



3rd Q U A R T E R 2020



QUARTERLY EARNINGS REPORT

As of September 30, 2020

3Q20 EARNINGS REPORT

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Conference Call
3Q20

Date: Friday October 30th, 2020

Time: 11:00 AM Eastern Time
12:00 PM Chilean Time

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1. HIGHLIGHTS

Main Figures at a Consolidated Level:

■ ■ ■ **Operating Income** for the third quarter of 2020 (3Q20) amounted to **US\$344.0 million**, decreasing 5% compared to the operating income recorded in the third quarter of 2019 (3Q19) mainly explained by lower physical sales to regulated clients, mainly due to the expiration of the contract with SAESA in December 2019 and due to a lower demand driven by the State of Emergency. Those effects were partially offset by higher physical sales in the spot market in Chile driven by the higher generation recorded during the quarter.

In cumulative terms, operating income as of Sep20 amounted to US\$1.013,1 million, decreasing 11% compared to Sep19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ Consolidated **EBITDA** in 3Q20 reached **US\$175.0 million**, decreasing 2% compared to the US\$178.7 million EBITDA in 3Q19, mainly explained by the lower operating income recorded during the period. This effect was partially offset by (1) lower raw materials and consumables used costs in Chile and (2) lower fixed expenses, especially those denominated in local currency, driven by the CLP/US\$ exchange rate depreciation compared to 3Q19.

In cumulative terms, EBITDA as of Sep20 recorded US\$502.6 million, decreasing 3% compared to Sep19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ **Non-operating result** in 3Q20 recorded losses of **US\$24.8 million**, lower than the losses of US\$33.5 million in 3Q19. The lower losses are mainly explained by a positive effect of the CLP/US\$ exchange rate variation on temporary balance sheet items in local currency during the quarter, while that effect was negative in 3Q19. This effect was partially offset by the lower financial income earned during the period, driven by lower interest rates applicable to cash surpluses at local and international level.

In cumulative terms, Non-operating result as of Sep20 recorded losses of US\$96.3 million, 24% greater than the losses recorded as of Sep19, mainly explained by (1) higher "Other losses", mainly due to expenses associated with the 2024's bond refinancing performed in March, for US\$17 million, which was materialized through the issuance of a 10-year bond for US\$ 500 million; (2) lower financial income previously explained.

■ ■ ■ 3Q20's **tax expenses** reached **US\$25.8 million**, decreasing 3% compared to the expenses in 3Q19, despite the increase in the pre-tax profit recorded during the quarter. This effect is mainly explained by the higher tax expenses in Peru recorded in 3Q19, due to the depreciation of the PEN/USD exchange rate during that period and its impact on deferred taxes 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 Sep20 recorded US\$70.3 million, increasing 7% compared to Sep19, despite the decrease in the pre-tax profit, mainly due to the depreciation of the PEN/USD exchange rate during that period and its impact on deferred taxes, given that Fenix's tax accounting is carried out in Peruvian soles, according to the Peruvian tax legislation.

■ ■ ■ In 3Q20, **profits** reached **US\$62.2 million**, 14% higher than the US\$54.7 million gain in 3Q19. The higher profit is mainly explained by the lower non-operating losses recorded.

In cumulative terms, as of Sep20, profit reached US\$152.3 million, decreasing 16% compared to the cumulative profit as of Sep19, mainly driven by (1) the higher non-operating losses recorded, (2) lower EBITDA of the period and (3) higher tax expenses.

Highlights of the quarter:

■ ■ ■ Regarding the **COVID-19 pandemic contingency**, the Company's power plants are operating normally and Colbún has taken actions considering two priority focuses:

- i. To protect the health of workers, collaborators, suppliers and our surrounding communities:
 - a. Home office was established for all the positions that can carry out their functions with this mode. This corresponds to 98% for headquarters employees.
 - b. For positions with functions in which an on-site attendance is critical, this working mode is maintained, but with the necessary safeguards.
- ii. To ensure the continuity and security of the energy supply:
 - a. Measures were adopted to ensure the procurement of the necessary supplies for the correct operation of all power plants.
 - b. Power plant's maintenances were postponed in the cases that it didn't risk the operational continuity and integrity of the generation units.

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency. Energy demand in Chile decreased approximately 2% during 3Q20 compared to 3Q19, while in Peru, there was a decrease of approximately 4%.

■ ■ ■ In August of this year, Colbún S.A and **Walmart Chile** extended their energy supply contract. The contract will be supplied with 100% renewable energy, for 330 GWh/year, for a 6-year period. The agreement also includes the installation of 9 charging stations for electric cars with Colbún logo, in supermarkets in the Metropolitan Region and other regions of the country.

■ ■ ■ In September of this year, Colbún S.A. announced the acquisition of 100% of **Efizity**, a company focused on energy solutions in the national market, with the purpose of enhancing the Company's value proposition by incorporating solutions related to energy management.

Efizity is a company specialized in energy services, which aims to improve competitiveness of its customers by promoting energy efficiency through innovative solutions. Today, Efizity holds a diversified client portfolio in the industrial, mining, real estate, retail, educational, hospitality and health sectors, among others.

■ ■ ■ Regarding Company's **transmission assets**, in September the Board of Directors agreed to carry out a process that involves the invitation of actors with experience in power, infrastructure and financial transmission industries, in order to explore their interest and the conditions in which its possible participation could be agreed either (i) as a strategic partner, (ii) acquiring a majority position, or (iii) acquiring up to all the shares of its subsidiary Colbún Transmission S.A.

2. PHYSICAL SALES AND GENERATION BALANCE



2.1. Physical sales and generation balance in Chile

Table 1 shows a comparison between physical energy and capacity sales, and generation in 3Q19, 3Q20 and cumulative as of Sep19 and Sep20.

Table 1: Physical sales and generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
9,420	9,368	Total Physical Sales (GWh)	2,893	3,453	(1%)	19%
3,324	2,406	Regulated Clients	1,126	833	(28%)	(26%)
4,820	5,275	Unregulated Clients	1,736	1,833	9%	6%
1,276	1,687	Sales to the Spot Market	31	787	32%	-
1,582	1,441	Capacity Sales (MW)	1,578	1,494	(9%)	(5%)

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
9,258	9,645	Total Generation (GWh)	2,590	3,546	4%	37%
3,883	3,631	Hydraulic	1,317	1,530	(6%)	16%
5,181	5,924	Thermal	1,164	1,978	14%	70%
3,528	4,045	Gas	966	1,429	15%	48%
65	66	Diesel	0	3	3%	-
1,588	1,813	Coal	198	545	14%	175%
195	89	VRE	108	39	(54%)	(64%)
182	75	Wind Farm*	105	34	(59%)	(67%)
13	14	Solar	4	4	4%	9%
369	0	Spot Market Purchases (GWh)	369	0	-	-
907	1,687	Sales - Purchases to the Spot Market (GWh)	(338)	787	86%	-

(*): 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 3,453 GWh during 3Q20, increasing 19% compared to 3Q19, due to (1) higher sales to the spot market, mainly explained by a higher generation during the quarter and (2) higher sales to unregulated clients due to new contracts entering into force in that segment. Those effects were partially offset by lower sales to regulated clients driven by (i) the expiration of the contract with SAESA in Dec19 and (ii) a lower energy demand driven by the State of Emergency.

On the other hand, quarterly generation increased 37% compared to 3Q19, mainly due to (1) a higher gas generation (+464 GWh) driven by additional contracts that allowed to operate with the two combined cycles during the quarter, (2) a higher coal generation (+347 GWh) due to the lower availability of Santa María during 3Q19 explained by the major maintenance scheduled and the finding of a failure in the steam turbine and (3) a higher hydro generation (+213 GWh), due to more favorable hydrological conditions. These effects were partially offset by a lower wind generation (-70 GWh) mainly due to the expiration of the San Pedro power plant contract in May20.

In cumulative terms, physical sales as of Sep20 reached 9,368 GWh, decreasing 1% compared to Sep19, due to lower sales to unregulated clients, mainly explained by (i) the expiration of the contract with SAESA in Dec19 and (ii) a lower energy demand driven by the State of Emergency. These effects were partially offset by higher sales to unregulated clients and to the spot market.

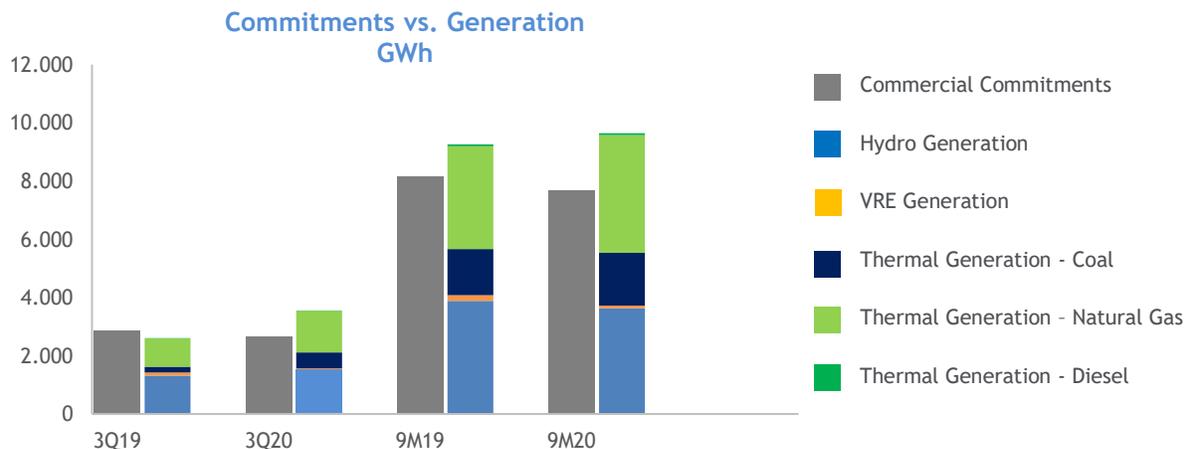
Cumulative generation as of Sep20 reached 9,645 GWh, increasing 4% compared to Sep19, mainly explained by a higher gas generation (+517 GWh) and coal generation (+225 GWh) mainly due to the same reasons for the variations in quarterly terms. These effects were partially offset by lower hydro generation (-252 GWh) and wind generation (-107 GWh).

The spot market balance during the quarter recorded net sales of 787 GWh, compared to the net purchases of 338 GWh recorded in 3Q19. The variation is mainly explained by the higher generation during the quarter. In 3Q20 100% of the Company's commitments were supplied with cost-efficient generation (hydro, VRE, coal and natural gas).

In cumulative terms, net sales as of Sep20 reached 1,687 GWh, increasing 86% compared to Sep19, mainly explained by the same reasons for the variations in quarterly terms.

Generation mix in Chile: As of Sep20, the hydrological year (Apr20-Mar21) has presented lower rainfalls compared to an average year in the main SEN basins, being the basins that present the largest deficits: Aconcagua: -34%; Maule: -10%; Laja:-11%; Biobio: -5%; while Chapo basin presents rainfalls in line with an average year (surplus of 4%). Compared to Sep19, Maule basin has presented higher rainfalls, along with higher tributaries. On the other hand, Laja and Biobio basins have presented rainfalls in line with those of 2019. According to the Coordinator's third thaw forecast, on average there is an exceedance probability for the system that is lower than the one registered in the same forecast of 2019. This means that greater thaws are expected than those predicted in the same report of the previous year.

During 3Q20 the SEN generation decreased 2% compared to the same period of 2019 (19,496 GWh in 3Q19 vs. 19,101 GWh in 3Q20). During the quarter, a lower coal generation was recorded (7,252 GWh in 3Q19 vs. 6,300 GWh in 3Q20) explained by a lower economic dispatch. On the other hand, VRE generation increased 10% (3,439 GWh in 3Q19 vs. 3,778 GWh in 3Q20), associated with an increase in installed capacity of these technologies. Gas generation also increased 4% (3,467 GWh in 3Q19 vs. 3,602 GWh in 3Q20) and diesel generation increased 142% (35 GWh in 3Q19 vs. 84 GWh in 3Q20). The average marginal cost measured in Alto Jahuel decreased compared to 3Q19, averaging US\$31.1/MWh in 3Q20, compared to US\$48.4/MWh in 3Q19.



2.2. Physical sales and generation balance in Peru

Table 2 shows a comparison between physical energy and capacity sales and generation in 3Q19, 3Q20 and cumulative as of Sep19 and Sep20.

Table 2: Physical sales and generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
3,086	2,272	Total Physical Sales (GWh)	1,161	1,019	(26%)	(12%)
2,189	1,806	Customers under Contract	731	677	(18%)	(7%)
896	467	Sales to the Spot Market	430	342	(48%)	(20%)
556	559	Capacity Sales (MW)	558	558	0%	0%

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
3,054	1,898	Total Generation (GWh)	1,185	1,042	(38%)	(12%)
3,054	1,898	Gas	1,185	1,042	(38%)	(12%)
101	425	Spot Market Purchases (GWh)	-	-	-	-
795	42	Sales - Purchases to the Spot Market (GWh)	430	342	-	(20%)

Physical sales during 3Q20 reached 1,019 GWh, decreasing 12% compared to 3Q19. The lower physical sales are mainly explained by (1) lower sales to the spot market, mainly explained by (i) the gas turbine scheduled maintenance on August 2020 for 10 days and (ii) as a consequence of the COES request to spot operating for 3 days during July due to the lower system energy demand and (2) lower physical sales to customers under contract mainly explained by (i) the State of Emergency decreed by the Peruvian Government due to COVID-19 pandemic and (ii) lower sales to regulated clients due to the expiration of Distriluz contract (40 MW) in Dec19.

In cumulative terms, physical sales as of Sep20 reached 2,272 GWh, decreasing 26% compared to Sep19; mainly explained by (1) lower sales to the spot market due to the lower generation during the year driven by (i) the COES request to stop operating during part of the second and third quarter and (ii) the GT12 gas turbine repair and the maintenances performed during the first and third quarter of 2020; and (2) lower physical sales to customers under contract due to the reasons previously explained.

On the other hand, Fenix **thermal generation** reached 1,042 GWh, decreasing 12% compared to 3Q19 due to (1) the lower plant availability explained by the maintenance performed on August and (2) the COES request to stop operating 3 days during July given the lower system energy demand.

In cumulative terms, as of Sep20 thermal generation reached 1,898 GWh, decreasing 38% compared to Sep19, mainly due to (i) the COES request to stop operating during part of the second and third quarter and (ii) the GT12 gas turbine repair and the maintenances performed during the first and third quarter of 2020.

The **balance in the spot market** recorded net sales of 342 GWh, compared to the net sales of 430 GWh during the same quarter of the previous year, due to the lower generation of the quarter.

In cumulative terms, as of Sep20 balance in the spot market recorded net sales of 42 GWh, compared to the net sales of 795 GWh of Sep19, due to the lower accumulated generation of the period.

Generation mix in Peru: Hydroelectric generation in the SEIN (National Interconnected Electrical System) decreased 0.3% compared to 3Q19 due to less favorable hydrological conditions recorded during the period. On the other hand, thermal generation decreased 8.5% during 3Q20 compared to 3Q19, explained by the lower system energy demand due to COVID-19 pandemic. The accumulated energy demand growth rate in 3Q20 was -9.3%, mainly explained by the State of Emergency due to the COVID-19 pandemic.

3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 3Q19, 3Q20 and cumulative as of Sep19 and Sep20, for Chile and Peru.

Table 3: Income Statement (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
1,135.3	1,013.1	OPERATING INCOME	361.7	344.0	(11%)	(5%)
446.8	328.0	Regulated Customers Sales	149.3	117.7	(27%)	(21%)
500.8	509.6	Unregulated Customers Sales	171.3	169.3	2%	(1%)
114.0	107.4	Energy and Capacity Sales	13.5	38.5	(6%)	185%
46.7	49.2	Transmission Tolls	18.2	14.3	5%	(21%)
26.9	19.0	Other Operating Income	9.5	4.3	(29%)	(54%)
(545.5)	(446.6)	RAW MATERIALS AND CONSUMABLES USED	(160.2)	(147.2)	(18%)	(8%)
(99.3)	(74.7)	Transmission Tolls	(32.0)	(26.5)	(25%)	(17%)
(46.1)	(31.4)	Energy and Capacity Purchases	(30.1)	(8.9)	(32%)	(71%)
(269.3)	(213.7)	Gas Consumption	(70.4)	(75.5)	(21%)	7%
(11.7)	(7.7)	Diesel Consumption	(0.4)	(0.4)	(35%)	1%
(59.2)	(59.5)	Coal Consumption	(8.0)	(17.5)	0%	120%
(59.9)	(59.6)	Other Operating Expenses	(19.3)	(18.3)	(0%)	(5%)
589.7	566.5	GROSS PROFIT	201.5	196.8	(4%)	(2%)
(55.0)	(47.6)	Personnel Expenses	(18.1)	(16.5)	(13%)	(9%)
(16.9)	(16.3)	Other Expenses, by Nature	(4.7)	(5.3)	(3%)	14%
(192.1)	(183.7)	Depreciation and Amortization Expenses	(63.9)	(62.1)	(4%)	(3%)
325.7	318.9	OPERATING INCOME (LOSS) (*)	114.9	112.9	(2%)	(2%)
517.9	502.6	EBITDA	178.7	175.0	(3%)	(2%)
16.2	9.8	Financial Income	4.9	1.8	(40%)	(64%)
(70.7)	(68.2)	Financial Expenses	(22.9)	(22.9)	(4%)	0%
(5.6)	2.2	Exchange rate Differences	(7.8)	2.1	-	-
7.1	6.7	Profit (Loss) of Companies Accounted for Using the Equity Method	2.2	2.2	(6%)	0%
(25.3)	(46.8)	Other Profit (Loss)	(10.0)	(8.0)	86%	(20%)
(78.3)	(96.3)	NON-OPERATING INCOME	(33.5)	(24.8)	23%	(26%)
247.5	222.6	PRE-TAX PROFIT (LOSS)	81.3	88.0	(10%)	8%
(65.7)	(70.3)	Income Tax Expense	(26.6)	(25.8)	7%	(3%)
181.8	152.3	AFTER TAX PROFIT (LOSS)	54.7	62.2	(16%)	14%
184.8	162.1	PROFIT (LOSS) OF CONTROLLER	59.1	64.2	(12%)	9%
(3.2)	(10.1)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(4.4)	(2.4)	-	-

(*): 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 Colbun are only non-operating items, was incorporated as an operating item in the Financial Statements.

Table 4: Closing Exchange Rates

Exchange Rates	Sep-19	Dec-19	Sep-20
Chile (CLP / US\$)	728.21	748.74	788.15
Chile UF (CLP/UF)	28,048.53	28,309.94	28,707.85
Peru (PEN / US\$)	3.39	3.32	3.60

3.1. Operating Income analysis of the generation business in Chile



Table 5 presents a summary of Operating Income and EBITDA in 3Q19, 3Q20 and cumulative as of Sep19 and Sep20. 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 %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
959.6	848.6	OPERATING INCOME	301.2	286.9	(12%)	(5%)
364.3	246.9	Regulated Customers Sales	122.1	90.9	(32%)	(26%)
476.6	493.2	Unregulated Customers Sales	163.1	162.7	3%	(0%)
97.1	93.6	Energy and Capacity Sales	6.2	30.3	(4%)	389%
21.4	14.9	Other Operating Income	9.7	3.0	(31%)	(70%)
(486.4)	(392.4)	RAW MATERIALS AND CONSUMABLES USED	(136.1)	(126.5)	(19%)	(7%)
(111.3)	(85.3)	Transmission Tolls	(35.1)	(30.9)	(23%)	(12%)
(45.4)	(29.5)	Energy and Capacity Purchases	(30.1)	(8.8)	(35%)	(71%)
(215.1)	(167.3)	Gas Consumption	(48.2)	(54.9)	(22%)	14%
(11.7)	(7.7)	Diesel Consumption	(0.4)	(0.4)	(35%)	1%
(59.2)	(59.5)	Coal Consumption	(8.0)	(17.5)	0%	120%
(43.5)	(43.0)	Other Operating Expenses	(14.3)	(13.9)	(1%)	(3%)
473.2	456.2	GROSS PROFIT	165.1	160.4	(4%)	(3%)
(50.7)	(43.1)	Personnel Expenses	(16.9)	(15.0)	(15%)	(11%)
(14.4)	(14.7)	Other Expenses, by nature	(3.7)	(4.5)	2%	24%
(145.0)	(140.5)	Depreciation and Amortization Expenses	(48.6)	(47.1)	(3%)	(3%)
263.1	258.0	OPERATING INCOME (LOSS) (*)	96.0	93.8	(2%)	(2%)
408.1	398.5	EBITDA	144.5	140.9	(2%)	(3%)

(*): 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 Colbun are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating Income in 3Q20 amounted to **US\$286.9 million**, decreasing 5% compared to the operating income recorded in 3Q19, mainly due to (1) lower physical sales to regulated clients driven by (i) the expiration of the contract with SAESA in Dec19 and (ii) a lower energy demand due to the State of Emergency; (2) a decrease in the contracts average price for both unregulated and regulated clients, mainly due to the application of the Equivalent Transmission Charge (CET), a mechanism by which generation companies and their clients can voluntarily register, by modifying their energy supply contracts, to a decrease in the energy price and in return, the customer begins to directly pay the national transmission toll from the same date onwards, freeing the generator from that toll payment. Those effects were partially offset by higher physical sales in the spot market and to unregulated clients.

In cumulative terms, operating income as of Sep20 amounted US\$848.6 million, decreasing 12% compared to operating income recorded as of Sep19, mainly explained (1) lower physical sales to regulated clients driven by the reasons previously explained, (2) a decrease in the contracts average price given the CET application explained above and (3) lower sales to the spot market.

The **costs of raw materials and consumables used** recorded **US\$126.5 million**, decreasing 7% compared to 3Q19, mainly due to (1) lower energy purchases in the spot market due to the higher generation of the quarter, (2) lower transmission costs due to the CET adoption previously mentioned and (3) the lower average purchase gas price recorded during the period. Those effects were partially offset by a higher gas and coal consumption during the quarter due to the higher generation with both fuels.

In cumulative terms, cost of raw materials and consumables used as of Sep20 reached US\$392.4 million, decreasing 19% compared to US\$486.4 million recorded on Sep19, mainly explained by (1) lower gas consumption costs, despite the higher generation with this fuel, due to a lower average purchase price, (2) lower transmission cost due to the same reasons previously explained and (3) lower energy purchases in the spot market given the higher generation of the period.

■ ■ ■ **EBITDA** in 3Q20 reached **US\$140.9 million**, decreasing 3% compared to EBITDA of US\$144.5 million in 3Q19, mainly due to the lower operating income recorded during the period. This effect was partially offset by (1) lower cost of raw materials and consumables used and (2) lower fixed expenses, especially those denominated in local currency, as a result of the depreciation of the CLP/US\$ exchange rate compared to 3Q19.

In cumulative terms, EBITDA as of Sep20 amounted US\$398.5 million, decreasing 2% compared to Sep19, mainly explained by the same reasons for the variations in quarterly terms.

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 3Q19, 3Q20 and cumulative as of Sep19 and Sep20. 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 %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
63.2	65.4	OPERATING INCOME	20.1	21.4	3%	6%
63.1	65.4	Transmission Tolls	20.1	21.4	4%	6%
0.1	-	Other Operating Income	-	-	-	-
(7.5)	(9.5)	RAW MATERIALS AND CONSUMABLES USED	(2.6)	(2.7)	26%	4%
(1.5)	0.0	Transmission Tolls	(0.3)	0.0	-	-
(6.0)	(9.5)	Other Operating Expenses	(2.3)	(2.7)	58%	18%
55.7	55.9	GROSS PROFIT	17.5	18.7	0%	7%
(0.5)	(0.6)	Other Expenses, by nature	(0.2)	(0.2)	12%	(7%)
(10.8)	(8.3)	Depreciation and Amortization Expenses	(3.5)	(2.8)	(23%)	(20%)
44.4	47.0	OPERATING INCOME (LOSS) (*)	13.8	15.6	6%	14%
55.2	55.3	EBITDA	17.3	18.5	0%	7%

(*): 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 Colbun 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 3Q20 reached **US\$21.4 million**, of which 36% corresponds to income from national assets, 6% to zonal and 58% corresponds to the dedicated segment. The higher operating income compared to 3Q19 are explained by an increase on the national segment' income, mainly due to (1) the commissioning of enhancement and expansion projects of the Company's current transmission assets and (2) IT reassessments corresponding to the period Mar-19 and Jan-20.

In cumulative terms, operating income as of Sep20 amounted US\$65.4, of which 42% corresponds to income from national assets, 7% to zonal and 51% corresponds to the dedicated segment. The higher income recorded compared to Sep19 are mainly explained by the same reasons for the variations in quarterly terms.

■ ■ ■ **EBITDA** for 3Q20 reached US\$18.5 million, increasing 7% compared to the US\$17.3 million EBITDA recorded in 3Q19, mainly explained by the increase in operating income.

In cumulative terms, EBITDA as of Sep20 amounted US\$55.3 million, in line with the EBITDA recorded as of Sep19. The higher income recorded during the period was partially offset by an increase in "Other Expenses", due to an increase in raw material costs explained by non-recurring expenses associated with maintenance services during 1Q20.

3.3. Operating Income analysis in Peru

Table 7 shows a summary of Fenix's Operating Income and EBITDA for the quarters 3Q19, 3Q20 and cumulative as of Sep19 and Sep20. Subsequently, the main accounts and/or variations will be analyzed.

Table 7: EBITDA in Peru (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
127.5	115.4	OPERATING INCOME	44.2	42.9	(9%)	(3%)
82.5	81.1	Regulated Customers Sales	27.2	26.8	(2%)	(1%)
24.2	16.4	Unregulated Customers Sales	8.2	6.6	(32%)	(20%)
16.9	13.8	Sales to Other Generators	7.3	8.2	(19%)	12%
-	-	Transmission Tolls	-	-	-	-
3.8	4.1	Other Operating Income	1.6	1.4	8%	(14%)
(70.3)	(61.0)	RAW MATERIALS AND CONSUMABLES USED	(26.3)	(25.2)	(13%)	(4%)
(2.5)	(4.2)	Transmission Tolls	(1.3)	(1.2)	65%	(5%)
(0.6)	(1.9)	Energy and Capacity Purchases	0.0	(0.1)	195%	-
(58.0)	(46.3)	Gas Consumption	(22.2)	(20.6)	(20%)	(7%)
-	-	Diesel Consumption	-	-	-	-
(9.1)	(8.6)	Other Operating Expenses	(2.7)	(3.2)	(6%)	18%
57.1	54.4	GROSS PROFIT	17.9	17.7	(5%)	(1%)
(4.3)	(4.5)	Personnel Expenses	(1.2)	(1.5)	6%	28%
(1.9)	(1.0)	Other Expenses, by Nature	(0.7)	(0.5)	(47%)	(29%)
(34.0)	(34.9)	Depreciation and Amortization Expenses	(11.8)	(12.2)	2%	4%
16.9	14.0	OPERATING INCOME (LOSS) (*)	4.2	3.5	-	(18%)
50.9	48.8	EBITDA	16.0	15.7	(4%)	(2%)

(*): 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 Colbun are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating income in 3Q20 totaled **US\$42.9 million**, decreasing 3% compared to the revenues perceived in 3Q19, mainly due to: (1) lower sales to unregulated and clients due to the Emergency State decreed by the Peruvian Government due to the COVID-19 pandemic and (2) lower sales to regulated clients due to the expiring of Distriluz (40 MW) contract. These effects were partially offset by higher sales to the spot market.

In cumulative terms, operating income as of Sep20 amounted US\$115.4 million, decreasing 9% compared to Sep19 mainly due to (1) the same reasons for the variations in quarterly terms and (2) lower sales in the spot market explained by the lower generation of the quarter driven by (i) the COES request to stop operating during part of the year's second and third quarter and (ii) the GT12 gas turbine repair and the maintenances during 1Q20 and 3Q20 respectively.

Costs of raw materials and consumables used reached **US\$25.2 million**, decreasing 4% compared to the same quarter of the previous year. The decrease is mainly explained by a lower gas consumption due to the lower generation as a result of the lower availability of the plant during the quarter driven by the maintenances and the COES request to stop operating previously mentioned.

In cumulative terms, cost of raw materials and consumables used as of Sep20 recorded US\$61.0 million, decreasing 13% compared to Sep19, mainly explained by the same reasons for the variations in quarterly terms.

Fenix's **EBITDA** reached **US\$15.7 million** in 3Q20, in line with the EBITDA of US\$16.0 million recorded in 3Q19.

In cumulative terms, EBITDA amounted to US\$48.8 million, 4% lower than the US\$50.9 million recorded in Sep19, mainly explained by the lower operating income recorded during the period, partially offset by lower cost of raw materials and consumables used.

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

Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) in 3Q19, 3Q20 and cumulative as of Sep19 and Sep20. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
16.2	9.8	Financial Income	4.9	1.8	(40%)	(64%)
(70.7)	(68.2)	Financial Expenses	(22.9)	(22.9)	(4%)	-
(5.6)	2.2	Exchange rate Differences	(7.8)	2.1	-	-
7.1	6.7	Profit (Loss) of Companies Accounted for Using the Equity Method	2.2	2.2	(6%)	-
(25.3)	(46.8)	Other Profit (Loss)	(10.0)	(8.0)	86%	(20%)
(78.3)	(96.3)	NON-OPERATING INCOME	(33.5)	(24.8)	23%	(26%)
247.5	222.6	PRE-TAX PROFIT (LOSS)	81.3	88.0	(10%)	8%
(65.7)	(70.3)	Income Tax Expense	(26.6)	(25.8)	7%	(3%)
181.8	152.3	AFTER TAX PROFIT (LOSS)	54.7	62.2	(16%)	14%
184.8	162.1	PROFIT (LOSS) OF CONTROLLER	59.1	64.2	(12%)	9%
(3.2)	(10.1)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(4.4)	(2.4)	-	-

■ ■ ■ **Non-operating result** in 3Q20 recorded losses of **US\$24.8 million**, lower than the losses of US\$33.5 million in 3Q19. The lower losses are mainly explained by a positive effect of the CLP/US\$ exchange rate variation on temporary balance sheet items in local currency during the quarter, while that effect was negative in 3Q19. This effect was partially offset by the lower financial income earned during the period, driven by lower interest rates applicable to cash surpluses at local and international level.

In cumulative terms, Non-operating result as of Sep20 recorded losses of US\$96.3 million, 24% greater than the losses recorded as of Sep19, mainly explained by (1) higher “Other losses”, mainly due to expenses associated with the 2024’s bond refinancing performed in March, for US\$17 million, which was materialized through the issuance of a 10-year bond for US\$ 500 million, obtaining a coupon rate of 3.15%;(2) lower financial income previously explained.

■ ■ ■ 3Q20’s **tax expenses** reached **US\$25.8 million**, decreasing 3% compared to the expenses in 3Q19, despite the increase in the pre-tax profit recorded during the quarter. This effect is mainly explained by the higher tax expenses in Peru recorded in 3Q19, due to the depreciation of the PEN/USD exchange rate during that period and its impact on deferred taxes 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 Sep20 recorded US\$70.3 million, increasing 7% compared to Sep19, despite the decrease in the pre-tax profit, mainly due the depreciation of the PEN/USD exchange rate during that period and its impact on deferred taxes, given that Fenix’s tax accounting is carried out in Peruvian soles, according to the Peruvian tax legislation.

■ ■ ■ In 3Q20, **profits** reached **US\$62.2 million**, 14% higher than the US\$54.7 million gain in 3Q19. The higher profit is mainly explained by the lower non-operating losses recorded.

In cumulative terms, as of Sep20, profit reached US\$152.3 million, decreasing 16% compared to the cumulative profit as of Sep19, mainly driven by (1) the higher non-operating losses recorded, (2) lower EBITDA of the period and (3) higher tax expenses.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 shows an analysis of the Balance Sheet's relevant accounts as of Dec19 and Sep20. Subsequently, the main variations will be analyzed.

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

	Dec-19	Sep-20	Var	Var %
Current assets	1,139.4	1,232.1	92.7	8%
Non-current assets	5,565.9	5,499.5	(66.4)	(1%)
TOTAL ASSETS	6,705.3	6,731.6	26.3	0%
Current liabilities	338.3	285.3	(53.0)	(16%)
Non-current liabilities	2,631.4	2,720.1	88.7	3%
Total net equity	3,735.6	3,726.2	(9.4)	(0%)
TOTAL LIABILITIES AND NET EQUITY	6,705.3	6,731.6	26.3	0%

Current Assets: Reached US\$1,232.1 million as of Sep20, increasing 8% compared to current assets registered as of Dec19, mainly explained by higher financial investments recorded due to (1) the International Bond issuance carried out in March 2020 which resulted in a net cash increase of US\$116 million; and (2) the earnings for the period; partially offset by the US\$160.6 million dividend payment on May 2020.

Non-current Assets: Recorded US\$5,499.5 million as of Sep20, in line with the non-current assets recorded as of Dec19.

Current Liabilities: Totaled US\$285.3 million as of Sep20, decreasing 16% compared to the current liabilities recorded as of Dec19, mainly due to (1) lower accounts payable due to a reduction in accounts payable payment period and (2) lower income taxes payable after the payment corresponding to the year 2019 was carried out on April 2020.

Non-current Liabilities: Reached US\$2,720.1 million as of Sep20, increasing 3% compared to Dec19, mainly due to the issuance of the international bond during March 2020. Of the US\$500 million issued, US\$343 million were destined to partially prepay the 2024 bond, while the difference corresponded to incremental debt for the Company.

Total Net Equity: The Company recorded US\$3,726.2 million, in line compared to the total net equity recorded as of Dec19.

Table 10: Main Debt Items (US\$ million)

	Dec-19	Sep-20	Var	Var %
Gross Financial Debt*	1,678.7	1,796.7	118.1	7%
Financial Investments**	797.3	965.9	168.6	21%
Net Debt	881.3	830.8	(50.5)	(6%)
EBITDA LTM	697.1	685.5	(11.5)	(2%)
Net Debt/EBITDA LTM	1.3	1.2	(0.1)	(4%)

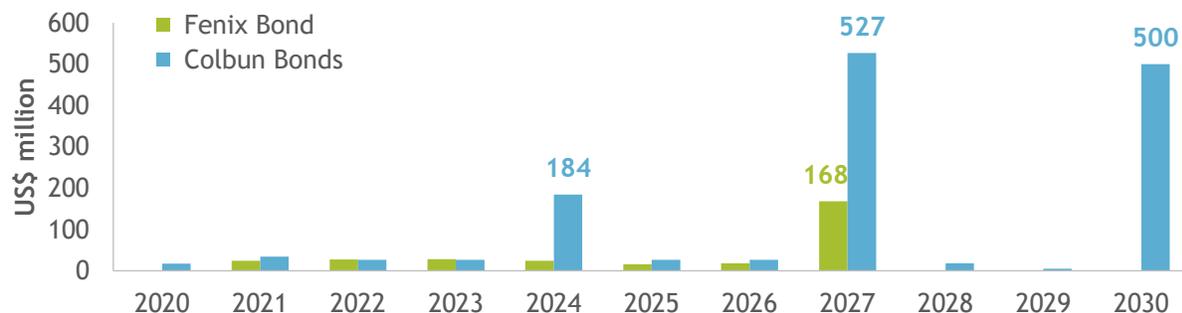
(*) The amount includes debt associated with Fenix without recourse to Colbun: (1) an international bond with an outstanding capital of US\$305.0 million, (2) a financial leasing for US\$13.8 million associated with a transmission contract with Consorcio Transmataro, and (3) a US\$117.2 million financial 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	6.8 years
Average Interest Rate	3.9% (100% fixed rate)
Currency	97% USD / 3% 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-19	Sep-20	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.37	4.32	28%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.22	4.20	30%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.79	0.81	1%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.39%	9.49%	(17%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.61%	90.51%	2%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.97	3.70	(7%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.32%	4.55%	(15%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.01%	2.67%	(11%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.34%	8.32%	(0%)

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 **4.32x** and **4.20x** as of Sep20, increasing 28% and 30% respectively compared to Dec19, mainly due to the increase in current assets resulting from the higher cash and cash equivalents recorded during the period; and the decrease in current liabilities mainly due to the accounts payable decrease and to the income tax payment during 2Q20.

■ ■ The **Indebtedness Ratio** recorded **0.81x** as of Sep20, increasing 1% compared to the value of 0.79x as of Dec19, mainly due to higher non-current liabilities recorded after the issuance of the International Bond during the period. Of the US\$500 million obtained from the new issuance, US\$343 million were destined to refinance the bond maturing in 2024.

■ ■ The percentage of **Short-Term Debt** as of Sep20 was **9.49%**, decreasing compared to the value of 11.39% as of Dec19, mainly due to an increase in non-current liabilities driven by the issuance previously mentioned and the decrease in current liabilities mainly due to the accounts payable decrease and to the income tax payment during 2Q20.

■ ■ The percentage of **Long-Term Debt** as of Sep20 was **90.51%**, increasing compared to the value of 88.61% as of Dec19, mainly due to same reasons that explain the decrease in the percentage of the short-term debt.

■ ■ The **Financial Expenses Coverage** as of Sep20 reached **3.70x**, decreasing 7% compared to the value as of Dec19, mainly due to the decrease in profits before taxes recorded in the last 12 months compared to last year's same period.

■ ■ The **Equity Profitability** as of Sep20 was **4.55%**, decreasing 15% compared to the value of 5.32% as of Dec19. The variation is mainly explained by the lower profits recorded in the last 12 months compared to last year's same period.

■ ■ **Asset Profitability** as of Sep20 was **2.67%**, decreasing 11% compared to the value of 3.01% as of Dec19, mainly as a result of the lower profits recorded in the last 12 months compared to last year's same period.

■ ■ The **Performance of Operating Assets** as of Sep20 was **8.32%**, in line with the recorded level 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 %	Var %
Sep-19	Sep-20		3Q19	3Q20	Ac/Ac	Q/Q
788.1	797.3	Cash Equivalents, Beg. of Period*	667.3	854.1	1%	28%
418.0	376.5	Net cash flows provided by (used in) operating activities	165.0	183.2	(10%)	11%
(356.6)	(127.3)	Net cash flows provided by (used in) financing activities	(29.5)	(33.2)	(64%)	13%
(63.5)	(79.2)	Net cash flows provided by (used in) investing activities**	(17.2)	(42.3)	25%	146%
(2.0)	170.0	Net Cash Flows for the Period	118.4	107.7	-	(9%)
(5.9)	(1.4)	Effects of exchange rate changes on cash and cash equivalents	(5.5)	4.2	-	-
780.2	966.0	Cash Equivalents, End of Period	780.2	966.0	24%	24%

(*) 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 3Q20, the Company presented a **positive net cash flow of US\$107.7 million**, compared to the positive net cash flow of US\$118.4 million in 3Q19.

Operating activities: During 3Q20 a positive net flow of US\$183.2 million was generated, which compares with the positive net flow of US\$165.0 million in 3Q19, mainly due to lower operating expenses during the quarter.

In cumulative terms, as of Sep20 a positive net flow of US\$376.5 million was generated; 10% lower compared to the positive net flow of US\$418.0 million recorded as of Sep19, mainly explained lower operating expenses as of Sep20 driven by (i) lower collections due to the price stabilization mechanism (Law 21,185) and (ii) lower sales recorded during the period; partially offset by lower costs associated with gas consumption.

Financing activities: Recorded a negative net flow of US\$33.2 million during 3Q20, which compares with the negative net flow of US\$29.5 million in 3Q19, mainly explained by higher amortizations of the Fenix's 144A bond during the quarter.

In cumulative terms, as of Sep20 a negative net flow of US\$127.3 million was generated, which compares with the negative net flow of US\$356.6 million as of Sep19, mainly explained by (1) the issuance of an international bond in March 2020 and the partial prepayment of the 2024 bond, the net amount collected by that transaction was US\$116 million and (2) lower dividend payments during the period.

Investing activities: Recorded a negative net flow of US\$42.3 million during 3Q20, which compares with negative net flow of US\$17.2 million in 3Q19, mainly explained by higher Capex disbursements for projects under development.

In cumulative terms, as of Sep20 a negative net flow of US\$79.2 million was generated, which compares with the negative net flow of US\$63.5 million in Sep19, mainly driven by the same reasons that explain the variations in quarterly terms.

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 Ovejería solar photovoltaic power plant. The Company operates in the National Electric System (SEN) in Chile, representing 14% of the market. It also operates in the National Interconnected Electric System (SEIN) in Peru, where it has approximately 6% 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 899 km of transmission lines: 335 km of its lines belong to the National segment, 70 km to the Zonal segment and 494 km belong to the Dedicated segment. In addition, it has a total of 27 substations.

7.1 Medium-term outlook in Chile

As of Sep20, the hydrological year (Apr20-Mar21) has presented lower rainfalls compared to an average year in the main SEN basins, being the basins that present the largest deficits: Aconcagua: -34%; Maule: -10%; Laja: -11%; Biobio: -5%; while Chapo basin presents rainfalls in line with an average year (surplus of 4%). Compared to Sep19, Maule basin has presented higher rainfalls, along with higher tributaries. On the other hand, Laja and Biobio basins have presented rainfalls in line with those of 2019. According to the Coordinator's third thaw forecast, on average there is an exceedance probability for the system that is lower than the one registered in the same forecast of 2019. This means that greater thaws are expected than those predicted in the same report of the previous year.

Regarding 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 liquified natural gas.

In 2020 Colbun continues to participate in supply bidding processes, favoring the re-contracting of current clients that are expiring in the short term. During this year, we have signed new contracts with 45 clients for 636 GWh/year. Among the main contracts signed, the renewal of the energy supply contract with Walmart for 330 GWh/year for 6 years stands out.

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 third quarter of 2020, the SEIN registered a hydrological condition with a probability of exceedance of 53%, compared to 40% recorded the same quarter of 2019.

In 3Q20, energy demand fell 2% compared to 3Q19, a contraction that reflects the impact of the operational restriction measures applied by the Peruvian government since March 16 in the face of COVID-19. During 3Q20 the energy demand increased compared to the previous quarter due to the economic activities' reactivation.

The evolution of marginal costs will mainly depend on demand growth, hydrology and regulatory changes related to the price declaration. Fenix's future results depend mainly on the evolution of the aforementioned variables, which to date have exhibited a behavior below the budgeted values, also projecting a slower recovery compared to the situation considered at the beginning of this year.

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 130 km northeast of Taltal and 170 km southwest of Antofagasta. It considers a minimum installed capacity of 607 MW and a maximum capacity of 980 MW, with an annual average generation of approximately 2,000 GWh (considering minimum capacity). It considers the connection to SEN in the future Parinas substation, located at 22kms from the project.

This project starts in December 2017 with the award of a tender conducted by the Ministry of National Assets (MBN), for the development, construction and operation of a wind farm by a 30 years Onerous Use Concession Agreement, in a state property of about 8 thousand hectares.

The development considers, from the award date, four years for the stages of studies and permits and three years for construction.

On September 15, 2020, the Environmental Evaluation Service (SEA) resumed the project's Environmental Assessment process, which had been suspended since March 20 due to COVID19. During the third quarter of 2020, the Telematic Citizen Participation process was prepared with the Antofagasta Environmental Evaluation Service, which was scheduled for the first week of October. On the other hand, the bidding processes for the civil and electric BoP and Ruta 5 access to the park began, whose offers are expected to be received in October.

■ ■ ■ **Photovoltaic Solar Projects Diego de Almagro Sur I and II (230 MW):** The projects are located in the Atacama Region, 27 kilometers south of Diego de Almagro, and all together consider an approximate capacity of 230 MW and an average annual generation of approximately 648 GWh. 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 have their Environmental Impact Study approved.

On June 2020, the Board of Directors approved the final investment decision, starting the construction phase of the project. The total investment amount approved for this project is US\$147 million.

As of the third quarter of 2020, contracts for the supply of the main equipment such as inverters, trackers and panels have been assigned. On site, construction of the project began.

■ ■ ■ **Photovoltaic Solar Project Machicura (9 MW):** This solar project is located near 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 generated energy will be injected to the SEN through an existing transmission line for auxiliary services from Machicura power plant to Colbún Substation.

The project considers the installation of a solar power plant with an installed capacity of 9MW and an annual average generation of approximately 21 GWh, which qualifies as a Small Means of Generation project (PMG).

The Environmental Assessment Resolution (RCA) of the project and the Board of Directors approval for the final investment decision were obtained on June, but on-site works haven't started due to the lack of the Favorable Report for Construction IFC-MINVU, which is also a requirement for the CEN's authorization to start construction.

The total investment amount approved for this project is US\$7 million.

■ ■ ■ **Photovoltaic Solar Project Inti Pacha (486 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 close to 486 MW and an average annual generation of approximately 1,363 GWh.

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

During the third quarter of 2020, the ICSARA N° 2 answers were prepared, a process that ended with the entry of the Complementary Addendum on September 30.

■ ■ ■ **Photovoltaic Solar Project Jardín Solar (537 MW):** The project considers the installation of a solar power plant with an installed capacity of close to 537 MW that will be built in 2 stages of 263 MW and 274 MW each. It has an annual average generation of approximately 1,500 GWh. 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.

The generated energy will be injected into the Interconnected System through a transmission line which begins in the substation associated with the park, and has an approximate length of 3 km, connecting to the new Pozo Almonte substation located 2.5 km northeast of the intersection of the highway to La Tirana with the Pan-American highway.

During the third quarter, the environmental processing process continued, whose terms have been affected by authority provisions in the face of Covid-19, mainly due to the quarantine in the Pozo Almonte commune.

■ ■ ■ **Los Junquillos Wind Project (265 MW):** Los Junquillos project is a wind farm located 15 km northwest of the city of Mulchén, in the commune of Mulchén in the Biobío Region. It has an installed capacity of 265 MW and an average annual generation of approximately 760 GWh.

The generated energy will be injected into the Interconnected System through an 11 km transmission line to Mulchén substation.

In the third quarter, environmental baseline campaigns began and the resource continued to be measured to refine the project's data.

■ ■ ■ 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.

This project is in the portfolio; however, its development has been deferred to give priority to other projects.

■ ■ ■ Other renewable energy projects from variable sources: At 3Q20 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 12 km reservoir 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 953 GWh under normal hydrological conditions. It presents a 15% construction progress.

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. At the end of April 2019, the environmental authority issued the first Environmental and Citizen ICSARA, whose initial response period is September 30, 2020; however, as a result of the Covid-19 contingency, the Authority has extended the period by 30 business days. In the third quarter of 2020, work continued on the preparation of ADDENDUM 1 with the answers to the ICSARAS indicated above.

Transmission projects under development

■ ■ ■ Maquis substation enhancement: Enhancement of the existing 220 kV substation, 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 September 2020, it presents an advance of 96%.

■ ■ ■ 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 it was commissioned on September 26.

■ ■ ■ **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 it was commissioned on July 26.

■ ■ ■ **Puente Negro substation enhancement:** this project is originated by a Transmission service contract signed in 2019 with the company Tinguiririca Energía, to section and connect the substation Puente Negro with the 2x154 Tinguiririca-La Higuera line. The project has a budget of US\$ 11.7 million with completion date in December 2020. In June 2019, an EPC contract was signed for the execution of the project with Agrosonda, which as of September 2020 presented and advance of 96%.

■ ■ ■ **Capacity increase in LT 2x110 kV Aconcagua - Esperanza:** Expansion of the existing facilities, changing the 2x110kV Aconcagua-Esperanza line conductor, between the substations Rio Aconcagua and Nueva Panquehue, for a high-capacity, low-arrow line capable of transmitting 155 MVA at 35°C. CEN awarded it to the company SEMI for a value of US\$5.6 million. The contract between SEMI and Colbun Transmission was signed on January 31, 2020, with an execution period of 36 months and as of September 2020, it presents a 13% advance.

■ ■ ■ **Candelaria substation expansion:** Expansion work of existing facilities consisting of expansion of bars for 2 diagonals and level ground for another 2 future diagonals. CEN awarded it to the company INPROLEC for a value of US\$ 2.1 million. The contract between INPROLEC and Colbun Transmission was signed by the end of September 2020, with an execution period of 36 months from the award decree publication date, presenting an advance of 2% as of September 2020.

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, in 2017 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. Otherwise, faced with abundant hydrology, the Company could have a surplus position in the spot market, the price of which would be partially determined by fuel prices.

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 indexation formulas in its 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 liquified natural 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 power plant, new tenders have been periodically 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 "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 require 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

In the context of the constitutional process originated from the commitment called "Agreement for Peace and the New Constitution" ("Acuerdo por la Paz y la Nueva Constitución"), on October 25, 2020, the referendum was held to decide to approve or reject the drafting of a new Constitution. In the national consultation, the option for "approval" was imposed by 78% of the votes and the mechanism for drafting the new Constitution will be through a constitutional convention (79% of the preferences compared to the alternative of a mixed convention). On April 11 2021, the 155 constituents in charge of its drafting will be elected and the text must be submitted to a new in 2022. The constitutional process may result in changes to the institutional framework applicable to the business activity in the country.

On September 12, due to the outbreak of COVID-19 that affects the country, classified as a pandemic by the World Health Organization, the President of the Republic decided to extend the State of Constitutional Exception of Catastrophe, due to public calamity, throughout the national territory, by means of Supreme Decree 104, 2020, of the Ministry of the Interior and Public Security, and its modifications, for an additional period of 90 days.

In this context, in the framework of the serious health crisis that affects the country, on August 5 Law 21,249 was enacted, providing for exceptional measures in favor of end users of health, electricity and gas network services. With this initiative, during the 90 days following the law's publication (August 8, 2020), distribution companies will not be able to cut off the supply to the people, users and establishments indicated in the law, due to late payment. The Law defines that the debts of the most vulnerable users or with inability to pay, generated between March 18, 2020 and up to 90 days after the law's publication, may be divided into the number of monthly installments equal and successive determined by the user, which may not exceed 12 installments, and will be charged from the billing following the end of the 90-day period and may not consider fines, interests or associated expenses. This Law does not imply a cost allocation through the supply chain, except in the case of payments postponement by energy "cooperatives", which may defer payments to their suppliers.

Regarding the aforementioned Law, a group of senators entered a parliamentary motion for processing, with the main objective of extending the deadlines for their benefits for 6 additional months to those provided in the current Law, both with respect to the prohibition of supply cut-off and also of debt rescheduling, indicating an automatic debt rescheduling of up to 36 monthly installments (24 additional installments to those provided by law), among other modifications. This amendment to the law, like the current law in force, does not contemplate an allocation of costs through the supply chain, except in the case of "cooperatives" that could defer payment to their suppliers in installments.

Additionally, the Chamber of Deputies approved in general the Bill that seeks to anticipate the decommissioning of coal-fired power plants. It will now go to the Environment and Natural Resources Committee for its particular discussion. This bill, initiated in a parliamentary motion, seeks to forbid the installation and operation of coal-fired thermoelectric generation plants throughout the national territory from January 1, 2026 onwards. The Ministries of Energy and Environment, the CNE and the National Electric Coordinator have exposed to the Commission the inconvenience of anticipating the decommissioning of coal-fired plants by legal means. It is important to remember that in 2019 the generation companies signed a voluntary agreement with the government in which they committed not to build new coal-fired power plants and the progressive decommissioning of the existing ones was agreed.

Regarding the Ancillary Services Market, discrepancies were presented before the Panel of Experts after the 2021's Ancillary Services Report of the CEN determined that there are not competitive conditions in secondary frequency control, suspending the auctions for this service and determining a direct award scheme from January 1, 2021. The Panel of Experts accepted the discrepancies and ordered the National Electric Coordinator to maintain the auctions from January 1, 2021 onwards and correct its report.

Regarding the 2020's Ancillary Services Report (which became effective in January 2020), the Coordinator updated that report, suspending the auctions for secondary frequency control and tertiary frequency control, determining a direct award scheme. Discrepancies to this update were presented to the Panel of Experts, which are currently in progress.

On the other hand, the government continues to promote the following regulatory changes, which depending on the way these changes are implemented, they could represent opportunities or risks for the Company.

- (i) The "New Distribution Law" (Long Law), which seeks to update the distribution sector regulation to better address the technological and market advances that have occurred and are foreseen for the future, encourage investment and improve the quality of service to end users. In September 2020, the Minister of Energy entered into the Mining and Energy Commission of the Chamber of Deputies the bill that establishes the right to electrical portability, creating the figure of trader as a new market agent, in addition to consider the modernization of the supply bidding mechanism and the introduction of the information manager role to reduce information asymmetries and protect customer's consumption data.

This bill corresponds to the first of three initiatives in which the Executive subdivided the Long Distribution Law. The other two bills, which have not yet entered the Congress, correspond to:

- a. Quality of Service, which seeks to improve the efficient pricing scheme, define a long-term strategic quality of service plan and establish compensations to clients for excessive long interruptions; and
- b. Distributed Generation, which purpose is to promote distributed generation, define new actors and enable pilot projects with a coordinated expansion of distribution and transmission networks.

The Chamber's Mining and Energy Commission has summoned the private sector, civil society, academics and the public sector with the purpose of capturing the opinion of different organizations so that parliamentarians can make the necessary indications to the bill.

- (ii) The "Flexibility Strategy", which aims to address the systemic and market consequences that will arise due to the increasing incorporation of variable renewable energy. Recently, the Ministry of Energy published the definitive Strategy, detailing the three axes or pillars considered: (a) Market design for the development of a Flexible System, (b) Regulatory framework for Storage Systems, and (c) Flexible operation of the system. Within the framework of this Strategy, working groups are being formed with industry representatives to address the measures that have been proposed in each of the axes.

(iii) At the regulatory and resolution level, it is worth noting:

- a. On July 9, 2020, exempt resolution N° 238 of the National Energy Commission (CNE) was published, modifying exempt resolution N° 164, of 2010, in which it is proposed to establish incentives for customers who substitute firewood for electrical heating, establishing a discount in the regulated tariff for increases in energy consumption derived from the conversion from wood heating to electricity, and where generators may make offers through distribution companies. Subsequently, the CNE led a process of presenting offers with discounts on energy prices, which will promote the replacement of firewood and increase energy consumption, covering in a first stage 10 communes with a high level of particulate matter concentration. The bidding process considered a total energy for 122 GWh/year and covered the period from August 2020 to December 2024. Colbún, on its part, was awarded a 10 GWh/year supply between 2020 and 2022 and an additional 12.4 GWh in 2024.

- b. On the other hand, the Comptroller approved the Regulation of Small-scale Generation Means that was under review, which establishes, among other modifications, a new stabilized price regime that will be calculated considering 6 blocks per day (4 hours each block), instead of the price per day established in the previous regime. In addition, it establishes a transitional period to go from the old regime to the new one for plants in operation and projects close to their construction.

Perú

After Luz del Sur made a complaint against the Ministry of Energy, due to the fact that - in the opinion of the company - Decree 043-2017-EM, which is related to the declaration of fuel prices by generating plants, had both legal and constitutional infractions, the Supreme Court declared that this Decree is invalid and ordered the Ministry of Energy to establish new provisions based on the already existing Decree 039-2017-EM. This declaration of nullity refers to the possibility that thermal power plants may declare a minimum natural gas price different from the real price of the fuel (because it is allowed to exclude from declaration costs associated with take or pay clauses that have gas transportation and distribution contracts). The ruling indicates that two different prices cannot be declared: one in bar and the other for the gas price declaration (order of dispatch of power plants). The Supreme Court ruling does not indicate how it should be regulated or the way to return to the previous regime.

In this context, on October 10, 2020, Ministerial Resolution N° 312-2020-MINEM/DM was published, which ordered the publication of the draft “Supreme Decree that establishes provisions for determining the natural gas price for energy generation” and granted a 7 calendar days period to send comments and/or contributions to the normative project.

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

The projection of future energy 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 matrixes 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 ancillary

services that adequately remunerates the services necessary to manage the variability of such generation sources.

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency. Energy demand in Chile has decreased approximately 2% during 3Q20 compared to 3Q19, while in Peru, there has been a decrease of approximately 4%. Additionally, the world economic outlook is complex, which might lead to a contraction of the Chilean and Peruvian economies, probably affecting future energy demand.

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 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 occasionally resorts to the use of derivatives to fix the expenses in currencies other than USD.

Exposure to the Balance Sheet accounts mismatch 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 September 30, 2020, 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 September 30, 2020, cash surpluses are invested in remunerated current accounts, mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, which are known as “money market”.

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

B.2.4 Liquidity risk

This risk results from different funding requirements to meet investment commitments and business expenses, debt payments, among others. The funds needed to meet these cash flow outputs are obtained from 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 September 30, 2020, Colbun has cash in excess for approximately US\$966 million, invested in time deposits with an average maturity of 60 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) three bond lines registered in the local market, two for a total joint amount of UF 7 million and another line for a total amount of UF 7 million, and (ii) uncommitted bank lines of approximately US\$150 million. On its part, Fenix Power has committed credit lines for a total of US\$25 million, with a one-year term, contracted with two local banks. In addition, Fenix Power has uncommitted lines for a total of US\$34 mm, contracted with three local banks.

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 September 30, 2020, Colbun has a local credit rating of AA by Fitch Ratings and Feller Rate, both with stable outlook. At international level, the Company's rating is Baa2 by Moody's, and BBB by Standard & Poor's (S&P Global), and BBB+ by Fitch Ratings, all with stable outlook.

As of September 30, 2020, 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 23.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.

Regarding 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 September 30, 2020, 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 15%. 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 25% in notional terms.

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

DISCLAIMER

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

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

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