

Risk management policy

All Enel Group companies are exposed to certain risks that are managed through the application of systems of identification, measurement, limit of concentration and supervision.

The basic principles defined by Enel Group in establishing its risk management policy include the following:

- > Comply with good corporate governance rules.
- > Comply strictly with the group's norms and procedures.
- > Each business and corporate area defines:
 - I. The markets in which it can operate, based on having the sufficient knowledge and abilities to ensure effective risk management
 - II. Criteria on counterparties
 - III. Authorized operators
- > Each business and corporate area establishes, for each market in which it operates, its position regarding risk, in accordance to the strategy defined.
- > All operations of businesses and corporate areas are performed within the limits approved for each case.
- > The businesses, corporate areas, business lines, and companies determine the risk management controls necessary to ensure that market transactions are performed according to the policies, rules, and procedures of Enel Generación Chile.

Interest rate risk

Interest rate fluctuations modify the fair value of assets and liabilities that accrue interest at fixed rates, as well as the future flows of assets and liabilities based on a variable interest rate.

The objective of interest rate risk management is to achieve a debt structure balance that allows minimizing the cost of debt and maintain low income statement volatility.

Depending on the Group's estimates and debt structure objectives, hedging operations are performed by purchasing derivatives that mitigate these risks.

The comparative financial debt structure of the Enel Generación Chile group, regarding fixed and hedged interest rate to total debt, net of derivatives, is the following:

Gross exposure:

	2017	2016
Fixed Interest Rate	92%	92%

Exchange rate risks

Exchange rate risks are primarily related to the following transactions:

- > Debt incurred by the Group's companies in currencies other than their respective operational cash flow currency.
- > Payments in currencies other than their respective operational cash flow currency, such as payments of project-related materials and corporate insurance policies.

- > Revenues in the Group's subsidiaries that are directly linked to currencies different than their respective operational cash flow currency.

To mitigate exchange rate risk, the exchange rate hedging policy includes maintaining a balance between cash flows indexed to US dollars or local currencies, should there be any, and levels of assets and liabilities in such currency. The objective is to minimize cash flow exposure to exchange rate fluctuations.

The instruments currently used to comply with this policy are currency swaps and exchange rate forwards.

Commodities Risk

Enel Generación Chile is exposed to certain commodity price fluctuations, primarily through:

- > Fuel purchases in the process of generating electricity.
- > Energy trading operations in local markets.

To reduce risk in situations of extreme drought, the Group has designed a commercial policy that defines levels of sale commitments, in accordance to its power plant's generation capacity in a dry year, which include risk-mitigation clauses in some contracts with nonregulated customers. In the case of regulated customers that are subject to long-term tender processes, indexation clauses are included to reduce commodity price exposure.

Considering the operating conditions faced by the electricity generation market in Chile, such as droughts and commodity price volatility in international markets, the Company is constantly evaluating the convenience of hedges to mitigate the impact of price fluctuations on profits.

As of December 31, 2017, the company had outstanding operations for 2.3 MMBtu, to be settled in January 2018.

As of December 31, 2016, there were swap operations outstanding for 3 thousand barrels of Brent oil to be settled between January and November 2017, and 3 MMBTu of Henry Hub gas to be settled between January and September 2017.

These hedging instruments may be modified or could include other commodities as a consequence of constantly changing operating conditions.

Liquidity risk

Enel Generación Chile has a liquidity policy that establishes that enough committed long-term credit facilities and liquid financial investments must be available to finance projected needs for a certain period of time, which is calculated as a function of the overall situation and expectations regarding debt and capital markets.

The aforementioned projected needs include net financial debt maturities, in other words, after financial derivatives. For further detail regarding characteristics and conditions of financial debt and financial derivatives, see Notes 17, 19 and Appendix 4.

As of December 31, 2017, the liquidity of Enel Generación Chile amounted to ThCh\$ 211,027,141 in cash and cash equivalents, and ThCh\$ 199,271,103 in unconditional committed long-term credit lines.

As of December 31, 2016, the liquidity of Enel Generación Chile amounted to ThCh\$ 114,486,479 in cash and cash equivalents, and ThCh\$ 342,827,047 in unconditional committed long-term credit lines.

Credit risk

Enel Generación Chile conducts a detailed credit risk follow-up.

Trade accounts receivables

Credit risk associated to account receivables stemming from commercial activity has historically been limited, mainly due to short-term payment deadlines that prevent clients from accumulating significant individual debt amounts.

In the event of non-payment, supply disruption is a possibility. Additionally, contracts stipulate that payment defaults qualify as a cause for contract termination. For this purpose, and although the risk is limited, credit risk and maximum amounts exposed to payment risk are constantly measured and monitored.

Financial Assets

Investments of cash surpluses are made in first class domestic and foreign financial institutions, within established limits for each entity.

Banks considered for investments have investment grade rating, considering the three major international rating agencies (Moody's, S&P and Fitch).

Investments may be backed by Chilean treasury bonds and securities issued by first-class banks, prioritizing the latter as they offer better returns (always within existing investment policy guidelines).

Risk measurement

Enel Generación Chile measures the Value at Risk of its debt and financial derivatives to monitor the risk taken by the company, thus limiting income statement volatility.

The positions included in the portfolio used to calculate the present Value at Risk is composed of:

- > Financial debt.
- > Debt-hedging derivatives.

The calculated Value at Risk represents a potential loss of value of the portfolio described above in one quarter, with 95% confidence. To this effect, the company studied the volatility of variables at risk that affect the value of the portfolio, with respect to the Chilean peso, which includes:

- > US dollar Libor Rate.
- > Exchange rates of currencies included in the calculations

The calculation of Value at Risk is based on the extrapolation of future market value scenarios (one quarter out) of the variables at risk according to scenarios based on real observations for the same period (quarter), for five years.

The Value at Risk for the next quarter, with 95% confidence, is calculated as the percentile of the most adverse 5% of possible quarterly changes.

Based on the hypotheses stated above, the Value at Risk for the aforementioned positions, one quarter out, is ThCh\$ 66,890,686.

This value represents the potential increase in the debt and derivatives portfolio, and therefore is intrinsically linked, among other factors, to the value of the portfolio at the end of each quarter.