REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. PERIOD OVERVIEW

In the third quarter of 2014 (3Q14) the Company had a **profit of US$18.2 million** (vs. a loss of US$10.1 million in the third quarter of 2013 (3Q13) and a profit of US$71.6 million in the second quarter of 2014 (2Q14).
Accumulated figures as of September 30, 2014 (Sep14) show a profit of US$141.3 million, which compares positively with a profit of US$56.0 million in the same period of the previous year (Sep13).

EBITDA for 3Q14 reached **US$117.0 million**, higher than the US$25.9 million in 3Q13 but lower than the US$140.8 million in 2Q14.
In accumulated terms, EBITDA as of Sep14 reached US$377.6 million, in comparison with US$245.6 million as of Sep13. The increase compared to the same period of the previous year is a consequence of a higher generation by hydroelectric plants. In addition, it should be noted that 2013 is affected by the failure in Nehuenco II thermoelectric power plant (398MW).

Non-operating income in 3Q14 shows a **loss of US$21.3 million** (vs. a loss of US$3.9 million in 3Q13 and a loss of US$17.8 million in 2Q14).
Accumulated figures as of Sep14 show a loss of US$45.8 million, against a loss of US$44.7 million as of Sep13. This increase is mainly explained by a higher interest expense as a consequence of a new loan for US$ 250 million in Oct13 and the bond issued in the international financial markets for US$500 million in Jul14, and by the lower capitalization of financial expenses as a consequence of the commissioning of the Angostura power plant in Apr14. In addition, there was a higher exchange rate loss because of the Chilean peso to USD dollar exchange rate depreciation in the year. All the previously mentioned was partially offset by two non-recurring charges from the failures in Nehuenco II and Los Pinos power plants in Mar13 and Apr13, respectively.

Income Taxes expense reached **US$31.1 million** (vs. an income of US$8.0 million in 3Q13 and an expense of US$5.2 million in 2Q14).
Accumulated income tax expense as of Sep14 amounted US$56.0 million vs. an expense of US$24.9 million as of Sep13. The increase is explained mainly by a higher profit before tax and, to a lesser extent, by the depreciation in the CLP/US$ exchange rate that affects deferred taxes, as fixed assets and taxable losses are denominated in Chilean pesos.

Physical sales to customers under power purchase agreements during 3Q14 reached **3,046 GWh,** 9% lower than the same period of the previous year because of two contracts that expired in Dec13. Additionally, there were **net sales in the spot market of 123 GWh** during the quarter, compared to net purchases of 821 GWh in 3Q13 and net sales of 425 GWh in 2Q14.
As of Sep14, physical sales to customers under power purchase agreements reached 9,028 GWh, in line with Sep13, because the termination of two contracts in Dec13 mentioned before are compensated by two contracts signed with Codelco, one that came into force in Mar13 and the second one in May13. Sales to the spot market totaled 767 GWh as of Sep14, in comparison to net purchases of 854 GWh as of Sep13.

Hydraulic generation in 3Q14 reached **1,816 GWh**, an increase of 56% compared to 3Q13 as a consequence of the commissioning of Angostura power plant and better hydrological conditions. In comparison to 2Q14, generation increased by 12%, mainly explained by higher rainfalls in the relevant basins for Colbún and by the generation from Angostura in the period, that was commissioned in Apr14. It is worth to mention that Angostura has operated reliably since its commission and has generated 923 GWh, including the energy generated during the testing phase. Accumulated figures as of Sep14 reached 4,546 GWh, a 33% increase in comparison to the previous year.

Coal-fired generation during 3Q14 amounted to 672 GWh, in line with the 646 GWh generated in 3Q13. With respect to 2Q14, generation decreased 6%, mainly because of a scheduled maintenance shutdown of Santa Maria I in the last days of September that kept the power plant unavailable 4 days. With respect to the maintenance, the total time of the shutdown was 15 days, resuming operations on October 12.
Figures as of Sep14 of coal-fired generation reached 2,096 GWh, 4% higher than Sep13.
Base load generation (Hydroelectric and coal-fired) represented 82% of the total commercial commitments in 3Q14 (vs 54% in 3Q13 and 78% in 2Q14). The remaining commitments were supplied with competitive natural gas-fired generation.

In the first week of July, **Colbún issued a bond in the international financial markets** for US$500 million, with a coupon of 4.5% (effective interest rate of 4.675%) and a bullet maturity of 10 years.
A portion of the proceeds from the bond issuance were used to prepay a loan with international banks for an amount of US$150 million in Oct14 with an original maturity in August 2015. The remaining funds will be used in future expansion projects.

At the end of 3Q14 Colbún had a cash **liquidity** of **US$878.3 million.**

At the end of Sep14 the tax reform Law (Law 20,780) was promulgated, increasing the first category tax rate. As a consequence, and considering that the Company will be under the Partially Integrated System, the previously mentioned increase in the tax rate has generated an increase in the net deferred tax liability of US$212.9 million. Finally, as a consequence of the Circular N°856 of the *Superintendencia de Valores y Seguros*, the effect was recognized in shareholder’s equity.

2. INCOME STATEMENT ANALYSIS

Table 1 shows a summary of the Income Statement for 3Q14, 2Q14 and 3Q13 and accumulated income statement for Sep14 and Sep13.

Table 1: Income Statement (US$ million)

Accumulated Figures			Quarterly Figures		
sep-13	sep-14		3Q13	2Q14	3Q14
1.346,4	**1.522,0**	**OPERATING INCOME**	**461,1**	**408,0**	**351,2**
557,6	541,1	Regulated Customers Sales	181,4	188,5	186,6
515,2	395,4	Nonregulated Customers Sales	202,7	123,9	120,7
55,4	56,3	Other Generators Sales	0,1	49,9	4,4
145,8	162,0	Transmission Tolls	68,9	45,1	39,2
72,3	66,3	Other Operating Income	7,9	0,6	0,3
(1.037,4)	**(957,3)**	**RAW MATERIAL AND CONSUMABLES USED**	**(413,6)**	**(245,6)**	**(213,7)**
(124,0)	(160,6)	Transmission Tolls	(46,6)	(36,5)	(36,2)
(361,4)	(100,8)	Energy and Capacity Purchases	(200,4)	(3,4)	(20,4)
(288,2)	(392,3)	Gas	(67,9)	(115,3)	(64,6)
(128,0)	(111,5)	Diesel	(53,7)	(43,0)	(40,6)
(79,7)	(97,9)	Coal	(26,3)	(25,5)	(24,2)
(56,1)	(94,3)	Cost of third party works and supplies	(18,6)	(21,9)	(27,7)
309,0	**564,7**	**GROSS PROFIT**	**47,5**	**162,4**	**137,5**
(46,2)	(58,0)	Personnel Expenses	(15,9)	(15,7)	(14,9)
(17,2)	(22,3)	Other Expenses, by nature	(5,7)	(5,9)	(5,6)
(119,9)	(177,2)	Depreciation and Amortization Expenses	(40,1)	(46,2)	(46,3)
125,7	**307,2**	**OPERATING RESULT (*)**	**(14,2)**	**94,6**	**70,6**
245,6	**377,5**	**EBITDA**	**25,9**	**140,8**	**117,0**
3,8	5,6	Financial Income	0,8	1,2	1,7
(38,0)	(63,9)	Financial Expenses	(10,7)	(18,9)	(22,2)
3,0	8,8	Readjustment Profit (Loss)	2,2	3,3	1,0
2,3	(17,6)	Exchange rate Differences	(1,9)	(4,3)	(4,4)
4,1	4,7	Profit (Loss) of Companies Accounted for Using the Equity Method	1,1	1,6	1,0
(20,0)	(9,4)	Other Profit (Loss)	4,6	(0,6)	1,6
(44,7)	**(71,7)**	**NON-OPERATING INCOME**	**(3,9)**	**(17,7)**	**(21,3)**
81,0	**235,4**	**PROFIT (LOSS) BEFORE TAXES**	**(18,1)**	**76,9**	**49,3**
(24,9)	(87,0)	Income Tax Expense	8,0	(5,2)	(31,1)
56,0	**148,4**	**PROFIT (LOSS) AFTER TAX**	**(10,1)**	**71,7**	**18,2**
56,0	**148,4**	**PROFIT (LOSS) OF CONTROLLER**	**(10,1)**	**71,7**	**18,2**

(*) The subtotal for "OPERATING RESULT" 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 by means of which the concept of "other profits (losses)", that in the case of Colbún are only non-operating items, was incorporated as an operating item in the Financial Statements.

2.1 OPERATIONAL RESULTS

EBITDA for 3Q14 amounted to US$117.0 million, higher than the US$25.9 million in 3Q13 but lower than the US$140.8 million in 2Q14. The increase in EBITDA, as compared to the same quarter of the previous year, is mainly explained because of a higher hydroelectric generation and a reduction in energy and capacity purchases in the CDEC market, because the previous period was affected by the failure in Nehuenco II and its consequent lower generation. The decrease with respect to the previous quarter is explained by lower sales of energy and capacity on the spot market, given by lower access to natural gas.
In accumulated terms, EBITDA as of Sep14 amounted to US$ 377.6 million that positively compares with the US$245.6 million as of Sep13, mainly because of higher hydroelectric generation that allowed decreasing purchases of energy and capacity on the spot market. Additionally, as it was previously mentioned, in 2013 there was a failure in Nehuenco II thermoelectric power plant which allowed more purchases on the spot market, in a draught period with high marginal costs (average marginal cost Jan-Sep13 was US$180/MWh vs. US$148MWh in the period Jan-Sep14).

Operating revenues from energy and capacity sales to customers under contract during 3Q14 amounted to **US$307.3 million**, a decrease of 20% compared to the same quarter of the previous year but in line with 2Q14. The decrease with respect to 3Q13 is explained by the expiration of two contracts with non-regulated customers at the end of 2013.
Accumulated operating revenues from clients with contracts as of Sep14 amounted to US$936.5 million, 13% lower than the US$1,072.8 million as of sep13. This decrease is explained by the expiration of the two contracts mentioned above and, to a lesser extent, by a lower average monomic price with unregulated and regulated customers.

Cost of raw materials and consumables used during 3Q14 amounted to US$213.8 million, 48% lower than those recorded in 3Q13, mainly due to lower purchases in the CDEC market. With respect to the previous quarter the decrease is 13%, explained by lower gas consumption, partially offset by higher purchases of energy and capacity on the spot market.
Accumulated cost of raw materials and consumables used reached US$734.7 million as of Sep14, 29% lower than the US$1,037.4 million as of Sep13, given by the same reasons previously explained (lower purchases on the spot market) in addition to lower consumption of diesel, partially compensated by higher consumption of natural gas.

Table 2 presents comparative figures showing energy sales, capacity sales and production, in physical units, for 3Q14, 2Q14 and 3Q13 and accumulated as of Sep14 and Sep13.

Table 2: Physical Sales and Generation

Accumulated Figures		Sales	Quarterly Figures		
sep-13	sep-14		3Q13	2Q14	3Q14
9,641	**9,818**	**Total Physical Sales (GWh)**	**3,343**	**3,422**	**3,193**
5,516	5,439	Regulated Clients	1,872	1,838	1,849
3,613	3,589	Unregulated Clients	1,471	1,159	1,197
511	791	Sales to the CDEC	0	425	147
1,725	**1,715**	**Power (MW)**	**1,898**	**1,677**	**1,717**

Accumulated Figures		Generation	Quarterly Figures		
sep-13	sep-14		3Q13	2Q14	3Q14
8,428	**10,007**	**Total Generation (GWh)**	**2,571**	**3,499**	**3,240**
3,411	4,546	Hydraulic	1,166	1,621	1,816
2,455	2,822	Gas Thermoelectric	499	929	536
538	543	Diesel Thermoelectric	260	231	216
2,024	2,096	Coal Thermoelectric	646	718	672
1,365	**24**	**Purchases from the CDEC**	**821**	**0**	**24**

Generation Mix

The hydrological year that started in Apr14 continues to be dry with respect to an average year for fifth consecutive year. However, in comparison to the previous year, **rainfall in relevant basins for Colbún has been more favorable**. This has resulted in lower marginal costs of 18% in comparison to the previous year (US$148MWh vs. US$180MWh), and of 30% with respect to the same quarter of the previous year.

Hydroelectric generation was 56% higher than in 3Q13, mainly as a consequence of the commissioning of Angostura power plant that produced 533 GWh during the quarter; and 12% higher than in 2Q14, mainly because of higher rainfall in the relevant basins for Colbún, and the generation from Angostura during the whole period, as it was commissioned in Apr14.

Coal-fired power generation was in line with respect to 3Q13 and decreased by 6% with respect to the previous quarter as a consequence of the scheduled maintenance stop of Santa Maria I that began on September 27 for a total of 15 days.

Gas-fired power generation increased by 7% compared to 3Q13, but decreased 42% compared to 2Q14. The decrease with respect to the previous quarter is because it was not necessary to dispatch these power plants as a consequence of better hydrological conditions. In this quarter the Company operated one combined-cycle between the last week of July and the second week of September because of the extension of the supply agreement with ENAP that was in force in the previous quarter, whereas in 2Q14 two combined-cycles operated in April, and one in May and June.

Diesel-fired power generation decreased compared to 3Q13 (44 GWh) and 2Q14 (15 GWh). This lower generation with diesel with respect to both periods is because of a higher availability of the hydroelectric generation previously mentioned.

With respect to the generation mix during 3Q14, **82% of the commitments were supplied with efficient base-load generation:** hydroelectric and coal (versus 54% in 3Q13 and 78% in 2Q14). The remaining commitments were supplied with natural gas generation. Additionally, the company had net sales of 123 GWh on the CDEC market (vs net purchases of 821 GWh in 3Q13 and net sales of 425 Gwh in 2Q14).
In accumulated terms, base-load generation represented 73% of the commitments as of Sep14, higher than the 60% as of Sep13. If natural gas-fired generation is added to the base-load generation mix, this percentage reaches 100%. As of Sep14, there were net sales to the CDEC of 767 GWh (vs. net purchases of 854 GWh as of Sep13).

In accumulated terms, hydroelectric generation as of Sep14 increased 33% with respect to Sep13, mainly as a consequence of Angostura being commissioned. Coal-fired and gas-fired generation increased by 4% and 15% respectively, while diesel-fired generation was in line. Of the total thermal generation as of Sep14, 52% was natural gas, 38% coal and the remaining 10% was diesel.

Operating Income

Operating income from ordinary activities in 3Q14 amounted to US$351.2 million, a decrease of 24% and 14%, compared to 3Q13 and 2Q14, respectively.
As of Sep14, operating income amounted to US$1,172.5 million, 13% lower than in the same period of the previous year, mainly explained by a decrease in sales to unregulated customers. Revenues breakdown is as follows:

Regulated customers: revenues from sales to regulated customers reached US$186.6 million in 3Q14, in line with 3Q13 and 2Q14.
In accumulated figures, sales as of Sep14 reached US$ 541.1 million, 3% lower than in the same period of the previous year, because of lower physical sales and a slightly lower monomic price.

Non-regulated customers: sales to non-regulated customers reached US$120.7 million in 3Q14, 40% lower than in 3Q13 but in line with the previous quarter. The decrease compared with 3Q13 is mainly explained by the termination of two contracts in Dec13, in addition to a lower monomic price because of changes in the price indexation structure in contracts with these clients.
In accumulated terms, sales as of Sep14 reached US$395.4 million, 23% lower in comparison with the same period of previous year, because of the aforementioned.

Spot Market sales: During 3Q14 147 GWh were sold on the CDEC market for an amount of US$4.4 million (vs. 0 GWh in 3Q13 and 425 GWh sold in 2Q14, equivalent to US$49.9 million).
Figures as of Sep14 reached 791 GWh (US$55.8 million), in comparison to 511 GWh during the same period of the previous year (US$ 55.4 million). It should be mentioned that this item includes the energy generated during the testing phase of Angostura until Apr14 for a total of 118GWh (US$19.7 million which are included in “Other income”).

Transmission Tolls: Income from tolls reached US$39.2 million in 3Q14, 43% and 13% lower than in 3Q13 and 2Q14, respectively. The decrease in this item with respect to the same quarter of the previous year is explained because in the period Jul13-Aug13 there was congestion in the line Charrúa-Ancoa that generated an increase in tariff of US$25.0 million in favour of Colbún. In relation to 2Q14, the decrease is a consequence of the retroactive liquidations due to the application of the Subtransmission 14th Supreme Decree in the quarter.
As of Sep14, figures reached US$125.4 million, 14% lower than in the same period of the previous year for the same reasons mentioned above.

Other Operating Income: Other operating income reached US$0.3 million during 3Q14, compared to US$7.9 million in 3Q13 and US$0.6 million in 2Q14. The decrease is explained mainly because in 3Q13 carbon bonds from Hornitos and Quilleco power plants were sold for US$7.2 million.
In accumulated terms, other operating income as of Sep14 totaled US$54.8 million, in comparison to US$72.3 million as of Sep13. This difference is explained because as of Sep14 there is a gain of US$32.5 million in 1Q14 from the payment received from the insurance company for loss of profits due to the failure in Nehuenco II power plant and a gain of US$19.7 million related to the margin from sales during the testing phase of Angostura power plant. The accumulated figure as of Sep13 considers a gain of US$ 63.9 in 2Q13 from the favorable outcome of the arbitrage related to the insurance compensation from the fire in Nehuenco I in Dec07 and the sale of carbon bonds for US$7.2 million previously mentioned.

Cost of Raw Materials and Consumables used

Costs of raw materials and consumables used in 3Q14 amounted to US$213.8 million, a decrease of 48% and 14% compared to 3Q13 and 2Q14, respectively. Accumulated figures as of Sep14 amounted to US$734.7 million, 29% lower than as of Sep13 as a consequence of more energy generated with the company's efficient power plants.

Transmission toll costs: in 3Q14 toll costs reached US$36.2 million, a decrease of 22% with respect to 3Q13 and in line with 2Q14. The decrease with respect to 3Q13 is explained by lower subtransmission tolls in application of the 14th Supreme Decree.
In accumulated terms, toll costs as of Sep14 amounted to US$121.6 million, in line with the US$124.0 million as of Sep13.

Spot market: there were purchases of energy and capacity on the spot market during 3Q14 for an amount of US$ 20.4 million, which represents a decrease in comparison to the US$200.3 million in 3Q13 and US$3.4 million in 1Q14.
In accumulated terms, costs as of Sep14 amounted to US$41.8 million, lower than the US$361.4 as of Sep13, explained by the unavailability of the Nehuenco II power plant.

Fuel costs: during 3Q14 fuel costs reached US$129.5 million, 12% lower than in 3Q13 and 30% lower with respect to the previous quarter. The decrease with respect to 3Q13 is explained by a lower generation with diesel as a consequence of a better hydrology. With respect to 2Q14, the variation is explained by a lower generation with natural gas.
As of Sep14, fuel costs amounted to US$502.6 million, slightly higher in comparison to Sep13. The difference is because of a higher generation with natural gas in 2014, compensated by a lower generation with diesel.

Costs of third party works and supplies: in 3Q14 reached US$27.7 million, compared to US$18.6 million in 3Q13 and US$21.9 million in 2Q14. The increase with respect to both 3Q13 and 2Q14, is mainly for provisions in application of the 14th Supreme Decree.
In accumulated terms, these costs amounted to US$68.7 million as of Sep14, compared to US$56.1 million as of Sep13, as a consequence of the application of the 14th Supreme Decree already mentioned.

2.2 ANALYSIS OF NON-OPERATING ITEMS

Non-operating result for 3Q14 recorded a loss of US$21.3 million, higher than the losses of US$3.9 million in 3Q13 and US$17.8 million in 2Q14, respectively.
In accumulated terms, non-operating results as of Sep14 are a loss of US$45.8 million, in line with a loss of US$44.7 million in Sep13. The main components are:

Financial income: financial income during 3Q14 reached US$1.7 million, in comparison to US$0.8 million in 3Q13 and to US$1.2 million in 2Q14. The increase with respect to both periods is a consequence of high cash liquidity after the issuance of a bond on the international financial markets for an amount of US$500 million in Jul14, in addition to a higher cash flow from operating activities.
In accumulated terms, financial income reached US$4.4 million as of Sep14, 16% higher than the US$3.8 million as of Sep13, forthe same reasons explained above.

Financial Expenses: financial expenses during 3Q14 amounted to US$22.2 million, higher than the US$10.7 million recorded in 3Q13 and the US$18.9 million of 2Q14. The increase in relation to 3Q13 is mainly a consequence of the increase in financial debt from a new loan with international banks for US$250 million in Oct13 and the issuance of a bond on the international financial markets for US$500 million on Jul14, in addition to a lower capitalization of financial expenses as a consequence of the commissioning of the Angostura power plant. The variation with respect to 2Q14 is explained by the bond issuance already mentioned.
In accumulated terms, financial expenses amounted to US$51.8 million vs US$38.6 million in Sep13, for the same reasons mentioned above.

Exchange Rate Differences: the exchange rate difference generated during 3Q14 was a loss of US$4.4 million, compared to a loss of US$1.9 million in 3Q13 and a loss of US$4.3 million recorded in 2Q14. The cause is the depreciation of 8% of the Chilean peso to US$ exchange rate during the quarter on a balance sheet position with more assets than liabilities denominated in pesos.
In accumulated terms, this line recorded a loss of US$17.6 million as of Sep14, in comparison to a gain of US$2.3 million as of Sep13. This variation is a consequence of the depreciation of 15% of the CLP/US$ exchange rate during the period Jan14-Sep14 on a positive net position of assets over liabilities in local currency.

Other profits (losses): during 3Q14 this line recorded a gain of US$1.6 million, lower than the gain of US$4.6 million in 3Q13. The difference is explained by the advance payment of US$14.0 million received from the insurance company related to the failure in Nehuenco II in Mar13, compensated by the reclassification of US$7.2 million from the sale of carbon bonds, that were registered in this line but since Sep13 were registered as "Other income".
In accumulated terms, this line registered a gain of US$ 8.6 million, higher than the loss of US$20.0 million as of Sep13. The difference is explained by a non-recurrent loss of US$8.6 million as a consequence of the impairment of the fixed assets affected by the failure of Los Pinos power plant in 2Q13, whereas there is a non-recurring gain of US$7.7 million in 1Q14 from the compensation received from the insurance company for the damage in the Nehuenco II power plant.

Income Tax Expense: as of Sep14 there is an income tax expense of US$56.0 million, in comparison to US$24.9 million as of Sep13. This increase is mainly due to a higher profit before taxes, and to a lesser degree to the depreciation of the CLP/US$ exchange rate that affects negatively the balances of deferred tax liabilities, because the fixed assets and the tax losses are carried 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 September 30, 2014 and December 31, 2013.

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

	dec-13	sep-14
Current Assets	**744.1**	**1,301.2**
Cash and cash equivalents	260.5	878.3
Trade and other accounts receivable	328.6	254.8
Normal sales	*128.9*	*124.8*
Other receivables	*199.7*	*130.0*
Current tax receivable	44.0	59.7
Other current assets	111.0	108.5
Non-Current Assets	**5,313.9**	**5,231.0**
Property, plant and equipment	5,033.0	4,967.6
Other non-current assets	281.0	263.3
TOTAL ASSETS	**6,058.1**	**6,532.2**
Current liabilities	341.9	316.4
Non-current liabilities	2,159.9	2,749.3
Net equity	3,556.3	3,466.5
TOTAL NET EQUITY AND LIABILITIES	**6,058.1**	**6,532.2**

Cash and cash equivalents: 'cash and cash equivalents' reached US$878.3 million, an increase compared to 2013, mainly due to positive operating cash flows and the bond issued in Jul14 for an amount of US$500 million, partially compensated by investments in new projects and debt amortization.

Trade and other receivables: this caption reached an amount of US$254.8 million, a 22% decrease with respect to Dec13. Trade receivables decreased as a consequence of lower sales to unregulated customers. Additionally, there is a decrease in "Other receivables" 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 the positive balance was being created by the payments made by the company related to the investments in new power plants. Additionally, there is an effect related to the depreciation of the exchange rate.

Current Tax Assets: current tax assets recorded a balance of US$59.7 million as of Sep14, an increase of 35% with respect to the end of 2013. This is explained mainly by an increase in the PPUA as a consequence of the exchange rate depreciation.

Other Current Assets: recorded a balance of US$108.5 million as of Sep14, in line with Dec13.
Property, plant and equipment, net: property, plant and equipment amounted to US$4,967.6 million as of Sep14, a US$65.3 million decrease compared to Dec13, which is explained by the

depreciation for the period, partially offset by the investment projects currently being undertaken (mainly the Angostura Project until Apr14).

Current liabilities: current liabilities reached US$316.4 million, a decrease of US$25.5 million as compared to Dec13. This change is mainly explained by the payment of the last amortization installment of a long term local bank loan, the payment of the outstanding balance of revolving debt and lower purchases of energy, compensated by the transfer from the long term to short term of a loan with international banks that matures in Aug15.

Non-current liabilities: non-current liabilities totaled US$2,749.3 million as of Sep14, a US$589.5 million increase compared to Dec13. This change is driven mainly by the increase in financial debt as a consequence of the bond issued on the international financial markets in Jul14 and by an increase in the deferred tax liability of US$212.9 million given by the increase in the first category income tax rate because of the tax reform law promulgated in Sep14 (Law 20,780). This increase is compensated by a loan with international banks with maturity in Aug15 that was transferred to short term, as it was previously explained.

Shareholders' equity: the Company reached a net shareholders' equity of US$3,466.5 million, a decrease of 3% during Jan14-Sep14. This variation is explained mainly by the charge of US$212.9 million from the application of the tax reform law (Law 20,780) previously mentioned, that was recorded through equity based on the Circular N°856 issued by the *Superintendencia de Valores y Seguros*. This is compensated by the profit for the period of US$141.3 million.

4. INDICATORS

The table below compares certain financial indicators. The Statement of Financial Position's financial indicators are calculated for the indicated date and the income statement considers the cumulative earnings at the indicated date.

Table 4: Financial Indicators

Indicador	**sep-13**	**dic-13**	**sep-14**
Liquidez Corriente: Activo Corriente en operación / Pasivos Corriente en operación	1,26	2,18	4,11
Razón Ácida: (Activo Corriente - Inventarios - Pagos Anticipados) / Pasivos Corriente en operación	1,14	1,97	3,85
Razón de Endeudamiento: (Pasivos Corrientes en Operación + Pasivos no Corrientes) / Total Patrimonio Neto	0,69	0,71	0,88
Deuda Corto Plazo (%): Pasivos Corrientes en operación / (Pas. Corrientes en operación + Pas. no Corrientes)	22,16%	13,62%	10,32%
Deuda Largo Plazo (%): Pasivos no Corrientes en operación / (Pas. Corrientes en operación + Pas. no Corrientes)	77,84%	86,38%	89,68%
Cobertura Gastos Financieros: (Ganancia (Pérd.) antes de Impuestos + Gastos financieros) / Gastos Financieros	3,66	3,37	4,68
Rentabilidad Patrimonial (%): Ganancia (Pérd.) de actividades continuadas después de impuesto / Patrimonio Neto Promedio	3,23%	1,78%	4,21%
Rentabilidad del Activo (%): Ganancia (Pérd.) controladora / Total Activo Promedio	1,92%	1,04%	2,36%
Rendimientos Activos Operacionales (%) Resultado de Operación / Propiedades, Plantas y Equipos Neto (Promedio)	4,18%	3,82%	6,16%

(*) Average of the last 12 months

- 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		
sep-13	sep-14		3Q13	2Q14	3Q14
217,7	**260,4**	**Cash Equivalents, Beg. of Period**	**223,0**	**208,3**	**337,4**
336,4	428,8	Net cash flows provided by (used in) operating activities	28,6	196,8	148,9
(80,0)	300,7	Net cash flows provided by (used in) financing activities	29,2	(47,1)	430,9
(265,1)	(87,0)	Net cash flows provided by (used in) investing activities	(72,3)	(18,7)	(20,3)
(8,7)	**642,5**	**Net Cash Flows for the Period**	**(14,5)**	**131,0**	**559,5**
208,0	**878,3**	**Cash Equivalents, End of Period**	**208,0**	**337,4**	**878,3**

During 3Q14, the Company presented a **positive cash flow of US$559.5 million**, and in accumulated terms as of sep14 presented a positive cash flow of US$642.5 million, which compares positively with the same period of the previous year.

Operating activities: during 3Q14 operating activities generated a positive cash flow of US$148.9 million, a decrease in comparison to the US$196.8 million generated in 2Q14 as a consequence of lower sales on the spot market.
In accumulated terms, operating activities generated a positive cash flow as of Sep14 of US$428.8 million, higher than as of sep13, being the reason for the increase a better generation mix.

Financing activities: financing activities generated a positive cash flow of US$430.9 million during 3Q14 as a consequence of the bond issued on the international financial markets, partially compensated by the total repayment of the revolving debt.
In accumulated terms as of Sep14, a positive cash flow of US$300.7 million has been generated as consequence of the situations already explained. In addition, a local loan was cancelled at the beginning of the year.

Investing activities: investing activities generated negative cash flow of US$20.3 million during 3Q14, lower than in 3Q13, explained by the commission of the Angostura power plant.
Figures as of Sep14 show that investing activities generated a negative cash flow of US$87.0 million, lower than in the same period of the previous year. The reasons are the same explained in the previous paragraph.

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), where 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

As of Sep14, the hydrological year that started in Apr14 has been marked by poor hydrological conditions with respect to an average year. However, in comparison to 2013, rainfall in the relevant basins for Colbún has been more favorable. This situation impacted in the marginal costs that were 18% lower in comparison to the previous year (US$148/MWh versus US$180/MWh). Melting reports for the upcoming months published by the CDEC-SIC, although are showing lower levels in comparison to an average year, show a better situation with respect to 2013.

In terms of operational results, in the last 12 months there has been an improvement that is explained by an increase in hydroelectric and thermal base-load generation as a consequence of the Santa Maria I thermoelectric power plant operating as planned, access to natural gas through short term agreements and the commission of the Angostura power plant. The latter has been operating reliably since it began commercial operations and, by the end of the quarter it has produced 923 GWh, including the production during its testing phase.

One of the pillars of the business model is the commercial policy of the company, which sets out the commitment levels, prices and its indexation formula, and other ad-hoc commercial clauses to share the risk with the clients. The Company's commercial policy seeks a level of commitments that suits its competitive power generating capacity. This is complemented by prices with an indexation that fits the cost structure of the Company and price risk mitigation mechanisms during transition periods (entry of new contracts / construction of new projects). Although this policy does not completely eliminate exposure to extremely dry hydrology, the experience gained shows a significant reduction of those effects. Our commercial policy does not only intend to reduce exposure to dry hydrology, but also to generate a profile of commercial margins over long periods of time, that allows our asset base in operation and under construction to be profitable.

Compared to previous years, the Company is in a more balanced position between its commercial commitments and its own competitive production capacity, even considering an adverse hydrological situation. On the commitments side, at the end of 2013 a contract with a client that represented around 6% of the physical sales ended. On the production side, the commission of the Angostura power plant added 1,500 GWh of electricity output on average hydrological conditions, which represents approximately 13% of the physical sales to customers in 2013.

It is worth to mention that in 2Q13, the Company signed an additional back-up medium-term supply contract with Codelco, which will be in force until Dec14. This last contract presents no risk to the Company, given that the costs associated with this supply are transferred to the client.

The Company's results during the next few months will be mainly determined by a more balanced position between its contracted sales and its efficient generation. This is due to: the end of certain contracts with unregulated clients; the start of commercial operation of Angostura and; finally, because of the generation with thermal efficient units: coal-fired Santa Maria I and gas-fired Nehuenco I and II if the supply of natural gas is secured. Regarding the latter, the Company has a medium-term contract with Metrogas S.A. that considers the supply for one unit of the Nehuenco Complex from January to April for the years 2013 (already used), 2014 (already used) and 2015. This contract was extended in September until 2019. Additionally, during 2014 the Company had in place an agreement with ENAP Refinerías S.A. to supply the other combined-cycle unit of Nehuenco from Oct13 to Sep14.

It should be noted that after the commissioning of Angostura, the Company has incorporated more than 900 MW of efficient capacity to the system since 2006, investing more than US$2 billion. Angostura completed this growth phase leaving Colbún as the Company that has incorporated the most capacity to the system, representing 38% of the total. With this, we expect to continue with the improvement of financial metrics, so that they can reach the expected returns in the investment plan.

In a more long-term horizon, the Company's income will be determined mainly by the reliable operation of our power plants, which are expected to have a high level of availability, and by 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.

Projects under Development

The company is continuously seeking for new growing opportunities, both 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, participating in these markets can help the diversification of the company in terms of hydrological conditions, generation technologies and access to fuels.

In Chile, Colbún has a wide range of potential projects under development that includes hydroelectric and thermal generation as well as transmission lines.

- **San Pedro Hydroelectric Project (150 MW):** This project, located in the communities of Panguipulli and Los Lagos, will make use of the waters of the San Pedro river. The company has concluded the analysis of the land research and geotechnical studies collected during the last 4 years. With this information, the engineering phase of adaptations and optimizations recommended by the 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 these modifications to the corresponding regional and national authorities and institutions was started, and in the second semester a similar process continues with the community. It is expected that the new information will be presented to the Environmental Evaluation System during the first semester of 2015.

▪ **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, which qualifies as a NCRE mini-hydro power plant, obtained its Environmental Qualification Resolution in November 2011 and its DIA optimization approval in May 2013. On April 2014, the DGA (National Water Authority) granted permission for the hydraulic works to start. In September the DIA for the transmission line connecting the project to the SIC was granted and the start of construction of the project was authorized. In September, the Board approved the project, subject to the grant of additional water rights pending. These are in the final administrative phase before being granted.

▪ **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 stringent conditions required by the new emissions standard. Technical, environmental, social and financial progresses are being analyzed to define the timely start of development.

▪ **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 will have a total installed capacity of approximately 2,750 MW. Once operational, this capacity would be sold independently by the two companies.

On January, 30th 2014 the Committee of Ministers ruled on the complaint lodged by Hidroaysén and 16 PAC claims, however on the remaining 18 PAC claims the Committee said that two new studies were needed. Subsequently, a new Committee of Ministers met on the 19th of March 2014 and decided to initiate a process of invalidation of the decisions issued by the Committee of Ministers in January. Hidroaysén took part in this process of invalidation insisting on the grounds of the legality of the RCA Project.

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 a complaint recourse on the Environmental Courts in Santiago and Valdivia. Ruling on these complaints are pending as of the date of this document.
In October 2014, Hydroaysén restructured its executive team in order to focus on legal matters to preserve the rights and assets of the company.

Beyond the proper jurisdictional contingency, Colbún coincides with what was publicly declared by the Board of Hidroaysén in May 2014 in that: (i) subject to the resolutions adopted by the Committee of Ministers and later instances under the institutional framework into effect, the Company will wait for the times of the long-term energy policy and energy regional planning process for future hydroelectric development, both processes announced as part of the recently released government Energy Agenda; and (ii) the RCA, water use rights, grants, applications, studies, engineering, permits and real estate, among others, are assets acquired and developed by Hidroaysén for the past eight years under the current institutional framework and in accordance with international technical and environmental standards, and represent necessary and valuable elements to the development of the hydroelectric potential of the Baker and Pascua rivers in the Aysén region.

6.3 Environmental policy and community development

In the development of its projects Colbún has emphasized integration with its neighboring communities. In this sense, hard work is done with stakeholders, functional organizations and local authorities in order to understand social dynamics and be able to develop projects that are geared to real needs and create shared value with communities.

In environmental terms, Colbún has sought closer alignment to power generation with high rates of "eco-efficiency", considering environmental efficiency in its design criteria, besides technical and economic factors. The development focus of the Company is in renewable energy, with an efficient thermal complement in order to achieve a secure supply, remain competitive and provide sustainability for our customers.

6.4 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 regulation and level 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, failures in operating plants, risks in project development and risks related to changes in regulation

6.4.1. Hydrology Risks

Approximately 60% of the installed capacity of Colbún corresponds to hydroelectric and thermal plants with coal, which enables the Company to deliver its commitments at low operating costs. However, in dry hydrologic conditions Colbún must operate its combined-cycle thermal plants mainly with natural gas purchases or with diesel, making up for lower hydraulic generation and complementing the efficient coal-fired generation. In extreme conditions it may be necessary to operate open-cycle plants with diesel.

This situation raises the costs of Colbún, increasing variability of its earnings 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 (hydraulic in a medium to dry year and thermal coal generation) and commercial commitments. Additionally, our sales to customers are agreed upon the basis of indexes that reflect the cost structure of the Company. However, given extreme hydrological conditions the variability in the results may increase. This situation is constantly under analysis in order to take timely mitigating actions required.

In this sense, given the hydrological conditions of the past four years, in several instances the Company has perfected purchase agreements of natural gas to operate its combined-cycles. These agreements incorporate operational flexibility allowing the use of this fuel in different power plants.

6.4.2. 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, Colbún’s production costs or the marginal costs are directly affected by fuel prices, with a risk given by 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, in order to reduce fuel price risks and considering factors such as: hydrological conditions, the evolution of commodities markets, the level of correlation of contract prices to commodities prices, coverage programs have been implemented with different derivative instruments including call options and put options, among others.

6.4.3. Fuel supply risk

For the supply of fuel the Company has agreements with suppliers and its own storage capacity to ensure adequate reliability with respect to the availability of fuels.

New tenders have been undertaken inviting important international suppliers to bid on coal purchases for the Santa María I power plant, awarding the supply contract to well supported competitive companies. This is in line with an early purchasing policy in order to prevent any risk of not having this fuel available.

6.4.4 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 the accumulated experience in its long operational history about failures and accidents. We have seen that thermal generation equipment that can operate with gas or diesel (originally designed to operate with natural gas) increase their equivalent operating hours when using diesel as compared to when using gas. As a result, if the units operate on diesel they require more frequent maintenance than usual and have lower levels of availability. Given this, we have adopted maintenance policies, processes and procedures as well as the investments needed to increase levels of reliability and availability of thermal units.

As corporate policy, Colbún 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.

6.4.5 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, increases in the price of equipment, 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, as well as social and environmental management control. 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 physical damage and loss of profit as a result of delay in service resulting from a disaster, both with standard deductibles for this type of insurance.

6.4.6 Market Risks

We are facing a very challenging electricity market, which shows an imbalance between growing demand and an efficient and competitive supply. The lack of progress in the development of new base-load capacity power plants in the SIC, due to the obstacles faced by investment processes, generates great uncertainty regarding the manner in which future demand will be supplied once the existing and the few projects currently under construction capacity is reached.

The problem is not lack of interest in investing (there are many projects that have been approved or are in the approval process in the Environmental Evaluation System), the central issue is that only a small fraction of these projects are being built.

Some of the causes of this situation are:

1. Neighboring communities and society in general legitimately demanding greater participation and a more protagonist role.
2. Long and uncertain environmental procedures followed by legal processes of the same characteristics.

Colbún has worked intensely on developing a social bond that will allow it to work together with neighboring communities and society in general. The basic challenge is to generate conditions for the communities to perceive they are better off with the projects than without them. In order to achieve the above, 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 in the communities during their entire life-cycle of the projects (design, construction and operation).

In addition, it is necessary to reach a broad social and political agreement to drive an agenda destined to the reactivation of investments and setting in the short term efficient base-load power plant projects in order to enable sustained development of the economy and safeguarding the environment.

6.4.7 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. Such regulatory stability has been a valuable characteristic in the Chilean electricity sector.

Notwithstanding the above, there is always room for improvement with respect to regulations. We believe that it is currently important to develop new initiatives to resolve some uncertainties in the balanced and logical operation of the system and in the lack of initiatives for new generation projects with significant capacities.

The energy agenda promoted by the government includes several regulatory changes that could represent an opportunity or a risk for the company, depending on how they are implemented. The Company considers especially relevant the changes that are being discussed in Congress related to the modification of the electric sector Law in matters such as tenders to supply regulated costumers and Water’s Code. Also important is the project of new laws being prepared such as to speed the development of new projects at the local level and the Associativity Law. The necessary and balanced development of the electric market in the following years will depend on the quality of this new regulation and the signals from the application authority.

6.5 Financial Risks

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

6.5.1 Foreign Exchange rate risk

The foreign exchange rate risk is mainly due to payments that must be made in currencies other than the dollar for the power generation process, by investments in existing power generation plants or new plants under construction, and by contracted debt 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 Sep14 it shows a surplus of assets over liabilities in Chilean pesos. This "long" position translates into a loss from exchange rate differences of approximately US$2.0 million for each Ch$10 variation in the CLP/US$ exchange rate.

6.5.2 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.

The objective of this risk management is to achieve a balanced debt structure, reduce the cost impacts driven by fluctuations in interest rates and in this way reduce volatility in the income statement of the Company. To meet those objectives and according to Colbún's estimates, hedge derivatives are contracted in order to mitigate these risks. 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	**sep-14**	**dic-13**	**sep-13**
Fixed	100%	90%	89%
Floating	0%	10%	11%
Total	**100%**	**100%**	**100%**

6.5.3 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 losses. Historically all counterparties with which Colbún has maintained energy delivery commitments have made the corresponding payments correctly. In addition to this, many of the charges invoiced by Colbún are to members of the Chilean Central Interconnected System, highly solvent entities.

Notwithstanding the above, during the past year there have been specific problems of insolvency of some members of the CDEC.

With respect to cash and derivatives, Colbún carries out the transactions with high credit ratings agencies, recognized nationally and internationally, so as to minimize the credit risk of the Company. Additionally, the Company has established exposure limits by counterparty, which are approved by the Board of Directors and reviewed periodically.

As of Sep14, 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, the 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 16%. 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.

6.5.4 Liquidity Risk

This risk results from different fund 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 Sep14 Colbún has cash in excess in the amount of US$887.4 million invested in fixed-time deposits with an average duration of less than 90 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.

It is worth to mention that in October the Company prepaid a loan with BBVA Bancomer for US$150 million that had an original maturity in August 2015.

In the next 12 months, the Company must disburse approximately US$127 million in interests and amortization of principal. These disbursements will be attended with cash flow from operations.

As of Sep14 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 classification is BBB with a stable perspective from Fitch Ratings and BBB- with negative perspective from Standard & Poor's.