4th QUARTER 2016

Colbun
MEJOR ENERGÍA

EARNINGS REPORT

As of December 31, 2016

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4Q16

EARNINGS REPORT

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Conference Call
4Q16

Date: Friday February 3rd 2017

Hora: 10:00 AM Eastern Satandard Time
12:00 PM Chile Time

US Toll Free: 1 888 419 5570
International Dial: +1 617 896 9871
Password: 660 322 85

www.colbun.cl

Investor Relations Team Contact:

Miguel Alarcón V.
malarcon@colbun.cl
+ (56) 2 24604394

Verónica Pubill C.
vpubill@colbun.cl
+ (56) 2 24604308

Soledad Errázuriz V.
serrazuriz@colbun.cl
+ (56) 2 24604450

1. HIGHLIGHTS

Consolidated **EBITDA** in 4Q16 reached **US$157.9 million**, 9% lower than the EBITDA of US$173.3 million in 4Q15. The current hydrological year in Chile has presented extremely dry rainfall and ice-melting conditions, being the driest of the past 6 years, resulting in a low level of hydraulic generation. This contributed to the Company having a deficitary position in the spot market. These effects were mainly offset by higher sales to customers under contract and by the contribution of EBITDA from the Fenix Power Peru operation, hereinafter "Fenix".
In cumulative terms, EBITDA as of December 2016 (Dec16) reached US$601.8 million compared with US$583.3 million in Dec15. The increase is mainly explained by Fenix's EBITDA contribution, higher revenues from regulated customers and a decrease in the cost of thermoelectric generation.

Non-operating Income in 4Q16 recorded **losses of US$30.1 million** vs. losses of US$27.3 million in 4Q15. The higher loss in the quarter is mainly explained by: (1) expenses recorded as "Other profit (losses)", which correspond mainly to fixed asset impairments, due to the fire of the transformer that affected Nehuenco 2 power-plant, dated June 28, 2016; (2) the negative effect of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency.
In cumulative terms, non-operating income as of Dec16 recorded losses of US$102.2 million vs. losses of US$88.4 million as of Dec15. The higher loss is explained by: (1) higher financial expenses due to the recognition of the expense of those activated disbursements associated with the placement of debt in Chile that was prepaid during the year; (2) non-recurring income recorded in "Other Profit (Loss)" for US$11.5 million, as a result of the insurance compensation for the physical damage associated to the failure in Blanco (60 MW) in Jan14, received in 3Q15. These effects were partially offset by the effect of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency and higher financial income from accrued interest from better investment rates.

4Q16 **tax expenses** amounted to **US$18.8 million**, lower when compared to tax expenses of US$28.1 million in 4Q15. The lower tax expenses are mainly explained by the lower profit before taxes recorded on this quarter and because tax expenses in 4Q15 recorded the impact from variations in the exchange rate due to local currency tax accounting. It is worth mentioning that Colbún in Chile adopted tax accounting in US Dollars since January 2016.
Tax expenses in cumulative terms as of Dec16 reached US$66.9 million, vs. tax expenses of US$99.6 million as of Dec15. The decrease is explained by lower profit before taxes and because the tax expense in 2015 included the effect of the variation of the exchange rate based on tax accounting in local currency.

The Company recorded in 4Q16 a **net income of US$48.8 million,** lower than the net income of US$67.6 million of 4Q15. The decrease in net income is mainly explained by the lower EBITDA recorded in the quarter.
In cumulative terms, the result shows a net income of US$204.7 million, in line with net income of US$200.4 million as of Dec15.

On a quarterly basis, Fenix's **EBITDA** totalized **US$14.1 million,** higher than the EBITDA of US$4.4 million recorded in 4Q15. In cumulative terms, EBITDA as of Dec16 reached US$56.0 million vs. US$48.7 million as of Dec15.
It is worth mentioning that Fenix was acquired in Dec15, the periods prior the acquisition of Fenix are presented for comparative purposes only.

During 2016, as part of a strategy to optimize its financial structure, **Colbún prepaid debt for a total amount of US$490.8 million.** The prepaid obligations correspond to the local H Series Bond with original maturity in 2018 and two bank loans whose original maturities were in 2018 and 2021.
With the latter, average financial debt maturity as of Dec16 reaches 5.1 years and its average interest rate is 4.9%.

At 4Q16 closing, **financial investments** amounted to **US$667.0 million,** and **net debt** was **US$1,043.0 million.**

As of Dec16 **La Mina Project** (34 MW) accounts for a 98.5% progress, which is according to plan. As important milestones achieved during the quarter it is worth mentioning: the successful commissioning of the high voltage line, the completion of the construction of Civil Works, water testing of the adduction cannel and stator assembly in Unit 2 of the machine house. The project is expected to enter commercial operations during the first quarter of 2017.

Operation Analysis in Chile

Physical sales during 4Q16 reached 2,773 GWh, down by 4% when compared to the same period of the previous year, mainly because during the quarter the Company did not record sales in the spot market and because of lower withdrawals from unregulated customers, partially offset by higher sales to regulated customers. On its part, the quarter presented a lower generation, which decreased by 17% compared to 4Q15, mainly due to lower hydroelectric generation (1,132 GWh Q/Q), since the current hydrological year has presented extremely dry rainfall and ice-melting conditions. The lower hydroelectric generation was offset by higher thermoelectric generation based on natural gas (591 GWh Q/Q), coal (76 GWh Q/Q) and diesel (12 GWh Q/Q).

The average marginal cost of the quarter measured in Alto Jahuel increased by 24%, from US$39/MWh in 4Q15 to US$48/MWh in 4Q16. This increase is mainly due to lower hydroelectric generation compared to the same quarter of the previous year as a result of the drier hydrological conditions already mentioned.

Operation Analysis in Peru

The analysis presented below compares periods prior the acquisition of Fenix, thus Fenix's results for the year 2015 are presented for comparative purposes only.

Physical withdrawals from customers under contract over 4Q16 reached 702 GWh, 25% lower when compared to 4Q15, mainly explained by the expiration of bilateral short-term supply contracts during 2016.
On its part, power-generation during the quarter increased when compared to the same period of the previous year, mainly due to lower economic dispatch and shorter temporary availability of gas transportation during 4Q15.

Table 1: Consolidated Summary (US$ million)

Accumulated Figures		Summary	Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
1,313.9	1,436.2	Revenues	301.4	369.2	9%	22%
583.3	601.8	EBITDA	173.3	157.9	3%	(9%)
200.4	204.7	Net Income	67.6	48.8	2%	(28%)
1,154.8	1,043.0	Net debt	1,154.8	1,043.0	(10%)	(10%)
12,497	11,956	Sales of contracted energy Chile (GWh)	2,885	2,773	(4%)	(4%)
3,627	3,177	Sales of contracted energy Peru (GWh)	934	702	(12%)	(25%)
12,646	11,275	Total generation Chile (GWh)	2,792	2,329	(11%)	(17%)
3,621	3,582	Total generation Peru (GWh)	605	1,211	(1%)	100%

2. PHYSICAL SALES AND GENERATION BALANCE

2.1 Physical Sales and Generation Balance in Chile

Table 2 shows a comparison between physical energy sales and power generation in 4Q15, 4Q16 and cumulative as of Dec15 y Dec16.

Table 2: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
12,497	**11,956**	**Total Physical Sales (GWh)**	**2,885**	**2,773**	**(4%)**	**(4%)**
6,625	6,534	Regulated Clients	1,557	1,646	(1%)	6%
4,428	4,507	Unregulated Clients	1,150	1,127	2%	(2%)
1,444	916	Sales to the Spot Market	178	0	(37%)	-
1,559	**1,580**	**Capacity Sales (MW)**	**1,509**	**1,605**	**1%**	**6%**

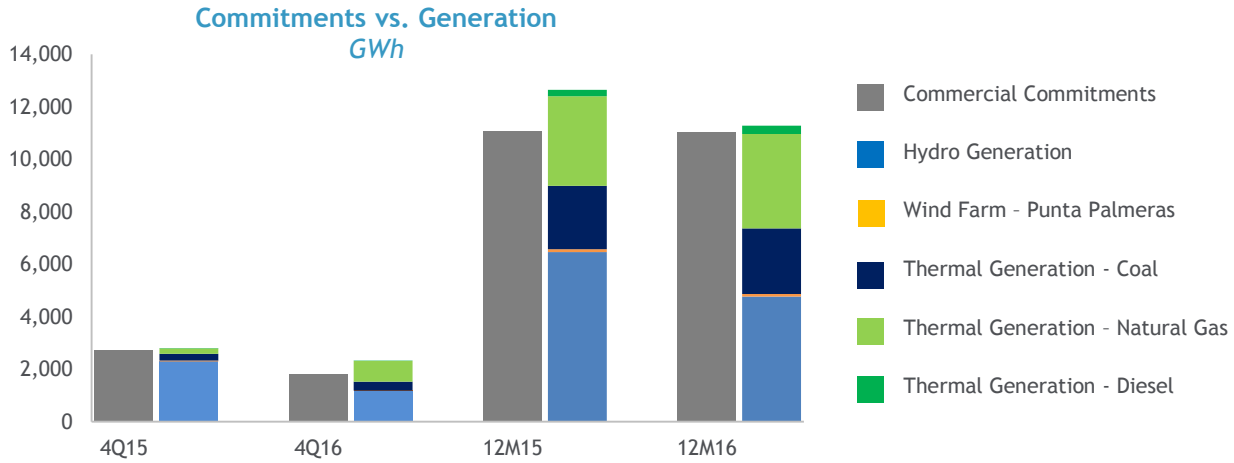
Accumulated Figures		Generation	Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
12,646	**11,275**	**Total Generation (GWh)**	**2,792**	**2,329**	**(11%)**	**(17%)**
6,464	4,766	Hydraulic	2,285	1,153	(26%)	(50%)
3,421	3,594	Thermoelectric - Gas	204	795	5%	289%
244	315	Thermoelectric - Diesel	1	13	29%	2395%
2,405	2,505	Thermoelectric - Coal	263	339	4%	29%
111	95	Wind Farm - Punta Palmeras	39	30	(15%)	(23%)
124	**927**	**Spot Market Purchases (GWh)**	**124**	**490**	**648%**	**295%**
1,320	**(11)**	**Sales - Purchases to the Spot Market (GWh)**	**54**	**(490)**	**-**	**-**

Physical withdrawals during 4Q16 reached 2,773 GWh, 4% lower compared to the same period last year, mainly because during the quarter the Company did not record sales in the spot market and because of lower withdrawals from unregulated customers, partially offset by higher sales to regulated customers. On its part, the quarter presented a lower generation, which decreased by 17% compared to 4Q15, mainly due to lower hydroelectric generation (1,132 GWh Q/Q), since the current hydrological year has presented extremely dry rainfall and ice-melting conditions. The lower hydroelectric generation was partially offset by higher thermoelectric generation based on natural gas (591 GWh Q/Q), coal (76 GWh Q/Q) and diesel (12 GWh Q/Q).
Spot market balance reached net purchases of 490 GWh, compared to net sales for 54 GWh recorded in 4Q15.

In cumulative terms, physical withdrawals as of Dec16 reached 11,956 GWh, 4% lower compared to Dec15 mainly due to lower sales in the spot market, partially offset by higher physical withdrawals from unregulated customers.
Colbún's total power generation reached 11,275 GWh as of Dec16, down by 11% compared to Dec15, mainly because of lower hydroelectric generation (1,698 GWh ac/ac). The lower generation of the period was partially offset by higher gas generation (173 GWh ac/ac), coal (100 GWh ac/ac) and diesel (71 GWh ac/ac), which translates in that 98% of the total commitments were supplied with cost-efficient base generation (hydro, coal and natural gas).
Spot market balance recorded net purchases for 11 GWh, compared with net sales for 1,320 GWh from the previous year.

Generation mix in Chile: the hydrological year (Apr16-Mar17) has presented the worst hydrological conditions of the past 6 years, with poor rainfalls compared to an average year, which began at the end of June, decreasing in the subsequent months, resulting in extremely dry ice-meltings. The hydrological condition has not been uniform throughout Chile, where the basins affected by lower rainfall are located in the southern part of the SIC (Central Interconnected System), improving conditions towards the center-north. As an example, rainfall deficit compared to an average year during 2016, by basin from north to south is: Armerillo-Maule: 61%; Abanico: 33%; Canutillar: 31%. On its part, Aconcagua basin presented a surplus of 18%.

During the 4Q16 the SIC recorded a decrease in hydroelectric generation compared to the same period of 2015 (7,848 GWh in 4Q15 vs. 4,864 GWh in 4Q16), given that the current hydrological year has presented extremely poor rainfalls and ice-melting conditions. The lower hydro generation was partially offset by an increase in thermoelectric gas generation (385 GWh in 4Q15 vs. 2,327 GWh in 4Q16), diesel (58 GWh in 4Q15 vs. 122 GWh in 4Q16), coal (3,096 GWh in 4Q15 vs. 3,701 GWh in 4Q16) and an increase in renewable energy generation (1,720 GWh in 4T15 vs. 2,220 GWh in 4Q16). The average marginal cost measured in Alto Jahuel increased by 24%, from US$39/MWh in 4Q15 to US$48/MWh in 4Q16.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 4Q15, 4Q16, and cumulative as of Dec15 and Dec16 from Fenix.
This table includes periods prior to the acquisition of Fenix, thus Fenix's results for the year 2015 are presented for comparative purposes only.

Table 3: Physical Sales and Generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
4,405	**4,002**	**Total Physical Sales (GWh)**	**0,934**	**1,185**	**(9%)**	**27%**
3,627	3,177	Costumers under Contract	934	702	(12%)	(25%)
778	825	Sales to the Spot Market	0	483	6%	-
575	**562**	**Capacity Sales (MW)**	**559**	**564**	**(2%)**	**1%**

Accumulated Figures		Generation	Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
3,621	**3,582**	**Total Generation (GWh)**	**605**	**1,211**	**(1%)**	**100%**
3,621	3,582	Thermoelectric - Gas	605	1,211	(1%)	100%
254	**311**	**Spot Market Purchases (GWh)**	**188**	**0**	**22%**	**-**
524	**514**	**Sales - Purchases to the Spot Market (GWh)**	**(188)**	**483**	**(2%)**	**-**

On a quarterly basis, physical withdrawals from customers under contract during 4Q16 reached 702 GWh, 25% lower compared to 4Q15, mainly explained by the end of bilateral short-term supply contracts during 2016. On its part, Fenix's thermoelectric generation reached 1,211 GWh in 4Q16 vs. 605 GWh in 4Q15. Power-generation during this quarter increased when compared to the same period of the previous year, mainly due to lower economic dispatch and shorter temporary availability of gas transportation during 4Q15. This implied that 100% of the commitments were supplied with own generation and balance in the spot market reached net sales for 483 GWh in 4Q16 vs. net purchases for 188 GWh in 4Q15.

In cumulative terms, physical withdrawals to customers under contract as of Dec16 reached 3,177 GWh down by 12% compared to Dec15 explained by the same reasons that explain the quarterly variations. On its part, Fenix thermal gas-power generation reached 3,582 GWh, in line with the same period last year. This implied that during 2016, 100% of the commitments were supplied with own generation and net sales were made in the spot market for 514 GWh, compared to net sales in the spot market for 524 GWh as of Dec15.

Generation mix in Peru: During 4Q16 the system presented drier hydrological conditions compared with the same period last year. Mantaro river basin, which supplies the main hydroelectric complex in Peru: CH Mantaro and CH Restitución (900 MW) recorded a hydrological condition with a probability of exceedance of 89% at the end of 4Q16 vs. 29% in 4Q15.
Hydroelectric generation in the National Interconnected System (SEIN) decreased by 2% compared to the same period of 2015, counting the commissioning of new hydro power-plants for 1,000 MW during the period December 2015 - December 2016. On its part, thermoelectric generation increased by 12% during 4Q16 compared to 4Q15 given the drier conditions presented in the system.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 4Q15, 4Q16, and cumulative as of Dec15 and Dec16.

Table 4: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
1,313.9	**1,436.2**	**OPERATING INCOME**	**301.4**	**369.2**	**9%**	**22%**
623.5	769.5	Regulated Customers Sales	142.9	191.4	23%	34%
357.6	383.5	Nonregulated Customers Sales	101.5	116.6	7%	15%
153.5	96.4	Energy and Capacity Sales	22.6	16.1	(37%)	(29%)
146.5	182.2	Transmission Tolls	33.1	42.5	24%	28%
32.8	4.6	Other Operating Income	1.4	2.6	(86%)	83%
(645.9)	**(724.6)**	**RAW MATERIAL AND CONSUMABLES USED**	**(103.5)**	**(182.1)**	**12%**	**76%**
(142.8)	(177.5)	Transmission Tolls	(34.5)	(43.4)	24%	26%
(41.2)	(101.7)	Energy and Capacity Purchases	(17.1)	(36.1)	147%	111%
(253.4)	(262.8)	Gas Consumption	(13.3)	(74.8)	4%	462%
(44.1)	(41.3)	Diesel Consumption	(2.0)	(2.9)	(6%)	49%
(77.6)	(63.4)	Coal Consumption	(8.4)	(9.0)	(18%)	7%
(86.8)	(77.8)	Other Operating Expenses	(28.2)	(15.8)	(10%)	(44%)
667.9	**711.7**	**GROSS PROFIT**	**197.9**	**187.1**	**7%**	**(5%)**
(56.1)	(67.8)	Personnel Expenses	(13.6)	(18.2)	21%	34%
(28.5)	(42.1)	Other Expenses, by Nature	(11.0)	(11.0)	48%	0%
(194.9)	(227.9)	Depreciation and Amortization Expenses	(50.2)	(60.0)	17%	19%
388.4	**373.8**	**OPERATING INCOME (LOSS)(*)**	**123.1**	**97.9**	**(4%)**	**(20%)**
583.3	**601.8**	**EBITDA**	**173.3**	**157.9**	**3%**	**(9%)**
5.5	10.1	Financial Income	2.0	2.5	82%	24%
(90.5)	(103.4)	Financial Expenses	(23.5)	(20.5)	14%	(13%)
2.4	(0.1)	Results of Indexation Units	0.3	(0.0)	-	(100%)
(11.2)	3.4	Exchange rate Differences	(0.3)	(1.6)	-	469%
6.6	5.4	Profit (Loss) of Companies Accounted for Using the Equity Method	1.1	0.9	(18%)	(19%)
(1.2)	(17.6)	Other Profit (Loss)	(7.0)	(11.5)	1339%	64%
(88.4)	**(102.2)**	**NON-OPERATING INCOME**	**(27.3)**	**(30.1)**	**16%**	**10%**
300.0	**271.7**	**PROFIT (LOSS) BEFORE TAXES**	**95.7**	**67.8**	**(9%)**	**(29%)**
(99.6)	(66.9)	Income Tax Expense	(28.1)	(18.8)	(33%)	(33%)
200.4	**204.8**	**PROFIT (LOSS) AFTER TAX**	**67.6**	**48.9**	**2%**	**(28%)**
203.8	**201.4**	**PROFIT (LOSS) OF CONTROLLER**	**71.0**	**48.4**	**(1%)**	**(32%)**
(3.4)	**3.3**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(3.4)**	**0.5**	-	-

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

Exchange Rates	Dec-15	Sep-16	Dec-16
Chile (CLP / US$)	710.16	658.02	669.47
Chile UF (CLP/UF)	25,629.09	26,224.30	26,347.98
Peru (Pen / US$)	3.41	3.40	3.36

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in 4Q15, 4Q16, and cumulative as of Dec15 and Dec16. The major accounts and/or variations will be analyzed below.

Table 6: EBITDA Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-15	Sep-16		4Q15	4Q16	Ac/Ac	Q/Q
1,307.7	**907.4**	**OPERATING INCOME**	**295.2**	**312.1**	**(31%)**	**6%**
618.6	475.1	Regulated Customers Sales	138.0	162.0	(23%)	17%
357.7	267.0	Nonregulated Customers Sales	101.5	116.3	(25%)	15%
153.5	54.2	Energy and Capacity Sales	22.6	(0.8)	(65%)	(104%)
145.1	109.8	Transmission Tolls	31.7	32.4	(24%)	2%
32.7	1.3	Other Operating Income	1.4	2.2	(96%)	57%
(641.2)	**(437.7)**	**RAW MATERIAL AND CONSUMABLES USED**	**(98.7)**	**(142.6)**	**(32%)**	**44%**
(141.6)	(106.9)	Transmission Tolls	(33.3)	(34.9)	(24%)	5%
(40.6)	(51.3)	Energy and Capacity Purchases	(16.5)	(34.7)	26%	110%
(251.4)	(133.5)	Gas Consumption	(11.3)	(46.5)	(47%)	311%
(44.1)	(38.4)	Diesel Consumption	(2.0)	(2.9)	(13%)	46%
(77.6)	(54.4)	Coal Consumption	(8.4)	(9.0)	(30%)	7%
(85.8)	(53.2)	Other Operating Expenses	(27.2)	(14.5)	(38%)	(47%)
666.5	**469.7**	**GROSS PROFIT**	**196.5**	**169.5**	**(30%)**	**(14%)**
(55.9)	(45.3)	Personnel Expenses	(13.4)	(16.6)	(19%)	24%
(28.5)	(22.5)	Other Expenses, by nature	(11.0)	(9.2)	(21%)	(17%)
(193.7)	(144.0)	Depreciation and Amortization Expenses	(49.0)	(52.0)	(26%)	6%
388.4	**258.0**	**OPERATING INCOME (LOSS)(*)**	**123.1**	**91.7**	**(34%)**	**(25%)**
582.1	**401.9**	**EBITDA**	**172.1**	**143.8**	**(31%)**	**(16%)**

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

Operating income from ordinary activities for 4Q16 amounted to US$312.1 million, a 6% increase compared to 4Q15, mainly due to higher revenues from customers under contract, partially offset by lower energy and capacity sales in the spot market, given the lower generation of the period.
In cumulative terms, **operating income from ordinary activities as of Dec16 reached US$1,219.5 million**, down by 7% compared to Dec15, mainly explained by: (1) lower sales to the spot market and (2) lower revenues in the other income account mainly explained because 2015 includes a non-recurring income of US$21.5 million as a result of the insurance compensation for loss of profits due to the failure in Blanco power plant (60 MW) in Jan14.

Raw materials and consumables used increased 44% on a quarterly basis, mainly due to higher gas consumption and higher energy and capacity purchases in the spot market, partially offset by lower costs associated with the operations of the power-plants.

In cumulative terms, raw materials and consumables used as of Dec16 amounted to US$580.2 million, 9% down compared to Dec15 explained by lower fuel costs.

On a quarterly basis, EBITDA decreased 16% compared to the same quarter last year, reaching US$143.8 million. The decrease is mainly explained by higher fuel consumption and higher energy and capacity purchases in the spot market during the quarter to compensate for the lower hydroelectric generation resulting from the extremely dry conditions presented in the current hydrological year.

In cumulative terms, EBITDA decreased by 6% reaching US$545.7 million. The decrease is explained by: (1) lower energy and capacity sales in the spot market; (2) lower revenues in the other income account mainly explained because 2015 includes a non-recurring income of US$21.5 million as a result of the insurance compensation for loss of profits due to the failure in Blanco power plant (60 MW) in Jan14. These decreases were partially offset by lower costs of raw materials and consumables used.

3.2. Operating Income Analysis Peru

Table 7 contemplates periods prior to Colbún's acquisition of Fenix, thus Fenix's results for the year 2015 are presented only for comparative purposes.

Table 7: EBITDA Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Acc/Acc	Q/Q
213.1	**216.7**	**OPERATING INCOME**	**51.2**	**57.1**	**2%**	**12%**
161.3	132.4	Regulated Customers Sales	39.0	29.4	(18%)	(25%)
0.0	0.3	Nonregulated Customers Sales	0.0	0.3	-	-
21.6	43.0	Sales to Other Generators	3.3	17.0	99%	414%
30.3	39.9	Transmission Tolls	8.9	10.0	32%	13%
-	1.1	Other Operating Income	-	0.4	-	-
(151.8)	**(144.3)**	**RAW MATERIAL AND CONSUMABLES USED**	**(39.3)**	**(39.5)**	**(5%)**	**0%**
(33.1)	(35.7)	Transmission Tolls	(8.6)	(8.5)	8%	(1%)
(8.7)	(15.7)	Energy and Capacity Purchases	(4.0)	(1.4)	82%	(66%)
(83.9)	(82.9)	Gas Consumption	(16.6)	(28.3)	(1%)	71%
(26.2)	(10.1)	Other Operating Expenses	(10.2)	(1.3)	(62%)	(87%)
61.4	**72.4**	**GROSS PROFIT**	**11.9**	**17.6**	**18%**	**48%**
(5.0)	(5.9)	Personnel Expenses	(1.6)	(1.6)	**19%**	**3%**
(7.7)	(10.5)	Other Expenses, by Nature	(5.8)	(1.9)	35%	(68%)
(35.8)	(31.9)	Depreciation and Amortization Expenses	(9.0)	(8.0)	(11%)	(11%)
12.9	**24.2**	**OPERATING INCOME (LOSS)**	**(4.6)**	**6.1**	**87%**	**-**
48.7	**56.0**	**EBITDA**	**4.4**	**14.1**	**15%**	**219%**

Operating income from ordinary activities during 4Q16 reached US$57.1 million, increasing by 12% compared to 4Q15, mainly due to higher capacity sales to other generators and higher revenues from transmission tolls. This was partially offset by lower sales to regulated customers.

In cumulative terms, operating revenues as of Dec16 were in line compared to Dec15.

Raw materials and consumables used remained in line in quarterly terms and decreased in cumulative terms by 5%. The decrease compared to Dec15 is mainly explained by lower associated operating costs and other disbursements made in 4Q15.

Fenix's EBITDA reached US$14.1 million in 4Q16 vs. US$4.4 million in 4Q15. The increase is mainly explained by higher revenues from capacity sales to other generators.

In cumulative terms, **EBITDA totalized US$56.0 million** increasing by 15% compared to Dec15. The increase is mainly explained by lower costs associated with the operation of the plant.

3.3. Consolidated Non-Operating Income Analysis

Table 8 shows a summary of the consolidated non-operational income in 4Q15, 4Q16, and cumulative as of Dec15 and Dec16. Below, the major accounts/variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
5.5	10.1	Financial Income	2.0	2.5	82%	24%
(90.5)	(103.4)	Financial Expenses	(23.5)	(20.5)	14%	(13%)
2.4	(0.1)	Results of Indexation Units	0.3	(0.0)	-	-
(11.2)	3.4	Exchange rate Differences	(0.3)	(1.6)	-	469%
6.6	5.4	Profit (Loss) of Companies Accounted for Using the Equity Method	1.1	0.9	(18%)	(19%)
(1.2)	(17.6)	Other Profit (Loss)	(7.0)	(11.5)	-	64%
(88.4)	**(102.2)**	**NON-OPERATING INCOME**	**(27.3)**	**(30.1)**	**16%**	**10%**
300.0	**271.7**	**PROFIT (LOSS) BEFORE TAXES**	**95.7**	**67.8**	**(9%)**	**(29%)**
(99.6)	(66.9)	Income Tax Expense	(28.1)	(18.8)	(33%)	(33%)
200.4	**204.8**	**PROFIT (LOSS) AFTER TAX**	67.6	48.9	2%	(28%)
203.8	**201.4**	**PROFIT (LOSS) OF CONTROLLER**	**71.0**	**48.4**	**(1%)**	**(32%)**
(3.4)	**3.3**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**(3.4)**	**0.5**	-	-

Non-operating income of 4Q16 recorded losses for US$30.1 million, higher than the losses of US$27.3 million in 4Q15. The higher loss in the quarter is mainly explained by: (1) Expenses recorded in the line "Other profit (losses)", which correspond mainly to fixed asset impairments, due to the fire of the transformer that affected Nehuenco 2 power-plant, dated June 28, 2016; (2) the negative effect of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency.

In cumulative terms, non-operating income as of Dec16 recorded losses of US$102.2 million vs. losses of US$88.4 million as of Dec15. The higher loss is explained by: (1) higher financial expenses due to the recognition of the expense of those activated disbursements associated with the placement of debt in Chile that was prepaid during the year; (2) non-recurring income recorded in "Other Profit (Loss)" for US$11.5 million, as a result of the insurance compensation for the physical damage associated to the failure in Blanco (60 MW) in Jan14, received in 3Q15. These effects were partially offset by the effect of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency and higher financial income from accrued interest from better investment rates.

4Q16 tax expenses amounted to US$18.8 million, lower when compared to tax expenses of US$28.1 million in 4Q15. The lower tax expenses are mainly explained by the lower profit before taxes recorded on this quarter and because tax expenses in 4Q15 recorded the impact from variations in the Exchange rate due to local currency tax accounting. It is worth mentioning that Colbún in Chile adopted tax accounting in US Dollars since January 2016.
Tax expenses in cumulative terms as of Dec16 reached US$66.9 million, vs. tax expenses of US$99.6 million as of Dec15. The decrease is explained by the lower profit before taxes and because the tax expense in 4Q15 included the effect of the variation of the exchange rate based on tax accounting in local currency.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2015 and December 31, 2016. Subsequently the main changes will be analyzed.

Table 9: Consolidated Balance Sheet Main Accounts (US$ million)

	Dec-15	Dec-16	Var	Var %
Current assets	1,325.4	947.6	(377.7)	(29%)
Non-current assets	5,831.8	5,875.0	43.2	0.7%
TOTAL ASSETS	**7,157.2**	**6,822.6**	**(334.6)**	**(5%)**
Current liabilities	713.5	360.1	(353.4)	(50%)
Non-current liabilities	2,778.2	2,672.7	(105.5)	(4%)
Total net equity	3,665.4	3,789.8	124.4	3%
TOTAL LIABILITIES AND NET EQUITY	**7,157.2**	**6,822.6**	**(334.6)**	**(5%)**

Current Assets: Reached US$947.6 million, US$377.7 million lower compared to Dec15 closing, mainly explained by a decrease in cash and cash equivalents resulting from prepayments of financial debt performed during the year for a total of US$490.8 million, partially offset by inflows from operational activities.

Non-current Assets: Recorded US$5,875.0 million at the end of Dec16, in line with the existing balance as of Dec15.

Current Liabilities: Amounted to US$360.1 million at Dec16 closing, a decrease of US$353.4 million compared to Dec15 closing. This variation is mainly explained by the maturity of Fenix financial debt, which was refinanced to the long-term in February 2016, being reflected in non-current liabilities. The variation is also explained by the portion of financial debt held in Current Liabilities, prepaid during the year.

Non-current Liabilities: Totalized US$2,672.7 million at Dic16 closing, decreasing US$105.5 million compared to Dic15, mainly explained by the prepayments of debt registered in the year for a total amount of US$490.8 million, partially offset by the reclassification of Fenix's financial debt previously explained.

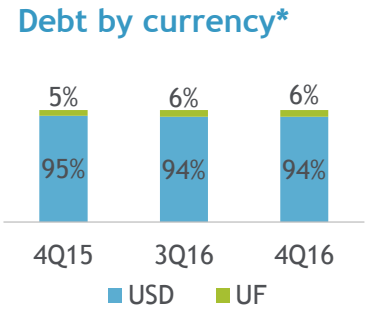
Total Net Equity: The Company posted a net worth of US$3,789.8 million, 3% higher compared to Dec15. The increase is mainly explained by the retained earnings recorded during the period.

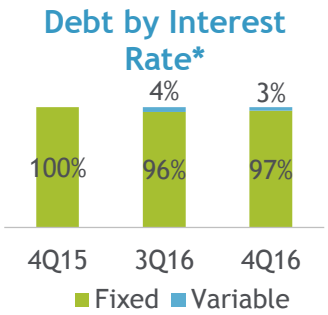
Debt Analysis: Financial debt reached US$1,710.0 million, decreasing by US$525.6 million compared to Dec15, due to the prepayments of debt registered during the year for a total amount of US$490.8 million. Financial Investments decreased by US$413.8 million mainly explained by prepayments of financial debt and the Capex of the period. Given this, Net Debt decreased by 10%. On its part, EBITDA LTM (last 12 months) increased by 3%.

Due to the prepayments of debt recorded during the year and the higher LTM EBITDA, Net Debt/EBITDA LTM ratio decreased by 12% compared to Dic15 closing, reaching a figure of 1.7 times.

The average maturity life of Colbún's long term financial debt is 5.1 years.

The average USD long-term financial debt interest rate is 4.9%.





* Includes financial derivatives

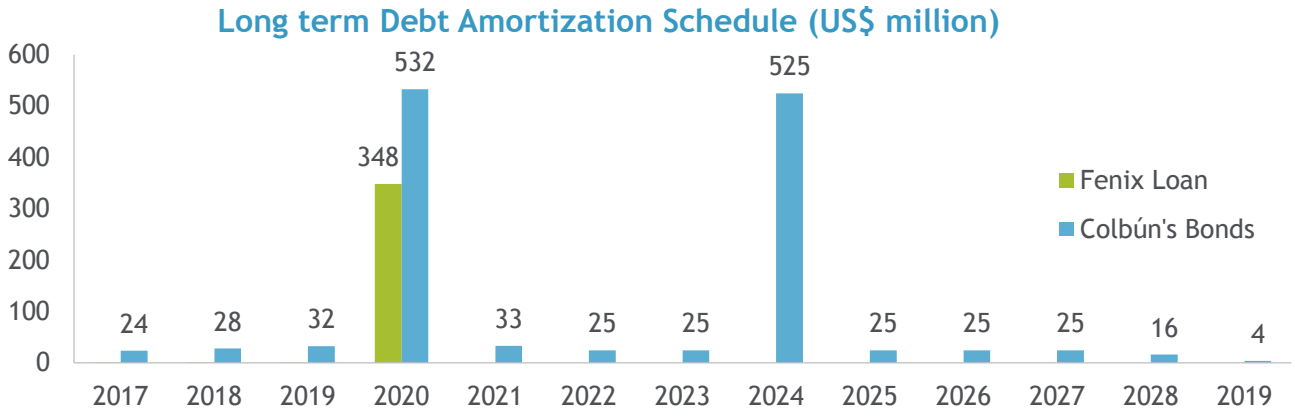


Table 10: Main Debt Items (US$ million)

	Dec-15	Dec-16	Var	Var %
Gross Financial Debt*	2,235.6	1,710.0	(525.6)	(24%)
Financial Investments**	1,080.8	667.0	(413.8)	(38%)
Net Debt	1,154.8	1,043.0	(111.8)	(10%)
EBITDA LTM	583.3	601.8	18.5	3%
Net Debt/EBITDA LTM	2.0	1.7	(0.2)	(12%)

(*) Includes bank debt for US$347.7 million and financial leasing for US$15.5 million, associated to Fenix without recourse to Colbún.
(**)The account "Financial Investments" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

5. CONSOLIDATED FINANCIAL RATIOS

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

Table 11: Financial Ratios

Ratio	Dec-15	Dec-16	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	1.86	2.63	41.7%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	1.80	2.51	39.1%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.95	0.80	(16.0%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	20.43%	11.87%	(41.9%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	79.57%	88.13%	10.8%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	4.31	3.63	(15.8%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.72%	5.49%	(4.0%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.96%	2.93%	(1.1%)
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	7.32%	6.62%	(9.5%)

Income Statement indicators correspond to last 12 months values.

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

Current Liquidity and **Acid Test** reached 2.63x and 2.51x as of Dec16 respectively, increasing when compared to Dec15 by 41.7% and 39.1% respectively, due to the decrease in current liabilities in operation, resulting from the refinancing to the long-term of Fenix financial debt for US$365 million, which had a maturity date in February 2016, being reflected as non-current liabilities.

Debt Ratio reached 0.80x as of Dec16, compared with 0.95x as of Dec15. The decrease of 16.0% is mainly explained by the refinancing of the Fenix debt previously explained.

The percentage of **Short-Term Debt** as of Dec16 was 11.87%, 41.9% lower than the value of 20.43% measured on Dec15, mainly explained by the refinancing of Fenix's debt previously explained.

The percentage of **Long-Term Debt** as of Dec16 was 88.13%, 10.8% higher than the value of 79.57% obtained on Dec15. The variation is mainly due to the prepayment of debt recorded in the year for a total of US$490.8 million, partially offset by the reclassification of Fenix's bank debt previously explained.

Financial Expenses Coverage as of Dec16 was 3.63x, 15.8% lower than the value of 4.31x obtained on Dec15. The decrease compared to the same period of the previous year is mainly explained by a lower Profit (Loss) Before Taxes of US$28.3 million and an increase in financial expenses as a result of the recognition as an expense of those disbursements triggered by the financial debt in Chile that was pre-paid during the year

Equity Profitability and **Profitability of Assets** from 2016 totalized 5.49% and 2.93%, slightly decreasing when compared to Dec15 a 4.0% and 1.1% respectively. The decrease in Equity Profitability is mainly due to an increase in average Net Equity, as a result of the acquisition of the Fenix. On its part, the decrease in the profitability of Assets is mainly explained by a decrease in the current assets resulting from the debt prepayments made during 2016 in Chile.

Performance of Operating Assets from 2016 was 6.62%, decreasing 9.5% compared to the yield obtained in 2015. The decrease is mainly explained by the higher average balance in the property, plant and equipment account recorded in 2015 as a result of the incorporation of Fenix.

6. CONSOLIDATED CASH FLOW ANALYSIS

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

Table 12: Cash Flow Summary (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-15	Dec-16		4Q15	4Q16	Ac/Ac	Q/Q
832.8	**1,080.8**	**Cash Equivalents, Beg. of Period***	**1,090.6**	**620.2**	**30%**	**(43%)**
718.2	517.9	Net cash flows provided by (used in) operating activities	248.5	150.1	(28%)	(40%)
(169.6)	(741.0)	Net cash flows provided by (used in) financing activities	(31.8)	(39.0)	337%	23%
(293.9)	(198.1)	Net cash flows provided by (used in) investing activities**	(225.0)	(62.3)	(33%)	(72%)
254.7	**(421.3)**	**Net Cash Flows for the Period**	**(8.3)**	**48.8**	-	-
(6.7)	7.4	Effects of exchange rate changes on cash and cash equivalents	(1.5)	(2.0)	-	36%
1,080.8	**667.0**	**Cash Equivalents, End of Period**	**1,080.8**	**667.0**	**(38%)**	**(38%)**

(*)The account "Cash and Cash Equivalents" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.
(**) "Cash Flow from Investing Activities" differs from the Financial Statements because it does not incorporate the amount associated with deposits with maturity over 90 days.

During 4Q16, the Company recorded a **net cash inflow of US$48.8 million**, higher than the value of the same period of the previous year.

Operating Activities: During 4Q16 a net cash inflow of US$150.1 million was generated, decreasing by 40% compared to 4Q15. The decrease is mainly explained by higher raw materials and consumables used due to higher thermoelectric generation to compensate for lower hydraulic generation in the quarter and higher energy and capacity purchases in the spot market, as a result of lower generation from in the period, offset by higher revenues from ordinary activities.
In cumulative terms, a positive net cash flow of US$517.9 million was generated as of Dec16, 28% lower when compared to Dec15 mainly due to a lower operational result during the period, to the payment of taxes and profits and to a lesser extent to other outflows of cash.

Financing Activities: Generated a net cash outflow of US$39.0 million during 4Q16, which compares with 4Q15's net outflow of US$31.8 million. The higher cash outflow of this quarter is mainly associated with partial prepayments and amortization of financial debt.
In cumulative terms, a net outflow for US$741.0 million was recorded as of Dec16, higher than the net outflow of US$169.6 million as of Dic15, mainly due to the prepayments of debt performed during 2016 and 3Q16 in Colbún, the associated interests, and due to the distribution of an additional dividend in May 2016 for US$40.6 million.

Investing Activities: Generated a net cash outflow of US$62.3 million during 4Q16, lower than the outflow of US$225.0 million in 4Q15. The lower net cash outflow for the quarter was mainly associated with higher disbursements due to the acquisition of the Fenix in December 2015 offset by higher disbursements in property, plant and equipment for US$64.4 million in 2016.
In cumulative terms, investing activities generated a net cash outflow of US$198.1 million as of Dec16 compared to disbursements of US$293.9 million as of Dec15. This increase is mainly explained by higher disbursements resulting from the acquisition of Fenix in Dec15.

7. ENVIRONMENT AND RISK ANALYSIS

Colbún S.A. is a generation Company with an installed capacity of 3,852 MW, comprised of 2,255 MW in thermal units and 1,597 MW in hydraulic units. The Company operates in Chile's Central Interconnected System (SIC for its acronym in Spanish), with a market share of about 21%. It also operates in Peru's National Interconnected System (SEIN for its acronym in Spanish), where it has a market share of approximately 7%. Both figures measured in terms of installed capacity.

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

7.1 Medium-Term Outlook in Chile

The hydrological year that began in April 2016 has presented dry hydrological conditions in the major basins in the southern zone, showing less rainfalls compared to a normal year. Additionally, during the fourth quarter the third and fourth melting forecast were published, both indicating the persistence of a dry hydrology. In particular, for the Maule's affluent a probability of exceedance of 95% was estimated in the fourth forecast. Given this, the energy matrix has continued its operation with higher thermal sources.

For this reason, regarding gas supply, the Company signed supply agreements with ENAP and Metrogas for the period 2017-2019. With these contracts the Company has enough natural gas to operate two natural gas combined cycle units for the most part of 1H of each calendar year, period of the year in which generally there is less availability of water resources. There is also the possibility of accessing additional natural gas via spot purchases, allowing the Company to have efficient backup in the case of unfavorable hydrological conditions in the second half of the year.

In relation with 2016's contract level, the Company presents the same contracts as at the end of December 2015. The current contract level of the Company doesn't contemplate significant expirations until 2019.

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

7.2 Medium-Term Outlook in Peru

The fourth quarter of 2016 had a dry hydrological condition with high rates of demand growth, which are explained by the entry into operation and expansion of mining projects.

The future trajectory of marginal costs is mainly subject to the demand increase in the remainder of the year, to the hydrology, to the changes in commodity prices and to the effective commissioning dates of new hydropower plants.

7.3 Growth Plan and Long-Term Actions

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

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

In Chile, Colbún currently has several projects under different stages of development, including hydro, thermal and renewable energy projects and in a lower degree, transmission line projects.

Projects under Construction

La Mina Hydroelectric Project (34 MW): La Mina is a renewable energy project located in San Clemente, 110 km east of Talca. The project has an installed capacity of 34 MW and an expected annual average generation of 191 GWh. The energy will be injected to the SIC at the 220 kV Loma Alta substation, through a High Tension Line (HTL) of 66kV and 24 km long. The project utilizes the hydraulic potential of the Maule River and captures the water when it connects with the Puelche River, restoring the water to the same river 2 km downstream the capture point.

In January 2015, the Company started construction of the project, which by the end of 4Q16 had a 98.5% progress, according to plan. As important milestones achieved during the quarter it is worth mentioning: the successful commissioning of the high voltage line, the completion of the construction of Civil Works, water testing of the adduction cannel and stator assembly in Unit 2 of the machine house. The project is expected to enter commercial operation during the first quarter of 2017.

The investment amount, including the transmission line, will be approximately US$130 million.

Projects under Development

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

In Jun15, the Environmental Impact Assessment (EIA) for the changes to the project was submitted, being initially accepted into process by the Environmental Assessment Service (SEA) of Los Rios Region. However, in Aug15, the Authority decided to early terminate the process due to lack of relevant and essential information. The decision was confirmed after the Company filed an administrative appeal with new information.

Notwithstanding the foregoing, the Company is analyzing the observations from all public services, in order to collect and prepare a timely response with technically founded information required by the authority. In parallel, we continue developing an explicative and clarifying meeting process plan with municipalities, communities, neighborhood, regional authorities, and indigenous communities, among other stakeholders, with the objective to identify the best way to insert this project in the area.

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

Guaiquivilo Melado Project: the hydroelectric project Guaiquivilo Melado is a complex located in the basins of Guaiquivilo and Melado rivers, in Colbún's municipality, in Linares' province. The project considers a total installed capacity of approximately 310 MW and an average annual generation of approximately 1,590 GWh.

The project includes a transmission line of 220 kV to inject energy in the SIC, with a total extension of 95 kilometers from Guaiquivilo power plant to the connection point in S/E Ancoa.

As of December 2016, the project has completed the Feasibility stage, and now it's beginning the preparation of the Environmental Impact Study.

Los Cuartos Project: The hydroelectric project Los Cuartos is located in Biobío river, near San Carlos de Purén locality, about 5 km upstream the intersection with Panamericana Sur highway. This hydroelectric power plant has water rights that allow it to achieve a capacity of approximately 90 MW, with an average annual generation of approximately 500 GWh. The project also considers an 8 kilometers transmission line to connect the power plant with Mulchén subtation.

During 2016 progress the Company completed the pre-feasibility study and the main works revision. Additionally, environmental baseline studies were initiated, leading to the preparation of the project's Environmental Impact Study.

As of December 2016 the project is in the Feasibility stage.

Renewable Energies Projects: The electrical regulation requires that a portion of the contracted energy comes from renewable generation means, establishing as goal that by 2025, 20% comes from this type of technology. In addition of this regulation, it's being observed an increase in the effectiveness of solar and wind power-generation. Because of the above, for Colbún it is relevant to grow in this sources of power-generation through different ways, properly complemented with other sources of power-generation given its intermittence and variability.

In this context, in 2013 Colbún signed a contract with Comasa for the purchase of renewable attributes and with Acciona Energía for the purchase of energy and attributes generated by the Punta Palmeras wind farm, of 45 MW, located in Canela, 70 km. from the city of Los Vilos, IV region.

During the first half of 2016 several initiatives were materialized, such as the purchase of part of SunEdison's assets in Chile, which involved the cession of assets from two solar PV solar farms under development for 202 MW, power purchase agreements with regulated customers for 350 GWh per year and in addition, a long-term energy supply contract was signed, by which SunEdison will supply 200 GWh per year of solar energy to Colbún, with the construction of a 90 MW solar farm.

Additionally, during this first half of 2016 Colbún awarded an energy supply contract for 15 years to Total and its affiliated SunPower for 500 GWh per year; and a purchase agreement for renewable energy attributes with Los Cururos wind farm.

Unit II of the Santa María Complex Project (350 MW): The project is located in Coronel, Biobío Region and considers an installed capacity of 350 MW. Currently, Colbún has the environmental permit approved to develop this second unit of the complex.

During 2014-2015 the design of the project was improved, incorporating new technology to meet the demanding regulations on emissions in force since January 1st, 2012. Also, the social, economic and commercial dimensions of the project are being analyzed, in order to timely define the beginning of its construction.

HidroAysén: Colbún participates in a 49% ownership of HidroAysén S.A.

Despite the natural uncertainty on the timing and content of the court's resolutions to which HidroAysén has appealed, as well as guidelines, conditions or any reformulations that those processes being conducted by the government regarding the long term energy agenda and basin territorial planning determine in relation to the development of the hydroelectric potential in Aysén.

Colbún restates its belief that the existing water rights, the additional water rights requested, the environmental permits (RCA – Environmental Qualification Resolution), the field studies, the engineering approvals and project properties are assets acquired and developed by the Company for the past eight years under the current institutional framework and in accordance with international technical and environmental standards.

Colbún maintains the conviction that the development of this hydroelectric potential presents benefits for the country's growth and represents a source of potential long-term value.

7.4 Risk Management

A. Risk Management Policy

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

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

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

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

B. Risk Factors

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

B.1. Electrical Business Risks

B.1.1. Hydrological risk

In Chile, 48% of Colbún's power plants are hydro facilities, which are exposed to hydrology conditions.

To comply with its commitments in dry hydrologic conditions, Colbún must operate its combined thermal cycle plants mainly with natural gas purchases or with diesel, or by default operating its back-up thermal plants or even buying energy on the spot market.

This situation raises Colbún's costs, increasing earnings variability depending on the hydrological conditions. The Company's exposure to hydrological risk is reasonably mitigated by a commercial policy that aims to maintain a balance between competitive base generation (hydro generation in a medium to dry year and thermal coal generation, cost efficient natural gas generation, other renewables cost efficient generation, all properly complemented by other sources of generation given their intermittency and volatility) and commercial commitments. Under conditions of extreme and recurrent drought, a potential shortage of water for refrigeration could affect the generation capacity of the combined cycles, whose impact could be mitigated by the purchase of water from third parties and/or by operating these units in an open cycle, as well as implementing technical solutions in the medium and long term that are being analyzed for the aforementioned combined cycle complex.

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

B.1.2. Fuel price risk

In Chile, in situations of low water availability in its hydro power plants, Colbún relies on its thermal plants or purchase energy in the spot market at marginal cost. In these scenarios, there is a risk associated to potential variations in international fuel prices. Part of this risk is mitigated incorporating fuel price indexation on our selling energy contracts. Additionally, in order to reduce fuel price risks there is a hedge program in place with different derivative instruments such as call options and put options to hedge the remaining exposure, if necessary. Otherwise, in case of abundant hydrology, the Company may be in a selling position in the spot market, where the price would be partially determined by the fuel price.

In Peru, the cost of natural gas has a lower dependence to international prices, due to an important domestic production of this hydrocarbon, limiting its exposure to this risk.

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

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

B.1.3. Fuel supply risks

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

Regarding natural gas supply, in Chile Colbún has medium-term contracts with ENAP and Metrogas and in Peru Fenix has long-term contracts with the ECL88 Consortium (Pluspetrol, Pluspetrol Camisea, Hunt, SK, Sonatrach, Tecpetrol and Repsol) and gas transportation agreements with TGP.

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

B.1.4. Equipment failure and maintenance risk

The availability and reliability of Colbún's generating units and transmission facilities are essential to the Company's business. This is why Colbún has a policy to conduct regular maintenances on its equipment according to the recommendations of its suppliers, and maintains a policy to cover such risks through insurances for its physical assets, including coverage for physical damage and for loss of profit.

B.1.5. Project construction risks

The development of new generation and transmission projects can be affected by factors such as: delays in obtaining environmental approvals, regulatory framework changes, prosecutions, increase in equipment price, 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 costs of construction estimates are incorporated. Additionally, the Company's exposure to this risk is partially covered with the "All Construction Risk" insurance policies covering both physical damage and loss of profit as a result of delay in service resulting from a casualty, both with standard deductibles for this type of insurances.

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

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

B.1.6. Regulatory risks

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

In Chile, the energy agenda promoted by the government considers different regulatory changes, which, depending on the form in which they get be implemented, could represent an opportunity or risk for the Company. Changes that are currently being discussed in the Congress regarding (i) the amendment to the Water Code, (ii) the law related to strengthening the regionalization of the country, (iii) the bill that creates the Ministry of Indigenous Peoples, (iv) the bill that creates the National Council and the Councils of Indigenous

Peoples and (v) the Law on Biodiversity and Protected Areas. There are also important initiatives in the sector such as: (i) definition of the regulations necessary for the proper implementation of the recently enacted Law

on Electricity Transmission, (ii) the definition of the long-term Energy Policy for the country (2050) which is already in its diffusion stage, and (iii) Technical Standard for planning and scheduling the operation of units using natural gas (LNG), among others.

In Peru, the authority is conducting studies of regulatory changes for the electricity sector. Some of the issues that are being considered are related to: (i) Generation/wholesale market (to include major unregulated clients in the short term market), (ii) Duality (new methodology to monitor the performance of dual units).

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

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

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

In Chile, a lower growth in demand, a decrease in fuel prices and an increase in the inflow of solar and wind renewables energy projects led to a decrease in the short-term price of energy (marginal cost) in 2016.

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

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

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

B.2 Financial risks

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

B.2.1 Exchange rate risk

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

Exposure to cash flows in currencies other than USD is limited because virtually all sales of the Company are denominated directly in or indexed to USD. Similarly, the main costs are related to diesel, natural gas and coal

purchases, which incorporate pricing formulas based on international prices denominated in USD. Regarding investment projects disbursements, the Company incorporates indexers in its contracts with suppliers and resorts to the use of derivatives to fix the expenses in currencies other than USD.

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

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

B.2.2 Interest rate risk

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

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

Table 13: Interest Rate Profile

Interest Rate	Dec-15	Sep-16	Dec-16
Fixed	100%	96%	97%
Variable	0%	4%	3%
Total	**100%**	**100%**	**100%**

As of Dec16, the Company’s financial debt is 97% denominated in fixed rate, the remaining 3% corresponds to a portion of Fenix’ loan.

B.2.3 Credit risk

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

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

As of December 31, 2016, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in fixed-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 22.c.1 of the Financial Statements.

B.2.4 Liquidity risk

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

As of December 31, 2016, Colbún has cash in excess for approximately US$ 600 million, invested in time deposits with an average maturity of 60 days and in short-term mutual funds with a maturity of less than 90 days. The Company also has as additional liquidity sources available to date: (i) two bonds lines registered in the local market for a total amount of UF 7 million, (ii) a line of trade notes in the local market for UF 2.5 million and (iii) uncommitted bank lines of approximately US$ 150 million.

In the next 12 months, the Company must disburse approximately US$80.7 million in interests and principal amortization. This remaining interest and minor amortization is expected to be covered with the Company's own cash flow generation.

As of December 31, 2016, Colbún has a local credit rating of A+ by Fitch Ratings and AA- by Humphreys, both with stable outlooks. At the international level, the Company's rating is BBB by Fitch Ratings and BBB- by Standard & Poor's (S&P), both with stable outlooks.

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

B.2.5 Risk measurement

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

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

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

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

The exchange rate risk is considered to be limited, since the Company's main flows (revenues, costs and projects disbursements) are denominated directly in or indexed to USD. Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural items denominated in currencies other than USD. Given the above, as of December 31, 2016, the Company's exposure to this risk is limited, resulting in a potential impact due to exchange differences of approximately US$2.7 million, on a quarterly basis, based on a sensitivity analysis with 95% confidence.

The risk of interest rate variation is partially mitigated, given that 97% of the Company's financial debt is contracted at a fixed rate (in a direct way and using derivatives). Therefore, as of December 31, 2016, the exposure of the Company to variable interest rates is limited, which results in a potential impact of approximately US$0.6 million in quarterly terms, based on a sensitivity analysis with 95% confidence.

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

greater than BBB+ and foreign entities have an international risk rating investment grade. At the end of the period, the financial institution that has the largest share of cash surplus reached 20%. 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 AA+ or higher. It should be noted that no counterpart concentrates more than 21% in national terms.

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

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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 Superintendencia de Valores y Seguros, those documents should be read as a complement to this report.