REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. PERIOD OVERVIEW

EBITDA for 4Q14 reached **US$159.0 million**, which compares positively with the US$106.8 million in 4Q13.
In accumulated terms, EBITDA as of Dec14 reached US$536.6 million, in comparison to US$352.4 million as of Dec13. The increase is a consequence of a higher generation by hydroelectric plants because of a more favorable melting season, the start of commercial operation of the Angostura power plant in Apr14 and a higher availability of the Company's power plants that led to a surplus position on the spot market. It should be noted that 2014 EBITDA is the highest in the Company's history.

Non-operating income in 4Q14 shows a **loss of US$137.8 million** (vs. a loss of US$26.1 million in 4Q13) mainly as a consequence of an impairment provision of the investment in the associate Hydroaysén for US$102.1 million.
Accumulated figures as of Dec14 show a loss of US$184.5 million, against a loss of US$70.8 million as of Dec13. This higher loss is a consequence of the impairment provision already mentioned and higher financial expenses because of a higher gross debt and lower capitalization of interests after the commissioning of Angostura power plant in Apr14.

Income Tax expense reached **US$34.2 million** (vs. an expense of US$31.1 million in 4Q13) mainly by the effect of the depreciation in the CLP/US$ exchange rate that affects the deferred tax balances, as fixed assets are denominated in Chilean pesos. It should be mentioned that the impairment provision of Hydroaysen will not have any impact on the tax calculation.
Accumulated income tax expense as of Dec14 amounted US$90.1 million vs. an expense of US$56.0 million as of Dec13. The increase is explained mainly by a higher profit before taxes, by the increase in the first category tax rate as a consequence of the tax reform passed in Sep14 (Law 20,780) and by the effect of the depreciation in the CLP/US$ exchange rate that affects the deferred tax balances, as fixed assets and tax losses are accounted for in Chilean pesos.

The company showed a **loss of US$ 61.8 miilon** in the fourth quarter of 2014 (4Q14) (vs a profit of US$ 6.9 million in 4Q13).
In accumulated terms, the profit as of December 31, 2014 (Dec14) amounted to US$ 79.5 million that compares positively with a profit of US$62.9 million in the previous year (Dec13)

Physical sales to customers under power purchase agreements during 4Q14 reached **2,913 GWh,** 9% lower than the same period of the previous year because of two contracts with unregulated customers that expired in Dec13. Additionally, there were **net purchases in the spot market of 120 GWh** during the quarter, compared to net purchases of 434 GWh in 4Q13.
In accumulated terms, physical sales to customers under power purchase agreements reached 11,941 GWh, 3% lower than as of Dec13 due to the expiration of the two contracts in Dec 13 mentioned above. Sales to the spot market totaled 647 GWh as of Dec14, in comparison to net purchases of 1,283 GWh as of Dec13.

Hydraulic generation in 4Q14 reached **2,109 GWh**, which represents the highest production from this technology since 3Q08. The increase of 46% compared to 4Q13 is a consequence of the commissioning of the Angostura power plant and a more favorable melting season. It should be mentioned that this new power plant has operated reliably since its commission and has produced 1,301 GWh (including the production during its testing phase), with an availability of 96%.

Accumulated figures as of Dec14 reached 6,655 GWh, the highest production since 2008 and a 37% increase in comparison to Dec13.

Coal-fired generation during 4Q14 amounted to 527 GWh, 11% lower than 4Q13. This is explained by the shutdown of the power plant for a routine major maintenance and minor shutdowns that were not planned. In 2013 the major maintenance was done in the third quarter.
In accumulated terms, coal-fired generation as of Dec14 reached 2,623 GWh, in line with Dec13. Despite the lower generation in the quarter, the power plant has had a load factor of 81% during the year, in comparison to the 69% average in the SIC.
Base-load generation (Hydroelectric and coal-fired) represented 91% of the total commercial commitments in 4Q14 (vs 64% in 4Q13). The remaining commitments where supplied mostly with competitive natural gas-fired generation.

In Oct14 Colbún prepaid in full a loan with international banks for an amount of US$150 million with an original maturity in August 2015. It is worth mentioning that in Jul14 the Company issued a bond in the international markets for an amount of US$500 million, at a coupon rate of 4.5%, effective rate of 4.675% and bullet maturity of 10 years. At the end of 4Q14 Colbún had a **cash liquidity of US$832.8 million.**

In Sep14 the Board approved the **run-of-the-river La Mina power plant project** (34MW). During 4Q14 the contracts for the civil works and electromechanic infrastructure were awarded, and construction started. In the meantime, informative meetings with authorities and local communities continued.

1. GENERATION AND PHYSICAL SALES

Table 1 presents a comparative table showing physical sales of energy, capacity and production for 4Q14 and 4Q13 and accumulated as of Dec14 and Dec13.

Table 2: Physical Sales and Generation

Accumulated figures		Sales	Quarterly figures		Var %	
Dec-13	Dec-14		4Q13	4Q14	Acc vs Acc	Q vs Q
12,842	**12,731**	**Total physical sales (GWh)**	**3,202**	**2,913**	**(1%)**	**(9%)**
7,241	7,204	Regulated customers	1,725	1,765	(1%)	2%
5,082	4,737	Unregulated customers	1,469	1,148	(7%)	(22%)
519	791	Spot market (CDEC)	8	0	52%	(100%)
1,770	**1,701**	**Capacity sales (MW)**	**1,806**	**1,659**	**(4%)**	**(8%)**

Accumulated figures		Production	Quarterly figures		Var %	
Dec-13	Dec-14		4Q13	4Q14	Acc vs Acc	Q vs Q
11,253	**12,835**	**Total production (GWh)**	**2,825**	**2,828**	**14%**	**0%**
4,857	6,655	Hydraulic	1,446	2,109	37%	46%
3,234	3,011	Thermal - Natural gas	779	189	(7%)	(76%)
546	546	Thermal - Diesel	8	3	0%	(66%)
2,616	2,623	Thermal - Coal	592	527	0%	(11%)
1,802	**144**	**Purchases spot market**	**442**	**120**	**(92%)**	**(73%)**
(1,283)	**647**	**Sales - Purchases CDEC**	**(434)**	**(120)**	**(150%)**	**(72%)**

Generation Mix

The hydrological year started in Apr14 exhibits slightly favorable hydrological conditions compared to the last four years. Melting during the last quarter of 2014 was better than in 2013, added to the new Angostura power plant that has operated reliably since its commissioning, providing 1,301 GWh in 2014. Both factors lead to a 37% increase in own hydroelectric generation in 2014 versus 2013, where 27% is explained by Angostura and 10% is the result of an improvement in hydrological conditions. This has meant a decline in the marginal costs of 12% compared to the previous year (US$135/MWh versus US$154/MWh)

The **hydroelectric generation in 4Q14 was 46% higher with respect to 4Q13**, mainly as a consequence of better river inflows due to higher melting (26%) and the commissioning of the Angostura power plant (20%) that produced 378 GWh during the quarter.

Coal-fired power generation in 4Q14 decreased by 11% with respect to 4Q13. During the quarter the plant was out of service for a total of 29 days as a consequence of a major maintenance and minor non-planned shutdowns. It is worth mentioning that Santa Maria I has an availability of 86%, higher that the average of other plants of the same technology in the SIC.

Gas-fired power generation decreased by 76% in 4Q14 compared to 4Q13. The decrease is a consequence of lower requirements of this fuel because of the lower marginal costs expected.

Diesel-fired power generation was almost non-existent (3 GWh), lower than the 8 GWh in 4Q13.

With respect to the generation mix during 4Q14**, 91% of the commitments were supplied with efficient generation:** hydroelectric and coal (versus 64% in 4Q13). The rest of the commitments were supplied mainly with purchases on the spot market and natural gas generation.

Accumulated hydroelectric generation as of Dec14 increased 37% with respect to Dec13, mainly because of the commissioning of the Angostura power plant. Coal-fired generation and diesel-fired generation were in line with the previous year while natural gas-fired generation decreased by 7%. Of the total thermal generation as of Dec14, 49% was natural gas, 42% coal and the remaining 9% was diesel. **Base generation represented 78% of the commercial commitments as of Dec14**, higher than the 61% as of Dec13. If natural gas generation is included, the percentage reaches 100%. As of Dec14 total sales to the CDEC (spot market) amounted to 647 Gwh (versus purchases of 1,283 GWh as of Dec13).

2. INCOME STATEMENT ANALYSIS

Table 1 shows a summary of the Income Statement for 4Q14 and 4Q13 and accumulated income statement for Dec14 and Dec13.

Table 1: Income Statement (US$ million)

Accumulated figures			Quarterly figures		Var %	
Dec-13	Dec-14		4Q13	4Q14	Acc vs Acc	Q vs Q
1,696.0	**1,502.6**	**OPERATING REVENUES**	**349.6**	**330.1**	**(11%)**	**(6%)**
727.8	724.6	Regulated Customers Sales	170.2	183.5	(0%)	8%
646.0	502.1	Non-regulated Customers Sales	130.8	106.8	(22%)	(18%)
55.9	55.9	Other Generators Sales	0.5	0.1	0%	(77%)
182.3	163.2	Transmission Tolls	36.5	37.8	(10%)	4%
83.9	56.7	Other Operating Income	11.6	1.9	(32%)	(84%)
(1,260.1)	**(883.7)**	**RAW MATERIAL AND CONSUMABLES USED**	**(222.7)**	**(149.0)**	**(30%)**	**(33%)**
(163.0)	(161.9)	Transmission Tolls	(39.0)	(40.3)	(1%)	3%
(420.3)	(70.9)	Energy and Capacity Purchases	(59.0)	(29.1)	(83%)	(51%)
(357.6)	(341.6)	Gas	(69.3)	(18.7)	(4%)	(73%)
(133.0)	(109.8)	Diesel	(5.0)	(3.3)	(17%)	(34%)
(104.5)	(92.4)	Coal	(24.7)	(19.3)	(12%)	(22%)
(81.8)	(107.0)	Other Operating Expenses	(25.7)	(38.4)	31%	49%
435.9	**618.9**	**GROSS PROFIT**	**126.9**	**181.0**	**42%**	**43%**
(60.1)	(59.7)	Personnel Expenses	(13.9)	(15.5)	(1%)	12%
(23.3)	(22.6)	Other Expenses, by nature	(6.2)	(6.5)	(3%)	6%
(162.6)	(182.4)	Depreciation and Amortization Expenses	(42.7)	(47.9)	12%	12%
189.8	**354.2**	**OPERATING RESULT [1]**	**64.1**	**111.1**	**87%**	**73%**
352.4	**536.6**	**EBITDA**	**106.8**	**159.0**	**52%**	**49%**
5.1	5.6	Financial Income	1.2	1.2	10%	(4%)
(50.1)	(76.0)	Financial Expenses	(12.1)	(24.2)	52%	99%
5.1	9.1	Readjustment Profit (Loss)	2.1	2.4	78%	14%
2.3	(22.4)	Exchange rate Differences	0.0	(4.9)	(1061%)	(44424%)
4.9	2.8	Share in the Profit (Loss) of Associates and Joint Ventures Accounted for Using the Equity Method	0.7	(1.1)	(43%)	(254%)
(38.0)	(103.5)	Other Profit (Loss)	(18.0)	(112.1)	172%	521%
(70.8)	**(184.5)**	**NON-OPERATING INCOME**	**(26.1)**	**(138.7)**	**161%**	**431%**
119.0	**169.7**	**PROFIT (LOSS) BEFORE TAXES**	**38.0**	**(27.6)**	**43%**	**(173%)**
(56.0)	(90.1)	Income Tax Expense	(31.1)	(34.2)	61%	10%
62.9	**79.5**	**PROFIT (LOSS)**	**6.9**	**(61.8)**	**26%**	**(996%)**

[1] The subtotal for "OPERATING INCOME (LOSS)" presented herein, differs from the "profit (loss) from operating activities" line presented in the Financial Statements. This is explained by a change in taxonomy dictated by the SVS in Mar12, by means of which the concept of "other profits (losses)", which in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

Operating revenues

Operating revenues from ordinary activities in 4Q14 amounted to US$330.1 million, a decrease of 6% compared to 4Q13, mainly because of lower sales to non-regulated customers.
As of Dec14, sales amounted to US$1,502.6, 11% lower than as of Dec13, also explained by a decrease in sales to non-regulated customers. Revenues' breakdown is as follows:

Regulated customers: revenues from sales to regulated customers reached US$183.5 million in 4Q14, 8% higher than 4Q13. The main driver of the increase was the higher exchange rate used to calculate the long-term node price by the CNE and to a lower extent, a decrease in physical sales.
In accumulated terms, sales reached US$ 724 million as of Dec14, in line with the previous year.

Non-regulated customers: sales to non-regulated customers reached US$106.8 million in 4Q14, 18% lower than in 4Q13. The decrease is mainly explained by the lower volume of physical sales due to the two contracts that ended in Dec13 as previously mentioned, partially offset by a higher average monomic price, also as a consequence of the two contracts that ended in Dec13.
In accumulated terms, sales as of Dec14 amounted US$502.1 million, 22% lower than Dec13, because of a lower monomic price and lower physical sales, given by the aforementioned.

Other generators sales: During 4Q14 there were no sales on this market.
In accumulated terms, as of Dec14 sales on the spot market in monetary terms were in line with Dec13, however in physical terms increase by 52%. It is worth mentioning that this line includes 118 GWh generated during the testing phase of the Angostura power plant before being commissioned in Apr14 (US$19.7 million that were included in "Other revenues").

Transmission Tolls: Income from tolls in 4Q14 was in line with the same period of the previous year.
In accumulated terms, as of Dec14 these revenues totaled US$163.2 million, 10% lower than in the previous year. The decrease in this caption is explained by lower revenues in the subtransmission system as a consequence of a lower demand, and lower tariffs in the trunk system because in the previous year there were congestions in the system that benefited Colbún. Both effects were partially compensated by higher revenues in the trunk system.

Other Operating Income: There were no relevant revenues in this category during 4Q14.
In accumulated terms, other operating income as of Dec14 totaled US$56.7 million, in comparison to US$83.9 million as of Dec13. This difference is explained mainly because Dec14 includes the compensation received form the insurance company for the loss of profit from the failure in Nehuenco II for US$32.5 million in 1Q14 and US$19.7 million from the gross margin from the sale of energy during the testing phase of Angostura. On the other hand, as of Dec13 this line includes the positive effect from the resolution of the arbitrage for the compensation to be received from the insurance as a consequence of the failure in Nehuenco I In Dec07 for US$63.9 million, the sale of green certificates from Hornitos and Quilleco power plants for US$ 7.2 million and the advance payment from the failure in Nehuenco II for US$9.7 million.

Cost of Raw Materials and Consumables used

Costs of raw materials and consumables used in 4Q14 amounted to US$149.0 million, a decrease of 33% compared to 4Q13, mainly given by lower consumption of natural gas and lower purchases on the spot market as a consequence of a higher hydroelectric production.
Accumulated figures as of Dec14 amounted to US$ 883.7 million, 30% lower than as of Dec13, mainly because of a higher and more efficient energy production.

Energy and capacity purchases: during 4Q14 physical purchases amounted to U$S 29.1 million. This represents a decrease in comparison to the US$59.0 in 4Q13 and is a consequence of lower physical sales to clients with contracts.
In accumulated terms, these costs as of Dec14 totaled US$70.9 million, a decrease in comparison with the US$420.4 million as of Dec13, mainly as a consequence of a higher energy production, mainly with hydro, and the unavailability of Nehuenco II in the previous year.

Fuel costs: during 4Q14 fuel costs reached US$41.2 million, 58% lower than in 4Q13. The decrease is mainly a consequence of lower generation with natural gas and, to a lower extent, with coal.
In accumulated terms, fuel costs as of Dec14 amounted US$543.8 million, 9% lower than at Dec13. The decrease is a consequence of a lower generation with natural gas and a lower cost of both, diesel and coal fuels.

Others: in 4Q14 reached US$38.4 million, higher than the US$27.5 million in 4Q13. The explanation is provisions set up for differences with clients under power purchase agreements.
In accumulated terms, these costs amounted to US$107.0 million, compared to US$81.8 million as of Dec13.

2.2 ANALYSIS OF NON-OPERATING ITEMS

Non-operating result for 4Q14 recorded a loss of US$138.7 million, higher than a loss of US$26.1 million in 4Q13, mainly as a consequence of an impairment provision on the investment in Hydroaysén for US$102.1 million.
In accumulated terms, the non-operating result as of Dec14 recorded a loss of US$184.5 million vs. a loss of US$70.8 million as of Dec13. This higher loss is explained mainly by the previously mentioned effect and a higher financial expense because of a lower capitalization of interests as a consequence of the commission of the Angostura power plant in Apr14 and higher debt.

The main components are:

Financial Expenses: financial expenses during 4Q14 amounted to US$24.2 million, higher than the US$12.1 million recorded in 4Q13. The increase is explained by an increase of financial debt as a consequence of the bond issued in the financial markets for US$ 500 million, and a lower capitalization of financial costs as a consequence of the commissioning of the Angostura power plant.
In accumulated terms, financial expenses amounted to US$76.0 million vs US$50.1 million in Dec13, the explanation for the increase being the same already mentioned.

Exchange Rate Differences: the exchange rate difference generated during 4Q14 is a loss of US$4.9 million, higher than the zero exchange rate difference in 4Q13. The cause is a depreciation of 1% of the Chilean peso and an inflation rate of 1.8% in the quarter.
In accumulated terms, this line recorded a loss of US$22.4 million as of Dec14, in comparison to a gain of US$2.3 million as of Dec13. This variation is a consequence of the depreciation of 16% of the CLP/US$ exchange rate during the year over a slightly positive net position of assets over liabilities in local currency.

Share in the profit (loss) of Associates and Joint Ventures accounted for using the equity method: during the quarter there was a loss of US$103.2 million which compares negatively with the gain of US$ 0.7 million of 4Q13. The loss in the quarter is explained mainly by the impairment provision on the investment in Hydroaysén for US$102.1 million. In accumulated terms, this line amounted to US$99.3 million as of Dec14, lower than a gain of US$4.9 million as of Dec13, mainly explained by the impairment provision already mentioned.

Other profits (losses): during 4Q14 this line recorded a loss of US$10.0 million that compares positively to a loss of US$18.0 million in 4Q13. This quarter includes an impairment provision of water rights of US$5.3 million as a consequence of amounts paid for not using the granted water rights that the Company will not be able to use as tax credits. Additionally, there is an obsolescence provision of US$4.4 million for slow moving spare parts. The loss in 4Q13 is explained by the reclassification of the advance payment from the failure in Nehuenco II power plant. The reclassification considered a movement from "other profits (losses)" to the operational line "Other income" because a portion of this advance payment corresponded to loss of profits, which is included by the Company as operational result.
In accumulated terms, this line registered a loss of US$ 1.9 million as of Dec14, in comparison to a loss of US$38.0 million as of Dec13. It is important to mention that this last figure includes two non-recurrent losses as a consequence of the retirement of the fixed assets affected by the failure of Nehuenco II in 1Q13 and Los Pinos in 2Q13, partially offset by the advance payment already mentioned.

Income Tax Expense: as of Dec14 there is an income tax expense of US$90.1 million in comparison to US$56.0 million as of Dec13. This higher expense is mainly due to a higher income before tax and to the depreciation of the CLP/US$ exchange rate that affects negatively the balances of deferred tax liabilities, because the fixed assets and the tax losses are accounted in CLP.

3. STATEMENT OF FINANCIAL POSITION ANALYSIS

Table 3 presents an analysis of the most relevant captions of the Statement of Financial Position as of December 31, 2014 and 2013.

Table 3: Statement of Financial Position Key Items *(US$ million)*

	Dec-13	Dec-14	Var	Var %
Current Assets	**744.1**	**1,270.2**	**526.0**	**71%**
Cash and cash equivalents	260.5	832.8	572.3	220%
Trade and other accounts receivable	328.6	243.7	(85.0)	(26%)
Trade	128.9	132.3	3.4	3%
Others	199.7	111.3	(88.4)	(44%)
Current tax receivable	44.0	47.0	3.0	7%
Other current assets	111.0	146.7	35.7	32%
Non-Current Assets	**5,313.9**	**5,112.2**	**(201.8)**	**(4%)**
Property, plant and equipment	5,033.0	4,956.2	(76.7)	(2%)
Other non-current assets	281.0	156.0	(125.0)	(44%)
Total Assets	**6,058.1**	**6,382.3**	**324.3**	**5%**
Current liabilities	341.9	258.3	(83.6)	(24%)
Non-current liabilities	2,159.9	2,763.5	603.6	28%
Total net equity	3,556.3	3,360.6	(195.7)	(6%)
Total Liabilities and Net Equity	**6,058.1**	**6,382.3**	**324**	**5%**

(*) Cash and cash equivalents includes the fixed-time deposits that because its original maturity is higher than 90 days are included as "Other financial assets, current" in the financial statements.

Cash and cash equivalents: 'cash and cash equivalents' reached US$832.8 million, an increase compared to 2013, basically due to positive operating cash flows and the bond issued in the international markets for US$500 million in Jul14, partially compensated by investments in new projects and debt amortization.

Trade and other receivables: this caption reached an amount of US$ 243.7 million, 26% lower than Dec13, mainly as a consequence of the reimbursement of VAT receivable in accordance with article 27 bis of DL825, by means of which a portion of the accumulated balance can be collected earlier. This is because of the positive balance being created by the payments made by the company related to the investments in new power plants.

Current Tax Assets: current tax assets recorded a balance of US$47.0 million as of Dec14, an increase of 15% with respect to the previous year. This is explained by an increase in PPUA as a consequence of the depreciation of the exchange rate and to a lower extent, higher monthly provisional payments.

Other Current Assets: recorded a balance of US$146.7 million as of Dec14, a 32% increase with respect to Dec13, mainly because of an increase in spare parts for maintenances to be performed in 2015.

Property, plant and equipment, net: property, plant and equipment amounted to US$4,956.2 million as of Dec14, a US$76.7 million decrease compared to Dec13, which is explained by the depreciation charge for the period, partially offset by the investment projects currently being undertaken (mainly the Angostura Project until Apr14).

Other Non-current assets: reached a balance of US$156.0 million, 44% lower than last year explained by the decrease in associates accounted for using the equity method, as a consequence of the impairment provision for the investment in Hydroaysén.

Current liabilities: current liabilities reached US$258.3 million, a decrease of US$83.6 million as compared to Dec13. This change is mainly explained by the full repayment in the outstanding balance of the revolving debt and to a lesser extent, by the payment of the last amortization installment of a loan with local banks.

Non-current liabilities: non-current liabilities totaled US$2,764 million as of Dec14, an increase of US$603.6 compared to Dec13. This variation is mainly a consequence of the increase in financial debt because of the bond issued in the international markets in Jul14 and the increase in the deferred tax liability for an amount of US$300.6 million, of which US$212.9 million are explained by the increase in the first category tax rate from the tax reform passed in Sep14 (Law 20,780).

Debt analysis: financial debt reached US$1,894 million as of Dec14, an increase of US$193.8 million mainly because of the bond issued in the international markets in Jul14 (US$500 million), partially offset by the prepayment of a loan with international banks, the payment in full of the revolving facility and to a lesser extent, the payment of the last installment of a loan with local banks. The Net debt/EBITDA LTM (last 12 months) improves as a consequence of a better operational result and is in levels of 2.0.

The average maturity of financial debt was extended from 5.4 to 6.4 years.

The average interest rate of the long-term financial debt in US dollar is 4.9%.

	Dec-13	Dec-14	Var	Var %
Financial debt - gross	1,700.1	1,893.9	193.8	11%
Financial investments	260.5	832.8	572.3	220%
Financial debt - net	1,439.7	1,061.1	(378.5)	(26%)
EBITDA LTM	352.4	536.6	184.2	52%
Net debt/EBITDA LTM	4.1	2.0	(2.1)	(52%)

Shareholders' equity: the shareholders' net equity reached US$3,360 million, a decrease of 6% during Jan-Dec 2014. This variation is mainly explained by a charge of US$212.9 million registered against equity as a consequence of the tax reform (Law 20,780) already mentioned, following the Oficio Circular N°856 issued by the Superintendencia de Valores y Seguros. The latter is partially offset by the profit for the period.

4. INDICATORS

Below is a table comparing certain financial indicators. The Statement of Financial Position's financial indicators are calculated from the indicated date and the income statement considers the cumulative earnings at the indicated date.

Table 4: Financial Indicators

Indicator	Dec-13	Dec-14	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	2.18	4.92	126%
Acid Ratio: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	1.97	4.54	130%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.71	0.90	28%
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilit	13.62%	8.55%	-37%
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	86.38%	91.45%	6%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.38	3.07	-9%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	1.78%	1.95%	10%
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	1.04%	1.08%	4%
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	3.82%	7.09%	86%

- Average Shareholders' Equity: current Shareholders' Equity plus Shareholders' Equity a year ago, divided by two.
- Total Average Assets: total current assets plus total assets a year ago, divided by two.
- Average Operating Assets: current total Property, plant and equipment plus total property, plant and equipment a year ago, divided by two.

5. CASH FLOW ANALYSIS

The cash flow behavior can be seen in the following table:

Table 5: Summary of Cash Flow Statements *(US$ million)*

Accumulated figures			Quarterly figures		Var %	
Dec-13	**Dec-14**		**4Q13**	**4Q14**	**Acc vs Acc**	**Q vs Q**
217.7	**260.4**	**Cash Equivalents, Beg. of Period**	**208.0**	**878.3**	20%	322%
423.5	595.6	Net cash flows provided by (used in) operating activities	87.1	166.8	41%	92%
(47.8)	116.7	Net cash flows provided by (used in) financing activities	32.2	(184.0)	(344%)	(671%)
(329.3)	(121.1)	Net cash flows provided by (used in) investing activities	(64.2)	(33.9)	(63%)	(47%)
46.4	**591.2**	**Net Cash Flows for the Period**	**55.1**	**(51.1)**	1174%	(193%)
(3.8)	(18.8)	Effects of exchange rate changes on cash and cash equivalents	(2.7)	5.6	399%	(307%)
260.4	**832.8**	**Cash Equivalents, End of Period**	**260.4**	**832.8**	220%	220%

During 4Q14, the Company presented a **negative cash flow of US$51.1 million** and, in accumulated terms as of Dec14 presented a positive cash flow of US$591.2 million, which compares positively with the same period of the previous year.

Operating activities: during 4Q14 operating activities generated a positive cash flow of US$166.8 million, an improvement in comparison with 4Q13 as a consequence of a better generation mix, especially higher hydroelectric generation.
In accumulated terms, operating activities generated a positive cash flow as of Dec14 of US$595.6 million, higher than as of Dec13, being the reason for this the already mentioned better generation mix.

Financing activities: financing activities generated a negative cash flow of US$184.0 million during 4Q14, mainly explained by the prepayment of a loan with international banks for US$150 million.
In accumulated terms as of Dec14, a positive cash flow of US$116.7 million was generated, mainly as a consequence of the bond issued in the international financial markets in Jul14, partially offset by the prepayment already mentioned, the payment in full of the revolving facility and to a lesser extent, the payment of the last instalmment of a loan with local banks.

Investing activities: investing activities generated a negative cash flow of US$33.9 million during 4Q14, a decrease with respect to 4Q13 that is explained by the decrease in disbursements associated to project as a consequence of Angostura being commissioned.
Figures as of Dec14 show that investing activities generated a negative cash flow of US$121.1 million, lower than the previous year. The reasons are the same explained in the previous paragraph as the Angostura project was commissioned in Apr14 and was in construction the entire year in 2013 with high disbursements needed.

6. ENVIRONMENT AND RISK ANALYSIS

Colbún S.A. is a power generating company with an installed capacity of 3,278 MW, comprising of 1,689 MW in thermal units and 1,589 MW in hydraulic units. It operates in the Central Interconnected System (SIC), were it represents about 21% of the market in terms of installed capacity.

Through its commercial policy, the Company seeks to be a safe and reliable competitive energy provider with a sales volume that allows maximizing long-term profitability of its asset base, reducing the volatility of its results. The Company results show a structural variability due to exogenous conditions such as hydrology and fuel prices (oil, gas and coal). In dry years the hydraulic generation deficit is supplied by increasing production of thermal units with diesel or gas, which complements efficient coal-fired generation. Eventually the Company purchases energy in the spot market at marginal cost, which is set by generation with gas or diesel, if its own capacity is insufficient.

6.1 Medium-Term Perspective

The results in the last 12 months have shown a considerable improvement, posting and EBITDA for the year 2014 of US$536.6 million, the highest in the Company's history. This increase is explained by: an increase in the hydroelectric production because of a slight improvement in hydrological conditions, the commission of the new power plant Angostura, and a higher availability of the Company's power plants. All this factors led to a surplus position on the spot market. It is important to mention that the exposition to the spot market has been the lowest of the last 4 years, representing 5% over the contracts, situation that decreases the risk related to the inherent volatility of this market.

Regarding the results during the next few months, in terms of production and to hedge against lower melting and low rainfall during the first months of the year, the Company has the back up of natural gas as a consequence of the contracts signed with ENAP and Metrogas. It is important to mention that Colbún signed a natural gas medium-term supply agreement with Metrogas – until 2019 – for one unit of the Nehuenco complex. Additionally, other contracts with ENAP Refinerías S.A. were signed for the other combined-cycle unit of the Nehuenco complex for 2015. Between the two natural gas suppliers, it is expected that 2,300 GWh will be generated with natural gas in 2015, with the possibility of accessing to additional quantities in the spot market, if necessary.

In relation to commercial commitments for 2015, it is important to mention that in Dec14 a short-term contract with Codelco came to an end. On January 1, 2015 other long-term contracts with Codelco for the sale of 510MW of capacity and approximately 4,000 GWh of energy came into force.

The results of the Company in the following months will be influenced by a more balance situation between efficient generation and commitments. The efficient generation will depend on the reliable operation of our power plants and a normalization of rainfall conditions.

6.2 Growth plan and long-term actions

Colbún is executing a development plan that consists in increasing its installed capacity keeping a relevant hydroelectric component, with efficient thermoelectric complement that allows it to increase supply security in a competitive manner, diversifying its sources of generation.

The company is continuously seeking for new growing opportunities in Chile and other countries in the region like Colombia and Peru, to maintain a relevant position in the generation industry and diversify its sources of revenue. These countries have an attractive economic environment and their electric sectors have a well-established regulatory framework. In addition, participation in these countries can help the diversification of the company in terms of hydrological conditions, generation technologies and access to fuels.

In Chile, Colbún has several projects under development, including hydroelectric, thermal and transmission lines.

Projects under construction

- **La Mina Hydroelectric Project (34 MW):** This project, located in the community of San Clemente, will use the waters of the Maule River. The project qualifies as a NCRE mini-hydro power plant, it obtained its Environmental Qualification Resolution in November 2011 and its DIA optimization approval in May 2013. On April 2014, the DGA granted permission for the civil works and on September 2014, the Board approved the project. During 4Q14, the tender process for construction of civil works and hydro mechanical equipment contracts finished, and contracts have been awarded. In the meantime, the Company continued to hold informative meetings with authorities and local communities.

Projects under developement

- **Coal-fired thermal project Santa Maria II (350 MW):** Colbún has an environmental permit to build a second unit, similar to the first unit in operation. The design has been modified to meet the new stringent conditions required by the new emissions standard. Technical, environmental, social and financial progresses are being analyzed to define the timely start of construction.

- **San Pedro Hydroelectric Project (150 MW):** This project, located in the communities of Panguipulli and Los Lagos, will use the waters of the San Pedro river. The company has concluded the analysis of the land research and studies collected during the last 4 years. With this information, the engineering phase of adaptations and optimizations recommended by experts, which do not affect the main environmental parameters of the already approved project, is being finished. During the first semester, a process to inform on these modifications to the corresponding regional and national authorities and institutions was started and during the second semester, the informative process with the communities continued. These changes will be filed in the Environmental Evaluation System during the first quarter of 2015.

- **Hidroaysén:** Colbún, together with Endesa-Chile, participates in the development of hydroelectric projects in the Baker and Pascua Rivers in the Aysén region. These hydroelectric plants would have a total installed capacity of approximately 2,750 MW. Once operational, this capacity would be sold independently by the two companies.

In June 2014, the Committee of Ministers decided to invalidate the decision of the previous Committee of Ministers and to revoke the previous RCA of the Project, hosting some of the claims filed against Hidroaysén. As a consequence, in August 2014 Hidroaysén filed several appeals before the Environmental Court of Santiago and Valdivia, because the reasons that the authority has argued to overturn the RCA, according to Colbún, are not consistent with existing technical background and studies in the RCA, the EIA and the decision by the Supreme Court. As of the date of this document, a rule on these appeals is pending.

In October 2014 Hydroaysén restructured the executive team to focus the company on the legal aspects to preserve its rights and assets.

Considering the uncertainties over when and how the Courts will rule on the appeals filed by Hydroaysén, and subject to the conditions and reformulations that may be needed as a result of the previously mentioned situation in relation to the development of the hydroelectric potential of Aysén, Colbún recorded an impairment provision of approximately US$102 million in its financial statements.

Notwithstanding the above mentioned, Colbún confirms its conviction that the water rights already granted, the requests for additional water rights, the geological studies, the engineering, the authorizations and the buildings that are part of the project are assets acquired and developed by the Company in the last 8 years according to the Law and in accordance with both technical and environmental international standards.

Finally, Colbún ratifies that the development of the referred hydroelectric potential has benefits for the country's future growth and that the option of being a part of it represents for our company a potential source to add value in the long term. Colbún also ratifies the defense on the courts of the RCA of the project that is now in the Environmental Courts and the defense of the additional water rights that are in the process of being granted.

6.3 Electricity Business Risks

Colbún faces risks associated with exogenous factors such as the economic cycle, hydrology, the level of competition, demand patterns, the structure of the industry, changes in the regulation and levels of fuel prices. Moreover, it faces risks associated with project development and failures of generating units. The main risks for this year are associated with hydrology, fuel prices, failure risks in operating plants, risks in project development and changes in regulation in order to comply with its commitments.

6.3.1. Hydrology Risks

Approximately 48% of the installed capacity of Colbún corresponds to hydroelectric power plants and, as a consequence are exposed to hydrological conditions. In dry hydrologic conditions, Colbún must operate its combined cycle thermal plants, with natural gas or diesel, or even the inefficient thermal plats or buy the energy on the spot, to complement the efficient coal-fired and hydroelectric generation.

This situation raises the costs of Colbún, increasing variability of its earnings that depend 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 (hydraulic in a medium to dry year and thermal coal generation) and commercial commitments.

6.3.2. Risk of fuel prices

As mentioned in the description of hydrological risks, in situations of low water availability in its hydraulic plants, Colbún should use its thermal plants or purchase energy in the spot market at marginal cost. In these scenarios, there is a risk related to the variations that international fuel prices present. Part of this risk is mitigated by contracts whose selling prices are also indexed to changes in fuel prices. Additionally, hedge programs have been implemented with different derivative instruments including call options, put options, etc.

6.3.3. Fuel supply risk

For the supply of liquid fuel the Company has agreements with suppliers and its own storage capacity to ensure adequate reliability in respect to the availability of this type of fuel. With respect to coal, new tenders have been undertaken inviting important international suppliers to bid, awarding the supply contract to solvent and competitive companies. This is in line with an early purchasing policy in order to prevent any risk of not having this fuel available.

6.3.4 Risk of equipment failure and maintenance

The availability and reliability of generating units and transmission assets is essential to ensure the levels of production to adequately cover our commitments. This is why Colbún's policy is to conduct regular maintenance on its equipment according to the recommendations of its suppliers and maintains insurance for its physical assets, including coverage for physical damage and loss of profit due to business interruption.

In spite of the maintenance performed and the daily operating measures taken, on January 12, 2014 there was a failure at the Blanco power plant (60 MW) located in the basin of the Aconcagua River. The failure caused damages to the generator-turbine equipment and annex equipment, which has kept it out of operation. With the information available as of to date, it is estimated that the plant will resume operations during the first quarter of 2015.

6.3.5 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, an increase in the price of equipment or salaries, opposition from local and international stakeholders, and 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, we incorporate clearance levels in the time and cost of construction estimates. Additionally, the Company's exposure to this risk is partially covered with the "All Risk Construction" insurance policies covering both physical damage and loss of profit from a delay in commissioning the plant as a result of a disaster, both with standard deductibles for this types of insurance.

6.3.6 Market Risks

We are facing a very challenging electricity market, which shows a strong opposition from diverse stakeholders, specially local communities that are legitimately demanding more involvement andparticipation. Additionally, apart from the inherent challenges to build new infrastructure, a long and uncertain environmental approval process is needed followed by a long and litigious process. This situation has led to a decrease in the construction of significant new projects.

Colbún has worked intensely on developing a social bond that will allow it to work together with neighboring communities and society in general. We have focused our efforts on beginning a process of citizen participation and generating trust at the early stages of our projects and maintaining an open and transparent presence during their entire life cycle.

6.3.7 Regulatory Risks

Regulatory stability is fundamental for a sector such as electricity generation where the development, execution and return on investment have a long-term period. Colbun estimates that nowadays it is important to develop new regulation that eliminates the uncertainties and allows a rational and balanced operation of the electric system that would give incentive to new investments.

The energy agenda promoted by the government includes several regulatory changes, which depending on how they are implemented could represent an opportunity or a risk for the company. Especially significant are the changes now being discussed in the Congress related to the Water Code and the changes introduced by the new Tender Law passed on January 6, 2015. Also important are the projects that are being prepared to facilitate the development of new projects at the local level, as well as the so called Associativity Law. Of the quality of the new regulation and from the signals of the authority will depend the balanced and logical operation of the system in the following years.

6.4 Financial Risks

Financial risks are those associated with the inability to perform transactions or the breach of obligations from the activities for lack of funds, as well as variations in interest rates, exchange rates, counterparty bankruptcy or other financial market variables that may materially affect Colbún.

6.4.1 Foreign Exchange rate risk

The foreign exchange rate risk is mainly a consequence of cash flows in currencies other than the functional currency of the Company. The instruments used to manage foreign exchange risk are currency swaps and forwards.

In terms of the net position of the Company in other currencies that are not the US$, as of Dec14 it shows a surplus of assets over liabilities in Chilean pesos. This "long" position translates into income from exchange rate differences of approximately US$1.5 million for each Ch$10 variation in the CLP/US$ exchange rate.

6.4.2 Interest Rate Risk

Refers to changes in interest rates that affect the value of future cash flows tied to variable interest rate, and changes in the fair value of assets and liabilities linked to fixed interest rate that are measured at fair value. To mitigate this risk the instruments used are fixed interest rate swaps.

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

Interest rate	**Dec-13**	**Sep-14**	**Dec-14**
Fixed	89%	100%	100%
Floating	11%	0%	0%
Total	**100%**	**100%**	**100%**

6.4.3 Credit Risk

The Company is exposed to the risk arising from the possibility that a certain counterparty fails to meet its contractual obligations and produce economic or financial loss.

With respect to cash and derivatives statements, Colbún carries out the transactions with high credit ratings institutions, recognized nationally and internationally. In addition, the Company has established participation limits by counterparty, which are approved by the Board of Directors and reviewed periodically.

As of December 31, 2014, cash surplus is invested in mutual funds (in bank branches) and in fixed-time deposits in local and international banks. The first instruments correspond to short-term mutual funds with a maturity of less than 90 days, known as "money market". In the case of the banks, local ones have a local credit rating equal or superior to AA- and the foreign ones have international investment grade credit rating. These investments are diversified over a wide range of financial institutions, with the one having the highest share of 20%. Regarding existing derivatives, the Company's international counterparts have a credit rating equivalent to BBB or above and national counterparts have local rating of AA- or higher. It should be noted that no counterpart concentrates more than 14% in notional terms.

6.4.4 Liquidity Risk

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

As of December 31, 2014 Colbún has cash in excess in the amount of US$832.8 million invested in fixed-time deposits with an average duration of less than 120 days and in short-term mutual funds with maturity of less than 90 days. Furthermore, the Company has additional liquidity sources available to date: (i) a committed line with local banks for UF 4 million, (ii) two lines of bonds registered in the local market for a total amount of UF 7 million, (iii) a line of trade notes in the local market for UF 2.5 million and (iv) uncommitted bank credit lines for approximately US$150 million.

In the next 12 months, the Company must disburse approximately US$129 million in interest and amortization of principal. These disbursements will be attended with cash flow from operations.

As of December 31, 2014 Colbún has a local credit rating of A+ from Fitch Ratings and AA- from Humphreys, both with stable perspectives. At an international level, the Company's rating is BBB with stable perspective from Fitch Ratings and BBB- with negative perspective from Standard & Poor's.