



2<sup>nd</sup> Q U A R T E R 2021



QUARTERLY EARNINGS REPORT

As of June 30, 2021

# 2Q21 EARNINGS REPORT

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Conference Call  
2Q21

Date: Friday July 30<sup>th</sup>, 2021

Time: 12:00 PM Eastern Time  
12:00 PM Chilean Time

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# 1. HIGHLIGHTS

## Main Figures at a Consolidated Level:

■ ■ ■ **Operating Income** for the second quarter of 2021 (2Q21) amounted to **US\$372.2 million**, increasing 14% compared to the operating income recorded in the second quarter of 2020 (2Q20) mainly explained by (1) higher energy and capacity sales due to a higher generation recorded during the quarter and (2) higher sales to regulated clients. These effects were partially offset by lower physical sales to unregulated clients, driven by Anglo American's contract expiration on Dic20.

**In cumulative terms**, operating income from ordinary activities as of Jun21 reached **US\$707.8 million**, increasing 6% compare to income recorded as of Jun20, mainly explained by the same reasons for the variation in quarterly terms.

■ ■ ■ Consolidated **EBITDA** in 2Q21 reached **US\$146.6 million**, decreasing 6% compared to the US\$155.3 million EBITDA in 2Q20, mainly explained by (1) higher personnel expenses in USD as a result of the appreciation of USD/CLP exchange rate compared to 2Q20 and (2) "Other expenses, by nature" associated to a lower comparative basis explained mostly by third-party services, trainings, travels among others were suspended during 2Q20 due to the pandemic.

**In cumulative terms** EBITDA as of Jun21 totaled **US\$284.0 million**, decreasing 13% compare to Jun20, mainly explained by (1) the same reasons for the variation in quarterly terms and (2) higher raw materials and consumables used. These effects were partially offset by higher operating income.

■ ■ ■ **Non-operating result** in 2Q21 recorded losses of **US\$40.3 million**, higher than the losses of US\$22.1 million in 2Q20. The higher losses are mainly explained by (1) the recording of financial cost on "Other losses", related to the selling of the second and third group of accounts receivables generated by the energy price stabilization mechanism (PEC) of US\$14.9 million, (2) a lower positive effect on the exchange rate CLP/US\$ variation of temporary balance sheet items in local currency compare to 2Q20 and (3) lower financial income recorded during the quarter due to lower interest rates. **In cumulative terms**, non-operating result as of Jun21 recorded losses of **US\$84.2 million**, higher than losses of US\$71.5 million recorded as of Jun20, explained by the same reasons for the variation in quarterly terms. This effect was partially offset by "Other losses" recorded in 1Q20 associated to the premium paid for the prepayment of the 2024 Bond "144-A" maturing in 2024 of US\$17 million.

■ ■ ■ In 2Q21 **tax expenses** of **US\$21.4 million** were recorded, compared to the tax expenses of US\$22.5 million in 2Q20 mainly explained by (1) lower pre-tax profit reached during the quarter and (2) higher tax expenses in Peru, due to the depreciation of the PEN/USD exchange rate during the 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 Jun21 recorded **US\$100.7 million**, compare to tax expenses of US\$44.4 million as of Jun20. The higher tax expenses are mainly explained by a deferred tax recognition of US\$64.5 million, associated with Colbún Transmisión S.A sale announcement recorded in 1Q21 and corresponds to the tax applied to the difference between book value and tax value of the investment.

■ ■ ■ In 2Q21, the Company recorded a **profit** of **US\$32.9 million**, compared to the profit of US\$49.7 million in 2Q20 mainly explained by the higher losses of non-operating results previously mention and a lower operating result. **In cumulative terms**, the Company recorded **losses** of **US\$8.3 million** as of Jun21, compared to profit of US\$90.1 million as of Jun20. The losses are explained mainly by (1) the higher tax expenses and (2) the lower operating result, previously mentioned.

## Highlights of the quarter:

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■ ■ ■ Regarding the **COVID-19 pandemic contingency**, the Company's power plants are operating normally and Colbún has taken actions considering two priority focuses: (1) to protect the health of workers, collaborators, suppliers and our surrounding communities and (2) to ensure the continuity and security of the energy supply. 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 increased approximately 6.1% during 2Q21 compared to 2Q20 and 1.3% during the last twelve months, while in Peru, there was an increase of approximately 31.1% during the quarter and 6.0% during the last twelve months.

■ ■ ■ On April 1<sup>st</sup>, Colbún sold to Chile Electricity PEC SpA the second group of accounts receivables associated to the energy price stabilization mechanism, Law 21,185. Subsequently, on June 30, the sale of the third group of accounts receivables was completed. As a whole, these two sales comprised accounts receivable for a nominal value of US\$56.4 million. It should be noted that the differential between the nominal amount of the accounts receivables sold and the purchase price will be recorded as "Other losses" for fiscal year 2021. In the second quarter of 2021, US\$14.9 million were registered for this concept associated with the second and third group of sales.

■ ■ ■ On May 12, dividends were paid for a total of US\$246.3 million. This payment is comprised of (1) a definitive dividend for US\$81.7 million, and (2) an eventual dividend, charged to the profits of previous years, for US\$164.6 million. Based on the above and considering the US\$81.2 million paid in December 2020 as a provisional dividend, the total distribution of dividends for 2020 results reached US\$327.5 million.

## 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 2Q20, 2Q21 and cumulative as of Jun20 and Jun21.

Table 1: Physical sales and generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
5,915	5,617	<b>Total Physical Sales (GWh)</b>	3,020	3,088	(5%)	2%
1,572	1,521	Regulated Clients	784	794	(3%)	1%
3,442	3,379	Unregulated Clients	1,736	1,674	(2%)	(4%)
901	717	Sales to the Spot Market	501	620	(20%)	24%
1,426	1,319	<b>Capacity Sales (MW)</b>	1,428	1,316	(7%)	(8%)

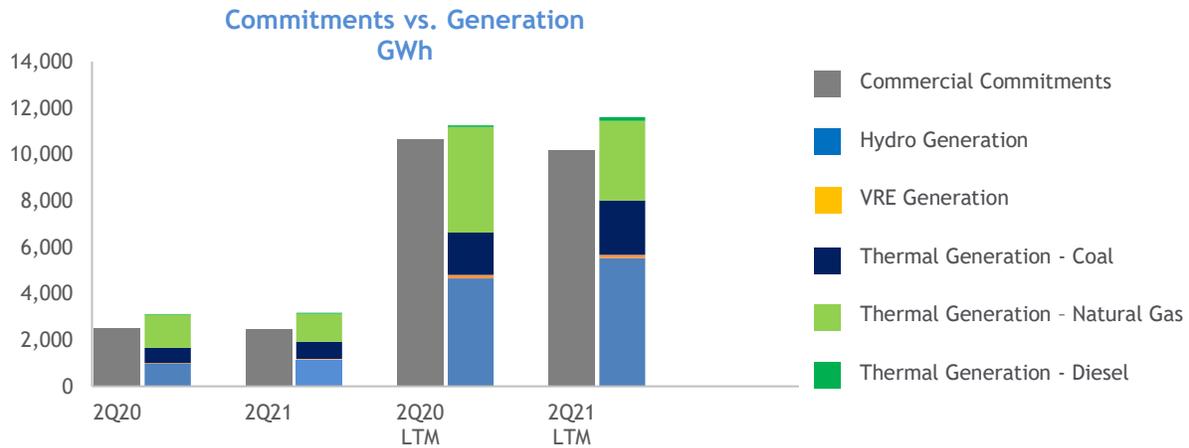
Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
6,098	5,606	<b>Total Generation (GWh)</b>	3,114	3,178	(8%)	2%
2,101	2,042	Hydraulic	982	1,155	(3%)	18%
3,947	3,510	<b>Thermal</b>	2,108	1,998	(11%)	(5%)
2,616	1,929	Gas	1,425	1,207	(26%)	(15%)
63	164	Diesel	32	45	161%	44%
1,268	1,417	Coal	651	745	12%	14%
51	53	VRE	24	26	5%	5%
41	44	Wind Farm*	21	22	7%	5%
10	9	Solar	3	3	(4%)	0%
0	174	<b>Spot Market Purchases (GWh)</b>	0	0	-	-
901	542	<b>Sales - Purchases to the Spot Market (GWh)</b>	501	620	(40%)	24%

(\*): 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 **3,088 GWh** during 2Q21, increasing 2% compared to 2Q20, due to higher sales to the spot market, mainly explained by the higher generation during the quarter and higher sales to the regulated segment. These effects were partially offset by lower sales to unregulated clients given the expiration of Anglo-American contract in Dic20. On the other hand, quarterly **generation** increased 2% compared to 2Q20, mainly due to (i) higher hydro generation (+174 GWh) mainly driven by higher generation on Colbún's complex compared to 2Q20 and (2) higher coal generation (+94 GWh) explained by Santa María power plant's higher economic dispatch during the quarter. These effects were partially offset by a lower gas generation (-219 GWh) due to the lower gas availability compared to 2Q20.

**In cumulative terms**, physical sales as of Jun21 reached **5,617 GWh**, decreasing 5% compared to Jun20, mainly explained by (1) lower sales to the spot market due to the lower generation recorded during 1T21, (2) lower sales to unregulated clients given the expiration of Anglo American's contract previously mentioned and (3) lower sales to regulated clients. **Cumulative generation** as of Jun21 decreased 8% compared to Jun20, mainly explained by (1) lower gas generation (-687 GWh) due to lower LNG importation and the lower availability of Argentinean gas compared to last year and (2) lower hydro generation (-493 GWh) driven by less favorable hydro conditions. These effects were partially offset by higher coal generation (+149 GWh) and diesel generation (+101 GWh) due to the higher economic dispatch.

■ ■ ■ The **spot market balance** during the quarter recorded net sales of 620 GWh, compared to the net sales of 501 GWh recorded in 2Q20. The difference is mainly explained by the higher generation during the quarter. In cumulative terms, as of Jun21, the spot market balance sheet recorded net sales of 542 GWh, compare to net sales of 901 GWh as of Jun20. The difference is mainly explained by a lower cumulative generation as of Jun21.



■ ■ ■ **Generation Mix in Chile:** As of Jun21, the hydrological year (Apr21-Mar22) started with lower rainfalls compared to an average year in the main SEN basins. In this sense, deficits were Aconcagua: -73%; Maule: -63%; Laja: -4%; Bío Bío: -28%; while Chapo presents surpluses of 10%. Average marginal cost measured in Alto Jahuel increased compared to 2Q20, averaging US\$68/MWh in 2Q21, compared to US\$42/MWh.

jun-20	Jun-21	SEN Generation	Quarterly Figures		Var %	Var %
			2Q20	2Q21	Acc/Acc	Q/Q
38,941	40,091	<b>Total Generation (GWh)</b>	19,010	20,174	3%	6%
8,039	8,070	Hydraulic	3,204	3,722	0%	16%
8,767	7,312	Gas Thermal	4,627	4,252	(17%)	(8%)
441	863	Diesel Thermal	308	191	95%	(38%)
14,887	15,040	Coal Thermal	7,745	7,844	1%	1%
2,280	2,932	Wind Farm	1,141	1,487	29%	30%
3,311	4,529	Solar	1,375	1,954	37%	42%
1,217	1,345	Others	611	723	11%	18%

## 2.2. Physical sales and generation balance in Peru

Table 2 shows a comparison between physical energy and capacity sales and generation in 2Q20, 2Q21 and cumulative as of Jun20 and Jun21.

**Table 2:** Physical sales and generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	
Jun-20	Jun-21		2Q20	2Q21	Q/Q	Ac/Ac
1,142	1,439	Total Physical Sales (GWh)	627	878	40%	26%
928	1,013	Customers under Contract	413	504	22%	9%
214	426	Sales to the Spot Market	214	374	-	99%
559	562	Capacity Sales (MW)	560	563	1%	1%

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Jun-20	Jun-21		2Q20	2Q21	Q/Q	Ac/Ac
856	1,299	Total Generation (GWh)	513	778	52%	52%
856	1,299	Gas	513	778	52%	52%

313	178	Spot Market Purchases (GWh)	128	120	(6%)	
(99)	248	Sales - Purchases to the Spot Market (GWh)	86	254	-	-

Physical sales during 2Q21 reached **878 GWh**, increasing 40% compared to 2Q20. The higher physical sales are mainly explained by (1) higher sales to the spot market as a result of the higher generation of the plant during the quarter and (2) higher sales to customers under contracts driven by (i) regulated segment demand recovery due to the pandemic and (ii) the enter into force of 40 MW new PPAs during the quarter. On the other hand, **thermal generation** reached **778 GWh**, increasing 52% compare to 2Q20 mainly driven by the higher dispatch of the power plant given the demand recovery on the Peruvian market.

In cumulative terms, physical sales as of Jun21 reached **1,439 GWh** increasing 26% compare to Jun20 mainly explained by the same reasons for the variations in quarterly terms. On the other hand, **cumulative generation** as of Jun21 reached **1,299 GWh**, increasing 52% compare to Jun20 mainly due to (1) the same reason for the variation in quarterly terms and (2) the repair of GT12 gas turbine and the preventive maintenance of the GT11 gas turbine during 1Q20.

The **balance in the spot market** recorded net sales for 254 GWh, compared to the net sales for 86 GWh during the same quarter of the previous year, due to the higher generation recorded in the quarter. In cumulative terms, the balance in the spot market as of Jun21 recorded net sales of 248 GWh, compared to net purchases recorded as of Jun20 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 3.9% compared to 2Q20 due to higher availability of hydro power plants during the quarter. On the other hand, thermal generation increased 149.9% during 2Q21 compared to 2Q20 due to the higher energy demand of the system.

The accumulated energy demand growth rate in 2Q21 was 31.1%, mainly due to the recovery of system demand.

### 3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 2Q20 and 2Q21 and cumulative as of Jun20 and Jun21, for Chile and Peru.

**Table 3: Income Statement (US\$ million)**

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
<b>669.1</b>	<b>707.8</b>	<b>OPERATING INCOME</b>	<b>326.5</b>	<b>372.2</b>	<b>6%</b>	<b>14%</b>
210.3	222.6	Regulated Customers Sales	95.7	114.9	6%	20%
340.3	335.1	Unregulated Customers Sales	171.8	168.3	(2%)	(2%)
68.9	93.5	Energy and Capacity Sales	31.0	66.1	36%	113%
34.9	39.0	Transmission Tolls	19.8	12.9	12%	(34%)
14.7	17.6	Other Operating Income	8.3	9.9	20%	19%
<b>(289.0)</b>	<b>(352.7)</b>	<b>RAW MATERIALS AND CONSUMABLES USED</b>	<b>(145.0)</b>	<b>(189.5)</b>	<b>22%</b>	<b>31%</b>
(48.2)	(60.8)	Transmission Tolls	(26.6)	(29.6)	26%	11%
(22.6)	(29.3)	Energy and Capacity Purchases	(7.0)	(13.4)	30%	89%
(138.2)	(160.4)	Gas Consumption	(69.7)	(94.1)	16%	35%
(7.2)	(24.3)	Diesel Consumption	(2.9)	(7.6)	236%	159%
(42.0)	(46.3)	Coal Consumption	(21.2)	(25.2)	10%	19%
(30.9)	(31.6)	Other Operating Expenses (*)	(17.5)	(19.6)	2%	12%
<b>380.1</b>	<b>355.0</b>	<b>GROSS PROFIT</b>	<b>181.5</b>	<b>182.7</b>	<b>(7%)</b>	<b>1%</b>
(31.1)	(42.8)	Personnel Expenses	(16.0)	(21.5)	38%	35%
(21.4)	(28.1)	Other Expenses, by Nature (*)	(10.3)	(14.4)	31%	40%
(121.6)	(107.6)	Depreciation and Amortization Expenses	(61.0)	(52.1)	(12%)	(15%)
<b>206.1</b>	<b>176.5</b>	<b>OPERATING INCOME (LOSS) (**)</b>	<b>94.3</b>	<b>94.6</b>	<b>(14%)</b>	<b>0%</b>
<b>327.6</b>	<b>284.1</b>	<b>EBITDA</b>	<b>155.3</b>	<b>146.7</b>	<b>(13%)</b>	<b>(5%)</b>
8.0	2.4	Financial Income	3.0	1.1	(70%)	(62%)
(45.2)	(43.6)	Financial Expenses	(22.7)	(21.4)	(4%)	(6%)
0.1	(2.1)	Exchange rate Differences	4.9	0.7	-	-
4.5	3.3	Profit (Loss) of Companies Accounted for Using the Equity Method	2.1	2.0	(26%)	(9%)
(38.8)	(44.2)	Other Profit (Loss)	(9.4)	(22.7)	14%	140%
<b>(71.5)</b>	<b>(84.2)</b>	<b>NON-OPERATING INCOME</b>	<b>(22.1)</b>	<b>(40.3)</b>	<b>18%</b>	<b>82%</b>
<b>134.6</b>	<b>92.3</b>	<b>PRE-TAX PROFIT (LOSS)</b>	<b>72.2</b>	<b>54.3</b>	<b>(31%)</b>	<b>(25%)</b>
(44.4)	(100.7)	Income Tax Expense	(22.5)	(21.4)	127%	(5%)
<b>90.1</b>	<b>(8.3)</b>	<b>AFTER TAX PROFIT (LOSS)</b>	<b>49.7</b>	<b>32.9</b>	<b>(109%)</b>	<b>(34%)</b>
<b>97.8</b>	<b>(3.8)</b>	<b>PROFIT (LOSS) OF CONTROLLER</b>	<b>54.1</b>	<b>35.1</b>	<b>(104%)</b>	<b>(35%)</b>
(7.7)	(4.5)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(4.5)	(2.2)	-	-

(\*) The Company made a change in the classification criteria in costs allocation mainly associated with Insurance, Surveillance, Patents and Contributions, which as of this year are charged as an expense. Therefore, for comparative purposes, the figures presented as of 2Q20 in this Earnings Report are pro forma.  
(\*\*): 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	Dec-20	Jun-20	Jun-21
Chile (CLP / US\$)	710.95	821.23	727.76
Chile UF (CLP/UF)	29,070.33	28,696.42	29,709.83
Peru (PEN / US\$)	3.62	3.54	3.87

### 3.1. Operating Income analysis of the generation business in Chile



Table 5 presents a summary of Operating Income and EBITDA in 2Q20 and 2Q21 and cumulative as of Jun20 and Jun21. 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 %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
<b>561,7</b>	<b>610,8</b>	<b>OPERATING INCOME</b>	<b>271,9</b>	<b>322,3</b>	<b>9%</b>	<b>19%</b>
156,0	169,1	Regulated Customers Sales	70,6	88,7	8%	26%
330,5	322,7	Unregulated Customers Sales	167,4	162,5	(2%)	(3%)
63,3	84,3	Energy and Capacity Sales	27,1	59,4	33%	119%
11,9	34,7	Other Operating Income	6,9	11,6	191%	68%
<b>(257,4)</b>	<b>(328,1)</b>	<b>RAW MATERIALS AND CONSUMABLES USED</b>	<b>(125,0)</b>	<b>(174,6)</b>	<b>27%</b>	<b>40%</b>
(54,4)	(75,4)	Transmission Tolls	(26,0)	(36,6)	39%	41%
(20,8)	(28,3)	Energy and Capacity Purchases	(6,6)	(12,7)	36%	93%
(112,5)	(128,0)	Gas Consumption	(55,1)	(76,9)	14%	40%
(7,2)	(24,1)	Diesel Consumption	(2,9)	(7,3)	232%	150%
(42,0)	(46,3)	Coal Consumption	(21,2)	(25,2)	10%	19%
(20,6)	(26,0)	Other Operating Expenses (*)	(13,3)	(16,0)	26%	21%
<b>304,3</b>	<b>282,7</b>	<b>GROSS PROFIT</b>	<b>146,9</b>	<b>147,6</b>	<b>(7%)</b>	<b>0%</b>
(28,0)	(39,5)	Personnel Expenses	(14,4)	(20,0)	41%	39%
(18,7)	(24,2)	Other Expenses, by Nature (*)	(9,2)	(12,5)	29%	35%
(93,5)	(87,1)	Depreciation and Amortization Expenses	(46,8)	(43,3)	(7%)	(7%)
<b>164,1</b>	<b>131,9</b>	<b>OPERATING INCOME (LOSS) (**)</b>	<b>76,5</b>	<b>71,7</b>	<b>(20%)</b>	<b>(6%)</b>
<b>257,5</b>	<b>219,0</b>	<b>EBITDA</b>	<b>123,3</b>	<b>115,1</b>	<b>(15%)</b>	<b>(7%)</b>

(\*) The Company made a change in the classification criteria in costs allocation mainly associated with Insurance, Surveillance, Patents and Contributions, which as of this year are charged as an expense. Therefore, for comparative purposes, the figures presented as of 2Q20 in this Earnings Report are pro forma.  
(\*\*): 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 for 2Q21 amounted to **US\$322.3 million**, increasing 19% compared to the operating income recorded in 2Q20 mainly explained by (1) higher energy and capacity sales due to a higher generation recorded during the quarter and (2) higher sales to regulated clients. These effects were partially offset by lower physical sales to unregulated clients, driven by Anglo American's contract expiration on Dic20.

In cumulative terms, operating income from ordinary activities as of Jun21 reached **US\$610.8 million**, increasing 9% compare to income recorded as of Jun20, mainly explained by the same reasons for the variation in quarterly terms.

The raw materials and consumables used costs recorded **US\$174.6 million** in 2Q21, increasing 40% compared to 2Q20, mainly due to (1) higher gas consumption, despite de lower generation with that fuel due to a higher average purchase price, (2) higher toll costs explained by the addition of an additional transmission charge, (3) higher energy and capacity payments due to the higher energy sales and (4) higher diesel and coal consumption driven by a higher generation with both fuels. In cumulative terms, raw material and consumable costs as of Jun totalized **US\$328.1 million**, increasing 27% compared to Jun20, mainly explained by higher toll costs previously mentioned, (2) higher diesel consumption due to a higher generation with that fuel, (3) higher gas consumption, despite de lower generation, explained by the higher average purchase price and (4) higher energy and capacity costs.

EBITDA in 2Q21 reached **US\$115.1 million**, decreasing 7% compared to the EBITDA of **US\$123.3 million** in 2Q20, mainly due to (1) higher personnel expenses and (2) higher "Other expenses, by nature" due to the appreciation of the exchange rate compared to 2Q20. In cumulative terms, EBITDA as of Jun21 totalized **US\$219.1 million**, decreasing 15% compare to Jun20, mainly explained by (1) the same reasons for the variation

in quarterly terms and (2) higher raw material and consumable costs. These effects were partially offset by the lower operating income recorded during the period.

### 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 2Q20 and 2Q21 and cumulative as of Jun20 and Jun21. 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 %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
44.0	39.7	<b>OPERATING INCOME</b>	21.3	20.5	(10%)	(4%)
44.0	39.7	Transmission Tolls	21.3	20.5	(10%)	(4%)
(6.8)	(5.6)	<b>RAW MATERIALS AND CONSUMABLES USED</b>	(2.7)	(3.1)	(17%)	16%
(0.3)	(0.1)	Transmission Tolls	(0.3)	(0.1)	(72%)	-
(6.5)	(5.5)	Other Operating Expenses (*)	(2.4)	(3.0)	(15%)	27%
37.2	34.1	<b>GROSS PROFIT</b>	18.6	17.4	(8%)	(7%)
(0.5)	(0.4)	Other Expenses, by Nature (*)	(0.2)	(0.2)	(22%)	-
(5.4)	(5.6)	Depreciation and Amortization Expenses	(2.7)	(2.8)	3%	4%
31.4	28.2	<b>OPERATING INCOME (LOSS) (**)</b>	15.7	14.4	(10%)	(8%)
36.8	33.7	<b>EBITDA</b>	18.4	17.2	(8%)	(6%)

(\*) The Company made a change in the classification criteria in costs allocation mainly associated with Insurance, Surveillance, Patents and Contributions, which as of this year are charged as an expense. Therefore, for comparative purposes, the figures presented as of 2Q20 in this Earnings Report are pro forma. (\*\*): 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 components of Colbun's transmission costs are operation and maintenance costs and IT. Thereby, the margin received by the Company corresponds to AVI. Additionally, if they are received, reassessments are incorporated into income and costs.

Operating Income in 2Q21 reached **US\$20.5 million**, of which 32% corresponds to income from national assets, 3% to zonal assets and 65% corresponds to the dedicated segment. The lower income recorded in 2Q21 is mainly explained by the change in the discount rate for regulated assets, which changed from 10% before taxes to 7% after taxes.

In cumulative terms, operating income as of Jun21, amounted **US\$39.7 million**, decreasing 10% compared to Jun20, for (1) the same reasons that explain the variations in quarterly terms, (2) lower income from national assets driven by 2018's reassessments recorded in 1Q20 for approximately US\$1.0 million, (2) lower income from zonal assets due to the reclassification of some assets from this segment announced by the regulator of US\$1.1 million and (4) lower income from the dedicated segment explained by other adjustment in this segment contracts for approximately US\$0.6 million.

EBITDA for 2Q21 reached **US\$17.2 million**, lower than the US\$18.4 million EBITDA recorded in 2Q20, mainly due to the decrease in operating income, previously explained and higher operating expenses.

In cumulative terms, EBITDA as of Jun21 reached US\$33.7 million, decreasing 8% compared to the EBITDA registered as of Jun20 due to the lower income recorded during the period.

### 3.3. Operating Income analysis in Peru

Table 7 shows a summary of Fenix's Operating Income and EBITDA for the quarters 2Q20 and 2Q21 and cumulative as of Jun20 and Jun21. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
72.6	77.8	<b>OPERATING INCOME</b>	34.8	39.9	7%	15%
54.4	53.5	Regulated Customers Sales	25.1	26.1	(2%)	4%
9.9	12.4	Unregulated Customers Sales	4.4	5.8	26%	33%
5.6	9.2	Sales to Other Generators	3.9	6.7	64%	71%
2.8	2.7	Other Operating Income	1.5	1.2	(0%)	(14%)
(33.9)	(39.5)	<b>RAW MATERIALS AND CONSUMABLES USED</b>	(18.9)	(22.1)	16%	17%
(2.9)	(1.7)	Transmission Tolls	(2.2)	(1.3)	(40%)	(40%)
(1.8)	(1.2)	Energy and Capacity Purchases	(0.5)	(0.8)	(33%)	65%
(25.7)	(32.4)	Gas Consumption	(14.6)	(17.3)	26%	18%
-	0.0	Diesel Consumption	-	(0.3)	-	-
(3.5)	(3.9)	Other Operating Expenses (*)	(1.6)	(2.4)	10%	51%
38.7	38.3	<b>GROSS PROFIT</b>	15.9	17.8	(1%)	12%
(3.1)	(3.3)	Personnel Expenses	(1.5)	(1.5)	7%	(2%)
(2.3)	(3.6)	Other Expenses, by Nature (*)	(0.9)	(1.8)	-	115%
(22.7)	(17.7)	Depreciation and Amortization Expenses	(11.5)	(8.8)	(22%)	(23%)
10.5	13.7	<b>OPERATING INCOME (LOSS) (**)</b>	2.0	5.7	29%	177%
33.2	31.4	<b>EBITDA</b>	13.5	14.5	(6%)	7%

(\*) The Company made a change in the classification criteria in costs allocation mainly associated with Insurance, Surveillance, Patents and Contributions, which as of this year are charged as an expense. Therefore, for comparative purposes, the figures presented as of 2Q20 in this Earnings Report are pro forma.  
(\*\*): 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 2Q21 totaled **US\$39.9 million**, increasing 15% compared to the income received in 2Q20 by US\$ 34.8 million, mainly due to (1) higher sales in the spot market given the higher generation recorded during the quarter and (2) higher sales from customers under contract mainly associated with the entry into force of new energy supply contracts with unregulated clients and a recovery in demand from the regulated segment.

In cumulative terms, operating income from ordinary activities as of Jun21 amounted to US\$77.8 million, increasing 7% compared to operating income as of Jun20 of US\$72.6 million, mainly due to the same reasons that explain the variations in quarterly terms.

Raw materials and consumables used costs reached **US\$22.1 million** in 2Q21, increasing 17% compared to 2Q20, mainly due to higher gas consumption as a result of the higher generation registered during the period. In cumulative terms, raw materials and consumables costs as of Jun21 reached **US\$39.5 million**, increasing 16% compared to Jun20, mainly for the same reasons that explain the variations in quarterly terms.

Fenix's EBITDA reached **US\$14.5 million** in 2Q21, increasing 7% compared to the EBITDA of US\$13.5 million recorded in 2Q20, mainly due to the higher income from ordinary activities previously explained. This effect was partially offset by higher gas consumption previously mentioned and higher "Other Expenses, by nature" due to an increase in expenses associated with operation and maintenance. In cumulative terms EBITDA totaled **US\$31.4 million** as of Jun21, decreasing 6% compared to the EBITDA recorded as of Jun20, mainly due to the same reasons that explain the variations in quarterly terms.

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

Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) in 2Q20 and 2Q21 and cumulative as of Jun20 and Jun21. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Jun-20	Jun-21		2Q20	2Q21	Ac/Ac	Q/Q
8.0	2.4	Financial Income	3.0	1.1	(70%)	(62%)
(45.2)	(43.6)	Financial Expenses	(22.7)	(21.4)	(4%)	(6%)
0.1	(2.1)	Exchange rate Differences	4.9	0.7	-	-
4.5	3.3	Profit (Loss) of Companies Accounted for Using the Equity Method	2.1	2.0	(26%)	(9%)
(38.8)	(44.2)	Other Profit (Loss)	(9.4)	(22.7)	14%	140%
<b>(71.5)</b>	<b>(84.2)</b>	<b>NON-OPERATING INCOME</b>	<b>(22.1)</b>	<b>(40.3)</b>	<b>18%</b>	<b>82%</b>
<b>134.6</b>	<b>92.3</b>	<b>PRE-TAX PROFIT (LOSS)</b>	<b>72.2</b>	<b>54.3</b>	<b>(31%)</b>	<b>(25%)</b>
(44.4)	(100.7)	Income Tax Expense	(22.5)	(21.4)	127%	(5%)
<b>90.1</b>	<b>(8.3)</b>	<b>AFTER TAX PROFIT (LOSS)</b>	<b>49.7</b>	<b>32.9</b>	<b>(109%)</b>	<b>(34%)</b>
<b>97.8</b>	<b>(3.8)</b>	<b>PROFIT (LOSS) OF CONTROLLER</b>	<b>54.1</b>	<b>35.1</b>	<b>(104%)</b>	<b>(35%)</b>
(7.7)	(4.5)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(4.5)	(2.2)	-	(51%)

■ ■ ■ **Non-operating result** in 2Q21 recorded losses of **US\$40.3 million**, higher than the losses of US\$22.1 million in 2Q20. The higher losses are mainly explained by (1) the recording of financial cost on “Other losses” line, related to the selling of the second and third group of accounts receivables generated by the energy price stabilization mechanism (PEC) of US\$14.9 million, (2) a lower positive effect on the exchange rate CLP/US\$ variation of temporary balance sheet items in local currency compare to 2Q20 and (3) lower financial income recorded during the quarter due to lower interest rates. **In cumulative terms**, non-operating result as of Jun21 recorded losses of **US\$84.2 million**, higher than losses of US\$71.5 million recorded as of Jun20, by the same reasons for the variation in quarterly terms. This effect was partially offset by the recorded of “Other losses” recorded in 1Q20 associated to the premium paid for the prepayment of the 2024 Bond “144-A” maturing in 2024 of US\$17 million.

■ ■ ■ In 2Q21 **tax expenses** of **US\$21.4 million** were recorded, compared to the tax expenses of US\$22.5 million in 2Q20 mainly explained by (1) lower pre tax profit reached during the quarter and (2) higher tax expenses in Peru, due to the depreciation of the PEN/USD exchange rate during the 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 Jun21 recorded **US\$100.7 million**, compare to tax expenses of US\$44.4 million as of Jun20. The higher tax expenses are mainly explained by a deferred tax recognition of US\$64.5 million, associated with Colbún Transmisión S.A sale announcement recorded in 1Q21 and corresponds to the tax applied to the difference between book value and tax value of the investment.

■ ■ ■ In 2Q21, the Company recorded a **profit** of **US\$32.9 million**, compared to the profit of US\$49.7 million in 2Q20 mainly explained by the higher losses on non-operating results previously mention and a lower operating result. **In cumulative terms**, the Company recorded **losses** of **US\$8.3 million** as of Jun21, compare to profit of US\$90.1 million as of Jun20. The losses are explained mainly by (1) the higher tax expenses and (2) the lower operating result, previously mentioned.

## 4. CONSOLIDATED BALANCE SHEET ANALYSIS



Table 9 shows an analysis of the Balance Sheet's relevant accounts as of Dec20 and Jun21. Subsequently, the main variations will be analyzed.

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

	Dec-20	Jun-21	Var	Var %
Current assets	1,259.2	1,606.1	347.0	28%
Non-current assets	5,374.7	4,861.6	(513.1)	(10%)
<b>TOTAL ASSETS</b>	<b>6,633.9</b>	<b>6,467.8</b>	<b>(166.1)</b>	<b>(3%)</b>
Current liabilities	306.5	427.2	120.7	39%
Non-current liabilities	2,742.0	2,706.0	(36.0)	(1%)
Total net equity	3,585.4	3,334.5	(250.9)	(7%)
<b>TOTAL LIABILITIES AND NET EQUITY</b>	<b>6,633.9</b>	<b>6,467.7</b>	<b>(166.2)</b>	<b>(3%)</b>

**Current Assets:** Reached US\$1,606.1 million as of Jun21, increasing 28% compared to current assets recorded as of Dec20, mainly due to (1) a reclassification of non-current assets from Colbún Transmission assets to the account “Non-current assets or groups of assets for disposal as held for sale or as held for distribution to owners” in the short term for US\$394.2 million; (2) higher account receivables of US\$76.8 million associated with (i) the reclassification of accounts receivable generated by the price stabilization mechanism of US\$36.2 million to the short term, (ii) the recording of receivables associated with tolls and (iii) and an increase in receivables associated with standard operation. These effects were partially offset by the dividend distribution for US\$246 million in May 2021.

**Non-current Assets:** Recorded US\$4,861.6 million as of Jun21, decreasing 10% compare to the non-current assets registered at the end of Dec20, mainly due to (1) the reclassification of non-current assets from the assets of Colbún Transmission in the account “Assets not current or groups of assets for disposal as held for sale or as held for distribution to the owners” in the short term for US\$394.2 million and (2) lower non-current trade accounts receivable for US\$105.3 million, mainly explained by the reclassification of receivables associated to the price stabilization mechanism.

**Current Liabilities:** Totaled US\$427.2 million as of Jun21, increasing by 39% compared to current liabilities recorded at the end of Dec20, mainly due to (1) a reclassification of non-current liabilities from Colbún Transmission liabilities to the account “Current liabilities other than liabilities included in groups of assets for disposal classified as held for sale” in the short term for US\$71.3 million and (2) higher current receivables for US\$68.3 million.

**Non-current Liabilities:** Reached US\$2,706.0 million at the end of Jun21, decreasing 1% compared to Dec20, mainly due to (1) a reclassification of non-current liabilities from Colbún Transmission liabilities to the account “Current liabilities other than liabilities included in groups of assets for disposal classified as held for sale” in the short term for US\$71.3 million and (2) lower non-current financial liabilities for US\$23.5 million associated with amortizations. These effects were partially offset by an increase in deferred tax liabilities associated with Colbún Transmission after the announcement of the sale of the company previously mentioned.

**Total Net Equity:** The Company reached a Net Equity of US\$3,332.2 million, decreasing 7% compared to the Net Equity registered as of Dec20, mainly due to the dividend distribution for US\$246 million in May 21.

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

	Dec-20	Jun-21	Var	Var %
Gross Financial Debt*	1,796.3	1,765.7	(30.6)	(2%)
Financial Investments**	967.4	790.0	(177.4)	(18%)
Net Debt	828.9	975.7	146.8	18%
EBITDA LTM	682.5	639.0	(43.5)	(6%)
Net Debt/EBITDA LTM	1.2	1.5	0.3	26%

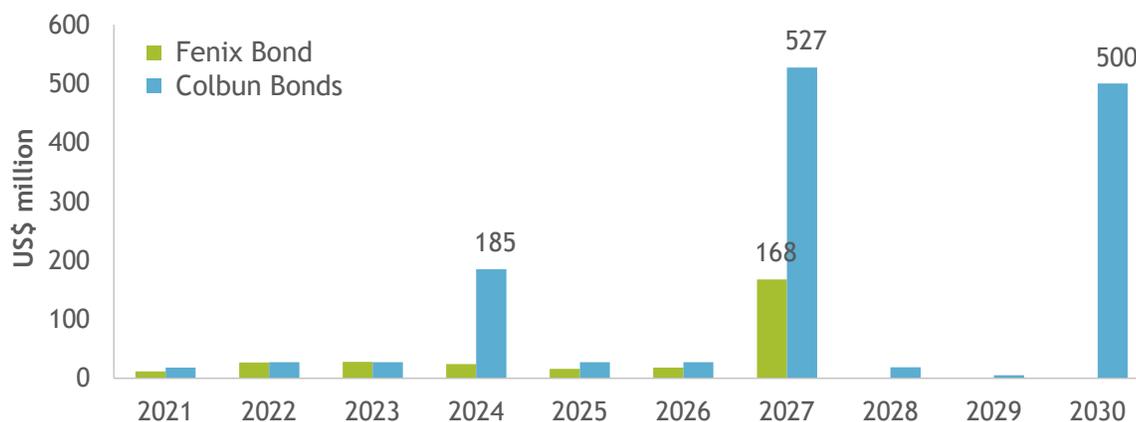
(\*) The amount includes debt associated with Fenix without recourse to Colbun: (1) an international bond with an outstanding capital of US\$293.0 million, (2) a financial leasing for US\$13.3 million associated with a transmission contract with Consorcio Transmataro, and (3) a US\$112.4 million financial leasing associated with a gas distribution contract with Calidda.

(\*\*) The account "Financial Investments" presented includes the amount associated to time deposits that, by having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

**Table 11: Long Term Financial Debt**

<b>Average Life</b>	6.1 years
<b>Average Interest Rate</b>	3.9% (100% fixed rate)
<b>Currency</b>	97% USD / 3% UF

(\*) Includes financial derivatives.



## 5. CONSOLIDATED FINANCIAL RATIOS

A comparative table of consolidated financial indicators as of Dec20 and Jun21 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-20	Jun-21	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	4.11	4.62	12%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	4.00	4.49	12%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.85	0.92	8%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	10.06%	11.39%	13%
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	89.94%	88.61%	(1%)
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	2.46	2.01	(18%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	2.44%	(0.26%)	-
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.44%	0.93%	(62%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.48%	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 **4.62x** and **4.49x** as of **Jun21**, increasing 12% respectively compared to Dec20, mainly due to (1) the increase in current assets due to the reclassification of the non-current assets of Colbún Transmission, after the announcement of the sale, to the account “Non-current assets or groups of assets for their disposal classified as held for sale or as held for distribution to owners” in the short term and (2) the higher current receivables explained above.

■ ■ The **Indebtedness Ratio** recorded **0.92x** as of Jun21, increasing by 8% compared to the value of 0.85x as of Dec20, mainly due to lower net equity associated with the dividend distribution of US\$246.4 million in May 2021.

■ ■ The percentage of **Short-Term Debt** as of Jun21 was **11.39%**, increasing compare to the value of 10.06% in Dec20, mainly due to the reclassification of the non-current liabilities of Colbún Transmission, after the announcement of the sale, to the account “Current liabilities other than those liabilities included in groups of assets for disposal classified as held for sale” in the short term.

■ ■ The percentage of **Long-Term Debt** as of Jun21 was **88.61%**, decreasing compared to the value of 89.94% as of Dec20, mainly due to the reclassification of Colbún Transmission’s long-term liabilities previously mentioned.

■ ■ The **Financial Expenses Coverage** as of Jun21 reached **2.01x**, decreasing 20% compared to the value as of Dec20, mainly due to the lower profits recorded in the last 12 months, compared to those of 2020, mainly explained by the higher tax expenses recorded in 1Q21.

■ ■ The **Equity Profitability** as of Jun21 was **-0.26%**, compared to the value of 2.44% as of Dec20. The variation is mainly explained by the lower profits recorded in the last 12 months, compared to those of 2020, due to the higher tax expenses previously mentioned.

■ ■ **Asset Profitability** as of Jun21 was **0.93%**, decreasing 63% compared to the value of 2.44% as of Dec20, mainly as a result of the lower profits recorded in the las 12 months, compared to the previous year, due to the higher tax expenses previously mentioned.

■ ■ The **Performance of Operating Assets** as of Jun21 was **8.34%**, in line with the recorded level as of Dec20.

## 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 %
Jun-20	Dec-20		2Q20	2Q21	Ac/Ac	Q/Q
797.3	1,027.9	Cash Equivalents, Beg. of Period*	979.7	1,027.9	29%	5%
193.3	222.3	Net cash flows provided by (used in) operating activities	95.4	110.4	15%	16%
(94.1)	(323.2)	Net cash flows provided by (used in) financing activities	(199.8)	(285.7)	244%	43%
(36.9)	(76.4)	Net cash flows provided by (used in) investing activities**	(18.3)	(64.5)	107%	253%
62.3	(177.4)	<b>Net Cash Flows for the Period</b>	<b>(122.7)</b>	<b>(239.9)</b>	-	95%
(5.7)	0.0	Effects of exchange rate changes on cash and cash equivalents	(3.0)	2.1	-	(170%)
854.0	790.1	<b>Cash Equivalents, End of Period</b>	<b>854.0</b>	<b>790.1</b>	<b>(7%)</b>	<b>(7%)</b>

(\*) 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 2Q21, the Company presented a **net cash flow of US\$239.9 million**, compared to the positive net cash flow of US\$122.7 million in 2Q20.

**Operating activities:** During 2Q21 a positive net flow of US\$110.4 million was generated, which compares with the positive net cash flow of US\$95.4 million in 2Q20 mainly explained by lower tax payments and higher operating income. These effects were partially offset by higher operating costs recorded during the quarter. **In cumulative terms**, there was a positive net flow at Jun21 of US\$222.3 million, compare to the positive net flow of US\$193.3 million as of Jun20 mainly due to the same reasons that explain the variations in quarterly terms.

**Financing activities:** Recorded a negative net flow of US\$285.7 million during 2Q21, which compares to the negative net flow of US\$199.8 million in 2Q20, mainly explained by higher dividend payments, in 2Q20 distributed dividends amounted to US\$161.7 million, while in 2Q21 they reached US\$246.4 million. **In cumulative terms**, a negative flow of US\$323.2 million was generated as of Jun21, which compares with the US\$94.1 million as of Jun20, mainly due to the same reasons that explain the variations in quarterly terms. This effect was partially offset by the issuance of an international bond during March 2020 and the partial refinancing of the 2024 bond, the net amount collected from said transaction amounted to US\$116 million.

**Investment activities:** Recorded a negative net flow of US\$64.5 million during 2Q21, which compares to a negative net flow of US\$18.3 million in 2Q20, mainly explained by higher CAPEX expenses associated with projects under development. **In cumulative terms**, a negative net flow of US\$76.4 million was registered, which compares with the negative flow of US\$36.9 million as of Jun20, mainly explained by the same reasons that explain the variations in quarterly terms.

## 7. ENVIRONMENT AND RISK ANALYSIS

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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 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 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

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As of Jun-21, the hydrological year (Abr21-Mar22) has presented cumulative lower rainfalls compared to an average year in the main SEN basins, being the basins that present the largest deficits: Aconcagua: -73%; Maule: -63%; Laja: -4%; Biobío: -28%; and Chapo presented a surplus of: 10%. Compared to 2020, Aconcagua basin has presented a 63% decrease in rainfalls, one of the driest scenarios on history. The Maule basin presented 61% lower rainfalls, which resulted in lower affluents. In the same line, but at more moderate levels, the Biobío and Canutillar basins presented slightly lower rainfalls than in 2020 (-11% and -7%, respectively). The exception to this trend is the Laja basin, which had 8% more precipitation.

In terms of inflow energy, the hydrological current year presents a Probability of Exceedance of 95%.

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 such as Pampa and PAE have been signed to complement the supply of liquified natural gas.

During 2021, Colbun has continued participating in various supply bidding processes, favoring the recontracting of current unregulated client’s PPAs that expired in the short term. This year, new contracts were signed with 31 clients for 309 GWh/year. Among the main contracts signed are the renewal of energy supply contracts with Magotteaux (66 GWh/year for 8 years), Vulco (24 GWh/year for 5 years) and Asmar (17 GWh/year for 5 years), and the new contract of Grupo Marina (67 GWh/year for 9 years).

The results of the Company for the coming months will be mainly determined by the ability to reach a 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 and the terms in which the purchase of natural gas is contracted if the extreme dry hydrological condition continues.

## 7.2 Medium-term outlook in Peru

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In the second quarter of 2021, the SEIN registered a hydrological condition with a probability of exceedance of 55%, compared to 49% recorded the same quarter of 2020.

In 2Q21, energy demand growth in 31,0% compared to the same period of 2020, due to the recovery of electricity demand. On the other hand, compared to the previous quarter, in 2Q21 the energy demand fell 0,3% due to the political uncertainty of presidential elections.

In July entered into force new regulations for the determination of the variable cost of thermoelectric plants, based on real costs, which is expected to increase the marginal costs of the system. This is anticipated to have a favorable impact on Fenix's results, which also depend on macroeconomic variables such as the exchange rate.

## 7.3 Growth plan and long-term actions

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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 (778 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 778 MW, which is made up of 140 machines of 5,56 MW each and an average annual generation of approximately 2.380 GWh. 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 year 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 July 7, 2021, the SEA issued ICSARA N° 3 within the framework of the Environmental Assessment process. Currently, work is being done on the preparation of the third Addendum to the EIA. On the other hand, during the second quarter of the year, progress was made signing the construction contracts for the camp and Route 5 access for the park and the civil and electrical BoP (Balance of Plant) contracts were awarded.

**■ ■ ■ 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.

In 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 second quarter of 2021, progress is 62%, according to budget. The main construction and supply contracts are in execution, with deliveries on site according to plan. However, since the beginning of 2021 there have been delays in transport due to traffic jams in ports, lack of containers and diversions of ships reserved to other destinations. To date, the impacts have been minor and have been absorbed with a reorganization of the sequence of works.

**■ ■ ■ 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).

As of the second quarter of 2021, project's progress is 97%, according to budget.

The processing of the Connection Permit is in process and the pertinent steps are being taken to obtain it promptly.

The total investment amount approved for this project is US\$7 million and its commissioning date is expected for August 2021.

**■ ■ ■ 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 quarter, the basic engineering for the transmission line was completed and the processing of the easements for the transmission line and access roads continued. The project obtained its RCA in November 2020.

**■ ■ ■ 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 second quarter, the environmental process continued, preparing the Addendum 2 for the end of July. The soil mechanics study was completed and progress was made with the preparation of the basic engineering of the park.

**Los Junquillos Wind Project (360 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 1,030 GWh.

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

To date, the environmental campaign for spring, summer, autumn and the archeology and human environment campaigns have been concluded. We continued with the measurement of the wind resource to refine the project data and in the engineering of the Project for environmental processing.

**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 2Q21 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.

In December 2018, the 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 was September 30, 2020; however, as a result of the Covid-19 contingency, the Authority extended the period by 30 business days. The Environmental Impact Service decreed a second face-to-face citizen participation, which has not been possible due to the pandemic situation, which normatively keeps suspended the environmental process until July.

## 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 June 2021, it presents an advance of 99%.

■ ■ ■ **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 Puente Negro substation with the 2x154 Tinguiririca-La Higuera line. The project has a budget of US\$11.8 million with an original commission date in December 2020, which has been postponed due to delays in the project to increase the voltage to 220kV of the Tinguiririca-La Higuera line, which must be completed to allow the connection to the Puente Negro SE. As of June 2021, it presents an advance of 99%.

■ ■ ■ **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 June 2021, it presents an 35% 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 32% as of June 2021.

■ ■ ■ **New S/S Codegua:** Sectioning of Alto Jahuel - Sauzal 2x110 kV line and Rancagua - San Francisco de Mostazal 1x66 kV line. The awarded investment value is US\$11.6 million, with an execution period of 36 months from June 10, 2021, date in which award decree was published, presenting an engineering advance of 4.5% as of June 2021.

■ ■ ■ **New S/S Loica and 2X2kV Loica-Portezuelo Line:** Sectioning of Rapel - Lo Aguirre 2x220 kV line and Rapel - Alto Melipilla 1x220 kV line, in addition to the new 2x220kV Loica-Portezuelo line. The awarded investment value is US\$11.6 million, with an execution period of 36 months from June 10, 2021, date in which award decree was published, presenting an engineering advance of 9.1% as of June 2021.

■ ■ ■ **S/S Portezuelo Expansion:** CGE's Portezuelo Substation expansion project, which was part of the tender for the Loica S/E and the Loica-Portezuelo line as a group of projects, for which Colbun Transmission had to take over as EPC contractor since the tender was jointly new construction and expansion. The project consists on the expansion of the 220kV and 66kV patios and a new bank of autotransformers. The contract between CGE and Colbun Transmission was signed on March 1, 2021, with a reference investment value of US \$ 7.5 million and an execution period of 24 months from June 10, 2021, date in which award decree was published, presenting an engineering advance of 10% as of June 2021.

## 7.4 Risk Management

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### 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 risks management 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.

To mitigate the impact of significant and unforeseen variations in the fuel prices, hedging programs are carried out with various derivative instruments, such as call and put options, among others. Otherwise, faced with abundant hydrology, the Company could find itself in a surplus position in the spot market, the price of which would be partly determined by the price of fuel.



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 March 2021), 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.

On November 26, as a consequence of an accidental landslide, an obstruction of the water flow transported through the Pataguilla tunnel, part of Las Mercedes channel (used in the Carena hydroelectric plant), occurred. This collapse caused a lack of water availability in the aforementioned plant, as well as in the agricultural areas in the communes of Curacaví and María Pinto until December 18, date on which the tunnel’s operation was restored.

### **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. Colbun 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"), and the subsequent approval by plebiscite of the drafting of a new Constitution, on a ceremony was held on the 15th and 16th of May the election of the 155 constituents in charge of its drafting was held. The installation of the Constituent Convention was on July 4.

The constitutional process may result in changes to the institutional framework applicable to the business activity in the country.

On Wednesday June 30, 2021, due to the outbreak of COVID-19 that affects the country, the approval of the National Congress was communicated to the request made by the President of the Republic, in order to extend until September 30, 2021, the validity of the State of Constitutional Exception of Catastrophe.

In this context, within the framework of the serious health crisis that affects the country, on January 5 Law 21,301 was enacted, extending the effects of Law 21,249, which provides for exceptional measures in favor of end users of health, electricity and gas network services that establishes the prohibition of the cut for non-payment of basic services and allows prorating bad debts. This initiative extended the term of benefits to end users, which were in force until November 2020, until May 2021. Additionally, at the beginning of May another parliamentary initiative was entered which extends, again, the effects of Law No. 21,249, extending the terms of the non-cut of supply due to delay payments and the accumulation of debts with distribution companies until December 31, 2021. This standard also increases the maximum number of installments in which the debt payment can be prorated from 36 to 48 installments and expands the universe of beneficiaries to 80% vulnerability according to the Social Registry of Households. In response to the debt problem that has been accumulating among users of basic services, on June 17, 2021, the Chamber of Deputies presented a draft Resolution that requests the President of the Republic to establish a financing mechanism to solve the debt of basic services for residential users, micro, small and medium enterprises.

Additionally, the Chamber of Deputies sent to the Senate for its second constitutional process the Bill that seeks to fast-forward the phasing out of coal-fired plants, which was generally approved by the Chamber. This bill, initiated by parliamentary motion, seeks to prohibit the installation and operation of coal-fired thermoelectric generation plants throughout the national territory as of January 1, 2026. Despite the presentations made by the Ministries of Energy and of the Environment, the CNE and the National Electricity Coordinator before the Chamber's Environment and Natural Resources Commission to expose the inconvenience of advancing the phasing out of coal-fired plants by legal means, the initiative was finally voted

and approved by the Room with the same original text, rejecting the indications that were presented. It is important to remember that in 2019 the generators signed a voluntary agreement with the government by means of which they committed not to build new coal-fired plants and the progressive closure of the coal-fired plants was agreed. The Bill will be discussed in the Energy and Mining Commission.

Recently, a parliamentary motion that regulates the construction, installation and operation, its environmental impact and the inspection of Wind Turbine Complexes entered the Chamber of Deputies. The Bill, which establishes requirements in the design of projects, defines compensation for neighboring communities and includes an amendment to the law on general environmental bases, has no urgency and the Chamber agreed that this be known by the Commission of Environment and then by the Chamber's Mining and Energy Commission.

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

- (i) The “Modernization of the Distribution segment”, which seeks to update the regulation of 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 the context of the modernization and comprehensive reform of this segment, the Executive submitted to 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.
- (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. In the context of the Flexibility Strategy, in particular, regarding the measures related to the improvement of the adequacy remuneration mechanism and the introduction of long-term market signals that encourage investment in technologies that provide flexibility to the power system, in October of last year, the Ministry of Energy and the National Energy Commission began a process to improve the Power Transfer Regulations to address these measures. This process is being developed through a Consultative Worktable, which is a participation instance whose purpose is to capture different opinions of the industry in order to prepare a proposed regulation and then submit it to a public consultation.

Although, on December 30, 2020, the Ministry released a conceptual proposal for the new power transfer regulations, on which the industry made its observations, additional discussion sessions have been held in recent months and on July 9, 2021, the Ministry released a summary with the main provisions that would finally be included in the draft that will be submitted to Public Consultation. The final proposal considers modifications such as the redefinition of peak hours of the system, the use of a probabilistic methodology for the recognition of power, the incorporation of a cost-efficiency signal within the recognition of Power, the modification of the theoretical power reserve margin, a transitory regime for its application, among others.

In accordance with the Ministry's schedule, the new regulation will be submitted to Public Consultation during July 2021.

- b. LNG Technical Standard. Within the framework of the Technical Standards elaboration process that is defined in the Regulation for the Dictation of Technical Standards and the 2020 Annual Regulatory Plan, the CNE convened a Regulatory Advisory Committee with the main purpose of reviewing the aspects associated with the condition of supply (flexible and inflexible) of the current technical standard, whose committee was made up of 24 members, including representatives of companies (including Colbun) and trade associations (technical experts), who expressed their opinion on the standard and proposals during the months of November and December 2020.

After this process, on June 14, 2021, the CNE released the draft of the technical standard for the programming and coordination of operation of the units that use regasified LNG, whose document was in Public Consultation until July 12. In general terms, this proposal assigns to the Coordinator the responsibility of determining the quantities of gas that will be required for the system in the following year and that will be the maximum volumes that will have the possibility of being declared inflexibly. Studies indicate that the limitation to the importation of gas that can be declared inflexible in the terms indicated in the CNE proposal, would result in higher operating costs of the system (and higher energy prices) and in higher emissions of greenhouse gases and local pollutants. The operational safety of the system would also be compromised, which is particularly complex in a scenario of the retirement of coal-fired plants. Colbun sent observations to the CNE proposal that seek to avoid these adverse consequences.

- c. On June 22, 2021 the CNE published Exempt Resolution N° 198 of the Final Technical Report on the Determination of investment costs and fixed operating costs of the top unit of the national electricity system and the medium systems.
- d. On June 18, 2021, the CNE published Exempt Resolution N° 194 of the Final Technical Report of the Average Node Price for the second half of 2021. This report includes a forecast on the accumulation of balances owed to generators due to the price stabilization that was established in Law 21,185, corresponding to the Stabilized Price for Regulated Clients (PEC), forecasting a debt of 1,070 MMUSD as of December 2021.

## 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.

In this context, the regulator (OSINERGMIN) established for the determination of the variable costs of gas all the real costs of the supply chain are used, that is, the cost of the supply, transportation and distribution of gas, a scheme that will begin to govern fully as of July 1, 2021. On May 4, 2021, the Resolution of Board of Directors of the Supervisory Body of Investment in Energy and Mining OSINERGMIN N° 092-2021-OS/CD was published in the Official Journal El Peruano, which modifies the Technical Procedure of COES N° 31 "Calculation of Variable Costs of Generation Units", thus making the change in the methodology for calculating Marginal Costs in the short-term market official.

On the other hand, on May 19, 2021, Supreme Decree N° 012-2021-EM was published in the Official Journal El Peruano, which (i) approves the Regulations to optimize the use of Natural Gas and creates the Gas Manager; and (ii) modifies and incorporates new provisions to the Regulation of the Natural Gas Secondary Market, approved by Supreme Decree N° 046-2010-EM. However, to start the operation of the Natural Gas Secondary Market, the issuance of operating procedures by the Ministry of Energy and Mines is required, which should be issued in September 2021.

#### **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.

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 increased 6.1% during 2Q21 respect to 2Q20, while in Peru, there was an increase of 31.1% in relation to 2Q20.



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 affect Colbun' s equity.

### **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 June 2021, 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 correctly made the corresponding payments.

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 June 2021, 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 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 12.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 June 2021, Colbun has cash in excess for approximately US\$790 million, invested in time deposits with an average maturity of 65 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\$24 mm, contracted with three local banks.

In the next 12 months, the Company must disburse approximately US\$111 million in interests and principal amortization. These obligations are expected to be funded with the Company’s own cash flow generation.

As of June 2021, 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, BBB by Standard & Poor’s (S&P Global), and BBB+ by Fitch Ratings, all with stable outlook.

As of June 2021, Fenix has international credit rating of 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 24.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 June 2021, the Company's exposure to the impact of exchange differences on structural items translates into a potential effect of approximately US\$4.2 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 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 investment grade international rating.

At the end of the period, the financial institution that has the largest share of cash surpluses reached 33%. 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 34% 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

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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](http://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.*