2nd QUARTER 2018

EARNINGS REPORT

As of June 30, 2018

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2Q18

EARNINGS REPORT

Conference Call
2Q18

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1. HIGHLIGHTS

Consolidated **EBITDA** for the second quarter of 2018 (2Q18) reached **US$154.0 million**, 3% lower than the EBITDA of US$158.5 million in the second quarter of 2017 (2Q17). The lower EBITDA is mainly explained by higher costs of raw materials and consumables, mainly as a result of an increase in the cost of gas and coal. The higher costs were offset by higher revenues, mainly due to an increase in sales to unregulated customers and in energy and capacity sales in the spot market in Chile, and by an increase in hydroelectric generation.
In cumulative terms, EBITDA as of June 2018 (Jun18) reached US$317.6 million, 1% higher than the EBITDA of US$313.3 million as of June 2017 (Jun17). The increase is mainly explained by higher revenues, mainly explained by an increase in sales to unregulated customers and in energy and capacity sales in the spot market in Chile, and by higher hydroelectric generation. These effects were partially offset by an increase in costs of raw materials and consumables, as explained before.

Non-operating Income in 2Q18 recorded **losses of US$31.0 million,** which compares with the loss of US$0.9 million in 2Q17. The higher loss in the quarter is mainly explained by: (1) a non-recurring income of US$23.4 million, as a result of the recognition of a deferred tax asset in our subsidiary Fenix, (2) the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter, and (3) accounting record, in the line "Other Profit (Losses), of provisions for impairment of specific assets for US$4 million. These effects were partially offset by: (1) higher financial income due to higher rates of return on investments of cash surpluses, and (2) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of the dissolution of HidroAysén S.A in November 2017, which, prior to the dissolution, presented losses.
In cumulative terms, non-operating income as of Jun18 recorded **losses of US$47.9 million**, higher than the loss of US$21.9 million presented in Jun17. The higher loss is explained by the same reasons that explain the variations in quarterly terms, in addition to an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value.

2Q18 **tax expenses** amounted to **US$19.4 million,** in line with the tax expenses of US$18.9 million in 2Q17. Although 2Q18 shows lower profits before taxes than the same quarter of the previous year, tax expenses remain in line mainly due to the increase in the income tax rate from 25.5% to 27.0% in Chile, and because the profit at business combination level in our subsidiary Fenix registered in 2Q17, previously explained, is not taxable income.
Tax expenses **in cumulative terms** as of Jun18 reached **US$43.0 million**, which compares with the tax expense of US$32.6 million presented in Jun17. The higher tax charge is mainly explained by: (1) the increase in the income tax rate from 25.5% to 27.0% in Chile, and (2) a tax profit (deferred) registered in 1H17 in Fenix, as a result of the appreciation of the Peruvian sol during the period, an effect that does not occur in the same period of 2018.

The Company recorded in 2Q18 a **net income of US$44.8 million,** lower than the net income of US$78.3 million of 2Q17. The lower profit is mainly explain by the higher non-operating losses recorded during the quarter, previously explained.
In cumulative terms, the result shows a net income of **US$109.2 million**, lower than the net income of US$138.8 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms, partially offset by the higher EBITDA of the period.

Fenix's **EBITDA** totalized **US$12.3 million** in 2Q18, higher than the EBITDA of US$10.9 million recorded in 2Q17. The higher EBITDA is mainly explained by higher revenues from ordinary activities due to an increase in sales to unregulated customers, partially offset by higher costs of raw materials and consumables.
In cumulative terms, Fenix's EBITDA as of Jun18 reached US$22.2 million, in line with the EBITDA of US$22.3 million registered as of Jun17.

At 2Q18 closing, **financial investments** amounted to **US$695.6 million,** and **net debt** was **US$939.3 million.**

Main highlights of the quarter:

Regarding the commercial strategy, in June 2018, Colbún signed a **power supply agreement for 550 GWh/year with** Minera Zaldivar, from renewable power sources, for a period of 10 years.

In this line, the Company has contracted approximately 2,300 GWh of its production with new customers, in terms that are beneficial compared to current market conditions and in a highly competitive context.

Related to the Company's international credit rating, in June 2018, **Moody's assigned the Baa2 category**, with a stable outlook, to Colbún and it's debt securities issued in the international market. This rating, in addition to the BBB (stable) rating assigned by Standard & Poor's and Fitch Ratings, consolidates its investment grade rating.

In terms of growth, in June 2018 the **Ovejería** photovoltaic power plant **begun its commercial operation**. The power plant that qualifies as a Small Means of Distributed Generation (PMGD for its Spanish acronym) is located in the Metropolitan Region and has an installed capacity of 9 MW.

Table 1: Consolidated Summary Chile & Peru (US$ million)

Accumulated Figures		Summary	Quarterly Figures		Var %
Jun-17	Dec-17		2Q17	2Q18	Q/Q
775.6	807.4	Revenues (US$ million)	393.5	400.8	2%
313.3	317.6	EBITDA (US$ million)	158.5	154.0	(3%)
138.8	109.2	Net Income (US$ million)	78.3	44.8	(43%)
1,022.1	939.3	Net debt (US$ million)	1,022.1	939.3	(8%)
5,551	5,791	Sales of contracted energy Chile (GWh)	2,796	2,907	4%
1,383	1,559	Sales of contracted energy Peru (GWh)	713	805	13%
6,578	6,970	Total generation Chile (GWh)	3,386	3,515	4%
1,789	1,607	Total generation Peru (GWh)	1,074	1,002	(7%)

2. PHYSICAL SALES AND GENERATION BALANCE

2.1 Physical Sales and Generation Balance in Chile

Table 2 shows a comparison between physical energy sales and power generation in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18.

Table 2: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
6,383	**6,808**	**Total Physical Sales (GWh)**	**3,273**	**3,414**	7%	4%
3,233	2,793	Regulated Clients	1,579	1,377	(14%)	(13%)
2,317	2,997	Unregulated Clients	1,217	1,531	29%	26%
832	1,017	Sales to the Spot Market	476	507	22%	6%
1,594	**1,621**	**Capacity Sales (MW)**	**1,581**	**1,610**	2%	2%

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
6,578	**6,970**	**Total Generation (GWh)**	**3,386**	**3,515**	6%	4%
2,337	**2,843**	**Hydraulic**	**1,248**	**1,433**	22%	15%
4,189	**4,072**	**Thermal**	**2,109**	**2,052**	(3%)	(3%)
2,549	2,610	Gas	1,248	1,341	2%	7%
166	43	Diesel	123	29	(74%)	(77%)
1,474	1,419	Coal	738	682	(4%)	(8%)
51	**56**	**REVS**	**29**	**29**	9%	0%
51	52	Wind Farm*	29	26	2%	(10%)
0	4	Solar	0	3	-	-
0	**0**	**Spot Market Purchases (GWh)**	**0**	**0**	-	-
832	**1,017**	**Sales - Purchases to the Spot Market (GWh)**	**476**	**507**	22%	6%

(*): Corresponds to the energy purchased from the Punta Palmeras wind farm owned by Acciona.

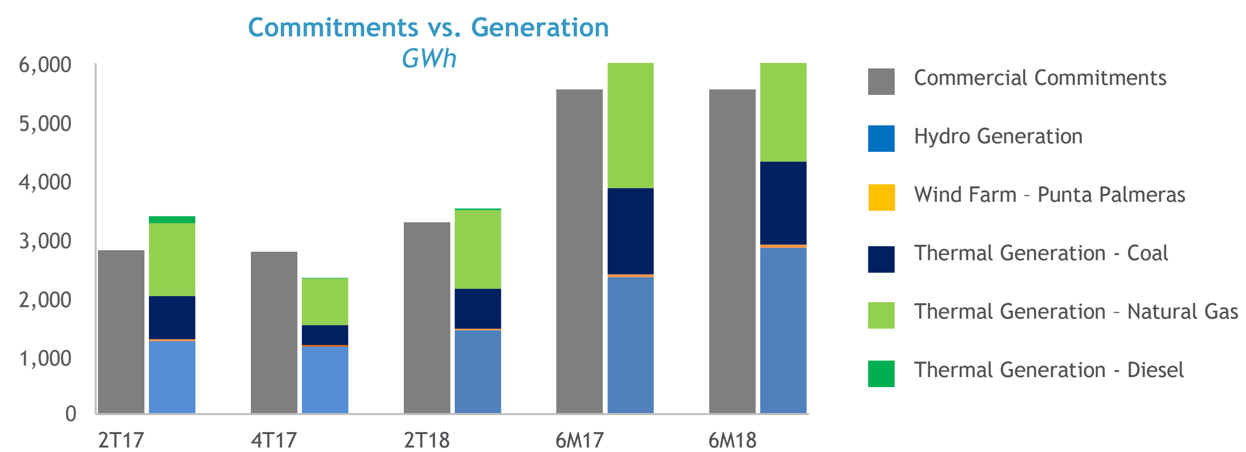
Physical withdrawals during 2Q18 reached 3,414 GWh, increasing by 4% compared to the same period of the previous year, mainly explained by higher sales to unregulated customers and sales to the spot market, partially offset by lower sales to regulated customers. On its part, generation of the quarter increased by 4% compared to 2Q17, mainly due to higher hydroelectric (185 GWh Q/Q) and natural gas generation (93 GWh Q/Q), partially compensated by a decrease in generation with diesel (94 GWh Q/Q) and coal (56 GWh Q/Q).
Spot market balance during the quarter recorded net sales of 507 GWh, compared to net sales of 476 GWh recorded in 2Q17. During the quarter, **100% of Colbún's commercial commitments were supplied with cost-efficient base generation** (hydro, coal and natural gas).

In cumulative terms, physical withdrawals and the total generation of Colbún in Jun18 reached 6,808 GWh and 6,970 GWh respectively, increasing by 7% and 6% compared to Jun17. The increases are mainly explained by the same reasons that explain the quarterly variations. On its part, spot market balance recorded net sales of 1,017 GWh as of Jun18, higher compared with the net sales of 832 GWh recorded in the same period from the previous year.

Generation mix in Chile: The hydrological year started in April 2018 (Apr18-Mar19), has presented lower rainfalls than an average year in the main basins of the SEN. As an example, the rainfall deficit compared to an average year during 2Q18, by basin from north to south is: Aconcagua 52%; Maule 34%; Angostura 16%; Canutillar 20%; Laja 14%. Despite this, and due to the higher accumulated energy in the reservoirs at the beginning of 2018, compared to the same period of the previous year, the quarter has recorded higher hydraulic generation, compared to 2Q17.

During the second quarter of 2018, SEN's total generation increased by 13% compared to 2Q17, due to an increase in: (1) NCRE generation, where the generation rose from 1,261 GWh in 2Q17 to 2,694 GWh in 2Q18, associated with an expansion in the installed capacity of these technologies, (2) thermal generation, where thermal generation with coal, natural gas and diesel increased from 7,108 GWh in 2Q17 to 7,967 GWh in 2Q18, from 3,667 GWh in 2Q17 to 3,786 GWh in 2Q18, and from 106 GWh in 2Q17 to 213 GWh in 2Q18, respectively. The higher thermal generation is mainly explained by the lower hydroelectric generation of the system.

The average marginal cost measured in Alto Jahuel increased by 2% compared to the 2Q17, averaging US$75.1/MWh in 2Q18.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18.

Table 3: Physical Sales and Generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
1,838	**1,789**	**Total Physical Sales (GWh)**	**1,049**	**979**	**(3%)**	**(7%)**
1,383	1,559	Costumers under Contract	713	805	13%	13%
455	229	Sales to the Spot Market	336	174	(50%)	(48%)
559	**551**	**Capacity Sales (MW)**	**555**	**550**	**(1%)**	**(1%)**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
1,789	**1,607**	**Total Generation (GWh)**	**1,074**	**1,002**	**(10%)**	**(7%)**
1,789	1,607	Gas	1,074	1,002	(10%)	(7%)
93	**210**	**Spot Market Purchases (GWh)**	**0**	**0**	**126%**	**-**
362	**20**	**Sales - Purchases to the Spot Market (GWh)**	**336**	**174**	**(94%)**	**(48%)**

On a quarterly basis, physical withdrawals from customers under contract during 2Q18 reached 805 GWh, 13% higher when compared to 2Q17, mainly due to the beginning of bilateral supply contracts and higher withdrawals from customers under contract. On its part, Fenix's thermal gas-power generation reached 1,002 GWh in 2Q18, decreasing by 7% compared to 2Q17. The lower generation is mainly explained by the lower availability of the power plant, due to maintenances carried out in the gas turbines to perform tests in diesel mode. Spot market balance recorded net sales of 174 GWh in 2Q18 vs. net sales of 336 GWh in 2Q17. **During the quarter, 100% of Fenix's commercial commitments were supplied with own generation.**

In cumulative terms, physical sales to customers under contract as of Jun18 reached 1,559 GWh, up 13% compared to the same period of the previous year, mainly explained by the same reasons that explain the quarterly variations. On its part, Fenix thermal gas-power generation reached 1,607 GWh as of Jun18, decreasing by 10% compared to Jun17, mainly explained by a longer annual maintenance of the power plant during February 2018.
As of Jun18, 100% of the commitments were supplied with own generation and the balance in the spot market recorded net sales for 20 GWh, compared to net sales for 362 GWh as of Jun17.

Generation mix in Peru: During 2Q18, hydrological conditions have been drier compared to the second quarter of the previous year. Mantaro river basin, which supplies the main hydroelectric complex in Peru, CH Mantaro and CH Restitución (900 MW) presented a hydrological condition with a probability of exceedance of 47% at the end of 2Q18 vs. 25% in 2Q17.
Hydroelectric generation in the National Interconnected System (SEIN for its acronym in Spanish) increased by 4% compared to the same period of 2017, mainly due to the fact that, despite the lower flows presented in the system in 2Q18, in 2Q17 there was a greater forced generation with diesel due to transmission limitations presented during the quarter. On its part, thermoelectric generation remained in line compared to 2Q17.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18, for Chile and Peru.

Table 4: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
775.6	**807.4**	**OPERATING INCOME**	**393.5**	**400.8**	**4%**	**2%**
398.7	363.6	Regulated Customers Sales	194.2	176.6	(9%)	(9%)
195.0	300.2	Unregulated Customers Sales	101.1	150.5	54%	49%
73.6	76.1	Energy and Capacity Sales	47.0	42.6	3%	(9%)
95.5	54.2	Transmission Tolls	44.8	24.9	(43%)	(44%)
12.8	13.3	Other Operating Income	6.5	6.1	4%	(6%)
(411.3)	**(433.6)**	**RAW MATERIAL AND CONSUMABLES USED**	**(209.7)**	**(218.9)**	**5%**	**4%**
(94.7)	(92.7)	Transmission Tolls	(45.0)	(42.7)	(2%)	(5%)
(18.5)	(22.3)	Energy and Capacity Purchases	(8.1)	(8.3)	21%	2%
(192.2)	(216.2)	Gas Consumption	(97.7)	(115.4)	12%	18%
(23.6)	(7.8)	Diesel Consumption	(16.6)	(4.8)	(67%)	(71%)
(37.9)	(44.5)	Coal Consumption	(19.6)	(22.4)	18%	14%
(44.6)	(50.1)	Other Operating Expenses	(22.7)	(25.4)	12%	12%
364.2	**373.9**	**GROSS PROFIT**	**183.8**	**181.9**	**3%**	**(1%)**
(34.7)	(40.8)	Personnel Expenses	(17.7)	(20.0)	18%	13%
(16.2)	(15.5)	Other Expenses, by Nature	(7.7)	(7.9)	(5%)	3%
(119.9)	(117.4)	Depreciation and Amortization Expenses	(60.4)	(58.8)	(2%)	(3%)
193.3	**200.1**	**OPERATING INCOME (LOSS)(*)**	**98.1**	**95.2**	**4%**	**(3%)**
313.3	**317.6**	**EBITDA**	**158.5**	**154.0**	**1%**	**(3%)**
5.3	9.4	Financial Income	2.8	4.5	76%	62%
(40.4)	(42.2)	Financial Expenses	(20.2)	(21.1)	4%	4%
1.4	(8.0)	Exchange rate Differences	0.8	(6.9)	-	-
1.8	6.7	Profit (Loss) of Companies Accounted for Using the Equity Method	1.1	2.1	265%	89%
10.0	(13.9)	Other Profit (Loss)	14.6	(9.7)	-	-
(21.9)	**(47.9)**	**NON-OPERATING INCOME**	**(0.9)**	**(31.0)**	**119%**	**119%**
171.4	**152.2**	**PROFIT (LOSS) BEFORE TAXES**	**97.2**	**64.2**	**(11%)**	**(34%)**
(32.6)	(43.0)	Income Tax Expense	(18.9)	(19.4)	32%	3%
138.8	**109.2**	**PROFIT (LOSS) AFTER TAX**	**78.3**	**44.8**	**(21%)**	**(43%)**
124.2	**111.7**	**PROFIT (LOSS) OF CONTROLLER**	**67.3**	**46.5**	**(10%)**	**(31%)**
14.6	**(2.5)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**11.0**	**(1.7)**	**-**	**-**

(*): The subtotal for "OPERATING INCOME" presented herein, differs from "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF, by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Table 5: Exchange Rates at Closing

Exchange Rates	Jun-17	Dec-17	Jun-18
Chile (CLP / US$)	664.29	614.75	651.21
Chile UF (CLP/UF)	26,665.09	26,798.14	27,158.77
Peru (PEN / US$)	3.26	3.25	3.27

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18. The major accounts and/or variations will be analyzed below.

Table 6: EBITDA Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-17	**Jun-18**		**2Q17**	**2Q18**	**Ac/Ac**	**Q/Q**
681.0	**702.5**	**OPERATING INCOME (*)**	**346.6**	**348.5**	**3%**	**1%**
339.1	307.1	Regulated Customers Sales	165.0	149.1	(9%)	(10%)
187.2	283.0	Unregulated Customers Sales	97.3	141.2	51%	45%
68.5	71.2	Energy and Capacity Sales	43.3	39.2	4%	(10%)
75.9	30.3	Transmission Tolls	35.8	14.0	(60%)	(61%)
10.3	10.9	Other Operating Income	5.1	5.0	6%	(2%)
(343.0)	**(355.0)**	**RAW MATERIAL AND CONSUMABLES USED**	**(175.8)**	**(181.1)**	**3%**	**3%**
(77.5)	(71.0)	Transmission Tolls	(36.6)	(31.8)	(8%)	(13%)
(15.6)	(15.9)	Energy and Capacity Purchases	(8.1)	(8.3)	2%	2%
(149.1)	(173.6)	Gas Consumption	(74.7)	(91.8)	16%	23%
(23.6)	(7.8)	Diesel Consumption	(16.6)	(4.8)	(67%)	(71%)
(37.9)	(44.5)	Coal Consumption	(19.6)	(22.4)	18%	14%
(39.4)	(42.2)	Other Operating Expenses	(20.2)	(22.1)	7%	10%
337.9	**347.5**	**GROSS PROFIT**	**170.8**	**167.4**	**3%**	**(2%)**
(32.0)	(37.9)	Personnel Expenses	(16.3)	(18.5)	19%	14%
(15.0)	(14.3)	Other Expenses, by nature	(7.0)	(7.2)	(5%)	3%
(103.9)	(101.0)	Depreciation and Amortization Expenses	(52.3)	(50.6)	(3%)	(3%)
187.1	**194.3**	**OPERATING INCOME (LOSS)(**)**	**95.2**	**91.1**	**4%**	**(4%)**
291.0	**295.3**	**EBITDA**	**147.6**	**141.7**	**2%**	**(4%)**

(*): Due to the application of new IFRS regulations (IFRS 15 Revenue from Ordinary Activities Resulting from Contracts with Customers), a reclassification was made in cumulative revenues of US$29.4 million from Transmission Tolls to Sales to Unregulated Customers. This regulation began to apply as of January 2018, so its effect is shown from this period onwards.

(**): The subtotal for "OPERATING INCOME" presented herein, differs from "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF, by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating income from ordinary activities for 2Q18 amounted to US$348.5 million, increasing compared to the 2Q17, mainly due to higher sales to unregulated customers and higher hydroelectric generation. The higher revenues were partially offset by lower: (1) revenues from transmission tolls due to the change in methodology in the collection of these tolls, which, as of January 2018, are paid directly to the owner of the transmission facilities, (2) sales to regulated customers, and (3) energy and capacity sales in the spot market.
In cumulative terms, revenues from ordinary activities as of Jun18 reached **US$702.5 million**, increasing by 3% compared to the same period from the previous year. The higher revenues of the period are mainly explained by the same reasons that explain the variations in quarterly terms, added to higher energy and capacity sales in the spot market.

Raw materials and consumables used totalized US$181.1 million, higher compared to the US$175.8 million registered in 2Q17. The higher costs of the quarter are mainly explained by a higher cost of gas and coal consumption. The higher costs of the quarter were partially offset by lower diesel consumption and transmission tolls costs.
In cumulative terms, raw materials and consumables as of Jun18 **reached US$355.0 million**, increasing by 3% compared to Jun17. The higher costs are explained by the same reasons that explain the variations in quarterly terms.

EBITDA of 2Q18 decreased by 4% compared to the same quarter of the previous year, **reaching US$141.7 million**. The decrease is mainly explained by the higher costs of raw materials and consumables previously explained and higher personnel expenses, as a result of the appreciation of the average exchange rate of the quarter compared to the same period of the previous year. The higher costs were partially offset by higher revenues from ordinary activities.
In cumulative terms, EBITDA increased from US$291.0 million in Jun17 to **US$295.3 million in Jun18**. The higher EBITDA is mainly explained by the higher revenues previously explained, partially offset by an increase in costs of raw materials and consumables, and by the higher personnel expense.

3.2. Operating Income Analysis Peru

Table 7 presents a summary of Operating Income and EBITDA of Fenix in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18. The major accounts and/or variations will be analyzed below.

Table 7: EBITDA Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-17	Dec-17		2Q17	2Q18	Ac/Ac	Q/Q
94.6	**105.0**	**OPERATING INCOME**	**47.0**	**52.3**	**11%**	**11%**
59.6	56.5	Regulated Customers Sales	29.2	27.5	(5%)	(6%)
7.8	17.2	Unregulated Customers Sales	3.8	9.3	121%	144%
5.1	4.9	Sales to Other Generators	3.7	3.4	(5%)	(7%)
19.6	23.9	Transmission Tolls	9.0	11.0	22%	22%
2.5	2.5	Other Operating Income	1.3	1.1	(2%)	(21%)
(68.3)	**(78.6)**	**RAW MATERIAL AND CONSUMABLES USED**	**(34.0)**	**(37.8)**	**15%**	**11%**
(17.2)	(21.7)	Transmission Tolls	(8.4)	(11.0)	26%	30%
(2.9)	(6.4)	Energy and Capacity Purchases	(0.0)	(0.0)	123%	(9%)
(43.1)	(42.6)	Gas Consumption	(23.0)	(23.6)	(1%)	3%
(5.2)	(7.9)	Other Operating Expenses	(2.5)	(3.2)	52%	28%
26.3	**26.4**	**GROSS PROFIT**	**13.0**	**14.5**	**0%**	**11%**
(2.8)	(3.0)	Personnel Expenses	(1.4)	(1.5)	7%	8%
(1.2)	(1.2)	Other Expenses, by Nature	(0.7)	(0.6)	(2%)	(7%)
(16.1)	(16.4)	Depreciation and Amortization Expenses	(8.0)	(8.2)	2%	3%
6.3	**5.8**	**OPERATING INCOME (LOSS)**	**2.9**	**4.1**	**(7%)**	**42%**
22.3	**22.2**	**EBITDA**	**10.9**	**12.3**	**(0%)**	**13%**

Operating income from ordinary activities during 2Q18 amounted to US$52.3 million, increasing by 11% compared to 2Q17, mainly explained by higher: (1) sales to unregulated customers due to the beginning of bilateral supply contracts, and (2) revenues from transmission tolls as a result of a tariff adjustment made in May 2018. These effects were partially offset by lower sales to regulated customers.
In cumulative terms, operating income from ordinary activities as of Jun18 reached US$105.0 million, increasing by 11% compared to Jun17, mainly explained by the same reasons as in quarterly terms.

Raw materials and consumables used increased by 11% compared to the same quarter from the previous year. The increase compared to 2Q17 is mainly explained by the increase in: (1) transmission toll costs for the same reasons previously explained, (2) other operating costs resulting from a payment component that was

previously recorded as energy and capacity purchases and, as of January 2018, due to a regulatory change, is recorded as other operating costs, and (3) gas consumption costs.
In cumulative terms, raw materials and consumables used **totalized US$78.6 million as of Jun18**, increasing by 15% compared to Jun17. The increase is mainly explained by the same reasons that explain the quarterly variations, added to higher energy and capacity purchases in the spot market.

Fenix's **EBITDA** totalized **US$12.3 million in 2Q18**, higher than the EBITDA of US$10.9 million recorded in 2Q17. The increase in EBITDA is mainly explained by the higher revenues from ordinary activities due to higher sales to unregulated customers. The higher revenues were mainly offset by higher costs of raw materials and consumables previously explained.
In cumulative terms, Fenix's **EBITDA** as of Jun18 reached **US$22.2 million**, in line with the EBITDA of US$22.3 million recorded as of Jun17.

3.3. Consolidated Non-Operating Income Analysis (Chile & Peru)

Table 8 shows a summary of the consolidated non-operational income in 2Q17, 2Q18 and cumulative as of Jun17 and Jun18, for Chile and Peru. Major accounts/variations will be analyzed below.

Table 8: Consolidated Non-Operating Income (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-17	Dec-17		2Q17	2Q18	Ac/Ac	Q/Q
5.3	9.4	Financial Income	2.8	4.5	76%	62%
(40.4)	(42.2)	Financial Expenses	(20.2)	(21.1)	4%	4%
1.4	(8.0)	Exchange rate Differences	0.8	(6.9)	-	-
1.8	6.7	Profit (Loss) of Companies Accounted for Using the Equity Method	1.1	2.1	265%	89%
10.0	(13.9)	Other Profit (Loss)	14.6	(9.7)	-	-
(21.9)	**(47.9)**	**NON-OPERATING INCOME**	**(0.9)**	**(31.0)**	**119%**	**-**
171.4	**152.2**	**PROFIT (LOSS) BEFORE TAXES**	**97.2**	**64.2**	**(11%)**	**(34%)**
(32.6)	(43.0)	Income Tax Expense	(18.9)	(19.4)	32%	3%
138.8	**109.2**	**PROFIT (LOSS) AFTER TAX**	78.3	44.8	(21%)	(43%)
124.2	**111.7**	**PROFIT (LOSS) OF CONTROLLER**	**67.3**	**46.5**	**(10%)**	**(31%)**
14.6	**(2.5)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**11.0**	**(1.7)**	**-**	**-**

Non-operating Income in 2Q18 recorded **losses of US$31.0 million,** which compares with the loss of US$0.9 million in 2Q17. The higher loss in the quarter is mainly explained by: (1) a non-recurring income of US$23.4 million, as a result of the recognition of a deferred tax asset in our subsidiary Fenix, (2) the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter, and (3) accounting record, in the line "Other Profit (Losses), of provisions for impairment of specific assets for US$4 million. These effects were partially offset by: (1) higher financial income due to higher rates of return on investments of cash surpluses, and (2) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of the dissolution of HidroAysén S.A in November 2017, which, prior to the dissolution, presented losses.
In cumulative terms, non-operating income as of Jun18 recorded **losses of US$47.9 million**, higher than the loss of US$21.9 million presented in Jun17. The higher loss is explained by the same reasons that explain the variations in quarterly terms, in addition to an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value.

2Q18 **tax expenses** amounted to **US$19.4 million,** in line with the tax expenses of US$18.9 million in 2Q17. Although 2Q18 shows lower profits before taxes than the same quarter of the previous year, tax expenses remain in line mainly due to the increase in the income tax rate from 25.5% to 27.0% in Chile, and because the profit at business combination level in our subsidiary Fenix registered in 2Q17, previously explained, is not taxable income.

Tax expenses **in cumulative terms** as of Jun18 reached **US$43.0 million**, which compares with the tax expense of US$32.6 million presented in Jun17. The higher tax charge is mainly explained by: (1) the increase in the income tax rate from 25.5% to 27.0% in Chile, and (2) a tax profit (deferred) registered in 1H17 in Fenix, as a result of the appreciation of the Peruvian sol during the period, an effect that does not occur in the same period of 2018.

The Company recorded in 2Q18 a **net income of US$44.8 million,** lower than the net income of US$78.3 million of 2Q17. The lower profit is mainly explain by the higher non-operating losses recorded during the quarter, previously explained.

In cumulative terms, the result shows a net income of **US$109.2 million**, lower than the net income of US$138.8 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms, partially offset by the higher EBITDA of the period.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2017 and June 30, 2018. Subsequently the main changes will be analyzed.

Table 9: Consolidated Balance Sheet Main Accounts for Chile and Peru (US$ million)

	Dec-17	Jun-18	Var	Var %
Current assets	1,147.2	1,010.6	(136.6)	(12%)
Non-current assets	5,775.4	5,727.8	(47.6)	(1%)
TOTAL ASSETS	**6,922.5**	**6,738.4**	**(184.1)**	**(3%)**
Current liabilities	354.8	276.7	(78.2)	(22%)
Non-current liabilities	2,617.0	2,588.1	(28.9)	(1%)
Total net equity	3,950.7	3,873.6	(77.1)	(2%)
TOTAL LIABILITIES AND NET EQUITY	**6,922.5**	**6,738.4**	**(184.1)**	**(3%)**

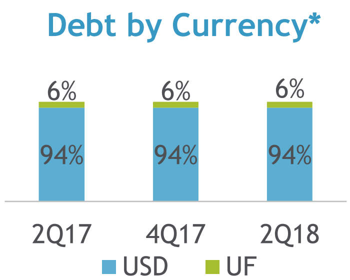
Current Assets: Reached US$1,010.6 million, decreasing by 12% compared to Dec17 closing, mainly explained by a decrease in cash and cash equivalents, as a result of the payment of the final dividend for US$212.8 million in May 2018.

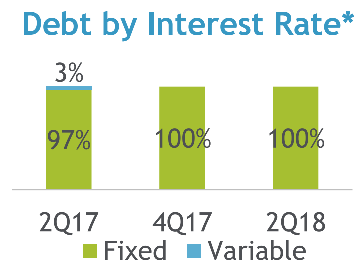
Non-current Assets: Recorded US$5,727.8 million at the end of Jun18, slightly decreasing compared to the existing balance as of Dec17 mainly due to the fixed assets depreciation of the period, partially offset by the capex of the period.

Current Liabilities: Amounted to US$276.7 million at Jun18 closing, decreasing by 22% compared to Dic17 closing, mainly due to a decrease in accounts payable as of Jun18 and provisions registered in Dec17 balance for tax payments in April of 2018.

Non-current Liabilities: Totalized US$2,588.1 million at Jun18 closing, in line with Dic17 balance.

Total Net Equity: The Company reached a net worth of US$3,873.6 million, decreasing 2% compared to Dec17 closing. The decrease is mainly explained by the distribution of the final dividend for US$212.8 million in May 2018.





*** Include financial derivatives**

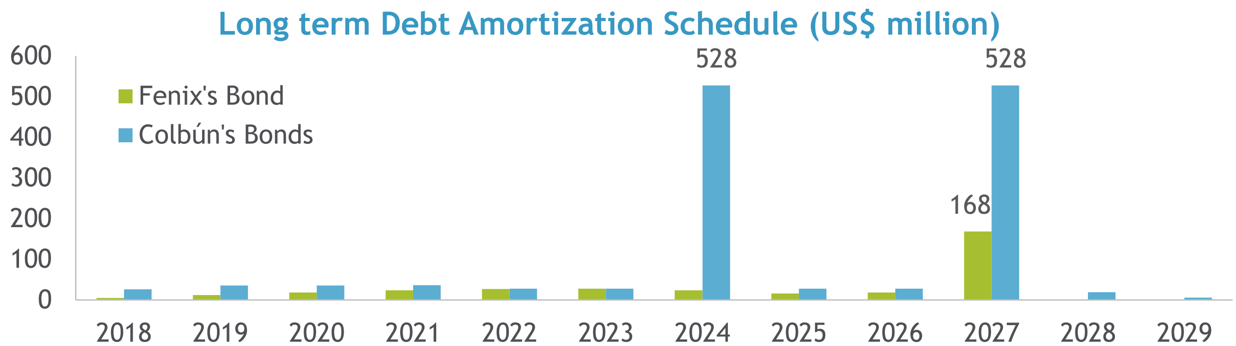


Table 10: Main Debt Items (US$ million)

	Dec-17	Jun-18	Var	Var %
Gross Financial Debt*	1,659.5	1,634.9	(24.6)	(1%)
Financial Investments**	810.2	695.6	(114.6)	(14%)
Net Debt	849.2	939.3	90.0	11%
EBITDA LTM	692.1	696.4	4.3	1%
Net Debt/EBITDA LTM	1.2	1.3	0.1	10%

(*) Includes an international bond of US$340 million and a financial leasing for US$15.1 million, both associated to Fenix without recourse to Colbún.
(**)The account "Financial Investments" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

Debt Analysis: Financial debt reached US$1,634.9 million, in line compared to Dec17. On its part, Financial Investments totalized US$695.6 million, decreasing by 14% compared to Dec17, mainly explained by the final dividend payment for US$212.8 million in May 2018. Given the above, Net Debt totalized US$939.3 million. On its part, EBITDA LTM (last 12 months) remained in line with 2017 closing.

Net Debt/EBITDA LTM ratio slightly increased from 1.2 times at Dic17 closing to 1.3 times at Jun18 closing.

The average maturity life of Colbún's long-term financial debt is 7.2 years.

The average USD long-term financial debt interest rate is 4.5%.

5. CONSOLIDATED FINANCIAL RATIOS

A comparative table of consolidated financial indicators is presented below. Balance Sheet financial indicators are calculated at the specified date and Income Statement ratios including the cumulative result over the last 12 months as of the date indicated.

Table 11: Financial Ratios

Ratio	Dec-17	Jun-18	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.23	3.65	13.0%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.06	3.42	11.9%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.75	0.74	(1.7%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.94%	9.66%	(19.1%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.06%	90.34%	2.6%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.80	5.62	17.1%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	7.46%	6.67%	(10.5%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.94%	3.81%	(3.4%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.39%	8.60%	2.5%

Income Statement ratios correspond to last 12 months values.

- Average equity: Equity of the current quarter plus equity a year ago divided by two.
- Total assets average: Current total assets plus total assets a year ago divided by two.
- Operational assets average: Current total property, plants and equipment plus total property, plants and equipment a year ago divided by two.

Current Liquidity and Acid Test reached 3.65x and 3.42x as of Jun18 respectively, decreasing when compared to Dec17, due to an decrease in current liabilities, explained mainly by the decrease in accounts payable as of Jun18.

Debt Ratio reached 0.74x as of Jun18, in line with the value of 0.75x as of Dec17.

The percentage of Short-Term Debt as of Jun18 was 9.66%, decreasing when compared to Dec17, mainly explained by a decrease in current liabilities due to a decrease in accounts payable as of Jun18 and provisions registered in Dec17 balance for tax payments made in April 2018.

The percentage of Long-Term Debt as of Jun18 was 90.34%, increasing compared with the value of 88.06% obtained on Dec17. The increase is mainly explained by the decrease in current liabilities previously mentioned.

Financial Expenses Coverage as of Jun18 was 5.62x, higher than the value of 4.80x obtained on Dec17, mainly explained by the lower financial expenses compared to Dec17 closing, due to the lower balance of outstanding debt.

Equity Profitability as of Jun18 totalized 6.67%, lower compared with the value of 7.46% recorded on Dec17. The variation is mainly explained by the lower net income registered during the period.

Profitability of Assets and Performance of Operating Assets totalized 3.81% and 8.60% respectively as of Jun18. Profitability of the assets decreased compared to Dec17 mainly because of the lower net income of the period. On its part, performance of operating assets increased compared to Dec17, due to the lower average fixed asset balance, resulting from the higher cumulative depreciation of Dec17 period. This effect was partially offset by the lower operating income of the period.

6. CONSOLIDATED CASH FLOW ANALYSIS

The Company's Cash Flow is presented in the table below:

Table 12: Cash Flow Summary for Chile and Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-17	Jun-18		2Q17	2Q18	Ac/Ac	Q/Q
667.0	**810.2**	**Cash Equivalents, Beg. of Period***	**664.2**	**880.7**	**21%**	**33%**
236.4	229.6	Net cash flows provided by (used in) operating activities	124.2	98.8	(3%)	(20%)
(152.4)	(255.0)	Net cash flows provided by (used in) financing activities	(76.4)	(235.2)	67%	208%
(71.5)	(74.4)	Net cash flows provided by (used in) investing activities**	(31.1)	(32.2)	4%	4%
12.5	**(99.7)**	**Net Cash Flows for the Period**	**16.6**	**(168.7)**	-	-
1.0	(14.8)	Effects of exchange rate changes on cash and cash equivalents	(0.4)	(16.5)	-	-
680.5	**695.6**	**Cash Equivalents, End of Period**	**680.5**	**695.6**	**2%**	**2%**

(*)The account "Cash and Cash Equivalents" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.
(**) "Cash Flow from Investing Activities" differs from the Financial Statements because it does not incorporate the amount associated with deposits with maturity over 90 days.

During 2Q18, the Company recorded a **net cash outflow of US$168.7 million**, compared to the net cash inflow of US$16.6 million from the previous quarter.

Operating Activities: During 2Q18 a positive net cash flow of US$98.8 million was generated, decreasing by 20% compared to 2Q17. The lower flow is mainly explained by a higher rate of monthly provisional payments and higher payments for income tax.
In cumulative terms, a positive net cash flow of US$229.6 million was recorded as of Jun18, slightly decreasing compared to the positive net cash flow of US$236.4 million as of Jun17, explained by the same reasons that explain the variations in quarterly terms.

Financing Activities: Generated a net cash outflow of US$235.2 million during 2Q18, which compares with 2Q17's net outflow of US$76.4 million. The higher negative net flow in the quarter is explained mainly by the final dividend payment in May 2018 for US$212.8 million.
In cumulative terms, a negative net outflow of US$255.0 million was recorded as of Jun18, higher than the negative net outflow of US$152.4 million as of Jun17, mainly explained by the higher distribution of dividends made in 2018 charged to 2017's net income, compared to dividends distributed in the same period of the previous year.

Investing Activities: Generated a net cash outflow of US$32.2 million during 2Q18, in line with the disbursements for US$31.1 million in 2Q17.
In cumulative terms, investment activities generated a net cash outflow of US$74.4 million as of Jun18, in line with the disbursements for US$71.5 million as of Jun17.

7. ENVIRONMENT AND RISK ANALYSIS

Colbún S.A. is a generation Company with an installed capacity of 3,893 MW, comprised of 2,250 MW in thermal units, 1,634 MW in hydraulic units (incorporating 37 MW of La Mina Hydroelectric Power Plant) and 9 MW from the solar photovoltaic power plant Ovejería. The Company operates in the National Electric System (SEN) in Chile, where it represents 17% of the market (23% in the SIC, prior to the interconnection with the SING effective as of October 2017). It also operates in Peru's National Interconnected System (SEIN for its acronym in Spanish), where it has a market share of approximately 8%. Both figures measured in terms of generation.

Through its commercial policy, Colbún aims to be a provider of competitive, secure and sustainable energy, with a volume to commit through contracts that allow the Company to maximize the long-term profitability of its asset base, reducing the volatility of its results. These have a structural variability, because they depend on exogenous conditions such as hydrology and fuel prices (oil, natural gas and coal). To mitigate the effect of these exogenous conditions, the Company seeks to contract its generation sources (own or purchased from third parties) with efficient costs with long-term agreements and eventually, if there is any deficit/surplus Colbún may turn to buy/sell energy the spot market at marginal cost.

7.1 Medium-Term Outlook in Chile

The hydrological year recently started in April, presented as of June 30 a probability of exceedance of the SEN of 76.3%. Given this, the energy matrix has continued its operation with higher thermal sources. It is worth mentioning, regarding gas supply, that the Company has supply agreements Metrogas until 2019, and with Enap Refinerías S.A. ("ERSA"), through an agreement that includes reserved regasification capacity for 13 years whose entry into force was January 1, 2018. These contracts allow the supply of natural gas to operate two combined cycle units for the most part of 1H of each calendar year, period of the year in which generally there is less availability of water resources. There is also the possibility of accessing additional natural gas via spot purchases, allowing the Company to have efficient backup in the case of unfavorable hydrological conditions in the second half of the year.

Since the end of 2016, Colbún has subscribed medium-term supply contracts with unregulated customers for more than 2,300 GWh and is currently under negotiations to finalize new agreements.

The results of the Company for the coming months will be mainly determined by a balanced level between own efficient generation and contract level. Such efficient generation depends on the reliable operation that our plants may have and on hydrological conditions.

7.2 Medium-Term Outlook in Peru

The second quarter of 2018 has registered in the SEIN a hydrological condition with probability of exceedance of 43.2%, being 12.9% the value recorded in the same quarter of 2017. The cumulative growth rate of power demand at the end of the second quarter was 2.9%, surpassing the low growth experienced in 2017. The future trajectory of marginal costs is mainly subject to the trajectory of demand, hydrology and to changes in commodity prices.

The Company is seeking for growth opportunities in Chile and in other countries in the region in order to maintain a leading position in the power generation industry and to diversify its sources of income in terms of geography, hydrologic conditions, generation technologies, fuel access and regulatory frameworks.

Colbún is seeking to increase its installed capacity, while maintaining a relevant participation in the hydroelectric generation industry, with a thermoelectric and renewable component that allows counting on a safe, competitive and sustainable generation matrix.

In Chile, Colbún currently has several projects under different stages of maturity, including hydro, thermal, projects from variable sources and its respective transmission lines.

Projects under Development

San Pedro Hydroelectric Project (170 MW): The project is located 25 km. northeast of Los Lagos, Los Ríos Region, and considers using the water of the homonymous river through a power plant located between the outlet of the Riñihue Lake and the Malihue Bridge. Considering the adjustments included in the project, it will have an estimated flow design of 460 m3/s (+10% with openness) and an approximate installed capacity between 160 MW – 170 MW for an annual generation of 950 GWh under normal hydrological conditions. The operation of the power plant will be such that the level of the reservoir remains virtually constant, which means that the flow downstream of the power plant is not going to be altered by its operation.

In June 2015, the Environmental Impact Assessment (EIA) for the changes to the project was submitted, being initially accepted into process by the Environmental Assessment Service (SEA) of Los Rios Region. However, in August 2015, the Authority decided to early terminate the process due to lack of essential information.

Notwithstanding the foregoing, the Company is preparing the background to re-submit the Environmental Impact Study (EIA). In parallel, we continue developing an explicative and clarifying meeting process plan with municipalities, communities, neighborhood, regional authorities, and indigenous communities, among other stakeholders, with the objective to identify the best way to insert this project in the area.

This project considers the San Pedro-Ciruelos transmission line project, which will allow evacuating the power of the San Pedro power plant to the SIC through a 220 kV line and 47 km. length, and will be connected to the Ciruelos substation, located about 40 km northeast of Valdivia.

El Médano Project (6.6 MW): El Médano is a hydroelectric project, which is located after the La Mina project on the Maule river, in the San Clemente district, approximately 100 km east of the city of Talca. This contemplates an installed capacity of 6.6 MW and an average annual generation of 26 GWh, whose energy generated will be evacuated through the CH La Mina transmission line. The Médano is conceived as a compact work, that is to say, the same structure concentrates the catchment, the powerhouse and the restitution to the river.

On April 13, 2018 the approval of the DIA (Declaration of Environmental Impact) is obtained, starting the bidding process for construction and purchase of equipment, which will conclude during 3Q18. It is estimated that with this information the decision to start construction could be made.

Horizonte Wind Farm (607 MW): "Horizonte" is a wind farm farm located approximately 70 kilometers northeast of Taltal and 170 kilometers southeast of Antofagasta. It considers 607 MW of installed capacity and an average annual generation of approximately 1,900 GWh.

This project stars from the awarding of a tender conducted by the Ministry of National Assets for the development, construction and operation of a wind farm through a 30-year onerous use concession, in a tax property of about 8 thousand hectares.

For its development, 4 years are estimated for the studies and permits stages and 3 additional years are estimated for its construction.

During the second quarter of 2018, Colbún continued with the feasibility and studies stage.

Sol de Tarapacá Photovoltaic Project (150 MW): After a negotiation with one of the largest producers of solar technology in the world, the US company First Solar, the Company reached an agreement to acquire the greenfield photovoltaic solar project "Sol de Tarapacá", which contemplates an installed capacity of 150 MW.

The project is located in the Tarapacá Region, municipality of Pozo Almonte, approximately six kilometers southwest of La Tirana. Its incorporation is a good complement to the current portfolio of Colbún projects. The north of Chile presents one of the areas with the highest radiation in the world, which makes it an ideal place for solar photovoltaic technology projects.

During the second quarter of 2018, progress was made with the review of the existing background and definitions for the updating of environmental studies to make the project viable.

Guaiquivilo Melado Project (316 MW): The Guaiquivilo Melado hydroelectric project is a hydroelectric complex with regulatory capacity located in the Guaiquivilo and Melado river basins, in Colbún's municipality, Linares' province. The project considers a total installed capacity of 316 MW and an average annual generation of approximately 1,629 GWh. The project includes a transmission line of 220 kV to inject energy in the SEN, with a total extension of 90 kilometers from Guaiquivilo power plant to the connection point in HTL Los Cóndores.

During the second quarter of 2018, the Company proceeded with the development of studies and preparation of background information to carry out the entry into the EIA process of this project.

Los Cuartos Project (93 MW): The hydroelectric project Los Cuartos is located in Biobío river, near San Carlos de Purén locality, about 5 km upstream the intersection with Panamericana Sur highway. This hydroelectric power plant has water rights that allow it to achieve a capacity of approximately 93 MW, with an average annual generation of approximately 511 GWh. The project also considers a 10 kilometers transmission line to connect the power plant with Mulchén substation.

Regarding the development of this project, Colbún has decided to defer the development of this project while the market conditions for executing the initiative are not in place, which are monitored permanently.

HidroAysén: On November 17, 2017, Hidroaysén S.A., of which Colbún S.A. owns a 49% stake, reported the cessation of activities and cancellation of the "Hidroaysén Hydroelectric Project" because it is not feasible in economic terms, in the context of the current situation of the power market and its future prospects; proceeding to the dissolution of the Company and liquidation of assets, the withdrawal of pending legal actions and the waiver of the water rights of the Project.

According to the Essential Fact published on November 2017, at 2014 closing, Colbún S.A. recorded a provision for the impairment of its participation in HidroAysén S.A. for a total amount of approximately US$102 million and therefore the dissolution will not have material adverse accounting effects.

At present, the company is in the process of dissolution and liquidation of its assets.

7.4 Risk Management

A. Risk Management Policy

The risk management strategy is oriented to safeguard the Company's stability and sustainability, identifying and managing the uncertainty sources that affect or might affect it.

Risk management assumes the identification, measurement, analysis, mitigation and control of the different risks arising from the Company's different management departments, as well as estimating the impact on its consolidated position, follow up and control throughout time. This process involves the intervention of the Company's senior management and risk taking areas.

Tolerable risk limits, metrics for risk measurement and periodicity of risk analysis are policies established by the Company's Board of Directors.

The risk management function is the CEO's responsibility as well as of each division and department, and has the support of the Corporate Risk Management and supervision, monitoring and coordination of the Risk Committee.

B. Risk Factors

The activities of the Company are exposed to various risks, which have been classified into electrical business risks and financial risks.

B.1. Electrical Business Risks

B.1.1. Hydrological risk

To comply with its commitments in dry hydrologic conditions, Colbún must operate its combined thermal cycle plants mainly with natural gas purchases or with diesel, or by default operating its back-up thermal plants or even buying energy on the spot market. This situation raises Colbún's costs, increasing earnings variability depending on the hydrological conditions.

The Company's exposure to hydrological risk is reasonably mitigated by a commercial policy that aims to maintain a balance between competitive base load generation (hydro generation in a medium to dry year and thermal coal generation, cost efficient natural gas generation, other renewables cost efficient generation, all properly complemented by other sources of generation given their intermittency and volatility) and commercial commitments. Under conditions of extreme and recurrent drought, a potential shortage of water for refrigeration could affect the generation capacity of the combined cycles. With the objective of minimizing the use of water and ensuring operational availability during periods of water scarcity, Colbún built a Reverse Osmosis Plant that allows to reduce by up to 50% the water used in the cooling process of the combined cycles of the Nehuenco Complex.The plant completed its construction in May 2017 and came into operation during the third quarter of 2017.

In Peru, Colbún owns a combined-cycle power plant and has a commercial policy oriented towards committing such base energy through medium and long-term contracts. The exposure to dry seasons is restricted, since Colbún's operations would only be impacted in the event of potential operational failures that would require the Company to resort to the spot market. Additionally, the Peruvian electrical market presents an efficient thermal supply and availability of natural gas from local sources that backs it up.

B.1.2. Fuel price risk

In Chile, in situations of low water availability in its hydro power plants, Colbún relies on its thermal plants or purchase energy in the spot market at marginal cost. In these scenarios, there is a risk associated to potential variations in international fuel prices. Part of this risk is mitigated incorporating fuel price indexation on our selling energy contracts. Additionally, in order to reduce fuel price risks there is a hedge program in place with different derivative instruments such as call options and put options to hedge the remaining exposure, if necessary. Otherwise, in case of abundant hydrology, the Company may be in a selling position in the spot market, where the price would be partially determined by the fuel price.

In Peru, the cost of natural gas has a lower dependence to international prices, due to an important domestic production of this hydrocarbon, limiting the exposure to this risk.

Like in Chile, the proportion exposed to variations in international prices is mitigated by indexed formulas in energy sales contracts.

Due to the above, exposure to the risk of changes in fuel prices is largely mitigated.

B.1.3. Fuel supply risks

Regarding liquid fuel supply in Chile, the Company has agreements with suppliers and own storage capacity to ensure adequate reliability in respect to the availability of this type of fuel.

Regarding natural gas supply, in Chile Colbún has medium-term contracts with ERSA and Metrogas. For the long term the new agreement with ERSA stand out, for the options of supply of liquefied natural gas and reserved regasification capacity effective from 2018 to 2030, which will allow Colbún to access natural gas for the Nehuenco Complex. On its part, in Peru, Fenix has long-term contracts with the ECL88 Consortium (Pluspetrol, Pluspetrol Camisea, Hunt, SK, Sonatrach, Tecpetrol and Repsol) and gas transportation agreements with TGP.

Regarding coal purchases for Santa María unit I power plant, new tenders have been undertaken (the last in April 2018), inviting important international suppliers to bid, awarding the supply contract to well supported and competitive Companies. The above is in line with an early purchasing policy and a stock management policy in order to substantially mitigate any risk of not having this fuel available.

B.1.4. Equipment failure and maintenance risk

The availability and reliability of Colbún's generating units and transmission facilities are essential to the Company's business. Based on the above, Colbún holds a policy to conduct regular maintenances on its equipment according to the recommendations of its suppliers, and maintains a policy to cover such risks through insurances for its physical assets, including coverage for physical damage and for loss of profit.

B.1.5. Project construction risks

The development of new generation and transmission projects can be affected by factors such as: delays in obtaining environmental approvals, regulatory framework changes, prosecutions, increase in equipment prices, opposition from local and international stakeholders, adverse geographical conditions, natural disasters, accidents or other unforeseen events.

The Company's exposure to such risks is managed through a commercial policy that considers the effects of potential project delays. Alternatively, clearance levels with respect to time and construction costs estimates are incorporated. Additionally, the Company's exposure to this risk is partially covered with the "All Construction Risk" insurance policies covering both physical damage and loss of profit as a result of delay in service resulting from a casualty, both with standard deductibles for this type of insurances.

The companies in the sector face a very challenging electricity market, with lots of activity from different interest groups, mainly from local communities and NGOs, which are legitimately looking for more participation and prominence. As part of this complexity, the environmental processing times have become more uncertain, which occasionally are also followed by long prosecuting processes. This has resulted in less construction of significant size projects.

Colbún also has the policy to integrate with excellence the social and environmental dimensions to the development of its projects. The Company has developed a model of social link that allows it to work with neighboring communities and with the society in general, starting a transparent process of public participation and confidence building in the early stages of projects and throughout their entire life cycle.

B.1.6. Regulatory risks

Regulatory stability is fundamental for the generation sector, due to the long-term nature of the development, execution and return on investment of its projects. Colbún believes that regulatory changes must be made taking into consideration the complexities of the electrical system and keeping adequate investment incentives. It is important to dispose of a regulation that gives clear and transparent rules that consolidates the trust of the agents in the sector.

In Chile, the announcements on energy issues that the new government has made contemplate various regulatory changes, which, depending on the way they are implemented, could represent an opportunity or risk for the Company. Of particular relevance are the changes that are currently being discussed in Congress regarding (i) the amendment to the Water Code, (ii) the law relative to strengthening the country's regionalization, (iii) the bill that creates the Ministry of Indigenous Peoples, (iv) the bill that creates the National Council and the Councils of Indigenous Peoples, (v) the Law of Biodiversity and Protected Areas and (vi) the Miscellaneous Law announced by the government that seeks to perfect aspects (not defined until now) of the last Law of Transmission. Likewise, initiatives in the sector are important, such as (i) definition of the necessary regulations for the correct application of the new Electricity Transmission Law already enacted, especially the regulations for complementary services and System Coordination and Operation, which they find in comptroller's office and the regulation of the systems of transmission and planning of the transmission that is in phase of work tables, (ii) Application of energy route 2018-2022 in line with the long-term Energy Policy for the country (2050)), driven by the previous government, (iii) the first Annual Transmission Expansion Plan for the Year 2017, and (iv) decarbonisation tables for Chile's energy matrix, among others.

In Peru, the Ministry of Energy and Mines (Minem), in December 2017 approved new regulatory provisions for the declaration of the price of gas (gas price will be declared once a year and now has a minimum declaration price) and requested to report operational inflexibilities of the generating units. Although the Minem, during the first semester, has established a work table that must conclude with a bill that corrects the distortions of the power sector, such as the declaration of the price of gas, overblown of distributors and the migration from Regulated Customers to Unregulated, there is still no agreement among the agents of the sector that allows the elaboration of a draft Law.

The necessary and balanced development of the electricity market during the next few years depends greatly on the quality of these new regulations and on the signals provided by the authorities with them, both in Chile and Peru.

B.1.7. Risk of change in demand supply and selling price of electricity

The projection of future electricity consumption is very relevant information for the determination of its market price.

In Chile, a lower growth in demand, a decrease in fuel prices and an increase in the inflow of solar and wind renewables energy projects led to a decrease in the short-term price of energy (marginal cost) in the last years.

Regarding long-term values, the bidding process for the supply of regulated customers concluded in August 2016 and October 2017 resulted in a significant drop in the bid and awarded prices, reflecting the greater competitiveness in the market and the impact of the emergence of new technologies – solar and wind fundamentally – with a significant reduction of costs due to its massification. Although the factors that trigger these competitive dynamics and price trends can be expected to remain in the future, it is difficult to determine their precise impact in the long-term values of energy.

Additionally, given the difference generated between regulated and unregulated clients, a portion of regulated clients may choose a non-regulated regime. This can occur because the electricity legislation allows clients with connected capacity between 500 kW and 5,000 kW to choose to be categorized as regulated or non-regulated customers. Colbún has one of the most efficient generation matrix in the Chilean system, thus we have the ability to offer competitive conditions and costs to customers who require it.

In Peru, there is also a scenario of a temporary imbalance between supply and demand, mainly due to the increase of efficient supply (hydroelectric and natural gas plants), involving a decrease of energy prices in recent months.

The growth that has been observed in the Chilean (and potentially in the Peruvian) market of non-conventional renewable sources of generation such as solar and wind may generate integration costs and therefore affect the operating conditions of the rest of the electrical system especially in the absence of a market for complementary services that adequately remunerate the services necessary to manage the variability of such generation sources.

B.2 Financial risks

Financial risks are those associated with the inability to perform transactions or the breach of obligations from the activities due to lack of funds, as well as variations in interest rates, exchanges rates, counterparty financial stress or other financial market variables that may materially affect Colbún.

B.2.1 Exchange rate risk

The exchange rate risk is mainly caused by currency fluctuations that come from two sources. The first source of exposure comes from cash flows corresponding to revenues, costs and disbursements of investments denominated in currencies other than the functional currency (U.S. dollar). The second source of risk corresponds to the accounting mismatch between assets and liabilities of the Statement of Financial Position denominated in currencies other than the functional currency.

Exposure to cash flows in currencies other than USD is limited because virtually all sales of the Company are denominated directly in or indexed to USD. Similarly, the main costs are related to diesel, natural gas and coal purchases, which incorporate pricing formulas based on international prices denominated in USD. Regarding investment projects disbursements, the Company incorporates indexers in its contracts with suppliers and resorts to the use of derivatives to fix the expenses in currencies other than USD.

Exposure to the mismatching of Balance Sheet accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural items denominated in currencies other than USD. For purposes of the above, Colbún maintains a significant proportion of its cash surpluses in dollars and occasionally resorts to the use of derivatives, mainly using currency swaps and forwards.

The information on the credit rating of the clients is disclosed in note 11.b of the Financial Statements.

B.2.2 Interest rate risk

Is related to changes in interest rates that affect the value of future cash flows tied to a floating interest rate, and changes in the fair value of assets and liabilities linked to fixed interest rate that are measured at fair value. In order to mitigate these risks, interest rate swaps are used.

The Company's financial debt, including the effect of the contracted interest rate derivatives, has the following profile:

Table 13: Interest Rate Profile

Interest Rate	Jun-17	Dec-17	Jun-18
Fixed	97%	100%	100%
Variable	3%	0%	0%
Total	**100%**	**100%**	**100%**

As of June 30, 2018, the Company’s financial debt is 100% denominated in fixed rate.

B.2.3 Credit risk

The Company is exposed to the risk arising from the possibility that a counterpart fails to meet its contractual obligations, producing an economic or financial loss. Historically, all of Colbún’s counterparties with which it has maintained energy supply contracts have made the corresponding payments correctly.

With respect to cash and derivatives statements, Colbún has entered into these transactions with financial institutions with high credit ratings. Additionally, the Company has established limits by counterparty, which are approved by the Board of Directors and periodically reviewed.

As of June 30, 2018, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, which are known as “money market”.

Information on contractual maturities of the main financial liabilities is disclosed in note 11.b of the Financial Statements.

B.2.4 Liquidity risk

This risk results from different funding requirements to meet investment commitments and business expenses, debt payments, among others. The funds needed to meet these cash flow outputs are obtained from our own resources generated by Colbún’s ordinary activity and by contracting credit lines to ensure sufficient funds to cover projected needs for a given period.

As of June 30, 2018, Colbún has cash in excess for approximately US$696 million, invested in time deposits with an average maturity of 64 days (includes time deposits with a duration of more than 90 days, which are recorded as “Other Current Financial Assets” in the Consolidated Financial Statements) and in short-term mutual funds with a maturity of less than 90 days. The Company also has as additional liquidity sources available to date: (i) two bonds lines registered in the local market for a total amount of UF 7 million, (ii) a line of trade notes in the local market for UF 2.5 million and (iii) uncommitted bank lines of approximately US$150 million.

In the next 12 months, the Company must disburse approximately US$110 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

As of June 30, 2018, Colbún has a local credit rating of AA- by Fitch Ratings and AA- by Standard and Poor's Chile (S&P Chile), both with stable outlooks. At the international level, the Company's rating is Baa3 by Moody's, and BBB by Fitch Ratings and Standard & Poor's (S&P Global), all with stable outlooks.

On its part, Fenix has international risk rating Baa3 by Moody's, BBB- by Standard & Poor's (S&P) and BBB- by Fitch Ratings, all with stable outlooks.

Considering the foregoing, it is assessed that the Company's liquidity risk is currently limited.

Information on contractual maturities of the main financial liabilities is disclosed in note 21.c.2 of the Financial Statements.

B.2.5 Risk measurement

The Company periodically analyzes and measures its exposure to the different risk variables, in accordance with the previous paragraphs. Risk management is performed by a Risk Committee with the support of the Corporate Risk Management and in coordination with other divisions of the Company.

Regarding business risks, specifically those related to changes in commodity prices, Colbún has implemented mitigation measures consistent of indexers in energy sale contracts and of hedges with derivative instruments to cover any possible remaining exposure. It is for this reason that a sensitivity analysis is not presented.

To mitigate the risk of failures in equipment or in the projects construction, the Company has insurance coverage for damage to its physical property, business interruption damages and loss of profit for the delay in the commissioning of a project. This risk is considered fairly limited.

With regard to financial risks, for purposes of measuring exposure, Colbún prepares a sensitivity analysis and value at risk in order to monitor potential losses assumed by the Company in the event that the exposure exists.

The exchange rate risk is considered to be limited, since the Company's main flows (revenues, costs and projects disbursements) are denominated directly in or indexed to USD.

Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural balance items denominated in currencies other than USD. Given the above, as of June 30, 2018, the Company's exposure to the impact of exchange differences on structural items translates into a potential effect of approximately US$4.3 million, in quarterly terms, based on an analysis of sensitivity with 95% confidence.

There is no variation risk in interest rates, since 100% of the financial debt is contracted at a fixed rate.

Credit risk is limited because Colbún operates only with local and international banking counterparties with high credit ratings and has established policies of maximum exposure per counterparty that limits the specific concentration with these institutions. In the case of banks, local institutions have a local risk rating equal to or greater than BBB+ and foreign entities have an international risk rating investment grade. At the end of the period, the financial institution that has the largest share of cash surplus reached 24%. Regarding existing derivatives, the Company's international counterparts have a credit rating equivalent to BBB+ or higher and national counterparts have local credit rating of BBB+ or higher. It should be noted that no counterparty concentrates more than 21% in notional terms.

Liquidity risk is considered low because of the relevant cash position of the Company, the amount of financial obligations over the next twelve months and the access to additional sources of funding.

DISCLAIMER

This document provides Information about Colbún S.A. In no case this document constitutes a comprehensive analysis of the financial, production and commercial situation of the Company.

This document may contain forward-looking statements concerning Colbún's future performance and should be considered as good faith estimates by Colbún S.A.

In compliance with the applicable laws, Colbún S.A. publishes on its website (www.colbun.cl) and sends the financial statements and its corresponding notes to the Comisión para el Mercado Financiero, those documents should be read as a complement to this report.