



4th Q U A R T E R 2020



QUARTERLY EARNINGS REPORT

As of December 31, 2020

4Q20 EARNINGS REPORT

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Conference Call
4Q20

Date: Friday January 29th, 2020

Time: 10:00 AM Eastern Time
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1. HIGHLIGHTS

Main Figures at a Consolidated Level:

■ ■ ■ **Operating Income** for the fourth quarter of 2020 (4Q20) amounted to **US\$335.7 million**, decreasing 5% compared to the operating income recorded in the fourth quarter of 2019 (4Q19) mainly explained by lower physical sales to regulated clients, due to the expiration of the contract with SAESA in December 2019. This effect was partially offset by higher physical sales to unregulated clients and in the spot market in Chile driven by the higher generation recorded during the quarter.

In cumulative terms, operating income as of Dec20 amounted to US\$1,348.9 million, decreasing 9% compared to Dec19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ Consolidated **EBITDA** in 4Q20 reached **US\$179.9 million**, decreasing 2% compared to the US\$182.9 million EBITDA in 4Q19, mainly explained by the lower operating income recorded during the period. This effect was partially offset by lower raw materials and consumables used costs in Chile, mainly due to the lower gas consumption in Chile.

In cumulative terms, EBITDA as of Dec20 recorded US\$682.5 million, decreasing 2% compared to the US\$697.1 million as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ **Non-operating result** in 4Q20 recorded losses of **US\$207.4 million**, higher than the losses of US\$100.3 million in 4Q19. The higher losses are mainly explained by (1) an accounting record of an impairment provision at Fenix subsidiary in Peru, for a net of deferred taxes amount of US\$126.6 million, to reflect the lower recoverable amount compared to the assets book value due to lower marginal cost and energy prices observed during the last years driven by lower than expected growth rates explained by a lesser dynamism in economic activity, delays in regulatory matters processing and exogenous events (political, natural disasters). This condition intensified during 2020 as a result of the COVID-19 impact, resulting in a 7% decrease in energy demand compared to 2019. This has deepened an oversupply situation in the energy market, and it is likely that restoring the balance between supply and demand will take more time than previously considered. It is worth mentioning that, considering Colbun's share in Fenix (51%), the impact of the mentioned provision on the profits attributable to the owners of the parent company amounts to US\$64.6 million; and (2) the lower financial income earned, driven by the lower investment rates of cash surpluses at local and international level.

In cumulative terms, Non-operating result as of Dec20 recorded losses of US\$303.7 million, 72% higher than the losses recorded as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ In 4Q20 **tax gains** of **US\$27.5 million** were recorded, compared to the tax expenses of US\$2.5 million in 4Q19. The tax gains are mainly explained by the impact on results of the accounting record of the impairment provision at Fenix subsidiary, generating a decrease in the deferred tax liability.

In cumulative terms, tax expenses as of Dec20 recorded US\$42.8 million, decreasing 37% compared to Dec19, mainly due to the impact on results of the accounting record of the impairment provision at Fenix subsidiary.

■ ■ ■ In 4Q20, the Company recorded a **controller's profit** of **US\$0.5 million**, compared to the profit of US\$18.2 million in 4Q19. The losses of the quarter are mainly explained by the impairment provision at Fenix, previously explained.

In cumulative terms, as of Dec20, controller's profit reached US\$162.9 million, decreasing 20% compared to the cumulative profits as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms and to the lower EBITDA recorded during the year.

Highlights of the year:

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

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

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency. Energy demand in Chile increased approximately 1,6% during 4Q20 compared to 4Q19 and 0.4% during 2020 compared to 2019, while in Peru, there was a decrease of approximately 0.3% in 4Q20 and 7% during 2020.

■ ■ ■ During 2020, Colbún continued participating in various **supply bidding processes**, favoring the rehiring of current unregulated client's contracts that expired in the short term. This year, new contracts were signed with 52 clients for 699 GWh/year. Among the main contracts signed are the renewal of energy supply contracts with Walmart (330 GWh/year for 6 years), Sonda (60 GWh/year for 5 years), Grupo Camanchaca (50 GWh/year for 7 years), and Concha y Toro (46 GWh/year for 7 years).

■ ■ ■ 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. 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%.

■ ■ ■ On June 2020, the Board of Directors approved the **construction of two photovoltaic projects**:

- a. Diego de Almagro Sur I and II (230 MW): located in Atacama Region. Construction started in 3Q20 and the commissioning is estimated for 1Q22. The total investment amount approved for this project is US\$147 million.
- b. Machicura (9MW): located in Maule Region. Construction started in 3Q20 and the commissioning is estimated for 3Q21. The total investment amount approved for this project is US\$7 million.

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

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

■ ■ ■ During the third quarter, Colbún was selected to list in the **DJSI Chile** for the fifth consecutive year, and for the fourth year in the **DJSI Pacific Alliance**. In addition, the Company headed the **Informe Reporta** ranking, standing out as the company that best reports information to the market.

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

Subsequent events:

■ ■ ■ On January 21, Colbún reached an agreement with **Goldman Sachs**, pursuant to which the Company will gradually sell the accounts receivable generated by the **tariff stabilization mechanism** (Law N° 21,185), for a total amount of approximately US\$95 million. Additionally, Colbún reported that is in advanced negotiations with the Inter-American Development Investment Corporation, pursuant to incorporate the mentioned institution in the financing of the acquisition of a portion of the aforementioned accounts receivable.

2. PHYSICAL SALES AND GENERATION BALANCE



2.1. Physical sales and generation balance in Chile

Table 1 shows a comparison between physical energy and capacity sales, and generation in 4Q19, 4Q20 and cumulative as of Dec19 and Dec20.

Table 1: Physical sales and generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
12,178	12,035	Total Physical Sales (GWh)	2,758	2,667	(1%)	(3%)
4,349	3,151	Regulated Clients	1,025	751	(28%)	(27%)
6,553	7,162	Unregulated Clients	1,733	1,883	9%	9%
1,276	1,723	Sales to the Spot Market	0	33	35%	-
1,577	1,448	Capacity Sales (MW)	1,561	1,469	(8%)	(6%)

Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
11,927	12,103	Total Generation (GWh)	2,669	2,458	1%	(8%)
5,119	5,596	Hydraulic	1,236	1,965	9%	59%
6,508	6,375	Thermal	1,327	450	(2%)	(66%)
4,507	4,108	Gas	980	62	(9%)	(94%)
67	72	Diesel	2	6	9%	187%
1,934	2,195	Coal	346	382	13%	11%
301	132	VRE	106	43	(56%)	(60%)
280	111	Wind Farm*	98	35	(61%)	(64%)
20	21	Solar	7	7	5%	5%
472	270	Spot Market Purchases (GWh)	103	270	-	162%
804	1,453	Sales - Purchases to the Spot Market (GWh)	(103)	(237)	81%	130%

(*): 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 **2,667 GWh** during 4Q20, decreasing 3% compared to 4Q19, due to lower sales to regulated clients, mainly driven by the expiration of the contract with SAESA in Dec19. Those effects were partially offset by higher sales to unregulated clients due to new contracts entering into force in that segment.

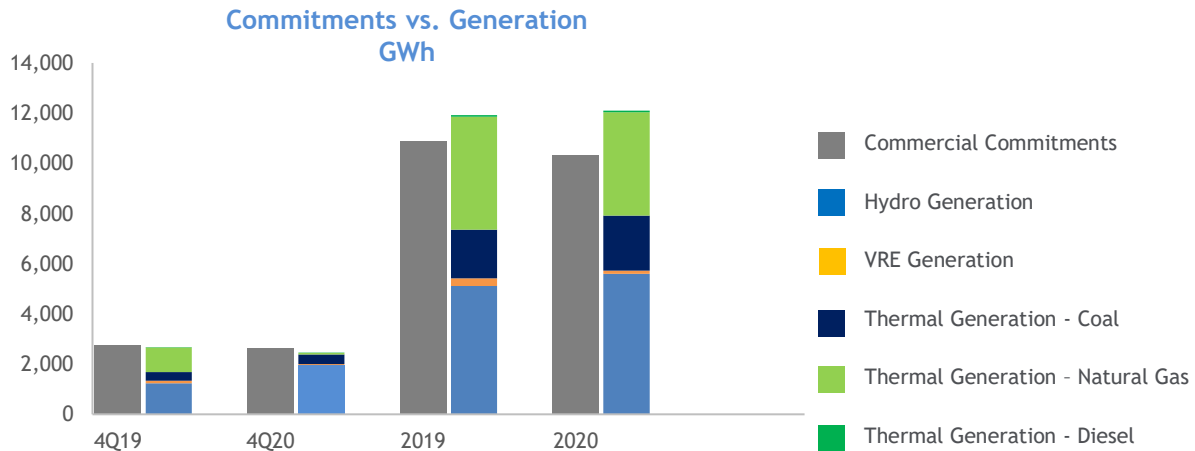
On the other hand, quarterly **generation** decreased 8% compared to 4Q19, mainly due to (i) a lower gas generation (-918 GWh) given the Company's greater hydraulic generation capacity during the quarter, the system's spot price levels and the unavailability of Argentine gas; and (ii) a lower wind generation (-63 GWh) mainly due to the expiration of the San Pedro power plant contract in May20. These effects were partially offset by a higher hydro generation (+729 GWh), mainly because the thaw season occurred earlier.

In cumulative terms, physical sales as of Dec20 reached 12,035 GWh, decreasing 1% compared to Dec19, due to lower sales to regulated clients, mainly explained by (i) the expiration of the contract with SAESA in Dec19 and (ii) a lower energy demand driven by the State of Emergency. These effects were partially offset by higher sales to unregulated clients and to the spot market.

Cumulative generation as of Dec20 reached 12,103 GWh, increasing 1% compared to Dec19, mainly explained by a higher hydro generation (+477 GWh) as a result of improved hydrological conditions; and to a higher coal generation (+261 GWh), mainly due to the unavailability of Santa Maria thermoelectric power plant during 2019. These effects were partially offset by a lower gas generation (+399 GWh) and wind generation (-169 GWh), due to the same reasons that explain the variations in quarterly terms.

The **spot market balance** during the quarter recorded net purchases of 270 GWh, compared to the net purchases of 103 GWh recorded in 4Q19. The variation is mainly explained by the lower generation during the quarter.

In cumulative terms, net sales as of Dec20 reached 1,453 GWh, increasing 81% compared to Dec19, mainly explained by the higher generation of the year.



Generation mix in Chile: As of Dec20, the hydrological year (Apr20-Mar21) has presented lower rainfalls compared to an average year in the main SEN basins, being the basins that present the largest deficits: Aconcagua: -51%; Maule: -25%; Laja: -16%; and Biobio: -16%; while Chapo basin presents rainfalls in line with an average year (surplus of 1%). Compared to Dec19, Maule basin has presented a 69% increase in rainfalls, along with higher tributaries. On the other hand, Laja and Biobio basins have presented slightly lower rainfalls than in 2019 (-6% and -8%, respectively).

SEN Generation	Quarterly Figures		Var % Q/Q
	4Q19	4Q20	
Total Generation (GWh)	19,320	19,667	2%
Hydraulic	5,853	7,256	24%
Thermal	9,341	7,384	(21%)
Gas	2,546	1,341	(47%)
Diesel	9	35	289%
Coal	6,786	6,008	(11%)
VRE	3,593	4,334	21%
Wind Farm	1,514	1,724	14%
Solar	2,079	2,610	26%
Others	533	693	30%

2.2. Physical sales and generation balance in Peru

Table 2 shows a comparison between physical energy and capacity sales and generation in 4Q19, 4Q20 and cumulative as of Dec19 and Dec20.

Table 2: Physical sales and generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
3,911	3,253	Total Physical Sales (GWh)	825	981	(17%)	19%
2,922	2,506	Costumers under Contract	733	701	(14%)	(4%)
988	747	Sales to the Spot Market	92	280	(24%)	204%
557	559	Capacity Sales (MW)	558	558	0%	(0%)
Accumulated Figures		Generation	Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
3,767	2,887	Total Generation (GWh)	713	989	(23%)	39%
3,767	2,887	Gas	713	989	(23%)	39%
232	439	Spot Market Purchases (GWh)	131	15	89%	-
756	307	Sales - Purchases to the Spot Market (GWh)	- 39	265	-	-

Physical sales during 4Q20 reached 981 GWh, increasing 19% compared to 4Q19. The higher physical sales are mainly explained by the higher sales to the spot market as a result of (i) lower physical sales to customers under contract mainly explained by the State of Emergency decreed by the Peruvian Government due to COVID-19 pandemic and (ii) lower sales to regulated clients due to the expiration of a contract with Distriluz (40 MW) in Dec19; and (iii) the lower generation of the power plant during 4Q19 as a result of the corrective maintenance of the GT12 gas turbine.

In cumulative terms, physical sales as of Dec20 reached 3,253 GWh, decreasing 17% compared to Dec19; mainly explained by (1) lower physical sales to customers under contract due to the same reasons that explain the variations in quarterly terms; and (2) lower sales to the spot market due to the lower generation during the year driven by (i) the COES request to stop operating during part of the second and third quarter and (ii) the GT12 gas turbine repair and the maintenances performed during the first and third quarter of 2020.

On the other hand, Fenix **thermal generation** reached 989 GWh, increasing 39% compared to 4Q19 due to the GT12 gas turbine corrective maintenance performed during the last quarter of 2019.

In cumulative terms, as of Dec20 thermal generation reached 2,887 GWh, decreasing 23% compared to Dec19, mainly due to (i) the COES request to stop operating during part of the second and third quarter and (ii) the GT12 gas turbine repair and the maintenances performed during the first and third quarter of 2020.

The **balance in the spot market** recorded net sales for 265 GWh, compared to the net purchases for 39 GWh during the same quarter of the previous year, due to (1) the lower generation of the quarter; and (2) the lower physical sales to clients under contract, due to the same reasons previously explained.

In cumulative terms, as of Dec20 balance in the spot market recorded net sales for 307 GWh, compared to the net sales for 756 GWh as of Dec19, mainly due to the lower generation of the year.

Generation mix in Peru: Hydroelectric generation in the SEIN (National Interconnected Electrical System) decreased 16.1% compared to 4Q19 due to less favorable hydrological conditions recorded during the period. On the other hand, thermal generation increased 8.5% during 4Q20 compared to 4Q19, mainly due to the lower hydroelectric generation recorded during the period.

The accumulated energy demand growth rate in 4Q20 was -7.0%, mainly explained by the State of Emergency due to the COVID-19 pandemic.

3. INCOME STATEMENT ANALYSIS

Table 3 presents a summary of the Consolidated Income Statement in 4Q19, 4Q20 and cumulative as of Dec19 and Dec20.

Table 3: Income Statement (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
1,487.4	1,348.9	OPERATING INCOME	352.1	335.7	(9%)	(5%)
580.7	438.4	Regulated Customers Sales	133.8	110.3	(25%)	(18%)
687.3	697.9	Unregulated Customers Sales	186.5	188.3	2%	1%
121.6	131.6	Energy and Capacity Sales	7.6	24.3	8%	220%
61.2	55.3	Transmission Tolls	12.9	6.1	(10%)	(53%)
36.6	25.6	Other Operating Income	11.2	6.6	(30%)	(41%)
(692.0)	(575.8)	RAW MATERIALS AND CONSUMABLES USED	(142.6)	(129.2)	(17%)	(9%)
(120.1)	(112.8)	Transmission Tolls	(20.9)	(38.1)	(6%)	82%
(64.8)	(54.1)	Energy and Capacity Purchases	(18.8)	(22.7)	(17%)	21%
(337.3)	(245.4)	Gas Consumption	(64.1)	(31.7)	(27%)	(51%)
(12.7)	(9.5)	Diesel Consumption	(1.0)	(1.9)	(25%)	91%
(73.6)	(70.4)	Coal Consumption	(14.4)	(10.8)	(4%)	(25%)
(83.4)	(83.7)	Other Operating Expenses	(23.5)	(24.0)	0%	2%
795.4	773.1	GROSS PROFIT	209.4	206.6	(3%)	(1%)
(74.4)	(65.4)	Personnel Expenses	(19.4)	(17.7)	(12%)	(8%)
(24.0)	(25.2)	Other Expenses, by Nature	(7.1)	(8.9)	5%	25%
(250.5)	(246.6)	Depreciation and Amortization Expenses	(60.7)	(63.0)	(2%)	4%
446.6	435.9	OPERATING INCOME (LOSS) (*)	122.3	117.0	(2%)	(4%)
697.1	682.5	EBITDA	182.9	179.9	(2%)	(2%)
22.1	11.2	Financial Income	5.9	1.5	(49%)	(75%)
(91.1)	(90.5)	Financial Expenses	(22.5)	(22.3)	(1%)	(1%)
(7.2)	5.7	Exchange rate Differences	(1.5)	3.5	-	-
9.1	9.9	Profit (Loss) of Companies Accounted for Using the Equity Method	2.0	3.3	9%	63%
(109.3)	(240.2)	Other Profit (Loss)	(84.1)	(193.3)	120%	130%
(176.4)	(303.7)	NON-OPERATING INCOME	(100.3)	(207.4)	72%	107%
270.2	132.2	PRE-TAX PROFIT (LOSS)	22.0	(90.4)	(51%)	-
(68.2)	(42.8)	Income Tax Expense	(2.5)	27.5	(37%)	-
202.0	89.5	AFTER TAX PROFIT (LOSS)	19.5	(62.9)	(56%)	-
203.0	162.9	PROFIT (LOSS) OF CONTROLLER	18.2	0.5	(20%)	(97%)
(1.1)	(73.4)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	1.2	(63.3)	-	-

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

Table 4: Closing Exchange Rates

Exchange Rates	Dec-19	Dec-20
Chile (CLP / US\$)	748.74	710.95
Chile UF (CLP/UF)	28,309.94	29,070.33
Peru (PEN / US\$)	3.32	3.62

3.1. Operating Income analysis of the generation business in Chile

Table 5 presents a summary of Operating Income and EBITDA in 4Q19, 4Q20 and cumulative as of Dec19 and Dec20. Subsequently, the major accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
1,252.3	1,134.0	OPERATING INCOME	292.7	285.4	(9%)	(3%)
469.2	329.8	Regulated Customers Sales	104.9	82.9	(30%)	(21%)
680.4	675.5	Unregulated Customers Sales	186.8	182.3	(1%)	(2%)
101.7	108.8	Energy and Capacity Sales	4.6	15.1	7%	232%
17.9	19.9	Other Operating Income	(3.5)	5.0	11%	(241%)
(609.2)	(501.8)	RAW MATERIALS AND CONSUMABLES USED	(122.8)	(109.4)	(18%)	(11%)
(150.8)	(130.4)	Transmission Tolls	(28.0)	(45.1)	(13%)	61%
(63.9)	(52.2)	Energy and Capacity Purchases	(18.4)	(22.7)	(18%)	23%
(258.5)	(179.5)	Gas Consumption	(43.4)	(12.2)	(31%)	(72%)
(12.7)	(8.6)	Diesel Consumption	(1.0)	(0.9)	(32%)	(3%)
(73.6)	(70.4)	Coal Consumption	(14.4)	(10.8)	(4%)	(25%)
(62.8)	(60.8)	Other Operating Expenses	(17.7)	(17.7)	(3%)	0%
643.1	632.2	GROSS PROFIT	169.9	176.0	(2%)	4%
(68.2)	(59.3)	Personnel Expenses	(17.5)	(16.2)	(13%)	(7%)
(20.1)	(22.4)	Other Expenses, by Nature	(5.7)	(7.7)	12%	36%
(193.5)	(189.0)	Depreciation and Amortization Expenses	(48.5)	(48.5)	(2%)	(0%)
361.4	361.5	OPERATING INCOME (LOSS) (*)	98.3	103.5	0%	5%
554.9	550.5	EBITDA	146.8	152.0	(1%)	4%

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

Operating Income in 4Q20 amounted to **US\$285.4 million**, decreasing 3% compared to the operating income recorded in 4Q19, mainly due to the lower physical sales to regulated clients driven by the expiration of the contract with SAESA in Dec19. This effect was partially offset by higher physical sales in the spot market. **In cumulative terms**, operating income as of Dec20 amounted US\$1,134.0 million, decreasing 9% compared to operating income recorded as of Dec19, mainly explained by (1) lower physical sales to regulated clients driven by the expiration of the contract with SAESA in Dec19, and (2) a decrease in the contracts average price due to the Equivalent Transmission Charge (CET) application. Those effects were partially offset by higher sales to unregulated clients and in the spot market.

The **raw materials and consumables used costs** recorded **US\$109.4 million** in 4Q20, decreasing 11% compared to 4Q19, mainly due to (1) the lower gas consumption given the lower generation with that fuel during the quarter; and (2) the lower coal consumption, despite the increase in generation; due to the lower average purchase price during the period. Those effects were partially offset by higher transmission tolls due to reassessments and higher purchases in the spot market.

In cumulative terms, raw materials and consumables used costs as of Dec20 reached US\$501.8 million, decreasing 19% compared to the US\$622.2 million recorded as of Dec19, mainly explained by (1) a lower gas consumption, despite the higher generation with this fuel, due to a lower average purchase price, (2) lower transmission cost due to the CET application; and (3) lower energy purchases in the spot market.

EBITDA in 4Q20 reached **US\$152.0 million**, increasing 4% compared to the EBITDA of US\$146.8 million in 4Q19, mainly due to the lower raw materials and consumables used costs. This effect was partially offset by the lower operating income recorded during the period.

In cumulative terms, EBITDA as of Dec20 amounted to US\$550.5 million, in line compared to the EBITDA recorded as of Dec 19.

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 4Q19, 4Q20 and cumulative as of Dec19 and Dec20. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
83.4	80.2	OPERATING INCOME	20.2	14.8	(4%)	(27%)
83.4	80.2	Transmission Tolls	20.2	14.8	(4%)	(27%)
(10.2)	(12.3)	RAW MATERIALS AND CONSUMABLES USED	(2.7)	(2.7)	20%	2%
(2.1)	(1.8)	Transmission Tolls	(0.2)	(0.4)	(12%)	60%
(8.1)	(10.4)	Other Operating Expenses	(2.5)	(2.4)	29%	(3%)
73.2	67.9	GROSS PROFIT	17.5	12.0	(7%)	(31%)
(1.0)	(1.0)	Other Expenses, by Nature	(0.4)	(0.4)	5%	(5%)
(11.1)	(11.0)	Depreciation and Amortization Expenses	(0.3)	(2.8)	(0%)	858%
61.2	55.9	OPERATING INCOME (LOSS) (*)	16.8	8.9	(9%)	(47%)
72.2	66.9	EBITDA	17.1	11.6	(7%)	(32%)

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

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

Operating Income in 4Q20 reached **US\$14.8 million**, decreasing 27% compared to the operating income recorded in 4Q19, mainly due to a decrease on the national and zonal segment' income, due to (1) provisions recorded to reflect the change in the discount rate that began to apply as of Jan20, which changed from 10% before taxes to 7% after taxes and (2) to the reclassification of some zonal assets announced by the regulator. **In cumulative terms**, operating income as of Dec20 amounted US\$80.2 million, of which 37% corresponds to income from national assets, 4% to zonal assets and 59% corresponds to the dedicated segment. The lower income recorded compared to Dec19 is mainly explained by (1) the change in the discount rate that began to apply as of Jan20 previously mentioned and (2) to the reclassification of some zonal assets announced by the regulator.

EBITDA for 4Q20 reached US\$11.6 million, lower than the US\$17.1 million EBITDA recorded in 4Q19, mainly due to the decrease in operating income, previously explained.

In cumulative terms, EBITDA as of Dec20 amounted to US\$66.9 million, decreasing 7% compared to the EBITDA recorded as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms.

3.3. Operating Income analysis in Peru

Table 7 shows a summary of Fenix's Operating Income and EBITDA for the quarters 4Q19, 4Q20 and cumulative as of Dec19 and Dec20. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
174.8	159.4	OPERATING INCOME	47.3	44.1	(9%)	(7%)
111.5	108.5	Regulated Customers Sales	28.9	27.4	(3%)	(5%)
32.4	22.4	Unregulated Customers Sales	8.2	6.0	(31%)	(27%)
19.9	22.9	Sales to Other Generators	3.0	9.1	15%	203%
11.0	5.6	Other Operating Income	7.2	1.5	(49%)	(79%)
(95.7)	(86.5)	RAW MATERIALS AND CONSUMABLES USED	(25.4)	(25.5)	(10%)	1%
(3.5)	(5.3)	Transmission Tolls	(0.9)	(1.2)	55%	26%
(1.0)	(1.9)	Energy and Capacity Purchases	(0.3)	(0.0)	90%	-
(78.8)	(65.9)	Gas Consumption	(20.8)	(19.6)	(16%)	(6%)
-	(0.9)	Diesel Consumption	-	(0.9)	-	-
(12.5)	(12.5)	Other Operating Expenses	(3.4)	(3.9)	(0%)	16%
79.1	72.9	GROSS PROFIT	21.9	18.5	(8%)	(16%)
(6.2)	(6.1)	Personnel Expenses	(1.9)	(1.5)	(2%)	(20%)
(2.9)	(1.8)	Other Expenses, by Nature	(1.0)	(0.7)	(40%)	(29%)
(45.9)	(46.6)	Depreciation and Amortization Expenses	(11.9)	(11.7)	1%	(2%)
24.0	18.5	OPERATING INCOME (LOSS) (*)	7.1	4.6	-	(35%)
69.9	65.1	EBITDA	19.0	16.3	(7%)	(14%)

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

Operating income in 4Q20 totaled **US\$44.1 million**, decreasing 7% compared to the operating income recorded in 4Q19, mainly due to (1) a US\$6.2 million non-recurring income recorded in 4Q19, derived from the arbitration award which demanded Calidda the compensation payment for the income that Fenix ceased to receive due to the breach of the Framework agreement between both companies; (2) lower sales to unregulated clients due to the Emergency State decreed by the Peruvian Government due to the COVID-19 pandemic; and (3) lower sales to regulated clients due to the expiring of a Distriluz contract (40 MW). These effects were partially offset by higher sales to the spot market.

In cumulative terms, operating income as of Dec20 amounted to US\$159.4 million, decreasing 9% compared to Dec19 mainly due to the same reasons for the variations in quarterly terms.

Raw materials and consumables used costs reached **US\$25.5 million** in 4Q20, in line with compared to the same quarter of the previous year.

In cumulative terms, raw materials and consumables used costs as of Dec20 recorded US\$86.5 million, decreasing 10% compared to Dec19, mainly explained by a decrease in gas consumption due to the lower generation as a result of the lower availability of the plant during the quarter driven by the maintenances and the COES request to stop operating during part of the second and third quarter due to the demand decrease recorded in Perú after the Emergency State decreed.

Fenix's **EBITDA** reached **US\$16.3 million** in 4Q20, decreasing 14% compared to the US\$19.0 million EBITDA recorded in 4Q19, mainly due to the lower operating income of the quarter.

In cumulative terms, EBITDA as of Dec20 amounted to US\$65.1 million, 7% lower than the US\$69.9 million recorded as of Dec19, mainly explained by the lower operating income recorded during the year, partially offset by the lower raw materials and consumables used costs.

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



Table 8 shows a summary of the Consolidated Non-Operating Result (Chile and Peru) in 4Q19, 4Q20 and cumulative as of Dec19 and Dec20. Subsequently, the main accounts and/or variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
22.1	11.2	Financial Income	5.9	1.5	(49%)	(75%)
(91.1)	(90.5)	Financial Expenses	(22.5)	(22.3)	(1%)	(1%)
(7.2)	5.7	Exchange rate Differences	(1.5)	3.5	-	-
9.1	9.9	Profit (Loss) of Companies Accounted for Using the Equity Method	2.0	3.3	9%	63%
(109.3)	(240.2)	Other Profit (Loss)	(84.1)	(193.3)	120%	130%
(176.4)	(303.7)	NON-OPERATING INCOME	(100.3)	(207.4)	72%	107%
270.2	132.2	PRE-TAX PROFIT (LOSS)	22.0	(90.4)	(51%)	-
(68.2)	(42.8)	Income Tax Expense	(2.5)	27.5	(37%)	-
202.0	89.5	AFTER TAX PROFIT (LOSS)	19.5	(62.9)	(56%)	-
203.0	162.9	PROFIT (LOSS) OF CONTROLLER	18.2	0.5	(20%)	-
(1.1)	(73.4)	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	1.2	(63.3)	-	-

■ ■ ■ **Non-operating result** in 4Q20 recorded losses of **US\$207.4 million**, higher than the losses of US\$100.3 million in 4Q19. The higher losses are mainly explained by (1) an accounting record of an impairment provision at Fenix subsidiary in Peru, for a net of deferred taxes amount of US\$126.6 million, to reflect the lower recoverable amount compared to the assets book value due to lower marginal cost and energy prices observed during the last years driven by lower than expected growth rates explained by a lesser dynamism in economic activity, delays in regulatory matters processing and exogenous events (political, natural disasters). This condition intensified during 2020 as a result of the COVID-19 impact, resulting in a 7% decrease in energy demand compared to 2019. This has deepened an oversupply situation in the energy market, and it is likely that restoring the balance between supply and demand will take more time than previously considered. It is worth mentioning that, considering Colbun's share in Fenix (51%), the impact of the mentioned provision on the profits attributable to the owners of the parent company amounts to US\$64.6 million; and (2) the lower financial income earned, driven by the lower investment rates of cash surpluses at local and international level.

In cumulative terms, Non-operating result as of Dec20 recorded losses of US\$303.7 million, 72% higher than the losses recorded as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms.

■ ■ ■ In 4Q20 **tax gains** of **US\$27.5 million** were recorded, compared to the tax expenses of US\$2.5 million in 4Q19. The tax gains are mainly explained by the impact on results of the accounting record of the impairment provision at Fenix subsidiary, generating a decrease in the deferred tax liability.

In cumulative terms, tax expenses as of Dec20 recorded US\$42.8 million, decreasing 37% compared to Dec19, mainly due to the impact on results of the accounting record of the impairment provision at Fenix subsidiary.

■ ■ ■ In 4Q20, the Company recorded a **controller's profit** of **US\$0.5 million**, compared to the profit of US\$18.2 million in 4Q19. The losses of the quarter are mainly explained by the impairment provision at Fenix, previously explained.

In cumulative terms, as of Dec20, controller's profit reached US\$162.9 million, decreasing 20% compared to the cumulative profits as of Dec19, mainly due to the same reasons that explain the variations in quarterly terms and to the lower EBITDA recorded during the year.

4. CONSOLIDATED BALANCE SHEET ANALYSIS



Table 9 shows an analysis of the Balance Sheet's relevant accounts as of Dec19 and Dec20. Subsequently, the main variations will be analyzed.

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

	Dec-19	Dec-20	Var	Var %
Current assets	1,139.4	1,259.2	119.8	11%
Non-current assets	5,565.9	5,374.7	(191.2)	(3%)
TOTAL ASSETS	6,705.3	6,633.9	(71.4)	(1%)
Current liabilities	338.3	306.5	(31.8)	(9%)
Non-current liabilities	2,631.4	2,742.0	110.6	4%
Total net equity	3,735.6	3,585.4	(150.3)	(4%)
TOTAL LIABILITIES AND NET EQUITY	6,705.3	6,633.9	(71.5)	(1%)

Current Assets: Reached US\$1,259.2 million as of Dec20, increasing 11% compared to the current assets registered as of Dec19, mainly explained by higher financial investments recorded due to the operating cash flow of the year and to the cash received after the International Bond issuance carried out in March 2020, which resulted in a net cash increase of US\$116 million.

Non-current Assets: Recorded US\$5,374.7 million as of Dec20, decreasing 3% compared to the non-current assets recorded as of Dec19, mainly due to a decrease in net fixed assets associated with the impairment provision recorded in Fenix subsidiary.

Current Liabilities: Totaled US\$306.5 million as of Dec20, decreasing 9% compared to the current liabilities recorded as of Dec19, mainly due to (1) lower accounts payable due to a reduction in accounts payable payment period and (2) lower income taxes payable. Those effects were partially offset by higher short-term financial liabilities.

Non-current Liabilities: Reached US\$2,742.0 million as of Dec20, increasing 4% compared to Dec19, mainly due to the issuance of the international bond during March 2020. Of the US\$500 million issued, US\$343 million were allocated to partially prepay the 2024 bond, while the difference corresponded to incremental debt for the Company.

Total Net Equity: Recorded US\$3,585.4 million, decreasing 1% compared to the total net equity as of Dec19, mainly due to the dividends distribution for a total of US\$242 million (US\$161 million of which were distributed in May20, and US\$81 million were distributed in Dec20, as an interim dividend charged to the year's earnings). This effect was partially offset by the profits of the year, which were lower than the previous year mainly due to the impairment provision recorded in Fenix subsidiary during the period.

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

	Dec-19	Dec-20	Var	Var %
Gross Financial Debt*	1,678.7	1,796.3	117.6	7%
Financial Investments**	797.3	967.4	170.1	21%
Net Debt	881.3	828.9	(52.5)	(6%)
EBITDA LTM	697.1	682.5	(14.5)	(2%)
Net Debt/EBITDA LTM	1.3	1.2	(0.0)	(4%)

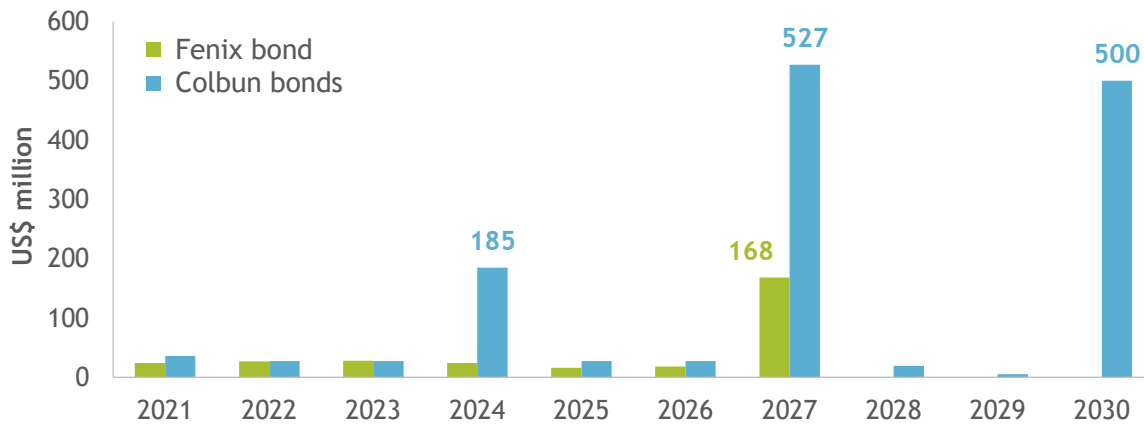
(*) The amount includes debt associated with Fenix without recourse to Colbun: (1) an international bond with an outstanding capital of US\$305.0 million, (2) a financial leasing for US\$13.6 million associated with a transmission contract with Consorcio Transmataro, and (3) a US\$115.7 million financial leasing associated with a gas distribution contract with Calidda.

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

Table 11: Long Term Financial Debt

Average Life	6.6 years
Average Interest Rate	4.0% (100% fixed rate)
Currency	97% USD / 3% UF

(*) Includes financial derivatives.



5. CONSOLIDATED FINANCIAL RATIOS

A comparative table of consolidated financial indicators as of Dec19 and Dec20 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	Dec-20	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	3.37	4.11	22%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	3.22	4.00	24%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.79	0.85	7%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.39%	10.06%	(12%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.61%	89.94%	2%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.97	2.46	(38%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.26%	2.44%	(53%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.98%	2.44%	(18%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	8.25%	8.48%	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 **4.11x** and **3.37x** as of Dec20, increasing 22% and 24% respectively compared to Dec19, mainly due to the increase in current assets resulting from the higher cash and cash equivalents recorded during the period; and to the decrease in current liabilities mainly due to the accounts and taxes payable decrease.

■ ■ ■ The **Indebtedness Ratio** recorded **0.85x** as of Dec20, increasing 7% compared to the value of 0.79x as of Dec19, mainly due to the higher non-current liabilities recorded after the issuance of the International Bond during the period and to the lower net equity recorded, mainly explained by the year's dividend distribution, partially offset by the profits recorded during the period.

■ ■ ■ The percentage of **Short-Term Debt** as of Dec20 was **10.06%**, decreasing compared to the value of 11.39% as of Dec19, mainly due to an increase in non-current liabilities driven by the issuance previously mentioned and the decrease in current liabilities mainly due to the accounts and taxes payable decrease.

■ ■ ■ The percentage of **Long-Term Debt** as of Dec20 was **89.94%**, increasing compared to the value of 88.61% as of Dec19, mainly due to same reasons that explain the decrease in the percentage of short-term debt.

■ ■ ■ The **Financial Expenses Coverage** as of Dec20 reached **2.46x**, decreasing 38% compared to the value as of Dec19, mainly explained by the lower profits recorded in 2020, compared to the previous year, due to the impairment provision registered in Fenix subsidiary, previously explained.

■ ■ ■ The **Equity Profitability** as of Dec20 was **2.44%**, decreasing 53% compared to the value of 5.26% as of Dec19. The variation is mainly explained by the lower profits recorded in 2020, compared to the previous year, due to the impairment provision registered in Fenix subsidiary, previously explained.

■ ■ ■ **Asset Profitability** as of Dec20 was **2.44%**, decreasing 18% compared to the value of 2.98% as of Dec19, mainly as a result of the lower profits recorded in 2020, compared to the previous year, due to the impairment provision registered in Fenix subsidiary, previously explained.

■ ■ ■ The **Performance of Operating Assets** as of Dec20 was **8.48%**, in line with the recorded level as of Dec19.

6. CONSOLIDATED CASH FLOW ANALYSIS



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

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

Accumulated Figures			Quarterly Figures		Var %	Var %
Dec-19	Dec-20		4Q19	4Q20	Ac/Ac	Q/Q
788.1	797.3	Cash Equivalents, Beg. of Period*	780.2	966.0	1%	24%
565.0	525.4	Net cash flows provided by (used in) operating activities	147.0	148.9	(7%)	1%
(485.0)	(246.5)	Net cash flows provided by (used in) financing activities	(128.4)	(119.2)	(49%)	(7%)
(64.0)	(117.9)	Net cash flows provided by (used in) investing activities**	(0.5)	(38.7)	84%	-
16.0	161.0	Net Cash Flows for the Period	18.0	(9.0)	-	(150%)
(6.8)	8.9	Effects of exchange rate changes on cash and cash equivalents	(0.9)	10.4	-	-
797.3	967.4	Cash Equivalents, End of Period	797.3	967.4	21%	21%

(*) 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 4Q20, the Company presented a **negative net cash flow of US\$9.0 million**, compared to the positive net cash flow of US\$18.0 million in 4Q19.

Operating activities: During 4Q20 a positive net flow of US\$148.9 million was generated, in line with the positive net flow of US\$147.0 million in 4Q19.

In cumulative terms, as of Dec20 a positive net flow of US\$525.4 million was generated; 7% lower compared to the positive net flow of US\$565.0 million recorded as of Dec19, mainly explained the lower operating income as of Dec20 driven by (i) lower sales during the period; (ii) lower collections due to the tariff stabilization mechanism (Law 21,185); partially offset by lower costs associated with gas consumption.

Financing activities: Recorded a negative net flow of US\$119.2 million during 4Q20, which compares with the negative net flow of US\$128.4 million in 4Q19, mainly explained by the lower dividend distribution of the period. In 4Q19, US\$92 million were distributed as dividends, while the dividend distribution in 4Q20 reached US\$81 million.

In cumulative terms, as of Dec20 a negative net flow of US\$246.5 million was generated, which compares with the negative net flow of US\$485.0 million as of Dec19, mainly explained by (1) the issuance of an international bond in March 2020 and the partial prepayment of the 2024 bond, the net amount collected by that transaction was US\$116 million; and (2) the lower dividend payments during the period.

Investing activities: Recorded a negative net flow of US\$38.7 million during 4Q20, which compares with negative net flow of US\$0.5 million in 4Q19, mainly explained by (1) the proceeds received for the sale of Antilhue thermoelectric power plant in 4Q19; and (2) higher Capex disbursements for projects under development during 4Q20.

In cumulative terms, as of Dec20 a negative net flow of US\$117.9 million was generated, which compares with the negative net flow of US\$64.0 million as of Dec19, mainly explained by (1) higher Capex disbursements for projects under development during the year; and (2) the proceeds received for the sale of Antilhue thermoelectric power plant in 4Q19.

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 14% of the market. It also operates in the National Interconnected Electric System (SEIN) in Peru, where it has approximately 6% of market share. Both participations measured in terms of generation.

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

Regarding the energy transmission infrastructure, Colbun owns 899 km of transmission lines: 335 km of its lines belong to the National segment, 70 km to the Zonal segment and 494 km belong to the Dedicated segment. In addition, it has a total of 27 substations.

7.1 Medium-term outlook in Chile

As of Dec20, the hydrological year (Apr20-Mar21) has presented lower rainfalls compared to an average year in the main SEN basins, being the basins that present the largest deficits: Aconcagua: -51%; Maule: -25%; Laja: -16%; and Biobio: -16%; while Chapo basin presents rainfalls in line with an average year (surplus of 1%). Compared to Dec19, Maule basin has presented a 69% increase in rainfalls, along with higher tributaries. On the other hand, Laja and Biobio basins have presented slightly lower rainfalls than in 2019 (-6% and -8%, respectively). According to the Coordinator's fifth thaw forecast, on average there is an exceedance probability for the system that is lower than the one registered in the same forecast of 2019. This means that greater thaws are expected than those predicted in the same report of the previous year, although less auspicious than previous forecasts.

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

During 2020, Colbun continued participating in various supply bidding processes, favoring the recontracting of current unregulated client's agreements that expired in the short term. This year, new contracts were signed with 52 clients for 699 GWh/year. Among the main contracts signed are the renewal of energy supply contracts with Walmart (330 GWh/year for 6 years), Sonda (60 GWh/year for 5 years), Grupo Camanchaca (50 GWh/year for 7 years), and Concha y Toro (46 GWh/year for 7 years).

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

7.2 Medium-term outlook in Peru

In the fourth quarter of 2020, the SEIN registered a hydrological condition with a probability of exceedance of 70%, compared to 30% recorded the same quarter of 2019.

In 4Q20, energy demand fell 0.3% compared to 4Q19, a contraction that reflects the impact of the operational restriction measures applied by the Peruvian government since March 16 in the face of COVID-19. On the other hand, compared to the previous quarter, in 4Q20 the energy demand increased 6.2% due to the economic activities' reactivation.

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

7.3 Growth plan and long-term actions

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

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

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

Generation projects under development

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

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

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

On September 15, 2020, the Environmental Evaluation Service (SEA) resumed the project's Environmental Assessment process, which had been suspended since March 20 due to COVID19. The Virtual Citizen Participation process with the Antofagasta Environmental Evaluation Service was conducted during the first week of October and the Environmental Impact Study Addendum was entered on December 23, 2020. On the other hand, during the fourth quarter, offers were received from the bidding processes of the camp and Route 5 access to the wind farm. Civil and electrical BoP (Balance of Plant) contracts are currently in the bidding process.

■ ■ ■ Photovoltaic Solar Projects Diego de Almagro Sur I and II (230 MW): The projects are located in the Atacama Region, 27 kilometers south of Diego de Almagro, and all together consider an approximate capacity of 230 MW and an average annual generation of approximately 648 GWh. Both projects are located on a total land of 330 hectares, at less than two kilometers from the new Illapa substation, which is favorable for their connection to the National Electricity System. These projects have their Environmental Impact Study approved.

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

During the fourth quarter of 2020, contracts were assigned to supply the main equipment, such as inverters, trackers and panels. On site, the construction of the project began, with earthworks for the land and the park's internal roads preparation. In addition, the EPC contract for the construction of the lifting substation and the high voltage line to the substation of connection to the National Electric System is under execution. Commissioning is expected for 1Q22.

■ ■ ■ Photovoltaic Solar Project Machicura (9 MW): This solar project is located near the Machicura reservoir, in the commune of Colbún, in the Maule Region, and uses a total area of approximately 20 hectares owned by Colbún. The generated energy will be injected to the SEN through an existing transmission line for auxiliary services from Machicura power plant to Colbún Substation.

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

As a result of the restrictions due to COVID-19 pandemic, the sectoral permits granting took a longer-than-budgeted timeframe. During December 2020 it was possible to start work on site to rescue fauna, protect the archeological site and clear the ground. In addition, all major supplies were purchased and partially received. Commissioning is expected for 1Q22.

The total investment amount approved for this project is US\$7 million and its commissioning date is expected for 3Q21.

■ ■ ■ Photovoltaic Solar Project Inti Pacha (486 MW): This solar project is located approximately 75 km east of Tocopilla, in the María Elena commune, Antofagasta Region. It will use a total area of 736 hectares.

The project considers the installation of a solar power plant with an installed capacity of close to 486 MW and an average annual generation of approximately 1,363 GWh.

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

During the fourth quarter of 2020, the Environmental Qualification Resolution (RCA) was obtained. Currently, Colbún is working on obtaining sectorial permits, such as access to public roads, report of land changes and building permits. In parallel, the bidding documents for the supply of the main equipment and the construction of the energy evacuation substations and high voltage lines for the National Electric System connection are being prepared.

■ ■ ■ Photovoltaic Solar Project Jardín Solar (537 MW): The project considers the installation of a solar power plant with an installed capacity of close to 537 MW that will be built in 2 stages of 263 MW and 274 MW each. It has an annual average generation of approximately 1,500 GWh. This solar project is located approximately 8 km south-east of Pozo Almonte locality, in the commune of Pozo Almonte in the Tarapacá Region, and will use a total area of approximately 1,000 hectares.

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

During the fourth quarter, the environmental processing process continued, whose terms have been affected by authority provisions in the face of COVID-19 pandemic, mainly due to the quarantine of the Pozo Almonte commune, which precluded the necessary field campaigns to adequately answer the queries emanating from the Consolidated Report N° 1 (ICSARA N° 1).

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

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

During the fourth quarter, the environmental baseline was completed, the basic geotechnical campaign began, and the wind resource continued to be measured.

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

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

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

San Pedro Hydroelectric Project (170 MW): The project is located 25 km northeast of Los Lagos, Los Ríos Region, and considers using the water of the homonymous river through a 12 km reservoir power plant located between the outlet of the Riñihue Lake and the Malihue Bridge. Considering the adjustments included in the project, it will have an approximate installed capacity of 170 MW for an annual generation of 953 GWh under normal hydrological conditions. It presents a 15% construction progress.

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

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

In December 2018, the Environmental Impact Study was re-entered for project adjustments. At the end of April 2019, the environmental authority issued the first Environmental and Citizen ICSARA, whose initial response period was September 30, 2020; however, as a result of the Covid-19 contingency, the Authority extended the period by 30 business days. The Environmental Impact Service decreed a second face-to-face citizen participation, which has not been possible due to the pandemic situation, which normatively keeps suspended the environmental process. If the quarantine conditions of Los Lagos and Panguipulli municipalities changes in March 2021, the Addendum N° 2 stage will continue.

Transmission projects under development

■ ■ ■ **Maquis substation enhancement:** Enhancement of the existing 220 kV substation, modifying the current configuration to GIS technology, the change considers at least 6 switchyards. The control systems and protections must also be adapted. The awarded investment value is US\$8.0 million and as of December 2020, it presents an advance of 96%.

■ ■ ■ **Puente Negro substation enhancement:** This project is originated by a Transmission service contract signed in 2019 with the company Tinguiririca Energía, to section and connect the Puente Negro substation with the 2x154 Tinguiririca-La Higuera line. The project has a budget of US\$11.8 million with an original commission date in December 2020, which has been postponed until April 2021 at the request of Tinguiririca Energía to avoid interference in the peak generation period. As of December 2020, it presents an advance of 99%.

■ ■ ■ **Capacity increase in LT 2x110 kV Aconcagua - Esperanza:** Expansion of the existing facilities, changing the 2x110kV Aconcagua-Esperanza line conductor, between the substations Rio Aconcagua and Nueva Panquehue, for a high-capacity, low-arrow line capable of transmitting 155 MVA at 35°C. CEN awarded it to the company SEMI for a value of US\$5.6 million. The contract between SEMI and Colbun Transmission was signed on January 31, 2020, with an execution period of 36 months and as of December 2020, it presents an 18% advance.

■ ■ ■ **Candelaria substation expansion:** Expansion work of existing facilities consisting of expansion of bars for 2 diagonals and level ground for another 2 future diagonals. CEN awarded it to the company INPROLEC for a value of US\$2.1 million. The contract between INPROLEC and Colbun Transmission was signed by the end of September 2020, with an execution period of 36 months from the award decree publication date, presenting an advance of 13% as of December 2020.

New transmission projects awards (Nov20)

■ ■ ■ **New S/S Codegua:** Sectioning of Alto Jahuel - Sauzal 2x110 kV line and Rancagua - San Francisco de Mostazal 1x66 kV line. The awarded investment value is US\$11.6 million, with an execution period of 36 months.

■ ■ ■ **New S/S Loica:** Sectioning of Rapel - Lo Aguirre 2x220 kV line and Rapel - Alto Melipilla 1x220 kV line. The awarded investment value is US\$37.6 million, with an execution period of 36 months.

■ ■ ■ **S/S Portezuelo Expansion:** Project included in the bid for Loica S/S and Loica - Portezuelo line, the EPC rights were awarded to Colbun. The Project consists in the expansion of Portezuelo S/S, the construction of 4 central bays and power transformer bay and to set-up of a power transformer bank. The awarded investment value is US\$7.5 million.

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

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

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

B. Risk Factors

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

B.1. Electrical Business Risks

B.1.1. Hydrological risk

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

The Company's exposure to hydrological risk is reasonably mitigated by a commercial policy that aims to maintain a balance between competitive base load generation (hydro generation in a medium to dry year and cost efficient thermal generation with coal and natural gas, and other renewables cost-efficient generation properly complemented by other sources of generation given their intermittency and volatility) and commercial commitments. Under conditions of extreme and recurrent drought, a potential shortage of water for refrigeration could affect the generation capacity of the combined cycles. With the objective of minimizing the use of water and ensuring operational availability during periods of water scarcity, in 2017 Colbun built a Reverse Osmosis Plant that allows to reduce by up to 50% the water used in the cooling process of the combined cycles of the Nehuenco Complex.

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

B.1.2. Fuel price risk

In Chile, in situations of low water availability in its hydro power plants, Colbun must rely on its thermal plants or purchase energy in the spot market at marginal cost. Otherwise, in case of abundant hydrology, the Company may be in a selling position in the spot market, where the price would be partially determined by the fuel price. In both cases, there is a risk associated to potential variations in international fuel prices.

Part of this risk is mitigated by incorporating fuel price variations in the indexation of the selling energy contracts. Additionally, in order to reduce fuel price risks there is a hedge program in place with different derivative instruments such as call options and put options to hedge the remaining exposure, if necessary. Otherwise, faced with abundant hydrology, the Company could have a surplus position in the spot market, the price of which would be partially determined by fuel prices.

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

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

B.1.3. Fuel supply risks

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

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

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

B.1.4. Equipment failure and maintenance risks

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

On November 26, as a consequence of a landslide, an obstruction of the water flow transported through the Pataguilla tunnel, part of Las Mercedes channel, occurred. This collapse caused a lack of water availability to agricultural areas in the communes of Curacaví and María Pinto until December 18, date on which the tunnel’s operation was restored. The root cause analysis of the collapse is currently under process.

B.1.5. Project construction risks

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

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

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

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

B.1.6. Regulatory risks

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

Chile

In the context of the constitutional process originated from the commitment called "Agreement for Peace and the New Constitution" ("Acuerdo por la Paz y la Nueva Constitución"), and the subsequent approval by plebiscite of the drafting of a new Constitution, on April 11th the 155 constituents in charge of its drafting will be elected and the text must be submitted to a new plebiscite in 2022. The constitutional process may result in changes to the institutional framework applicable to the business activity in the country.

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

In this context, within the framework of the serious health crisis that affects the country, on January 5 Law 21,301 was enacted, extending the effects of Law 21,249, which provides for exceptional measures in favor of end users of health, electricity and gas network services. This initiative extends the term of benefits to end users, which were in force until November 2020.

Additionally, the Environment and Natural Resources Commission of the Chamber of Deputies maintains under review the indications presented on the Bill that seeks to advance the closure of coal-fired power plants, which was generally approved by the Chamber. This Bill, initiated in a parliamentary motion, seeks to prohibit the installation and operation of coal-fired power plants throughout the national territory from January 1, 2026, onwards. The Ministries of Energy and Environment, the CNE and the CEN have exposed to the Commission the inconvenience of advancing the closure of coal-fired plants by legal means. It is important to note that in 2019 the generators signed a voluntary agreement with the government, by means of which they committed not to build new coal-fired power plants and the progressive closure of the existing ones was agreed.

On November 16, the processing of a new Bill began, corresponding to a parliamentary motion entered through the Senate, which seeks to "ensure water security for the different productive uses of water", and whose main provisions establish modifications in the Water Code and in the General Law of Electrical Services. Its amendments aim to limit the possibility of exercising water rights for hydroelectric generation, in particular the one that comes from natural or artificial reservoirs, when these affect other uses of water, such as human consumption and use for irrigation, in which case there must be a coordination that allows the simultaneous use of both rights. Likewise, it establishes the obligation of hydroelectric generation companies to provide plans to transform their generation matrix (towards renewable sources other than water) within a period of 5 years.

The Climate Change Framework Bill, entered into the Senate by the Executive on January 13, 2020, is in its first constitutional process, currently being discussed by the Environment and Natural Resources Committee of the Senate, with extreme urgency. The objective of this Bill is to create a legal framework to “face the challenges of climate change, move towards a low in greenhouse gas emissions development, until reaching and maintaining the neutrality of these emissions; reduce vulnerability and increase resilience to the adverse effects of Climate Change; and comply with the international commitments assumed by the Chilean State in this regard”.

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

- (i) The “Modernization of the Distribution segment”, which seeks to update the regulation of the distribution sector regulation to better address the technological and market advances that have occurred and are foreseen for the future, encourage investment and improve the quality of service to end users. In the context of the modernization and comprehensive reform of this segment, the Executive submitted to the Chamber of Deputies the Bill that establishes the right to electrical portability, creating the figure of trader as a new market agent, in addition to consider the modernization of the supply bidding mechanism and the introduction of the information manager role to reduce information asymmetries and protect customer’s consumption data.

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

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

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

- (ii) The “Flexibility Strategy”, which aims to address the systemic and market consequences that will arise due to the increasing incorporation of variable renewable energy. Recently, the Ministry of Energy published the definitive Strategy, detailing the three axes or pillars considered: (a) Market design for the development of a Flexible System, (b) Regulatory framework for Storage Systems, and (c) Flexible operation of the system. Within the framework of this Strategy, working groups are being formed with industry representatives to address the measures that have been proposed in each of the axes.
- (iii) At the regulatory and resolution level, it is worth noting:
 - a. On December 26, 2020, Decree N° 42 of 2020 of the Ministry of Energy was published in the Official Gazette, introducing modifications to Supreme Decree N° 62 of 2006, which approved regulations for capacity transfers between generating companies. The main modifications that this decree introduces are the recognition of sufficiency capacity to plants with storage systems and the incorporation of the State of Strategic Reserve in the framework of the decommissioning of coal-fired power plants.

- b. Regarding the Ancillary Services Market, in September 2020 the Coordinator published the 2020's Ancillary Services Report final update, in which it suspended the ancillary services auctions of secondary and tertiary frequency control. Due to this, discrepancies were presented to the Panel of Experts for disagreements on the form and conclusions of the Coordinator's decision. In this context, the CNE and the Coordinator worked on changes, in their opinion, to necessary resume the auctions, which materialized in the resolution of November 23 that modified the Ancillary Services Definition Report and the maximum prices resolution. After this, on December 16, 2020, the auctions of these ancillary services were resumed and, in parallel, letters of withdrawal were presented for the discrepancies presented to the Panel.

Perú

After Luz del Sur made a complaint against the Ministry of Energy, due to the fact that - in the opinion of the company - Decree 043-2017-EM, which is related to the declaration of fuel prices by generating plants, had both legal and constitutional infractions, the Supreme Court declared that this Decree is invalid and ordered the Ministry of Energy to establish new provisions based on the already existing Decree 039-2017-EM. This declaration of nullity refers to the possibility that thermal power plants may declare a minimum natural gas price lower than the real price of the fuel (because of take or pay clauses). The ruling indicates that two different prices cannot be declared: one in bar and the other for the gas price declaration (order of dispatch of power plants).

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

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

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

Regarding long-term values, the bidding process for the supply of regulated customers concluded in August 2016 and October 2017 resulted in a significant drop in the bid and awarded prices, reflecting the greater competitiveness in the market and the impact of the emergence of new technologies - solar and wind fundamentally - with a significant reduction of costs due to its massification.

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

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

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

Regarding the impact of COVID-19 on energy demand, there is still uncertainty about the magnitude and length of this contingency. Energy demand in Chile increased approximately 1.6% during 4Q20 compared to 4Q19 and 0.4% on 2020 compared to 2019, while in Peru, there was decrease of approximately 0.3% during the quarter and 7.0% during 2020. Additionally, the world economic outlook is complex, which might lead to a contraction of the Chilean and Peruvian economies, probably affecting future energy demand.

B.2 Financial risks

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

B.2.1 Exchange rate risk

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

The second source of risk corresponds to the accounting mismatch between assets and liabilities of the Statement of Financial Position denominated in currencies other than the functional currency.

Exposure to cash flows in currencies other than USD is limited because virtually all sales of the Company are denominated directly in or indexed to USD.

Similarly, the main costs are related to natural gas and coal purchases, which incorporate pricing formulas based on international prices denominated in USD.

Regarding investment projects disbursements, the Company incorporates indexers in its contracts with suppliers and occasionally resorts to the use of derivatives to fix the expenses in currencies other than USD.

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

B.2.2 Interest rate risk

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

As of December 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 correctly made the corresponding payments.

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

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

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

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

B.2.4 Liquidity risk

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

As of December 2020, Colbun has cash in excess for approximately US\$967 million, invested in time deposits with an average maturity of 83 days (including time deposits with a duration of more than 90 days, which are recorded as “Other Current Financial Assets” in the Consolidated Financial Statements) and in short-term mutual funds with a maturity of less than 90 days.

The Company also has as additional liquidity sources available to date: (i) three bond lines registered in the local market, two for a total joint amount of UF 7 million and another line for a total amount of UF 7 million, and (ii) uncommitted bank lines of approximately US\$150 million. On its part, Fenix Power has committed credit lines for a total of US\$25 million, with a one-year term, contracted with two local banks. In addition, Fenix Power has uncommitted lines for a total of US\$34 mm, contracted with three local banks.

In the next 12 months, the Company must disburse approximately US\$110 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

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

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

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

Information on contractual maturities of the main financial liabilities is disclosed in note 23.c.2 of the Financial Statements.

B.2.5 Risk exposure measurement

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

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

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

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

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

Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural balance items denominated in currencies other than USD. Given the above, as of December 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 fixed rate.

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

At the end of the period, the financial institution that has the largest share of cash surpluses reached 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 24% in notional terms.

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

DISCLAIMER

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

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

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