4th QUARTER 2017

Colbun
MEJOR ENERGÍA

EARNINGS REPORT

As of December 31, 2017

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4Q17

EARNINGS REPORT

Conference Call
4Q17

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1. HIGHLIGHTS

Consolidated **EBITDA** for the fourth quarter of 2017 (4Q17) reached **US$204.8 million**, 30% higher than the EBITDA of US$157.9 million in the fourth quarter of 2016 (4Q16). The higher EBITDA is mainly explained by: (1) higher hydro generation, which implied lower costs associated to the lower generation based on gas and lower energy and capacity purchases in the spot market in Chile; (2) higher revenues from an increase in sales to customers and transmission tolls.
In cumulative terms, **EBITDA** as of December 2017 (Dec17) reached **US$692.1 million** compared to US$601.8 million as of December 2016 (Dec16). The increase is mainly explained by higher revenues from ordinary activities resulting from an increase in sales to customers and energy and capacity sales in the spot market in Chile. The higher revenues were partially offset by a higher cost associated with a higher generation based on gas to meet the higher sales to customers. This increase, in turn, was partially offset by lower purchases of energy and capacity in the spot market and by a lower diesel consumption.

Non-operating Income in 4Q17 recorded **losses of US$105.0 million**, which compares with the loss of US$30.1 million in 4Q16. The higher loss of the quarter is mainly explained by an increase registered in the line "Other Profit (Loss)", as a result of: (1) accounting record of provisions for impairment of specific assets; (2) tax expense on the emissions of thermal power plants (Law 20,780), which become effective as of Jan17 and (3) impairment of licenses for non-use water rights. These effects were partially offset by the positive impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter.
In cumulative terms, non-operating income as of Dec17 recorded **losses of US$146.0 million** vs. losses of US$102.2 million as of Dec16. The higher loss is mainly explained by the same reasons that explain the variations in quarterly terms, partially offset by lower financial expenses mainly due to the lower outstanding financial debt during the period due to debt prepayments for ~US$500 million in June and July of 2016.

4Q17 **tax expenses** recorded a profit of **US$23.7 million**, which compares positively with the tax expenses of US$18.8 million in 4Q16. The tax profit is mainly explained by the effect on P&L from the recognition of deferred tax assets, as a result of the expected tax loss from the cessation of activities and cancellation of the "HidroAysén Hydroelectric Project" for US$39.8 million, in November 2017.
Tax expenses **in cumulative terms** as of Dec17 reached **US$34.1 million**, lower when compared with the US$66.9 million presented in Dec16, mainly explained by the same reasons that explain the variations in quarterly terms.

The Company recorded in 4Q17 a **net income of US$79.5 million,** higher than the net income of US$48.8 million of 4Q16. The higher profit is mainly explained by: (1) the increase in EBITDA recorded during the quarter, partially offset by the increase registered in the line "Other Profit (Loss)", as a result of the accounting record of provisions for impairment of specific assets mentioned above and (2) the tax profit previously explained.
In cumulative terms, the result shows a net income of **US$288.6 million**, higher than the net income of US$204.7 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms and by a non-recurring income registered in 2Q17 for US$23.4 million due to the recognition of a deferred tax asset at our affiliate company, Fenix.

Fenix's **EBITDA** totalized **US$17.8 million** in 4Q17, higher than the EBITDA of US$14.1 million recorded in 4Q16. The higher EBITDA is mainly explained by a positive variation recorded in the line "Other Expenses, by Nature" associated with the reversal of a provision for doubtful accounts, registered in 2016. The above was mainly offset by lower revenues from ordinary activities, as a result of higher sales in the spot market at lower marginal costs.
In cumulative terms, Fenix's EBITDA as of Dec17 reached US$53.6 million vs. US$56.0 million as of Dec16. The decrease is mainly explained by lower revenues from ordinary activities, as a result of a higher volume of sales in the spot market at lower marginal costs, mainly offset by lower expenses recorded in the line "Other Expenses, by Nature" explained before.

At 4Q17 closing, **financial investments** amounted to **US$810.2 million,** and **net debt** was **US$849.2 million.**

2017 Main Highlights:

Regarding the commercial strategy, during 2017, Colbún signed medium-term **power supply agreements with unregulated customers for approximately 1,600 GWh** and is in negotiations to finalize new agreements. In this matter, the Company has contractes a relevant portion of its generation with new clients, in terms that are beneficial compared to current market conditions and in a highly competitive context.

In terms of growth, construction of La Mina Hydroelectric Project (34 MW) was completed in April 2017, with units 1 and 2 being synchronized in May of the same year.

In this regard and as part of the Company's objectives of achieving an attractive and robust portfolio of renewable energy projects from variable sources, competitive technology that is also a very good complement for base-load power plants, in September 2017 Colbún was awarded a 30-year land concession for the construction and operation of a wind farm called **"Horizonte"** which considers **607 MW of installed capacity**. The concession establishes a study period of up to 48 months, while the construction phase will contemplate a term of up to 36 months.

As a recognition to the Company in matters of sustainability, in September 2017, **Colbún was selected for the first time to be listed in the Dow Jones Sustainability Index Emerging Markets** (DJSI Emerging Markets), in its 2017 version, also maintaining its presence in the DJSI Chile. This index groups companies that present an outstanding standard of sustainable performance in economic, social and environmental dimensions. It is worth mentioning that Colbún is the only power-generation company of Chilean capitals that listed in this index.

Regarding the financial debt structure, during the year 2017, with the purpose of improving the debt profile, reducing its average interest rate and extending the average life, the Company issued two bonds in the international market (Rule 144A and Regulation S).

The first issuance, made by **Fenix for US$340 million**, obtained a **coupon rate of 4.317%,** with a tenor of 10 years and amortizing structure. The purpose of the transaction was to refinance its bank debt with original maturity in February 2020.

Subsequently, **Colbún issued a new series of bonds for US$500 million** with a maturity of 10 years, obtaining a **coupon rate of 3.95%.** The proceeds from this issuance were used to refinance bonds of the same type that expired in 2020 at a 6.00% rate.

In November 2017, Hidroaysén S.A., in which Colbun S.A. participates in a 49% ownership, reported the cessation of activities and cancellation of the "Hidroaysén Hydroelectric Project" because it is not feasible in economic terms, in the context of the current situation of the power market and its future prospects; proceeding to the dissolution of the company and liquidation of assets, the withdrawal of pending legal actions and the waiver of the water rights of the Project.

Table 1: Consolidated Summary Chile & Peru (US$ million)

Accumulated Figures		Summary	Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
1,436.2	1,548.4	Revenues	369.2	388.8	8%	5%
601.8	692.1	EBITDA	157.9	204.8	15%	30%
204.7	288.6	Net Income	48.8	79.5	41%	63%
1,043.0	849.2	Net debt	1,043.0	849.2	(19%)	(19%)
11,041	11,035	Sales of contracted energy Chile (GWh)	2,773	2,673	(0%)	(4%)
3,154	3,012	Sales of contracted energy Peru (GWh)	702	820	(4%)	17%
11,276	12,716	Total generation Chile (GWh)	2,329	3,080	13%	32%
3,581	4,113	Total generation Peru (GWh)	1,211	1,135	15%	(6%)

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 4Q16, 4Q17 and cumulative as of Dec16 and Dec17.

Table 2: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
11,956	**12,428**	**Total Physical Sales (GWh)**	**2,773**	**3,018**	**4%**	**9%**
6,533	6,303	Regulated Clients	1,646	1,490	(4%)	(9%)
4,508	4,732	Unregulated Clients	1,127	1,184	5%	5%
916	1,393	Sales to the Spot Market	0	345	52%	-
1,580	**1,608**	**Capacity Sales (MW)**	**1,605**	**1,630**	**2%**	**2%**

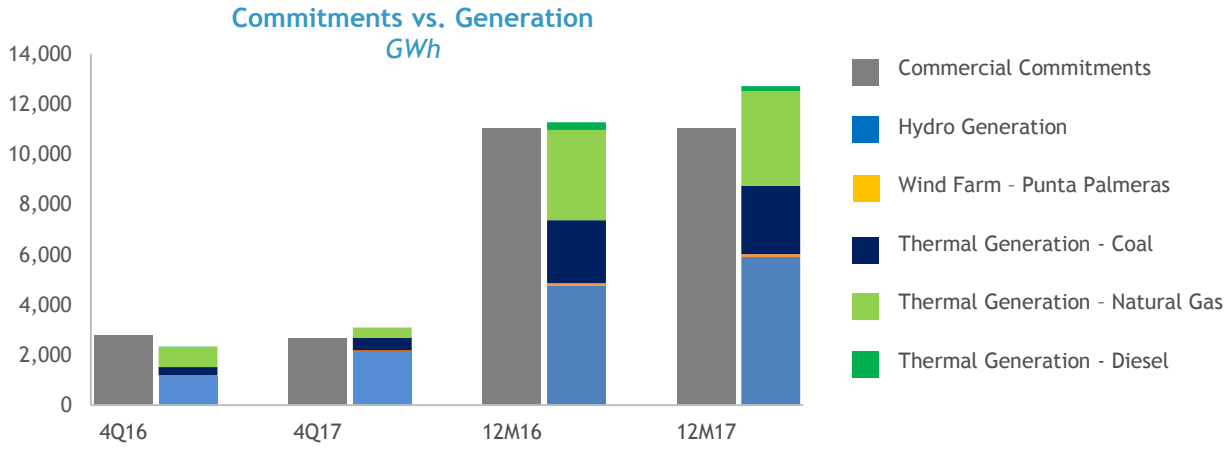
Accumulated Figures		Generation	Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
11,276	**12,716**	**Total Generation (GWh)**	**2,329**	**3,080**	**13%**	**32%**
4,767	5,897	Hydraulic	1,153	2,156	24%	87%
3,594	3,890	Thermoelectric - Gas	795	495	8%	(38%)
315	206	Thermoelectric - Diesel	13	8	(35%)	(40%)
2,505	2,606	Thermoelectric - Coal	339	385	4%	14%
95	116	Wind Farm - Punta Palmeras	30	36	22%	20%
923	**3**	**Spot Market Purchases (GWh)**	**490**	**0**	**(100%)**	**-**
(7)	**1,390**	**Sales - Purchases to the Spot Market (GWh)**	**(490)**	**345**	**-**	**-**

Physical withdrawals during 4Q17 reached 3,018 GWh, increasing by 9% compared to the same period of the previous year, mainly explained by sales to the spot market recorded during the quarter and due to higher sales to unregulated customers. On its part, generation of the quarter increased by 32% compared to 4Q16, mainly due to higher hydroelectric generation (1,003 GWh Q/Q) and higher cost efficient thermal generation based on coal (46 GWh Q/Q), partially compensated by a decrease in natural gas generation (300 GWh Q/Q).
Spot market balance during the quarter recorded net sales of 345 GWh, compared to net purchases of 490 GWh recorded in 4Q16. During the quarter, **100% of Colbún's commercial commitments were supplied with cost-efficient base generation** (hydro, coal and natural gas).

In cumulative terms, physical withdrawals and the total generation of Colbún in Dec17 reached 12,428 GWh and 12,716 GWh respectively, increasing by 4% and 13% compared to Dec16. The higher physical sales of the period are mainly explained by higher sales in the spot market and higher sales to unregulated customers, partially offset by lower withdrawals from regulated customers. On its part, the higher generation is explained by the higher hydroelectric generation and higher efficient thermal generation based on natural gas and coal, partially offset by lower diesel generation.
Spot market balance recorded net sales of 1,390 GWh as of Dec17, compared with net sales of 7 GWh recorded in 2016.

Generation mix in Chile: the hydrological year (Apr17-Mar18) that started in Apr17, in cumulative terms, has presented improved levels of water flows in the main hydrological basins of the SIC compared to the previous period. On its part, rainfalls during 4Q17 have exceeded the values registered in 4Q16. As an example, the exceedance probability of accumulated flows during the hydrological year (Apr17-Mar18), by basin from north to south is: Aconcagua: 63%; Armerillo-Maule: 83%; Abanico: 65%; Canutillar: 15%; El Laja: 43%. This has resulted in a mild increase in hydraulic generation compared to the same period in 2016.

During 4Q17 the SIC recorded an increase in hydroelectric generation compared to the same period of 2016 (5,305 GWh in 4Q16 vs. 8,117 GWh in 4Q17), given that the current hydrological year has presented higher levels of water flows in the main basins of the SIC, and due to a larger dispatch of the system reservoirs. The NCRE generation also showed an increase compared to 4Q16 (1,978 GWh in 4Q16 vs 2,227 GWh in 4Q17), associated with an increase in the installed capacity of these technologies. The increase in hydroelectric and intermittent solar and wind power generation of the system resulted in a decrease in thermal generation, were coal-fired and natural gas thermoelectric generation decreased from 3,701 GWh in 4Q16 to 2,415 GWh in 4Q17 and 2,327 GWh in 4Q16 to 675 in 4Q17, respectively. The average marginal cost measured in Alto Jahuel decreased by 18% from US$48/MWh in 4Q16 to US$40/MWh in 4Q17.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 4Q16, 4Q17 and cumulative as of Dec16 and Dec17 from Fenix.

Table 3: Physical Sales and Generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
3,979	**4,111**	**Total Physical Sales (GWh)**	**1,185**	**1,110**	**3%**	**(6%)**
3,154	3,012	Costumers under Contract	702	820	(4%)	17%
825	1,099	Sales to the Spot Market	483	290	33%	(40%)
562	**557**	**Capacity Sales (MW)**	**564**	**554**	**(1%)**	**(2%)**

Accumulated Figures		Generation	Quarterly Figures		Var %	
Dec-16	Mar-17		4Q16	4Q17	Ac/Ac	Q/Q
3,581	**4,113**	**Total Generation (GWh)**	**1,211**	**1,135**	**15%**	**(6%)**
3,581	4,113	Thermoelectric - Gas	1,211	1,135	15%	(6%)
311	**93**	**Spot Market Purchases (GWh)**	**0**	**0**	**(70%)**	**-**
514	**1,007**	**Sales - Purchases to the Spot Market (GWh)**	**483**	**290**	**96%**	**(40%)**

On a quarterly basis, physical withdrawals from customers under contract in 4Q17 reached 820 GWh, 17% higher when compared to 4Q16, mainly due to the beginning of bilateral supply contracts and higher withdrawals from customers under contract. On its part, Fenix's thermal gas-power generation reached 1,135 GWh in 4Q17, decreasing by 6% compared to the 1,211 GWh in 4Q16. The lower generation is mainly explained by a minor unavailability of the power plant during the quarter. During the quarter a **100% of the commitments were supplied with own generation** and the spot market balance reached a level of net sales of 290 GWh in 4Q17 vs. net sales of 483 GWh in 4Q16.

In cumulative terms, physical withdrawals to customers under contract as of Dec17 reached 3,012 GWh, down by 4% compared to the same period of the previous year, mainly explained by the expiration of bilateral short-term contracts. On its part, Fenix thermal gas-power generation reached 4,113 GWh as of Dec17, up by 15% compared to Dec16, mainly explained by the higher availability of the power plant compared to 2016 due to the gas transportation limitation and the disconnection of Fenix during July and September 2016. This implied that as of Dec17, 100% of the commitments were supplied with own generation and net sales were made in the spot market for 1,007 GWh, compared to net sales in the spot market for 514 GWh as of Dec16.

Generation mix in Peru: During 4Q17, hydrological conditions were drier than in the fourth quarter of the previous year. Mantaro river basin, which supplies the main hydroelectric complex in Peru, CH Mantaro and CH Restitución (900 MW) presented a hydrological condition with a probability of exceedance of 82% at the end of 4Q17 vs. 79% in 4Q16. On its part, in cumulative terms, the exceedance probability for the year 2017 was 37% vs. 90% in 2016.
Hydroelectric generation in the National Interconnected System (SEIN for its acronym in Spanish) increased by 19% 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 16% during 4Q17 compared to 4Q16, given the increase in existing hydroelectric generation of the system.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 4Q16, 4Q17 and cumulative as of Dec16 and Dec17 for Chile and Peru.

Table 4: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
1,436.2	**1,548.4**	**OPERATING INCOME**	**369.2**	**388.8**	**8%**	**5%**
756.5	796.9	Regulated Customers Sales	191.4	197.3	5%	3%
401.9	425.3	Nonregulated Customers Sales	116.6	120.8	6%	4%
91.1	112.5	Energy and Capacity Sales	16.1	18.7	23%	16%
182.2	189.5	Transmission Tolls	42.5	47.2	4%	11%
4.6	24.1	Other Operating Income	2.6	4.9	425%	86%
(724.6)	**(755.7)**	**RAW MATERIAL AND CONSUMABLES USED**	**(182.1)**	**(161.5)**	**4%**	**(11%)**
(177.5)	(194.1)	Transmission Tolls	(43.4)	(50.9)	9%	17%
(101.7)	(46.0)	Energy and Capacity Purchases	(36.1)	(15.2)	(55%)	(58%)
(262.8)	(308.4)	Gas Consumption	(74.8)	(46.9)	17%	(37%)
(41.3)	(31.1)	Diesel Consumption	(2.9)	(2.6)	(25%)	(11%)
(63.4)	(73.8)	Coal Consumption	(9.0)	(14.2)	16%	57%
(77.8)	(102.3)	Other Operating Expenses	(15.8)	(31.6)	31%	100%
711.7	**792.7**	**GROSS PROFIT**	**187.1**	**227.3**	**11%**	**21%**
(67.8)	(76.8)	Personnel Expenses	(18.2)	(22.9)	13%	26%
(42.1)	(23.8)	Other Expenses, by Nature	(11.0)	0.4	(43%)	-
(227.9)	(223.5)	Depreciation and Amortization Expenses	(60.0)	(44.0)	(2%)	(27%)
373.8	**468.6**	**OPERATING INCOME (LOSS)(*)**	**97.8**	**160.8**	**25%**	**64%**
601.8	**692.1**	**EBITDA**	**157.9**	**204.8**	**15%**	**30%**
10.1	12.7	Financial Income	2.5	4.2	27%	70%
(103.4)	(85.0)	Financial Expenses	(20.5)	(22.7)	(18%)	11%
3.4	8.2	Exchange rate Differences	(1.6)	4.1	138%	-
5.4	2.9	Profit (Loss) of Companies Accounted for Using the Equity Method	0.9	(0.2)	(46%)	(126%)
(17.6)	(84.8)	Other Profit (Loss)	(11.5)	(90.4)	382%	686%
(102.2)	**(146.0)**	**NON-OPERATING INCOME**	**(30.1)**	**(105.0)**	**43%**	**249%**
271.7	**322.7**	**PROFIT (LOSS) BEFORE TAXES**	**67.7**	**55.8**	**19%**	**(18%)**
(66.9)	(34.1)	Income Tax Expense	(18.8)	23.7	(49%)	-
204.7	**288.6**	**PROFIT (LOSS) AFTER TAX**	**48.8**	**79.5**	**41%**	**63%**
201.4	**271.0**	**PROFIT (LOSS) OF CONTROLLER**	**48.4**	**76.6**	**35%**	**58%**
3.3	**17.6**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**0.5**	**2.9**	**432%**	**492%**

(*): 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-16	Sep-17	Dec-17
Chile (CLP / US$)	669.47	637.93	614.75
Chile UF (CLP/UF)	26,347.98	26,656.79	26,798.14
Peru (Pen / US$)	3.36	3.27	3.25

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in 4Q16, 4Q17 and cumulative as of Dec16 and Dec17. The major accounts and/or variations will be analyzed below.

Table 6: EBITDA Chile (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
1,219.5	**1,355.6**	**OPERATING INCOME**	**312.1**	**342.1**	**11%**	**10%**
637.1	674.2	Regulated Customers Sales	162.0	165.6	6%	2%
383.2	414.2	Nonregulated Customers Sales	116.3	120.8	8%	4%
53.4	99.3	Energy and Capacity Sales	(0.8)	16.4	86%	-
142.2	148.3	Transmission Tolls	32.4	35.6	4%	10%
3.5	19.5	Other Operating Income	2.2	3.8	456%	74%
(580.2)	**(614.3)**	**RAW MATERIAL AND CONSUMABLES USED**	**(142.6)**	**(124.1)**	**6%**	**(13%)**
(141.8)	(157.0)	Transmission Tolls	(34.9)	(40.7)	11%	17%
(86.0)	(43.0)	Energy and Capacity Purchases	(34.7)	(15.2)	(50%)	(56%)
(180.0)	(216.6)	Gas Consumption	(46.5)	(22.6)	20%	(51%)
(41.3)	(31.1)	Diesel Consumption	(2.9)	(2.6)	(25%)	(11%)
(63.4)	(73.8)	Coal Consumption	(9.0)	(14.2)	16%	57%
(67.8)	(92.7)	Other Operating Expenses	(14.5)	(28.8)	37%	98%
639.3	**741.3**	**GROSS PROFIT**	**169.5**	**218.0**	**16%**	**29%**
(61.9)	(70.9)	Personnel Expenses	(16.6)	(21.2)	15%	28%
(31.6)	(31.8)	Other Expenses, by nature	(9.2)	(9.7)	1%	6%
(196.0)	(191.3)	Depreciation and Amortization Expenses	(52.0)	(35.7)	(2%)	(31%)
349.7	**447.3**	**OPERATING INCOME (LOSS)(*)**	**91.7**	**151.4**	**28%**	**65%**
545.7	**638.5**	**EBITDA**	**143.8**	**187.0**	**17%**	**30%**

(*): 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 4Q17 amounted to US$342.1 million, a 10% increase compared to 4Q16, mainly due to an increase in: (1) revenues from capacity and energy sales in the spot market; (2) sales under contract; and (3) revenues from transmission tolls, resulting from an increase in the single charge to regulated customers due to a base price decree published in July 2016.
In cumulative terms, operating income from ordinary activities as of Dec17 reached US$1,355.6 million, up by 11% compared to Dec16. The higher income of the period is mainly explained by the same reasons that explain the variations in quarterly terms, together higher "Other Operating Income" mainly due to the portion of the tax on emissions of thermal power plants transferred to unregulated customers, which began to be effective as of Jan17.

Raw materials and consumables used decreased 13% on a quarterly basis, mainly explained by lower gas consumption due to better hydrological conditions compared to the same period of 2016 and to lower energy and capacity purchases in the spot market. The lower costs of the quarter were partially offset by higher "Other Operating Expenses" mainly explained by: (1) a reversal of provisions registered during 4Q16 due to the differences related to client supply agreements, and (2) the portion of the tax on emissions transferred to unregulated customers.
In cumulative terms, raw materials and consumables used as of Dec17 amounted to US$614.3 million, 6% higher when compared to Dec16. The higher expenses are mainly explained by: (1) higher gas and coal consumption; (2) higher "Other Operating Expenses" due to the reverse of provisions registered during 4Q16 explained above, and to the portion of the tax on emissions associated to unregulated customers; and (3) higher

transmission tolls costs. The higher expenses were mainly offset by lower energy and capacity purchases in the spot market and by a lower diesel consumption.

On a quarterly basis, EBITDA increased 30% compared to the same quarter last year, reaching US$187.0 million. The increase is mainly explained by: (1) higher revenues from ordinary activities derived from higher energy and capacity sales and an increase in sales to unregulated customers; (2) lower costs associated to the lower gas consumption due to the increase in hydroelectric generation and a decrease in energy and capacity purchases in the spot.
In cumulative terms, EBITDA increased from US$545.7 million as of Dec16 to US$638.5 million as of Dec17. The higher EBITDA is mainly explained by higher physical sales and higher margin contributions resulting from a more efficient generation mix as of Dec17 compared to the same period of 2016.

3.2. Operating Income Analysis Peru

Table 7 presents a summary of Operating Income and EBITDA of Fenix in 4Q16, 4Q17 and cumulative as of Dec16 and Dec17. The major accounts and/or variations will be analyzed below.

Table 7: EBITDA Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
216.7	**192.8**	**OPERATING INCOME**	**57.1**	**46.7**	**(11%)**	**(18%)**
119.3	122.7	Regulated Customers Sales	29.4	31.7	3%	8%
18.7	11.1	Nonregulated Customers Sales	0.3	0.0	(40%)	(95%)
37.7	13.2	Sales to Other Generators	17.0	2.3	(65%)	(86%)
39.9	41.2	Transmission Tolls	10.0	11.6	3%	16%
1.1	4.6	Other Operating Income	0.4	1.1	324%	100%
(144.3)	**(141.4)**	**RAW MATERIAL AND CONSUMABLES USED**	**(39.5)**	**(37.4)**	**(2%)**	**(5%)**
(35.7)	(37.1)	Transmission Tolls	(8.5)	(10.2)	4%	20%
(15.7)	(3.0)	Energy and Capacity Purchases	(1.4)	(0.0)	(81%)	(99%)
(82.9)	(91.7)	Gas Consumption	(28.3)	(24.4)	11%	(14%)
(10.1)	(9.6)	Other Operating Expenses	(1.3)	(2.8)	(5%)	115%
72.4	**51.4**	**GROSS PROFIT**	**17.6**	**9.3**	**(29%)**	**(47%)**
(5.9)	(5.8)	Personnel Expenses	(1.6)	(1.7)	(1%)	3%
(10.5)	8.0	Other Expenses, by Nature	(1.9)	10.2	-	-
(31.9)	(32.2)	Depreciation and Amortization Expenses	(8.0)	(8.3)	1%	4%
24.2	**21.4**	**OPERATING INCOME (LOSS)**	**6.1**	**9.4**	**(12%)**	**55%**
56.0	**53.6**	**EBITDA**	**14.1**	**17.8**	**(4%)**	**26%**

Operating income from ordinary activities during 4Q17 reached US$46.7 million, decreasing by 18% compared to 4Q16, mainly explained by the lower sales in the spot market. This effect was partially offset by higher regulated customer's sales due to the beginning of bilateral supply contracts.
In cumulative terms, operating revenues as of Dec17 reached US$192.8 million, down by 11% compared to Dec16, mainly due to the higher volume of sales in the spot market at lower marginal costs.

Raw materials and consumables used decreased by 5% compared to the same quarter from the previous year. The decrease compared to 4Q16 is mainly explained by lower gas consumption, due to the lower generation of the quarter.
In cumulative terms, raw materials and consumables used totalized US$141.4 million as of Dec17, down by 2% compared to Dec16, mainly explained by lower energy and capacity purchases in the spot market. The lower purchases were partially offset by a higher gas consumption due to the higher generation of the period.

Fenix's **EBITDA** totalized **US$17.8 million** in 4Q17, higher than the EBITDA of US$14.1 million recorded in 4Q16. The higher EBITDA is mainly explained by a positive variation recorded in the line "Other Expenses, by Nature" associated with the reversal of a provision for **doubtful** accounts, registered in 2016. The above was mainly offset by lower revenues from ordinary activities, as a result of higher sales in the spot market at lower marginal costs.
In cumulative terms, Fenix's EBITDA as of Dec17 reached US$53.6 million vs. US$56.0 million as of Dec16. The decrease is mainly explained by lower revenues from ordinary activities, as a result of a higher volume of sales in the spot market at lower marginal costs, mainly offset by lower expenses recorded in the line "Other Expenses, by Nature" explained before.

3.3. Consolidated Non-Operating Income Analysis (Chile & Peru)

Table 8 shows a summary of the consolidated non-operational income in 4Q16, 4Q17 and cumulative as of Dec16 and Dec17 for Chile and Peru. Major accounts/variations will be analyzed below.

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

Accumulated Figures			Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
10.1	12.7	Financial Income	2.5	4.2	27%	70%
(103.4)	(85.0)	Financial Expenses	(20.5)	(22.7)	(18%)	11%
3.4	8.2	Exchange rate Differences	(1.6)	4.1	138%	-
5.4	2.9	Profit (Loss) of Companies Accounted for Using the Equity Method	0.9	(0.2)	(46%)	(126%)
(17.6)	(84.8)	Other Profit (Loss)	(11.5)	(90.4)	382%	686%
(102.2)	**(146.0)**	**NON-OPERATING INCOME**	**(30.1)**	**(105.0)**	**43%**	**249%**
271.7	**322.7**	**PROFIT (LOSS) BEFORE TAXES**	**67.7**	**55.8**	**19%**	**(18%)**
(66.9)	(34.1)	Income Tax Expense	(18.8)	23.7	(49%)	-
204.7	**288.6**	**PROFIT (LOSS) AFTER TAX**	48.8	79.5	41%	63%
201.4	**271.0**	**PROFIT (LOSS) OF CONTROLLER**	**48.4**	**76.6**	**35%**	**58%**
3.3	**17.6**	**PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST**	**0.5**	**2.9**	**432%**	**492%**

Non-operating Income in 4Q17 recorded **losses of US$105.0 million,** which compares with the loss of US$30.1 million in 4Q16. The higher loss of the quarter is mainly explained by an increase registered in the line "Other Profit (Loss)", as a result of the accounting record of provisions for impairment of specific assets for a total of US$63 million, mainly: (1) partial impairment of San Pedro Hydroelectric Project for US$45 million, amount derived from recognizing that the future development of this project will face lower energy prices than those contemplated in its economic valuation at the beginning of its construction, and that takes into account the investment already made to date (and the expected future capex). It is important to note that the Company will continue preparing the background for the re-entry of the EIA of this Project; and (2) Unit II Project of Santa María complex for US$10 million, on which we have publicly informed our decision of not proceeding with its construction. The remaining amount corresponds to diverse other charges for a total amount of US$8 million.

Added to these provisions, “Other Profit (Loss) increased due to: (1) tax expense on the emissions of thermal power plants (Law 20,780), which become effective as of Jan17; (2) impairment of those licenses for non-use water rights that the Company doesn’t plan to use (remaining in the Balance only those that are estimated to have a future potential benefit); and (3) impairment of a transformer in Nehuenco complex. These effects were partially offset by the positive impact of the variation of the CLP/US$ exchange rate over temporary balance accounts in local currency during the quarter.

In cumulative terms, non-operating income as of Dec17 recorded **losses of US$146.0 million** vs. losses of US$102.2 million as of Dec16. The higher loss is mainly explained by the same reasons that explain the variations in quarterly terms, partially offset by lower financial expenses mainly due to the lower outstanding financial debt during the period due to debt prepayments for ~US$500 million in June and July of 2016.

Income tax expenses recoded a profit of **US$23.7 million** in 4Q17, which compares positively with the tax expenses of US$18.8 million in 4Q16. The tax profit is mainly explained by the effect on P&L from the recognition of deferred tax assets, as a result of the expected tax loss from the cessation of activities and cancellation of the "HidroAysén Hydroelectric Project" for US$39.8 million, in November 2017.
Tax expenses **in cumulative terms** as of Dec17 reached **US$34.1 million**, lower when compared with the US$66.9 million presented in Dec16, mainly explained by the same reasons that explain the variations in quarterly terms.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

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

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

	Dec-16	Dec-17	Var	Var %
Current assets	947.6	1,147.2	199.5	21%
Non-current assets	5,875.0	5,775.4	(99.6)	(2%)
TOTAL ASSETS	**6,822.6**	**6,922.5**	**99.9**	**1%**
Current liabilities	360.1	354.8	(5.3)	(1%)
Non-current liabilities	2,672.7	2,617.0	(55.7)	(2%)
Total net equity	3,789.8	3,950.7	160.9	4%
TOTAL LIABILITIES AND NET EQUITY	**6,822.6**	**6,922.5**	**99.9**	**1%**

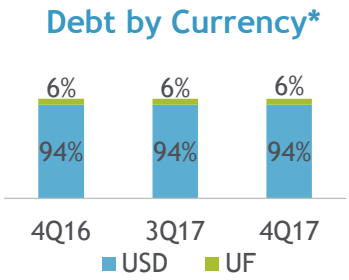
Current Assets: Reached US$1,147.2 million, increasing by 21% compared to Dec16 closing, mainly explained by an increase in cash and cash equivalents resulting from the flows of operating activities.

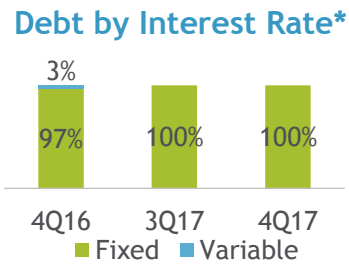
Non-current Assets: Recorded US$5,775.4 million at the end of Dec17, slightly decreasing compared to the existing balance as of Dec16 due to the fixed assets depreciation of the period, partially offset by the capex of the period.

Current Liabilities: Amounted to US$354.8 million at Dec17 closing, in line compared to Dec16.

Non-current Liabilities: Totalized US$2,617.0 million at Dec17 closing, decreasing by 2% compared to Dec16, mainly explained by financial debt prepayments.

Total Net Equity: The Company posted a net worth of US$3,950.7 million, increasing by 4% compared to Dec16. The increase is mainly explained by the net income of the period, for the reasons explained above.





* Includes financial derivatives

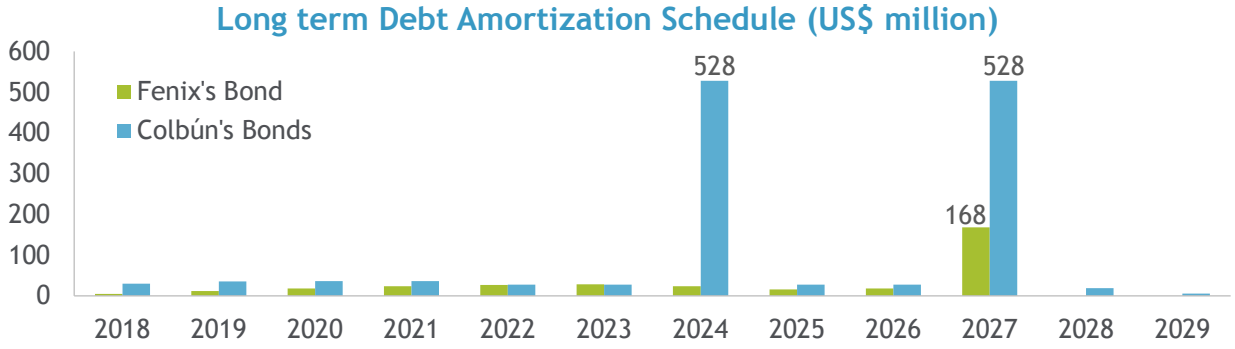


Table 10: Main Debt Items (US$ million)

	Dec-16	Dec-17	Var	Var %
Gross Financial Debt*	1,710.0	1,659.5	(50.6)	(3%)
Financial Investments**	667.0	810.2	143.2	21%
Net Debt	1,043.0	849.2	(193.8)	(19%)
EBITDA LTM	601.8	692.1	90.4	15%
Net Debt/EBITDA LTM	1.7	1.2	(0.5)	(29%)

(*) Includes an international bond of US$340 million and financial leasing for US$15.1 million, both 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.

Debt Analysis: Financial debt reached US$1,659.5 million, slightly decreasing compared to Dec16. On its part, Financial Investments totalized US$810.2 million, increasing by 21% compared to Dec16, mainly explained by cash flows from operations. Given the above, Net Debt totalized US$849.3 million. On its part, EBITDA LTM (last 12 months) increased 15% compared to 2016 closing.

Net Debt/EBITDA LTM ratio decreased from 1.7 times at Dic16 closing to 1.2 times at Dec17 closing.

The average maturity life of Colbún's long-term financial debt is 7.5 years.

The average USD long-term financial debt interest rate is 5.02%.

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 including the cumulative result over the last 12 months as of the date indicated.

Table 11: Financial Ratios

Ratio	Dec-16	Dec-17	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	2.63	3.23	22.8%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	2.51	3.06	21.9%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.80	0.75	(6.0%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.87%	11.94%	0.6%
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.13%	88.06%	(0.1%)
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.63	4.80	32.2%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.49%	7.46%	35.8%
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.93%	4.20%	43.4%
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	6.61%	8.39%	27.0%

Income Statement ratios 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 3.23x and 3.06x as of Dec17 respectively, increasing when compared to Dec16 by 23% and 22% respectively, due to: (1) an increase in current assets, explained mainly by an increase in cash and cash equivalents resulting from operating activities, and (2) the decrease in current operating liabilities resulting from the payment of provisioned dividends in Dec16 for US$60.4 million, in Jan17.

Debt Ratio reached 0.75x as of Dec17, compared with 0.80x as of Dec16. The decrease of 6% is mainly explained by the increase in net equity as a result of the net income recorded during the period, partially compensated by the payment of the definitive dividend for US$53.2 million in April 2017 and the payment of a provisional dividend for US$58.2 million in December 2017.

The percentage of **Short-Term Debt** as of Dec17 was 11.94%, in line with the value of 11.87% measured on Dec16.

The percentage of **Long-Term Debt** as of Dec17 was 88.06%, in line with the value of 88.13% obtained on Dec16.

Financial Expenses Coverage as of Dec17 was 4.80x, higher than the value of 3.63x obtained on Dec16, due to the higher profit before taxes registered and to the lower financial expenses recorded during the period, mainly explained by the lower outstanding financial debt during the period due to debt prepayments for ~US$500 million in 2016. The higher profit for the quarter is mainly explained by the higher EBITDA as of Dec17, partially compensated by an increase recorded in the "Other Profit (Loss)" line, due to the accounting record of provisions for impairment of specific assets previously explained.

Equity Profitability and **Profitability of Assets** of the year 2017 totalized 7.46% and 4.20% respectively, both increasing when compared to Dec16. The increase in Equity Profitability is mainly explained by an increase in Net income as of Dec17 compared to Dec16.

The increase in Profitability of Assets is mainly explained by the increase in Net income and by the decrease in the average assets held during the year, mainly explained by the decrease in cash and cash equivalents due to debt prepayments for ~US$500 million in 2016.

Performance of Operating Assets of the year 2017 was 8.39%, increasing compared to the yield obtained as of Dec16. The increase is mainly explained by the higher operating income of the year.

6. CONSOLIDATED CASH FLOW ANALYSIS

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

Table 12: Cash Flow Summary for Chile and Peru (US$ million)

Accumulated Figures			Quarterly Figures		Var %	
Dec-16	Dec-17		4Q16	4Q17	Ac/Ac	Q/Q
1,080.8	**667.0**	**Cash Equivalents, Beg. of Period***	**620.2**	**775.8**	**(38%)**	**25%**
517.9	600.9	Net cash flows provided by (used in) operating activities	150.1	194.1	16%	29%
(741.0)	(338.4)	Net cash flows provided by (used in) financing activities	(39.0)	(142.7)	(54%)	266%
(198.1)	(129.1)	Net cash flows provided by (used in) investing activities**	(62.3)	(23.8)	(35%)	(62%)
(421.3)	**133.5**	**Net Cash Flows for the Period**	**48.8**	**27.6**	**-**	**(43%)**
7.4	9.8	Effects of exchange rate changes on cash and cash equivalents	(2.0)	6.8	32%	-
667.0	**810.2**	**Cash Equivalents, End of Period**	**667.0**	**810.2**	**21%**	**21%**

(*)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 4Q17, the Company recorded a **net cash inflow of US$27.6 million**, compared to the net cash inflow of US$48.8 million from 4Q16.

Operating Activities: During 4Q17 a positive net cash flow of US$194.1 million was generated, increasing by 29% compared to 4Q16. The increase is mainly explained by a higher operational result during the quarter.
In cumulative terms, a positive net cash flow of US$600.9 million was generated in 2017, increasing 16% with respect to the net cash inflow of US$517.9 million in 2016, explained by the same reasons than on a quarterly basis.

Financing Activities: Generated a net cash outflow of US$142.7 million during 4Q17, which compares with 4Q16's net outflow of US$39.0 million. The higher cash outflow of 4Q17 is mainly explained by the payment of provisional dividends for US$58.2 million in December and by the expenses associated with the international bond issuances and debt refinancing.
In cumulative terms, a net outflow of US$338.4 million was recorded as of Dec17, lower than the net outflow of US$741.0 million as of Dec16, mainly due to the financial debt prepayments for ~US$500 million made during 2016.

Investing Activities: Generated a net cash outflow of US$23.8 million during 4Q17, lower than the outflow of US$62.3 million in 4Q16. The higher net cash outflow 4Q16 was mainly associated with the La Mina project.
In cumulative terms, investing activities generated a net cash outflow of US$129.1 million as of Dec17, lower when compared to disbursements of US$198.1 million as of Dec16, mainly explained by the lower investments associated with the completion of the construction of the La Mina project in April 2017.

7. ENVIRONMENT AND RISK ANALYSIS

Colbún S.A. is a generation Company with an installed capacity of 3,847 MW, comprised of 2,250 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 23%. 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 generation.

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 fuel prices (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 2017 has presented dry hydrological conditions, showing lower rainfalls than an average year, as of December 31, the probability of exceedance of the SIC reached 82%. 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 ERSA 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 this line, on May 24, 2017, the Company subscribed a new contract with ERSA for the supply of natural gas with reserved regasification capacity, to provide operational continuity to the Nehuenco Complex. Subsequently, on July 26, 2017 Colbún and ERSA agreed to modify the contract in order to anticipate its entry into force and expand the volume of regasification capacity originally agreed. With the amendment, the entry into force of the contract will begin to be effective as of January 1, 2018, extending its duration to a term of 13 years.

Regarding energy supply contracts, in October 2017, Colbún signed an agreement for the supply of power for 630 GWh per year over a 10-year term with CMPC for its various industrial facilities, and signed a 4-years term contract with Walmart for approximately 300 GWh annually.

Given the above, since the end of 2016, Colbún has subscribed medium-term supply contracts with unregulated customers for more than 1,700 GWh and is currently under negotiations to finalize new agreements.

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 2017 has developed with a humid hydrological condition and with rates of demand growth in line with the same quarter of the previous year (variation of 0.2%). The future trajectory of marginal costs is mainly subject to the trajectory of demand, hydrology and to 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 geography, 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 counting on a safe, competitive and sustainable generation matrix.

In Chile, Colbún currently has several projects under different stages of maturity, including hydro, thermal, projects from variable sources and its respective transmission lines.

Projects under Construction

Ovejeria PMGD Project (9 MW): It involves the construction of a Small Means of Distributed Generation (PMGD for its Spanish acronym) photovoltaic plant located in the Metropolitan Region. The installed capacity will be of 9 MW, with an average annual generation of approximately 22 GWh/year, energy that will be delivered through an existing line.

In July of 2017, the Board of Directors authorized this investment with a starting date of operation no further than the second quarter of 2018. Construction started during December.

Projects under Development

San Pedro Hydroelectric Project (170 MW): The project is located 25 km. northeast of Los Lagos, Los Ríos Region, and considers using the water of the homonymous river through a 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 June 2015, 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 August 2015, the Authority decided to early terminate the process due to lack of essential information.

Notwithstanding the foregoing, the Company is preparing the background to re-submit the Environmental Impact Study (EIA). 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 (316 MW): 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 HTL Los Cóndores.

During the fourth quarter of 2017, the preparation of the Environmental Impact Study and the engineering development of the final adjustments for the projects continues.

Los Cuartos Project (93 MW): 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 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.

The project is under evaluation to determine if it continues with the basic engineering stage.

El Médano Project (6 MW): El Médano is a hydroelectric project, which is located next to the La Mina project on the Maule River, in the municipality of San Clemente, approximately 100 km east of the city of Talca. This project considers an installed capacity of 6 MW and an average annual generation of 26 GWh, whose generated energy will be evacuated through the transmission line of CH La Mina. El Médano is conceived as a compact work, concentrating the capture, the engine room and the restitution to the river in the same structure.

During the fourth quarter of 2017, the processing of the Environmental Impact Study, which was submitted in July 2017, and the development of basic engineering continued.

Horizonte Wind Farm (607 MW): "Horizonte" is a wind farm farm located approximately 70 kilometers northeast of Taltal and 170 kilometers southeast of Antofagasta. It considers 607 MW of installed capacity and an average annual generation of approximately 1,900 GWh.

This project stars from the awarding of a tender conducted by the Ministry of National Assets for the development, construction and operation of a wind farm through a 30-year onerous use concession, in a tax property of about 8 thousand hectares.

For its development, 4 years are estimated for the studies and permits stages and 3 additional years are estimated for its construction.

During the fourth quarter of 2017, Colbún started the feasibility and studies stage.

HidroAysén: On November 17, 2017, Hidroaysén S.A., of which Colbún S.A. owns a 49% stake, reported the cessation of activities and cancellation of the "Hidroaysén Hydroelectric Project" because it is not feasible in economic terms, in the context of the current situation of the power market and its future prospects; proceeding to the dissolution of the Company and liquidation of assets, the withdrawal of pending legal actions and the waiver of the water rights of the Project.

According to the Essential Fact published on November 2017, at 2014 closing, Colbún S.A. recorded a provision for the impairment of its participation in HidroAysén S.A. for a total amount of approximately US$102 million and therefore the dissolution will not have material adverse accounting effects.

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 load 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. With the objective of minimizing the use of water and ensuring operational availability during periods of water scarcity, Colbún built a Reverse Osmosis Plant that allows to reduce by up to 50% the water used in the cooling process of the combined cycles of the Nehuenco Complex.The plant completed its construction in May 2017 and came into operation during the third quarter of 2017.

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 the 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 ERSA and Metrogas. For the long term, Colbún recently signed a new agreement with ERSA for the options of supply of liquefied natural gas and reserved regasification capacity - dated May 24 and complemented on July 26 -, effective from 2018 to 2030, which will allow Colbún to access natural gas for the Nehuenco Complex. On its part, in Peru, Fenix has long-term contracts with the ECL88 Consortium (Pluspetrol, Pluspetrol Camisea, Hunt, SK, Sonatrach, Tecpetrol and Repsol) and gas transportation agreements with TGP.

Regarding coal purchases for Santa María unit I power plant, new tenders have been undertaken (the last in August 2017), 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. Based on the above, Colbún holds 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 prices, opposition from local and international stakeholders, adverse geographical conditions, natural disasters, accidents or other unforeseen events.

The Company's exposure to such risks is managed through a commercial policy that considers the effects of potential project delays. Alternatively, clearance levels with respect to time and construction costs estimates are incorporated. Additionally, the Company's exposure to this risk is partially covered with 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 also has the policy to integrate with excellence the social and environmental dimensions to the development of its projects. The Company has developed a model of social link that allows it to work with neighboring communities and with the society in general, starting a transparent process of public participation and confidence building in the early stages of projects and throughout their entire life cycle.

B.1.6. Regulatory risks

Regulatory stability is 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, in December 2017 the Ministry of Energy and Mines approved new regulatory provisions for the declaration of the gas price (the gas price will be declared once a year and it now has a minimum declaration price) and requested to report operational constrains of the generation 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 the last years.

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

Financial risks are those 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 Balance Sheet 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-16	Sep-17	Dec-17
Fixed	97%	100%	100%
Variable	3%	0%	0%
Total	**100%**	**100%**	**100%**

As of December 31, 2017, the Company's financial debt is 100% denominated in fixed rate.

B.2.3 Credit risk

The Company is exposed to the risk arising from the possibility that a counterpart fails to meet its contractual obligations, producing an economic or financial loss. Historically, all 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, 2017, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, which are known as "money market".

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

B.2.4 Liquidity risk

This risk results from different funding requirements to meet investment commitments and business expenses, debt payments, among others. The funds needed to meet these cash flow outputs are obtained from 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, 2017, Colbún has cash in excess for approximately US$810 million, invested in time deposits with an average maturity of 97 days (includes time deposits with a duration of more than 90 days, which are recorded as "Other Current Financial Assets" in the Consolidated Financial Statements) and in short-term mutual funds with a maturity of less than 90 days. The Company also has as additional liquidity sources available to date: (i) 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$139 million in interests and principal amortization. These obligations are expected to be funded with the Company's own cash flow generation.

As of December 31, 2017, Colbún has a local credit rating of AA- by Fitch Ratings and AA- by Standard and Poor's Chile (S&P Chile), 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 Global), both with stable outlooks.

On its part, Fenix has international risk rating Baa3 by Moody's, BBB- by Standard & Poor's (S&P) and BBB- by Fitch Ratings, all with stable outlooks.

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

Information on contractual maturities of the main financial liabilities is disclosed in note 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 December 31, 2017, the Company's exposure to this risk is limited, resulting in a potential impact due to exchange differences of approximately US$1.8 million, on a quarterly basis, based on a sensitivity analysis with 95% confidence.

There is no variation risk in interest rates, since 100% of the financial debt is contracted at a fixed rate.

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 24%. Regarding existing derivatives, the Company's international counterparts have a credit rating equivalent to BBB+ or higher and national counterparts have local credit rating of BBB+ or higher. It should be noted that no counterparty concentrates more than 27% in notional terms.

Liquidity risk is considered low because of the relevant cash position of the Company, the amount of financial obligations over the next twelve months and the access to additional sources of funding, 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 Comisión para el Mercado Financiero, those documents should be read as a complement to this report.