1st QUARTER 2020

Colbun
MEJOR ENERGÍA

QUARTERLY EARNINGS REPORT

As of March 31, 2020

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1Q20

EARNINGS REPORT

Conference Call
1Q20

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1. HIGHLIGHTS

Main Figures at a Consolidated Level:

Operating Income for the first quarter of 2020 (1Q20) amounted to **US$342.6 million**, decreasing 11% compared to the operating income recorded in the first quarter of 2019 (1Q19) mainly explained by (1) lower physical sales to regulated clients, mainly due to the expiration of the contract with SAESA in December 2019; and (2) lower physical sales to the spot market, both in Chile and Peru. Those effects were partially offset by higher physical sales to unregulated clients in Chile, and to a higher average sell price to the spot market in that country which are carried out at the system's marginal cost.

Consolidated **EBITDA** in 1Q20 reached **US$172.3 million**, increasing 4% compared to the US$165.4 million EBITDA in 1Q19, mainly explained by a generation with natural gas at lower costs and to the favorable impact of the devaluation of the Chilean peso on expenses denominated in local currency.

Non-operating result in 1Q20 recorded losses of **US$49.4 million,** greater than the losses of US$17.5 million in 1Q19. The higher losses are mainly explained by (1) higher "Other losses" associated with a portion of the premium paid for the partial prepayment of the 2024 bond made in March, which had an impact of $17 million; and (2) a negative effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter.

1Q20's **tax expenses** reached **US$21.9 million,** increasing 10% compared to the expenses in 1Q19, despite the decrease in the pre-tax profit, mainly due to the higher tax expenses in Peru, due to the depreciation of the exchange rate PEN/USD during the period.

In 1Q20, **profits** reached **US$40.5 million,** 38% lower than the US$65.5 million gain in 1Q19. The lower profit is mainly explained by the higher non-operating loss previously explained.

Highlights of the quarter:

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

i. To protect the health of workers, collaborators, suppliers and our surrounding communities:
   a. Homeoffice was established for all the positions that can carry out their functions with this mode.
   b. For positions with functions in which an on-site attendance is critical, this working mode is maintained, but with the necessary safeguards. Different preventive measures were adopted in the Company's power plants to prevent contagion, such as equipment segmentation, safeguards in feeding places, temperature controls, collective and individual cleaning and disinfection practices reinforcements, and special transportation to and from the homes of the workers.

ii. To ensure the continuity and security of the energy supply:
   a. Measures were adopted to ensure the provision of the necessary supplies for the correct operation of all the power plants.
   b. Power plant's maintenances were postponed in the cases that it didn't risk the operational continuity and integrity of the generation units.

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency will last. In the last weeks of March and the beginning of April, energy demand has fallen approximately 5% in Chile and 30% in Peru.

On March 6, Colbun issued a **new bond series in the international market for US$500 million** (rule 144A / Regulation S), with a 10-year maturity, obtaining a coupon rate of 3.15% and a 3.33% yield, reaching the lowest rate obtained by a private corporate in Chile. Of the obtained funds, US$343 million were used to partially refinance the US$500 million bond of the same type that matured on 2024, with a coupon rate of 4.50%.

Two new lines of bonds were registered in the local market for a combined amount of UF 7 million (UF: currency indexed to local CPI) with terms of 10 and 30 years.

On April 1, the Board of Directors agreed to propose to the Annual Shareholders Meeting to distribute a **total dividend of US$253.0 million**, which consists of: (1) a final dividend of US$110.6 million, which added to the US$92.4 million paid in December 2019 would amount to 100% of 2019's distributable net profit; and (2) an eventual dividend charged to the previous years' profits for US$50 million.

Regarding the availability of the **Fenix power plant,** from October 29, 2019 to January 10, 2020, the plant operated at 50% of its capacity, as a result of a failure in one of the gas turbines (GT12). From January 10 and until February 1, the plant was unavailable because the Company started a preventive maintenance on the other gas turbine (GT11), while GT12 was still undergoing repairs. The GT12 turbine was repaired and came into operation on February 1, and until March 8 the plant operated at 50% of its capacity (only GT12 operating). The preventive maintenance of GT11 was completed on March 8. As of March 17, the plant is 100% available. There is an insurance policy associated with the failure, and its coverage is in the liquidation process. It should be noted that the plant has not dispatched since March 17, given the reduction in energy demand in Peru as a result of the State of Emergency decreed due to the COVID-19 pandemic.

2. PHYSICAL SALES AND GENERATION BALANCE

2.1. Physical sales and generation balance in Chile

Table 1 shows a comparison between physical energy sales and generation in 1Q19 and 1Q20.

Table 1: Physical sales and generation in Chile

Sales	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Total Physical Sales (GWh)	**3,274**	**2,894**	**(12%)**
Regulated Clients	1,086	788	(27%)
Unregulated Clients	1,492	1,684	13%
Sales to the Spot Market	695	422	(39%)
Capacity Sales (MW)	**1,595**	**1,390**	**(13%)**

Generation	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Total Generation (GWh)	**3,334**	**2,984**	**(10%)**
Hydraulic	**1,194**	**1,120**	**(6%)**
Thermal	**2,114**	**1,838**	**(13%)**
Gas	1,363	1,190	(13%)
Diesel	52	31	(39%)
Coal	699	617	(12%)
VRE	**27**	**26**	**(1%)**
Wind Farm*	20	20	(2%)
Solar	6	7	3%
Spot Market Purchases (GWh)	**0**	**0**	**-**
Sales - Purchases to the Spot Market (GWh)	**695**	**422**	**(39%)**

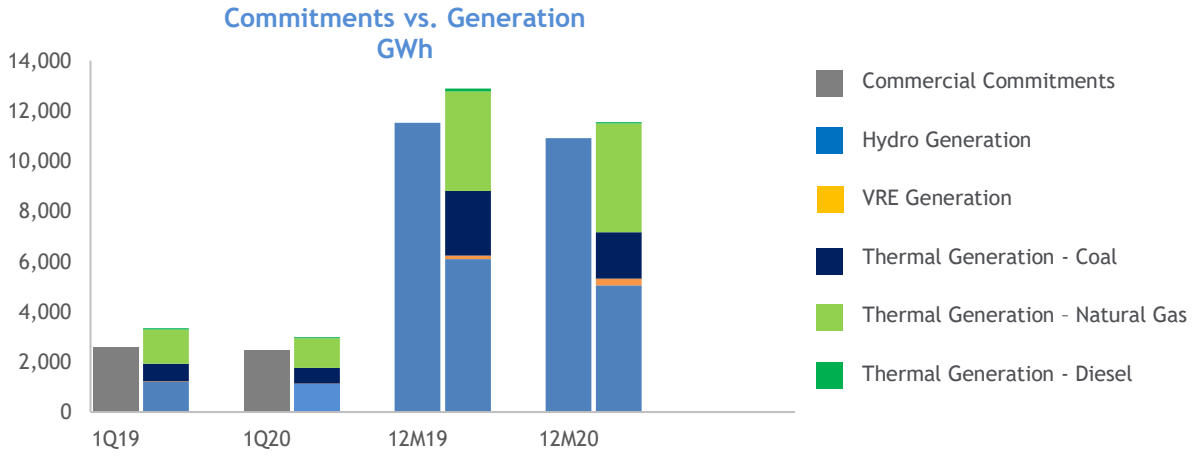
(*): Corresponds to the energy purchased from the Punta Palmeras wind farm owned by Acciona and San Pedro, owned by Alba S.A.
VRE: Variable renewable energies.

Physical sales reached **2,894 GWh** during 1Q20, decreasing 12% compared to 1Q19, due to lower sales to regulated clients mainly explained by the expiration of the contract with SAESA in Dec19, and to lower sales in the spot market, partially offset by higher sales to unregulated clients. On the other hand, quarterly **generation** decreased 10% compared to 1Q19, mainly due to (1) a lower thermal generation with natural gas (-173 GWh) and coal (-82 GWh), driven by the lower economic dispatch during certain hours of the day ; (2) a lower hydro generation (-74 GWh) driven by a less favorable hydrological conditions compared to the same quarter of last year and (3) a lower diesel generation (-21 GWh) due to a lower economic dispatch.

The **balance in the spot market** during the quarter recorded net sales of 422 GWh, compared to the net sales of 695 GWh recorded in 1Q19. The decrease is mainly explained by the lower generation during the quarter. In 1Q20 100% of the Company's commitments were supplied with cost-efficient generation (hydro, VRE, coal and natural gas).

Generation mix in Chile: The hydrological year (Apr19-Mar20) recently finished recorded lower rainfalls than an average year in the main SEN (National Electric System) basins, being Maule and Laja basins the ones that exhibited the most significant deficits compared to an average year, of 100% and 61% respectively. On its part, Biobío and Aconcagua basins presented a deficit of 12% and 0% respectively, meanwhile Lago Chapo basin presented a surplus of 2% over an average year.

During 1Q20 the SEN generation increased 4% compared to the same period of 2018 (19,178 GWh in 1Q19 vs. 19,910 GWh in 1Q20). During the quarter, a higher gas generation was recorded (3,939 GWh in 1Q19 vs. 4,139 GWh in 1Q20), and higher VRE generation (2,536 GWh in 1Q19 vs. 3,070 GWh in 1Q20) related to an increase in the installed capacity of these technologies, and coal generation (6,652 GWh in 1Q19 vs 7,074 GWh in 1Q20)were also recorded. On the other hand, hydro generation decreased 8% (5,274 GWh in 1Q19 vs. 4,833 GWh in 1Q20) explained by less favorable hydrological conditions, diesel generation also decreased (146 GWh in 1Q19 vs. 132 GWh in 1Q20). The average marginal cost measured in Alto Jahuel decreased compared to 1Q19, averaging US$50.1/MWh in 1Q20, compared to US$63.5/MWh in 1Q19.



2.2. Physical sales and generation balance in Peru

Table 2 shows a comparison between physical energy sales and generation in 1Q19 and 1Q20.

Table 2: Physical sales and generation in Peru

Sales	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Total Physical Sales (GWh)	**942**	**625**	**(34%)**
Costumers under Contract	753	625	(17%)
Sales to the Spot Market	189	-	-
Capacity Sales (MW)	**555**	**558**	**1%**

Generation	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Total Generation (GWh)	**932**	**343**	**(63%)**
Gas	932	343	(63%)
Spot Market Purchases (GWh)	**33**	**296**	**-**
Sales - Purchases to the Spot Market (GWh)	**156**	**(296)**	**-**

Physical sales during 1Q20 reached 625 GWh, decreasing 34% compared to 1Q19. The lower physical sales are mainly explained by (1) lower sales in the spot market as a consequence of (i) the lower generation as a result of the GT12 gas turbine repairment and the preventive maintenance of the GT11 gas turbine and (ii) the COES request to stop operating due to the demand decrease registered in that country after the State of Emergency decreed by the Peruvian Government since March 16 in the face of the COVID-19 pandemic; and (2) lower sales to customers under contract as a result of the aforementioned State of Emergency and the expiration of contract (40 MW).

Fenix gas **generation** reached 343 GWh, decreasing 63% compared to 1Q19, mainly due to (1) the lower availability of the plant driven by the repair and maintenance of the gas turbines and (2) a lower economic dispatch explained by the State of Emergency decreed since March 16.

The **balance in the spot market** recorded net purchases of 296 GWh, compared to the net sales of 156 GWh during the same quarter of the previous year, due to the lower generation of the quarter.

Generation mix in Peru: Hydroelectric generation in the SEIN (National Interconnected Electrical System) increased 6.0% compared to 1Q19, driven by the more favorable hydrological conditions of the Mantaro River (main hydroelectric complex in Peru). Thermal generation, on the other hand, decreased 22.7% compared to 1Q19 given the lower demand since the second week of March caused by the State of Emergency in the face of the COVID-19 pandemic. The accumulated energy demand growth rate in 1Q20 was -1.7% mainly explained by the lower demand caused by the State of Emergency.

3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 1Q19 and 1Q20, for Chile and Peru.

Table 3: Income Statement (US$ million)

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
OPERATING INCOME	**383.1**	**342.6**	**(11%)**
Regulated Customers Sales	148.0	114.7	(23%)
Unregulated Customers Sales	164.0	168.5	3%
Energy and Capacity Sales	52.6	37.9	(28%)
Transmission Tolls	10.5	15.1	45%
Other Operating Income	8.0	6.3	(21%)
RAW MATERIALS AND CONSUMABLES USED	**(194.0)**	**(149.1)**	**(23%)**
Transmission Tolls	(33.0)	(21.6)	(35%)
Energy and Capacity Purchases	(2.8)	(15.5)	-
Gas Consumption	(103.5)	(68.5)	(34%)
Diesel Consumption	(9.1)	(4.3)	(53%)
Coal Consumption	(26.0)	(20.8)	(20%)
Other Operating Expenses	(19.6)	(18.5)	(6%)
GROSS PROFIT	**189.1**	**193.5**	**2%**
Personnel Expenses	(18.1)	(15.1)	(17%)
Other Expenses, by Nature	(5.6)	(6.0)	8%
Depreciation and Amortization Expenses	(62.3)	(60.6)	(3%)
OPERATING INCOME (LOSS) (*)	**103.1**	**111.8**	**8%**
EBITDA	**165.4**	**172.3**	**4%**
Financial Income	6.4	5.0	(21%)
Financial Expenses	(22.9)	(22.5)	(2%)
Exchange rate Differences	1.3	(4.8)	-
Profit (Loss) of Companies Accounted for Using the Equity Method	2.2	2.3	-
Other Profit (Loss)	(4.5)	(29.4)	-
NON-OPERATING INCOME	**(17.5)**	**(49.4)**	**182%**
PRE-TAX PROFIT (LOSS)	**85.6**	**62.4**	**(27%)**
Income Tax Expense	(20.0)	(21.9)	10%
AFTER TAX PROFIT (LOSS)	**65.5**	**40.5**	**(38%)**
PROFIT (LOSS) OF CONTROLLER	**64.4**	**43.7**	**(32%)**
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	**1.1**	**(3.2)**	**-**

As of June 2019, a reclassification of toll's revenues and costs was made at Fenix subsidiary level in Peru, presenting the net effect of these items. Prior to that date, income and costs were presented separately in the Income Statement. For comparative purposes, the same reclassification was made in the 1Q19's figures presented in this Earnings Report.

As of June 2019, the gas contract with Calidda, in Peru, began to be recognized as a financial lease, due to the entry into force of IFRS16 accounting regulations. It should be noted that, on that date, the accounting impacts were recorded retroactively for the year 2019. For comparative purposes, the same classification was made in the 1Q19 figures presented in this Earnings Report. More detail in the Appendix at the end of this report.

(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Table 4: Closing Exchange Rates

Exchange Rates	Mar-19	Mar-20
Chile (CLP / US$)	678.53	852.03
Chile UF (CLP/UF)	27,565.76	28,597.46
Peru (PEN / US$)	3.32	3.44

3.1. Operating Income analysis of the generation business in Chile

Table 5 presents a summary of Operating Income and EBITDA in 1Q19 and 1Q20. Subsequently, the major accounts and/or variations will be analyzed.

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

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
OPERATING INCOME	**328.8**	**289.8**	**(12%)**
Regulated Customers Sales	120.4	85.4	(29%)
Unregulated Customers Sales	155.7	163.1	5%
Energy and Capacity Sales	47.8	36.2	(24%)
Other Operating Income	4.9	5.0	2%
RAW MATERIALS AND CONSUMABLES USED	**(177.8)**	**(136.5)**	**(23%)**
Transmission Tolls	(42.2)	(28.4)	(33%)
Energy and Capacity Purchases	(2.5)	(14.2)	-
Gas Consumption	(83.9)	(57.4)	(32%)
Diesel Consumption	(9.1)	(4.3)	(53%)
Coal Consumption	(26.0)	(20.8)	(20%)
Other Operating Expenses	(14.1)	(11.5)	(18%)
GROSS PROFIT	**151.0**	**153.2**	**1%**
Personnel Expenses	(16.7)	(13.6)	(18%)
Other Expenses, by nature	(4.9)	(5.3)	7%
Depreciation and Amortization Expenses	(47.8)	(46.7)	(2%)
OPERATING INCOME (LOSS) (*)	**81.5**	**87.7**	**8%**
EBITDA	**129.4**	**134.3**	**4%**

(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating Income in 1Q20 amounted to **US$289.8 million,** decreasing 12% compared to the operating income recorded in 1Q19, mainly due to (1) lower physical sales to regulated clients driven by the expiration of the contract with SAESA in Dec19; (2) lower physical sales to the spot market and (3) a decrease in the contract average price for both unregulated and regulated clients mainly due to the application of the Equivalent Transmission Charge (CET), a mechanism by which generation companies and their clients can voluntarily register, by modifying their energy supply contracts, to a decrease in the energy price and in return, the customer begins to directly pay the national transmission toll from the same date onwards, freeing the generator from that toll payment. Those effects were partially offset by higher physical sales to unregulated clients and by a higher average price in the spot market sales.

The **costs of raw materials and consumables used** recorded **US$136.5 million,** decreasing 23% compared to 1Q19, mainly due to (1) a lower gas consumption driven by a lower generation with that fuel during the period

and to a lower generation cost with that technology; and (2) lower transmission costs due to the CET adoption previously mentioned.

EBITDA in 1Q20 reached **US$134.3 million,** increasing 4% compared to EBITDA of US$129.4 million in 1Q19, mainly due to (1) a decrease in the gas generation cost; and (2) lower expenses denominated in local currency as a result of the depreciation of the exchange rate compared to 1Q19. Those effects were partially offset by a lower operating income of the quarter, previously explained.

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 1Q19 and 1Q20. Subsequently, the main accounts and/or variations will be analyzed.

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

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
OPERATING INCOME	**22.0**	**22.7**	**3%**
Transmission Tolls	21.9	22.7	3%
Other Operating Income	0.1	0.0	(76%)
RAW MATERIALS AND CONSUMABLES USED	**(2.4)**	**(4.1)**	**-**
Transmission Tolls	0.0	0.0	156%
Other Operating Expenses	(2.4)	(4.2)	73%
GROSS PROFIT	**19.6**	**18.6**	**(5%)**
Other Expenses, by nature	(0.1)	(0.2)	83%
Depreciation and Amortization Expenses	(3.6)	(2.7)	(25%)
OPERATING INCOME (LOSS) (*)	**15.9**	**15.7**	**(2%)**
EBITDA	**19.5**	**18.4**	**(6%)**

(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating Income from Colbun's Transmission Business mainly comes from two sources: **(1) Annual Transmission Value per Tranche (VATT)**, which corresponds to the return on investment (AVI) added to the operation and maintenance costs (COMA); and **(2) tariff revenues (IT)**. On the other hand, the main component of Colbun's transmission costs are IT. Thereby, the margin received by the Company corresponds to VATT. Additionally, if they are received, reassessments are incorporated into income and costs.

Operating Income in 1Q20 reached **US$22.7 million,** of which 39% corresponds to income from national assets, 6% to zonal and 55% corresponds to the dedicated segment. The higher revenues compared to 1Q19 are mainly explained by fee income reassessments for the years 2018 and 2019, received during the period.

EBITDA for 1Q20 reached US$18.4 million, decreasing 6% compared to 1Q19, due to an increase due in raw material costs explained by non-recurring expenses associated with maintenance services.

3.3. Operating Income analysis in Peru

Table 7 shows a summary of Fenix's Operating Income and EBITDA for the quarters 1Q19 and 1Q20. Subsequently, the main accounts and/or variations will be analyzed.

Table 7: EBITDA in Peru (US$ million)

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
OPERATING INCOME	**42.0**	**37.7**	**(10%)**
Regulated Customers Sales	27.6	29.3	6%
Unregulated Customers Sales	8.3	5.5	(35%)
Sales to Other Generators	4.8	1.7	(66%)
Transmission Tolls	-	-	-
Other Operating Income	1.2	1.3	8%
RAW MATERIALS AND CONSUMABLES USED	**(23.5)**	**(16.0)**	**(32%)**
Transmission Tolls	(0.5)	(0.7)	45%
Energy and Capacity Purchases	(0.3)	(1.3)	-
Gas Consumption	(19.6)	(11.1)	(43%)
Diesel Consumption	-	-	-
Other Operating Expenses	(3.1)	(2.8)	(10%)
GROSS PROFIT	**18.5**	**21.7**	**18%**
Personnel Expenses	(1.5)	(1.5)	1%
Other Expenses, by Nature	(0.5)	(0.6)	11%
Depreciation and Amortization Expenses	(10.9)	(11.2)	3%
OPERATING INCOME (LOSS) (*)	**5.6**	**8.4**	**50%**
EBITDA	**16.5**	**19.7**	**19%**

As of June 2019, a reclassification of toll's revenues and costs was made at Fenix subsidiary level in Peru, presenting the net effect of these items. Prior to that date, income and costs were presented separately in the Income Statement. For comparative purposes, the same reclassification was made in the 1Q19's figures presented in this Earnings Report.
As of June 2019, the gas contract with Calidda, in Peru, began to be recognized as a financial lease, due to the entry into force of IFRS16 accounting regulations. It should be noted that, on that date, the accounting impacts were recorded retroactively for the year 2019. For comparative purposes, the same classification was made in the 1Q19 figures presented in this Earnings Report. More detail in the Appendix at the end of this report.
(*): The subtotal shown in "OPERATING INCOME" presented herein, differs from the "Profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the CMF (Financial Market Commission), by means of which the concept of "Other Profit (loss)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating income in 1Q20 totaled **US$37.7 million,** decreasing 10% compared to the revenues perceived in 1Q19, mainly due to: (1) lower sales in the spot market as a consequence of the lower generation of the quarter, driven by (i) the repair of the GT12 gas turbine and the preventive maintenance of the GT11 gas turbine; and (ii) the COES request to stop operating due to the demand decrease registered in that country after the State of Emergency decreed by the Peruvian Government since March 16 in the face of the COVID-19 pandemic; and (2) lower sales to unregulated clients as a result of the previously mentioned State of Emergency and the expiring of Distriluz (40 MW) contract. These effects were partially offset by higher sales to regulated customers.

Costs of raw materials and consumables used reached **US$16.0 million,** decreasing 32% compared to the same quarter of the previous year. The decrease is mainly explained by a lower gas consumption due to the lower generation as a result of the lower availability of the plant during the quarter. These effects were partially offset by higher spot market purchases register during the quarter.

Fenix's **EBITDA** reached **US$19.7 million** in 1Q20, higher than the EBITDA of US$16.5 million recorded in 1Q19, mainly due to lower raw materials and consumables costs, due to the same reasons previously explained.

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

Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) 1Q19 and 1Q20. Subsequently, the main accounts and/or variations will be analyzed.

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

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Financial Income	6.4	5.0	(21%)
Financial Expenses	(22.9)	(22.5)	(2%)
Exchange rate Differences	1.3	(4.8)	-
Profit (Loss) of Companies Accounted for Using the Equity Method	2.2	2.3	9%
Other Profit (Loss)	(4.5)	(29.4)	-
NON-OPERATING INCOME	**(17.5)**	**(49.4)**	**182%**
PRE-TAX PROFIT (LOSS)	**85.6**	**62.4**	**(27%)**
Income Tax Expense	(20.0)	(21.9)	10%
AFTER TAX PROFIT (LOSS)	**65.5**	**40.5**	**(38%)**
PROFIT (LOSS) OF CONTROLLER	**64.4**	**43.7**	**(32%)**
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	**1.1**	**(3.2)**	-

As of June 2019, the gas contract with Calidda, in Peru, began to be recognized as a financial lease, due to the entry into force of IFRS16 accounting regulations. It should be noted that, on that date, the accounting impacts were recorded retroactively for the year 2019. For comparative purposes, the same classification was made in the 1Q19 figures presented in this Earnings Report. More detail in the Appendix at the end of this report.

Non-operating result in 1Q20 recorded losses of **US$49.4 million,** greater than the losses of US$17.5 million in 1Q19. The higher losses are mainly explained by (1) higher "Other losses" associated with a portion of the premium paid for the partial prepayment of the 2024 bond made in March, which had an impact of US$17 million; and (2) a negative effect of the variation of the exchange rate CLP/US$ on temporary balance sheet items in local currency during the quarter.

1Q20's **tax expenses** reached **US$21.9 million,** increasing 10% compared to the expenses in 1Q19, despite the decrease in the pre-tax profit, mainly due to the higher tax expenses in Peru, due to the appreciation of the exchange rate PEN/USD during the period.

In 1Q20, **profits** reached **US$40.5 million,** 38% lower than the US$65.5 million gain in 1Q19. The lower profit is mainly explained by the higher non-operating loss previously explained.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 shows an analysis of the Balance Sheet's relevant accounts as of December 31, 2019 and March 31, 2020. Subsequently, the main variations will be analyzed.

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

	Dec-19	Mar-20	Var	Var %
Current assets	1,139.4	1,313.3	173.9	15%
Non-current assets	5,565.9	5,548.1	(17.8)	(0%)
TOTAL ASSETS	**6,705.3**	**6,861.5**	**156.1**	**2%**
Current liabilities	338.3	344.8	6.4	2%
Non-current liabilities	2,631.4	2,749.6	118.2	4%
Total net equity	3,735.6	3,767.1	31.5	1%
TOTAL LIABILITIES AND NET EQUITY	**6,705.3**	**6,861.5**	**156.1**	**2%**

Current Assets: Reached US$1,313.3 million as of Mar20, increasing 15% compared to current assets register as of Dec19, mainly due to higher financial investments recorded after the international bond issuance during March 2020.

Non-current Assets: Recorded US$5,548.1 million as of Mar20, in line with the non-current assets recorded as of Dec19.

Current Liabilities: Totaled US$344.8 million as of Mar20, in line with the current liabilities recorded as of Dic19.

Non-current Liabilities: Reached US$2,749.6 million as of Mar20, increasing 4% compared to Dec19, mainly due to the issuance of the international bond during March 2020. Of the US$500 million received for that issuance, US$343 million were destined to partially prepay the 2024 bond, while the difference corresponded to new debt for the Company.

Total Net Equity: The Company recorded US$3,767.1 million, increasing 1% compared to Dec19, mainly due to the profits recorded during the quarter.

Table 10: Main Debt Items (US$ million)

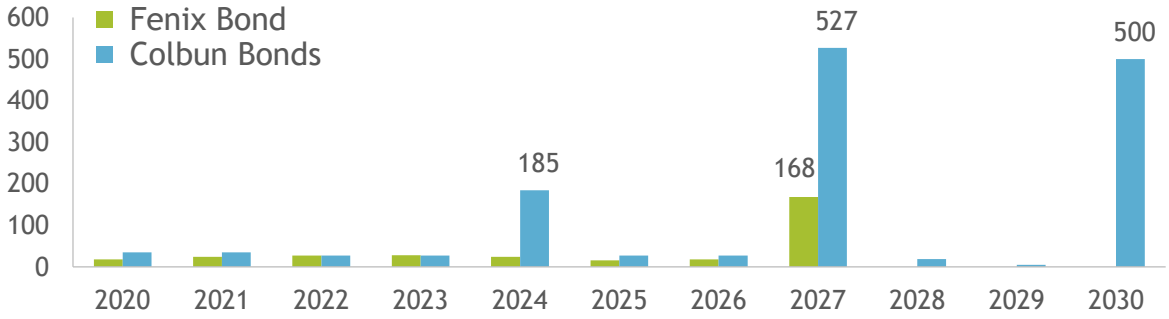
	Dec-19	Mar-20	Var	Var %
Gross Financial Debt*	1,678.7	1,814.8	136.1	8%
Financial Investments**	797.3	979.7	182.4	23%
Net Debt	881.3	835.1	(46.3)	(5%)
EBITDA LTM	697.1	707.8	10.7	2%
Net Debt/EBITDA LTM	1.3	1.2	(0.1)	(7%)

(*) The amount includes debt associated with Fenix without recourse to Colbun: (1) an international bond with an outstanding capital of US$314.0 million, (2) a financial leasing for US$14.0 million associated with a transmission contract with Consorcio Transmantaro, and (3) a US$120.2 million financial leasing associated with a gas distribution contract with Calidda.
(**) The account "Financial Investments" presented includes the amount associated to time deposits that, by having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

Table 11: Long Term Financial Debt

Average Life	7.2 years
Average Interest Rate	3.9% (100% fixed rate)
Currency	97% USD / 3% UF

(*) Includes financial derivatives.



5. CONSOLIDATED FINANCIAL RATIOS

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

Table 12: Financial Ratios

Ratio	Dec-19	Mar-20	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.37	3.81	13%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.22	3.69	14%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.79	0.82	3%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.39%	11.14%	(2%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.61%	88.86%	0%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.97	3.65	(8%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.32%	4.58%	(14%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	3.01%	2.66%	(12%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.34%	8.56%	3%

Income Statement ratios correspond to last 12 months values.

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

Current Liquidity and **Acid Test Ratio** reached **3.81x** and **3.69x** as of Mar20, increasing 13% and 14% respectively compared to Dec19, mainly due to the increase in current assets resulting from the higher financial investments recorded during the quarter.

The **Indebtedness Ratio** recorded **0.82x** as of Mar20, increasing 3% compared to the value of 0.79x as of Dec19, mainly due to higher non-current liabilities recorded after the issuance of the International Bond during the quarter. Of the US$500 million obtained from the new issuance, US$343 million were destined to refinance the bond maturing in 2024.

The percentage of **Short-Term Debt** as of Mar20 was **11.14%,** decreasing compared to the value of 11.39% as of Dec19, mainly due to an increase in the non-current liabilities driven by the issuance previously mentioned.

The percentage of **Long-Term Debt** as of Mar20 was **88.86%,** increasing compared to the value of 88.61% as of Dec19, mainly due to an increase in the non-current liabilities driven by the issuance previously mentioned.

The **Financial Expenses Coverage** as of Mar20 reached **3.65x,** decreasing 8% compared to the value as of Dec19, mainly due to the decrease in profits before taxes recorded, explained by the 2024 bond partial prepayment expenses recorded during the quarter.

The **Equity Profitability** as of Mar20 was **4.58%,** decreasing 14% compared to the value of 5.32% as of Dec19. The variation is explained by the lower profits recorded during the period, previously explained.

Asset Profitability as of Mar20 was **2.66%,** decreasing 12% compared to the value of 3.01% as of Dec19, mainly as a result of the lower profits recorded during the period.

The **Performance of Operating Assets** as of Mar20 was **8.56%,** increasing 3% compared to the value of 8.34% as of Dec19. The increase is mainly explained by the decrease in the average Net Property, Plants and Equipment recorded as of Mar20.

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)

	Quarterly Figures		Var %
	1Q19	1Q20	Q/Q
Cash Equivalents, Beg. of Period*	**788.1**	**797.4**	**1%**
Net cash flows provided by (used in) operating activities	78.3	97.9	25%
Net cash flows provided by (used in) financing activities	(36.1)	105.7	-
Net cash flows provided by (used in) investing activities**	(17.6)	(18.6)	6%
Net Cash Flows for the Period	**24.6**	**185.0**	**-**
Effects of exchange rate changes on cash and cash equivalents	3.0	(2.7)	-
Cash Equivalents, End of Period	**815.7**	**979.7**	**20%**

(*) 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 1Q20, the Company presented a **positive net cash flow of US$185.0 million,** compared to the positive net cash flow of US$24.6 million in 1Q19.

Operating activities: During 1Q20 a positive net flow of US$97.9 million was generated, which compares with the positive net flow of US$78.3 million in 1Q19, mainly due to lower operating expenses associated with gas consumption.

Financing activities: Recorded a positive net flow of US$105.7 million during 1Q20, which compares with the negative net flow of US$36.1 million in 1Q19, mainly explained by the issuance of an international bond in March 2020 and the partial prepayment of the 2024 bond, the net amount collected by that transaction was US$116 million.

Investing activities: Recorded a negative net flow of US$18.6 million during 1Q20, in line with disbursements of US$17.6 million in 1Q19.

7. ENVIRONMENT AND RISK ANALYSIS

Colbun S.A. is a power generation company whose installed capacity reaches 3,811 MW composed by 2,188 MW of thermal units, 1,614 MW of hydraulic units and 9 MW of the Ovejeria solar photovoltaic power plant. The Company operates in the National Electric System (SEN) in Chile, representing 15% of the market. It also operates in the National Interconnected Electric System (SEIN) in Peru, where it has approximately 7% of market share. Both participations measured in terms of power generation.

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

Regarding the energy transmission infrastructure, Colbun owns 942 km of transmission lines: 335 km of its lines belong to the National segment, 70 km to the Zonal segment and 536 km belong to the Dedicated segment. In addition, it has a total of 31substations.

7.1 Medium-term outlook in Chile

The hydrological year (Apr19 – Mar20) of the SEN, which recently ended, presented a probability of exceedance of 92%. Therefore, the energy matrix has continued its operation with more thermoelectric resources.

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

From 2019 onwards, Colbun has awarded medium-term supply contracts with unregulated customers for 3,500 GWh approximately and is currently under negotiations to settle new agreements. Among the aforementioned awarded auctions, it is important to highlight a renewable energy supply contract for 3,000 GWh with BHP for its Escondida and Spence operations. The contract starts supplying energy from January 2022 onwards, for a period of 10 years.

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

7.2 Medium-term outlook in Peru

In the first quarter of 2020, the SEIN registered a hydrological condition with a probability of exceedance of 53%, compared to 37% recorded the same quarter of 2019.

The cumulative energy demand growth rate at the end of the first quarter reached -1,7%, lower than the growth level registered in 2019; mainly explained by operational restrictions measures applied by the Peruvian government since March 16, due to COVID-19.

The evolution of marginal costs depends mainly on demand growth, hydrology and regulatory changes related to the price declaration.

7.3 Growth plan and long-term actions

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

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

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

Generation projects under development

Horizonte Wind Farm (607 MW): Horizonte is a wind farm located 130 km northeast of Taltal and 170 km southwest of Antofagasta. It considers an installed capacity of approximately 607 MW and an annual average generation of approximately 2,000 GWh (considering that capacity).

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

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

During the 1Q20, the third phase of the project initiated with the submission of the Environmental Impact Study (EIA), which was declared admissible, with a maximum capacity of 980 MW. In addition, the phase of civil detail engineering began.

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

During the 1Q20, progress was made in the tenders for the main supplies such as panels, inverters and followers. The detailed engineering of the High Voltage Line (LAT, for its Spanish acronym) was completed and progress was made in the review of detailed engineering offers for the plant's BOP. In addition, the processing of the Favorable Construction Report (IFC, for its Spanish acronym) began.

Photovoltaic Solar Project Inti Pacha (442 MW): This solar project is located approximately 75 km east of Tocopilla, in the María Elena commune, Antofagasta Region. It will use a total area of 736 hectares.

The project considers the installation of a solar power plant with an installed capacity of approximately 442 MW.

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

During the 1Q20, the Environmental Impact Declaration (DIA) was submitted and responses to ICSARA N°1 were prepared.

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

Photovoltaic Solar Project Machicura (10.5 MW): This solar project is located near to the Machicura reservoir, in the commune of Colbún, in the Maule Region, and uses a total area of approximately 20 hectares owned by Colbún.

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

During the 1Q20, the feasibility phase continued, making progress in the engineering studies and preparing responses to ICSARA N°2. Additionally, the National Electrical Coordinator (CEN) approved the connection feasibility of the project.

Sol de Tarapacá Photovoltaic Project (180 MW): the project considers the installation of a solar power plant with an installed capacity of approximately 180 MW. The project is located in the Tarapacá Region, municipality of Pozo Almonte, approximately five kilometers southwest of La Tirana, and has a total area of approximately 423 ha.

Other renewable energy projects from variable sources: At 1Q20 closing, Colbun continues making progress in the pipeline of options for wind and solar projects, which are in early stages of development. These projects are highly competitive, locations have been chosen with the best energy resources, they have high socio-environmental feasibility, near to transmission lines and are distributed throughout the country. These projects represent advance to fulfill our goal, of building about 4,000 MW in renewable energy before the end of 2030.

San Pedro Hydroelectric Project (170 MW): The project is located 25 km. northeast of Los Lagos, Los Ríos Region, and considers using the water of the homonymous river through a power plant located between the outlet of the Riñihue Lake and the Malihue Bridge. Considering the adjustments included in the project, it will have an approximate installed capacity of 170 MW for an annual generation of 953 GWh under normal hydrological conditions.

The operation of the power plant will be such that the level of the reservoir should remain virtually constant, which means that the flow downstream of the power plant is not going to be altered by its operation.

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

In December 2018, an Environmental Impact Study was re-entered for project adjustments, which was admitted for processing. By the end of April, the environmental authority issued the first ICSARA.

Transmission projects under development

Candelaria substation enhancement: This project consists of a modification of the connection scheme of the double bar substation to "One and Half Circuit Breaker Substation". In addition, it incorporates 6 new switchyards in 220 KV with switches, disconnectors, TTCC and other equipment. The awarded investment value is US$14.4 million and its commissioning was on February 19.

New Bank of Condensers Series for Puente Negro substation: Assembly of 2 in series capacitor banks with capacity of 224 MVAr, in the southern part of the substation. The awarded investment value is US$6.8 million and it's in the commissioning phase.

Maquis substation enhancement: Enhancement of the existing 220 kV substations, modifying the current configuration to GIS technology, the change considers at least 6 switchyards. The control systems and protections must also be adapted. The awarded investment value is US$8.0 million and since Dec19 it presents a 96% progress.

Mulchen substation extension: Expansion of the substation platform for the construction of 5 new connection switchyards in 220 kV. The awarded investment value is US$3.6 million, and as of Mar20 it presents a 99% progress. The CEN approval of two studies and the connection to the substation's busbars are pending. Commissioning is expected by the end of April.

Pirque substation: To regularize the connection of the Pirque substation through a sectioning of the line Maipo - Puente Alto 1x110 kV, with its respective switchyards to replace the current Tap OFF. The awarded investment value is US$1.8 million and as of Mar20 it presents a 90% progress.

Puente Negro substation enhancement: this project is originated by a Transmission service contract signed in 2019 with the company Tinguiririca Energía, to section and connect the substation Puente Negro with the 2x154 Tinguiririca-La Higuera line, the estimated completion date is December 2020. In June 2019, an EPC contract for the execution of the project with Agrosonda was signed. The investment value for this project is US$11.7 million and as of 1Q20 presents a 26% progress.

Capacity increase in LT 2x110 kV Aconcagua – Esperanza: Expansion of the existing facilities, changing the 2x110kC 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.

7.4 Risk Management

A. Risk Management Policy

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

Global management of risks undertake the identification, measurement, analysis, mitigation and control of the different risks arising from the Company's different management departments, as well as estimating the impact on its consolidated position, follow up and control throughout time. This process involves the intervention of the Company's senior management and risk-taking areas.

Tolerable risk limits, metrics for risk measurement and periodicity of risk analysis are policies established by the Company's Board of Directors.

The risk management function is the CEO's responsibility as well as of each division and department of the Company and has the support of the Risk Management and the supervision, monitoring and coordination of the Risk and Sustainability Committee.

B. Risk Factors

The activities of the Company are exposed to various risks, which have been classified into electrical business risks and financial risks.

B.1. Electrical Business Risks

B.1.1. Hydrological risk

In dry hydrologic conditions, Colbun must operate its combined thermal cycle plants mainly with natural gas purchases or with diesel, or by default operating its back-up thermal plants or even buying energy on the spot market, to comply with its commitments. This situation could raise Colbun's costs, increasing results variability depending on the hydrological conditions.

The Company's exposure to hydrological risk is reasonably mitigated by a commercial policy that aims to maintain a balance between competitive base load generation (hydro generation in a medium to dry year and cost efficient thermal generation with coal and natural gas, and other renewables cost efficient generation properly complemented by other sources of generation given their intermittency and volatility) and commercial commitments. Under conditions of extreme and recurrent drought, a potential shortage of water for refrigeration could affect the generation capacity of the combined cycles.

With the objective of minimizing the use of water and ensuring operational availability during periods of water scarcity, in 2017 Colbun built a Reverse Osmosis Plant that allows to reduce by up to 50% the water used in the cooling process of the combined cycles of the Nehuenco Complex.

In Peru, Colbun owns a combined-cycle power plant and has a commercial policy oriented towards committing such base energy through medium and long-term contracts. The exposure to dry seasons is restricted, since operations would only be impacted in the event of potential operational failures that would require the Company to resort to the spot market. Additionally, the Peruvian electrical market presents an efficient thermal supply and availability of natural gas from local sources that backs it up.

B.1.2. Fuel price risk

In Chile, in situations of low water availability in its hydro power plants, Colbun must rely on its thermal plants or purchase energy in the spot market at marginal cost. Otherwise, in case of abundant hydrology, the Company

may be in a selling position in the spot market, where the price would be partially determined by the fuel price. In both cases, there is a risk associated to potential variations in international fuel prices. Part of this risk is mitigated by incorporating fuel price variations in the indexation of the selling energy contracts. Additionally, in order to reduce fuel price risks there is a hedge program in place with different derivative instruments such as call options and put options to hedge the remaining exposure, if necessary.

In Peru, the cost of natural gas has a lower dependence to international prices, due to an important domestic production of this hydrocarbon, limiting the exposure to this risk. As in Chile, the proportion exposed to variations in international prices is mitigated by indexed formulas in energy sales contracts.

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

B.1.3. Fuel supply risks

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

On its part, in Peru, Fenix has long-term contracts with the ECL88 Consortium (Pluspetrol, Pluspetrol Camisea, Hunt, SK, Sonatrach, Tecpetrol and Repsol) and gas transportation agreements with TGP.

Regarding coal purchases for Santa María power plant, new tenders have been undertaken (the last in June 2019), inviting important international suppliers to bid, awarding the supply contract to well supported and competitive Companies. The above following an early purchase policy and an inventory management policy in order to substantially mitigate the risk of not having access to this fuel.

B.1.4. Equipment failure and maintenance risks

The availability and reliability of Colbún's generating units and transmission facilities are essential to the Company's business. Based on the above, Colbún holds a policy of conducting regular maintenances, preventive and predictive maintenance on its equipment according to the recommendations of its suppliers and maintains a policy to cover such risks through insurances for its physical assets, including coverage for physical damage and loss of profit.

B.1.5. Project construction risks

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

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

The companies in the sector face a very challenging electricity market, with lots of activity from different interest groups, mainly from local communities and NGOs, which are legitimately looking for more participation

and prominence. As part of this complexity, the environmental processing times have become more uncertain, which occasionally are also followed by long prosecuting processes. This has resulted in less construction of significant size projects.

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

B.1.6. Regulatory risks

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

Chile

The constitutional process originated from the commitment called "Agreement for Peace and the New Constitution" *("Acuerdo por la Paz y la Nueva Constitución")*, suffered a reprogramming as a result of the pandemic the country is experiencing. As a consequence of this reprogramming, the plebiscite to decide whether to approve or reject the drafting of a new Constitution, which was originally scheduled for April 2020, was postponed to October 2020. The constitutional process may result in changes to the institutional framework applicable to the business activity in the country

Due to the challenge to Chile's public health triggered by the Coronavirus, the President of the Republic decreed a State of Constitutional Exception of Catastrophe throughout the national territory, through Supreme Decree 104 as of March 18, 2020, which has a validity of 90 days from its entry into force, March 19, 2020.

It should be mentioned that the President may request its extension or its new declaration if the circumstances persists, which for certain periods requires communication and approval from Congress.

In this context, to date, a series of parliamentary motions have been presented aimed at implementing a contingency plan which helps Chilean families with the payment of their basic services bills during the State of Catastrophe generated by the Coronavirus.On the other hand, the current government is carrying out different regulatory changes, which depending on the way these changes are implemented, they could represent an opportunity or risk for the Company.

i) The "New Distribution Law" (Long Law) seeks to update the regulation of the distribution sector to better address the technological and market advances that have taken place and that are foreseen for the future, encourage investment and improve the quality of service to end users. For this purpose, the incorporation of new roles has been proposed; separating the activities of the power distribution segment and thereby introducing competition. The entry of the bill into Parliament has been delayed due to the health contingency in the country.

ii) The "Flexibility Strategy" aims to address the systemic and market consequences that will arise due to the increasing incorporation of variable renewable energy. Reports have been developed by consultants who have evaluated the issue in greater depth in order to continue the discussion. The definitive publication of the Strategy and the potential draft of the associated bill has also been delayed due to the country's health contingency.

iii) At the regulatory and Resolutions level, it is worth noting the publication of the Exempt Resolution that establishes the technical provisions for the implementation of the Tariff Stabilization Mechanism for regulated clients. The stabilization mechanism is currently in force and is being monitored by the regulator and by legislators to evaluate its operation and compliance with objectives.

Peru

On March 15, 2020, the State of National Emergency was declared for a period of 15 days, by means of Supreme Decree No. 044-2020-PCM, providing for mandatory social isolation to counter the epidemic of COVID-19. This period has been extended until May 10, 2020, through Supreme Decree No. 064-2020-PCM. Likewise, by means of Supreme Decree No. 051-2020-PCM, modified by Supreme Decree No. 064-2020-PCM, the restriction of mobilization of all persons was imposed from 6:00 p.m. to 4:00 a.m. the following day for national level. During the State of National Emergency, various constitutional rights have been suspended, such as free transit, freedom of assembly, among others. Notwithstanding this, the supply of energy is considered an essential public service and the Peruvian Government has been issuing measures to guarantee its continuity.

In this sense, by means of the Emergency Decree No. 35-2020 published on April 13, 2020, measures were established that allow the reprogramming and splitting of receipts and invoices of public services like energy, natural gas and telecommunications for the vulnerable population.

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

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

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

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

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

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

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

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency will last. In the last weeks of March and the beginning of April, energy demand has fallen approximately 5% in Chile and 30% in Peru. Additionally, the world economic outlook, in Chile and Peru, a strong contraction of their economies is expected that will surely have effects on future electricity demand.

B.2 Financial risks

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

B.2.1 Exchange rate risk

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

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

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

B.2.2 Interest rate risk

Is related to changes in interest rates that affect the value of future cash flows tied to a floating interest rate, and changes in the fair value of assets and liabilities linked to fixed interest rate that are measured at fair value. In order to mitigate these risks, interest rate swaps are used.

As of March 31, 2020, the Company's financial debt, considering the effect of associated derivatives, is 100% denominated in fixed rate.

B.2.3 Credit risk

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

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

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

As of March 31, 2020, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former corresponds to short-term mutual funds with maturities of less than 90 days, which are known as “money market”.

Information on contractual maturities of the main financial liabilities is disclosed in note 10.b of the Financial Statements.

B.2.4 Liquidity risk

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

As of March 31, 2020, Colbun has cash in excess for approximately US$951 million, invested in time deposits with an average maturity of 74 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 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.

In the next 12 months, the Company must disburse approximately US$108 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, 2020, Colbun has a local credit rating of AA- by Fitch Ratings with positive outlook, and AA by Feller Rate, with stable outlook. At the international level, the Company’s rating is Baa2 by Moody’s, and BBB by Standard & Poor’s (S&P Global), both with stable outlook, and BBB by Fitch Ratings, with positive outlook.

As of March 31, 2020, Fenix has international credit rating of Ba1 by Moody’s and BBB- by S&P and Fitch Ratings, all with stable outlook.

Considering the foregoing, it is assessed that the Company’s liquidity risk is currently limited.

Information on contractual maturities of the main financial liabilities is disclosed in note 21.c.2 of the Financial Statements.

B.2.5 Risk exposure measurement

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

Regarding business risks, specifically those related to changes in commodity prices, Colbun has implemented mitigation measures consistent of indexers in energy sale contracts and of hedges with derivative instruments to cover any possible remaining exposure. It is for this reason that a sensitivity analysis is not presented.

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

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

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

Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural balance items denominated in currencies other than USD. Given the above, as of March 31, 2020, the Company's exposure to the impact of exchange differences on structural items translates into a potential effect of approximately US$4.3 million, in quarterly terms, based on a sensitivity analysis with 95% confidence.

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

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

At the end of the period, the financial institution that has the largest share of cash surpluses reached 23%. 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 33% 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.

APPENDIX

Note to the Financial Statements

Regarding the Financial Statements of the affiliate company Fenix, for 1Q20 it should be mentioned:

1. Recognition of gas distribution contract with Calidda as a financial lease

From January 2019 onwards, due to the adoption of IFRS16 accounting standard, the gas distribution contract with Calidda was recognized as a financial lease

It should be noted that this recognition was made in June 2019 Financial Statements retroactively for the 1Q19. For comparative purposes, the same classification was made in the 1Q19 figures presented in this report. Therefore, the difference between the figures presented in this Earnings Report with respect to the Financial Statements as of 1Q19 are as follows:

i. A higher annual EBITDA of US$3,8 million explained by a lower cost in gas consumption during 1Q19.

ii. Higher depreciation expenses of US$2.3 million and higher financial expenses of US$2.2 million for 1Q19.

2. Transmission tolls revenues and costs

Formerly, these items were presented separately in the Company's Income Statement (recognizing both Revenues and Costs). From June 2019 onwards, due to IFRS15 accounting regulation adoption, after further analysis of the contracts and the Peruvian power industry, its net effect will be presented. It is worth noting that this reclassification has a neutral effect on EBITDA. For comparative purposes, the same reclassification was made in the 1Q20 figures presented in this Earnings Report.

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.