



1st QUARTER 2018



EARNINGS REPORT

As of March 31, 2018

1Q18 EARNINGS REPORT

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Conference Call
1Q18

Date: Friday May 04, 2018

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12:00 PM Chile Time

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1. HIGHLIGHTS

■ Consolidated **EBITDA** for the first quarter of 2018 (1Q18) reached **US\$163.6 million**, 6% higher than the EBITDA of US\$154.8 million in the first quarter of 2017 (1Q17). The higher EBITDA is mainly explained by higher revenues from ordinary activities resulting from an increase in sales to unregulated customers and energy and capacity sales in the spot market in Chile and to a higher hydroelectric generation. The higher revenues were partially offset by higher costs of raw materials and consumables, as a result of an increase in the cost of gas and coal.

■ **Non-operating Income** in 1Q18 recorded **losses of US\$16.9 million**, which compares positively with the loss of US\$21.0 million in 1Q17. The lower loss in the quarter is mainly explained by: (1) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value; and (2) higher financial income due to a greater balance in Cash and Cash Equivalents and higher rates of return on investments of these cash surpluses. These effects were partially offset by the negative impact of the variation of the CLP/US\$ exchange rate over temporary balance accounts in local currency during the quarter.

■ 1Q18 **tax expenses** amounted to **US\$23.6 million**, which compares with the tax expenses of US\$13.7 million in 1Q17. The higher tax expense is mainly explained by: (1) the higher profit before taxes of the quarter; (2) the increase in the income tax rate from 25.5% to 27.0%, in Chile, and (3) a tax profit registered in 1Q17 in Peru, as a result of the appreciation of the Peruvian sol during the period, an effect that does not occur in 1Q18.

■ The Company recorded in 1Q18 a **net income of US\$64.4 million**, higher than the net income of US\$60.5 million of 1Q17. The higher profit is mainly explained by the increase in EBITDA recorded during the quarter.

■ Fenix's **EBITDA** totaled **US\$9.9 million** in 1Q18, lower than the EBITDA of US\$11.4 million recorded in 1Q17. The lower EBITDA is mainly explained by higher costs of raw materials and consumables. The higher costs were partially offset by higher revenues from ordinary activities, mainly as a result of higher sales to unregulated customers.

■ At 1Q18 closing, **financial investments** amounted to **US\$880.7 million**, and **net debt** was **US\$787.7 million**.

Main highlights of the quarter:

■ ■ ■ In terms of its growth activities, in March 2018, Colbún reached an agreement with First Solar to acquire a photovoltaic solar energy project under development, which is part of the Company's strategy to increase the share of renewable energy projects from variable sources in its generation mix.

The project acquired corresponds to the Photovoltaic Park "Sol de Tarapacá", located in Pozo Almonte's municipality, Tarapacá Region, which considers a **nominal power of 150 MW**.

■ ■ ■ In March 2018, Colbún's Board of Directors agreed to propose to the Shareholders Meeting the payment of a final dividend for US\$212.8 million, which, added to the interim dividend of US\$58.2 million paid in December 2017, would amount to a **total distribution of 100% of the distributable net income for the year 2017**.

On April 27, 2018, the Ordinary Shareholders' Meeting ratified the distribution of dividends proposed by the Board of Directors, which will be paid on May 8, 2018.

Table 1: Consolidated Summary Chile & Peru (US\$ million)

Summary	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Revenues (US\$ million)	382.0	406.6	6%
EBITDA (US\$ million)	154.8	163.6	6%
Net Income (US\$ million)	60.5	64.4	6%
Net debt (US\$ million)	1,043.0	787.7	(24%)
Sales of contracted energy Chile (GWh)	2,754	2,883	5%
Sales of contracted energy Peru (GWh)	670	754	13%
Total generation Chile (GWh)	3,191	3,455	8%
Total generation Peru (GWh)	715	605	(15%)

2. PHYSICAL SALES AND GENERATION BALANCE



2.1 Physical Sales and Generation Balance in Chile

Table 2 shows a comparison between physical energy sales and power generation in 1Q17 and 1Q18.

Table 2: Physical Sales and Generation in Chile

Sales	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Total Physical Sales (GWh)	3,110	3,408	10%
Regulated Clients	1,655	1,417	(14%)
Unregulated Clients	1,100	1,467	33%
Sales to the Spot Market	356	525	48%
Capacity Sales (MW)	1,608	1,633	2%
Generation	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Total Generation (GWh)	3,191	3,455	8%
Hydraulic	1,089	1,409	29%
Thermal	2,080	2,020	(3%)
Gas	1,301	1,269	(2%)
Diesel	43	15	(65%)
Coal	736	736	0%
REVS	22	26	20%
Wind Farm*	22	26	17%
Solar	0	1	-
Spot Market Purchases (GWh)	0	0	-
Sales - Purchases to the Spot Market (GWh)	356	525	48%

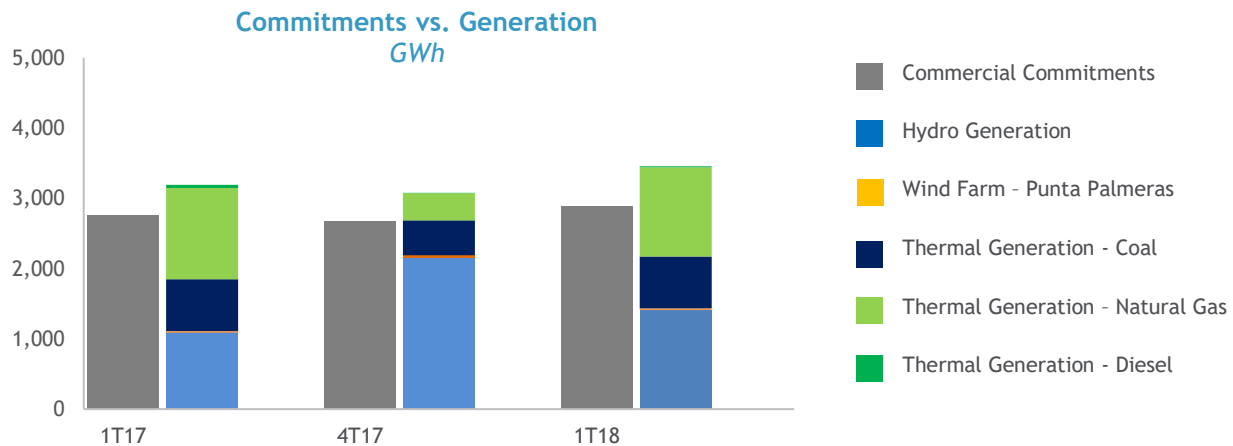
(*): Corresponds to the energy purchased from the Punta Palmeras wind farm owned by Acciona.

Physical withdrawals during 1Q18 reached 3,408 GWh, increasing by 10% compared to the same period of the previous year, mainly explained by higher sales to unregulated customers and sales to the spot market, partially offset by lower sales to regulated customers. On its part, generation of the quarter increased by 8% compared to 1Q17, mainly due to higher hydroelectric generation (320 GWh Q/Q), partially compensated by a decrease in natural gas generation (32 GWh Q/Q) and diesel (28 GWh Q/Q).

Spot market balance during the quarter recorded net sales of 525 GWh, compared to net sales of 356 GWh recorded in 1Q17. During the quarter, **100% of Colbún's commercial commitments were supplied with cost-efficient base generation** (hydro, coal and natural gas).

Generation mix in Chile: The recently completed hydrological year (Apr17-Mar18) presented lower rainfalls compared to an average year, however, higher compared to the previous hydrological year (Apr16-Mar17), resulting in better melting conditions and a consequent higher hydraulic generation during 1Q18, compared to the same period of the previous year. As an example, the exceedance probability compared to an average year during 1Q18 by basin from north to south is: Maule: 871%; Abanico: 118%; Canutillar: 54%; El Laja: 116%.

During first quarter 2018 the SEN recorded an increase in hydroelectric generation compared to the same period of 2017 (4,836 GWh in 1Q17 vs. 5,588 GWh in 1Q18), mainly explained by the better ice-melting conditions compared to the same period of the previous year, and due to a larger dispatch of the system's reservoirs. The NCRE generation also showed an increase compared to 1Q17 (2,437 GWh in 1Q17 vs 2,935 GWh in 1Q18), associated with an increase in the installed capacity of these technologies. The increase in hydroelectric and NCRE of the system resulted in a decrease in thermal generation, were natural gas and diesel thermolectric generation decreased from 3,620 GWh in 1Q17 to 3,061 GWh in 1Q18 and 191 GWh in 14Q17 to 163 in 1Q18, respectively. The average marginal cost measured in Alto Jahuel remained in line with 1Q17, averaging US\$61.0/MWh in 1Q18.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 1Q17 and 1Q18 from Fenix.

Table 3: Physical Sales and Generation in Peru

Sales	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Total Physical Sales (GWh)	789	810	3%
Costumers under Contract	670	754	13%
Sales to the Spot Market	119	56	(53%)
Capacity Sales (MW)	562	551	(2%)

Generation	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Total Generation (GWh)	715	605	(15%)
Gas	715	605	(15%)
Spot Market Purchases (GWh)	93	210	126%
Sales - Purchases to the Spot Market (GWh)	26	(154)	-

On a quarterly basis, physical withdrawals from customers under contract in 1Q18 reached 754 GWh, 13% higher when compared to 1Q17, mainly due to the beginning of bilateral supply contracts and higher withdrawals of customers under contract. Fenix's thermal gas-power generation reached 605 GWh in 1Q18, decreasing by 15% compared to the 715 GWh in 1Q17. The lower generation is mainly explained by the lower availability of the power plant, mainly due to a longer annual major maintenance. Spot market balance reached a level of net purchases of 154 GWh in 1Q18 vs. net sales of 26 GWh in 1Q17.

Generation mix in Peru: 1Q18 presented similar hydrological conditions to the first quarter of the previous year. Mantaro river basin, which supplies the main hydroelectric complex in Peru, CH Mantaro and CH Restitución (900 MW) presented a hydrological condition with a probability of exceedance of 49% at the end of 1Q18 vs. 48% in 1Q17.

Hydroelectric generation in the National Interconnected System (SEIN for its acronym in Spanish) increased by 8% compared to the same period of 2017, mainly due to the improvement of hydrological conditions presented in the system. On its part, thermoelectric generation decreased by 15% during 1Q18 compared to 1Q17.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 1Q17 and 1Q18 for Chile and Peru.

Table 4: Income Statement (US\$ million)

	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
OPERATING INCOME	382.0	406.6	6%
Regulated Customers Sales	204.5	186.9	(9%)
Unregulated Customers Sales	93.9	149.7	59%
Energy and Capacity Sales	26.6	33.5	26%
Transmission Tolls	50.7	29.3	(42%)
Other Operating Income	6.3	7.3	14%
RAW MATERIAL AND CONSUMABLES USED	(201.6)	(214.6)	6%
Transmission Tolls	(49.7)	(50.0)	1%
Energy and Capacity Purchases	(10.3)	(14.0)	36%
Gas Consumption	(94.5)	(100.8)	7%
Diesel Consumption	(7.0)	(3.0)	(57%)
Coal Consumption	(18.3)	(22.1)	21%
Other Operating Expenses	(21.9)	(24.7)	13%
GROSS PROFIT	180.4	192.0	6%
Personnel Expenses	(17.0)	(20.8)	22%
Other Expenses, by Nature	(8.6)	(7.6)	(11%)
Depreciation and Amortization Expenses	(59.6)	(58.6)	(2%)
OPERATING INCOME (LOSS)(*)	95.2	105.0	10%
EBITDA	154.8	163.6	6%
Financial Income	2.5	4.9	92%
Financial Expenses	(20.2)	(21.1)	4%
Exchange rate Differences	0.6	(1.1)	-
Profit (Loss) of Companies Accounted for Using the Equity Method	0.7	4.7	529%
Other Profit (Loss)	(4.6)	(4.2)	(9%)
NON-OPERATING INCOME	(21.0)	(16.9)	(20%)
PROFIT (LOSS) BEFORE TAXES	74.2	88.0	19%
Income Tax Expense	(13.7)	(23.6)	73%
PROFIT (LOSS) AFTER TAX	60.5	64.4	6%
PROFIT (LOSS) OF CONTROLLER	56.9	65.2	15%
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	3.6	(0.8)	-

(*): The subtotal for “OPERATING INCOME” presented herein, differs from “Profit (loss) from operating activities” line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF, 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 5: Exchange Rates at Closing

Exchange Rates	Mar-17	Dec-17	Mar-18
Chile (CLP / US\$)	663.97	614.75	603.39
Chile UF (CLP/UF)	26,471.94	26,798.14	26,966.89
Peru (PEN / US\$)	3.25	3.25	3.23

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in 1Q17 and 1Q18. The major accounts and/or variations will be analyzed below.

Table 6: EBITDA Chile (US\$ million)

	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
OPERATING INCOME	334.4	353.9	6%
Regulated Customers Sales	174.1	158.0	(9%)
Unregulated Customers Sales (*)	89.9	141.8	58%
Energy and Capacity Sales	25.2	32.0	27%
Transmission Tolls	40.1	16.3	(59%)
Other Operating Income	5.2	5.9	13%
RAW MATERIAL AND CONSUMABLES USED	(167.3)	(173.8)	4%
Transmission Tolls	(40.9)	(39.2)	(4%)
Energy and Capacity Purchases	(7.5)	(7.6)	3%
Gas Consumption	(74.4)	(81.8)	10%
Diesel Consumption	(7.0)	(3.0)	(57%)
Coal Consumption	(18.3)	(22.1)	21%
Other Operating Expenses	(19.3)	(20.0)	4%
GROSS PROFIT	167.1	180.1	8%
Personnel Expenses	(15.7)	(19.4)	24%
Other Expenses, by nature	(8.1)	(7.1)	(12%)
Depreciation and Amortization Expenses	(51.5)	(50.5)	(2%)
OPERATING INCOME (LOSS)(**)	91.9	103.2	12%
EBITDA	143.4	153.7	7%

(*): Due to the application of new IFRS regulations (IFRS 15 Revenue from Ordinary Activities Resulting from Contracts with Customers), a reclassification was made in revenues of US\$17.8 million from Transmission Tolls to Sales to Unregulated Customers. This regulation began to apply as of January 2018, so its effect is shown as of this period.

(**): The subtotal for "OPERATING INCOME" presented herein, differs from "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF, 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 ordinary activities for 1Q18 amounted to US\$353.9 million, a 6% increase compared to 1Q17, mainly due to higher sales to unregulated customers, higher income from energy and capacity sales in the spot market, and higher hydroelectric generation. The higher revenues were partially offset by lower sales to regulated customers and lower revenues from transmission tolls due to the change in methodology in the collection of these tolls, which, as of January 2018, are paid directly to the owner of the transmission facilities.

Raw materials and consumables used totaled US\$173.8 million, higher compared to the US\$167.3 million registered in 1Q17. The higher costs of the quarter are mainly explained by a higher cost of gas and coal consumption. The higher costs of the quarter were partially offset by lower diesel consumption.

EBITDA of 1Q18 increased 7% compared to the same quarter of the previous year, reaching US\$153.7 million. The increase is mainly explained by higher revenues from ordinary activities derived from higher sales to unregulated customers and an increase in energy and capacity sales, partially offset by the higher costs of raw materials and consumables previously explained.

3.2. Operating Income Analysis Peru

Table 7 presents a summary of Operating Income and EBITDA of Fenix in 1Q17 and 1Q18. The major accounts and/or variations will be analyzed below.

Table 7: EBITDA Peru (US\$ million)

	Quarterly Figures		Var % Q/Q
	1Q17	1Q18	
OPERATING INCOME	47.6	52.7	11%
Regulated Customers Sales	30.4	28.9	(5%)
Unregulated Customers Sales (*)	4.0	7.9	98%
Sales to Other Generators	1.5	1.5	1%
Transmission Tolls	10.6	12.9	22%
Other Operating Income	1.2	1.4	100%
RAW MATERIAL AND CONSUMABLES USED	(34.4)	(40.8)	19%
Transmission Tolls	(8.8)	(10.8)	22%
Energy and Capacity Purchases	(2.9)	(6.4)	124%
Gas Consumption	(20.1)	(19.0)	(5%)
Other Operating Expenses	(2.6)	(4.7)	76%
GROSS PROFIT	13.3	11.9	(10%)
Personnel Expenses	(1.4)	(1.4)	7%
Other Expenses, by Nature	(0.5)	(0.5)	4%
Depreciation and Amortization Expenses	(8.0)	(8.2)	1%
OPERATING INCOME (LOSS)	3.4	1.8	(48%)
EBITDA	11.4	9.9	(13%)

Operating income from ordinary activities during 1Q18 reached US\$52.7 million, increasing by 11% compared to 1Q17, mainly explained by higher sales to unregulated customers due to the beginning of bilateral supply contracts, partially offset by lower sales to regulated customers.

Raw materials and consumables used increased by 19% compared to the same quarter from the previous year. The increase compared to 1Q17 is mainly explained by the increase in: (1) energy and capacity purchases in the spot market as a result of the extended major annual maintenance compared to 1Q17, at a higher marginal cost due to the failure occurred in the TGP gas pipeline in February 2018; and (2) other operating costs resulting from a payment component that was previously recorded as energy and capacity purchases and, as of January 2018, due to a regulatory change, is recorded as other operating costs. The higher costs were partially by a lower gas consumption, due to the lower generation of the quarter.

Fenix's **EBITDA** totaled **US\$9.9 million** in 1Q18, lower than the EBITDA of US\$11.4 million recorded in 1Q17. The lower EBITDA is mainly explained by the higher raw materials and consumables used previously explained. The higher costs were partially offset by higher revenues from ordinary activities, mainly due to higher sales to unregulated customers.

3.3. Consolidated Non-Operating Income Analysis (Chile & Peru)



Table 8 shows a summary of the consolidated non-operational income in 1Q17 and 1Q18 for Chile and Peru. Major accounts/variations will be analyzed below.

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

	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Financial Income	2.5	4.9	92%
Financial Expenses	(20.2)	(21.1)	4%
Exchange rate Differences	0.6	(1.1)	-
Profit (Loss) of Companies Accounted for Using the Equity Method	0.7	4.7	529%
Other Profit (Loss)	(4.6)	(4.2)	(9%)
NON-OPERATING INCOME	(21.0)	(16.9)	(20%)
PROFIT (LOSS) BEFORE TAXES	74.2	88.0	19%
Income Tax Expense	(13.7)	(23.6)	73%
PROFIT (LOSS) AFTER TAX	60.5	64.4	6%
PROFIT (LOSS) OF CONTROLLER	56.9	65.2	15%
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	3.6	(0.8)	-

Non-operating Income in 1Q18 recorded **losses of US\$16.9 million**, which compares positively with the loss of US\$21.0 million in 1Q17. The lower loss in the quarter is mainly explained by: (1) an increase registered in the line "Profit (loss) of companies accounted for using the equity method", as a result of revaluations of lands owned by HydroAysén, due to its accounting at liquidation value; and (2) higher financial income due to a greater balance in Cash and Cash Equivalents and higher rates of return on investments of these cash surpluses. These effects were partially offset by the negative impact of the variation of the CLP/US\$ exchange rate over temporary balance accounts in local currency during the quarter.

1Q18 **tax expenses** amounted to **US\$23.6 million**, which compares with the tax expenses of US\$13.7 million in 1Q17. The higher tax expense is mainly explained by: (1) the higher profit before taxes of the quarter, in Chile; (2) the increase in the income tax rate from 25.5% to 27.0%, in Chile and (3) a tax profit registered in 1Q17 in Peru, as a result of the appreciation of the Peruvian sol during the period, an effect that does not occur in 1Q18.

The Company recorded in 1Q18 a **net income of US\$64.4 million**, higher than the net income of US\$60.5 million of 1Q17. The higher profit is mainly explained by the increase in EBITDA recorded during the quarter.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2017 and March 31, 2018. Subsequently the main changes will be analyzed.

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

	Dec-17	Mar-18	Var	Var %
Current assets	1,147.2	1,220.5	73.3	6%
Non-current assets	5,775.4	5,765.6	(9.7)	(0%)
TOTAL ASSETS	6,922.5	6,986.1	63.6	1%
Current liabilities	354.8	345.5	(9.3)	(3%)
Non-current liabilities	2,617.0	2,624.2	7.2	0%
Total net equity	3,950.7	4,016.4	65.7	2%
TOTAL LIABILITIES AND NET EQUITY	6,922.5	6,986.1	63.6	1%

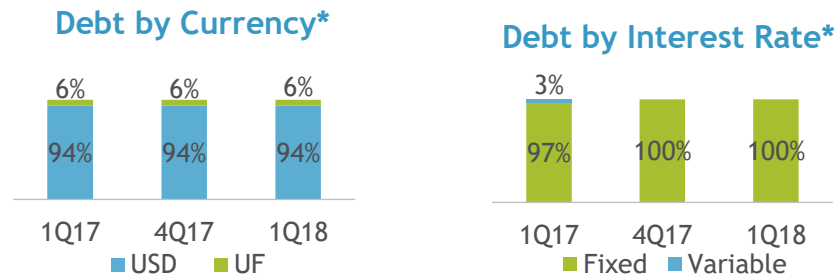
Current Assets: Reached US\$1,220.5 million, increasing by 6% compared to Dec17 closing, mainly explained by an increase in cash and cash equivalents as a result of the higher operating income of the quarter.

Non-current Assets: Recorded US\$5,765.6 million at the end of Mar18, in line with Dic17 balance.

Current Liabilities: Amounted to US\$345.5 million at Mar18 closing, decreasing by 3% compared to Dic17 closing, mainly due to a decrease in accounts payable.

Non-current Liabilities: Totalized US\$2,624.2 million at Mar18 closing, in line with Dic17 balance.

Total Net Equity: The Company reached a net worth of US\$4,016.4 million, which meant an increase of 2% compared to Dec17 closing. The increase is mainly explained by the net income recorded during the period.



* Includes financial derivatives

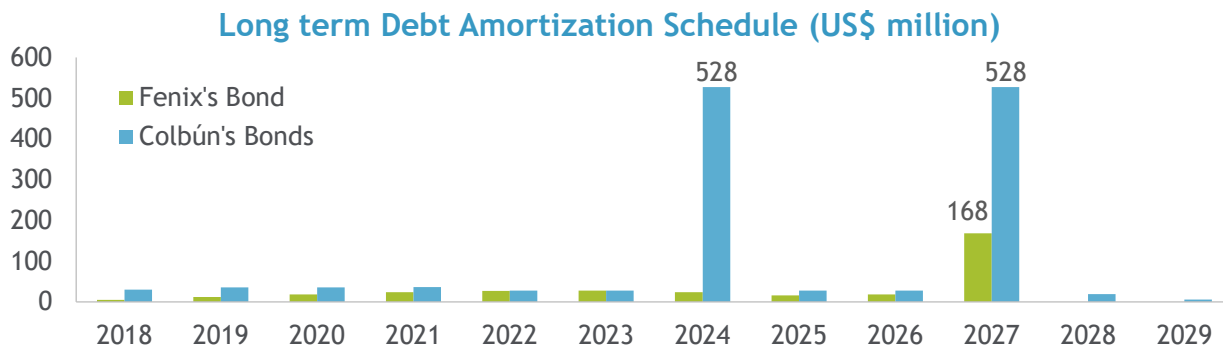


Table 10: Main Debt Items (US\$ million)

	Dec-17	Mar18	Var	Var %
Gross Financial Debt*	1,659.5	1,668.4	9.0	1%
Financial Investments**	810.2	880.7	70.5	9%
Net Debt	849.2	787.7	(61.5)	(7%)
EBITDA LTM	692.1	700.9	8.8	1%
Net Debt/EBITDA LTM	1.2	1.1	(0.1)	(8%)

(*) Includes an international bond of US\$340 million and financial leasing for US\$15.0 million, both associated to Fenix without recourse to Colbún.

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

Debt Analysis: Financial debt reached US\$1,668.4 million, in line compared to Dec17. On its part, Financial Investments totaled US\$880.7 million, increasing by 9% compared to Dec17, mainly explained by cash flows from operations. Given the above, Net Debt totaled US\$787.7 million. On its part, EBITDA LTM (last 12 months) remained in line with 2017 closing.

Net Debt/EBITDA LTM ratio decreased from 1.2 times at Dic17 closing to 1.1 times at Mar18 closing.

The average maturity life of Colbún's long-term financial debt is 7.3 years.

The average USD long-term financial debt interest rate is 5.0%.

5. CONSOLIDATED FINANCIAL RATIOS

A comparative table of consolidated financial indicators is presented below. Balance Sheet financial indicators are calculated at the specified date and Income Statement ratios including the cumulative result over the last 12 months as of the date indicated.

Table 11: Financial Ratios

Ratio	Dec-17	Mar18	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.23	3.53	9.3%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.06	3.35	9.6%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.75	0.74	(1.7%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.94%	11.63%	(2.6%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.06%	88.37%	0.3%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.80	4.92	2.5%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	7.46%	7.44%	(0.3%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.94%	4.05%	2.7%
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.39%	8.62%	2.7%

Income Statement ratios correspond to last 12 months values.

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

■ ■ **Current Liquidity** and **Acid Test** reached 3.53x and 3.35x as of Mar18 respectively, increasing when compared to Dec17 by 9% and 10% respectively, due to an increase in current assets, explained mainly by an increase in cash and cash equivalents resulting from operating activities.

■ ■ **Debt Ratio** reached 0.74x as of Mar18, compared with 0.75x as of Dec17. The decrease of 2% is mainly explained by the increase in net equity as a result of the net income recorded during the period.

■ ■ The percentage of **Short-Term Debt** as of Mar18 was 11.63%, decreasing by 3% compared to Dec17, mainly explained by a decrease in current liabilities due to a decrease in accounts payable.

■ ■ The percentage of **Long-Term Debt** as of Mar18 was 88.37%, in line with the value of 88.06% obtained on Dec17.

■ ■ **Financial Expenses Coverage** as of Mar18 was 4.92x, higher than the value of 4.80x obtained on Dec17, due to the higher profit before taxes registered during 1Q18 compared to the same period of the previous year, mainly due to the greater EBITDA of the quarter.

■ ■ **Equity Profitability** as of Mar18 totaled 7.44%, in line with the value of 7.46% registered on Dec17.

■ ■ **Profitability of Assets** and **Performance of Operating Assets** totaled 4.05% and 8.62% respectively as of Mar18, both increasing 3% when compared to Dec17 due to the increase in operating income registered in 1Q18, compared to the same period of the previous year, mainly explained by the higher EBITDA of the quarter.

6. CONSOLIDATED CASH FLOW ANALYSIS

The Company's Cash Flow is presented in the table below:

Table 12: Cash Flow Summary for Chile and Peru (US\$ million)

	Quarterly Figures		Var %
	1Q17	1Q18	Q/Q
Cash Equivalents, Beg. of Period*	667.0	810.2	21%
Net cash flows provided by (used in) operating activities	112.2	130.8	17%
Net cash flows provided by (used in) financing activities	(76.0)	(19.7)	(74%)
Net cash flows provided by (used in) investing activities**	(40.4)	(42.2)	4%
Net Cash Flows for the Period	(4.2)	68.9	-
Effects of exchange rate changes on cash and cash equivalents	1.3	1.6	21%
Cash Equivalents, End of Period	664.2	880.7	33%

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

During 1Q18, the Company recorded a **net cash inflow of US\$68.9 million**, compared to the net cash outflow of US\$4.2 million from 1Q17.

Operating Activities: During 1Q18 a positive net cash flow of US\$130.8 million was generated, increasing by 17% compared to 1Q17. The increase is mainly explained by a higher operational result during the period.

Financing Activities: Generated a net cash outflow of US\$19.7 million during 1Q18, which compares with 1Q17's net outflow of US\$76.0 million. The lower negative net flow in the quarter is explained mainly because 1Q17 reflects the payment of interim dividends, charged to 2016 net income, for US\$60.4 million made in January 2017.

Investing Activities: Generated a net cash outflow of US\$42.2 million during 1Q18, in line with the disbursements for US\$40.4 million in 1Q17.

7. ENVIRONMENT AND RISK ANALYSIS

Colbún S.A. is a generation Company with an installed capacity of 3,884 MW, comprised of 2,250 MW in thermal units and 1,634 MW in hydraulic units (incorporating 37 MW of La Mina Hydroelectric Power Plant). The Company operates in the National Electric System (SEN) in Chile, where it represents 17% of the market (23% in the SIC, prior to the interconnection with the SING effective as of October 2017). It also operates in Peru's National Interconnected System (SEIN for its acronym in Spanish), where it has a market share of approximately 8%. Both figures measured in terms of generation.

Through its commercial policy, Colbún aims to be a provider of competitive, secure and sustainable energy, with a volume to commit through contracts that allow the Company to maximize the long-term profitability of its asset base, reducing the volatility of its results. These have a structural variability, because they depend on exogenous conditions such as hydrology and fuel prices (oil, natural gas and coal). To mitigate the effect of these exogenous conditions, the Company seeks to contract its generation sources (own or purchased from third parties) with efficient costs with long-term agreements and eventually, if there is any deficit/surplus Colbún may turn to buy/sell energy the spot market at marginal cost.

7.1 Medium-Term Outlook in Chile

The hydrological year recently finished (Apr17-Mar18), presented lower rainfall with respect to an average year, as of March 31, the probability of exceedance of the SIC reached 81%. Given this, the energy matrix has continued its operation with higher thermal sources. For this reason, regarding gas supply, the Company signed supply agreements with Enap Refinerías S.A. ("ERSA") and Metrogas for the period 2017-2019. With these contracts the Company has enough natural gas to operate two natural gas combined cycle units for the most part of 1H of each calendar year, period of the year in which generally there is less availability of water resources. There is 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.

In this line, on May 24, 2017, the Company subscribed a new contract with ERSA for the supply of natural gas with reserved regasification capacity, to provide operational continuity to the Nehuenco Complex. The entry into force of the contract began to be effective as of January 1, 2018, with a duration to a term of 13 years.

Since the end of 2016, Colbún has subscribed medium-term supply contracts with unregulated customers for more than 1,700 GWh and is currently under negotiations to finalize new agreements.

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

7.2 Medium-Term Outlook in Peru

The first quarter of 2018 has registered in the SEIN a hydrological condition with probability of exceedance of 49%, similar compared to the same quarter of 2017 (48%), the cumulative growth rate of power demand has resulted in 1.6%, maintaining the low growth experienced in 2017. The future trajectory of marginal costs is mainly subject to the trajectory of demand, hydrology and to changes in commodity prices.

7.3 Growth Plan and Long-Term Actions

The Company is seeking for growth opportunities in Chile and in other countries in the region in order to maintain a leading position in the power generation industry and to diversify its sources of income in terms of geography, hydrologic conditions, generation technologies, fuel access and regulatory frameworks.

Colbún is seeking to increase its installed capacity, while maintaining a relevant participation in the hydroelectric generation industry, with a thermoelectric and renewable component that allows counting on a safe, competitive and sustainable generation matrix.

In Chile, Colbún currently has several projects under different stages of maturity, including hydro, thermal, projects from variable sources and its respective transmission lines.

Projects under Construction

■ ■ ■ Ovejeria Project Small Distributed Generation Medium (PMGD for its acronym in Spanish) (9 MW): It involves the construction of a PMGD photovoltaic plant located in the Metropolitan Region. The installed capacity will be of 9 MW, with an average annual generation of approximately 22 GWh/year, energy that will be delivered through an existing line.

In July 2017, the Board of Directors authorized this investment with a start date of operation until the second quarter of 2018. In December, construction began and in March the first injection was made to the system. At the moment it is in stage of white march.

Projects under Development

■ ■ ■ San Pedro Hydroelectric Project (170 MW): The project is located 25 km. northeast of Los Lagos, Los Ríos Region, and considers using the water of the homonymous river through a power plant located between the outlet of the Riñihue Lake and the Malihue Bridge. Considering the adjustments included in the project, it will have an estimated flow design of 460 m³/s (+10% with openness) and an approximate installed capacity between 160 MW - 170 MW for an annual generation of 950 GWh under normal hydrological conditions. The operation of the power plant will be such that the level of the reservoir remains virtually constant, which means that the flow downstream of the power plant is not going to be altered by its operation.

In June 2015, the Environmental Impact Assessment (EIA) for the changes to the project was submitted, being initially accepted into process by the Environmental Assessment Service (SEA) of Los Ríos Region. However, in August 2015, the Authority decided to early terminate the process due to lack of essential information.

Notwithstanding the foregoing, the Company is preparing the background to re-submit the Environmental Impact Study (EIA). In parallel, we continue developing an explicative and clarifying meeting process plan with municipalities, communities, neighborhood, regional authorities, and indigenous communities, among other stakeholders, with the objective to identify the best way to insert this project in the area.

This project considers the San Pedro-Ciruelos transmission line project, which will allow evacuating the power of the San Pedro power plant to the SIC through a 220 kV line and 47 km. length, and will be connected to the Ciruelos substation, located about 40 km northeast of Valdivia.

■ ■ ■ El Médano Project (6,6 MW): El Médano is a hydroelectric project, which is located after the La Mina project on the Maule river, in the San Clemente district, approximately 100 km east of the city of Talca. This contemplates an installed capacity of 6.6 MW and an average annual generation of 26 GWh, whose energy generated will be evacuated through the CH La Mina transmission line. The Médano is conceived as a compact work, that is to say, the same structure concentrates the catchment, the powerhouse and the restitution to the river.

During the first quarter of 2018 the processing of the DIA (Declaration of Environmental Impact) continued.

■ ■ ■ Horizonte Wind Farm (607 MW): "Horizonte" is a wind farm located approximately 70 kilometers northeast of Taltal and 170 kilometers southeast of Antofagasta. It considers 607 MW of installed capacity and an average annual generation of approximately 1,900 GWh.

This project starts from the awarding of a tender conducted by the Ministry of National Assets for the development, construction and operation of a wind farm through a 30-year onerous use concession, in a tax property of about 8 thousand hectares.

For its development, 4 years are estimated for the studies and permits stages and 3 additional years are estimated for its construction.

During the first quarter of 2018, Colbún started the feasibility and studies stage.

■ ■ ■ Sol de Tarapacá Photovoltaic Project (150 MW): After a negotiation with one of the largest producers of solar technology in the world, the US company First Solar, the Company reached an agreement to acquire the greenfield photovoltaic solar project "Sol de Tarapacá", which contemplates an installed capacity of 150 MW.

The project is located in the Tarapacá Region, municipality of Pozo Almonte, approximately six kilometers southwest of La Tirana. Its incorporation is a good complement to the current portfolio of Colbún projects. The north of Chile presents one of the areas with the highest radiation in the world, which makes it an ideal place for solar photovoltaic technology projects.

■ ■ ■ Guaiquivilo Melado Project (316 MW): The Guaiquivilo Melado hydroelectric project is a hydroelectric complex with regulatory capacity located in the Guaiquivilo and Melado river basins, in Colbún's municipality, Linares' province. The project considers a total installed capacity of 316 MW and an average annual generation of approximately 1,629 GWh. The project includes a transmission line of 220 kV to inject energy in the SIC, with a total extension of 90 kilometers from Guaiquivilo power plant to the connection point in HTL Los Cóndores.

Colbún has completed the pre-feasibility study of this project. The decision to proceed with the construction stage has been deferred for when the market conditions that make the initiative viable are given.

■ ■ ■ Los Cuartos Project (93 MW): The hydroelectric project Los Cuartos is located in Biobío river, near San Carlos de Purén locality, about 5 km upstream the intersection with Panamericana Sur highway. This hydroelectric power plant has water rights that allow it to achieve a capacity of approximately 93 MW, with an average annual generation of approximately 511 GWh. The project also considers a 10 kilometers transmission line to connect the power plant with Mulchén substation.

Regarding the development of this project, Colbún has decided to defer the development of this project while the market conditions for executing the initiative are not in place, which are monitored permanently.

■ ■ ■ HidroAysén: On November 17, 2017, Hidroaysén S.A., of which Colbún S.A. owns a 49% stake, reported the cessation of activities and cancellation of the "Hidroaysén Hydroelectric Project" because it is not feasible in economic terms, in the context of the current situation of the power market and its future prospects; proceeding to the dissolution of the Company and liquidation of assets, the withdrawal of pending legal actions and the waiver of the water rights of the Project.

According to the Essential Fact published on November 2017, at 2014 closing, Colbún S.A. recorded a provision for the impairment of its participation in HidroAysén S.A. for a total amount of approximately US\$102 million and therefore the dissolution will not have material adverse accounting effects.

At present, the company is in the process of dissolution and liquidation of its assets.

7.4 Risk Management

A. Risk Management Policy

The risk management strategy is oriented to safeguard the Company's stability and sustainability, identifying and managing the uncertainty sources that affect or might affect it.

Risk management assumes 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, and has the support of the Corporate Risk Management and supervision, monitoring and coordination of the Risk 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 Chile, 48% of Colbún's power plants are hydro facilities, which are exposed to hydrology conditions.

To comply with its commitments in dry hydrologic conditions, Colbún 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. This situation raises Colbún's costs, increasing earnings 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 thermal coal generation, cost efficient natural gas generation, other renewables cost efficient generation, all 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, Colbún built a Reverse Osmosis Plant that allows to reduce by up to 50% the water used in the cooling process of the combined cycles of the Nehuenco Complex. The plant completed its construction in May 2017 and came into operation during the third quarter of 2017.

In Peru, Colbún 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 Colbún's 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, Colbún relies on its thermal plants or purchase energy in the spot market at marginal cost. In these scenarios, there is a risk associated to potential variations in international fuel prices. Part of this risk is mitigated incorporating fuel price indexation on our 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, 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 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.

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

Due to the above, exposure to the risk of changes in fuel prices is largely mitigated.

B.1.3. Fuel supply risks

Regarding liquid fuel supply in Chile, the Company has agreements with suppliers and own storage capacity to ensure adequate reliability in respect to the availability of this type of fuel.

Regarding natural gas supply, in Chile Colbún has medium-term contracts with ERSA and Metrogas. For the long term, Colbún recently signed a new agreement with ERSA for the options of supply of liquefied natural gas and reserved regasification capacity - dated May 24 and complemented on July 26 -, effective from 2018 to 2030, which will allow Colbún to access natural gas for the Nehuenco Complex. On its part, in Peru, Fenix has long-term contracts with the ECL88 Consortium (Pluspetrol, Pluspetrol Camisea, Hunt, SK, Sonatrach, Tecpetrol and Repsol) and gas transportation agreements with TGP.

Regarding coal purchases for Santa María unit I power plant, new tenders have been undertaken (the last in August 2017), inviting important international suppliers to bid, awarding the supply contract to well supported and competitive Companies. The above is in line with an early purchasing policy and a stock management policy in order to substantially mitigate any risk of not having this fuel available.

B.1.4. Equipment failure and maintenance risk

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 to conduct regular maintenances on its equipment according to the recommendations of its suppliers, and maintains a policy to cover such risks through insurances for its physical assets, including coverage for physical damage and for loss of profit.

B.1.5. Project construction risks

The development of new generation and transmission projects can be affected by factors such as: delays in obtaining environmental approvals, regulatory framework changes, prosecutions, increase in equipment prices, opposition from local and international stakeholders, adverse geographical conditions, natural disasters, accidents or other unforeseen events.

The Company's exposure to such risks is managed through a commercial policy that considers the effects of potential project delays. Alternatively, clearance levels with respect to time and construction costs estimates are incorporated. Additionally, the Company's exposure to this risk is partially covered with the "All Construction Risk" insurance policies covering both physical damage and loss of profit as a result of delay in service resulting from a casualty, both with standard deductibles for this type of insurances.

The companies in the sector face a very challenging electricity market, with lots of activity from different interest groups, mainly from local communities and NGOs, which are legitimately looking for more participation and prominence. As part of this complexity, the environmental processing times have become more uncertain, which occasionally are also followed by long prosecuting processes. This has resulted in less construction of significant size projects.

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

B.1.6. Regulatory risks

Regulatory stability is fundamental for the generation sector, due to the long-term nature of the development, execution and return on investment of its projects. Colbún believes that regulatory changes must be made taking into consideration the complexities of the electrical system and keeping adequate investment incentives. It is important to dispose of a regulation that gives clear and transparent rules that consolidates the trust of the agents in the sector.

In Chile, the energy agenda promoted by the government considers different regulatory changes, which, depending on the form in which they get be implemented, could represent an opportunity or risk for the Company. Changes that are currently being discussed in the Congress regarding (i) the amendment to the Water Code, (ii) the law related to strengthening the regionalization of the country, (iii) the bill that creates the Ministry of Indigenous Peoples, (iv) the bill that creates the National Council and the Councils of Indigenous Peoples and (v) the Law on Biodiversity and Protected Areas. There are also important initiatives in the sector such as: (i) definition of the regulations necessary for the proper implementation of the recently enacted Law on Electricity Transmission and (ii) the definition of the long-term Energy Policy for the country (2050) which is already in its diffusion stage, among others.

In Peru, in December 2017 the Ministry of Energy and Mines approved new regulatory provisions for the declaration of the gas price (the gas price will be declared once a year and it now has a minimum declaration price) and requested to report operational constrains of the generation units.

The necessary and balanced development of the electricity market during the next few years depends greatly on the quality of these new regulations and on the signals provided by the authorities with them, both in Chile and Peru.

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

The projection of future electricity consumption is very relevant information for the determination of its market price.

In Chile, a lower growth in demand, a decrease in fuel prices and an increase in the inflow of solar and wind renewables energy projects led to a decrease in the short-term price of energy (marginal cost) in the last years.

Regarding long-term values, the bidding process for the supply of regulated customers concluded in August 2016 and October 2017 resulted in a significant drop in the bid and awarded prices, reflecting the greater competitiveness in the market and the impact of the emergence of new technologies - solar and wind fundamentally - with a significant reduction of costs due to its massification. Although the factors that trigger these competitive dynamics and price trends can be expected to remain in the future, it is difficult to determine their precise impact in the long-term values of energy.

Additionally, given the difference generated between regulated and unregulated clients, a portion of regulated clients may choose a non-regulated regime. This can occur because the electricity legislation allows clients with connected capacity between 500 kW and 5,000 kW to choose to be categorized as regulated or non-regulated customers. Colbún has one of the most efficient generation matrix in the Chilean system, thus we have the ability to offer competitive conditions and costs to customers who require it.

In Peru, there is also a scenario of a temporary imbalance between supply and demand, mainly due to the increase of efficient supply (hydroelectric and natural gas plants), involving a decrease of energy prices in recent months.

The growth that has been observed in the Chilean (and potentially in the Peruvian) market of non-conventional renewable sources of generation such as solar and wind may generate integration costs and therefore affect the operating conditions of the rest of the electrical system especially in the absence of a market for complementary services that adequately remunerate the services necessary to manage the variability of such generation sources.

B.2 Financial risks

Financial risks are those associated with the inability to perform transactions or the breach of obligations from the activities due to lack of funds, as well as variations in interest rates, exchanges rates, counterparty financial stress or other financial market variables that may materially affect Colbún.

B.2.1 Exchange rate risk

The exchange rate risk is mainly caused by currency fluctuations that come from two sources. The first source of exposure comes from cash flows corresponding to revenues, costs and disbursements of investments denominated in currencies other than the functional currency (U.S. dollar). The second source of risk corresponds to the accounting mismatch between assets and liabilities of the Statement of Financial Position denominated in currencies other than the functional currency.

Exposure to cash flows in currencies other than USD is limited because virtually all sales of the Company are denominated directly in or indexed to USD. Similarly, the main costs are related to diesel, natural gas and coal purchases, which incorporate pricing formulas based on international prices denominated in USD. Regarding investment projects disbursements, the Company incorporates indexers in its contracts with suppliers and resorts to the use of derivatives to fix the expenses in currencies other than USD.

Exposure to the mismatching of Balance Sheet accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural items denominated in currencies other than USD. For purposes of the above, Colbún maintains a significant proportion of its cash surpluses in dollars and additionally resorts to the use of derivatives, mainly using currency swaps and forwards.

The information on the credit rating of the clients is disclosed in note 11.b of the Financial Statements.

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.

The Company's financial debt, including the effect of the contracted interest rate derivatives, has the following profile:

Table 13: Interest Rate Profile

Interest Rate	Mar-17	Dec-17	Mar-18
Fixed	97%	100%	100%
Variable	3%	0%	0%
Total	100%	100%	100%

As of March 31, 2018, the Company's financial debt is 100% denominated in fixed rate.

B.2.3 Credit risk

The Company is exposed to the risk arising from the possibility that a counterpart fails to meet its contractual obligations, producing an economic or financial loss. Historically, all of Colbún's counterparties with which it has maintained energy supply contracts have made the corresponding payments correctly.

With respect to cash and derivatives statements, Colbún has entered into these transactions with financial institutions with high credit ratings. Additionally, the Company has established limits by counterparty, which are approved by the Board of Directors and periodically reviewed.

As of March 31, 2018, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, which are known as "money market".

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

B.2.4 Liquidity risk

This risk results from different funding requirements to meet investment commitments and business expenses, debt payments, among others. The funds needed to meet these cash flow outputs are obtained from our own resources generated by Colbún's ordinary activity and by contracting credit lines to ensure sufficient funds to cover projected needs for a given period.

As of March 31, 2018, Colbún has cash in excess for approximately US\$881 million, invested in time deposits with an average maturity of 93 days (includes time deposits with a duration of more than 90 days, which are recorded as "Other Current Financial Assets" in the Consolidated Financial Statements) and in short-term mutual funds with a maturity of less than 90 days. The Company also has as additional liquidity sources available to date: (i) two bonds lines registered in the local market for a total amount of UF 7 million, (ii) a line of trade notes in the local market for UF 2.5 million and (iii) uncommitted bank lines of approximately US\$150 million.

In the next 12 months, the Company must disburse approximately US\$88 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

As of March 31, 2018, Colbún has a local credit rating of AA- by Fitch Ratings and AA- by Standard and Poor's Chile (S&P Chile), both with stable outlooks. At the international level, the Company's rating is BBB by Fitch Ratings and BBB by Standard & Poor's (S&P Global), both with stable outlooks.

On its part, Fenix has international risk rating Baa3 by Moody's, BBB- by Standard & Poor's (S&P) and BBB- by Fitch Ratings, all with stable outlooks.

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 22.c.1 of the Financial Statements.

B.2.5 Risk 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, Colbún has implemented mitigation measures consistent of indexers in energy sale contracts and of hedges with derivative instruments to cover any possible remaining exposure. It is for this reason that a sensitivity analysis is not presented.

To mitigate the risk of failures in equipment or in the projects construction, the Company has insurance coverage for damage to its physical property, business interruption damages and loss of profit for the delay in the commissioning of a project. This risk is considered fairly limited.

With regard to financial risks, for purposes of measuring exposure, Colbún prepares a sensitivity analysis and value at risk in order to monitor potential losses assumed by the Company in the event that the exposure exists.

The exchange rate risk is considered to be limited, since the Company's main flows (revenues, costs and projects disbursements) are denominated directly in or indexed to USD. Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural items denominated in currencies other than USD. Given the above, as of March 31, 2018, the Company's exposure to this risk is limited, resulting in a potential impact due to exchange differences of approximately US\$4.3 million, on a quarterly basis, based on a sensitivity analysis with 95% confidence.

There is no variation risk in interest rates, since 100% of the financial debt is contracted at a fixed rate.

Credit risk is limited because Colbún operates only with local and international banking counterparties with high credit ratings and has established policies of maximum exposure per counterparty that limits the specific concentration with these institutions. In the case of banks, local institutions have a local risk rating equal to or greater than BBB+ and foreign entities have an international risk rating investment grade.

At the end of the period, the financial institution that has the largest share of cash surplus reached 24%. 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 17% 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, including committed and uncommitted financial lines.

DISCLAIMER



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

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

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