4th QUARTER 2019

QUARTERLY EARNINGS REPORT

As of December 31, 2019

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4Q19

EARNINGS

REPORT

Conference Call
4Q19

Date: Friday January 31st, 2019

Time: 10:00 AM Eastern Time
12:00 PM Chile Time

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Event Link:
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1. HIGHLIGHTS

Main Figures at a Consolidated Level:

Operating Income for the fourth quarter of 2019 (4Q19) amounted to **US$352.1 million**, decreasing 9% compared to the operating income recorded in the fourth quarter of 2018 (4Q18) mainly explained by lower physical sales to regulated clients in Chile, partially offset by higher physical sales to unregulated clients.
In cumulative terms, operating income as of December 2019 (Dec19), amounted to US$1,487.4 million, 3% lower than the operating income recorded in Dec18, mainly explained by the same reasons for the variations in quarterly terms.

Consolidated **EBITDA** in 4Q19 reached **US$182.9 million**, decreasing 9% compared to the US$201.0 million EBITDA in 4Q18, mainly due (1) a decrease in hydro generation as a result of a more severe drought than last year and (2) to lower income during the period.
In cumulative terms, EBITDA as of Dec19 reached **US$697.1 million,** 2% higher than the accumulated EBITDA as of Dec18, mainly explained by the efficiency plan implemented during 2018 and 2019.

Non-operating result in 4Q19 recorded losses of **US$100.3 million,** 100% greater than the losses of US$50.2 million in 4Q18. The higher losses are mainly explained by higher provisions for impairment of individual assets recorded.
In cumulative terms, the non-operating result as of Dec19 recorded losses of **US$176.4 million,** higher than the losses of US$118.3 million recorded as of Dec18, mainly due to the higher impairments provisions previously explained.

4Q19's **tax expenses** reached **US$2.5 million,** decreasing 92% compared to the expenses in 4Q18, mainly due to the recognition of deferred taxes generated due to the dissolution of Termoeléctrica Nehuenco S.A.
In cumulative terms, tax expenses for Dec19 reached US$68.2 million, decreasing 29% compared to Dec18, mainly due to (1) lower pre-tax profit recorded during the period and (2) appreciation of the exchange rate PEN/USD during the period.

In 4Q19, **profits** reached **US$19.5 million,** 71% lower than the US$67.4 million gain in 4Q18. The lower profit is mainly explained by (1) higher provisions for impairments previously mentioned and (2) lower EBITDA recorded during the period. These effects were partially offset by lower income tax expenses.
In cumulative terms, the profit as of Dec19 reached **US$202.0 million,** decreasing 12% compared to the accumulated profits as of Dec18, mainly explained by the same reasons for the variation in quarterly terms.

Strategic Agenda Progress:

During 2019, Colbún achieved important progresses in its strategic agenda, which focuses on 5 main pillars: (1) to increase unregulated clients segment market share, (2) massive incorporation of cost-efficient projects of renewable energy from variable sources; (3) to continue with the fixed cost efficiency plan implementation, initiated during 2018; (4) to progress in the digitalization and automatization program in our facilities and (5) to strengthen our transmission business.

Regarding the commercial strategy, in October 2019 Colbún was awarded a renewable energy supply contract for 3,000 GWh/year with BHP, for Escondida and Spence mine sites. The contract starts in January 2022, for a 10-year period. The agreement will allow the development of our portfolio of renewable projects, specially of the Horizonte wind farm (607 MW). Considering this agreement, **during 2019 the Company has contracted approximately 3.5 TWh/year of its generation with new unregulated customers.**

Regarding the **incorporation of renewable energies from variable sources**, during 2019 important advances were made in the wind and solar projects pipeline: (1) the feasibility stage of the wind farm project Horizonte was concluded; (2) Diego de Almagro solar project's Environmental Qualification Resolution was approved; and (3) the Environmental Impact Declaration (DIA) of the solar projects Jardín Solar and Machicura begun its formal approval process. Additionally, during the year, Colbún continued 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 by the end of 2030.

Regarding the **fixed costs efficiency plan** implemented during 2018, it can be highlighted that Colbún implemented operational efficiencies that reduced its fixed cost structure, achieving relevant savings compared to last year.

Regarding to Colbún's **digitalization and automatization**, it consists in an operational, administrative and maintenance processes review in order to simplify them and increase the efficiency and competitiveness of the Company. These initiatives include, for example, predictive maintenance techniques adoption, online operation processes monitoring, plant's remote control, among others. During 2019, important progresses were made in digitalizing and automating the management of the Company's commercial cycle, as well as the incorporation of a higher level of technology to administrative processes in the supply, contract and travel management areas. Also, the scope of telemonitoring coverage of our facilities increased.

Regarding the **pillar of strengthening our transmission business**, during 2019 we continued with the progress in the expansion and normalization projects of the Company's current transmission assets, whose total investment value awarded reached US$50 million. Colbún Transmisión S.A recorded an EBITDA of US$72.3 million during 2019 that is compared to an US$66.5 million proforma EBITDA recorded in 2018.

Other highlights of the year

During the third quarter, Colbún was selected to list for the fourth consecutive year at **DJSI Chile**, and for the third year at DJSI Pacific Alliance. In addition, the Company led the ranking of **Informe Reporta**, standing out as the company that best reports information to the market; and the Machicura vacation center was awarded as the best sustainable practice in the "Good practices for a more sustainable electric future" contest.

Santa María power plant, which was out of service since 28th of July, driven by the major maintenance schedule for 2019 and the finding of a failure in the steam turbine, started injecting energy to the system on November 20th and is operating normally.

On October 29th one of the gas turbines (TG12) of the **Fenix thermal power plant** failed. As a resulted of the failure, the plant operated in 1x1 mode (at 50% capacity, with a gas turbine and a steam turbine) for the rest of 4Q19. Since January 10th, the plant is unavailable, after stopping the second gas turbine (TG11) operation for preventive maintenance. It is estimated that the plant will restart its operation on the first days of February in 1x1 mode, after repairing the failure in the first turbine.

On December 11th Colbun sold 100% of **Antilhue thermal power plant** (103 MW) to Prime Energía; in order to concentrate its efforts on developing cost-efficient power generation units. The sale price amounted to approximately US$21 million, generating a loss in the year result which is no material in Colbún's context.

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 4Q18, 4Q19 and cumulative as of Dec18 and Dec19.

Table 1: Physical sales and generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
12,843	**12,157**	**Total Physical Sales (GWh)**	**2,986**	**2,767**	**(5%)**	**(7%)**
5,417	4,340	Regulated Clients	1,256	1,017	(20%)	(19%)
6,113	6,570	Unregulated Clients	1,573	1,750	7%	11%
1,313	1,247	Sales to the Spot Market	156	0	(5%)	-
1,643	**1,576**	**Capacity Sales (MW)**	**1,663**	**1,558**	**(4%)**	**(6%)**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
13,005	**11,908**	**Total Generation (GWh)**	**3,009**	**2,650**	**(8%)**	**(12%)**
6,312	**5,119**	**Hydraulic**	**2,121**	**1,236**	(19%)	(42%)
6,558	**6,508**	**Thermal**	**845**	**1,327**	(1%)	57%
3,859	4,507	Gas	336	980	17%	192%
78	67	Diesel	13	2	(15%)	(84%)
2,620	1,934	Coal	496	346	(26%)	(30%)
136	**282**	**VRE**	**44**	**86**	107%	98%
122	261	Wind Farm*	37	79	115%	116%
14	20	Solar	7	7	44%	2%
94	**512**	**Spot Market Purchases (GWh)**	**29**	**180**	-	-
1,218	**735**	**Sales - Purchases to the Spot Market (GWh)**	**127**	**(180)**	**(40%)**	-

(*): 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 **2,767 GWh** during 4Q19, decreasing 7% compared to 4Q18, due to lower sales to regulated clients and to the spot market, partially offset by higher sales to unregulated clients. On the other hand, quarterly **generation** decreased 12% compared to 4Q18, mainly due to (1) a lower hydro generation (-885 GWh) due to a less favorable hydrology compared to the same quarter as last year; (2) a lower coal generation (-150 GWh) driven by the lower availability of Santa María power plant during the quarter; and (3) a lower diesel generation (-11 GWh), partially offset by (1) a higher gas generation (+644 GWh); and (2) a higher wind farm generation (+43 GWh) due to energy purchases from San Pedro wind farm, a contract that started in 2Q19 and that expired in Dec19.

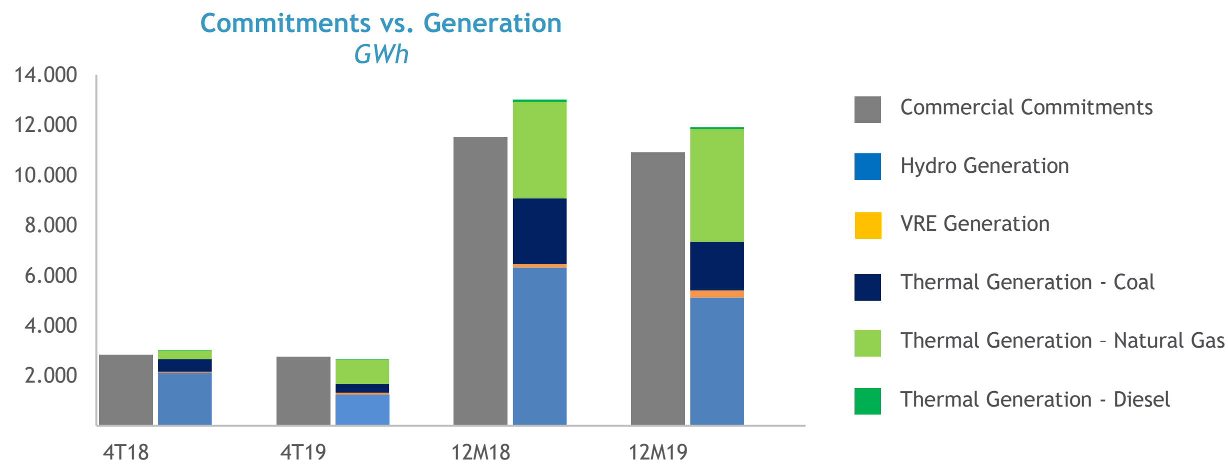
In cumulative terms, physical sales as of Dec19 reached 12,157 GWh, 5% lower compared to Dec18, due to lower sales to regulated clients and to the spot market partially offset by higher sales to unregulated clients. On the other hand, the cumulative generation as of Dec19 reached 11,908 GWh, decreasing 8% compared to Dec18, mainly due to lower hydro generation (-1,193 GWh) and coal generation (-686 GWh), partially offset by a higher gas generation (+648 GWh) and VRE generation (+139 GWh).

The **balance in the spot market** during the quarter recorded net purchases of 180 GWh, compared to the net sales of 127 GWh recorded in 4Q18, as a result of the lower generation in 4Q19.
In cumulative terms, the balance in the spot market recorded net sales of 735 GWh, 40% lower compared to the net sales as of Dec18, due to the same reasons that explain the variations in quarterly terms.

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, being Maule and Aconcagua basins the ones that exhibit the most significant deficits in comparison to an average year, of 46% and 86% respectively. On its part, Laja, Biobío and Chapo basins present a deficit of 11%, 10% and 3% respectively.

During 4Q19 the SEN generation increased 1% compared to the same period of 2018 (19,046 GWh in 4Q18 vs. 19,281 GWh in 4Q19). During the quarter, a higher VREs generation was recorded (3,022 GWh in 4Q18 vs. 3,579 GWh in 4Q19) associated with an increase in the installed capacity of these technologies, and higher gas generation (1,779 GWh in 4Q18 to 2,546 GWh in 4Q19), and coal generation were also recorded (5,557 GWh in 4Q18 vs. 6,786 GWh in 4Q19). On the other hand, hydro generation decreased 27% (8,020 GWh in 4Q18 vs. 5,835 GWh in 4Q19), and diesel generation (197 GWh in 4Q18 vs. 9 GWh in 4Q19) also decreased. The average marginal cost measured in Alto Jahuel decreased compared to 4Q18, averaging US$35.6/MWh in 4Q19, compared to US$52.7/MWh in 4Q18.

In cumulative terms, the SEN generation increased 1% compared to 2018 (76,568 GWh in 2018 vs. 77,150 GWh in 2019), explained mainly by an increase in the system's gas generation (11,493 GWh in 2018 vs. 14,193 in 2019), in the same way VREs generation also increased (9,545 GWh in 2018 vs. 11,117 GWh in 2019). On the other hand, hydro generation decreased (23,190 GWh in 2018 vs. 20,792 GWh in 2019) driven by the drought that affects Chilean major basins; in the same line, also coal and diesel generation decreased 2% and 64% respectively.



2.2. Physical sales and generation balance in Peru

Table 2 shows a comparison between physical energy sales and generation in 4Q18, 4Q19 and cumulative as of Dec18 and Dec19.

Table 2: Physical sales and generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
4,045	**3,911**	**Total Physical Sales (GWh)**	**1,160**	**825**	**(3%)**	**(29%)**
3,001	2,922	Costumers under Contract	717	733	(3%)	2%
1,044	988	Sales to the Spot Market	443	92	(5%)	(79%)
552	**525**	**Capacity Sales (MW)**	**554**	**558**	**(5%)**	**1%**

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
3,914	**3,767**	**Total Generation (GWh)**	**1,186**	**713**	**(4%)**	**(40%)**
3,914	3,767	Gas	1,186	713	(4%)	(40%)
210	**232**	**Spot Market Purchases (GWh)**	**-**	**131**	**11%**	**-**
834	**756**	**Sales - Purchases to the Spot Market (GWh)**	**443**	**(39)**	**(9%)**	**-**

Physical sales during 4Q19 reached 825 GWh, decreasing 29% compared to 4Q18. The lower physical sales are mainly explained the lower generation of the quarter as a result of a failure in the plant's gas turbine.
In cumulative terms, physical sales reached 3,911 GWh, decreasing 3% compared to Dec18, mainly due to the same reasons that explain the variations in quarterly terms.

Fenix gas **generation** reached 713 GWh, decreasing 40% compared to 4Q18, mainly due to the lower availability of the plant due to the failure previously mentioned.
In cumulative terms, generation reached 3,767 GWh, decreasing 4% compared to Dec18, mainly due to the lower availability of the plant during 2019 driven by the same reasons that explain the variation in quarterly terms, partially offset by the lower term of the major maintenance of the plant during 2019 compared to the one carried out in 2018.

The **balance in the spot market** recorded net purchases of 39 GWh, compared to the net sales of 443 GWh during the same quarter of the previous year, due to the lower generation of the quarter explained by the failure previously mentioned.
In cumulative terms, as of Dec19 the balance in the spot market recorded net sales of 756 GWh, decreasing 78 GWh compared to Dec18, mainly due to the same reasons that explain the variations in quarterly terms.

Generation mix in Peru: Hydroelectric generation in the SEIN (National Interconnected Electrical System) increased 3.5% compared to 4Q18, given the more favorable hydrological condition of the Mantaro River (main hydroelectric complex in Peru). Thermal generation, on the other hand, decreased 1.6% compared to 4Q18. The accumulated energy demand growth rate in 4Q19 was 2.6%.

3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 4Q18, 4Q19 and cumulative as of Dec18 and Dec19, for Chile and Peru.

Table 3: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
1,529.4	**1,487.4**	**OPERATING INCOME**	**385.7**	**352.1**	**(3%)**	**(9%)**
706.6	580.7	Regulated Customers Sales	166.6	133.8	(18%)	(20%)
627.8	687.3	Unregulated Customers Sales	180.0	186.5	9%	4%
111.0	121.6	Energy and Capacity Sales	16.8	7.6	10%	(55%)
56.4	61.2	Transmission Tolls	24.3	12.9	9%	(47%)
27.6	36.6	Other Operating Income	7.3	11.2	33%	54%
(731.6)	**(692.0)**	**RAW MATERIALS AND CONSUMABLES USED**	**(145.5)**	**(142.6)**	**(5%)**	**(2%)**
(128.2)	(120.1)	Transmission Tolls	(32.2)	(20.9)	(6%)	(35%)
(45.5)	(64.8)	Energy and Capacity Purchases	(10.3)	(18.8)	42%	83%
(355.5)	(337.3)	Gas Consumption	(51.5)	(64.1)	(5%)	25%
(16.4)	(12.7)	Diesel Consumption	(3.6)	(1.0)	(23%)	(73%)
(86.8)	(73.6)	Coal Consumption	(19.2)	(14.4)	(15%)	(25%)
(99.3)	(83.4)	Other Operating Expenses	(28.8)	(23.5)	(16%)	(18%)
797.7	**795.4**	**GROSS PROFIT**	**240.2**	**209.4**	**(0%)**	**(13%)**
(79.8)	(74.4)	Personnel Expenses	(19.5)	(19.4)	(7%)	(1%)
(33.9)	(24.0)	Other Expenses, by Nature	(10.5)	(7.1)	(29%)	(32%)
(237.0)	(250.5)	Depreciation and Amortization Expenses	(60.0)	(60.7)	6%	1%
447.1	**446.6**	**OPERATING INCOME (LOSS) (*)**	**150.2**	**122.3**	**(0%)**	**(19%)**
684.1	**697.1**	**EBITDA**	**210.2**	**182.9**	**2%**	**(13%)**
20.4	22.1	Financial Income	6.0	5.9	9%	(2%)
(83.9)	(91.1)	Financial Expenses	(20.8)	(22.5)	9%	9%
(12.6)	(7.2)	Exchange rate Differences	(3.1)	(1.5)	(43%)	(50%)
11.4	9.1	Profit (Loss) of Companies Accounted for Using the Equity Method	1.8	2.0	(20%)	11%
(53.6)	(109.3)	Other Profit (Loss)	(34.2)	(84.1)	104%	146%
(118.3)	**(176.4)**	**NON-OPERATING INCOME**	**(50.2)**	**(100.3)**	**49%**	**100%**
328.8	**270.2**	**PRE-TAX PROFIT (LOSS)**	**99.9**	**22.0**	**(18%)**	**(78%)**
(98.4)	(68.2)	Income Tax Expense	(32.6)	(2.5)	(31%)	(92%)
230.4	**202.0**	**AFTER TAX PROFIT (LOSS)**	**67.4**	**19.5**	**(12%)**	**(71%)**
240.3	**203.0**	**PROFIT (LOSS) OF CONTROLLER**	**71.9**	**18.2**	**(16%)**	**(75%)**
(9.9)	**(1.1)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(4.5)**	**1.2**	-	-

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	Dec-18	Dec-18
Chile (CLP / US$)	694.77	748.74
Chile UF (CLP/UF)	27,565.79	28,309.94
Peru (PEN / US$)	3.38	3.32

3.1. Operating Income analysis of the generation business in Chile

Table 5 presents a summary of Operating Income and EBITDA in 4Q18, 4Q19 and cumulative as of Dec18 and Dec19. Subsequently, the major accounts and/or variations will be analyzed.

Table 5: EBITDA generation business in Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
1,313.1	**1,265.4**	**OPERATING INCOME**	**332.0**	**292.7**	**(4%)**	**(12%)**
599.3	469.2	Regulated Customers Sales	142.6	104.9	(22%)	(26%)
598.2	680.4	Unregulated Customers Sales	173.1	186.8	14%	8%
93.4	101.7	Energy and Capacity Sales	10.5	4.6	9%	(56%)
(0.0)	0.0	Transmission Tolls	-	-0.1	-	-
22.3	14.1	Other Operating Income	5.9	(3.5)	(37%)	(160%)
(627.8)	**(622.3)**	**RAW MATERIALS AND CONSUMABLES USED**	**(110.5)**	**(122.7)**	**(1%)**	**11%**
(160.7)	(150.9)	Transmission Tolls	(39.6)	(27.8)	(6%)	(30%)
(39.0)	(63.9)	Energy and Capacity Purchases	(10.3)	(18.4)	64%	80%
(263.1)	(258.5)	Gas Consumption	(26.2)	(43.4)	(2%)	66%
(15.1)	(12.7)	Diesel Consumption	(3.6)	(1.0)	(16%)	(73%)
(86.8)	(73.6)	Coal Consumption	(19.2)	(14.4)	(15%)	(25%)
(63.1)	(62.8)	Other Operating Expenses	(11.6)	(17.7)	(1%)	53%
685.3	**643.1**	**GROSS PROFIT**	**221.5**	**170.0**	**(6%)**	**(23%)**
(73.6)	(68.2)	Personnel Expenses	(18.0)	(17.5)	(7%)	(3%)
(29.9)	(20.1)	Other Expenses, by nature	(16.4)	(5.7)	(33%)	(65%)
(189.8)	(193.5)	Depreciation and Amortization Expenses	(47.8)	(48.5)	2%	1%
392.0	**361.4**	**OPERATING INCOME (LOSS) (*)**	**139.3**	**98.4**	**(8%)**	**(29%)**
581.7	**554.9**	**EBITDA**	**187.1**	**146.9**	**(5%)**	**(22%)**

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. 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 3Q18 and accumulated as of Sep18 in this Earnings 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 4Q19 amounted to **US$292.7 million,** decreasing 12% compared to the operating income recorded in 4Q18, mainly due to lower physical sales to regulated clients and to the spot market and to a decrease in the average sales price to both regulated and unregulated clients mainly due to indexations to coal and diesel prices, partially offset by higher physical sales to unregulated clients.
In cumulative terms, operating income as of Dec19 amounted to **US$1,265.4** million, decreasing 4% compared to Dec18, mainly due to lower physical sales and average sales price to regulated clients, partially offset by higher physical sales and average sales price to unregulated clients.

The **costs of raw materials and consumables used** recorded **US$122.7 million,** increasing 11% compared to 4Q18, mainly due to a higher gas consumption and higher energy and capacity purchases recorded during the period.
In cumulative terms, the costs of raw materials and consumables used as of Dec19 reached **US$622.3 million,** decreasing 1% compared to Dec18, mainly explained by (1) lower coal consumption due to lower availability of the Santa María plant during the year; and (2) a decrease in tolls paid during the period. These effects were partially offset by higher energy and capacity purchases recorded during the period.

EBITDA in 4Q19 reached **US$146.9 million,** decreasing 22% compared to EBITDA of US$187.1 million in 4Q18, mainly due to the decrease in operating income recorded during the quarter.
In cumulative terms, EBITDA as of Dec19 reached **US$554.9 million,** decreasing 5% compared to EBITDA as of Dec18, mainly due to the same reasons that explain variations in quarterly terms, partially offset by lower expenses as a result of the efficiency program and lower raw materials and consumables used.

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 4Q18, 4Q19 and cumulative as of Dec18 and Dec19. Subsequently, the main accounts and/or variations will be analyzed.

Table 6: EBITDA transmission business in Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
77.4	**83.4**	**OPERATING INCOME**	**19.7**	**20.2**	**8%**	**2%**
77.1	83.4	Transmission Tolls	19.5	20.2	8%	4%
0.3	0.1	Other Operating Income	0.2	(0.1)	(84%)	-
(10.3)	**(10.2)**	**RAW MATERIALS AND CONSUMABLES USED**	**(2.4)**	**(2.7)**	**(1%)**	**-**
(0.6)	(2.1)	Transmission Tolls	(0.3)	(0.2)	231%	-
(9.7)	(8.1)	Other Operating Expenses	(2.1)	(2.5)	(16%)	17%
67.1	**73.2**	**GROSS PROFIT**	**17.3**	**17.5**	**9%**	**1%**
(0.6)	(1.0)	Other Expenses, by nature	(0.3)	(0.4)	72%	28%
(13.9)	(11.1)	Depreciation and Amortization Expenses	(3.6)	(0.3)	(21%)	(92%)
52.6	**61.2**	**OPERATING INCOME (LOSS) (*)**	**13.4**	**16.8**	**16%**	**26%**
66.5	**72.3**	**EBITDA**	**16.9**	**17.1**	**9%**	**1%**

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. 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 3Q18 and accumulated as of Sep18 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 in 4Q19 reached **US$20.2 million,** of which 39% corresponds to income from national assets, 6% to zonal and 55% corresponds to the dedicated segment. The higher revenues compared to 4Q18 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 enterd into force in January 2019, modifying the pricing of those assets.
In cumulative terms, operating income reached **US$83.4 million,** of which 36% corresponds to income from national assets, 10% to zonal and 54% corresponds to the dedicated segment. Operating income increased 8% compared to Dec18, mainly due to the same reasons that explain the variations in quarterly terms.

EBITDA for 4Q19 reached US$17.1 million, in line compared to the same quarter of the previous year. **In cumulative terms,** EBITDA as of Dec19 reached **US$72.3 million,** increasing 9% compared to 4Q18, mainly due to the same reasons that explains 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 4Q18, 4Q19 and cumulative as of Dec18 and Dec19. Subsequently, the main accounts and/or variations will be analyzed.

Table 7: EBITDA in Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
159.5	**174.8**	**OPERATING INCOME**	**38.4**	**47.3**	**10%**	**23%**
107.3	111.5	Regulated Customers Sales	24.0	28.9	4%	21%
29.6	32.4	Unregulated Customers Sales	7.0	8.2	9%	17%
17.6	19.9	Sales to Other Generators	6.3	3.0	13%	(52%)
5.0	11.0	Other Operating Income	1.1	7.2	121%	-
(114.2)	**(95.7)**	**RAW MATERIALS AND CONSUMABLES USED**	**(29.4)**	**(25.4)**	**(16%)**	**(14%)**
(6.5)	(1.0)	Energy and Capacity Purchases	(0.0)	(0.3)	(85%)	-
(92.4)	(78.8)	Gas Consumption	(25.3)	(20.8)	(15%)	(18%)
(1.4)	0.0	Diesel Consumption	-	-	-	-
(14.9)	(12.5)	Other Operating Expenses	(3.5)	(3.4)	(16%)	(4%)
45.3	**79.1**	**GROSS PROFIT**	**9.0**	**21.9**	**75%**	**143%**
(6.1)	(6.2)	Personnel Expenses	(1.5)	(1.9)	1%	27%
(3.4)	(2.9)	Other Expenses, by Nature	(1.4)	(1.0)	(13%)	(25%)
(33.3)	(45.9)	Depreciation and Amortization Expenses	(8.6)	(11.9)	38%	39%
2.5	**24.0**	**OPERATING INCOME (LOSS) (*)**	**(2.4)**	**7.1**	**-**	**-**
35.7	**69.9**	**EBITDA**	**6.1**	**19.0**	**96%**	**209%**

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.

Operating income in 4Q19 totaled **US$47.3 million,** 23% higher compared to the revenues perceived in 4Q18, mainly due to: (1) an non-recurring income of US$6.2 million derived from the arbitration award which demanded Calidda the compensation payment for the income that Fenix ceased to receive due to the breach of the Framework agreement between both companies and (2) higher revenues from sales to regulated and unregulated clients, partially offset by lower sales to other generators.
In cumulative terms, operating income as of Dec19 reached **US$174.8 million,** increasing 10% compared to Dec18, mainly due to (1) the non-recurring income from Calidda and (2) higher sales to regulated, unregulated and to other generators.

Costs of raw materials and consumables used reached **US$25.4 million,** decreasing 14% compared to the same quarter of the previous year. The decrease is mainly explained by a lower gas consumption due to: (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) lower gas generation due to the lower availability of the plant during the period.
In cumulative terms, the costs of raw materials and consumables used totaled **US$95.7 million** as of Dec19, decreasing 16% compared to Dec18, mainly explained by: (1) lower gas consumption during the quarter due to (i) the same reasons that explain the variations in quarterly terms, (ii) gas transportation and distribution expenses incurred during the 2019's major maintenance for US$3.5 million were capitalized and (2) lower energy and capacity purchases in the spot market as of Dec19, mainly 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** reached **US$19.0 million** in 4Q19, higher than the EBITDA of US$6.1 million recorded in 4Q18, mainly due to (1) the non-recurring income received from Calidda during the period, (2) higher sales to unregulated clients and other generators and (3) the lower costs of raw materials and consumables used given the reasons mentioned above. Isolating the effect of the recognition of Calidda's gas distribution contract as a finance lease, EBITDA in 4Q19 would have totaled US$15.5 million.
In cumulative terms, Fenix's EBITDA as of Dec19 reached **US$69.9 million,** higher than the EBITDA of US$35.7 million as of Dec18. The increase is mainly explained by (1) the recognition of the Calidda gas distribution contract as a finance lease, (2) the higher income received and (3) the recognition of the non-recurring income by Calidda of US$6.2 million derived from the arbitration award previously explained.

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

Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) 4Q18, 4Q19 and cumulative as of Dec18 and Dec19. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-18	Dec-19		4Q18	4Q19	Ac/Ac	Q/Q
20.4	22.1	Financial Income	6.0	5.9	9%	(2%)
(83.9)	(91.1)	Financial Expenses	(20.8)	(22.5)	9%	9%
(12.6)	(7.2)	Exchange rate Differences	(3.1)	(1.5)	(43%)	(50%)
11.4	9.1	Profit (Loss) of Companies Accounted for Using the Equity Method	1.8	2.0	(20%)	11%
(53.6)	(109.3)	Other Profit (Loss)	(34.2)	(84.1)	104%	146%
(118.3)	**(176.4)**	**NON-OPERATING INCOME**	**(50.2)**	**(100.3)**	**49%**	**100%**
328.8	**270.2**	**PRE-TAX PROFIT (LOSS)**	**99.9**	**22.0**	**(18%)**	**(78%)**
(98.4)	(68.2)	Income Tax Expense	(32.6)	(2.5)	(31%)	(92%)
230.4	**202.0**	**AFTER TAX PROFIT (LOSS)**	**67.4**	**19.5**	**(12%)**	**(71%)**
240.3	**203.0**	**PROFIT (LOSS) OF CONTROLLER**	**71.9**	**18.2**	**(16%)**	**(75%)**
(9.9)	**(1.1)**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(4.5)**	**1.2**	-	-

Non-operating result in 4Q19 recorded losses of **US$100.3 million,** 100% greater than the losses of US$50.2 million in 4Q18. The higher losses are mainly explained by higher provisions for impairment of individual assets recorded. Of these, it is worth mentioning the impairment of a total of US$48 million of the San Pedro and Guaiquivilo Melado hydro projects in order to reflect the impact of lower projected electricity supply prices on the book value of these projects.
In cumulative terms, the non-operating result as of Dec19 recorded losses of **US$176.1 million,** higher than the losses of US$118.3 million recorded as of Dec18, mainly due to (1) the higher impairments provisions explained above, and (2) higher financial expenses due to the recognition of the gas distribution contract with Calidda as a financial leasing, previously explained. These effects were partially offset by the positive effect of the variation of the exchange rate CLP/USD on temporary balance sheet items in local currency during the period.

4Q19's **tax expenses** reached **US$2.5 million,** decreasing 92% compared to the expenses in 4Q18, mainly due to the recognition of deferred taxes for the losses generated due to the ending of Termoeléctrica Nehuenco S.A.
In cumulative terms, the tax expenses for Dec19 reached US$68.2 million, decreasing 29% compared to Dec18, mainly due to (1) lower pre-tax profit recorded during the period and (2) appreciation of the exchange rate PEN/USD during the period.

In 4Q19, **profit** reached **US$19.5 million,** 71% lower than the US$67.4 million gain in 4Q18. The lower profit is mainly explained by (1) higher provisions for impairments previously mentioned and (2) lower EBITDA recorded during the period. These effects were partially offset by lower expenses for income taxes.
In cumulative terms, the profit as of Dec19 reached **US$202.0 million,** decreasing 12% compared to the accumulated profit as of Dec18, mainly due to the higher impairment provisions mentioned above.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

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

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

	Dec-18	Dec-19	Var	Var %
Current assets	1,151.3	1,139.4	(11.9)	(1%)
Non-current assets	5,627.1	5,565.9	(61.2)	(1%)
TOTAL ASSETS	**6,778.3**	**6,705.3**	**(73.0)**	**(1%)**
Current liabilities	345.4	338.3	(7.0)	(2%)
Non-current liabilities	2,576.0	2,631.4	55.3	2%
Total net equity	3,856.9	3,735.6	(121.3)	(3%)
TOTAL LIABILITIES AND NET EQUITY	**6,778.3**	**6,705.3**	**(73.0)**	**(1%)**

Current Assets: Reached US$1,139.4 million as of Dec19, in line compared to the value as of Dec18.

Non-current Assets: Recorded US$5,565.9 million as of Dec19, decreasing 1% compared to Dec18, mainly due to a decrease in property, plants and equipment resulting from: (i) depreciation for the year, (ii) impairment provisions previously explained and (iii) the sale of the diesel power plant Antilhue (103 MW). The decrease was partially offset by the recognition of the gas supply contract with Calidda, which as of January 2019 is classified as financial leasing. The outstanding balance of the asset is US$118 million.

Current Liabilities: Totaled US$338.3 million as of Dec19, decreasing 2% compared to the value as of Dec18, mainly due to lower accounts payable; partially offset by an increase in other current liabilities.

Non-current Liabilities: Reached US$2,631.4 million as of Dec19, increasing 2% compared to Dec18, mainly due to the registration of a right-of use- liability in the Fenix subsidiary, as a result of the recognition of the gas supply contract with Calidda as a financial leasing previously explained. The outstanding balance of the liability is US$122 million.

Total Net Equity: Recorded US$3,735.6 million, decreasing 3% compared to Dec18, mainly due to dividend payments during the period: (1) in May 2019, US$256.1 million were distributed, of which US$156.1 million were charged to 2018's results and US$100.0 million were charged to previous year's earnings; and (2) in December 19, US$89.6 million were distributed as a provisional dividend charged to 2019´s results. These effects were partially offset by the accumulated result during the year.

Table 10: Main Debt Items (US$ million)

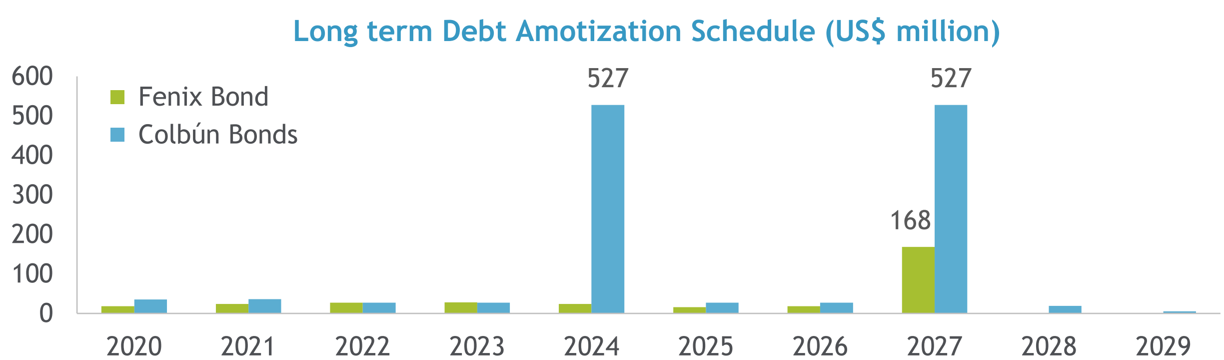
	Dec-18	Dec-19	Var	Var %
Gross Financial Debt*	1,603.3	1,678.7	75.4	5%
Financial Investments**	788.1	797.3	9.2	1%
Net Debt	815.2	881.3	66.2	8%
EBITDA LTM	684.1	697.1	13.0	2%
Net Debt/EBITDA LTM	1.2	1.3	0.1	6%

(*) The amount includes debt associated with Fenix without recourse to Colbun: (1) an international bond with an outstanding capital of US$323.0 million, (2) a financial leasing for US$14.2 million associated with a transmission contract with Consorcio Transmantaro, and (3) a US$121.8 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	5.9 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	Dec-19	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.33	3.37	1%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.21	3.22	1%
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%	11.39%	(4%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.18%	88.61%	0%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.92	3.97	(19%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.90%	5.32%	(10%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.51%	3.01%	(14%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.19%	8.34%	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 **3.37x** and **3.22x** as of Dec19, increasing 1% each compared to Dec18, mainly due to the increase in current assets resulting from higher balance of accounts receivable recorded in the period.

The **Indebtedness Ratio** recorded **0.79x** as of Dec19, increasing 5% compared to the value of 0.76x as of Dec18, mainly due to the recognition of a right-of-use liability in the Fenix subsidiary, as a result of the recognition of the gas distribution contract with Calidda as a financial lease previously explained. The outstanding balance of the liability is US$122 million.

The percentage of **Short-Term Debt** as of Dec19 was **11.39%,** decreasing compared to the value of 11.82% as of Dec18, mainly due to a decrease in the balance of accounts payable, partially offset by an increase in other current liabilities.

The percentage of **Long-Term Debt** as of Dec19 was **88.61%,** in line with the value of 88.18% as of Dec18.

The **Financial Expenses Coverage** as of Dec19 reached **3.97x,** decreasing 19% compared to the value as of Dec18, mainly due to the decrease in the line profit before taxes recorded, explained by the higher impairments and lower EBITDA registered.

The **Equity Profitability** as of Dec19 was **5.32%,** decreasing 10% compared to the value of 5.90% as of Dec18. The variation is explained by the lower profits recorded during the period, previously explained.

Asset Profitability as of Dec19 was **3.01%,** decreasing 14% compared to the value of 3.51% as of Dec18 as a result of the lower profits recorded during the period.

The **Performance of Operating Assets** as of Dec19 was **8.34%,** increasing 2% compared to the value of 8.19% as of Dec18. The increase is mainly explained by the decrease in the average Net Property, Plants and Equipment recorded as of Dec19.

6. CONSOLIDATED CASH FLOW ANALYSIS

The Company's Cash Flow changes are shown in the following table.

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

Accumulated Figures			Quarterly Figures		Var %	
Dec-18	Dec-19		4Q18	3Q20	Ac/Ac	Q/Q
810.2	**788.1**	**Cash Equivalents, Beg. of Period***	**784.6**	**780.2**	**(3%)**	**(1%)**
516.4	565.0	Net cash flows provided by (used in) operating activities	144.4	147.0	9%	2%
(396.5)	(485.0)	Net cash flows provided by (used in) financing activities	(117.3)	(128.4)	22%	9%
(118.6)	(64.0)	Net cash flows provided by (used in) investing activities**	(18.0)	(0.5)	(46%)	(97%)
1.3	**16.0**	**Net Cash Flows for the Period**	**9.1**	**18.0**	**1131%**	**98%**
(23.4)	(6.8)	Effects of exchange rate changes on cash and cash equivalents	(5.6)	(0.9)	(71%)	(83%)
788.1	**797.3**	**Cash Equivalents, End of Period**	**788.1**	**797.3**	**1%**	**1%**

(*) 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 4Q19, the Company presented a **positive net cash flow of US$18.0 million,** compared to the positive net cash flow of US$9.1 million in 4Q18.

Operating activities: During 4Q19 a positive net flow of US$147.0 million was generated, in line compared to the positive net flow in 4Q18
In cumulative terms, a positive net flow of US$565.0 million was recorded as of Dec19, 9% higher than the positive net flow of US$516.4 million as of Dec18, mainly explained by lower advances on income tax payments.

Financing activities: Recorded a negative net flow of US$128.4 million during 4Q19, which compares with the negative net flow of US$117.3 million in 4Q18, mainly explained by the classification of the contract with Calidda as a financial lease, registering such cost as a financial expense.
In cumulative terms, a negative net flow of US$485.0 million was recorded as of Dec19, which compares to the negative net flow of US$396.5 million as of Dec18, mainly due to: (1) the period's higher dividend payment; and (2) the classification of the contract with Calidda as a financial lease.

Investing activities: Recorded a negative net flow of US$0.5 million during 4Q19, which compares with disbursements of US$18.0 million in 4Q18. The lower negative net flow is mainly explained by the income received from the sale of the thermoelectric power plant Antilhue.
In cumulative terms, investing activities generated a negative net flow of US$64.0 million as of Dec19, which compares with the negative net flow of US$118.6 million as of Dec18, mainly explained bay: (1) lower disbursements for investments made during the first half of 2018 for the construction of La Mina, Ovejería and Puente Negro substation; and (2) the income received in 4Q19 from the sale of the thermoelectric power plant Antilhue.

7. ENVIRONMENT AND RISK ANALYSIS

Colbun S.A. is a power generation company whose installed capacity reaches 3,811 MW composed by 2,188 MW of thermal units, 1,614 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 15% of the market. It also operates in the National Interconnected Electric System (SEIN) in Peru, where it has approximately 7% 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, Colbun 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 Colbun 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 Colbun Transmisión reports independently to the Financial Market Commission (CMF) its Financial Statements and main figures on an annual basis.

7.1 Medium-term outlook in Chile

As of Dec19, the hydrological year which started in April, registers a probability of exceedance of the SEN of 90%. 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 an agreement with Enap Refinerías S.A. ("ERSA"), that includes reserved regasification capacity and supply for 13 years, whose entry into force was January 1, 2018. With this contract the Company has natural gas supply to operate two combined cycle units during most of the first half part of each calendar year, period of the year which generally has less availability of water resources. Colbun 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. Additionally, gas supply agreements with Argentine producers have been signed to complement the supply of LNG gas.

During 2019, Colbun has awarded medium-term supply contracts with unregulated customers for 500 GWh approximately and is currently under negotiations to settle new agreements. Additionally, during the month of November Colbún was awarded a renewable energy supply contract for 3,000 GWh / year for its Escondida and Spence operations. The contract starts supplying energy from January 2022 onwards, for a period of 10 years.

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 fourth quarter of 2019, the SEIN registered a hydrological condition with a probability of exceedance of 30%, compared to 51% recorded the same quarter of 2018. The cumulative energy demand growth rate at the end of the fourth quarter was 4%, recovering from growth levels registered in 2018. The future trend of marginal costs depends mainly 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 development, including wind, solar and hydroelectric projects and expansion and improvement of its current transmission assets.

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 considers 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 additional three years for construction.

During the fourth quarter of 2019, concluded the feasibility stage, which confirmed the energy potential of the wind resource available in the area. At the same time, the basic engineering stage was completed, and the first meetings with the communities and stakeholders of the project began, which have expressed their agreement with the project's development.

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 capacity 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.

During the fourth quarter of 2019, the Environmental Qualification Resolutions for both projects were approved. Additionally, an easement to draw the high-voltage line was requested to the Ministry of National Assets and the offers received for part of the equipment were reviewed. Progress was made in the background preparation for the connection request with application of Article 102 of the electric law.

Photovoltaic Solar Project Inti Pacha (430 MW): This solar project is located approximately 75 km East of Tocopilla, in the María Elena commune, Antofagasta Region. It will use a total area of 736 hectares.

The project considers the installation of a solar power plant with an installed capacity of approximately 430 MW.

This project starts with the award of 2 tenders for Onerous Use Concession Agreements conducted by the Ministry of National Assets.

During the fourth quarter of 2019, the feasibility phase continued, carrying out engineering and environmental studies in order to have the background to begin its environmental approval phase during the first semester of 2020.

Photovoltaic Solar Project Jardín Solar (450 MW): The project considers the installation of a solar power plant with an installed capacity of close to 450 MW. This solar project is located approximately 8 km south-east of Pozo Almonte locality, in the commune of Pozo Almonte in the Tarapacá Region, and will use a total area of approximately 1,000 hectares.

During the fourth quarter of 2019, the Environmental Impact Declaration (DIA) was submitted, which was declared admissible.

Photovoltaic Solar Project Machicura (10,5 MW): This solar project is located near to the Machicura reservoir, in the commune of Colbún, in the Maule Region, and uses a total area of approximately 20 hectares owned by Colbún.

The project considers the installation of a solar power plant with an installed capacity close to 9 MW_{AC}/10,5 $MW_{DC,}$ which qualifies as a Small Means of Generation project (PMG).

During the fourth quarter of 2019, the feasibility phase continued, making progress in the engineering studies. The Environmental Impact Declaration (DIA) was submitted, which was declared admissible.

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.

Other renewable energy projects from variable sources: At 4Q19 closing, Colbun 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 approximate installed capacity of 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 processing. 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 LAT Los Cóndores.

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.

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

Colbun 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 Dec19 presents a 98% 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 Dec19 it presents an 91% 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 Dec19 it is finalized.

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 Dec19 it presents a 96% 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 Dec19 it presents a 98% 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 Dec19 it presents a 81% progress.

7.4 Regulatory changes

As part of the social agenda announced by the government, Law N°21,185 was published in the official gazette *("Diario Oficial")*, which creates a temporary mechanism for stabilizing energy prices for customers subject to tariff regulation, whose purpose is to stabilize the energy prices at the levels in force during the first half of 2019. This mechanism implies postponing the income flow that corresponds to the difference between the price stipulated in the supply contracts and the stabilized price, when it exceeds it, which is expected to occur during the next 4 years. It is estimated that in the case of Colbún the postponement can reach up to US$150 million.

Additionally, in December 2019, Congress approved the "Short Distribution Law" (Law N° 21,194) that lowers the profitability of distribution companies and improves the energy distribution tariff process.

Finally, the transmission segment was stabilized on December 26, 2019, with exempt resolution N°815 issued by the National Energy Commission (CNE), which corresponds to the Single Transmission Charge that is applied as of January 2020. In this resolution Transmission charges in effect since July 2019 were frozen until the publication of the new decree for the valuation of transmission facilities corresponding to the four-year period 2020-2023, which according to CNE estimates will be published in July 2022. According to regulator parameters, this freezing of tariffs has a similar impact of having applied the new valuation of facilities (and the reduction in the profitability of various facilities) within the deadlines established by law.

7.5 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.

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 partly mitigated.

B.1.3. Fuel supply risks

Regarding gas supply in Chile, the Company has an agreement with Enap Refinerías S.A. (“ERSA”), that includes reserved regasification capacity and supply for 13 years, whose entry into force was January 1, 2018. With this contract the Company has natural gas supply to operate two combined cycle units during most of the first half part of each calendar year, period of the year which generally has less availability of water resources. Colbun 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. Additionally, gas supply agreements with Argentine producers have been signed to complement the supply of LNG gas.

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 June 2019), inviting important international suppliers to bid, awarding the supply contract to well supported and competitive Companies. The above following an early purchase policy and an inventory management policy in order to substantially mitigate the risk of not having access to this fuel.

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 conducting regular maintenances, preventive and predictive maintenance 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.

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

B.1.6. Regulatory risks

Regulatory stability is essential for the energy sector, where investment projects requires substantial time in terms of obtaining permits, development, execution and return on investment. Colbún believes that regulatory changes should be made considering the complexities of the electrical system and maintaining the appropriate incentives for investment. It is important to have a regulation with clear and transparent rules in order to boost confidence of the agents in the sector.

Chile

Since October 18, 2019, Chile has undergone a series of social mobilizations requesting reforms mainly in the areas of education, social security and citizen's income. After the Chilean government called on political actors to reach different agreements on the social and institutional agenda, on November 15 a total of ten political parties with parliamentary representation signed a commitment called "Agreement for Peace and New Constitution" *("Acuerdo por la Paz y la Nueva Constitución")*, which set the criteria for citizens to decide in April 2020 whether they approve or refuse to draft a new constitution and under what procedure. This process, which is estimated to last until the end of 2021, if the idea of drafting a new constitution is approved, could introduce changes to the institutional framework applicable to the business activity in the country.

On the other hand, the current government is carrying out different regulatory changes, which are inherited from the previous government, or have initiated during this term. Depending on the way these changes are implemented, they could represent an opportunity or risk for the Company.

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 "Flexibility Law" and the "Improved Transmission Law".

i) The "New Distribution Law" (Long Law) 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, encourage investment and improve the quality of service to end users. For this purpose, the incorporation of new roles has been proposed; separating the activities of the power distribution segment and thereby introducing competition.

ii) Regarding the "Flexibility Law", 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.

iii) At the regulatory and Resolutions level that are being processed, it is worth noting the new Power Transfer Regulations and the Exempt Resolution that will establish the technical provisions for the implementation of the Tariff Stabilization Mechanism for regulated clients, previously explained.

Peru

In June 2019 the Ministry of Energy and Mines decided to create a Multisectoral Commission in which a potential reform of the entire power sector will be discussed, for this a period of 24 months was established. The Commission has committed to show progress on the following topics: declaration of natural gas prices, promotion of renewable energies, rural electrification, review of the discount rate, improvement in the bidding processes for long-term contracts, disaggregation of the capacity and associated energy, implementation of a new regime to promote transmission projects and treatment of gas contracts.

Regarding the natural gas prices declaration, the Ministry delivered its first reform proposal in December 2019, which replaces the price declaration with the presentation of contracts by thermal generators. The Committee on Economic Operation of the Interconnected System (COES) will determine from those contracts the fixed and variable components for setting the marginal cost.

The necessary and balanced development of the electricity market in the coming years, both in Chile and Peru, will depend to a large extent on the quality of these new regulations and the signals that the authority delivers.

B.1.7. Risk of change in 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 have chosen 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. Colbun 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, Colbun 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 December 31, 2019, the Company's financial debt, considering the effect of associated derivatives, 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 Colbun has maintained energy supply contracts have made the corresponding payments correctly.

In recent times, given that Colbun 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. On a 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, Colbun has entered into these transactions with financial institutions with high credit ratings. Additionally, the Company has established limits by counterparty, which are approved by the Board of Directors and periodically reviewed.

As of December 31, 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 Colbun'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 December 31, 2019, Colbun has cash in excess for approximately US$800 million, invested in time deposits with an average maturity of 115 days (including 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) one bond line 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$120 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

As of December 31, 2019, Colbun has a local credit rating of AA- by Fitch Ratings with positive outlook, and AA by Feller Rate, with stable outlook. At the international level, the Company's rating is Baa2 by Moody's, and BBB by Standard & Poor's (S&P Global), both with stable outlook, and BBB by Fitch Ratings, with positive outlook.

As of December 31, 2019, Fenix has international credit rating of Ba1 by Moody's and BBB- by S&P and Fitch Ratings, all with stable outlook.

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 measurement

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

Regarding business risks, specifically those related to changes in commodity prices, Colbun 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 project's 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, Colbun prepares a sensitivity analysis and value at risk in order to monitor potential losses assumed by the Company in the event that the exposure exists.

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

Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural balance items denominated in currencies other than USD. Given the above, as of December 31, 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 interest rates variation risk, since 100% of the financial debt is contracted at a fixed rate.

Credit risk is limited because Colbun 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 surpluses reached 18%. 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 31% 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 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 the following:
    - **i.** Recognition of an asset under lease for US$127 million and a right-of-use liability for the same amount. As of Dec19, the remaining amount of the leased asset reached US$118 million, while the right-of-use liability amounted to US$122 million.
    - **ii.** A higher annual EBITDA of US$16 million distributed on a straight-line basis during the year.
    - **iii.** Higher depreciation expenses and higher financial expenses of US$18 million for the year 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$4 million, incurred during the first major maintenance of the power plant, were activated during 2Q19.

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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.