

NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the foreign and local currency Issuer Default Ratings (IDRs) of Colbun S.A. (Colbun) at 'BBB', its long-term national scale rating at 'A+(cl)', the short-term national scale rating at 'N1+(cl)', and the national equity rating at 'Primera Clase Nivel 2(cl)'.

These rating actions affect USD900 million to USD1 billion of outstanding international bonds, including the proposed notes issuance of USD400 to USD500 million from June 25, 2014, depending on the amount raised by the current bond offering, and USD500 million of domestic bonds.

The Rating Outlook is Stable.

### KEY RATING DRIVERS

Colbun's ratings reflect its diverse and improving portfolio of generation assets by energy source, its balanced long-term contracted position and a constructive regulatory environment. Credit risks associated with the company include exposure to hydrological risk, which represents 48% of its installed capacity, potential to increase capex and possible environmental and/or political issues. The latter could result in cost overruns or modifications of projects under construction.

#### Balanced Contractual Position

Colbun benefits from long-term contracts with financially strong counterparties (power distribution companies and industrials). These contracts have adequate indexation mechanisms that closely match the company's generation mix and somewhat mitigates Colbun's exposure to fuel price volatility.

Based on a normal hydrology, Colbun's contract requirements are balanced and its contracted volume is expected to reach about 12,000 GWh per annum in 2015 and to

remain at that level. Under a scenario of dry hydrology, the contracted volume could be met with the company's natural gas back-up units or by purchases in the spot market, although with a negative impact on margins.

### Temporary Natural Gas Provision Helps

Positively, the company has secured the temporary provision of natural gas for its thermal units through contracts with Metrogas and Enap Refinerias S.A. The contract with Metrogas ensures the provision of natural gas during January to April of 2013, 2014 and 2015, and includes the option of additional purchases outside such periods. The contract with Enap Refinerias was initially valid from October 2013 to March 2014, but Colbun negotiated additional supply from ENAP for the April to June 2014 period. Fitch expects Colbun to reach similar arrangements with ENAP in the future to cover its natural gas needs.

### Nehuenco II Back in Service

On March 14, 2013, the Nehuenco II thermal turbine had a force outage and remained out of service until July 24, 2013. The unavailability of this plant limited the company's ability to fully benefit from its access to natural gas. While Colbun was able to reduce the volume of natural gas purchases, a portion of the company's natural gas supply was redirected to Colbun's higher cost plant, Candelaria. The deficit in Nehuenco's production was covered by Candelaria's electric generation and via purchases in the spot market. Positively, Colbun received insurance payments of USD62 million between 3Q13 and 1Q14 to compensate for the idled plant's lost profitability and equipment damage.

### Angostura Power Plant in Operation

The Angostura hydroelectric project was officially commissioned in April 2014, and is a contributing factor for Fitch's expectations of 40% EBITDA growth in 2014. The new plant's launch increases the mix of cost-efficient energy sources for the company at the expense of more expensive fuel sources such as diesel. The plant, which cost USD760 million to build, is the largest hydroelectric plant built in Chile over the last decade and added 316 MW of generation capacity to Colbun. The plant is expected to generate 1,500 Gigawatt

hours (GWh) of power production per year, and it already generated 116 GWh in the test phase during 1Q14 (representing USD17 million in gross margin contribution).

### Ambitious Growth Agenda

Colbun has an ambitious medium- to long-term expansion agenda. As the company returned to positive free cash flow generation and, given the recently announced international bond issuance, the project build-out seems financially manageable especially if the projects are spread apart from each other. However, consistent with major engineering works, the projects do add to Colbun's execution and construction risk.

The company's multiple projects under development are: 1) San Pedro Hydroelectric Project (150 MW), La Mina Hydroelectric Project (34 MW), and the coal-fired Santa Maria II thermoelectric project (350 MW). The Santa Maria II and La Mina projects are in the most advanced stages of development, and Fitch believes it is unlikely that any major work will begin on these projects until 2015 at the earliest. After paying down USD150 million in short-term debt using the proceeds from the company's latest USD400 to USD500 million bond emission, the company will hold the remaining USD250 to 350 million of funds in its cash balance for future capex use. The company expects to pay the remaining investment requirements via its own cash flow generation.

### Return to Positive Free Cash Flow

For the 12 months ended March 2014 (LTM March 2014), Colbun's EBITDA was USD383 million while capex was USD280 million, resulting in positive free cash flow of nearly USD10 million. Free cash flow was negative during the 2010-2012 period and the cash flow deficits were financed with new indebtedness.

As of March 2014, total debt was USD1.62 billion and the cash position was USD208 million, resulting in net debt of USD1.41 billion. The company's liquidity is enhanced by its access to committed credit lines of approximately USD170 million.

Fitch expects Colbun to reduce its free cash flow deficit, under the assumption it maintains a 30% dividend payout ratio. Should dividend payments or investments materially increase, free cash flow deficits could potentially persist. Net debt should remain at or below current levels, and short-term debt maturities should remain manageable following the recent bond issuance. Assuming the company uses proceeds from the new bond to pay its USD150 million syndicated loan due in June 2015, the company's maturities are USD50 million in 2014 and USD186 million in 2015.

### Credit Metrics Recovering

Colbun's credit metrics have been gradually improving since the third quarter of 2012 (3Q12), as Colbun rebalanced its contracted position with its efficient generation capacity following the start-up of its coal-fired Santa Maria plant. 2013 was the first full-year of operations for the Santa Maria plant. The newly commissioned Angostura hydro plant has also had a positive effect so far in 2014, and Fitch expects consolidated EBITDA to total approximately USD500 million for the full-year (up 40% year over year).

As of March 2014, the leverage as measured by debt to EBITDA was 4.2 times(x), down from the 6.1x in December 2012 and 7.3x in December 2011. Fitch expects Colbun to maintain a long-term targeted leverage level below 4.0x. Pro-forma for the bond issuance, Fitch is projecting a leverage ratio of approximately 4x for 2014 based on the forecast EBITDA of USD500 million in 2014. As of March 2014, interest coverage improved to 4x when compared to 2.2x in December 2012.

### RATING SENSITIVITIES

As Colbun's leverage metrics and financial profile remain relatively weak for the rating category, failure to continue to improve leverage and coverage ratios could pressure Colbun's credit quality and result in a negative rating action. Fitch expects that the company's leverage defined as Total Debt: EBITDA remains at 4x or below over the next 24 months. If the company's recovery does not continue and it exceeds the aforementioned leverage levels, this could result in a one-notch downgrade. In addition, if there is an imbalance in Colbun's long-term contracted position and/or if the performance of its thermal plants is consistently below expectations, these factors could pressure the company's credit profile.

A positive rating action is not likely in the near future.

Colbun is the second largest electricity generator in Chile's main interconnected system (SIC), representing 21% of the installed capacity in the SIC, with 3,278MW of installed capacity, 48% hydro-based and 52% thermo-based. The company is owned by two of the largest economic groups in Chile, the Matte Group (49%) and the Angelini Group (10%).

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

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Additional Disclosure

Solicitation Status

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