2nd Q U A R T E R 2019

Colbun
MEJOR ENERGÍA

QUARTERLY EARNINGS REPORT

As of June 30, 2019

CONTENTS

2Q19

EARNINGS REPORT

Conference Call 2Q19

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12:00 PM Chile Time

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1. HIGHLIGHTS

Main Figures at a Consolidated Level:

Operating Income in 2Q19 amounted to **US$390,5 million**, in line with the operating income recorded in 2Q18. Lower sales to regulated clients in Chile were compensated by (1) a higher average sales price to unregulated clients in Chile, given the indexation mechanism of these contracts, (2) higher physical sales to unregulated clients in Chile and to the spot market, and (3) by an increase in Other Operating Income.
In cumulative terms, operating income as of Jun19 amounted to **US$773,6 million**, decreasing 1% compared to 2Q18, mainly due to lower physical sales to regulated clients, partially offset by (1) higher physical sales to the spot market and to unregulated clients, and (2) an increase in the average sales price to unregulated clients in Chile and to the spot market. The lower sales to regulated clients reflect the migration of consumption from regulated to unregulated clients in Chile as a result of the price differential between both segments.

Consolidated **EBITDA** for the second quarter of 2019 (2Q19) reached **US$173.8 million**, increasing 13% compared to the US$154.0 million EBITDA for the second quarter of 2018 (2Q18) mainly due to lower costs as a result of (1) the recognition of the gas distribution contract with Calidda as a financial leasing (US$8 million for the first half of 2019); isolating this effect, 2Q19's EBITDA would have reached US$165.8 million and (2) a higher average sales price to unregulated customers in Chile previously explained.
In cumulative terms, **EBITDA** as of June 2019 (Jun19) reached **US$335.4 million**, 6% higher than the accumulated EBITDA as of June 2018 (Jun18), mainly explained by the same reasons for the variations in quarterly terms. These effects were partially offset by lower sales to regulated costumers in Chile.

Non-operating result in 2Q19 recorded losses of **US$27.4 million**, 12% lower than the losses of US$31.0 million in 2Q18. The lower losses are mainly explained by a positive effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter. In 2Q18, its part, this effect was negative. This was partially offset by higher financial expenses due to the recognition of the gas distribution contract with Calidda as a financial leasing.
In cumulative terms, the non-operating result as of Jun19 recorded losses of **US$42.6 million**, 11% lower than the losses recorded as of Jun18, mainly due to the same reasons that explain variations in quarterly terms.

2Q19's **tax expenses** amounted to **US$19.0 million**, in line with the expenses observed in 2Q18, despite the higher income before taxes recorded during the quarter, mainly due to a deferred tax profit recorded in 2Q19 in Fenix, as a result of the Peruvian sol appreciation during the period; given that Fenix's tax accounting is carried out in Peruvian soles, according to the Peruvian tax legislation.
In cumulative terms, **tax expenses** as of Jun19 recorded **US$39.1 million**, decreasing 9% compared to Jun18, despite the higher income before taxes, mainly due to the same reasons that explain the variations in quarterly terms.

In 2Q19, **profits** reached **US$61.4 million**, 37% higher than the US$44.8 million gain in 2Q18. The higher profit is mainly explained by (1) a higher EBITDA recorded in the quarter, previously explained, and (2) the positive effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter.
In cumulated terms, profits as of Jun19 reached **US$127.8 million**, increasing by 17% compare to the accumulated profit at Jun18, mainly due to the same reasons that explain the variations in quarterly terms.

At closing 2Q19, Colbún has a **liquidity** of **US$667.3 million** and a **net debt** of **US$1,057.2 million**.

Highlights of the quarter:

On May 7th, 2019, dividends for **US$256.1 million** were paid. This payment consists of (1) a final dividend for US$156.1 million, which added to the US$84.2 million paid in December 2018, amounts to 100% of the net distributable profit of 2018, and (2) an eventual dividend, charged to previous fiscal year profits, for US$100 million.

Regarding the commercial strategy, during **2019 the Company has contracted approximately 490 GWh/year of its generation with new unregulated customers.** Since 2016, we have signed contracts for 3,700 GWh with this segment.

Regarding the expansion strategy, during 2Q19, Colbún continues looking for renewable projects throughout the country, with the target of consolidating a robust and diversified project portfolio, in line with the goal of doubling our current installed capacity, incorporating renewable generation equivalent to a total of 4,000 MW. Thus, and related to Horizonte project, progress is being made in the feasibility stage and the wind turbine auction concluded. For its part, the Diego de Almagro Sur solar project continues in the environmental processing stage. Regarding the San Pedro project, at the end of April the environmental authority issued the first Icsara.

Regarding the fixed costs efficiencies plan implemented during 2018, it can be highlighted that Colbún has continued its execution. This is reflected on the Consolidated Financial Statement's fixed cost.

At the closing of 2Q19, in Fenix subsidiary's Financial Statements reflect the adoptions of the accounting standards IFRS15 and IFRS16, and the activation of the plant major maintenance performed in April 2019. For more details, see Appendix 1 on page 30 of this document.

2. PHYSICAL SALES AND GENERATION BALANCE

2.1. Physical sales and generation balance in Chile

Table 1 shows a comparison between physical energy sales and generation in 2Q18, 2Q19 and cumulative as of Jun18 and Jun19.

Table 1: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
6,833	**6,544**	**Total Physical Sales (GWh)**	**3,425**	**3,283**	**(4%)**	**(4%)**
2,793	2,202	Regulated Clients	1,377	1,114	(21%)	(19%)
2,997	3,090	Unregulated Clients	1,531	1,598	3%	4%
1,042	1,252	Sales to the Spot Market	517	572	20%	11%
1,627	**1,585**	**Capacity Sales (MW)**	**1,621**	**1,574**	**(3%)**	**(3%)**

		Generation	Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
6,970	**6,669**	**Total Generation (GWh)**	**3,515**	**3,334**	**(4%)**	**(5%)**
2,843	**2,566**	**Hydraulic**	**1,433**	**1,372**	(10%)	(4%)
4,072	**4,016**	**Thermal**	**2,052**	**1,903**	(1%)	(7%)
2,610	2,562	Gas	1,341	1,199	(2%)	(11%)
43	64	Diesel	29	13	48%	(55%)
1,419	1,390	Coal	682	691	(2%)	1%
56	**87**	**VRE**	**29**	**60**	56%	105%
52	77	Wind Farm*	26	57	49%	117%
4	9	Solar	3	3	157%	(0%)
0	**0**	**Spot Market Purchases (GWh)**	**0**	**0**	-	-
1,042	**1,252**	**Sales - Purchases to the Spot Market (GWh)**	**517**	**572**	**20%**	**11%**

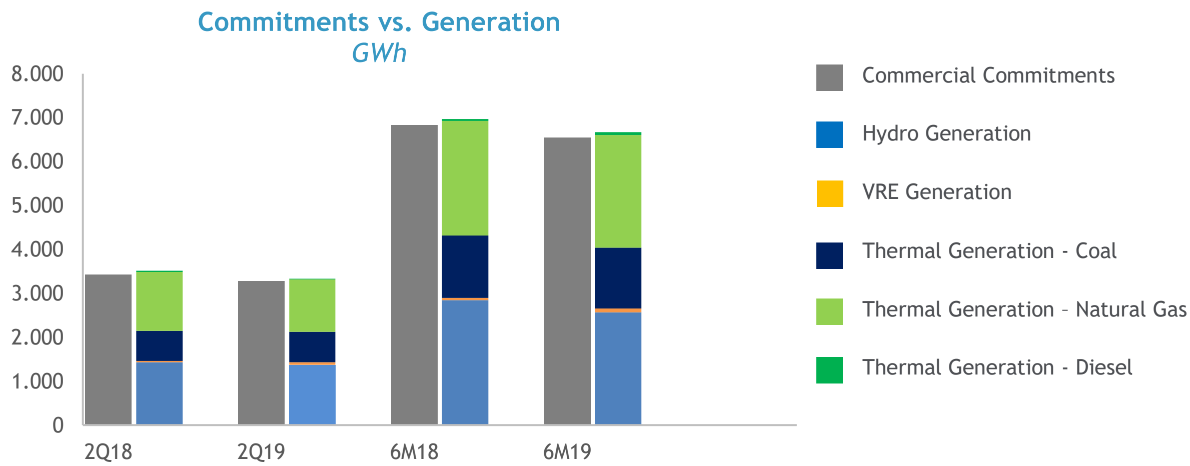
(*): Corresponds to the energy purchased from the Punta Palmeras wind farm owned by Acciona and San Pedro, owned by Alba S.A.
VRE: Variable renewable energies.

Physical sales reached **3,283 GWh** during 2Q19, decreasing 4% compared to 2Q18, due to lower sales to regulated clients, partially offset by higher sales to unregulated clients and to the spot market. On the other hand, the quarterly **generation** decreased by 5% compared to 2Q18, mainly due to a lower gas (-142 GWh q/q) and hydro (-61 GWh q/q) generation, VRE generation increased (+31 GWh q/q) due to energy purchases from San Pedro wind farm, a contract that started in May 2019 and that mature at the end of the year.
In **cumulative terms**, physical sales as of Jun19 reached 6,544 GWh, 4% lower compared to Jun18, due to lower sales to regulated clients partially offset by higher sales to the spot market and to unregulated clients. On the other hand, the cumulative generation as of Jun19 reached 6,669 GWh, decreasing 4% compared to Jun18, mainly due to lower hydro generation (-277 GWh) and gas generation (-48 GWh) partially offset by a higher wind (+ 25 GWh) and diesel (+21 GWh) generation.

The balance in the spot market during the quarter recorded net sales of 572 GWh, higher compared to the net sales of 517 GWh recorded in 2Q18. Both quarterly and semiannually, **100% of Colbún's commercial commitments were supplied with cost-efficient base generation** (hydro, VRE, coal and natural gas).

Generation Mix in Chile: The hydrological year (Apr19-Mar20) has presented lower rainfalls than an average year in the main SEN (National Electric System) basins, Aconcagua and Maule basins exhibits the most significant deficits in relation to an average year: Aconcagua: -73%; and Maule: -24%; partially offset by a surplus in the basins: Angostura 12%; Laja 11%; and Canutillar: 5%. The reservoir's accumulated energy at the end of 2Q19 exceeds 2Q18.

During 2Q19 the SEN (National Electric System) generation remained in line with the same period of 2018 (19,158 GWh in 2Q18 vs. 19,192 GWh in 2Q19). During the quarter, a lower hydro generation was recorded (4,498 GWh in 2Q18 vs. 4,361 GWh in 2Q19) due to a lower dispatch of the reservoir plants in the system. Likewise, coal generation decreased (7,967 GWh in 2Q18 to 7,597 GWh in 2Q19). In contrast, the VRE generation recorded an increase compared to 2Q18 (2,694 GWh in 2Q18 vs. 2,901 GWh in 2Q19), associated with an increase in installed capacity of these technologies. The decrease in hydro and coal generation was not entirely compensated by the increase in VRE generation, resulting in higher natural gas generation (3,786 GWh in 2Q18 vs. 4,216 GWh in 2Q19). On the other hand, diesel generation slightly decreased (212 GWh in 2Q18 to 116 GWh in 2Q19). The average marginal cost measured in Alto Jahuel decreased compared to 2Q18, averaging US$68.5/MWh in 2Q19, compared to US$81.0/MWh in 2Q18.



2.2. Physical sales and generation balance - Peru

Table 2 shows a comparison between physical energy sales and generation in 2Q18, 2Q19 and cumulative as of Jun18 and Jun19

Table 2: Physical Sales and Generation Balance – Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
1,789	**1,925**	**Total Physical Sales (GWh)**	**979**	**983**	**8%**	**0%**
1,559	1,459	Costumers under Contract	805	706	(6%)	(12%)
229	466	Sales to the Spot Market	174	277	103%	59%
551	**556**	**Capacity Sales (MW)**	**550**	**557**	**1%**	**1%**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-17	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
1,607	**1,869**	**Total Generation (GWh)**	**1,002**	**937**	**16%**	**(6%)**
1,607	1,869	Gas	1,002	937	16%	(6%)
210	**101**	**Spot Market Purchases (GWh)**	**-**	**68**	**(52%)**	**-**
20	**365**	**Sales - Purchases to the Spot Market (GWh)**	**174**	**209**	**-**	**20%**

Physical sales during 2Q19 reached 983 GWh, similar to 2Q18. The decrease in sales to customers under contract was offset by higher sales to the spot market.

Fenix gas **generation** reached 937 GWh, decreasing 6% compared to 2Q18, mainly due to the plant lower availability due to the major maintenance carried out during the month of April 2019. In 2018 on the other hand, a routine maintenance was performed during the first quarter of the year.

The **balance in the spot market** recorded net sales of 209 GWh, increasing by 20% compared to the same quarter of the previous year.

In cumulative terms, **physical sales and Fenix's total generation** as of Jun19 reached 1,925 GWh and 1,869 GWh, increasing 8% and 16% respectively compared to Jun18. The increases are mainly explained by the greater availability of the thermal power plant compared to 2018 given that the plant scheduled maintenance during 2019 had a shorter duration. The balance of net sales to the spot market in accumulated terms reached 365 GWh as of Jun19, increasing compared to Jun18, mainly due to the higher accumulated generation.

Generation mix in Peru: Hydroelectric generation in the SEIN (National Interconnected Electrical System) increased by 1% compared to 2Q18, given the more favorable hydrological condition of the Mantaro River (main hydroelectric complex in Peru). Thermal generation, on the other hand, increased by 3% compared to 2Q18. The accumulated energy demand growth rate in 2Q19 was 3.9%, higher than the growth experienced during 2018 at the same period.

3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 2Q18, 2Q19 and cumulative as of Jun18 and Jun19, for Chile and Peru.

Table 3: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
783.5	**773.6**	**OPERATING INCOME**	**389.8**	**390.5**	**(1%)**	**0%**
363.6	297.5	Regulated Customers Sales	176.6	149.5	(18%)	(15%)
300.2	329.5	Unregulated Customers Sales	150.5	165.5	10%	10%
76.1	100.6	Energy and Capacity Sales	42.6	47.9	32%	13%
30.3	30.1	Transmission Tolls	14.0	18.1	(1%)	29%
13.3	15.9	Other Operating Income	6.1	9.4	19%	55%
(409.6)	**(389.1)**	**RAW MATERIALS AND CONSUMABLES USED**	**(208.0)**	**(191.4)**	**(5%)**	**(8%)**
(68.8)	(67.3)	Transmission Tolls	(31.8)	(34.3)	(2%)	8%
(22.3)	(15.9)	Energy and Capacity Purchases	(8.3)	(13.2)	(28%)	60%
(216.2)	(202.7)	Gas Consumption	(115.4)	(95.4)	(6%)	(17%)
(7.8)	(11.3)	Diesel Consumption	(4.8)	(2.1)	44%	(56%)
(44.5)	(51.3)	Coal Consumption	(22.4)	(25.3)	15%	13%
(50.1)	(40.6)	Other Operating Expenses	(25.4)	(21.0)	(19%)	(17%)
373.9	**384.5**	**GROSS PROFIT**	**181.9**	**199.1**	**3%**	**9%**
(40.8)	(36.8)	Personnel Expenses	(20.0)	(18.7)	(10%)	(6%)
(15.5)	(12.2)	Other Expenses, by Nature	(7.9)	(6.6)	(21%)	(16%)
(117.4)	(126.0)	Depreciation and Amortization Expenses	(58.8)	(66.0)	7%	12%
200.1	**209.4**	**OPERATING INCOME (LOSS) (*)**	**95.2**	**107.8**	**5%**	**13%**
317.6	**335.4**	**EBITDA**	**154.0**	**173.8**	**6%**	**13%**
9.4	11.3	Financial Income	4.5	4.9	21%	9%
(42.2)	(45.6)	Financial Expenses	(21.1)	(24.9)	8%	18%
(8.0)	2.1	Exchange rate Differences	(6.9)	0.9	-	-
6.7	4.9	Profit (Loss) of Companies Accounted for Using the Equity Method	2.1	2.6	(27%)	22%
(13.9)	(15.3)	Other Profit (Loss)	(9.7)	(10.8)	10%	11%
(47.9)	**(42.6)**	**NON-OPERATING INCOME**	**(31.0)**	**(27.4)**	**(11%)**	**(12%)**
152.2	**166.9**	**PRE-TAX PROFIT (LOSS)**	**64.2**	**80.4**	**10%**	**25%**
(43.0)	(39.1)	Income Tax Expense	(19.4)	(19.0)	(9%)	(2%)
109.2	**127.8**	**AFTER TAX PROFIT (LOSS)**	**44.8**	**61.4**	**17%**	**37%**
111.7	**125.7**	**PROFIT (LOSS) OF CONTROLLER**	**46.5**	**61.3**	**13%**	**32%**
(2.5)	**2.1**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(1.7)**	**0.1**	-	-

As of June 2019, a reclassification of toll's revenues and costs was made at Fenix subsidiary level in Peru, presenting the net effect of these items. Prior to that date, income and costs were presented separately in the Income Statement. For comparative purposes, the same reclassification was made in the 2018's figures presented in this Earnings Report.
(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), 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 4: Closing Exchange Rates

Exchange Rates	Jun-18	Dec-18	Jun -19
Chile (CLP / US$)	651.21	694.77	679.15
Chile UF (CLP/UF)	27,158.77	27,565.79	27,903.30
Peru (PEN / US$)	3.27	3.38	3.29

3.1. Operating Income Analysis of the Generation Business in Chile

Table 5 presents a summary of Operating Income and EBITDA in 2Q18, 2Q19 and cumulative as of Jun18 and Jun19. Subsequently, the major accounts and/or variations will be analysed below.

Table 5: EBITDA – Generation Business in Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
668.5	**656.8**	**OPERATING INCOME**	**331.4**	**328.0**	**(2%)**	**(1%)**
307.1	242.1	Regulated Customers Sales	149.1	121.7	(21%)	(18%)
283.0	313.5	Unregulated Customers Sales	141.2	157.8	11%	12%
71.2	90.9	Energy and Capacity Sales	39.2	43.2	28%	10%
0.0	0.0	Transmission Tolls	-	-	-	-
7.2	10.2	Other Operating Income	1.9	5.3	42%	182%
(359.3)	**(349.7)**	**RAW MATERIALS AND CONSUMABLES USED**	**(183.6)**	**(172.0)**	**(3%)**	**(6%)**
(80.4)	(74.1)	Transmission Tolls	(36.5)	(32.4)	(8%)	(11%)
(15.9)	(15.3)	Energy and Capacity Purchases	(8.3)	(12.8)	(4%)	55%
(173.6)	(166.9)	Gas Consumption	(91.8)	(83.0)	(4%)	(10%)
(7.8)	(11.3)	Diesel Consumption	(4.8)	(2.1)	44%	(56%)
(44.5)	(51.3)	Coal Consumption	(22.4)	(25.3)	15%	13%
(37.0)	(30.8)	Other Operating Expenses	(19.9)	(16.4)	(17%)	(18%)
309.2	**307.1**	**GROSS PROFIT**	**147.9**	**156.0**	**(1%)**	**6%**
(37.9)	(33.8)	Personnel Expenses	(18.5)	(17.1)	(11%)	(8%)
(9.1)	(10.7)	Other Expenses, by nature	(4.6)	(5.8)	18%	26%
(94.1)	(96.5)	Depreciation and Amortization Expenses	(48.9)	(48.7)	2%	(1%)
168.1	**166.1**	**OPERATING INCOME (LOSS) (*)**	**75.9**	**84.5**	**(1%)**	**11%**
262.3	**262.6**	**EBITDA**	**124.8**	**133.2**	**0%**	**7%**

A reorganization of the transmission assets of the Company was carried out in October 2018, consolidating on Colbún Transmisión S.A. all national, zonal and dedicated assets in Colbún Transmisión S.A. Previously, Colbún Transmisión S.A. only recorded the national transmission assets. Therefore, the figures presented for the Generation and Transmission businesses in Chile as of 2Q18 and accumulated as of June19 in this Earning Report are proforma.
(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), 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 in 2Q19 amounted to **US$328.0 million**, in line with the operating income recorded in 2Q18. Lower sales to regulated clients were compensated by (1) a higher average sales price to unregulated clients, given the indexation mechanism of these contracts, (2) higher physical sales to unregulated clients and to the spot market, and (3) by an increase in Other Operating Income.
In cumulative terms, operating income as of Jun19 amounted to **US$656.8 million**, decreasing 2% compared to 2Q18, mainly due to lower physical sales to regulated clients, partially offset by (1) higher physical sales to the spot market and to unregulated clients, and (2) an increase in the average sales price to unregulated clients and to the spot market. The lower sales to regulated clients reflect the migration of consumption from regulated to unregulated clients as a result of the price differential between both segments.

The **costs of raw materials and consumables used** recorded **US$172.0 million**, decreasing 6% compared to 2Q18, mainly due to lower gas consumption expenses during the quarter associated with a lower generation with that fuel. This effect was partially offset by an increase in energy and capacity purchases from the spot market during the quarter.
In cumulative terms, the costs of raw materials and consumables used as of Jun19 amounted to US$349.7 million, decreasing 3% compared to 2Q18, mainly explained by the lower gas consumption cost, mainly due to (1) a decrease in the purchase price of that fuel and (2) a lower gas generation; partially offset by an increase in the coal consumption cost, due to the increase in the purchase price of that fuel.

EBITDA in 2Q19 reached **US$133.2 million**, increasing 7% compared to EBITDA of US$124.8 million in 2Q18, mainly due to the decrease in costs of raw materials and consumables used explained above.
In accumulated terms, EBITDA as of Jun19 reached US$262.6 million, similar to with the accumulated EBITDA as of Jun18.

3.2. Operating Income Analysis of the Transmission Business in Chile (Colbun Transmisión S.A.)

Table 6 shows a summary of the Operating Income and EBITDA for the quarters 2Q18, 2Q19 and cumulative as of Jun18 and Jun19. Subsequently, the main accounts and/or variations will be analyzed.

Tabla 6: EBITDA Transmission Business in Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
38.5	**43.1**	**OPERATING INCOME**	**19.4**	**21.1**	**12%**	**9%**
38.4	43.0	Transmission Tolls	19.3	21.1	12%	9%
0.1	0.1	Other Operating Income	0.0	0.0	42%	(42%)
(5.3)	**(4.9)**	**RAW MATERIALS AND CONSUMABLES USED**	**(2.4)**	**(2.5)**	**(8%)**	**4%**
(0.6)	(1.5)	Transmission Tolls	(0.9)	(1.2)	144%	-
(4.7)	(3.4)	Other Operating Expenses	(1.6)	(1.4)	(28%)	(12%)
33.1	**38.2**	**GROSS PROFIT**	**16.9**	**18.6**	**15%**	**10%**
(0.1)	(0.3)	Other Expenses, by nature	(0.1)	(0.2)	124%	88%
(6.9)	(7.2)	Depreciation and Amortization Expenses	(3.5)	(3.6)	5%	4%
26.1	**30.7**	**OPERATING INCOME (LOSS) (*)**	**13.4**	**14.8**	**17%**	**10%**
33.0	**37.9**	**EBITDA**	**16.8**	**18.4**	**15%**	**9%**

A reorganization of the transmission assets of the Company was carried out in October 2018, consolidating on Colbún Transmisión S.A. all national, zonal and dedicated assets in Colbún Transmisión S.A. Previously, Colbún Transmisión S.A. only recorded the national transmission assets. Therefore, the figures presented for the Generation and Transmission businesses in Chile as of 2Q18 and accumulated as of June19 in this Earning Report are proforma.
(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), 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 Colbun's Transmission Business mainly comes from two sources: **(1) Annual Transmission Value per Tranche (VATT)**, which corresponds to the return on investment (AVI) added to the operation and maintenance costs (COMA); and **(2) tariff revenues (IT)**. On the other hand, the main component of Colbun's transmission costs are IT. Thereby, the margin received by the Company corresponds to VATT. Additionally, if they are received, reassessments are incorporated into income and costs.

Operating Income for 2Q19 reached US$21.1 million, of which 33% corresponds to income from national assets, 12% to zonal and 55% corresponds to the dedicated segment. The higher revenues compared to 2Q18 are mainly explained by an increase in the revenues from zonal transmission assets due to the release of the 6T decree in October 2018, which modified the pricing of those assets.
In cumulative terms, operating income reached US$43.1 million, of which 31% corresponds to income from national assets, 14% to zonal and 54% corresponds to the dedicated segment. Operating income increased 12% compared to Jun18, mainly due to the same reasons that explain the variations in quarterly terms.

EBITDA for 2Q19 increased by 9% compared to the same quarter of the previous year, reaching US$18.4 million. The higher EBITDA is mainly explained by the increase in operating income previously explained.
In cumulative terms, EBITDA as of Jun19 amounted to US$37.9 million, increasing 15% compared to 2Q18, mainly due to the same reasons that explain the variations in quarterly terms.

3.3. Operating Income Analysis in Peru

Table 7 shows a summary of Fenix's Operating Income and EBITDA for the quarters 2Q18, 2Q19 and cumulative as of Jun18 and Jun19. Subsequently, the main accounts and/or variations will be analyzed.

Table 7: EBITDA Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
81.0	**83.3**	**OPERATING INCOME**	**41.3**	**41.3**	**3%**	**(0%)**
56.5	55.4	Regulated Customers Sales	27.5	27.8	(2%)	1%
17.2	16.0	Unregulated Customers Sales	9.3	7.7	(7%)	(18%)
4.9	9.6	Sales to Other Generators	3.4	4.8	97%	41%
2.5	2.2	Other Operating Income	1.1	1.0	(10%)	(3%)
(54.7)	**(44.1)**	**RAW MATERIALS AND CONSUMABLES USED**	**(26.8)**	**(16.8)**	**(19%)**	**(37%)**
2.2	(1.2)	Transmission Tolls	0.0	(0.7)	-	-
(6.4)	(0.6)	Energy and Capacity Purchases	(0.0)	(0.4)	(90%)	-
(42.6)	(35.8)	Gas Consumption	(23.6)	(12.4)	(16%)	(47%)
0.0	0.0	Diesel Consumption	0.0	0.0	-	-
(7.9)	(6.4)	Other Operating Expenses	(3.2)	(3.3)	(19%)	2%
26.4	**39.2**	**GROSS PROFIT**	**14.5**	**24.5**	**49%**	**69%**
(3.0)	(3.1)	Personnel Expenses	(1.5)	(1.6)	4%	6%
(1.2)	(1.2)	Other Expenses, by Nature	(0.6)	(0.6)	(0%)	1%
(16.4)	(22.3)	Depreciation and Amortization Expenses	(8.2)	(13.7)	36%	66%
5.8	**12.7**	**OPERATING INCOME (LOSS) (*)**	**4.1**	**8.5**	**117%**	**109%**
22.2	**34.9**	**EBITDA**	**12.3**	**22.2**	**57%**	**80%**

As of June 2019, a reclassification of Transmission Tolls revenues and costs was made at Fenix subsidiary level in Peru, presenting the net effect of these items. Prior to that date, income and costs were presented separately in the Income Statement. For comparative purposes, the same classification was made in the 2018 figures presented in this Earnings Release.
(*): The subtotal shown in "OPERATING INCOME" excludes the line "Other Profit (losses)" presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), where the concept of "Other Profit (losses)", which in the case of Colbun are only non-operational items, was incorporated as an operational item in the Financial Statements.

Operating income for 2Q19 amounted to US$41.3 million, in line with the revenues perceived in 2Q18.
In cumulative terms, operating income as of Jun19 totalized US$83.3 million, increasing 3% compared to Jun18, mainly due to higher sales to other generators, partially offset by lower sales under contract.

Costs of raw materials and consumables used totaled US$16.8 million, decreasing 37% compared to the same quarter of the previous year. This is mainly explained by: (1) the recognition of gas distribution contract with Calidda as a financial lease from January 2019 onwards, due to the adoption of IFRS16 accounting regulation and (2) the major maintenance performed during the month of April 2019.
In 2018, the maintenance was carried out during the first quarter of the year.
In cumulative terms, the costs of raw materials and consumables used reached US$44.1 million as of Jun19, decreasing 19% compared to Jun18, mainly explained by: (1) a lower gas consumption during the quarter due to (i) the recognition of the gas supply contract with Calidda, which from January 2019 onwards is accounted as a financial leasing, and (ii) Gas transportation and distribution expenses were activated for US$3.9 million incurred during the 2019 major maintenance of the year; and (2) lower energy and capacity purchases in the spot market as of June19, explained by the higher marginal cost of energy purchases: during the maintenance of 2018 the energy purchase price reached US$29/MWh, compared to the price of US$9/MWh during the maintenance of 2019, as a result of the failure of the TGP gas pipeline in February 2018.

Fenix's EBITDA totaled **US$22.2 million** in 2Q19, 80% higher than the EBITDA of US$12.3 million recorded in 2Q18, mainly due to lower costs of raw materials and fuels used given the reasons previously mentioned. Isolating the effect of the recognition of Calidda's gas distribution contract as a finance lease, EBITDA in 2Q19 would have amounted to US$13.1 million.
In cumulative terms, Fenix's EBITDA as of Jun19 reached US$34.9 million vs. EBITDA of US$22.2 million as of Jun18. The increase is mainly explained by the same reasons that explain the variations in quarterly terms and by the lower energy and capacity purchases in the spot market explained above.

3.4. Consolidated Non-Operating Result Analysis (Chile & Peru)

Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) for 2Q18, 2Q19 and cumulative as of Jun18 and Jun19. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
9,4	11,3	Financial Income	4,5	4,9	21%	9%
(42,2)	(45,6)	Financial Expenses	(21,1)	(24,9)	8%	18%
(8,0)	2,1	Exchange rate Differences	(6,9)	0,9	-	-
6,7	4,9	Profit (Loss) of Companies Accounted for Using the Equity Method	2,1	2,6	(27%)	22%
(13,9)	(15,3)	Other Profit (Loss)	(9,7)	(10,8)	10%	11%
(47,9)	**(42,6)**	**NON-OPERATING INCOME**	**(31,0)**	**(27,4)**	**(11%)**	**(12%)**
152,2	**166,9**	**PRE-TAX PROFIT (LOSS)**	**64,2**	**80,4**	**10%**	**25%**
(43,0)	(39,1)	Income Tax Expense	(19,4)	(19,0)	(9%)	(2%)
109,2	**127,8**	**AFTER TAX PROFIT (LOSS)**	**44,8**	**61,4**	**17%**	**37%**
111,7	**125,7**	**PROFIT (LOSS) OF CONTROLLER**	**46,5**	**61,3**	**13%**	**32%**
(2,5)	**2,1**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(1,7)**	**0,1**	**-**	**-**

Non-operating result in 2Q19 recorded losses of **US$27.4 million**, 12% lower than the losses of US$31.0 million in 2Q18. The lower losses are mainly explained by a positive effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter. In 2Q18, on the other hand, this effect was negative. This effect was partially offset by higher financial expenses due to the recognition of the gas distribution contract with Calidda as a financial leasing.
In cumulative terms, the non-operating result as of Jun19 recorded losses of **US$42.6 million**, 11% lower than the losses recorded as of Jun18, mainly due to the same reasons that explain variations in quarterly terms.

2Q19's **tax expenses** amounted to **US$19.0 million**, similar to with the expenses registered in 2Q18, despite the higher income before taxes recorded during the quarter, mainly due to a deferred tax profit recorded in 2Q19 in Fenix, as a result of the Peruvian sol appreciation during the period; given that Fenix's tax accounting is carried out in Peruvian soles, according to the Peruvian tax legislation.
In cumulated terms, **tax expenses** as of Jun19 recorded **US$39.1 million**, decreasing 9% compared to Jun18, despite the higher income before taxes, mainly due to the same reasons that explain the variations in quarterly terms.

In 2Q19, **profits** reached **US$61.4 million**, 37% higher than the US$44.8 million gain in 2Q18. The higher profit is mainly explained by (1) a higher EBITDA recorded in the quarter, previously explained, and (2) the positive effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter.
In cumulated terms, profits as of Jun19 reached **US$127.8 million**, increasing by 17% compared to the accumulated profit at Jun18, mainly for the same reasons that explain the variations in quarterly terms.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 shows an analysis of the Balance Sheet's relevant accounts as of December 31, 2018 and June 30, 2019. Subsequently, the main variations will be analyzed.

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

	Dec-18	Jun-19	Var	Var %
Current assets	1,151.3	1,029.9	(121.4)	(11%)
Non-current assets	5,627.1	5,718.2	91.1	2%
TOTAL ASSETS	**6,778.3**	**6,748.1**	**(30.3)**	**(0%)**
Current liabilities	345.4	270.5	(74.9)	(22%)
Non-current liabilities	2,576.0	2,712.1	136.0	5%
Total net equity	3,856.9	3,765.6	(91.4)	(2%)
TOTAL LIABILITIES AND NET EQUITY	**6,778.3**	**6,748.1**	**(30.3)**	**(0%)**

Current Assets: Reached US$1,029.9 million as of Jun19, decreasing 11% compared to Dec18, mainly due to the decrease in cash and cash equivalents recorded during the period, explained by the dividend payment for a total for US$256.1 million in May 2019, partially offset by the cash generation of the period.

Non-current Assets: Recorded US$5,718.2 million as of Jun19, increasing by 2% in comparison to Dec18, mainly due to the registration of an asset under lease of US$127 million in the Fenix subsidiary, as a result of the recognition of the gas supply contract with Calidda, which as of January 2019 is classified as financial leasing.

Non-current Liabilities: Reached US$2,712.1 million as of Jun19, increasing by 5% compared to Dec18, mainly due to the recognition of a US$127 million Right of Use Liability in the Fenix subsidiary, product of the recognition of the gas supply contract with Calidda previously explained.

Total Net Equity: Recorded US$3,765.6 million, decreasing 2% compared to Dec18, due to the dividend payment in May 2019 for US$256.1 million, partially offset by the accumulated result of the period.

Table 10: Main Debt Items (US$ million)

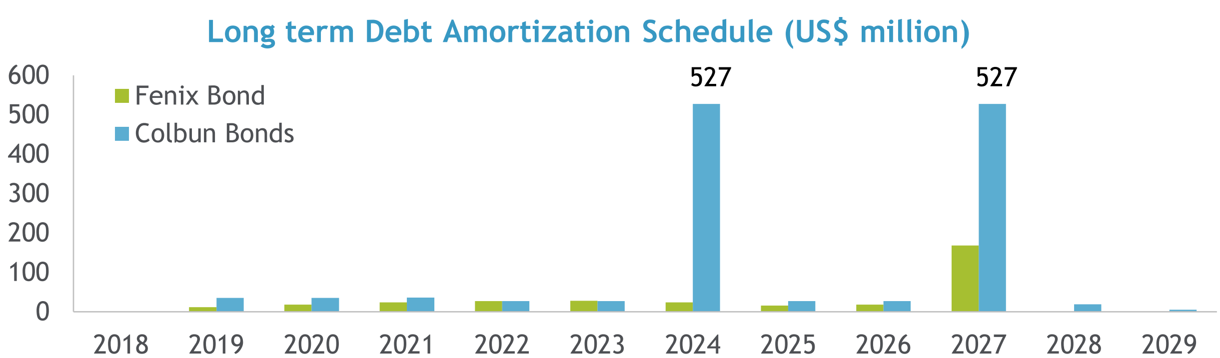
	Dec-18	Jun-19	Var	Var %
Gross Financial Debt*	1,603.3	1,724.5	121.2	8%
Financial Investments**	788.1	667.3	(120.8)	(15%)
Net Debt	815.2	1,057.2	242.0	30%
EBITDA LTM	684.1	702.0	17.8	3%
Net Debt/EBITDA LTM	1.2	1.5	0.3	26%

(*) The amount includes debt associated with Fenix without recourse to Colbún: (1) an international bond with an outstanding capital of US$329 million, (2) a financial leasing for US$14.4 million associated with a transmission contract with Consorcio Transmantaro, and (3) a US$127.4 million financial leasing associated with a gas distribution contract with Calidda.
(**) The account "Financial Investments" presented includes the amount associated to time deposits that, by having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

Table 11: Long Term Financial Debt

Average Life	6.3 years
Average Interest Rate	4.5% (100% fixed rate)
Currency	94% USD / 6% UF

(*) Includes financial 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 include the accumulated result over the last 12 months as of the indicated date.

Table 12: Financial Ratios

Ratio	Dec-18	Jun-19	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.33	3.81	14%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.21	3.64	14%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.76	0.79	5%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.82%	9.07%	(23%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.18%	90.93%	3%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.92	4.93	0%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.90%	6.52%	10%
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.51%	3.77%	8%
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.19%	8.35%	2%

Income Statement ratios correspond to last 12 months values.

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

Current Liquidity and **Acid Test Ratio** reached **3.81x** and **3.64x** as of Jun19, both increasing compared to Dec18 by 14%, mainly due to a decrease in current liabilities resulting from the reverse of provisions: (1) of the minimum dividend recorded in Dec18, which was paid in May 2019; and (2) of the emissions tax, which was paid in April 2019.

The **Indebtedness Ratio** reached **0.79x** as of Jun19, increasing 5% with respect to the value of 0.76x as of Dec18, mainly due to: (1) the recognition of a US$127 million right-of-use Liability in the Fenix subsidiary, product of the recognition of the gas distribution contract with Calidda as a financial lease previously explained; and (2) the decrease in equity due to the US$256.1 million dividend payment in May 2019.

The percentage of **Short-Term Debt** as of June19 was **9.07%,** decreasing by 23% compared to the value of 11.82% as of Dec18, mainly due to the **recognition** n of a liability in the Fenix subsidiary with a long term right-of-use of US$127 million, previously explained.

The percentage of **Long-Term Debt** as of Jun19 was **90.93%,** increasing 3% with respect to the value of 88.18% as of Dec18, mainly due to the **recognition** of a US$127 million Long-Term Right of Use Liability in the Fenix subsidiary, explained above.

The **Coverage of Financial Expenses** as of Jun 19 was **4.93x**, in line with the value obtained as of Dec18.

The **Equity Profitability** as of Jun 19 was **6.52%,** increasing by 10% compared to the value of 5.90% recorded as of Dec18. The variation is explained by the higher result before taxes of the last 12 months as of Jun19, and by the lower average equity recorded during the period, mainly due to the dividend payment in May 2019 for a total amount of US$256.1 million.

Asset Profitability and **Performance of Operating Assets** as of Jun 19 reached **3.77%** and **8.35%,** increasing compared to Dec18 by 8% and 2% respectively. The increase is mainly explained by the increase in the operating income of the last 12 months as of Jun19.

6. CONSOLIDATED CASH FLOW ANALYSIS

The Company's Cash Flow is shown in the following table:

Table 13: Cash Flow Summary for Chile and Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-18	Jun-19		2Q18	2Q19	Ac/Ac	Q/Q
810.2	**788.1**	**Cash Equivalents, Beg. of Period***	**880.7**	**815.7**	**(3%)**	**(7%)**
229.6	253.0	Net cash flows provided by (used in) operating activities	98.8	174.7	10%	77%
(255.0)	(327.1)	Net cash flows provided by (used in) financing activities	(235.2)	(291.0)	28%	24%
(74.4)	(46.3)	Net cash flows provided by (used in) investing activities**	(32.2)	(28.7)	(38%)	(11%)
(99.7)	**(120.4)**	**Net Cash Flows for the Period**	**(168.6)**	**(145.0)**	**-**	**(14%)**
(14.8)	(0.4)	Effects of exchange rate changes on cash and cash equivalents	(16.5)	(3.4)	-	(79%)
695.6	**667.3**	**Cash Equivalents, End of Period**	**695.6**	**667.3**	**(4%)**	**(4%)**

(*) The account "Cash and Cash Equivalents" presented includes the amount associated to time deposits that, by 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 since it does not incorporate the amount associated with deposits with maturity over 90 days.

During 2Q19, the Company presented a negative net cash flow of US$145.0 million, compared to the negative net cash flow of US$168.6 million in 2Q18.

Operating activities: During 2Q19 a positive net flow of US$174.7 million was generated, increasing 77% compared to the positive net flow of US$98.8 million in 2Q18, mainly due to a higher collection of accounts receivable, lag in the payment of insurance policies and higher dividends of subsidiaries received during the quarter.
In cumulative terms, a positive net flow of US$253.0 million was recorded as of Jun19, 10% higher than the positive net flow of US$229.6 million as of Jun18, mainly explained by the same reasons that explain the variations in quarterly terms.

Financing activities: Recorded a negative net flow of US$291.0 million during 2Q19, which compares with the negative net flow of US$235.2 million in 2Q18. The increase in disbursements during the quarter is mainly due to the higher dividend distribution. Although in both periods 100% of the distributable liquid profit of the previous year was distributed, during the 2Q19 an eventual dividend of US$100.0 million was additionally paid out. With this, the dividend distribution made in 2Q19 totaled US$256.1 million, compared to US$212.8 million in 2018.
In cumulative terms, a negative net flow of US$327.1 million was recorded as of Jun19, which is compared to the negative net flow of US$255.0 million as of Jun18. The increase in disbursements is mainly due to the same reasons that explain the variations in quarterly terms.

Investing activities: Recorded a negative net flow of US$28.7 million during 2Q19, which compares with disbursements of US$32.2 million in 2Q18. The lower negative net flow is mainly explained by higher investments made during 2Q18 mainly due to projects for the expansion and normalization of the Company's transmission assets.
In cumulative terms, the investing activities generated a negative net flow of US$46.3 million as of June19, which is compared to the negative net flow of US$74.4 million as of Jun18. The decrease in disbursements is mainly explained by the investments made in the first half of 2018 for the construction of La Mina and Ovejería power plants and Puente Negro substation.

7. ENVIRONMENT AND RISK ANALYSIS

Colbun S.A. is a power generation company whose installed capacity reaches 3,893 MW composed by 2,250 MW of thermal units, 1,634 MW of hydraulic units and 9 MW of the Ovejeria solar photovoltaic power plant. The Company operates in the National Electric System (SEN) in Chile, representing 17% of the market (23% in the Central Interconnected System (SIC), prior to the interconnection with Norte Grande Interconnected System (SING) effective as of October 2017). It also operates in the National Interconnected Electric System (SEIN) in Peru, where it has approximately 8% of market share. Both participations measured in terms of power generation.

Through its commercial policy, the Company seeks to be a competitive, safe and sustainable energy supplier with a volume to be committed through contracts that allow it to maximize the long-term profitability of its asset base, limiting the volatility of its results. These have structural variability, since they depend on exogenous conditions such as hydrology and fuel prices (oil, natural gas and coal). To relieve the effect of these exogenous conditions, the Company endeavors to contract in the long term its cost-effective generation sources (either own or acquired from third parties) and eventually, in case of deficit/surplus, it can buy/sell energy in the spot market at marginal cost.

Regarding the energy transmission infrastructure, Colbún owns 941 km of transmission lines: 331 km of its lines belong to the National segment, 103 km to the Zonal segment and 507 km belong to the Dedicated segment. In addition, it has a total of 28 substations. In 2018, the Company reorganized assets, consolidating all transmission assets (National, Zonal and Dedicated) in Colbún Transmisión S.A. This reorganization seeks to give a greater focus on management, reporting and visibility to the transmission business. It is important to point out that Colbún Transmisión reports independently to the CMF (Financial Market Commission its Financial Statements and main figures on an annual basis.

7.1 Medium-Term Outlook in Chile

The hydrological year started on March 31 registers a probability of exceedance of the SEN of 88%. Consequently, the energy matrix has continued its operation with higher thermal sources. It is worth mentioning, that in terms of gas supply, 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 during most of the first half part of each calendar year, period of the year which generally there has less availability of water resources. Colbún has 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 3,700 GWh and is currently under negotiations to settle new agreements.

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

7.2 Medium-term outlook in Peru

In the second quarter of 2019, the SEIN registered a hydrological condition with a probability of exceedance of 42%, compare to the 47% recorded the same quarter of 2018. The cumulative energy demand growth rate at the end of the second quarter was 3.9%, recovering from the low growth levels registered at the beginning of 2018. The future trend of marginal costs is mainly depend on the growth of demand, hydrology and regulatory changes related to price declaration.

7.3 Growth plan and long-term actions

The Company seeks growth opportunities in Chile and in countries of the region, in order to maintain a relevant position in the power generation industry and to diversify its income sources in geographical terms, hydrological conditions, generation technologies, access to fuels and regulatory frameworks.

Colbun seeks to increase its installed capacity by maintaining a relevant participation in the hydraulic energy industry, with a complement of both efficient thermal energy and energy from other renewable sources that allows for a secure, competitive and sustainable generation matrix.

In Chile, Colbun has several potential projects currently in different stages of progress, including wind, solar and hydroelectric projects and expansion and improvement of its current transmission assets

Power generation projects under development

Horizonte Wind Farm (607 MW): Horizonte is a wind farm located 70 km northeast of Taltal and 170 km southwest of Antofagasta. It has an installed capacity of approximately 607 MW and an annual average generation of approximately 2,000 GWh.

This project starts with the award of a tender conducted by the Ministry of National Assets (MBN), for the development, construction and operation of the Wind Farm by a 30 years Onerous Use Concession Agreement, in a state property of about 8 thousand hectares.

The development considers four years for the stages of studies and permits and an additional three years for construction.

During the second quarter of 2019, we continued progressing in the feasibility stage, particularly, related to engineering, therefore a drill hole and soil pits campaign was started, and connection engineering has gone forward. At the same time, wind turbines auction processes concluded, and the agreement is in process.

Photovoltaic Solar Projects Diego de Almagro Sur I and II (200 MW): the projects are located in the Atacama Region, 27 kilometers south of Diego de Almagro, and all together consider an approximate power of 200 MW. Both projects are located on a total land of 330 hectares, at less than two kilometers from the new Illapa substation, which is favorable for their connection to the National Electricity System.

These projects originate by the acquisition from the developer Alen Walung and their Environmental Impact Reports are currently being evaluated in the Environmental Impact Evaluation System (SEIA).

Sol de Tarapacá Photovoltaic Project (180 MW): the project considers the installation of a solar power plant with an installed capacity of approximately 180 MW.

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

The energy generated will be injected to the National 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 new Pozo Almonte substation, 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.

Other Renewable Energy Projects from Variable Sources (~800 MW): At 2Q19 closing, Colbún continues making progress in the pipeline of options for wind and solar projects, which are in early stages of development. These projects are highly competitive, locations have been chosen with the best energy resources, they have high socio-environmental feasibility, near to transmission lines and are distributed throughout the country. These projects represent advance to fulfill our goal, of building about 4,000 MW in renewable energy before the end of 2030.

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 should remain 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 SEN (Nacional Electric System) 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 December 2018, an Environmental Impact Study was re-entered for project adjustments, which was admitted for processin. By the end of April, the environmental authority issued the first Icsara.

Guaiquivilo Melado Project (316 MW): The Guaiquivilo Melado 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.

Colbún has decided to hold up the development of this project since the market conditions for executing the initiative are not in place. These conditions are being permanently monitored.

Los Cuartos Project (93 MW): The hydroelectric project Los Cuartos is located in the Biobío river, near to the locality of San Carlos de Purén, 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.

Colbún has decided to defer the development of this project since the market conditions for executing the initiative are not in place. These conditions are being permanently monitored.

Transmission projects under development

Candelaria substation enhancement: This project consists of a modification of the connection scheme of the double bar substation to "One and Half Circuit Breaker Substation". In addition, it incorporates 6 new switchyards in 220 KV with switches, disconnectors, TTCC and other equipment. The awarded investment value is US$14.4 million and as of June 2019 it presents a 92% progress.

New Bank of Condensers Series for Puente Negro substation: Assembly of 2 in series capacitor banks with capacity of 224 MVAr, in the southern part of the substation. The awarded investment value is US$6.8 million and as of June 2019 it presents an 85% progress.

Maipo substation extension: Enhancement of existing 220 kV panels to a double bar configuration with transfer bar. The new installation will have GIS technology, additionally the control systems and protections will be renewed. The awarded investment value is US$15.3 million and as of June 2019 it presents a 99% progress.

Maquis substation enhancement: Enhancement of the existing 220 kV substations, modifying the current configuration to GIS technology, the change considers at least 6 switchyards. The control systems and protections must also be adapted. The awarded investment value is US$8.0 million and as of June 2019 it presents an 87% progress.

Mulchen substation extension: Expansion of the substation platform for the construction of 5 new connection switchyards in 220 kV. The awarded investment value is US$3.6 million and as of June 2019 it presents a 25% progress.

Pirque substation: To regularize the connection of the Pirque substation through a sectioning of the line Maipo - Puente Alto 1x110 kV, with its respective switchyards to replace the current Tap OFF. The awarded investment value is US$1.8 million and by June 2019 it presents a 31% progress.

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.

Global management of risks undertake 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 of the Company and has the support of the Risk Management and the supervision, monitoring and coordination of the Risk and Sustainability 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

In dry hydrologic conditions, Colbun 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, to comply with its commitments. This situation could raise Colbun's costs, increasing results 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 cost efficient thermal generation with coal and natural gas, and other renewables cost efficient generation 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, Colbun 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 came into operation during the third quarter of 2017.

In Peru, Colbun 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 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, Colbun must rely on its thermal plants or purchase energy in the spot market at marginal cost. 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 both cases, there is a risk associated to potential variations in international fuel prices. Part of this risk is mitigated by incorporating fuel price variations in the indexation of the 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.

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

Due to all 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 to gas supply, 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 first half of each calendar year, period of the year in which generally has less availability of water resources. Colbú also has 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. Additionally, gas supply agreements have been signed with Argentine producers, which allows us to have 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.

B.1.4. Equipment failure and maintenance risks

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 of conductingregular 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 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

In Chile, various regulatory changes are being processed, 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, (vi) efficiency energy bill, and (vii) inspections and sanctions bill.

Additionally, the Ministry of Energy is carrying out discussions for the preparation of three bills that would directly impact the electricity sector. The "New Distribution Law", the "Improved Transmission Law" and the "Flexibility Law".

i) The first of them seeks to update the regulation of the distribution sector to better address the technological and market advances that have taken place and that are foreseen for the future.

ii) On its part, the “Improved Transmission Law” seeks to improve certain aspects that were addressed in the 2016 Transmission Law, such as Open Access and the Qualification of Facilities, among others.

iii) Regarding the "Flexibility Law", there is still no progress in its discussion. However, it aims to address the systemic and market consequences that will arise due to the increasing incorporation of variable renewable energy. Reports have been developed by consultants who have evaluated the issue in greater depth in order to continue the discussion.

In Peru, gas declaration modifications required in order to restore efficiency in the power market are still pending.The Ministry of Energy and Mines decided to create a Multilevel Commission in which a potential reform of the entire electricity sector will be discussed, and a 24-months period was established.

In addition, regulatory projects are being discussed that in the short term seek to implement: (i) recognition of firm capacity to RER power plants, (ii) Distributed Generation Regulation, and (iii) Bill for electromobility promotion.

B.1.7. Risk of changein demand/supply and selling price of electricity

The projection of future electricity consumption is very relevant 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 price difference 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 unregulated 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 variable renewable energy sources 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 remunerates 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 non-compliance of obligations 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.

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.

As of June 30th, 2019, 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 counterparties with which Colbún has maintained energy supply contracts have made the corresponding payments correctly.

In recent times, given that Colbún has expanded its presence in the medium and small unregulated clients segment, the Company has implemented new procedures and controls related to the risk assessment of this type of clients and collection monitoring. Quarterly basis, un-collectability provisions are calculated based on risk analysis of each client considering the client's credit rating, payment behavior and industry, among other factors.

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, 2019, 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 10.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 Colbún's own resources generated by the company's ordinary activities and by contracting credit lines to ensure sufficient funds to cover projected needs for a given period.

As of June 30, 2019, Colbún has cash in excess for approximately US$667 million, invested in time deposits with an average maturity of 80 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$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, 2019, Colbún has a local credit rating of AA- by Fitch Ratings and AA by Feller Rate, both with stable outlooks. At the international level, the Company's rating is Baa2 by Moody's, and BBB by Fitch Ratings and Standard & Poor's (S&P Global), all with stable outlooks.

Regarding Fenix's international risk rating, on April 23th, 2019 Fitch Ratings upgraded to its rating, from BB to BBB-. Then, on April 26th, 2019 Moody's downgraded its rating from Baa3 to Ba1. Given this, as of June 30, 2019, Fenix has Ba1 international risk ratings by Moody's and BBB- by S&P and Fitch Ratings, all with stable prospects.

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 exposure

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 March 31, 2019, 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 27%. 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.

Accounting Note to Financial Statements:

Regarding Fenix's Financial Statements, for the second quarter of 2019 the following is worth to mention:

1. **Recognition of gas distribution contract with Calidda as a financial lease** from January 2019 onwards, due to the adoption of IFRS16 accounting standard. The effects on Colbún's Financial Statements are as follows:
    - i. Recognition of an asset under lease for US$127 million and a right-of-use liability for the same amount.
    - ii. A higher annual EBITDA of US$16 million distributed on a straight-line basis during the year (US$8 million per semester)
    - iii. Higher depreciation expenses and higher financial expenses of US$18 million for the year 2019 (US$9 million for the first semester of 2019).

    The lower profit generated by this recognition during the first years (the difference between EBITDA and the sum of depreciation and financial expense) will be offset in the future, having a neutral effect during the tenor of the contract (14 years). This temporary difference is produced by the asset's linear depreciation formula and the liability's interest expense (outstanding capital).
2. **Toll revenues and costs:** Formerly, these items were presented separately in the Company's Income Statement (recognizing both Revenues and Costs). From 2019 onwards, due to IFRS15 accounting regulation adoption, after further analysis of the contracts and the Peruvian power industry, its net effect will be presented. It is worth noting that this reclassification has a neutral effect on EBITDA. For comparative purposes, the same reclassification was made in the 2018 figures presented in this Earnings Report.
3. **Transportation and distribution gas expenses** for US$3.5 million, incurred during the first major maintenance of the power plant, were activated.

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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.