



1st QUARTER 2017



EARNINGS REPORT

As of March 31, 2017

1Q17 EARNINGS REPORT

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Conference Call
1Q17

Date: Friday April 28th 2017

Time: 10:30 AM Eastern Daylight Time
11:30 AM Chile Time

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1. HIGHLIGHTS

■ Consolidated **EBITDA** in 1Q17 reached **US\$154.8 million**, 9% lower than the EBITDA of US\$170.2 million in 1Q16. The lower EBITDA is mainly explained by: (1) lower hydro generation due to extremely dry ice-melting conditions and (2) lower EBITDA contribution from the Fenix Power Peru operation, hereinafter “Fenix”. These effects were partially offset by higher transmission tolls revenues.

■ **Non-operating Income** in 1Q17 recorded **losses of US\$21.0 million**, in line with the losses of US\$20.8 million in 1Q16. During this quarter, higher expenses were recorded in the line Other profit (loss), which mainly correspond to the tax expense on the emissions of thermal power plants (Law 20,780), which became effective in Jan17. This effect was partially offset by lower Financial expenses, explained by the lower outstanding financial debt during the period due to debt prepayments for ~US\$500 million in 2016, and by the positive effect of the variation of the CLP/US\$ exchange rate over temporary balance accounts in local currency during the quarter.

■ 1Q17 **tax expenses** amounted to **US\$13.7 million**, lower when compared to tax expenses of US\$17.6 million in 1Q16. The lower tax expenses are mainly explained by the lower profit before taxes recorded on this quarter.

■ The Company recorded in 1Q17 a **net income of US\$60.5 million**, lower than the net income of US\$76.0 million of 1Q16. The decrease in net income is mainly explained by the lower EBITDA recorded in the quarter.

■ Fenix’s **EBITDA** totaled **US\$11.4 million**, lower than the EBITDA of US\$16.7 million recorded in 1Q16. The decrease is mainly explained by lower Operating Income from ordinary activities due to the expiration of bilateral contracts, higher Raw materials and consumables used resulting from the higher generation of the quarter; and by lower prices registered in the spot market.

■ At 1Q17 closing, **financial investments** amounted to **US\$664.2 million**, and **net debt** was **US\$1,039.3 million**.

■ As of Mar17 **La Mina Project** (34 MW) accounts for a 99.2% progress. The project is expected to enter commercial operations during the second quarter of 2017.

■ During the last months Colbún has signed new medium-term supply contracts with medium-sized non-regulated customers for approximately 500 GWh, and is in negotiations to sign new agreements. The prices and volumes offered reflect the current market conditions and the cost structure of the Company. Additionally, during 2016 the Company acquired from SunEdison long-term energy sale contracts (for 350 GWh) with local distributors, whose supply began in 2017, for a period of fifteen years.

■ ■ Operation Analysis in Chile

Physical sales during 1Q17 reached 3,110 GWh, down by 2% when compared to the same period of the previous year, mainly explained by lower sales in the spot market. The generation of the quarter slightly decreased by 1% compared to 1Q16, mainly due to lower hydroelectric generation (198 GWh Q/Q), since the hydrological year presented extremely dry rainfall and ice-melting conditions. The lower hydroelectric generation was partially offset by higher thermoelectric generation based on natural gas (89 GWh Q/Q), coal (36 GWh Q/Q) and diesel (39 GWh Q/Q).

The average marginal cost of the quarter measured in Alto Jahuel increased by 5%, from US\$62/MWh in 1Q16 to US\$65/MWh in 1Q17. This increase is mainly due to lower hydroelectric generation in the system compared to the same quarter of the previous year as a result of the drier hydrological conditions already mentioned, partially offset by higher renewable and thermoelectric generation based on natural gas.

■ ■ Operation Analysis in Peru

Physical withdrawals from customers under contract over 1Q17 reached 670 GWh, 25% lower when compared to 1Q16, mainly explained by the expiration of bilateral short-term supply contracts during 2016. On its part, generation during the quarter reached 715 GWh in 1Q17 vs. 663 GWh in 1Q16. The higher generation of this quarter is mainly explained by a temporary restriction of gas transportation during 1Q16.

Table 1: Consolidated Summary (US\$ million)

Summary	Quarterly Figures		Var % Q/Q
	1Q16	1Q17	
Revenues	362.5	382.0	5%
EBITDA	170.2	154.8	(9%)
Net Income	76.0	60.5	(20%)
Net debt	1,181.4	1,039.3	(12%)
Sales of contracted energy Chile (GWh)	2,757	2,754	(0%)
Sales of contracted energy Peru (GWh)	896	670	(25%)
Total generation Chile (GWh)	3,222	3,191	(1%)
Total generation Peru (GWh)	663	715	8%

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 1Q16 and 1Q17.

Table 2: Physical Sales and Generation in Chile

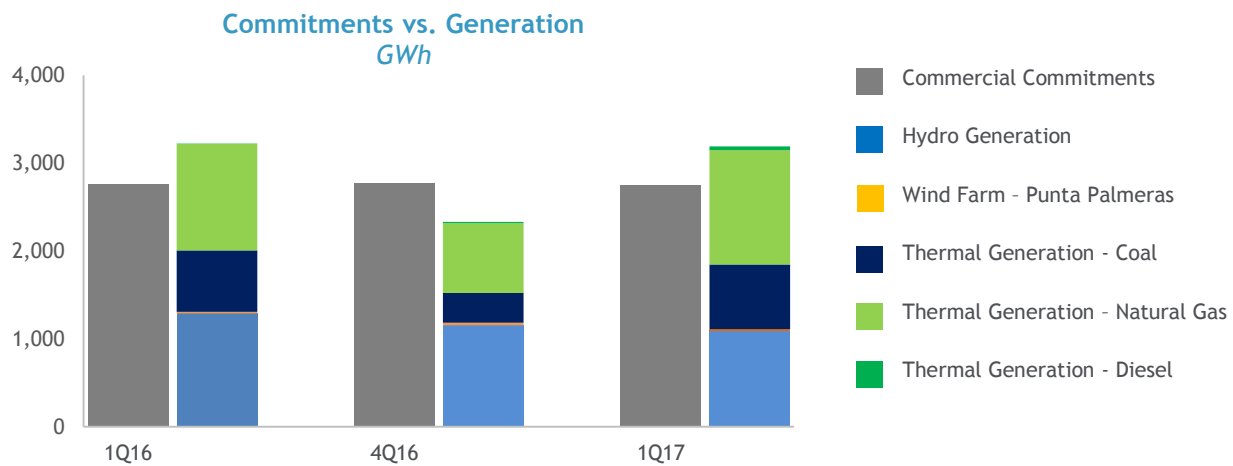
Sales	Quarterly Figures		Var % Q/Q
	1Q16	1Q17	
Total Physical Sales (GWh)	3,159	3,110	(2%)
Regulated Clients	1,645	1,655	1%
Unregulated Clients	1,112	1,100	(1%)
Sales to the Spot Market	403	356	(12%)
Capacity Sales (MW)	1,516	1,608	6%
Generation	Quarterly Figures		Var % Q/Q
	1Q16	1Q17	
Total Generation (GWh)	3,222	3,191	(1%)
Hydraulic	1,288	1,089	(15%)
Thermoelectric - Gas	1,212	1,301	7%
Thermoelectric - Diesel	4	43	-
Thermoelectric - Coal	700	736	5%
Wind Farm - Punta Palmeras	19	22	16%
Spot Market Purchases (GWh)	0	0	-
Sales - Purchases to the Spot Market (GWh)	403	356	(12%)

Physical sales during 1Q17 reached 3,110 GWh, down by 2% when compared to the same period of the previous year, mainly explained by lower sales in the spot market. The generation of the quarter slightly decreased by 1% compared to 1Q16, mainly due to lower hydroelectric generation (198 GWh Q/Q), since the hydrological year presented extremely dry rainfall and ice-melting conditions. The lower hydroelectric generation was partially offset by higher thermoelectric generation based on natural gas (89 GWh Q/Q), coal (36 GWh Q/Q) and diesel (39 GWh Q/Q).

Spot market balance during the quarter recorded net sales for 356 GWh, compared with net sales for 403 GWh in 1Q16. Despite the adverse hydrological conditions, **100% of the Company's commercial commitments were supplied with cost-efficient base load capacity** (hydroelectricity, coal and natural gas).

Generation mix in Chile: The recently completed hydrological year (Apr16-Mar17) 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 and consequently lower hydro generation. As an example, rainfall deficit compared to an average year during the hydrological year, by basin from north to south is: Aconcagua: 87%; Armerillo-Maule: 41%; Abanico: 33%; Canutillar: 33%. On its part, Laja basin presented a surplus of 14%.

During the first quarter of 2017 the SIC recorded a decrease in hydroelectric generation compared to the same period of 2016 (5,326 GWh in 1Q16 vs. 4,814 GWh in 1Q17), given the extremely poor rainfalls and ice-melting conditions mentioned above. The lower hydroelectric generation was partially offset by an increase in renewable energy generation (1,412 GWh in 1Q16 vs. 1,927 GWh in 1Q17) and an increase in thermoelectric gas generation (2,595 GWh in 1Q16 vs. 3,210 GWh in 1Q17). Coal and diesel thermal generation, on its part, decreased compared to 1Q16 (4,058 GWh in 1Q16 vs. 3,764 GWh in 1Q17 and 299 GWh in 1Q16 vs. 193 GWh in 1Q17 respectively). The average marginal cost measured in Alto Jahuel increased by 5%, from US\$62/MWh in 1Q16 to US\$65/MWh in 1Q17.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 1Q16 and 1Q17 from Fenix.

Table 3: Physical Sales and Generation in Peru

Sales	Quarterly Figures		Var % Q/Q
	1Q16	1Q17	
Total Physical Sales (GWh)	896	789	(12%)
Costumers under Contract	896	670	(25%)
Sales to the Spot Market	0	119	-
Capacity Sales (MW)	561	562	0%
Generation	Quarterly Figures		Var % Q/Q
	1Q16	1Q17	
Total Generation (GWh)	663	715	8%
Thermoelectric - Gas	663	715	8%
Spot Market Purchases (GWh)	117	93	(21%)
Sales - Purchases to the Spot Market (GWh)	(117)	26	-

Physical withdrawals from customers under contract during 1Q17 reached 670 GWh, 25% lower compared to 1Q16, mainly explained by the end of a supply contract in April 2016 and the expiration of short-term supply contracts during 2016. On its part, Fenix's thermoelectric generation reached 715 GWh in 1Q17 vs. 663 GWh in 1Q16. Power-generation during this quarter increased when compared to the same period of the previous year mainly due to a temporary restriction of gas transportation during 1Q16. This implied that 100% of the commitments were supplied with own generation and balance in the spot market reached net sales for 26 GWh in 1Q17 vs. net purchases for 117 GWh in 1Q16.

Generation mix in Peru: During 1Q17 the system presented wetter 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 45% at the end of 1Q17 vs. 60% in 1Q16.

Hydroelectric generation in the National Interconnected System (SEIN) increased by 17% compared to the same period of 2016, mainly due to the commissioning of new hydro power-plants for 1,000 MW during the period August - December 2016. On its part, thermoelectric generation decreased by 20% during 1Q17 compared to 1Q16 given the better hydrological conditions presented in the system.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 1Q16 and 1Q17.

Table 4: Income Statement (US\$ million)

	Quarterly Figures		Var %
	1Q16	1Q17	Q/Q
OPERATING INCOME	362.5	382.0	5%
Regulated Customers Sales	209.0	204.5	(2%)
Non-regulated Customers Sales	90.9	93.9	3%
Energy and Capacity Sales	24.5	26.6	9%
Transmission Tolls	37.3	50.7	36%
Other Operating Income	0.7	6.3	782%
RAW MATERIAL AND CONSUMABLES USED	(165.1)	(201.6)	22%
Transmission Tolls	(43.5)	(49.7)	14%
Energy and Capacity Purchases	(8.0)	(10.3)	28%
Gas Consumption	(72.4)	(94.5)	31%
Diesel Consumption	(2.1)	(7.0)	233%
Coal Consumption	(18.7)	(18.3)	(2%)
Other Operating Expenses	(20.4)	(21.9)	7%
GROSS PROFIT	197.5	180.4	(9%)
Personnel Expenses	(16.1)	(17.0)	6%
Other Expenses, by Nature	(11.2)	(8.6)	(23%)
Depreciation and Amortization Expenses	(55.8)	(59.6)	7%
OPERATING INCOME (LOSS)(*)	114.4	95.2	(17%)
EBITDA	170.2	154.8	(9%)
Financial Income	2.7	2.5	(6%)
Financial Expenses	(27.4)	(20.2)	(26%)
Exchange rate Differences	3.0	0.6	(82%)
Profit (Loss) of Companies Accounted for Using the Equity Method	1.4	0.7	(47%)
Other Profit (Loss)	(0.5)	(4.6)	826%
NON-OPERATING INCOME	(20.8)	(21.0)	1%
PROFIT (LOSS) BEFORE TAXES	93.6	74.2	(21%)
Income Tax Expense	(17.6)	(13.7)	(22%)
PROFIT (LOSS) AFTER TAX	76.0	60.5	(20%)
PROFIT (LOSS) OF CONTROLLER	72.2	56.9	(21%)
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	3.8	3.6	(6%)

(*): 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	Mar-16	Dec-16	Mar-17
Chile (CLP / US\$)	669.80	669.47	663.97
Chile UF (CLP/UF)	25,812.05	26,347.98	26,471.94
Peru (Pen / US\$)	3.33	3.36	3.25

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in Chile in 1Q16 and 1Q17.

Table 6: EBITDA Chile (US\$ million)

	Quarterly Figures		Var %
	1Q16	1Q17	Q/Q
OPERATING INCOME	307.0	334.4	9%
Regulated Customers Sales	171.0	174.1	2%
Non-regulated Customers Sales	90.9	89.9	(1%)
Energy and Capacity Sales	15.9	25.2	58%
Transmission Tolls	28.4	40.1	41%
Other Operating Income	0.7	5.2	620%
RAW MATERIAL AND CONSUMABLES USED	(132.8)	(167.3)	26%
Transmission Tolls	(34.8)	(40.9)	17%
Energy and Capacity Purchases	(5.5)	(7.5)	34%
Gas Consumption	(55.5)	(74.4)	34%
Diesel Consumption	(2.1)	(7.0)	233%
Coal Consumption	(18.7)	(18.3)	(2%)
Other Operating Expenses	(16.2)	(19.3)	19%
GROSS PROFIT	174.2	167.1	(4%)
Personnel Expenses	(14.2)	(15.7)	11%
Other Expenses, by nature	(6.5)	(8.1)	24%
Depreciation and Amortization Expenses	(47.9)	(51.5)	8%
OPERATING INCOME (LOSS)(*)	105.6	91.9	(13%)
EBITDA	153.5	143.4	(7%)

(*): 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 1Q17 amounted to US\$334.4 million, increasing 9% compared to 1Q16, mainly due to (1) higher transmission tolls revenues; (2) higher monetary revenues from energy and capacity sales in the spot market; and (3) higher operating revenues mainly due to the portion of the tax on emissions of thermal power plants (in effect since Jan17) transferred to non-regulated customers.

Raw materials and consumables used increased 26% on a quarterly basis, mainly due to (1) higher gas and diesel consumption to compensate for the lower hydroelectric generation of the period; (2) higher transmission tolls costs; and (3) higher Other operating expenses corresponding to the portion of the tax on emissions associated with non-regulated customers.

On a quarterly basis, EBITDA decreased 7% compared to the same quarter last year, reaching US\$143.4 million. The decrease is mainly explained by higher fuel consumption during the quarter to compensate for the lower hydroelectric generation resulting from the extremely dry conditions presented in the completed hydrological year.

3.2. Operating Income Analysis Peru

Table 7 presents a summary of Operating Income and EBITDA of Fenix in 1Q16 and 1Q17.

Table 7: EBITDA Peru (US\$ million)

	Quarterly Figures		Var %
	1Q16	1Q17	Q/Q
OPERATING INCOME	55.6	47.6	(14%)
Regulated Customers Sales	38.1	30.4	(20%)
Non-regulated Customers Sales	0.0	4.0	100%
Sales to Other Generators	8.6	1.5	(83%)
Transmission Tolls	8.9	10.6	19%
Other Operating Income	-	1.2	100%
RAW MATERIAL AND CONSUMABLES USED	(32.3)	(34.4)	6%
Transmission Tolls	(8.7)	(8.8)	1%
Energy and Capacity Purchases	(2.5)	(2.9)	15%
Gas Consumption	(16.9)	(20.1)	19%
Other Operating Expenses	(4.3)	(2.6)	(38%)
GROSS PROFIT	23.3	13.3	(43%)
Personnel Expenses	(1.9)	(1.4)	(29%)
Other Expenses, by Nature	(4.7)	(0.5)	(89%)
Depreciation and Amortization Expenses	(8.0)	(8.0)	1%
OPERATING INCOME (LOSS)	8.7	3.4	(61%)
EBITDA	16.7	11.4	(32%)

Operating income from ordinary activities during 1Q17 reached US\$47.6 million, 14% lower compared to 1Q16, mainly due to lower sales to regulated customers and to other generators, due to the expiration of bilateral contracts. This was partially offset by higher sales to non-regulated customers and in the spot market, added to higher transmission tolls revenues.

Raw materials and consumables used increased 6% compared to the same quarter of the previous year. The increase compared to 1Q16 is mainly explained by higher gas consumption due to the higher generation of the quarter, partially offset by lower Other operating expenses.

Fenix's EBITDA reached US\$11.4 million in 1Q17 vs. US\$16.7 million in 1Q16. The decrease is mainly explained by lower revenues from ordinary activities due to the expiration of bilateral contracts, higher Raw materials and consumables used mainly due to the higher generation of the quarter, and by lower prices in the spot market.

3.3. Consolidated Non-Operating Income Analysis

Table 8 shows a summary of the consolidated non-operational income in 1Q16 and 1Q17. Below, the major accounts/variations will be analyzed.

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

	Quarterly Figures		Var %
	1Q16	1Q17	Q/Q
Financial Income	2.7	2.5	(6%)
Financial Expenses	(27.4)	(20.2)	(26%)
Exchange rate Differences	3.0	0.6	(82%)
Profit (Loss) of Companies Accounted for Using the Equity Method	1.4	0.7	(47%)
Other Profit (Loss)	(0.5)	(4.6)	826%
NON-OPERATING INCOME	(20.8)	(21.0)	1%
PROFIT (LOSS) BEFORE TAXES	93.6	74.2	(21%)
Income Tax Expense	(17.6)	(13.7)	(22%)
PROFIT (LOSS) AFTER TAX	76.0	60.5	(20%)
PROFIT (LOSS) OF CONTROLLER	72.2	56.9	(21%)
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	3.8	3.6	-

Non-operating Income in 1Q17 recorded losses of US\$21.0 million, in line with the losses of US\$20.8 million in 1Q16. During the quarter, higher expenses were recorded in the line Other Profit (Loss), which mainly correspond to the tax expense on the emissions of thermal power plants (Law 20,780), which became effective in Jan17. This effect was partially offset by lower Financial Expenses, explained by lower outstanding financial debt during the period due to the debt prepayments for ~US\$500 million in 2016, and by the positive effect of the variation of the CLP/US\$ exchange rate over temporary balance accounts in local currency during the quarter.

1Q17 tax expenses amounted to US\$13.7 million, lower when compared to tax expenses of US\$17.6 million in 1Q16. The lower tax expenses are mainly explained by the lower profit before taxes recorded during the quarter.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2016 and March 31, 2017. Subsequently the main changes will be analyzed.

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

	Dec-16	Mar-17	Var	Var %
Current assets	947.6	951.0	3.4	0%
Non-current assets	5,875.0	5,860.4	(14.6)	(0.2%)
TOTAL ASSETS	6,822.6	6,811.4	(11.2)	(0%)
Current liabilities	360.1	284.1	(76.0)	(21%)
Non-current liabilities	2,672.7	2,676.2	3.5	0%
Total net equity	3,789.8	3,851.1	61.3	2%
TOTAL LIABILITIES AND NET EQUITY	6,822.6	6,811.4	(11.2)	(0%)

Current Assets: Reached US\$951.0 million, slightly lower compared to Dec16 closing, mainly explained by a decrease in cash and cash equivalents resulting from the payment of the interim dividend in Jan17 of US\$45.8 million, partially offset by inflows from operational activities.

Non-current Assets: Recorded US\$5,860.4 million at the end of Mar17, in line with the existing balance as of Dec16.

Current Liabilities: Amounted to US\$284.1 million at Mar17 closing, which implied a decrease of US\$76.0 million compared to Dec16 closing. This variation is mainly explained by the payment of the interim dividend in Jan17 explained above.

Non-current Liabilities: Totalized US\$2,676.2 million at Mar17 closing, in line with the existing balance as of Dec16.

Total Net Equity: The Company posted a net worth of US\$3,851.1 million, 2% higher compared to Dec16. The increase is mainly explained by the retained earnings recorded during the period.

Debt Analysis: Financial debt reached US\$1,703.4 million, in line with Dec16. Financial Investments totaled US\$664.2 million, slightly decreasing compared to the balance as of Dec16, mainly explained by the payment of the interim dividend in Jan17, partially offset by inflows from operational activities.

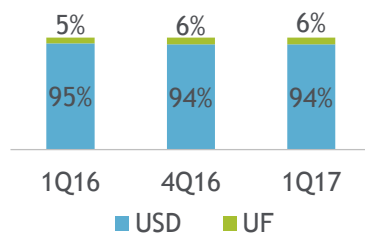
Given this, Net Debt did not present major variations. On its part, EBITDA LTM (last 12 months) decreased by 3%.

Due to the lower LTM EBITDA, Net Debt/EBITDA LTM ratio increased from 1.7 times in Dec16 to 1.8 times in Mar17.

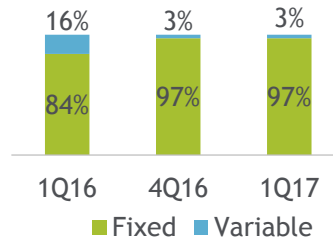
The average maturity life of Colbún's long term financial debt is 4.8 years.

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

Debt by currency*



Debt by Interest Rate*



* Includes financial derivatives

Long term Debt Amortization Schedule (US\$ million)

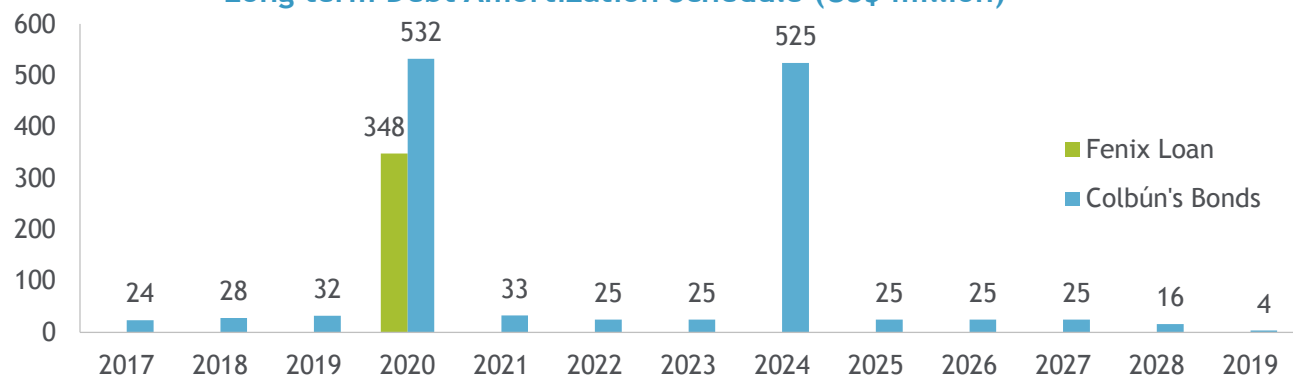


Table 10: Main Debt Items (US\$ million)

	Dec-16	Mar-17	Var	Var %
Gross Financial Debt*	1,710.0	1,703.4	(6.6)	(0%)
Financial Investments**	667.0	664.2	(2.8)	(0%)
Net Debt	1,043.0	1,039.3	(3.8)	(0%)
EBITDA LTM	601.7	586.3	(15.4)	(3%)
Net Debt/EBITDA LTM	1.7	1.8	0.0	2%

(*) 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-16	Mar-17	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	2.63	3.35	27.2%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	2.51	3.21	28.2%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.80	0.77	(3.9%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.87%	9.60%	(19.2%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.13%	90.40%	2.6%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.63	3.62	(0.3%)
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.49%	4.99%	(9.2%)
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.93%	2.70%	(7.9%)
Performance of Operating Assets (%): Operating Income / Property, Plant and Equipment, Net (Average)	6.62%	6.34%	(4.2%)

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 3.35x and 3.21x as of Mar17 respectively, increasing when compared to Dec16 by 27.2% and 28.2% respectively, due to the decrease in current liabilities in operation as a result of the interim dividend paid in Jan17 for US\$45.8 million.

■ ■ ■ **Debt Ratio** reached 0.77x as of Mar17, compared with 0.80x as of Dec16. The decrease of 3.9% is mainly explained by the decrease in current liabilities in operation as a result of the interim dividend explained above and by the increase in net equity as a result of the retained earnings recorded during the period.

■ ■ ■ The percentage of **Short-Term Debt** as of Mar17 was 9.60%, 19.2% lower than the value of 11.87% measured in Dec16, mainly explained by the decrease in current liabilities in operations resulting from the interim dividend paid in Jan17 previously explained.

■ ■ ■ The percentage of **Long-Term Debt** as of Mar17 was 90.40%, 2.6% higher than the value of 88.13% obtained in Dec16. The variation is mainly due to the decrease in current liabilities in operation explained above.

■ ■ ■ **Financial Expenses Coverage** as of Mar17 was 3.62x, in line the value of 3.63x obtained in Dec16.

■ ■ ■ **Equity Profitability** and **Profitability of Assets** in 1Q17 were 4.99% and 2.70%, decreasing when compared to Dec16 by 9.2% and 7.9% respectively. The decrease in Equity Profitability is mainly due to a decrease in LTM Net income as of Mar17 compared to Dec16 and to an increase in average Net Equity, as a result of the retained earnings recorded during the period. On its part, the decrease in the profitability of Assets is mainly explained by an increase in total assets between both periods and by a decrease in the result of operations.

■ ■ ■ **Performance of Operating Assets** for the quarter was 6.34%, decreasing 4.2% compared to the yield obtained in Dec16. The decrease is mainly explained by the lower operating income.

6. CONSOLIDATED CASH FLOW ANALYSIS

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

Table 12: Cash Flow Summary (US\$ million)

	Quarterly Figures		Var %
	1Q16	1Q17	Q/Q
Cash Equivalents, Beg. of Period*	1,080.8	667.0	(38%)
Net cash flows provided by (used in) operating activities	104.1	112.2	8%
Net cash flows provided by (used in) financing activities	(82.2)	(76.0)	(8%)
Net cash flows provided by (used in) investing activities**	(27.5)	(40.4)	47%
Net Cash Flows for the Period	(5.5)	(4.2)	(24%)
Effects of exchange rate changes on cash and cash equivalents	6.6	1.3	(80%)
Cash Equivalents, End of Period	1,081.9	664.2	(39%)

(*)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 1Q17, the Company recorded a **net cash outflow of US\$4.2 million**, lower than the value of the same period of the previous year.

Operating Activities: During 1Q17 a net cash inflow of US\$112.2 million was generated, increasing by 8% compared to 1Q16. The increase is mainly explained by higher revenues from transmission tolls.

Financing Activities: Generated a net cash outflow of US\$76.0 million during 1Q17, which compares with 1Q16's net outflow of US\$82.2 million. The higher cash outflow in 1Q16 is mainly due to higher Financial expenses and costs associated with the refinancing of Fenix's loan, partially offset by the higher payment of interim dividends in 1Q17.

Investing Activities: Generated a net cash outflow of US\$40.4 million during 1Q17, higher than the outflow of US\$27.5 million in 1Q16. The higher net cash outflow during the quarter was mainly associated with La Mina Project and other minor investments.

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 on the spot market at marginal cost.

7.1 Medium-Term Outlook in Chile

The hydrological year that began in April 2016 and ended in March 2017 presented dry hydrological conditions in the major basins of the country, the exceedance probability reached 93%. Given this, the energy matrix has continued its operation with more 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 most of 1H of each calendar year, period 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.

During the last months Colbún has signed new medium-term supply contracts with medium-sized non-regulated customers for approximately 500 GWh, and is in negotiations to sign new agreements. The prices and volumes offered reflect the current market conditions and the cost structure of the Company. Additionally, during 2016 the Company acquired from SunEdison long-term energy sales contracts (for 350 GWh) with local distributors, whose supply began in 2017, for a period of fifteen years.

The results of the Company for the coming months will be mainly determined by a balanced level between own cost-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 first quarter of 2017 had a wetter hydrological condition and 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, to the hydrology and to the changes in commodity prices.

7.3 Growth Plan and Long-Term Actions

The Company is seeking for growth opportunities in Chile and in other countries in the region, 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 an efficient thermoelectric component and from other renewables 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 uses 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 1Q17 had a 99.2% progress. The project is expected to enter commercial operation during the second 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 316 MW and an average annual generation of approximately 1,629 GWh.

The project includes a transmission line of 220 kV to inject energy in the SIC, with a total extension of 90 kilometers from Guaiquivilo power plant to the connection point in LAT Los Cóndores.

As of March 2017, the project has begun 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 93 MW, with an average annual generation of approximately 511 GWh. The project also considers a 10 kilometers transmission line to connect the power plant with Mulchén substation.

During 1Q17 the Company started the development of basic engineering and the environmental base line studies continued, leading to the preparation of the project's Environmental Impact Study.

■ ■ ■ 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. Although the social, economic and commercial dimensions of the project are being analyzed, the conditions for carrying out this project are not met at the moment.

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

Colbún restates that the development of the hydroelectric potential of Aysén Region presents benefits for the country's growth and that the option to participate in it presents a potential source of long-term value generation for the Company. This, without prejudice of the natural uncertainty about deadlines and contents of the resolutions of the judicial bodies to which HidroAysén has appealed and of the processes that the government conducts on long-term energy policies for that region. This potential is also affected by eventual changes to the Water Code currently being discussed in the National Congress.

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 might rise 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 and (ii) the definition of the long-term Energy Policy for the country (2050) which is already in its diffusion stage, 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.

Additionally, given the difference generated between regulated and unregulated clients, a portion of regulated clients may choose 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 non-regulated customers. Colbún has one of the most efficient generation matrix in the Chilean system, thus we have the ability to offer competitive conditions and costs to customers who require it.

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

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	Mar-16	Dec-16	Mar-17
Fixed	84%	97%	97%
Variable	16%	3%	3%
Total	100%	100%	100%

As of Mar17, 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 March 31, 2017, 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 March 31, 2017, Colbún has cash in excess for approximately US\$ 660 million, invested in time deposits with an average maturity of 80 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\$86 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 March 31, 2017, 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.

Information on contractual maturities of the main financial liabilities is disclosed in nothe 22.c.1 of the Financial Statements.

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 March 31, 2017, the Company's exposure to this risk is limited, resulting in a potential impact due to exchange differences of approximately US\$2.8 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 March 31, 2017, the exposure of the Company to variable interest rates is limited, which results in a potential impact of approximately US\$0.5 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 18%. Regarding existing derivatives, the Company's international counterparties have a credit rating equivalent to BBB+ or higher and national counterparties have local credit rating of BBB+ or higher. It should be noted that no counterparty concentrates more than 22% 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.

DISCLAIMER



This document provides Information about Colbún S.A. In no case this document constitutes a comprehensive analysis of the financial, production and sales 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 Superintendencia de Valores y Seguros, those documents should be read as a complement to this report.