4th QUARTER 2018

Colbun
MEJOR ENERGÍA

EARNINGS REPORT

As of December 31, 2018

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4Q18

EARNINGS REPORT

Conference Call
4Q18

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1. HIGHLIGHTS

Consolidated **EBITDA** for the fourth quarter of 2018 (4Q18) reached **US$210.2 million**, 3% higher than the EBITDA of US$204.8 million in the fourth quarter of 2017 (4Q17). The higher EBITDA is mainly explained by higher sales to unregulated customers, partially offset by: (1) lower sales to regulated customers and (2) higher other costs, by nature, associated to a positive variation registered in 2017 at Fenix, due to the reversal of a provision for doubtful accounts, registered in 2016.
In cumulative terms, EBITDA as of December 2018 (Dec18) reached **US$684.1 million**, 1% lower than the EBITDA of US$692.1 million as of December 2017 (Dec17).

Non-operating Income in 4Q18 recorded **losses of US$50.2 million**, 52% lower than the loss of US$105.0 million in 4Q17. The lower losses are mainly explained by the lower accounting record of provisions for impairment of specific assets and impairment of licenses for non-use water rights, partially offset by the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter, compared to the positive impact of the variation of that parity in 4Q17.
In cumulative terms, non-operating income as of Dec18 recorded **losses of US$118.3 million**, 19% lower than the loss of US$146.0 million presented in Dec17. The lower loss is explained by: (1) the lower impairments previously explained, (2) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value, and (3) the higher financial income due to higher rates of return on investments of cash surpluses. These effects were partially offset by the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the year.

4Q18 **tax expenses** amounted to **US$32.6 million**, lower than the tax profit of US$23.7 million in 4Q17. The tax profit of 4Q17 is mainly explained by the effect on P&L from the recognition of a deferred tax asset, as a result of the tax loss generated from the cessation of activities and cancellation of the "HidroAysén Hydroelectric Project" for US$39.8 million, in November 2017.
Tax expenses **in cumulative terms** as of Dec18 reached **US$98.4 million**, which compares with the tax expense of US$34.1 million presented in Dec17. The higher tax expenses are mainly explained by: (1) the recognition of a deferred tax asset as a result of the cancellation of the "HidroAysén Hydroelectric Project" previously explained, and (2) a tax profit (deferred) registered in 2017 in Fenix, as a result of the appreciation of the Peruvian sol versus the US dollar during the period. Given the depreciation of the Peruvian sol during 2018, a loss was recorded for this concept in that period.

The Company recorded in 4Q18 a **net income of US$67.4 million,** 15% lower than the net income of US$79.5 million in 4Q17. The lower profit is mainly explained by the higher tax expenses previously explained and by the higher depreciation and amortization costs, mainly due to major maintenances and projects performed in 2018. These effects were partially offset by the lower non-operating losses and the higher EBITDA of the quarter.
In cumulative terms, the result shows a net income of **US$230.4 million**, 20% lower than the net income of US$288.6 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms.

At 4Q18 closing, **financial investments** amounted to **US$788.1 million,** and **net debt** was **US$815.2 million.**

Main highlights of 2018:

During 2018, the Company's strategic agenda made significant progress, positioning Colbún to ensure its **competitiveness in the medium and long term,** focusing on 4 main areas: (1) massive incorporation of cost-efficient renewable energy projects from variable sources; (2) market share increase in the unregulated customer segment; (3) implementation of an efficiency plan to reduce the fixed cost structure of the Company; and (4) implementation of a digitization and automation program in our facilities.

Regarding the incorporation of renewable energy from variable sources, at the end of 2018 Colbún was able to complete a portfolio of locations for 7 **wind and solar projects,** which are in early stages of development. These total approximately **1,800 MW,** distributed in different parts of the country (Atacama, Coquimbo, BioBio, Los Rios and Los Lagos). With this, an important step has been taken towards achieving the objective of incorporating 4,000 MW of new renewable energy capacity in 10 years, doubling the size of the Company. These assets constitute a very good complement for Colbún's existing generation matrix, which will allow us to provide our customers with a supply of renewable, competitive, continuous and long-term energy.

Also regarding growth in renewable energy from variable sources, in June 2018 **Ovejería photovoltaic solar plant** started commercial operations. The power plant, which qualifies as a Small Means of Distributed Generation plant (PMGD for its Spanish acronym), is located in the Metropolitan Region and has an installed capacity of 9 MW.

Regarding the commercial strategy, during 2018 **the Company contracted approximately 1,400 GWh/year of its generation with new unregulated customers.** With this, Colbún adds more than 3,000 GWh/year contracted since 2016 with this segment of customers, balancing the proportion of sales made to unregulated and regulated customers in terms of volume.

Regarding the **fixed cost structure efficiency plan,** it can be highlighted that, during 2018, the Company developed a detailed plan of efficiencies in this type of expenses. **To date, this initiative presents a relevant progress,** which will translate to savings for a minimum amount of US$20 million per year from 2019 onwards.

Regarding Colbún's **digitization and automation program,** it comprehends a review of the Company's operational, administrative and maintenance processes, in order to simplify them and increase Colbún's efficiency and competitiveness. Among these initiatives are, for example, the adoption of predictive maintenance techniques, the online monitoring of operational processes, the remote control of our power plants, among others.

On October 1, 2018, Colbún S.A. carried out a reorganization of assets, **consolidating all transmission assets (national, zonal and dedicated) in Colbún Transmisión S.A.** The above, with the aim of achieving a **greater focus on management, reporting and visibility of the transmission business.** It should be noted that Colbún Transmisión reports independently to the Financial Market Commission (CMF for its Spanish acronym) its Financial Statements and main figures on an annual basis. The proforma EBITDA (considering the total transmission assets) of this subsidiary is ~ US $ 65 million, considering the twelve months of the year 2018.

As a recognition to the Company in matters of sustainability, in September 2018, **Colbún was selected to list for the third time in the Dow Jones Sustainability Index Chile** (DJSI Chile) **and second time in the DJSI MILA**, in its 2018 versions. Regarding DJSI Chile, the index groups the companies with the best rating in Chile, while the DJSI MILA brings together the companies with the best rating in the markets of the Pacific Alliance.

2. PHYSICAL SALES AND GENERATION BALANCE

Physical Sales and Generation Balance in Chile

Table 1 shows a comparison between physical energy sales and power generation in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18.

Table 1: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
12,428	**12,851**	**Total Physical Sales (GWh)**	**3,018**	**2,986**	**3%**	**(1%)**
6,303	5,426	Regulated Clients	1,490	1,256	(14%)	(16%)
4,732	6,113	Unregulated Clients	1,184	1,573	29%	33%
1,393	1,313	Sales to the Spot Market	345	156	(6%)	(55%)
1,608	**1,643**	**Capacity Sales (MW)**	**1,630**	**1,663**	**2%**	**2%**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
12,716	**13,005**	**Total Generation (GWh)**	**3,080**	**3,009**	**2%**	**(2%)**
5,897	**6,312**	**Hydraulic**	**2,156**	**2,121**	7%	(2%)
6,702	**6,558**	**Thermal**	**888**	**845**	(2%)	(5%)
3,890	3,859	Gas	495	336	(1%)	(32%)
206	78	Diesel	8	13	(62%)	72%
2,606	2,620	Coal	385	496	1%	29%
116	**136**	**REVS**	**36**	**44**	17%	22%
116	122	Wind Farm*	36	37	5%	3%
0	14	Solar	0	7	-	-
52	**94**	**Spot Market Purchases (GWh)**	**0**	**29**	**81%**	**-**
1,341	**1,218**	**Sales - Purchases to the Spot Market (GWh)**	**345**	**127**	**(9%)**	**(63%)**

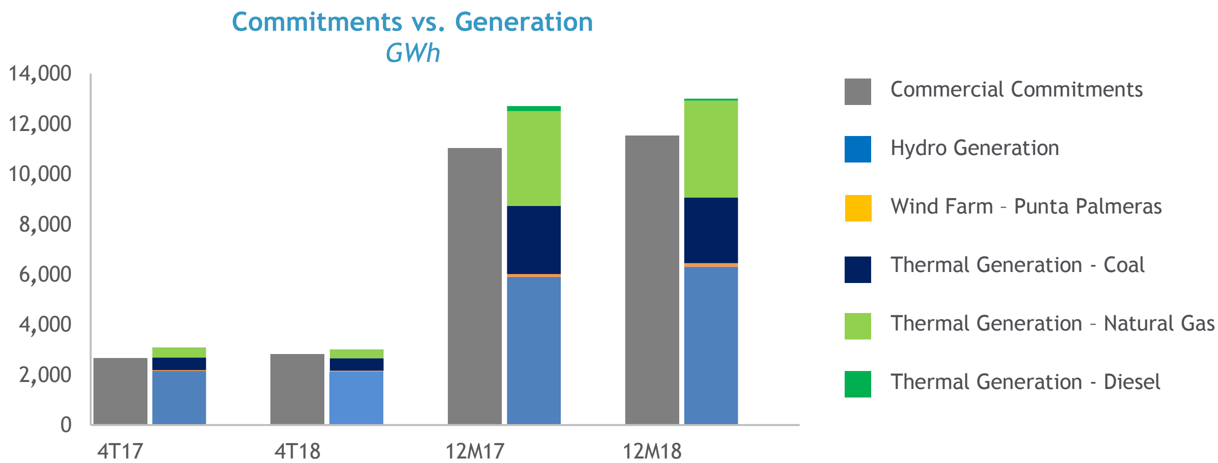
(*): Corresponds to the energy purchased from the Punta Palmeras wind farm owned by Acciona.
REVS: Renewable energy from variable sources

Physical withdrawals during 4Q18 reached 2,986 GWh, in line compared to 4Q17. On its part, generation of the quarter decreased by 2% compared to 4Q17, mainly due to a lower gas generation (-159 GWh Q/Q) and hydroelectric generation (-35 GWh Q/Q), partially compensated by an increase in generation with coal (+111 GWh Q/Q), REVS (+8 GWh Q/Q) and diesel (+6 GWh Q/Q).
Spot market balance during the quarter recorded net sales of 127 GWh, lower compared to net sales of 345 GWh recorded in 4Q17. During the quarter, **100% of Colbún's commercial commitments were supplied with cost-efficient base generation** (hydro, REVS, coal and natural gas).

In cumulative terms, physical withdrawals and the total generation of Colbún in Dec18 reached 12,851 GWh and 13,005 GWh respectively, increasing by 3% and 2% compared to Dec17. The higher physical sales are mainly explained by higher sales to unregulated customers, partially offset by lower sales to regulated customers and in the spot market. On its part, the accumulated generation increased mainly due to an increase in hydroelectric generation (+415 GWh Ac/Ac), REVS (+19 GWh Ac/Ac) and coal (+14 GWh Ac/Ac), partially offset by lower diesel (-128 GWh Ac/Ac) and gas (-31 GWh Ac/Ac) generation.
Spot market balance recorded net sales of 1,218 GWh as of Dec18, lower compared with the net sales of 1,341 GWh recorded in the previous year.

Generation mix in Chile: The hydrological year (Apr18-Mar19), has presented lower rainfalls compared with an average year in the main basins of the SEN, with a rainfall deficit in Aconcagua (-34%), Maule (-17%); Biobío (-9%) and Chapo (-6%). On the other hand, Laja basin has presented a rainfalls surplus (+12%) compared with an average year.
Despite this, the energy accumulated in reservoirs as of Dec18 exceeds the levels recorded as of Dec17, mainly due to a better melting season compared to the same period of the previous year.

During 4Q18, SEN's total generation increased by 1% compared to 4Q17, due to an increase in: (1) gas generation (+608 GWh Q/Q), and (2) REVS generation (+534 GWh Q/Q). The higher generation was partially offset by a decrease in: (1) coal generation (-735 GWh Q/Q), (2) diesel generation (-134 GWh Q/Q), and (3) hydroelectric generation (-113 GWh Q/Q). On its part, the average marginal cost measured in Alto Jahuel increased by 32% compared to the 4Q17, averaging US$52.7/MWh in 4Q18.



3. INCOME STATEMENT ANALYSIS

Table 2 presents a summary of the Consolidated Income Statement in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18, for Chile and Peru.

Table 2: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
1,548.4	**1,571.3**	**OPERATING INCOME**	**388.8**	**394.9**	**1%**	**2%**
796.9	706.6	Regulated Customers Sales	197.3	166.6	(11%)	(16%)
425.3	627.8	Unregulated Customers Sales	120.8	180.0	48%	49%
112.5	111.0	Energy and Capacity Sales	18.7	16.8	(1%)	(10%)
189.5	98.4	Transmission Tolls	47.2	24.3	(48%)	(49%)
24.1	27.6	Other Operating Income	4.9	7.3	14%	50%
(755.7)	**(773.6)**	**RAW MATERIAL AND CONSUMABLES USED**	**(161.5)**	**(154.7)**	**2%**	**(4%)**
(194.1)	(170.1)	Transmission Tolls	(50.9)	(41.4)	(12%)	(19%)
(46.0)	(45.5)	Energy and Capacity Purchases	(15.2)	(10.3)	(1%)	(33%)
(308.4)	(355.5)	Gas Consumption	(46.9)	(51.5)	15%	10%
(31.1)	(16.4)	Diesel Consumption	(2.6)	(3.6)	(47%)	38%
(73.8)	(86.8)	Coal Consumption	(14.2)	(19.2)	18%	36%
(102.3)	(99.3)	Other Operating Expenses	(31.6)	(28.8)	(3%)	(9%)
792.7	**797.7**	**GROSS PROFIT**	**227.3**	**240.2**	**1%**	**6%**
(76.8)	(79.8)	Personnel Expenses	(22.9)	(19.5)	4%	(15%)
(23.8)	(33.9)	Other Expenses, by Nature	0.4	(10.5)	42%	-
(223.5)	(237.0)	Depreciation and Amortization Expenses	(44.0)	(60.0)	6%	36%
468.6	**447.2**	**OPERATING INCOME (LOSS) (*)**	**160.8**	**150.2**	**(5%)**	**(7%)**
692.1	**684.1**	**EBITDA**	**204.8**	**210.2**	**(1%)**	**3%**
12.7	20.4	Financial Income	4.2	6.0	60%	42%
(85.0)	(83.9)	Financial Expenses	(22.7)	(20.8)	(1%)	(8%)
8.2	(12.6)	Exchange rate Differences	4.1	(3.1)	-	-
2.9	11.4	Profit (Loss) of Companies Accounted for Using the Equity Method	(0.2)	1.8	292%	(868%)
(84.8)	(53.6)	Other Profit (Loss)	(90.4)	(34.2)	(37%)	(62%)
(146.0)	**(118.3)**	**NON-OPERATING INCOME**	**(105.0)**	**(50.2)**	**(19%)**	**(52%)**
322.7	**328.8**	**PROFIT (LOSS) BEFORE TAXES**	**55.8**	**99.9**	**2%**	**79%**
(34.1)	(98.4)	Income Tax Expense	23.7	(32.6)	189%	(237%)
288.6	**230.4**	**PROFIT (LOSS) AFTER TAX**	**79.5**	**67.4**	**(20%)**	**(15%)**
271.0	**240.3**	**PROFIT (LOSS) OF CONTROLLER**	**76.6**	**71.9**	**(11%)**	**(6%)**
17.6	**(9.9)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**2.9**	**(4.5)**	-	-

(*): 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 3: Exchange Rates at Closing

Exchange Rates	Dec-17	Dec-17	Dec-18
Chile (CLP / US$)	614.75	660.42	694.77
Chile UF (CLP/UF)	26,798.14	27,357.45	27,565.79
Peru (PEN / US$)	3.25	3.30	3.38

3.1. Operating Income Analysis in Chile

Table 4 presents a summary of Operating Income and EBITDA in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18. The major accounts and/or variations will be analyzed below.

Table 4: EBITDA Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
1,355.6	**1,369.9**	**OPERATING INCOME (*)**	**342.1**	**347.3**	**1%**	**2%**
674.2	599.3	Regulated Customers Sales	165.6	142.6	(11%)	(14%)
414.2	598.2	Unregulated Customers Sales	120.8	173.1	44%	43%
99.3	93.4	Energy and Capacity Sales	16.4	10.5	(6%)	(36%)
148.3	56.4	Transmission Tolls	35.6	15.1	(62%)	(58%)
19.5	22.6	Other Operating Income	3.8	6.1	16%	61%
(614.3)	**(617.4)**	**RAW MATERIAL AND CONSUMABLES USED**	**(124.1)**	**(116.1)**	**1%**	**(6%)**
(157.0)	(129.1)	Transmission Tolls	(40.7)	(31.6)	(18%)	(22%)
(43.0)	(39.0)	Energy and Capacity Purchases	(15.2)	(10.3)	(9%)	(33%)
(216.6)	(263.1)	Gas Consumption	(22.6)	(26.2)	21%	16%
(31.1)	(15.1)	Diesel Consumption	(2.6)	(3.6)	(52%)	38%
(73.8)	(86.8)	Coal Consumption	(14.2)	(19.2)	18%	36%
(92.7)	(84.4)	Other Operating Expenses	(28.8)	(25.3)	(9%)	(12%)
741.3	**752.5**	**GROSS PROFIT**	**218.0**	**231.2**	**2%**	**6%**
(70.9)	(73.6)	Personnel Expenses	(21.2)	(18.0)	4%	(15%)
(31.8)	(30.5)	Other Expenses, by nature	(9.7)	(9.1)	(4%)	(6%)
(191.3)	(203.7)	Depreciation and Amortization Expenses	(35.7)	(51.4)	7%	44%
447.3	**444.7**	**OPERATING INCOME (LOSS)(**)**	**151.4**	**152.6**	**(1%)**	**1%**
638.5	**648.4**	**EBITDA**	**187.0**	**204.1**	**2%**	**9%**

(*): 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$50.8 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 4Q18 amounted to US$347.3 million, increasing 2% compared to the 4Q17, mainly due to higher sales to unregulated customers, partially compensated by: (1) lower sales to regulated customers, and (2) lower revenues from transmission tolls due to the change in methodology in the collection of these tolls, which, since January 2018, are paid directly to the owner of the transmission facilities.

In cumulative terms, revenues from ordinary activities as of Dec18 reached **US$1,369.9 million**, increasing 1% compared to the previous year. The higher revenues of the period are mainly explained by the higher sales to unregulated customers and by the higher hydroelectric generation. The higher revenues were mainly explained by the same reasons that explain the variations in quarterly terms.

Raw materials and consumables used totalized US$116.1 million, 6% lower compared to the costs of US$124.1 million registered in 4Q17. The lower costs are mainly explained by a decrease in: (1) transmission tolls costs, (2) energy and capacity purchases in the spot market, and (3) in the costs recorded in the line "Other Operating Expenses" mainly associated to maintenance and insurance costs, as a result of the fixed expenses reduction plan explained in the section "Main highlights of 2018". This decrease was partially offset by a higher consumption price of coal and gas.

In cumulative terms, raw materials and consumables as of Dec18 **reached US$617.4 million**, increasing by 1% compared to Dec17, mainly due to the increase in the price of consumption of gas and coal, partially offset by lower: (1) transmission tolls costs, (2) diesel consumption costs due to a decrease in generation with that fuel, and (3) costs recorded in "Other Operating Expenses", mainly associated with maintenance and insurance costs, as a result of the fixed cost reduction plan previously explained.

EBITDA for 4Q18 increased by 9% compared to the same quarter of the previous year, **reaching US$204.1 million**. The increase is mainly explained by the lower raw materials and consumables used and the higher operating income, previously explained.
In cumulative terms, EBITDA increased from US$638.5 million in Dec17 to **US$648.4 million in Dec18**. The higher EBITDA is mainly explained by the lower raw materials and consumables used and the higher operating income, previously explained.

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

Table 5 shows a summary of the consolidated non-operational income in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18, for Chile and Peru. Major accounts/variations will be analyzed below.

Table 5: Consolidated Non-Operating Income (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
12.7	20.4	Financial Income	4.2	6.0	60%	42%
(85.0)	(83.9)	Financial Expenses	(22.7)	(20.8)	(1%)	(8%)
8.2	(12.6)	Exchange rate Differences	4.1	(3.1)	-	-
2.9	11.4	Profit (Loss) of Companies Accounted for Using the Equity Method	(0.2)	1.8	292%	-
(84.8)	(53.6)	Other Profit (Loss)	(90.4)	(34.2)	(37%)	(62%)
(146.0)	**(118.3)**	**NON-OPERATING INCOME**	**(105.0)**	**(50.2)**	**(19%)**	**(52%)**
322.7	**328.8**	**PROFIT (LOSS) BEFORE TAXES**	**55.8**	**99.9**	**2%**	**79%**
(34.1)	(98.4)	Income Tax Expense	23.7	(32.6)	189%	(237%)
288.6	**230.4**	**PROFIT (LOSS) AFTER TAX**	**79.5**	**67.4**	**(20%)**	**(15%)**
271.0	**240.3**	**PROFIT (LOSS) OF CONTROLLER**	**76.6**	**71.9**	**(11%)**	**(6%)**
17.6	**(9.9)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**2.9**	**(4.5)**	-	-

Non-operating Income in 4Q18 recorded **losses of US$50.2 million,** 52% lower than the loss of US$105.0 million in 4Q17. The lower losses are mainly explained by the lower accounting record of provisions for impairment of specific assets and impairment of licenses for non-use water rights, partially offset by the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter, compared to the positive impact of the variation of that parity in 4Q17.
In cumulative terms, non-operating income as of Dec18 recorded **losses of US$118.3 million**, 19% lower than the loss of US$146.0 million presented in Dec17. The lower loss is explained by: (1) the lower impairments previously explained, (2) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value, and (3) the higher financial income due to higher rates of return on investments of cash surpluses. These effects were partially offset by the negative impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the year.

4Q18 **tax expenses** amounted to **US$32.6 million,** lower than the tax profit of US$23.7 million in 4Q17. The tax profit of 4Q17 is mainly explained by the effect on P&L from the recognition of a deferred tax asset, as a result of the tax loss generated from the cessation of activities and cancellation of the "HidroAysén Hydroelectric Project" for US$39.8 million, in November 2017.

Tax expenses **in cumulative terms** as of Dec18 reached **US$98.4 million**, which compares with the tax expense of US$34.1 million presented in Dec17. The higher tax expenses are mainly explained by: (1) the recognition of a deferred tax asset as a result of the cancellation of the "HidroAysén Hydroelectric Project" previously explained, and (2) a tax profit (deferred) registered in 2017 in Fenix, as a result of the appreciation of the Peruvian sol during the period. Given the depreciation of the Peruvian sol during 2018, a loss was recorded for this concept in that period.

The Company recorded in 4Q18 a **net income of US$67.4 million,** 15% lower than the net income of US$79.5 million in 4Q17. The lower profit is mainly explained by the higher tax expenses previously explained and by the higher depreciation and amortization costs, mainly due to major maintenances and projects performed in 2018. These effects were partially offset by the lower non-operating losses and the higher EBITDA of the quarter. **In cumulative terms**, the result shows a net income of **US$230.4 million**, 20% lower than the net income of US$288.6 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 6 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2017 and December 31, 2018. Subsequently the main changes will be analyzed.

Table 6: Consolidated Balance Sheet Main Accounts for Chile and Peru (US$ million)

	Dec-17	Dec-18	Var	Var %
Current assets	1,147.2	1,151.3	4.1	0%
Non-current assets	5,775.4	5,627.1	(148.3)	(3%)
TOTAL ASSETS	**6,922.5**	**6,778.3**	**(144.2)**	**(2%)**
Current liabilities	354.8	345.4	(9.4)	(3%)
Non-current liabilities	2,617.0	2,576.0	(41.0)	(2%)
Total net equity	3,950.7	3,856.9	(93.8)	(2%)
TOTAL LIABILITIES AND NET EQUITY	**6,922.5**	**6,778.3**	**(144.2)**	**(2%)**

Current Assets: Reached US$1,151.3 million, in line compared to Dec17 closing.

Non-current Assets: Recorded US$5,627.1 million at the end of Dec18, slightly decreasing compared to the existing balance as of Dec17, mainly due to the fixed assets depreciation, partially offset by the capex of the period.

Current Liabilities: Amounted to US$345.4 million at Dec18 closing, decreasing by 3% compared to Dec17 closing, mainly due to a decrease in provisions registered in Dec17 balance, for tax payments made in April of 2018.

Non-current Liabilities: Totalized US$2,576.0 million at Dec18 closing, decreasing by 2% compared to Dec17 closing, mainly due to financial debt amortizations during the year.

Total Net Equity: Net worth reached US$3,856.9 million, decreasing by 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 and of the interim dividend for US$84.2 million in December 2018, partially offset by the year's net income.

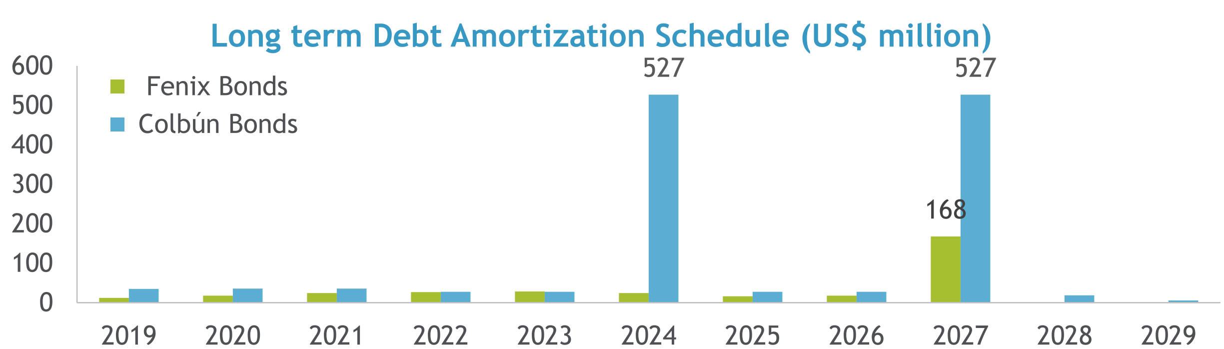


Table 7: Main Debt Items (US$ million)

	Dec-17	Dec-18	Var	Var %
Gross Financial Debt*	1,659.5	1,603.3	(56.2)	(3%)
Financial Investments**	810.2	788.1	(22.1)	(3%)
Net Debt	849.2	815.2	(34.1)	(4%)
EBITDA LTM	692.1	684.1	(8.0)	(1%)
Net Debt/EBITDA LTM	1.2	1.2	(0.0)	(3%)

(*) Includes an international bond for US$335 million and a financial leasing for US$15.0 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.

Table 8: Long Term Financial Debt

Average Life	6.7 years
Average Interest Rate	4.5% (100% fixed rate)
Currency*	95% USD / 5% UF

(*) Includes associated derivatives.

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 9: Financial Ratios

Ratio	Dec-17	Dec-18	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.23	3.33	3.1%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.06	3.21	4.9%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.75	0.76	0.7%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.94%	11.82%	(1.0%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.06%	88.18%	0.1%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.80	4.92	2.5%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	7.46%	5.90%	(20.8%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.94%	3.51%	(11.0%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.39%	8.19%	(2.4%)

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 3.33x and 3.21x as of Dec18 respectively, increasing when compared to Dec17, due to a decrease in current liabilities, explained mainly by provisions registered in Dec17 balance, for tax payments made in April of 2018.

Debt Ratio reached 0.76x as of Dec18, in line with the value of 0.75x as of Dec17.

The percentage of **Short-Term Debt** as of Dec18 was 11.82%, in line with the value of 11.94% as of Dec17.

The percentage of **Long-Term Debt** as of Dec18 was 88.18%, in line with the value of 88.06% as of Dec17.

Financial Expenses Coverage as of Dec18 was 4.92x, higher than the value of 4.80x obtained on Dec17, mainly explained by the higher profit before taxes recorded during the period and by the lower financial expenses compared to Dec17, due to the lower balance of outstanding financial debt.

Equity Profitability as of Dec18 totalized 5.90%, 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, mainly due to the higher tax expenses.

Profitability of Assets and **Performance of Operating Assets** totalized 3.51% and 8.19% respectively as of Dec18. 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 decreased compared to Dec17 due to the lower operating income of the period.

6. CONSOLIDATED CASH FLOW ANALYSIS

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

Table 10: Cash Flow Summary for Chile and Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
667.0	**810.2**	**Cash Equivalents, Beg. of Period***	**775.8**	**784.6**	**21%**	**1%**
600.9	516.4	Net cash flows provided by (used in) operating activities	194.1	144.4	(14%)	(26%)
(338.4)	(396.5)	Net cash flows provided by (used in) financing activities	(142.7)	(117.3)	17%	(18%)
(129.1)	(118.6)	Net cash flows provided by (used in) investing activities**	(23.8)	(18.0)	(8%)	(24%)
133.5	**1.3**	**Net Cash Flows for the Period**	**27.6**	**9.1**	**-**	**(67%)**
9.8	(23.4)	Effects of exchange rate changes on cash and cash equivalents	6.8	(5.6)	-	-
810.2	**788.1**	**Cash Equivalents, End of Period**	**810.2**	**788.1**	**(3%)**	**(3%)**

(*) 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 4Q18, the Company recorded a **net cash inflow of US$9.1 million,** decreasing by 67% compared to the net cash inflow of US$27.6 million in 4Q17.

Operating Activities: During 4Q18 a positive net cash flow of US$144.4 million was generated, decreasing by 26% compared to 4Q17. The lower flow is mainly explained by an increase in accounts receivable, because of indexations over power purchase agreements.
In cumulative terms, a positive net cash flow of US$516.4 million was recorded as of Dec18, decreasing compared to the positive net cash flow of US$600.9 million as of Dec17, mainly explained by: (1) the tax on emissions from thermal power plants, which become effect in January 2017 and whose first payment was made in April 2018, and (2) higher VAT payments and Monthly Provisional Payments for income tax during 2018.

Financing Activities: Generated a net cash outflow of US$117.3 million during 4Q18, which compares with 4Q17's net outflow of US$142.7 million. The lower negative net flow in the quarter is mainly associated with expenses associated to bond issuances and debt refinancing in the international market, paid in 2017. This effect was partially offset by the higher interim dividends paid in 4Q18, which amounted US$84.2 million, compared to the US$58.2 million distributed in 4Q17. This increase is explained by a change in the Company's dividend policy, which increased the pay out ratio from 30% to 50% of the net distributable profit.
In cumulative terms, a negative net outflow of US$396.5 million was recorded as of Dec18, 17% higher than the negative net outflow of US$338.4 million as of Dec17, mainly explained by the higher dividends distributions made in May and December 2018, compared to the dividends distributed in the previous year.

Investing Activities: Generated a net cash outflow of US$18.0 million during 4Q18, 24% lower compared to the disbursements for US$23.8 million in 4Q17, mainly due to payments in 4Q17 for the construction of Ovejería power plant.
In cumulative terms, investment activities generated a net cash outflow of US$118.6 million as of Dec18, lower compared to the disbursements of US$129.1 million as of Dec17, mainly due to payments in 2017 for the construction of La Mina and Ovejería power plants, which were commissioned in May 2017 and June 2018 respectively.

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 started in April, presented as of December 31 a probability of exceedance of the SEN of 81.4%. 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 3,000 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 SEIN has registered a hydrological condition with probability of exceedance of 50.6% during the fourth quarter of 2018, being 82.0% the value recorded in the same quarter of 2017. The cumulative growth rate of power demand at the end of the fourth quarter was 3.7%, 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

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 2,000 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 2018, Colbún made progress in the feasibility and studies stage, starting the resource measurement process through the installation of anemometric towers and Lidar equipment. Additionally, the engineering and environmental diagnosis of the project progressed.

Sol de Tarapacá Photovoltaic Project (150 - 200 MW): the project considers the installation of a solar power plant with an installed capacity of close to 200 MW.

The project is located in the Tarapacá Region, municipality of Pozo Almonte, approximately six kilometers southwest of La Tirana, and uses a total area of approximately 423 ha.

The energy generated will be injected to the Interconnected System through a transmission line that starts at the substation associated to the project and has a length of approximately 8 km from south to north, connecting to the substation new Pozo Almonte, located 2.5 km northeast of the junction of the road to La Tirana with the Panamericana highway.

The project was acquired to the US company First Solar. The level of progress included some engineering studies, environmental studies and an exclusive contract with option to purchase the land.

During 4Q18, the environmental studies were updated to start the environmental processing.

Other Renewable Energy Projects from Variable Sources (~ 1,000 MW): At the end of 2018, Colbún was able to complete a portfolio of locations for another 5 wind and solar projects (in addition to the Horizonte and Sol de Tarapacá projects previously indicated), which they are in early stages of development. These total approximately 1,000 MW, distributed in different parts of the country (Atacama, Coquimbo, BioBio, Los Rios and Los Lagos).

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.

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.

In 2015, the Authority decided to early terminate the environmental process due to lack of essential information. During 2018, the Company prepared the required background and re-submitted the Environmental Impact Study (EIA) in December 2018.

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.

Regarding 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.

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 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.

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. Additionally, gas supply agreements have been signed with Argentine producers, which allows having the possibility of eventually accessing the surplus gas produced in the neighboring country.

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 November 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 bill to modernize the Environmental Impact Assessment System, (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. Additionally, the Ministry of Energy has announced the creation of a "Flexibility Law" and another one of "Improvements to the Transmission Law" that will seek to perfect aspects of the Transmission Law enacted in 2016. The specific contents of these laws have not yet been defined.

Likewise, the National Energy Commission and the Ministry of Energy have continued to develop work tables to continue with their normative work, highlighting the Regulation Table for Transmission Planning. Additionally, the Ministry terminated the Decarbonization Table of the electricity matrix, and the Annual Transmission Expansion Plan for the Year 2017 and has made progress for preparing the Annual Transmission Plan for the year 2018.

In Peru, there are two bills in the Senate that seek to recover efficiency in its electricity market through changes in the gas price declaration. In addition, a law that seeks the recognition of Firm Power to Renewable Energies is being discussed. In parallel, the Ministry of Energy of Peru announced its agenda of regulatory changes, which include (i) Modifications to the Supply Tender Regulations, to promote competitiveness, (ii) Elaboration of a Distributed Generation regulation, (iii) Bill for the promotion of electric vehicles.

Of the quality of these new regulations and of the signals that the authority therefore gives, will depend - to a large extent - the necessary and balanced development of the electricity market in the coming years, both in Chile and in 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).

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 11: Interest Rate Profile

Interest Rate	Dec-17	Sep-18	Dec-18
Fixed	100%	100%	100%
Variable	0%	0%	0%
Total	**100%**	**100%**	**100%**

As of December 31, 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 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 December 31, 2018, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former corresponds 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 December 31, 2018, Colbún has cash in excess for approximately US$788 million, invested in time deposits with an average maturity of 108 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, and (ii) uncommitted bank lines of approximately US$150 million.

In the next 12 months, the Company must disburse approximately US$118 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

As of December 31, 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 December 31, 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 a sensitivity analysis 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 23%. 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.

8. APPENDIX FENIX POWER

8.1 Physical Sales and Generation Balance in Peru

The following table presents a comparison of physical energy sales, and power generation in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18.

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
4,112	**4,045**	**Total Physical Sales (GWh)**	**1,110**	**1,160**	**(2%)**	**4%**
3,012	3,001	Costumers under Contract	820	717	(0%)	(13%)
1,099	1,044	Sales to the Spot Market	290	443	(5%)	53%
557	**552**	**Capacity Sales (MW)**	**554**	**554**	**(1%)**	**(0%)**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
4,113	**3,914**	**Total Generation (GWh)**	**1,135**	**1,186**	**(5%)**	**4%**
4,113	3,914	Gas	1,135	1,186	(5%)	4%
93	**210**	**Spot Market Purchases (GWh)**	**-**	**-**	**126%**	**-**
1,007	**834**	**Sales - Purchases to the Spot Market (GWh)**	**290**	**443**	**(17%)**	**53%**

8.2 Operating Income Analysis Peru

The table presents a summary of Operating Income and EBITDA of Fenix in 4Q17, 4Q18 and cumulative as of Dec17 and Dec18. The major accounts and/or variations will be analyzed below.

Table: EBITDA Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-17	Dec-18		4Q17	4Q18	Ac/Ac	Q/Q
192.8	**201.5**	**OPERATING INCOME**	**46.7**	**47.6**	**4%**	**2%**
112.5	107.3	Regulated Customers Sales	21.6	24.0	(5%)	11%
21.3	29.6	Unregulated Customers Sales	10.2	7.0	39%	-
13.2	17.6	Sales to Other Generators	2.3	6.3	34%	172%
41.2	42.0	Transmission Tolls	11.6	9.2	2%	(21%)
4.6	5.0	Other Operating Income	1.1	1.1	9%	8%
(141.4)	**(156.2)**	**RAW MATERIAL AND CONSUMABLES USED**	**(37.4)**	**(38.6)**	**10%**	**3%**
(37.1)	(41.0)	Transmission Tolls	(10.2)	(9.8)	11%	(4%)
(3.0)	(6.5)	Energy and Capacity Purchases	(0.0)	(0.0)	115%	(80%)
(91.7)	(92.4)	Gas Consumption	(24.4)	(25.3)	1%	4%
0.0	(1.4)	Diesel Consumption	0.0	0.0	-	-
(9.6)	(14.9)	Other Operating Expenses	(2.8)	(3.5)	56%	26%
51.4	**45.3**	**GROSS PROFIT**	**9.3**	**9.0**	**(12%)**	**(3%)**
(5.8)	(6.1)	Personnel Expenses	(1.7)	(1.5)	5%	(12%)
8.0	(3.4)	Other Expenses, by Nature	10.2	(1.4)	(143%)	(114%)
(32.2)	(33.3)	Depreciation and Amortization Expenses	(8.3)	(8.6)	3%	3%
21.3	**2.5**	**OPERATING INCOME (LOSS)**	**9.4**	**(2.4)**	**(88%)**	**-**
53.6	**35.7**	**EBITDA**	**17.8**	**6.1**	**(33%)**	**(65%)**

Revenues from ordinary activities for 4Q18 reached US$47.6 million, 2% higher compared to the revenues of 4Q17, mainly due to higher sales to unregulated customers and to other generators, partially offset by lower sales to regulated customers and lower revenues from transmission tolls.
In cumulative terms, revenues from ordinary activities as of Dec18 amounted to **US$201.5 million,** 4% higher compared to the same period of the previous year. The higher revenues are mainly explained by the same reasons as the variations in quarterly terms.

The **costs of raw materials and consumables used increased by 3%** compared to the same quarter of the previous year. The increase is mainly explained by a higher gas consumption, as a result of the higher generation of the quarter.
In cumulative terms, the costs of raw materials and consumables used reached US$156.2 million as of Dec18, increasing by 10% compared to Dec17, mainly explained by higher energy and capacity purchases in the spot market, as a result of minor plant outages during the year and of energy purchases from other generators to supply energy sales contracts during the period of maintenance of the plant, which coincided with a failure in the TGP pipeline, raising the purchasing cost of energy during that period.

Fenix's EBITDA reached US$6.1 million in 4Q18, lower than the EBITDA of US$17.8 million recorded in 4Q17.
In cumulative terms, Fenix's EBITDA as of Dec17 reached US$35.7 million vs. the EBITDA of US$53.6 million at Dec17. The decrease is mainly explained by the lower gross margin previously explained, and due to higher other operating expenses, associated to a positive variation registered in 2017 due to the reversal of a provision for doubtful accounts, registered in 2016.

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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.