



Colbún's 4Q08 results reflect the decrease of fuel prices, taking down thermal generation variable cost and lowering pressure on the energy spot price.

4Q08

Financial Report

- **Colbún reported 4Q08 Revenues of USD 288 million**, representing a 1% decrease compared to 3Q08 and a 12% decrease compared to 4Q07.
- **EBITDA reached USD 103 million**, versus USD 96 million during 3Q08 and USD 10 million during 4Q07.
- **4Q08 Net Income was USD 54 million**, leading to a Net Income of USD 37 million for FY 2008.
- **Colbún's better results** compared to 3Q08 are due to lower operating expenses offsetting slightly lower revenues. Lower fuel prices and lower energy spot prices positively affecting Colbún's energy purchases helped to reduce the cost of the "thermal gap" the Company is facing to fulfill its current level of contractual commitments.
- During 2008, Colbún implemented a comprehensive financial plan to secure its capex program and to protect from potential cash flow volatility. The plan considered a **capital increase of USD 400 million**, a **new syndicated loan of USD 400 million to refinance a large portion** of the existing international bank debt, the **issuance of local bonds** raising a total amount of **USD 280 million**, and the availability of committed credit lines.
- **The Santa María thermoelectric coal project** (350 MW) is on schedule and the thermoelectric plant **Los Pinos** (100 MW) is about to initiate operations.
- **The San Pedro hydroelectric project** (144MW) was approved by the Regional Environmental Commission (Corema) on October 21, 2008.

Summary

USD million

	4Q07	3Q08	4Q08	Variance	
				QoQ	YoY
Sales	328	291	288	-1%	-12%
EBITDA	10	96	103	7%	n.m.
Net income	(14)	35	54	56%	n.m.
Net debt	702	662	611	-8%	-13%
Energy sales (GWh)	3.274	2.883	2.948	2%	-10%
Hydraulic generation (GWh)	1.525	2.163	1.914	-12%	26%
E-o-q exchange rate (CLP/USD)	496,89	551,31	636,45	15%	28%

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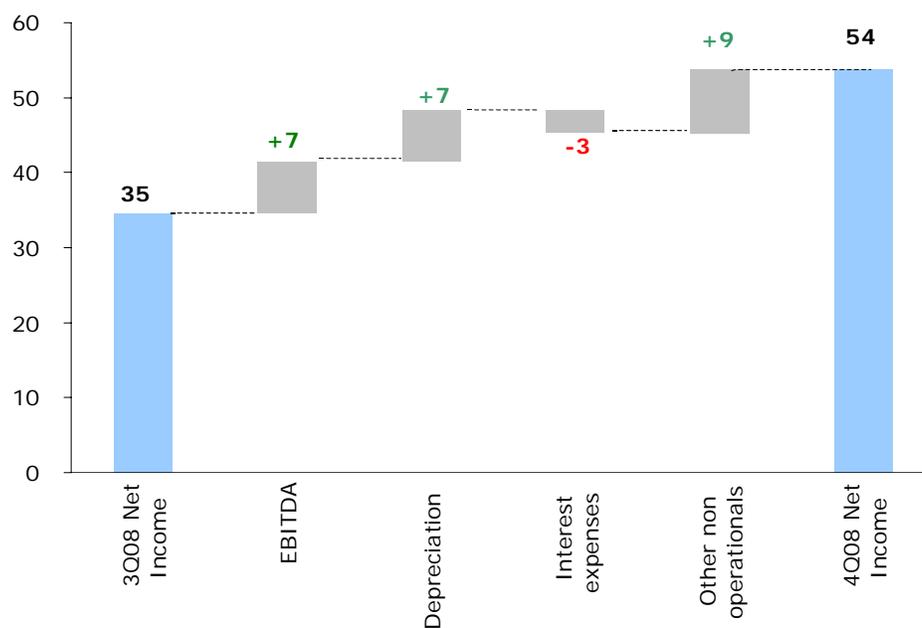
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INCOME STATEMENT ANALYSIS

Higher Net Income of USD 54 million during 4Q08 vs. USD 35 million previous quarter is explained by:

- Higher EBITDA as compared to 3Q08 driven by lower fuel prices and lower energy spot prices, both improving the EBITDA margin and offsetting the slight drop in Sales. 4Q08 EBITDA also includes an extraordinary income arising from a settlement of natural gas exchanges with Metrogas.
- Lower depreciation costs, due to a 15% devaluation of the Chilean peso as compared to the US dollar during 4Q08.
- Higher interest expenses, in line with current level of financial debt.
- Positive 4Q evolution of other non operating results.

Net income variance analysis (3Q08 v/s 4Q08)
USD million



INCOME STATEMENT ANALYSIS

4Q08 EBITDA of USD 103 million represents a favorable variance compared to the USD 96 million EBITDA reported during 3Q08.

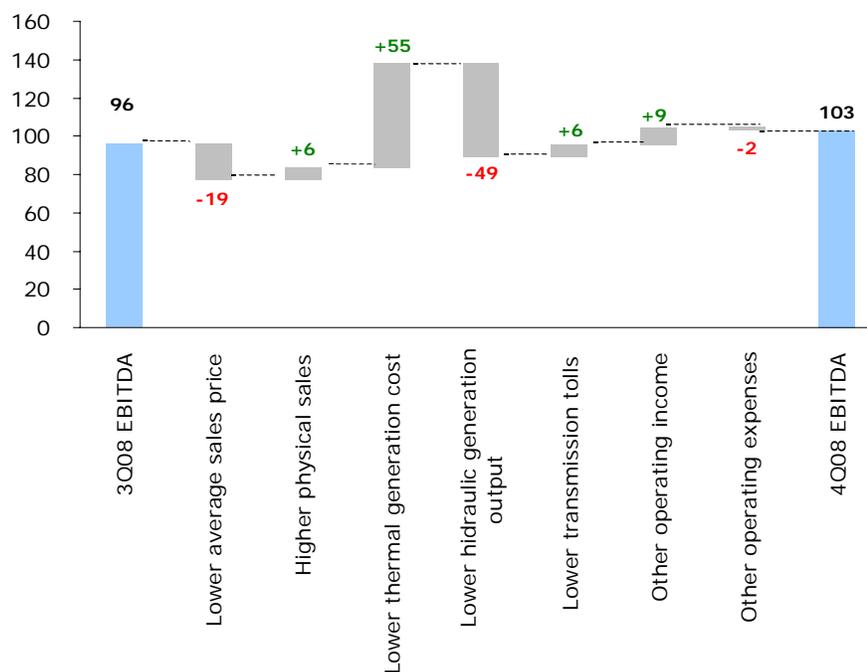
Various offsetting effects resulted in better operational results:

- Lower average sales price to regulated customers compared to 3Q08, negatively affected 4Q08 revenues. Indeed, the regulated sales price (Node Price) measured in US dollars, decreased compared to 3Q08 due to the strong devaluation of the Chilean peso compared to the US dollar during the 4Q08. The Node Price calculated in October 2008, recently enacted during January 2009, was retroactively reset since November 1st, 2008. This Node price was calculated based on an exchange rate of 1 USD = \$530, while the actual average exchange rate during 4Q08 was 1USD = \$657.
- Decrease of average sales prices to non-regulated customers (free customers) given the indexation of some contracts to the marginal cost of the system (Central Interconnected Grid), also called energy spot price.
- Decrease of Colbún's hydraulic generation during 4Q08 to 1.914 GWh versus 2.163 GWh during 3T08, covering 77% of 4Q08 contractual commitments, versus 88% in 3Q08. The remaining 23% was covered by thermal electricity generated by Colbún's own facilities or purchases made on the spot market. The portion of the contractual commitments that can not be covered by the company's base capacity (hydraulic or thermal efficient such as Coal) is commonly called "thermal gap".
- Lower fuel prices that decreased from an average of 119 USD/bbl during 3Q08 to 58 USD/bbl in 4T08, and the resumption of operations of the Nehuenco I plant in September, reduced Colbún's thermal generation cost per unit compared to the previous quarter.
- Lower fuel prices also reduced the marginal cost of the system from an average of 155 USD/MWh during 3Q08 to an average of 141 USD/MWh for the 4Q08, lowering the purchase cost on the spot market.
- Mentioned effects allowed for lower average operating costs, improving the EBITDA margin from 33% during 3Q08 to 36% this quarter.
- This Quarter results include an extraordinary income of USD 9 million arising from a settlement of natural gas exchanges with Metrogas.
- The cost item "transmission tolls" reports a positive result for 4Q08 given higher "Ingresos tarifarios". "Ingresos tarifarios" are revenues collected by transmission companies each time the CDEC performs the energy balance of the system. These revenues have to be returned periodically to generators.

INCOME STATEMENT ANALYSIS

EBITDA variance analysis (3Q08 v/s 4Q08)

USD million



EBITDA

USD million

	4Q07	3Q08	4Q08	Variance	
				QoQ	YoY
Revenues	328	291	288	-1%	-12%
Sales to regulated customers	158	122	109	-11%	-31%
Sales to free customers	102	93	86	-7%	-15%
Sales to regulated customers w/o contracts	67	70	80	14%	19%
Spot market sales	(2)	2	(1)	-137%	-67%
Other operating income	4	4	13	225%	215%
Cost of Goods Sold (COGS)	(313)	(189)	(179)	-5%	-43%
Transmission tolls	(6)	(1)	5	-509%	-173%
Energy and capacity purchases	(102)	(92)	(38)	-59%	-63%
Gas	15	(0)	(24)	n.m.	n.m.
Diesel	(187)	(68)	(92)	35%	-51%
Other operating expenses	(32)	(28)	(29)	6%	-10%
SG&A	(5)	(6)	(5)	-6%	16%
EBITDA	10	96	103	7%	901%

INCOME STATEMENT ANALYSIS

Balance of sales volume v/s generation evidences that:

- 77% of 4Q08 Colbún's contractual commitments were supplied by hydraulic output versus 88% the previous quarter.
- The remaining 23% and sales to distribution companies without contracts were supplied by diesel-fired generation or energy purchased on the spot market at marginal costs set by the efficient combined cycle plants of the system.
- Energy purchased by Colbún on the spot market dropped by 51% compared to 3Q08, while Colbún's own diesel-fired generation duplicated. This change of composition is due to Colbún's higher cost-efficiency of its thermo-facilities, given current fuel prices, which resulted in a lower variable cost compared to the spot market price.
- The availability of natural gas at competitive prices compared to diesel, allowed to generate 190 GWh during 4Q08 versus 2 GWh during 3Q08. By the end of the quarter, the drop of diesel prices made Argentine natural gas comparatively more expensive, driving Colbún to buy diesel instead.

Sales Volume v/s Generation

GWh

	4Q07	3Q08	4Q08	Variance	
				QoQ	YoY
Sales					
Regulated customers	1.502	1.188	1.199	1%	-20%
Free customers	1.440	1.274	1.277	0%	-11%
Regulated customers w/o contracts	329	421	472	12%	43%
Spot market sales	4	0	0	n.m.	n.m.
Total energy sales	3.274	2.883	2.948	2%	-10%
Generation					
Hydraulic	1.525	2.163	1.914	-12%	26%
Thermal - Gas	57	2	190	8381%	235%
Thermal - Diesel	1.309	349	705	102%	-46%
Total own generation	2.890	2.514	2.809	12%	-3%
Energy purchases (spot market)	471	482	234	-51%	-50%

Non operating results:

Interest expenses:

Interest Expenses during 4Q08 reached normal levels, in line with the current leverage level and current interest rates, while 3Q08 interest expenses were understated due to an extraordinary reclassification of bank fees.

Interest income:

Interest Income during 4Q08 are in line with 3Q08 levels due to similar average financial investments.

Other non operating income and expenses and price level restatement.

The accounts "Price Level Restatement" and "Other Income and Expenses" should be analyzed together (as a whole) given that the effects associated with Colbún's long

INCOME STATEMENT ANALYSIS

position in US dollar against Chilean peso through *forward contracts* used to synthetically build dollar-denominated financial investments, are reported in these 3 accounts.

Consistent with a highly dollarized business, Colbún manages its debt and financial investments mainly in dollars. Since January 2009, Colbún is adopting the IFRS accounting procedures and is adopting the US dollar as its functional currency.

Nehuenco I plant claim:

On August 30, 2008, the Neuhuenco I plant resumed operations after it had been affected by a fire on December 29, 2007.

The Company has an All-Risk Property Insurance policy that covers among others, fire, equipment failure and business interruption. This claim is currently under the adjustment procedure, and the estimated amount of business interruption due to the outage from January to August of 2008, net of deductible, is USD 74 million. In Colbún's opinion, the damage is covered by the insurance policy, having the policy a combined limit of physical damage and business interruption of USD 250 million per event. Following customary accounting procedures, no income provision has been registered until now.

LIQUIDITY AND BALANCE SHEET ANALYSIS

Net debt and liquidity:

Net debt decreased slightly during 4Q08 compared to 3Q08, reaching USD 661 million at closing. The reduction reflects a solid cash flow generation from operations allowing to support capital expenditure of USD 75 million during 4Q08. Main expenditures were related to the Santa Maria coal plant and the thermoelectric plant of Los Pinos both located in the 8th Region.

The balance of financial investment accounts reached USD 568 million at 4Q08 closing.

Liquidity analysis

USD million

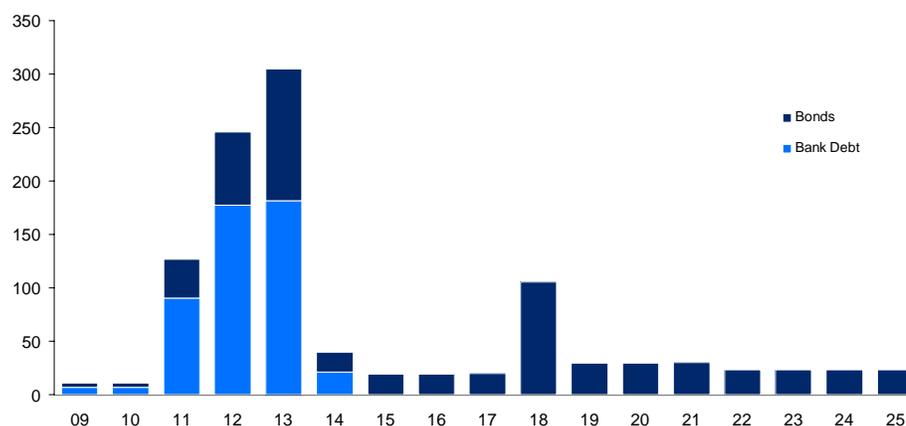
	4Q07	3Q08	4Q08	Variance	
				QoQ	YoY
Gross financial debt	883	1.266	1.179	(87)	297
Financial investments	181	604	568	(35)	388
Net financial debt	702	662	611	(51)	(91)

Bank debt:

Colbún implemented a financial plan during 2008 aimed at restructuring the amortization schedule and the financial covenants of its international bank debt. The rescheduling postponed important installments until the end of 2010 and included a waiver of cash flow related *covenants* also until the end of 2010, when Colbún's cash flow volatility will decrease substantially.

Bank debt amortization schedule at 4Q08 closing

USD million



The average maturity of Colbún's bank debt is 7 years.

LIQUIDITY AND BALANCE SHEET ANALYSIS

Debt breakdown by currency and interest rate

As a % of total debt



The average interest rate of US dollar denominated debt is 6.6%, while the UF denominated debt has an average interest rate of 4.4%.

Working capital investment:

Colbún has had to invest in working capital due to the recent evolution of the sector regulation and tax regulations:

- Tax receivables reached USD 196 million at 4Q08 closing. This amount is due to the VAT fiscal credit accumulated during the 1st half of 2008 when operating results were poor. This effect was enhanced by the VAT credits associated to Colbún's capex expenditure purchases. The diesel oil tax levied on fuel consumption also contributed to the increase of tax receivables, especially during the first half of 2008 when Colbún's consumption was highest. This tax was disregarded in March, 2008.
- On the other hand, based on current regulation, Colbún has to supply energy to distribution companies with no supply contracts with generators (called "distribution companies without contracts"). Those sales are registered at marginal cost (energy spot market price), but are collected (invoiced) at the Node Price plus a surcharge. The spread between the energy spot market price and the collected price (Node Price plus surcharge) defines Colbún's working capital investment, and is registered as an account receivable. This account receivable will be recovered by generators through the surcharge of up to 20% of the Node Price. The surcharge will be added to the Node Price until complete recovery of the account receivable. The balance of account receivables associated with sales to distribution companies without contracts at 4Q08 closing was USD 220 million, USD 108 million registered in current assets and USD 112 million registered in other long term assets.

LIQUIDITY AND BALANCE SHEET ANALYSIS

Cash Flow Statement

USD million

	4Q07	3Q08	4Q08	Variance	
				QoQ	YoY
Cash flow from operating activities	(97)	52	74	22	171
EBITDA	10	96	103	7	93
Dec./ (inc.) in receivables from customers w/o contracts	(36)	0	(24)	(25)	12
Dec./ (inc.) in tax receivables	(44)	7	(15)	(22)	29
Others cash flows from operating activities	(28)	(52)	9	62	37
Cash flow from financing activities	(3)	236	(4)	(240)	(0)
Shares issued and subscribed	0	6	(0)	(6)	(0)
Debt issuance	0	674	(6)	(679)	(6)
Debt amortization	(2)	(426)	(2)	424	0
Dividends paid	(1)	(0)	0	0	1
Other cash flows from financing activities	(0)	(18)	4	22	4
Cash Flow from investment activities	(58)	(53)	(75)	(22)	(17)
Additions to fixed assets	(50)	(34)	(75)	(41)	(25)
Investment in related companies	(7)	(19)	0	19	7
Other investment disbursements	0	0	0	(0)	0
Net cash flow	(158)	235	(5)	(240)	154

GLOSSARY

GLOSSARY

CDEC: The “Centro de Despacho Económico de Carga” or Economic Center of Dispatch is an autonomous entity defined by law whose objective is to coordinate the efficient operation of the interconnected electricity system (SIC). www.cdec-sic.cl

EBITDA: financial acronym stands for “Earnings Before Interest, Taxes, Depreciation and Amortization”. El EBITDA is obtained by adding back Depreciation and Amortization to Operating Income.

CONVERSION METHODOLOGY

Conversion of local financial statements to US dollar reporting:

- Colbún applies Chilean Generally Accepted Accounting Principles. The functional currency is the Chilean peso, notwithstanding the Company considers that cash flows are highly indexed to de US dollar. Major contracts with customers and providers and the regulatory framework are highly indexed to he US dollar.
- This report converts local financial statements to US dollar using the following methodology:
 - **Quarter Balance Statement:** Chilean pesos are divided by end-of-quarter CLP/USD exchange rate.
 - **Quarter Income Statement and Cash Flow Statement:** year-to-date results in Chilean pesos stated at closing of a quarter, less year-to-date results in Chilean pesos of prior quarter restated by local inflation of the analyzed quarter. This subtraction is then divided by the average exchange rate CLP/USD of the analyzed quarter. Mathematically:

$$Value_{USD}^T = \frac{FinancialStatement^T - FinancialStatement^{T-1} * (1 + CPI)_{Quarter}}{AverageFXrate}$$

IFRS

Chile committed to a national conversion plan to adopt International Financial Reporting Standards. As defined by the local Accounting Association and Security and Exchange Commission (SVS), corporations and affiliates have to apply IFRS starting January 1st 2009. Initial conversion will modify equity accounts as of January 1st 2009 and will modify the financial statements of future operations. For comparative purpose, corporations have to prepare 2008 Financial Statements converted to IFRS, which will probably differ from the ones included in this report.

APPENDIX 1: SALES VOLUME & GENERATION

Quarterly Sales and Production

	1Q07	2Q07	3Q07	4Q07	FY 2007	1Q08	2Q08	3Q08	4Q08	FY 2008
Sales										
Regulated customers (GWh)	1.606	1.544	1.442	1.502	6.094	1.210	1.180	1.188	1.199	4.777
Free customers (GWh)	1.378	1.506	1.448	1.440	5.772	1.255	1.163	1.274	1.277	4.968
Regulated customers w/o contracts (GWh)	198	277	310	329	1.114	489	430	421	472	1.812
Spot market sales (GWh)	<u>63</u>	<u>28</u>	<u>33</u>	<u>4</u>	<u>128</u>	<u>0</u>	<u>46</u>	<u>0</u>	<u>0</u>	<u>46</u>
Total energy sales (GWh)	3.246	3.355	3.233	3.274	13.108	2.953	2.819	2.883	2.948	11.603
Capacity sales (MW)	1.631	1.616	1.640	1.647	6.534	1.646	1.629	1.622	1.550	6.447
Generation										
Hydraulic (GWh)	1.878	1.598	1.283	1.525	6.284	1.091	1.654	2.163	1.914	6.822
Thermal - Gas (GWh)	562	336	54	57	1.008	79	52	2	190	323
Thermal - Diesel (GWh)	<u>201</u>	<u>1.203</u>	<u>1.504</u>	<u>1.309</u>	<u>4.216</u>	<u>1.378</u>	<u>1.030</u>	<u>349</u>	<u>705</u>	<u>3.461</u>
Total own generation	2.641	3.137	2.841	2.890	11.508	2.548	2.736	2.514	2.809	10.606
Energy purchases (spot market)	684	298	458	471	1.911	457	168	482	234	1.340

APPENDIX 2: INCOME STATEMENT

Quarterly Income Statement

USD million

	1Q07	2Q07	3Q07	4Q07	FY 2007	1Q08	2Q08	3Q08	4Q08	FY 2008
Average Exchange Rate (1 USD=)	541,26	525,97	518,55	498,47		452,33	489,03	523,59	656,99	
Revenues	218	258	324	328	1.129	404	353	291	288	1.336
COGS (w/o depreciation)	(155)	(277)	(352)	(313)	(1.097)	(442)	(268)	(189)	(179)	(1.078)
SG&A expenses	(4)	(4)	(4)	(5)	(17)	(5)	(6)	(6)	(5)	(23)
EBITDA	59	(23)	(32)	10	15	(43)	79	96	103	235
EBITDA/Revenues	27%	-9%	-10%	3%	1%	-11%	22%	33%	36%	18%
Depreciation and amortization	(26)	(28)	(30)	(33)	(116)	(36)	(35)	(34)	(27)	(132)
Operating Income	33	(50)	(62)	(22)	(102)	(79)	44	63	76	104
Interest expenses	(7)	(9)	(13)	(5)	(33)	(13)	(17)	(12)	(15)	(57)
Interest income	4	6	6	4	20	2	1	12	11	26
Net income from related companies	1	1	1	1	3	1	0	0	0	2
Other non operating income	1	1	3	5	10	5	63	32	84	184
Other non operating expenses	(1)	(3)	(9)	(14)	(27)	(55)	(4)	(9)	(14)	(83)
Price level restatement	(1)	(8)	(12)	(0)	(20)	(4)	0	(21)	(14)	(38)
Exchange differences	(4)	16	33	18	64	84	(77)	(13)	(68)	(74)
Income taxes	(12)	5	7	1	0	9	(9)	(17)	(4)	(21)
Minority interest	(2)	(0)	(0)	(2)	(4)	(2)	(0)	(1)	(2)	(5)
Net income	13	(41)	(46)	(14)	(88)	(52)	1	35	54	37

APPENDIX 3: BALANCE SHEET

Quarterly Balance Statement

USD million

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
End-of-quarter Exchange Rate (1USD=)	539,21	526,86	511,23	496,89	437,71	526,05	551,31	636,45
Cash and equivalents	339	522	289	80	39	360	599	522
Accounts receivable	114	160	216	278	356	346	342	243
Recoverable taxes	33	52	123	173	290	234	219	196
Inventories	1	4	7	8	8	13	38	4
Other current assets	<u>52</u>	<u>84</u>	<u>74</u>	<u>140</u>	<u>107</u>	<u>98</u>	<u>73</u>	<u>76</u>
Total current assets	539	822	708	680	800	1.051	1.271	1.042
Property, Plant and Equipment (Net)	2.600	2.708	2.931	3.094	3.551	3.049	3.040	2.709
Other assets	111	131	136	153	148	143	182	276
TOTAL ASSETS	3.251	3.661	3.775	3.927	4.499	4.243	4.493	4.028
Short-term bank liabilities	17	0	0	0	0	0	0	0
Short-term portion of long-term bank liabilities	8	24	29	41	40	100	8	14
Short-term portion of bond payable	6	7	11	8	14	7	15	7
Other liabilities with accrued expenses	0	0	0	0	0	0	0	0
Accounts payable	71	144	148	102	205	227	166	101
Other current liabilities	118	130	110	170	154	84	119	94
Total current liabilities	220	305	299	321	413	419	308	217
Long-term bank liabilities	417	414	414	397	490	403	482	471
Bonds payable	75	394	418	438	502	425	691	619
Documents payable	17	17	14	14	10	10	7	7
Accounts payable	3	3	3	3	3	2	3	3
Other long-term liabilities	170	168	167	181	195	169	183	166
Total long-term liabilities	682	995	1.015	1.032	1.200	1.010	1.365	1.266
Minority interest	13	13	13	13	10	9	10	10
Shareholder's equity	2.336	2.348	2.449	2.561	2.876	2.805	2.810	2.535
TOTAL LIABILITIES AND EQUITY	3.251	3.661	3.775	3.927	4.499	4.243	4.493	4.028