks related to the Company's operations by means of a streaming system for our workers in other regions of Chile. In turn, the Teachers program, which started in 2007, is hosted every year to help professionals with extensive experience and specialization to transfer their knowledge to younger collaborators.

Diversity and inclusion

In 2017 we rose to the challenge to empower diversity and inclusion at the organization. We consequently conducted a corporate assessment of our perception of these two concepts and installed this debate at our Executive Committee. The Transelec Diversity and Inclusion Policy will start to be applied in 2018.

Awards

Transelec has an Awards program, which was designed to highlight our corporate values and empower recognition at the company. We have thus invited all our collaborators to nominate colleagues whose exemplary conduct reflects one or more of our Company's values: respect, integrity, commitment and excellence.

Quality of Life

Transelec has initiatives that help to make family life more compatible with work. One of the most renowned initiatives is a shorter workday on Fridays. In addition, Club Transelec was designed to bring families closer to the Company by means of social, cultural and sports activities. Celebrations such as the Company Anniversary, Independence Day Festivities, the Christmas Party and Open Day, when the company opens its doors to its collaborators' children, are events that contribute to improving our collaborators' quality of life. People's health and safety are a fundamental part of quality of life in the workplace and we are constantly managing these issues (see page 63).

Monitoring and results

Maintaining a good working climate and direct relations with collaborators is essential for Transelec, especially with our collaborators' representatives and the company's unions by means of an open house policy and regular meetings. This is reflected by the good internal climate determined by the McKinsey Organizational Health Index (OHI) survey, which has been applied to the entire company since 2011. This survey is conducted once every two years and it measures nine organizational health dimensions. Important advances have been reported in all areas starting when this survey was first applied at the company. (see page 59)

The conclusions of this study are disseminated in each area by the first line of the Vice-presidency of Human Resources. The idea is to achieve a climate of confidence and good faith, with space for questions, concerns and comments in order to facilitate understanding and subsequent development of an action plan to address these indicators. Areas evidencing gaps in any of these variables have an improvement program which includes team development workshops, personal conversations, training plans, etc.

Labor management figures

	2015	2016	2017
Training Total hours in thousands	30.8	35.8	40.4
Amount invested in training per collaborator US$	1,597	1,679	1,752
Women Percentage of total Transelec workers	17%	17%	19%
Unionization Percentage	67%	65%	69%

CARE AND RESPECT FOR PEOPLE'S HEALTH AND SAFETY

Why is this important?

People's lives are a fundamental value at Transelec. No operational goal or emergency justifies exposing a worker to uncontrolled risks. Considering the fact that electrical energy requires high-risk activities that must be appropriately controlled, such as altitude work, work with energized lines and equipment and vehicle operation, we work even harder to manage these issues.

Regulatory context

There is clear, definite legal framework for all companies and workers in Chile that is updated on a regular basis. The Superintendence of Social Security -SUSESO- is responsible for inspection and compliance. In addition, all companies and workers must be affiliated to a mutual safety association[17], a private non-profit institution responsible for risk prevention actions, services and treating work-related accidents and illnesses. Occupational health regulations require conditions in the workplace that could affect the physical, psychological or social health of workers to be evaluated.

[17] Mutual safety associations were created in Chile by means of Law N° 16,744 on Work-related Accidents and Illnesses dated 1 February 1968.

How do we manage this?

The occupational health and safety (OHS) management strategy places top priority on the integrity of our workers in the execution of their duties. These efforts are taken in keeping with the Company's Strategy and our Sustainability Policy. The third principle of our Sustainability states that "No operational goal or Policy emergency justifies exposing a worker to uncontrolled risks", clear guidelines that also enable efforts to be focused on managing High-Risk Activities (Altitude Work, Work with Energized Lines and Equipment and Vehicle Operation).

Transelec is a leading power transmission company with accidentability indices much lower than the national and industry average. As such, the company is required to develop new OHS management tools. We will consequently continue with the "Consolidating a safety culture" project we started in 2017 in conjunction with the Chilean Chamber of Construction (CChC) Mutual Safety Association and the French Institute for an Industrial Safety Culture (ICSI), a project based on a Systematic Management Model that will foster long-term development of an integral safety culture. The results of a diagnostic conducted in 2017 confirmed that we were headed in the right direction but also led us to continue improving certain systematic aspects, in which organizational analysis and human factors constitute the working focus. direction but also led us to continue improving certain systematic aspects, in which organizational analysis and human factors are the working focus.

Occupational health

We applied a Psychosocial Risks in the Workplace Questionnaire (ISTAS 21) in 2017. This questionnaire evaluates conditions that could affect physical, psychological and social health. Results obtained were positive, in line with the trend evidenced by the last questionnaire in 2015.

For the sixteenth year in a row, the were no accidents with fatal consequences in 2017.

Organization and reporting
Each area is responsible for its own occupational health and safety. This is managed by the Vice-presidency of Operations, which in turn reports to the General Manager. Work-related accidents and illnesses are reported directly to the mutual safety association and to SUSESO.

Monitoring and results

We complied with 100% of our OHS management program goals and initiatives in 2017. These were approved by the Integral Management System Executive Committee. These are monitored on a monthly basis in order to correct any deviation from what was planned. The participation of contracting companies in this monthly monitoring is evidently fundamental.

We wish to point out that there were two lost-time accidents in 2017. Considering the number of days lost, our Accident Rate consequently went up higher than the average and minimum rates over the last 9 years.

Legal compliance
Chile has a definite legal framework for OHS issues, which is constantly updated based on the country's requirements in terms of worker protection. This framework requires companies to keep their legal identification updated and to monitor compliance with current legislation and regulations. Compliance with legislation is an essential element in our safety management. It also helps us to improve safety standards applicable to our sites, collaborators and contracting company workers. We have a wide range of monitoring and compliance procedures.

Transelec has a Legal Committee, an internal multidisciplinary team that monitors regulatory compliance. Considering the geographic extension of our operations, this team must be familiar with the applicability of specific legislation for certain zones in Chile.

Occupational health and safety (OHS) figures

	2015	2016	2017
Accidentability rate (Number of lost-time accidents / average workers)*100	0.30	0.30	0.26
Accident rate (Number of days lost / average workers)*100	4.80	5.60	16.09
Fatalities Number	0	0	0
High-risk incidents Number	2	0	2
Work-related illnesses Number	0	0	0

STRATEGIC SUPPLIERS AND CONTRACTORS

Why is this important?

The success of our projects largely depends on the quality of our contracting companies, which include engineers, suppliers of equipment and/or systems, construction companies, providers of maintenance and cutting and pruning services, among others.

Our contracting companies provided jobs for 2,160 workers in 2017, up 37% compared to 2016 because of the large number of projects under construction. Companies providing services amounted to 198 in 2017 and were paid US$ 40.6 million. These account for 8% of our distributed value (see page 17).

How do we manage this?

Our main task is to align contracting companies with our labor, safety and environmental policies, relations with neighboring communities, respect for subcontracting legislation and to jointly seek innovative solutions for our operations. In order to prevent discrepancies with regard to contracts, we specify environmental, social and integrity procedures required by Transelec by means of the technical bases or terms of reference for tasks to be executed. We have a clear Supply Policy that includes guidelines supporting and regulating our strategy, operation and management for the provision of goods and services, favoring sustainability among other issues.

Innovation and the creation of new solutions

Considering the high level of competitiveness required in the current power market and the incorporation of an important number of new stakeholders, it is indispensable that we identify all opportunities to make project implementation more efficient. We must consider the complete life cycle of our facilities, which is to say, design, supply, construction, operation and maintenance. This requires the incorporation of new technological solutions and new construction methods to make resource use more efficient. We work together with our collaborating companies and apply sustainability criteria in the search for the best technical solutions. We analyze aspects such as environment-friendly construction in order to optimize construction resources, methods and deadlines, design innovations and technological advances.

We have developed an extensive plan to visit national and international supplier facilities, consultants and works under construction in order to improve and innovate in terms of design and construction. We have consequently been familiarized with cutting-edge design and manufacturing of power equipment, a wide variety of civil and structural works, and new construction methods. We are also accompanied by representatives from contracting companies during these visits in order to facilitate service provider development and to gain a better understanding of projects and innovations to be incorporated.

358 providers of goods and services have worked with us over the last three years.

Labor alignment

Once again, in 2017 we conducted a competency accreditation process for maintenance contractors in the fields of transmission lines and high-voltage equipment. Incorporation of this procedure is mandatory for new contracts because we believe that people who are competent in their field and working activities make the difference when it comes to preventing accidents and damage.

72 people were evaluated by means of technical knowledge tests, personal interviews and on-site safety inspections this year. Results are shared with contractors so these can formulate working plans with their teams in order to maintain good results or bridge gaps detected.

Transelec uses this type of initiatives to contribute to skill management for those collaborating with our objectives in order to ensure service quality and improve our people's health.

Contractors have also joined our safety culture project because they also contribute to the process of consolidating new habits and behavior. In fact, they are more exposed to the risks of potential accidents.

Fair and timely payment

Our commitment with our suppliers includes fair and timely payment. We comply with best sustainability practices, ensuring the payment of services rendered within 30 days after service invoices have been submitted.

Monitoring and results

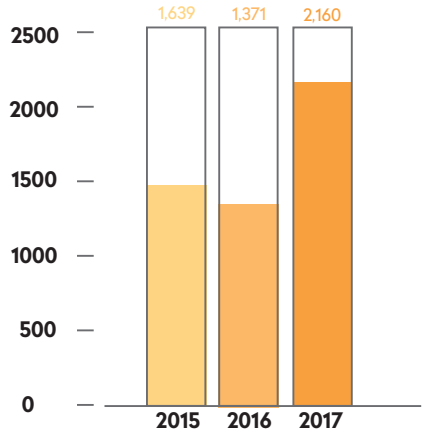
Transelec revises complete performance track records in terms of compliance with contractual commitments when selecting our suppliers and contractors. This includes facility specifications and design criteria, construction methodology and environmental, community, risk prevention and work-related accident indicators. We design a risk evaluation procedure for new projects and this is integrated into the bidding conditions, considering mitigations by taking out insurance policies and the appropriate implementation of safety procedures.

For construction companies, the selection process includes a complete performance evaluation in terms of safety indicators, risk prevention and compliance with environmental commitments set out in the Company's policies and Environmental Qualifications Resolution (RCA) for projects.

These measures enable Transelec to employ a wide range of suitably qualified suppliers and contractors, identify their capacities with regard to project size and complexity, and to provide feedback regarding their performance in order to identify opportunities for improvement.

In 2017 we hosted two conventions with international and national transport companies in order to evaluate services rendered, detect opportunities for improvement and announce new regulations. In addition, we presented awards to the companies with the most outstanding service levels and applied a questionnaire to over 200 of our normal suppliers and contractors in order to evaluate our compliance with commercial and contractual commitments we have made and the transparency of our bidding processes. In addition, we worked to empower our Supply Portal in terms of tenders and price quotations, as well as incentives for long-term tendering processes, especially for supplies.

Contractor management figures



Contracting company workers

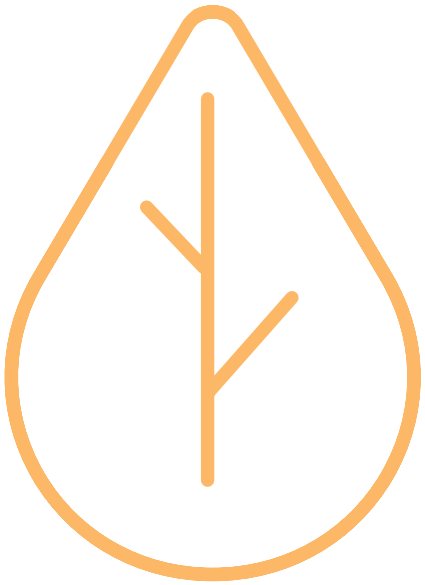
100%

Contractors whose work performance has been evaluated

Contractors with occupational health and safety training

*corresponing to 2015, 2016 and 2017

Respect for the enviroment and the social environment



Our high-voltage transmission lines span throughout Chile, from the northern desert to forests of the south and also pass through inhabited zones. Connecting with the environment and designing routes with these spaces in mind is highly important. We at Transelec believe that power transmission projects can be developed with minimal socio-environmental impacts.

Why is this important?

Construction and operation of our transmission lines require the transection of natural areas that it some cases have never been affected by man. Care for the environment is essential when it comes to designing transmission line routes. Potential impacts not only occur during construction, but also while operating transmission lines and substations, which have a long service life. Transelec activities can potentially generate negative impacts on surrounding areas, such as the loss of agricultural soil, alteration of the natural landscape and biodiversity, waste generation and the emission of hazardous substances, among others.

Climate change

Global awareness regarding climate change has expanded and measures have been taken to address the issue. Chile signed the Paris Accord in 2016. The objective is to reduce global emissions and prevent the Earth's temperature from rising by 2 degrees Celsius. This has promoted a climate change agenda designed to reduce greenhouse gas emissions and to increase power generation from renewable sources, among other commitments. In addition, and as part of SDG 13, Climate Action[18], Chile developed an action plan leading up to 2030 designed to implement urgent measures to fight climate change and its effects.

Regulatory context

Chile's main environmental regulation is Law 19,200 on General Environmental Bases, which is followed by a series of specific standards for the power transmission sector. In addition, any intervention affecting native vegetation and/or flora made by Transelec must be done in accordance with Law N° 20,283 on native forest recovery and forestry development, which specifies the need to formulate management plans in qualified cases. Another important regulation refers to archaeology and paleontology.

The Environmental Superintendence (MMA) and the Environmental Courts are responsible for inspection. Each new transmission project must be evaluated by the Environmental Evaluation Service (SEA) and the company must comply with the provisions of an Environmental Qualification Resolution, a document regulating actions for each project approved.

Transelec has power transmission facilities in territories that have been classified as protected areas, such as National Parks, National Reserves and priority sites for biodiversity conservation. The National Forestry Corporation (CONAF) is responsible for monitoring conservation and management plan compliance in these areas.

Editorial

ARTICLE

David Noé, Vice-president of Corporate Affairs and Sustainability

Sustainability crossroads

A country cannot develop without reconciling economic growth with the welfare of its inhabitants and care of its surrounding area.

This same logic applies to companies. If a company wishes to leave a mark it must grow and be profitable, but if its stakeholders (whether these be workers, suppliers, customers or neighbors) are not benefited by the environment or if they damage the environment, the company will most likely disappear. In this context, companies must consider economic, social and environmental dimensions of sustainability as part of their strategic pillars

However, doing things right is no longer enough. We are currently facing high levels of citizen distrust, which also affects companies' own sustainability. Here are two examples:

1. According to the Eighth CADEM and SOFOFA Corporate Confidence Study, only 35% of the interviewees say they trust large private corporations. It is highly unlikely that customers will be willing to consume goods and services from companies they do not trust over the long term, which jeopardizes the economic sustainability of these companies.

2. Based on the CPC Productivity Observatory, average Environmental Impact Study approval time came to 18 months between 2007 and 2016. This term has increased substantially. This longer term is partly due to more stringent environmental standards, which is justified in terms of country development, but also to public services that distrust environmental impact evaluations, as well as mitigation and compensation measures offered by companies, which in recent years has unnecessarily extended the evaluation process and jeopardizes economic sustainability for projects.

Companies must presently continue to make headway in terms of their commitment with sustainability and also prove to society and to the State that we behave appropriately, while encouraging companies that do not behave appropriately to start doing so. Otherwise distrust will commensurably threaten the sustainability of all companies.

Transelec is serving Chile by transmitting energy and developing the new high-voltage power transmission systems the country needs: transmission lines, substations, complementary services, etc. Our job is to produce growth and prosperity, incorporating new technologies into the national power grid, improving service quality and transmission capacity, while ensuring that more and cheaper power reaches the country's households and industries.

[18] Additional information is available at: http://www.chileagenda2030.gob.cl/seguimiento/ods-13

How do we go about managing this?

ENVIRONMENTAL MANAGEMENT

The development of new power transmission systems is addressed with a multidisciplinary focus integrating environmental and social dimensions starting with the planning and study phase up to exploitation and eventual closure. This environmental and social management focus goes beyond legal compliance and enables the identification and evaluation of possible environmental impacts in time, followed by the analysis of route alternatives, standard compliance verification and the design of appropriate mitigation, compensation and/or repair measures when required. We have an ISO 14001 certified Integral Management System (IMS) that is used to evaluate environmental and social aspects and impacts generated during the engineering, construction and operating stages and to verify regulatory compliance and supervise actions for reaching goals and objectives. In addition, we monitor environmental conditions and requirements indicated in Environmental Qualification Resolutions for projects. We have an on-line monitoring system (an mRisk platform) that we use to manage these environmental conditions.

The Environmental Plan

The plan updated for the 2017-2018 period has the following six objectives: (i) minimize environmental incidents; (ii) comply with environmental legal requirements; (iii) increase the industrial waste recycling rate; (iv) maintain outstanding environmental leadership; (v) improve environmental communication with stakeholders, and; (vi) implement the "ConSuma Conciencia" environmental responsibility program. This plan includes actions, measures and a wide range of controls in order to prevent the occurrence of environmental incidents, among other issues, which are determined during operating procedures and then disseminated to workers and contractors. It also considers the design of emergency plans and the staging of simulations in order to evaluate monitoring response capacity for compliance with environmental regulations.

Climate change

We responsibly managed greenhouse gas (GG) emissions in line with the Sustainability Policy and as part of the Environmental Plan. We formulated an agenda to reduce emissions at a corporate level for this purpose. The Company's main sources of emissions are eventual sulfur hexafluoride (SF6) leaks, emissions from vehicles transporting materials and supplies and vehicles owned by employees, including air transport. The emphasis of our work in 2017 was the responsible management of SF6, an artificial gas widely used by the power industry due to its high insulation capacity.

Integral waste management

We have made headway in terms of minimizing waste generation and ensuring responsible waste management. The company has placed strong emphasis on controlling the responsible management of contractors during construction projects and while doing maintenance work for operating systems. We encourage the re-evaluation of discarded construction materials that can be used as raw materials for other lines of business, such as lumber, iron, escarpment material or excess material from excavation (see highlighted section on page 71).

In accordance with the Sustainability Policy, we have set waste management goals and objectives encompassing the main stages where waste is generated: project construction and operations. As part of our Environmental Plan, in 2017 we set an objective to increase recycling and industrial waste reutilization rates. Compliance with these goals is due to successful management by the areas responsible.

Objective	Management Area	Indicator	Goal for 2017	Results in 2017
Increase the industrial waste recycling and reutilization rate	Operations	Percentage of non-hazardous industrial waste recycling	> 50 %	89%
		Percentage of hazardous industrial waste recycling	> 50 %	50%
	Projects	Percentage of non-hazardous industrial waste recycling and reutilization	> 20% (three important projects)	59%
		Waste management campaign development	100%	100%

Organization and reporting

Environmental responsibility corresponds to the Vice-presidency of Corporate Affairs and Sustainability, which in turn reports to the General Manager. Transelec has professional teams comprising the Environmental Unit that meet its environmental goals and objectives. These teams are complemented and supported by technical work inspectors for projects and by zonal environment leads for operations. These inspectors and leads are experts with a background in environmental and social issues.

#YoCuido (ITakecare), #YoReciclo (IRecicle), #YoMeMuevo (IMove)

ConSuma Conciencia, a personal cultural change

Transelec believes that environmental care and commitment is an essential part of its work. In the spirit of its motto "Together for the environment!", the internal program known as "ConSuma Conciencia" (a play on words between 'with utmost awareness' and 'consume awareness') that aims to raise employee awareness with regard to energy consumption, material valuation and minimization of emissions produced by human activity.

The program is comprised of three central topics: #YoCuido (ITakeCare), #YoReciclo (IRecycle) and #YoMeMuevo (IMove). The idea is for employees from the Main Office and the Zone Divisions to adopt recommendations proposed by each initiative.

Outstanding proposals in 2017 included #IRecycle at the project development level: a material recycling campaign involving contractors and colaborators; at the zone level: the emblematic installation of compost bins for recycling organic matter from the Central South Zone Division. The #IMove campaign was activated at the company's Main Office in Santiago by means of an alliance with our neighbors VTR and SURA Asset Management Chile to jointly create the "Jump on the bandwagon" campaign for the Nueva Apoquindo Complex. The idea was to create a car pool for employees from all three companies. Consequently, and in line with Sustainable Development Goal 11, 13 and 17, the goals are to reduce atmospheric pollution, vehicle congestion and to strengthen community ties, quality of life and collaboration with our neighbors as a joint contribution to a more sustainable city and a more sustainable world. The initiative will be executed during the first quarter of 2018.

RESPECT FOR TERRITORIAL BIODIVERSITY, WILDLIFE, FLORA AND ITS NATURAL AND CULTURAL HERITAGE

Mitigation starting from the design phase

Action plans and initiatives for safeguarding natural, cultural and historical heritage focus on the formulation of environmental baselines for each of these components. These baselines are the first element used to provide early feedback for project engineering and to make adjustments required in order to safeguard natural and cultural heritage. For example, if the baseline is formulated during an initial stage of the project, infrastructure construction design and layouts can be formulated considering the location and status of natural resources. This ensures the least possible impact or enables the design and planning of mitigation, repair or compensation measures required in order to address possible impacts.

In the case of sites with high archaeological value, cultural or historical heritage, early identification enables mitigation actions to be started. These include changing the route or conducting archaeological rescue with the intervention of specialists in these areas in order to prevent the loss of heritage value.

We work together with CONAF to safeguard protected areas or biodiversity-rich areas where we will be running transmission lines. We also comply with management plans committed to in the permits granted within the framework of the RCA. In addition, and in order to help safeguard biodiversity, Transelec has spearheaded a series of dissemination, investigation and protection initiatives. Some examples are the publication of "Lonquén, bioreserve" and "Biological value, ecosystem services and a plan indicating prioritary sites at the Lonquén and Chena hills" research projects in conjunction with local authorities.

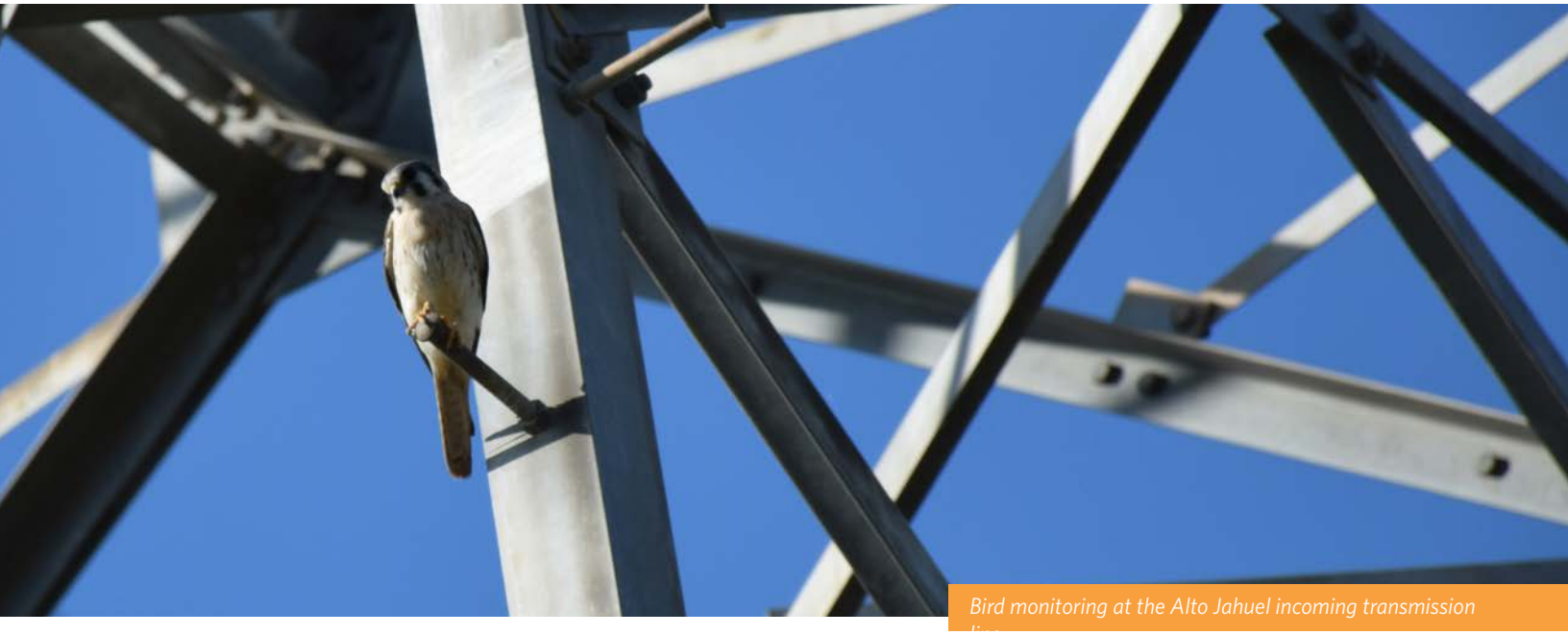
2017 project challenges

One example of administration safeguarding natural, cultural and historical heritage is the "Frontera Sectioning Substation" project. Location of the transmission line associated to this substation was initially planned for an inland section of the "Oasis de Quillagua" prioritary site and went through an archaeological site corresponding to a lithic quarry known as "La Capilla". Aware of this situation, we decided to approach the authority and the community. We then decided to run the line away from the prioritary site and going around the archaeological site. We thus ensured that we would not interfere with the cultural component or the natural features in the area.

Another challenge in terms of safeguarding historical and cultural heritage was receiving the RCA for project STN 4319 Los Changos – Kimal, which is being managed by another company from the Transelec Group. We needed approval from the National Monuments Council to build a line spanning approximately 140 kilometers and going through Algorta, one of Chile's richest zones in terms of archaeological heritage. Transmission line design was adjusted to go around over 150 archaeological sites in the area surrounding the project. In addition, we committed to a series of measures designed to safeguard this heritage during construction. These measures included archaeological monitoring, temporary fences around archaeological sites, signage and worker training.

28

new hectares were reforested in 2017



Bird monitoring at the Alto Jahuel incoming transmission line

Protecting birds

We continued to support initiatives related to the study and understanding of interaction between birds and power transmission lines in 2017. These include sponsoring the 12th Chilean Ornithological Congress (see highlighted section on page 73). In addition, in order to prevent incidents involving birds and transmission lines, the company continued to monitor birds along the 2x500 kV Alto Jahuel incoming transmission line. There were no findings in terms of collisions or electrocution. Devices have been installed along this same transmission line to prevent birds from colliding with the line, especially birds of prey in the Lonquén Hill sector. These devices were suited to the purpose and there is no evidence of incidents of this type.

Bird protection practices

We have been working with AvesChile (the Chilean Ornithologists Union) since 2016 to develop policies and protocols to control and mitigate impacts stemming from interaction between birds and transmission lines and structures. This initiative received an award in the environmental category from the Chilean Global Compact Network in 2017 for the "Respect for Birds" project.

AvesChile was commissioned by Transelec to study the frequency of these interactions, which species were involved, which biological, environmental and structural factors came into play with these problems and what type of outages were produced.

We attended the 12th Chilean Ornithological Congress in November 2017. AvesChile made a presentation entitled "Challenges in the investigation of avifauna and power transmission line interaction in Chile", a study conducted for our transmission lines in 2016. Presentations were made by different speakers from Chile and abroad at the Congress. The current situations in Chile and in Europe were discussed during these presentations. The congress was hosted by the Chilean Ornithologists Union (UNORCH) and was also sponsored by Transelec.

Monitoring and results

Each project executed by Transelec has its own environmental management plan. Formulation and submittal of monthly reports is required in order to evaluate compliance with these plans. Ongoing control and monitoring are provided at each site. In addition, the MRisk environmental management tool was improved. Based on these improvements, the company started to submit monthly environmental compliance reports to the Project Development, Operations and Engineering Committees.

In addition, the Projects Committee and the Operations Committee meet on a monthly basis to present different aspects to the company's General Manager and vice-presidents, which include environmental compliance for each project underway.

In June 2017, the company Bureau Veritas conducted an audit of the Integral Management System (ISO 14001, ISO 9001 and OSHAS 18001). Results were positive and no environment-related sanction processes or significant environment-related incidents were reported during the operation of power systems in 2017.

Carbon footprint measurement

We estimate our carbon footprint at a corporate level each year, considering scopes 1 and 2 in order to determine ongoing management measures to reduce the environmental impact of our operations. There was a slight increase in equivalent CO_2 emissions in 2017. This was caused by accidental SF_6 leaks, which will be totally compensated for by the contracting companies responsible. Power consumption dropped by 4.3% compared to last year. This means progress and a starting point for sustainable management of this resource.

Environmental monitoring

We measured noise, electromagnetic fields (EMF) and monitored interaction between birds and transmission lines in 2017 in the framework of compliance with RCA obligations. Transelec consequently complied with parameters established by national standards and reference standards (for EMF).

0

environment-related incidents in 2017

Environmental management figures

	2015	2016	2017
Incidents with environmental impact Number of significant spills	2	2	0
Environment-related fines Number	7	0	0
Electrical energy consumption Gigajoules	46,155	50,521	48,336
Greenhouse gas emissions Tonnes of equivalent CO_2. Total emissions from scopes 1 and 2.	9,009	7,944	8,797

Influence in and contribution to local communities

Tomorrow's society requires a real commitment by all of its participants in order to reconcile economic growth with the well-being of its inhabitants. Aware of this pressing need, Transelec's influence in the territory means a real opportunity for the development and well-being of communities where we operate.

Why is this important?

Our operation covers most of Chile, with transmission lines spanning 10,000 kilometers and 61 substations between Arica and Chiloé. This territorial extension and a changing social context –with increasingly empowered citizenry more aware of its rights and more active throughout the country's territory– pose challenges when it comes to operating our facilities and especially for developing investment projects. New projects require social licenses and harmonious operations with neighboring communities. We have therefore made consistent progress over recent years in terms of creating relationships of trust with these communities, developing early and open citizen participation processes so that communities can examine projects in-depth before they are built and make contributions to local development. Harmonious relations with communities have become an essential factor for our corporate reputation, project feasibility and business development.

Our community actions are evidenced by the company's contributions and economic value distribution. We contributed US$ 6.1 to communities in 2017, accounting for 1% of our distributed value. This value includes financial items associated to actions directly benefiting the local community and society as a whole. In addition, we paid US$ 101.5 million to the Chilean Government, which accounts for 20% of our distributed value (see page 17).

Regulatory context

The project development and evaluation stage requires formal citizen participation processes as indicated by Law 19,300 (Environmental Bases) and Law 19,253 (On Indigenous Protection, Encouragement and Development), which regulate indigenous consultation, and by Law 20,500 related to citizen participation in public administration. In addition, Transelec has implemented a policy for developing citizen participation processes for all projects featuring communities in their areas of influence.

How do we manage this?

In order to address territorial challenges and create relationships of trust with communities, we have formulated and implemented strategies that enable innovative work throughout transmission system project design, development, construction and operation processes. These strategies are listed as follows:

Community Relations and Social Investment Model:
Designed in 2015, this model enabled the prioritization of communities where Transelec will develop community relations processes and social investment projects. These focus on prioritizing communities neighboring Transelec substations or transmission lines and studying the following criteria or variables: (a) the community's proximity to any facility considered by Transelec to be of strategic importance to the company or for the national power transmission system; (b) the community's proximity to an area of potential growth for the company (areas where new projects could be developed); (c) the community's proximity to an area where there are reputational risks or opportunities; and, (d) the track record of the community's territory in terms of how it relates to investment projects. Once these communities have been studied they are catalogued according to intervention level in terms of community relations and social investment. These are then classified as base, prioritary or strategic communities. Finally, this analysis is used to determine the program or type of intervention to be executed in the area.

Regardless of community classification, the Company's relations model considers objectives, opportunities for dialogue, local development programs and an associated management model associated with local leaders, which these agreements are then set out in writing as "Social Investment and Collaboration Agreements", which are signed by community leaders and Transelec representatives. The program determines which social investment projects will be implemented, formal dialogue mechanisms with communities, and then formally creates a working table with social leaders and regular community assemblies (see page 79).

The social investment and community relations strategic plan increased the number of communities where intervention took place by 30% in 2017 compared to 2016. Projects designed to promote local development were created in the following areas: community infrastructure, improving public spaces, construction

of green areas, agricultural development, entrepreneurship, culture, first nations, environmental and energy education. To date, these initiatives have been executed in 20 communities neighboring the following substations: Diego de Almagro, Pan de Azúcar, Nogales, Polpaico, Cerro Navia, Neptuno, Alto Jahuel, Itahue, Ancoa, Concepción, Charrúa, Temuco, Cautín, Ciruelos and Valdivia.

Strategies for Citizen Participation and the Obtaining of Social Licenses for Projects: each investment project developed by the company considers a citizen participation strategy and a strategy for obtaining a social license that are executed starting at the project design stage.

This strategy aims to develop routes that will generate the least possible social and environmental impact. The strategy continues through the evaluation stage by means of early and formal citizen participation to give communities a detailed overview of projects to be executed by the company and to ensure that these projects are built in harmony with the community while making contributions to community development. This is an early relations and social investment strategy designed to create relationships of trust with local communities and authorities in the area of influence for our projects before the construction stage. This prevents projects from being rejected because communities were not familiar with them and also enables the construction of direct channels of communication between citizens and projects. Successful community participation was a part of the 2017 "Lo Aguirre – Cerro Navia" and "Nueva Charrúa" transmission line projects.

Mitigation starting with the design phase

2017 investment projects and how these relate with communities

Formal implementation of early citizen participation processes has been successful for all new Transelec projects in 2017. One of the success indicators is completion within planned deadlines, which is evidenced in the two following cases. Moving consultation processes up leads to formal early citizen participation with all issues settled together with the community and starting investment projects with good community relations.

The Entre Ríos Substation

An early citizen participation process (ECPP) was executed in order to generate communication mechanisms for the provision of direct and timely information to the inhabitants of towns in the area of influence, indicating the scopes and possible effects of the project ahead of time. This led to the development of action plans to mitigate potential impacts during the construction stage that sometimes lead to conflict (roads affected by the circulation of heavy trucks, impact of particulate material generated, among others). The process included six meetings in the districts of Cabrero and Pemuco. Transelec and the residents of these districts talked about opportunities for contributing to most highly valued expressions of local development, which were jointly executed. The company committed to cooperate with the most important traditional festivities in these districts. In addition, we were able to take the project to the community, inviting them to visit the Entre Ríos substation to get a first-hand account of how it works. The project was completed within the scheduled deadlines.

The Pichirropulli- Puerto Montt Power Transmission Line

More than 100 meetings were held with local and regional leaders, authorities and the community in general over a timeframe of approximately five months. We conducted an early citizen participation process, approaching 72 towns in nine districts of the Los Rios and Los Lagos Regions (Paillaco, La Unión, Río Bueno, San Pablo, Osorno, Río Negro, Purranque, Frutillar and Llanquihue).

These meetings were used to establish a communication mechanism with communities located in towns throughout the Project area of influence. The meetings were attended by indigenous communities, specifically by two communities for whom significant impacts had been declared. We produced and handed out audiovisual material (videos and pamphlets) for the dialogue process and these were used to complement our personnel's fieldwork by disseminating project specifications. Formal citizen participation was then started. The process was coordinated by the SEA and lasted for two months. Approximately 36 presentations and meetings were made and held with leaders, municipalities and the general community. This was followed by two dialogue sessions (early citizen participation and formal citizen participation). An indigenous consultation process was started, which was formulated and directed by the SEA.

COMMUNITY RELATIONS

Getting to know local conditions enabled the generation of better strategies for each territory and for each project. We at Transelec understand that all employees and contractors working with the company's projects and operations must have cordial relations with communities and strengthen the social license for each initiative. We have community relations managers who concentrate and generate efficient and effective communication mechanisms, while creating relationships of trust and ties with the community on a daily basis.

In addition, we create formal working tables with community leaders in prioritized communities, together with regular assemblies where social investment initiatives are designed, approved and developed. In addition, we publish "Zone Newsletters" in each of the four zones where the company operates in order to announce projects underway, infrastructure works and other issues to local communities and authorities. We also create opportunities for community relations such as program launch and closure ceremonies.

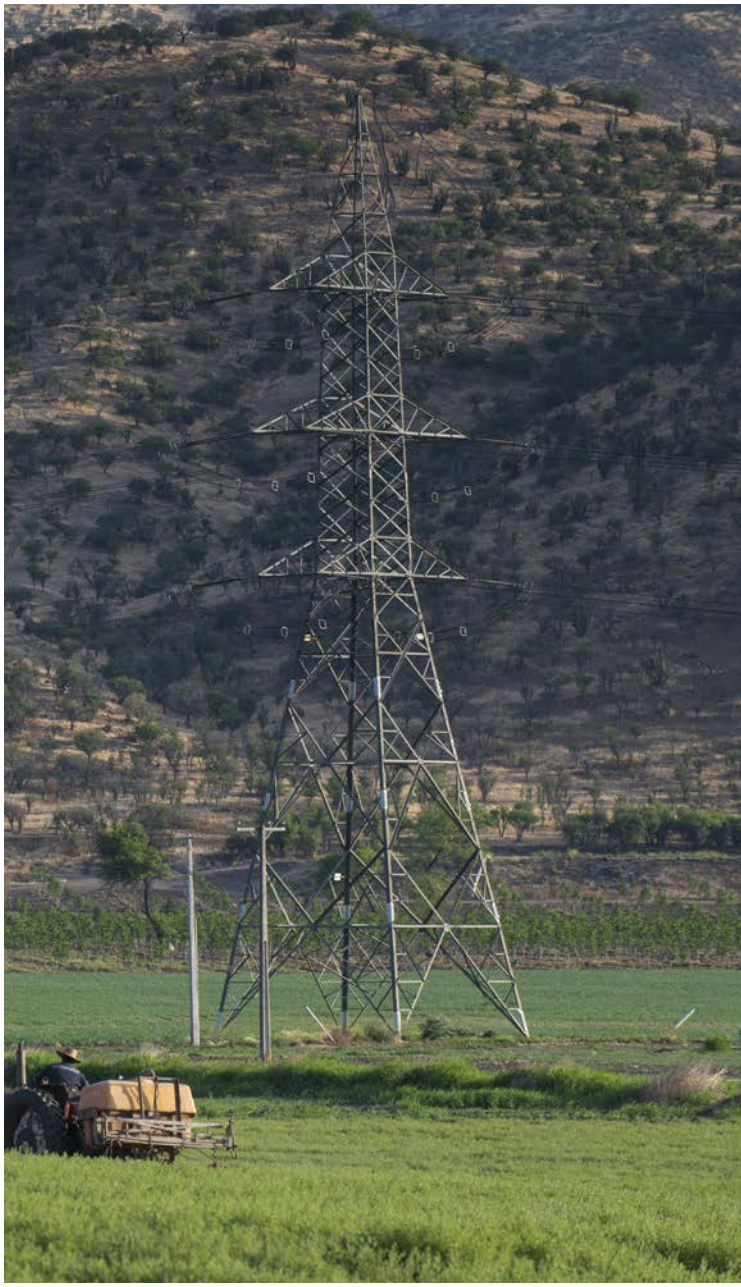
Working tables

These are formal dialogue forums with the community and other stakeholders. We address aspects such as the following on a monthly basis:

Social investment: these tables are used to diagnose, design, implement and evaluate social investment projects to be executed by Transelec together with the community in order to promote local development, among other issues.

Dialogue with regard to co-existence with Transelec infrastructure (operations and projects): these tables are used as a vehicle to regularly deliver important information to the community regarding these issues.

Determining opportunities for interaction between Transelec and the community: community dialogue is used to determine opportunities widely appreciated by the local community, so that Transelec can provide funding (community festivities, etc.).



We continued dialogue by means of six working tables with the community throughout 2017: Nogales (Nogales Substation), Polpaico (Polpaico Substation), Cerro Navia (Cerro Navia Substation), Rincón de Pataguas (Ancoa Substation), Juan Huenchumil Quintupil (Cautín Substation) and Rucaco (Ciruelos Substation).

In addition, we have maintained four associative working tables where we participate with the community and other companies operating in the territory:

(a) The Antofagasta Camps Working Table: we participate together with the community, the power companies Engie and Elecda, and the Antofagasta Region Local Government and Regional Ministerial Secretariat of Energy.

(b) The Polpaico Companies Associative Table: we participate together with the Polpaico community and the following companies: Cementos Polpaico, CMPC, ISA and Aguas Andinas, among others.

(c) The Charrúa Associative Table: the Charrúa community and the following companies participate: Colbún, Los Guindos, Inprolec, AES Gener and the Municipality of Cabrero.

(d) The Rucaco Associative Table: we participate together with the Rucaco community, the forestry company Arauco and the Municipality of San José de Mariquina.

The landowner relations model

The expected crew behavior guidelines manual

We designed this model in 2016 in order to standardize and improve relations with the owners of land crossed by our transmission lines. We formulated the expected crew behavior guidelines manual in 2017. This manual contains recommendations and suggestions for improving relations with the owners of easement strips at construction sites and during operation and maintenance activities. We will continue to train our employees and contractors in this regard throughout 2018.

PREVENTING AND MITIGATING THE OPERATION'S IMPACTS ON NEIGHBORING COMMUNITIES

Despite the fact that these are vital for Chile's development, the construction and operation of power transmission lines and substations can potentially generate impacts on communities in the area of influence for our projects and facilities. These impacts may be associated to the visual impact of the infrastructure facility, the use of roads during the construction stage and during maintenance activities, and noise emissions under specific atmospheric conditions, etc.

In addition, a reduced number of communities have raised concerns regarding eventual health impacts of electromagnetic fields produced by high-voltage transmission lines.

The development of new power transmission systems is approached from a multidisciplinary perspective integrating both social and environmental dimensions from the planning and design phases of the project up to its operation (and eventual closure). In the framework of the Sustainability Policy and based on our community relations and citizen participation strategy for investment projects, we plan to move up a detailed analysis to develop projects with the least possible socio-environmental impact while mitigating the possible impacts throughout the entire life cycle for each project as much as possible.

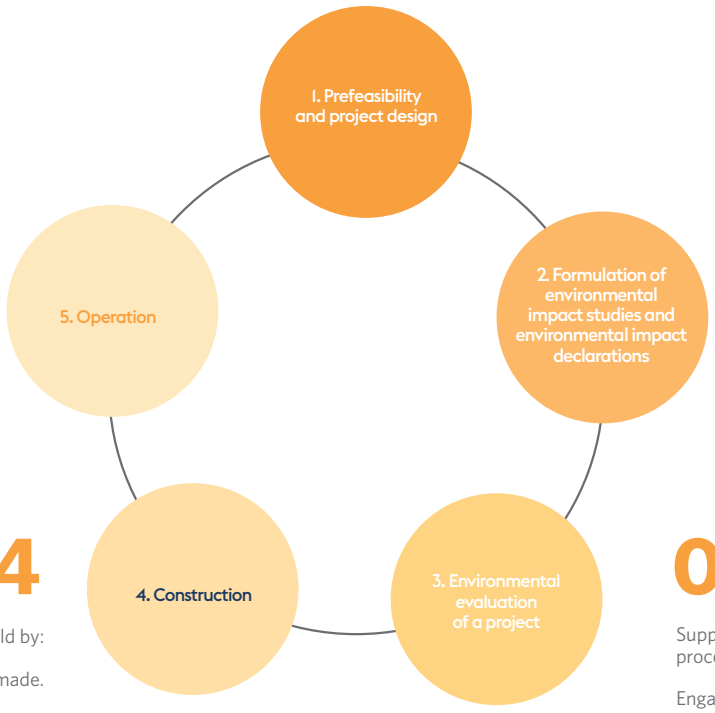
MITIGATION STARTING WITH THE DESIGN PHASE

We manage impacts throughout the entire project life cycle, which is to say during five stages:

01

Understand the human environment and the territory.

Mitigate potential socio-environmental impacts on the territory starting with the project design phase, generating socio-environmentally feasible routes.



02

Ensure appropriate evaluation of impacts on the human environment and communities in the area of influence.

Encourage early citizen participation by identifying and designing voluntary measures to contribute to local development and impact mitigation measures together with the community.

03

Support the formal citizen participation process (SEA).

Engage in dialogue with prioritary communities in order to reach agreements in terms of proposed mitigation and/or compensation measures and social investment plans.

Proactively associate with services by means of the SEA in order to address concerns about environmental issues.

04

Guarantee a social license to build by:

Complying with commitments made.

Developing communication mechanisms.

05

Apply our community relations and social investment strategy for prioritary communities.

Develop social investment projects in conjunction with the community.

CONTRIBUTION TO LOCAL DEVELOPMENT AND WELFARE

As stated previously, Transelec seeks to make contributions to issues that create real value for the community and which have an impact on local development. We wish to highlight the following initiatives in 2017:

1. The "Play More with Transelec" Energy and Environmental Education Program

An educational program designed to provide support for the education of children in communities neighboring our substations, which includes technical assistance and equipment for rural schools. The thematic emphasis of this program is energy for science, energy with interdisciplinary projects and the culture of first nations at schools with students from first nations.

We worked with 16 schools neighboring 10 substations by means of 18 courses attended by a total of 469 students in 2017. Ever since the creation of Play More nine years ago, Transelec has benefited over 5,000 children between the Atacama and Los Ríos regions.

The Play More with Transelec program

We seek to create positive ties with the school population neighboring our facilities.

The Energy in Science Program	This program was designed to develop skills for students, teachers and the school community near our operations in terms of issues related to energy and the environment. The program features activities, student training and the provision of methodological tools for teachers. The program includes a visit from the school community at our facilities.
The Energy with Interdisciplinary Projects Program	An interdisciplinary program consisting of natural science, language and mathematics or social sciences.
First Nations	This initiative was designed to contribute to the construction of cultural identity for children from schools located in indigenous zones. The main activity is to write stories -in the Mapudungún language "Epew"- pooling the history of the sector from a Mapuche socio-cultural context.
Ideas with Energy education program	This program started in November 2017 and aims to encourage students to learn about energy and its impact on daily living by means of research activities, experimentation and urban intervention. The plan was designed for elementary school students and includes classes with subject matter about energy and how it relates to people, educational material, a visit to the Transelec substation and a fair at the end of the year where students will be able to display their projects. The program also featured training workshops for guardians and teachers from the school communities.

2.The "Growing Together" Agricultural Production and Development Program:

Transelec aims to use this program to empower local economic development by strengthening community entrepreneurship and agricultural development for communities while promoting production networks and associativity. Transelec signed collaboration agreements featuring the provision of seed capital to entrepreneurs with the Juan Huenchumil Quintupil indigenous community from the Padre de Las Casas district, and with the Rucaco community from the Los Ríos Region in 2017. Agreements signed with both communities have several lines of action, starting with strengthening family farming and the recovery and valuation of community textile production by means of training, working capital and equipment. These also consider development of a plan to make better use of the community hall (implemented by Transelec in 2016) and to support the staging of festivities. In the case of Rucaco, ten entrepreneurs who applied for seed capital to enhance their businesses were approved following an evaluation featuring judges from INDAP, the local DIDECO[19], the Valdivia Chamber of Commerce, the Development Studies Center and Transelec. These projects, which received funding and technical assistance, include lodging and catering services, handicrafts and even a mechanical workshop.

3. A social contribution stemming from dialogue with the community:

A long-term perspective for community welfare was integrated at dialogue tables involving the different communities we work with. Dialogue was started at each of these tables in order to determine what the community appreciated the most. In a framework of collaboration, we contributed to making initiatives that would contribute to making their well-being come true. One example in 2017 was the public square remodeling project for the residents of Nogales. This project was the first achievement to come out of the Social Investment and Collaboration Agreement signed in August 2017. Other achievements stemming from the agreement in 2017 included a Children's Day celebration, Independence Day Festivities and a Christmas party. La Capilla road improvement work is scheduled for 2018.

A second example was the Master Class with Maggie MacDonnell as part of the work being done by Transelec in the field of education with its neighboring communities. Understanding that this is the basis for countries working to develop a better society, we worked with the Elige Educar Foundation to host a Master Class with Maggie MacDonnell, winner of the Global Teacher Prize, for over 200 teachers from the districts of Cerro Navia, Itahue and Molina at the Violeta Parra Cultural Center in Cerro Navia.

Transelec actively participated to implement the Charrúa Associative Table in 2017. This working group consists of the Charrúa community and Transelec worked together with the community to design a public space lighting project.

We also wish to highlight our contribution, together with the company Siemens Chile, of equipment and reconstruction of a computer room for two schools in the Padre Las Casas district, near the Cautín Substation in La Araucanía Region.

[19] INDAP: National Agriculture and Livestock Development Institute DIDECO: Community Development Directorate managed by a local municipality

An innovative social contribution

The Coronel Sustainable Neighborhood

This project came about after the 2010 earthquake and tsunami affecting the Coronel District. We took an innovative approach to making a long-term contribution for our neighbors. We donated property adjacent to the "Lagunillas Hualpén" transmission line in order to offer a sustainable and energy efficient housing alternative to people in need. Future residents participated starting with the design phase. We called for architectural ideas to be submitted and the process was supported by the Ministry of Housing. The call to bid attracted renowned and specialized architects, specifically those specializing in sustainable architecture who then supported quality certification for 289 housing units built on the 23 hectares we had donated. The housing units that were built meet higher quality standards than low-cost social housing provided in Chile. These units feature solar panels for heating water, PVC windows, reinforced concrete slabs between the first and second floors, and 30% more floor space than the average low-cost social housing units provided in Chile, among many other aspects.

Monitoring and results

We strengthened our participatory design processes for social investment projects in strategic communities throughout 2017. This led to a change in our community relations methodology and a substantial increase in terms of dialogue with leaders and the community. Our objective is to ensure that the social investment projects executed have a real impact on local development, address a requirement prioritized by the community and are consequently appreciated by those benefited.

The Social Investment Assessment Model

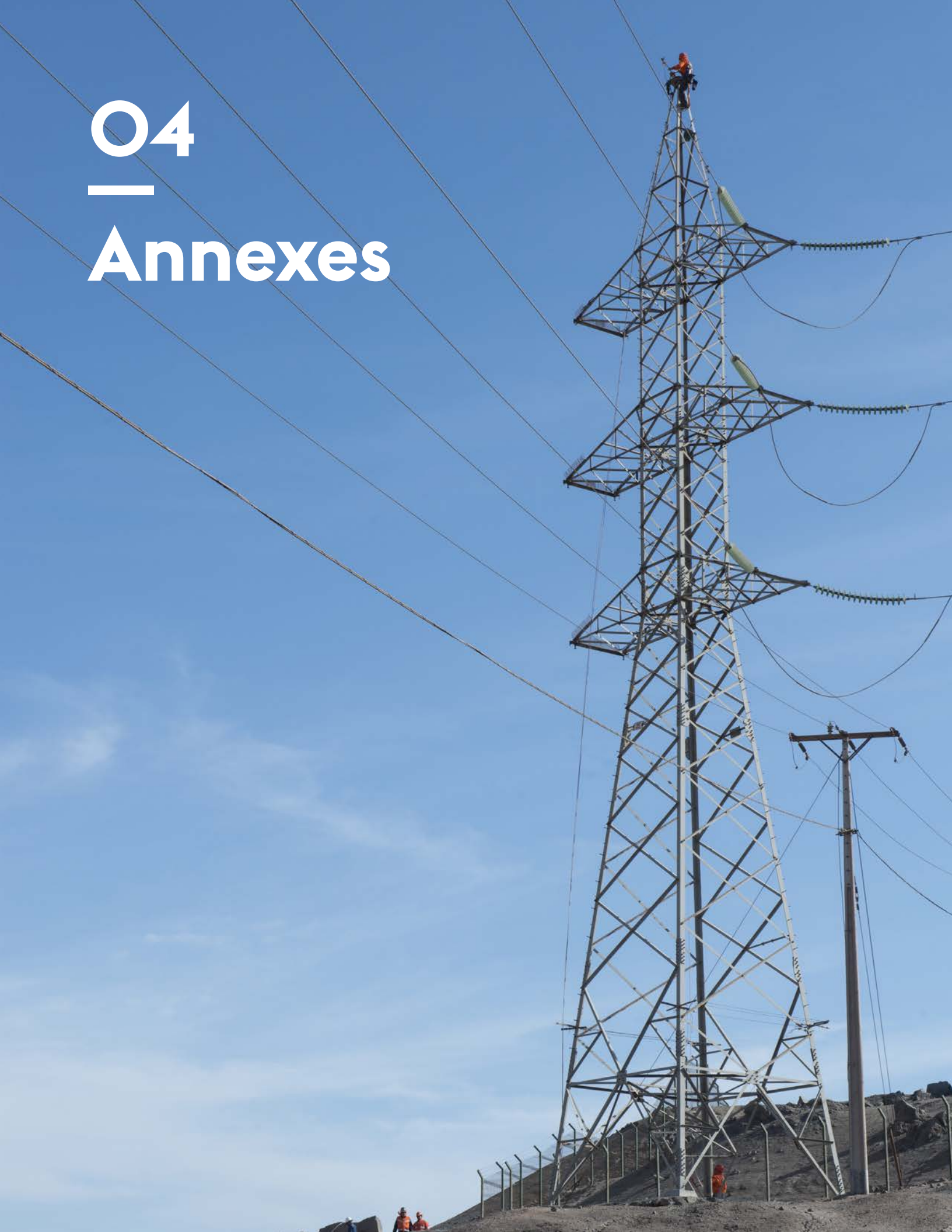
In order to gauge the results and impacts of investment in communities, we developed a Social Investment Assessment Model between 2016 and 2017. The model is adapted to our business and also applies to future projects and initiatives. It includes the participation of our stakeholders throughout the entire assessment process and features an Assessment Matrix tool that records possible results and impacts for each initiative to be evaluated. This tool enables the evaluation of ideas and initiatives starting from the design phase.

Community Figures

	2015	2016	2017
Grievances stemming from social impacts Number	7	1	0
Communities with impact evaluation Number	4	6	8
Communities with participation programs Number	11	16	20
Social investment program beneficiaries Number	n/a	2,129	2,706


Juego+

04
Annexes



SUSTAINABILITY PERFORMANCE SUMMARY

Indicator	Calculation basis	GRI Standards Indicator	2015	2016	2017
Corporate governance and ethics					
Directors	Number	102-22	9	9	9
Directors	Number	102-22; 405-1	1	1	1
Directors with executive positions at the company	Number	102-22	0	0	0
Independent directors	Number	102-22	5	5	5
Directors under the age of 30	Number	102-22; 405-1	0	0	0
Directors between the ages of 30 and 50	Number	102-22; 405-1	1	1	1
Directors over the age of 50	Number	102-22; 405-1	8	8	8
Code of Ethics					
Grievances filed	Total number of grievances filed throughout the year	102-17	0	11	11
Grievances settled	Percentage of total grievances settled during the period	102-17	-	100%	100%
Corruption					
Members of the Board of Directors that have been notified and trained with regard to anti-corruption procedures and policies	Percentage	205-2	100%	100%	100%
Employees that have been notified and trained with regard to anti-corruption procedures and policies	Percentage	205-2	2%	0%	66%
Confirmed cases of corruption	Number	205-3	0	0	0
Incidents of discrimination	Number	406-1	0	0	0
Cases of unfair competition	Number of legal actions pending or completed with regard to unfair competition, monopolistic practices or actions against free competition in which participation of the organization has been identified	206-1	0	0	0
Compliance					
Amount of fines	Monetary value of significant fines due to non-compliance with social or economic laws and regulations. In US$ millions	419-1	n/a	n/a	0
Number of non-monetary sanctions	Number of non-monetary sanctions due to non-compliance with social or economic laws and regulations	419-1	n/a	n/a	0
Number of cases	Number of cases subjected to lawsuit settlement mechanisms for social or economic reasons	419-1	n/a	n/a	2
Environment-related fines	Number of fines applied by the SMA and sectorial agencies throughout the period	307-1	7	0	0
Amount of environment-related fines	Amount in US dollars fined by the SMA and sectorial agencies throughout the period	307-1	6,941	0	0
Customers and society					
Reliability					
Service Safety Index – EIT (equivalent interruption time)	Equivalent interruption minutes	EU12	3.4	3.9	4.1
Disconnection Rate - Transmission Lines[a]	Number of outages per 1,000 kilometers		14.5	16.5	16.7
Disconnection Rate - Transmission Lines (Transelec was responsible)[b]	Number of outages per 1,000 kilometers		3.8	6.3	6.1

[19] Transelec considers fines over US$ 1,000,000 to be significant.

Disconnection Rate - Transmission lines (force majeure)[c]	Number of outages per 1,000 kilometers		10.6	10.1	10.6
Disconnection Rate – Substations[d]	Number of outages per 1,000 circuit ends		112.7	81.1	90.4
Customer satisfaction	Percentage, measured for connection customers		21%	68%	73%
Renewable energy connected by Transelec	MW. Related to connection point commissioning		238	1,022	347
Our people					
Occupational health and safety					
Accidentability rate	(Number of lost days / average workers)*100	403-2	0.3	0.3	0.26
Accident rate	Number of lost days / average workers)*100	403-2	4.80	5.60	16.09
Fatalities	Number	403-2	0	0	0
High-risk incidents	Number	403-2	2	0	2
Work-related illnesses	Number	403-2	0	0	0
Contractors and subcontractors with occupational health and safety training	Percentage	403-2	100%	100%	100%
Own staff breakdown					
Permanent full-time workers	Number as of 31 December each year	102-8	491	509	529
Men	Number as of 31 December each year	102-8	409	422	431
Women	Number as of 31 December each year	102-8	82	87	98
Workers by age range					
Women under the age of 30	Number as of 31 December each year	405-1	17	22	25
Women between the ages of 30 and 50	Number as of 31 December each year	405-1	59	58	65
Women over the age of 50	Number as of 31 December each year	405-1	6	7	8
Labor relations					
Unionization	Percentage vs. total number of employees	405-1	67%	65%	69%
Strikes	Number		0	0	0
Years without strikes	Number		23	24	25
Work climate index	OHI Score assessed every two years		n/a	81	n/a
Training					
Training hours	Thousands of hours	404-3	30.8	35.8	40.4
	Hours/collaborator	404-3	62.7	70.4	76.4
Amount invested in training	US$ invested in training	404-3	783,908	854,371	926,977
Amount invested per worker	US$/collaborator	404-3	1,597	1,679	1,752
Workers with performance evaluations	Percentage vs. total number of workers	404-3	100%	100%	100%
Environment-related incidents					
Incidents with environmental impact	Number of significant spills	306-3	2[d]	2	0
	Volume of significant spills in m^3	306-3	63[d]	0.4	0
Electrical energy consumed	Gigajoules	302-1	46,155	50,521	48,336
Greenhouse gas emissions	Tonnes of CO_2 equivalents. Total emissions calculated by adding scopes 1 and 2	305-1; 305-2	9,009	7,944	8,797
Waste					
Hazardous industrial waste	Tonnes generated	306-2	1,328[e]	521[f]	137
NON-hazardous industrial waste	Tonnes generated	306-2	10,199[g]	6,189	3,222
Waste recycling	Tonnes. Total of hazardous and non-hazardous industrial waste	306-2	n/a	1,299	787
Biodiversity					
New areas reforested by Transelec	Hectares	304-3	0	9.1	28
New areas protected by Transelec	Hectares	304-3	n/a	n/a	0

Neighboring communities					
Social contribution					
Communities with impact evaluation	Number	413-1	4	6	8
Communities with participation programs	Number	413-1	11	16	20
Communities with development programs	Number	413-1	3	6	8
Social investment	Amount in US$ thousands	413-1	n/a	n/a	1,024
Beneficiaries	Number	413-1	n/a	2,139	2,706
Social incidents					
Social incidents	Number	413-1	1	1	0
Claims regarding social impacts	Number. Only includes those filed using formal grievance mechanisms	413-1	7	1	0
Communities displaced by company projects	Number	EU22	0	0	0
Business strategy					
Revenue	US$ millions	102-7	390	421	445
Revenue from the National System	Percentage	102-7	64%	64%	63%
Revenue from Zonal Systems	Percentage	102-7	17%	15%	16%
Revenue from Exclusive Systems	Percentage	102-7	19%	19%	18%
Revenue from Services	Percentage	102-7	19%	2%	3%
EBITDA	US$ millions	102-7	336	358	378
Economic value generated and distributed	US$ millions	201-1	451	470	518
Investment	US$ millions	102-7	166	500	47
Transmission lines	Kilometers	102-7	9,560	9,609	9,648

n/a = not available
a: corresponds to disconnection due to outages and force majeure, considering total causes attributable to Transelec and to force majeure based on ITOMS
b: corresponds to disconnection due to outages and force majeure, exclusively considering causes attributable to Transelec based on ITOMS
c: corresponds to disconnection due to outages and force majeure, exclusively considering force majeure (i.e. copper conductor theft, events caused by forces of Nature or any other cause demonstrable using information such as an event that cannot be resisted that does not imply any sanction to be applied by the authority), based on ITOMS.
d: the indicator does not consider FACTS devices at substations. The company is working together with ITOMS to incorporate this equipment in accordance with industry best practices.
e: two significant dielectric oil spills occurred in 2015.
f: Six transformers generating a high volume of industrial waste (272 tonnes) were decommissioned in 2016. These transformers produced approximately 52% of the overall hazardous waste generated by Transelec in 2016.
g: 10,000 tonnes of non-hazardous waste associated to projects were generated in 2015. The rest was generated by Transelec material warehouse and asset divestiture.

ABOUT THIS REPORT

Transelec has developed its ninth Sustainability Report in order to report on its strategy, priorities and development regarding issues that are most important for operation sustainability.

This report has been formulated in compliance with GRI (Global Reporting Initiative) Standards in the Core Option. It focuses on the issues most important for Transelec and its stakeholders, which have been determined in keeping with GRI Standard guidelines.

The information presented approaches the Company's administration throughout 2017. The report also includes data from previous years in order to provide additional context and to provide an overview of the main events that have occurred up to the date it was published. This report encompasses all Transelec operations.

A transversal working group from the Company backed by consultancy provided by external experts worked on the formulation of this report. The team supervised compliance with GRI principles and was responsible for pooling and validating the information reported.

THE MOST IMPORTANT ISSUES TO BE REPORTED

In order to determine the most important issues to be covered in this report, Transelec conducted a formal Materiality Analysis process involving the Company's General Manager and all Vice-presidents.

The first step was to identify important issues stemming from the following perspectives:

- **Sustainability organizations and investors:** DJSI (Electric Utilities Sector); GRI Sustainability Topics by Sectors; and Standard 385 on Corporate Governance.
- **Public opinion and Transelec stakeholders:** issues in the media about Transelec, the energy sector and other companies; Corporate Reputation and Engagement Survey conducted by Transelec with its stakeholders.
- **An inner perspective:** interviews with the Company's senior management and issues stemming from the Sustainable Value Creation Strategy, the Sustainability Policy and the Risk Matrix.

Issues identified were analyzed at a workshop with the Transelec senior management (General Manager and Vice-presidents) and then ranked according to importance for stakeholders and impact scope. This workshop generated the most important issues to be reported, determined which audiences the report would be directed to and central messages to be shared.

The most important issues are listed as follows:

BUSINESS STRATEGY
- Impact and influence of the political, regulatory, economic, technical and social environment on business development.

CORPORATE GOVERNANCE AND ETHICS
- Ethics and compliance.
- Corporate governance.
- Stakeholder relations.

CUSTOMERS AND SOCIETY
- Power transmission system reliability, flexibility and sustainability.
- Emergency preparedness and response.
- Customer relations.

OUR PEOPLE
- Care of and respect for people.
- Human capital development and talent management.
- Strategic suppliers and contractors.

THE ENVIRONMENT AND SURROUNDING AREA
- Environmental management policies and systems.
- Climate change.
- Prevention and mitigation of the operation's impacts on neighboring communities.
- Biodiversity, wildlife, flora, natural and historical heritage.

NEIGHBORING COMMUNITIES
- Relations with and contribution to local communities.

ALIGNMENT WITH SUSTAINABLE DEVELOPMENT GOALS – SDGs

World leaders adopted a set of 17 global goals to eradicate poverty, protect the planet and ensure prosperity for everyone as part of a new sustainable development agenda in late 2015. Reaching these goals requires the joint work of governments, the private sector and civil society.

We at Transelec wish to contribute to the achievement of these goals. We have consequently committed to work to prevent and mitigate the impact of our operations and to positively contribute to the environment and development of societies where we operate.

The following graph highlights the Sustainable Development Goals (SDGs) where we have the most direct actions.

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Play +: page 83

Coronel Sustainable Neighborhood: page 84

Consolidating a safety culture: page 63

Organizational health survey: page 59

Play More: page 83

ConSuma Conciencia: pag.71

Ideas with Energy: page 82

Master class with Maggie MacDonnell: page 83

Empowering diversity and inclusion: page 61

Transmission system reliability, flexibility and sustainability: page 51

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Environmental plan: page 70

Greenhouse gas emission management: page 70

Impact management during project life cycles: page 81

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Transelec's role in access to clean energy: page 19

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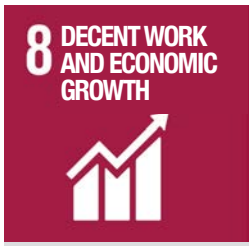
Science energy program: page 82

Energy program with interdisciplinary projects: page 82



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Human capital challenges in the future: page 59

Innovation and creation of new solutions with Suppliers: page 66

Investment in transmission infrastructure: page 51

Innovation management: page 25

Digital transformation for power transmission: page 51

Flexibility for the transmission of clean energy: page 53

Play More, First Nations: page 82

Coronel Sustainable Neighborhood: page 84

Power transmission project design: page 20 and 23

Protection of wildlife and flora in protected areas: page 72

Respect for Birds project: page 73

Books on Biodiversity: page 72

Commitment with good practices of corporate governance: page 33

Safeguarding ethical conduct and compliance: page 39

Connecting conversations: page 57

Alliance with AvesChile: page 73

ConSuma Conciencia program: page 71

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