



2nd QUARTER 2017



EARNINGS REPORT

As of June 30, 2017

2Q17 EARNINGS REPORT

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Conference Call
2Q17

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1. HIGHLIGHTS

Consolidated **EBITDA** for the second quarter of 2017 (2Q17) reached **US\$158.5 million**, 5% higher than the EBITDA of US\$151.1 million in the second quarter of 2016 (2Q16). The higher EBITDA is mainly explained by: (1) higher revenues from ordinary activities resulting from an increase in sales to regulated and unregulated customers and higher revenues from energy and capacity sales in the spot market in Chile; (2) higher EBITDA contribution from the Fenix Power Peru operation, hereinafter “Fenix”. These effects were partially offset by higher raw materials and consumables used, mainly explained by higher gas consumption resulting from the higher generation of the quarter with this type of fuel, as a result of a drier hydrology.

In cumulative terms, **EBITDA** as of June 2017 (Jun17) reached **US\$313.3 million** compared to US\$321.3 million as of June 2016 (Jun16). The decrease is mainly explained by: (1) higher raw material and consumables costs due to higher gas consumption as a result of dryer hydrology, and (2) lower Fenix EBITDA contribution. The higher expenses were partially offset by an increase in revenues from ordinary activities, mainly due to higher sales to non-regulated customers and higher revenues recorded in the line “Other operating income”, as a result of the portion of the tax expense on the emissions of thermal power plants (Law 20,780) transferred to non-regulated customers. This tax became effective in January 2017.

Non-operating Income in 2Q17 recorded **losses of US\$0.9 million**, which compares favorably with the loss of US\$29.9 million in 2Q16. The lower loss in the quarter is mainly explained by a non-recurring income of US\$23.4 million, as a result of the recognition of a deferred tax asset in our subsidiary, Fenix. This value represents a profit at the business combination level, which has been recorded prospectively in the current period, after the proper evaluation by the management.

On its part, during the quarter, there were lower financial expenses, explained by the lower outstanding financial debt during the period resulting from debt prepayments of ~ US\$500 million performed in June and July 2016. These lower expenses were mainly offset by higher expenses recorded in the line “Other Profit (Losses)”, which mainly correspond to the tax expense on the emissions of thermal power plants (Law 20,780).

In cumulative terms, non-operating income as of Jun17 recorded losses of US\$21.9 million vs. losses of US\$50.7 million as of Jun16. The lower loss is explained by the same reasons that explain the variations in quarterly terms.

2Q17 **tax expenses** amounted to **US\$18.9 million**, higher when compared to tax expenses of US\$14.7 million in 2Q16. The higher tax expenses are mainly explained by the higher profit before taxes recorded on this quarter.

Tax expenses **in cumulative terms** as of Jun17 reached US\$32.6 million, in line with the US\$32.2 million presented in Jun16.

The Company recorded in 2Q17 a **net income of US\$78.3 million**, higher than the net income of US\$51.4 million of 2Q16. The higher profit is mainly explained by the lower non-operating loss recorded during the quarter explained above, and by the increase in EBITDA.

In cumulative terms, the result shows a net income of US\$138.8 million, lower than the net income of US\$127.5 million recorded in the same period of the previous year, explained by the same reasons that explain the variations in quarterly terms.

Fenix’s **EBITDA** totaled **US\$10.9 million** in 2Q17, higher than the EBITDA of US\$9.1 million recorded in 2Q16. The increase is mainly explained by lower expenses recorded in the line “Other expenses, by nature”.

In cumulative terms, Fenix’s EBITDA as of Jun17 reached US\$22.3 million vs. US\$25.8 million as of Jun16. The lower EBITDA is mainly explained by lower revenues from ordinary activities as a result of lower sales to regulated customers and other generators, mainly offset by lower costs of raw materials and consumables used, explained by lower energy and capacity purchases in the spot market.

At 2Q17 closing, **financial investments** amounted to **US\$680.5 million**, and **net debt** was **US\$1,022.1 million**.

■ ■ ■ **La Mina Hydroelectric Project** (34 MW): The construction of this power plant took place from January 2015 to April 2017 and is currently undergoing a testing phase. The first synchronization of units 1 and 2 was carried out in May according to plan, and due to the lower level of water flows, it is estimated that the commercial operation will begin during the third quarter of 2017.

■ ■ ■ During the last few months, Colbún has subscribed medium-term supply contracts with unregulated customers for approximately 800 GWh and is currently under negotiations to finalize new agreements. The prices and volumes of these contracts reflect the current market conditions and the cost structure of the Company.

■ ■ ■ On May 24, 2017, Colbún and Enap Refinerías S.A. ("ERSA") entered into a contract for the supply of natural gas with regasification capacity from liquefied natural gas (LNG), which will enable Colbún to have LNG from ERSA shipments and shipments from third party suppliers in the international markets, for the operation at full capacity of up to one combined cycle of the Nehuenco Complex per year, starting from January 1st, 2019 for a period of 12 years. The minimum payment for the contract could reach approximately US\$400 million during the term of the contract.

Subsequently, on July 26, 2017 Colbún and ERSA agreed to modify the contract for the supply of natural gas and regasification capacity, in order to anticipate its entry into force and expand the volume of regasification capacity originally agreed. With the amendment signed, the entry into force of the contract will begin to be effective as of January 1, 2018, extending its duration to a term of 13 years.

In addition, it was agreed to increase the regasification reserve capacity offered by ERSA, which gives Colbún the option of extending from one to two the combined cycle units of its Nehuenco complex that can operate based on this fuel.

■ ■ ■ In July 2017, Fenix announced the award of a medium-term energy supply contract with a non-regulated customer, for an approximate of 830 GWh of energy in a period of 5 years, starting from January 2018.

■ ■ ■ On May 29, 2017, Standard & Poor's raised Colbún's international credit rating from BBB- to BBB, placing it in a stable outlook, as a result of the consolidation of results that the Company has shown in recent years.

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

Accumulated Figures		Summary	Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
732.7	775.6	Revenues	370.1	393.5	6%	6%
321.3	313.3	EBITDA	151.1	158.5	(3%)	5%
127.5	138.8	Net Income	51.4	78.3	9%	52%
1,161.2	1,022.1	Net debt	1,161.2	1,022.1	(12%)	(12%)
5,487	5,551	Sales of contracted energy Chile (GWh)	2,731	2,796	1%	2%
1,791	1,383	Sales of contracted energy Peru (GWh)	895	713	(23%)	(20%)
6,535	6,578	Total generation Chile (GWh)	3,313	3,386	1%	2%
1,463	1,789	Total generation Peru (GWh)	800	1,074	22%	34%

2. PHYSICAL SALES AND GENERATION BALANCE



2.1 Physical Sales and Generation Balance in Chile

Table 2 shows a comparison between physical energy sales and power generation in 2Q16, 2Q17 and cumulative as of Jun16 and Jun17.

Table 2: Physical Sales and Generation in Chile

Accumulated Figures		Sales	Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
6,403	6,383	Total Physical Sales (GWh)	3,244	3,273	(0%)	1%
3,267	3,233	Regulated Clients	1,622	1,579	(1%)	(3%)
2,221	2,317	Unregulated Clients	1,109	1,217	4%	10%
916	832	Sales to the Spot Market	513	477	(9%)	(7%)
1,551	1,594	Capacity Sales (MW)	1,586	1,581	3%	(0%)

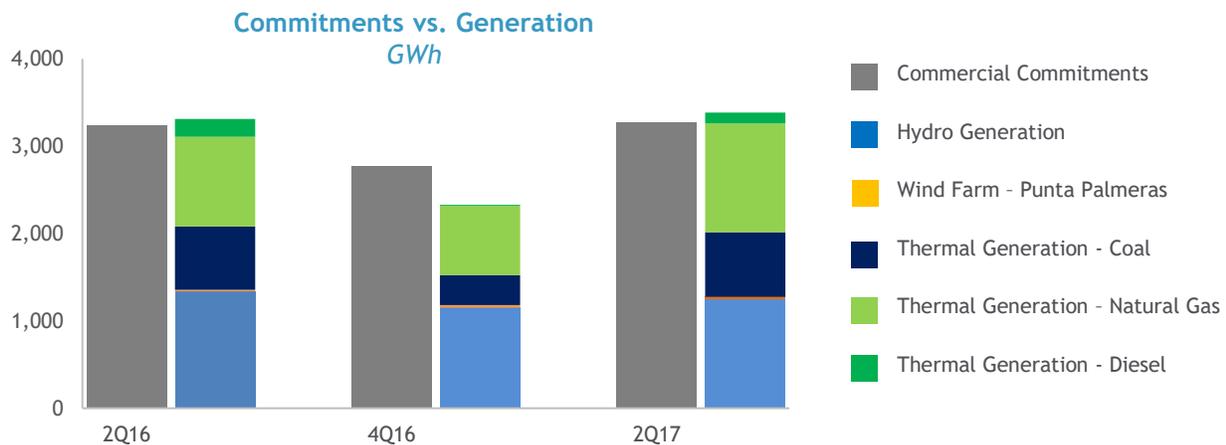
Accumulated Figures		Generation	Quarterly Figures		Var %	
Jun-16	Mar-17		2Q16	2Q17	Ac/Ac	Q/Q
6,535	6,578	Total Generation (GWh)	3,313	3,386	1%	2%
2,626	2,337	Hydraulic	1,338	1,248	(11%)	(7%)
2,240	2,549	Thermoelectric - Gas	1,028	1,248	14%	21%
208	166	Thermoelectric - Diesel	205	123	(20%)	(40%)
1,423	1,474	Thermoelectric - Coal	724	738	4%	2%
37	51	Wind Farm - Punta Palmeras	18	29	37%	59%
0	0	Spot Market Purchases (GWh)	0	0	-	-
916	832	Sales - Purchases to the Spot Market (GWh)	513	477	(9%)	(7%)

Physical withdrawals during 2Q17 reached 3,273 GWh, in line compared to the same period of the previous year. On its part, the generation of the quarter slightly increased by 2% compared to 2Q16, mainly due to a higher cost efficient thermal generation based on natural gas (220 GWh Q/Q) and coal (14 GWh Q/Q), partially compensated by a decrease in hydroelectric generation (90 GWh Q/Q) and diesel (82 Q/Q). Spot market balance during the quarter recorded net sales of 477 GWh, compared to net sales of 513 GWh recorded in 2Q16. During the quarter, **100% of Colbún's supply commitments were supplied with cost-efficient base generation** (hydro, coal and natural gas).

In cumulative terms, physical withdrawals and the total generation of Colbún reached 6,383 GWh in Jun17 and 6,578 GWh respectively, remaining in line when compared to Jun16. Spot market balance recorded net sales of 832 GWh as of Jun17, lower than the net sales of 916 GWh recorded in the same period of the previous year.

■ ■ ■ **Generation mix in Chile:** the hydrological year (Apr17-Mar18) that started in Apr17 has presented a lower level of water flows in the main hydrological basins of the SIC with respect to the previous period. On its part, rainfalls during 2Q17 have not been sufficient to offset the water deficit in reservoir and run-off-the-river power plants of the system. This has resulted in a lower hydro generation compared to the same period in 2016 and an increase in marginal costs of the system. As an example, The probability of excess of accumulated flows during the hydrological year (Apr17-Mar18), by basin from north to south is: Aconcagua: 47%; Armerillo-Maule: 90%; Abanico: 90%; Canutillar: 43%; El Laja: 86%.

During the 2Q17 the SIC recorded a decrease in hydroelectric generation (4,112 GWh in 2Q16 vs. 3,406 GWh in 2Q17) compared to the same period of 2016, given that the current hydrological year has presented a lower level of water flows in the main basins of the SIC. The lower hydroelectric generation of the system was partially offset by an increase in the generation of intermittent solar and wind power (1,450 GWh in 2Q16 vs. 2,090 GWh in 2Q17) and an increase in gas-fired thermoelectric generation (2,775 GWh in 2Q16 vs. 3,380 GWh in 2Q17). Coal and diesel thermal generation decreased compared to 2Q16 (4,355 GWh in 2Q16 vs. 4,075 GWh in 2Q17 and 451 GWh in 2Q16 vs. 402 GWh in 2Q17), respectively. The average marginal cost measured in Alto Jahuel increased by 9% from US\$67/MWh in 2Q16 to US\$73/MWh in 2Q17.



2.2 Physical Sales and Generation Balance in Peru

Table 3 presents a comparison of physical energy sales, and power generation in 2Q16, 2Q17, and cumulative as of Jun16 and Jun17 from Fenix.

Table 3: Physical Sales and Generation in Peru

Accumulated Figures		Sales	Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
1,862	1,838	Total Physical Sales (GWh)	966	1,049	(1%)	9%
1,791	1,383	Customers under Contract	895	713	(23%)	(20%)
71	455	Sales to the Spot Market	71	336	537%	371%
561	559	Capacity Sales (MW)	562	555	(1%)	(1%)

Accumulated Figures		Generation	Quarterly Figures		Var %	
Jun-16	Mar-17		2Q16	2Q17	Ac/Ac	Q/Q
1,463	1,789	Total Generation (GWh)	800	1,074	22%	34%
1,463	1,789	Thermoelectric - Gas	800	1,074	22%	34%
264	93	Spot Market Purchases (GWh)	147	0	(65%)	-
(193)	362	Sales - Purchases to the Spot Market (GWh)	(76)	336	-	-

On a quarterly basis, Physical withdrawals from customers under contract in 2Q17 reached 713 GWh, 20% lower when compared to 2Q16, mainly explained by the expiration of bilateral short-term supply contracts during 2016.

On its part, Fenix's thermal gas-power generation reached 1,074 GWh in 2Q17 vs. 800 GWh in 2Q16. The higher generation of the quarter is mainly explained by the higher availability of the power plant compared to 2Q16 due to the gas transportation limitation, the disconnection of Fenix and the major maintenance carried out in June 2016. This implied that **100% of the commitments were supplied with own generation** and that the spot market balance reached a level of net sales of 336 GWh in 2Q17 vs. net purchases of 76 GWh in 2Q16.

In cumulative terms, physical withdrawals to customers under contract as of Jun17 reached 1,383 GWh down by 23% compared to the same period of the previous year, explained by the same reasons that explain the quarterly variations. On its part, Fenix thermal gas-power generation reached 1,789 GWh, up by 22% compared to Jun16, also explained by the same reasons as in quarterly terms. This implied that as of Jun17, 100% of the commitments were supplied with own generation and net sales were made in the spot market for 362 GWh, compared to net purchases in the spot market for 193 GWh as of Jun16.

Generation mix in Peru: During 2Q17, hydrological conditions were more humid than the second quarter of the previous year. Mantaro river basin, which supplies the main hydroelectric complex in Peru: CH Mantaro and CH Restitución (900 MW) presented a hydrological condition with a probability of exceedance of 4% at the end of 2Q17 vs. 71% in 2Q16.

Hydroelectric generation in the National Interconnected System (SEIN) increased by 32% compared to the same period of 2016, mainly due to the commissioning of new hydro power-plants for 1,000 MW during the period August - December 2016 and to the humid hydrological conditions presented during the period. On its part, thermoelectric generation decreased by 26% during 2Q17 compared to 2Q16 given the increase in hydroelectric generation presented in the system.

3. INCOME STATEMENT ANALYSIS

Table 4 presents a summary of the Consolidated Income Statement in 2Q16, 2Q17, and cumulative as of Jun16 and Jun17 for Chile and Peru.

Table 4: Income Statement (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
732.7	775.6	OPERATING INCOME	370.1	393.5	6%	6%
392.0	398.7	Regulated Customers Sales	183.0	194.2	2%	6%
179.1	195.0	Nonregulated Customers Sales	88.2	101.1	9%	15%
66.4	73.6	Energy and Capacity Sales	41.9	47.0	11%	12%
93.8	95.5	Transmission Tolls	56.5	44.8	2%	(21%)
1.3	12.8	Other Operating Income	0.6	6.5	900%	1052%
(357.0)	(411.3)	RAW MATERIAL AND CONSUMABLES USED	(192.0)	(209.7)	15%	9%
(90.8)	(94.7)	Transmission Tolls	(47.3)	(45.0)	4%	(5%)
(23.7)	(18.5)	Energy and Capacity Purchases	(15.7)	(8.1)	(22%)	(48%)
(140.9)	(192.2)	Gas Consumption	(68.6)	(97.7)	36%	42%
(25.3)	(23.6)	Diesel Consumption	(23.2)	(16.6)	(7%)	(29%)
(35.5)	(37.9)	Coal Consumption	(16.9)	(19.6)	7%	16%
(40.8)	(44.6)	Other Operating Expenses	(20.4)	(22.7)	9%	11%
375.7	364.2	GROSS PROFIT	178.2	183.8	(3%)	3%
(32.1)	(34.7)	Personnel Expenses	(16.0)	(17.7)	8%	10%
(22.3)	(16.2)	Other Expenses, by Nature	(11.1)	(7.7)	(27%)	(31%)
(110.9)	(119.9)	Depreciation and Amortization Expenses	(55.1)	(60.4)	8%	10%
210.4	193.3	OPERATING INCOME (LOSS)(*)	96.1	98.1	(8%)	2%
321.3	313.3	EBITDA	151.1	158.5	(3%)	5%
5.4	5.3	Financial Income	2.7	2.8	(2%)	1%
(59.5)	(40.4)	Financial Expenses	(32.0)	(20.2)	(32%)	(37%)
(0.1)	-	Results of Indexation Units	(0.1)	-	-	-
5.0	1.4	Exchange rate Differences	1.9	0.8	(72%)	(58%)
3.1	1.8	Profit (Loss) of Companies Accounted for Using the Equity Method	1.7	1.1	(40%)	(33%)
(4.7)	10.0	Other Profit (Loss)	(4.2)	14.6	(313%)	(448%)
(50.7)	(21.9)	NON-OPERATING INCOME	(29.9)	(0.9)	(57%)	(97%)
159.7	171.4	PROFIT (LOSS) BEFORE TAXES	66.1	97.2	7%	47%
(32.2)	(32.6)	Income Tax Expense	(14.7)	(18.9)	1%	29%
127.5	138.8	PROFIT (LOSS) AFTER TAX	51.4	78.3	9%	52%
123.7	124.2	PROFIT (LOSS) OF CONTROLLER	51.5	67.3	0%	31%
3.8	14.6	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(0.1)	11.0	288%	-

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

Table 5: Exchange Rates at Closing

Exchange Rates	Jun-16	Dec-16	Jun-17
Chile (CLP / US\$)	661.37	669.47	664.29
Chile UF (CLP/UF)	26,052.07	26,347.98	26,665.09
Peru (Pen / US\$)	3.29	3.36	3.26

3.1. Operating Income Analysis in Chile

Table 6 presents a summary of Operating Income and EBITDA in 2Q16, 2Q17, and cumulative as of Jun16 and Jun17. The major accounts and/or variations will be analyzed below.

Table 6: EBITDA Chile (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
622.1	681.0	OPERATING INCOME	315.2	346.6	9%	10%
318.2	339.1	Regulated Customers Sales	147.3	165.0	7%	12%
179.1	187.2	Nonregulated Customers Sales	88.2	97.3	4%	10%
51.4	68.5	Energy and Capacity Sales	35.5	43.3	33%	22%
72.4	75.9	Transmission Tolls	44.0	35.8	5%	(19%)
1.0	10.3	Other Operating Income	0.2	5.1	973%	2034%
(282.9)	(343.0)	RAW MATERIAL AND CONSUMABLES USED	(150.2)	(175.8)	21%	17%
(71.1)	(77.5)	Transmission Tolls	(36.3)	(36.6)	9%	1%
(12.5)	(15.6)	Energy and Capacity Purchases	(6.9)	(8.1)	25%	17%
(104.1)	(149.1)	Gas Consumption	(48.6)	(74.7)	43%	54%
(25.3)	(23.6)	Diesel Consumption	(23.2)	(16.6)	(7%)	(29%)
(35.5)	(37.9)	Coal Consumption	(16.9)	(19.6)	7%	16%
(34.4)	(39.4)	Other Operating Expenses	(18.2)	(20.2)	15%	11%
339.2	337.9	GROSS PROFIT	165.0	170.8	(0%)	3%
(29.2)	(32.0)	Personnel Expenses	(15.0)	(16.3)	9%	8%
(14.5)	(15.0)	Other Expenses, by nature	(8.0)	(7.0)	4%	(13%)
(95.0)	(103.9)	Depreciation and Amortization Expenses	(47.1)	(52.3)	9%	11%
200.5	187.1	OPERATING INCOME (LOSS)*	94.9	95.2	(7%)	0%
295.5	291.0	EBITDA	142.0	147.6	(2%)	4%

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

Operating income from ordinary activities for 2Q17 amounted to US\$346.6 million, a 10% increase compared to 2Q16, mainly due to: (1) higher sales to regulated and unregulated customers; (2) higher revenues from capacity and energy sales in the spot market, and (3) higher “Other Operating Income” mainly due to the portion of the tax on emissions of thermal power plants transferred to non-regulated customers, which began to be effective as of Jan17. These effects were partially offset by lower transmission tolls revenues explained by lower tariff revenues received in 2017 compared to the same period of the previous year, due to the effect of annual liquidation of tolls and lower hydro generation during the quarter.

In cumulative terms, operating income from ordinary activities as of Jun17 reached US\$681.0 million, up by 9% compared to Jun16. The higher income of the period is mainly explained by the same reasons that explain the variations in quarterly terms, together with higher revenues from transmission tolls, resulting from an increase in the single charge to regulated customers due to a base price decree published in July 2016.

Raw materials and consumables used increased 17% on a quarterly basis, mainly explained by: (1) higher gas consumption to compensate the lower hydroelectric generation of the period, and (2) higher “Other Operating Expenses” corresponding to the portion of the tax on emissions associated to non-regulated customers. The higher expenses of the quarter were partially offset by lower diesel consumption.

In cumulative terms, raw materials and consumables used as of Jun17 amounted to US\$343.0 million, 21% higher compared to Jun16. The higher expenses are explained by the same reasons that explain the quarterly variations.

On a quarterly basis, EBITDA increased 4% compared to the same quarter last year, reaching US\$147.6 million. The increase is mainly explained by higher revenues from ordinary activities, mainly offset by higher fuel consumption during the quarter to compensate for the lower hydroelectric generation.

In cumulative terms, EBITDA decreased from US\$295.5 million as of Jun16 to US\$291.0 million as of Jun16. The decrease is mainly explained by higher costs of raw materials and consumables used, partially offset by higher revenues from ordinary activities.

3.2. Operating Income Analysis Peru

Table 7 presents a summary of Operating Income and EBITDA of Fenix in 2Q16, 2Q17, and cumulative as of Jun16 and Jun17. The major accounts and/or variations will be analyzed below.

Table 7: EBITDA Peru (US\$ million)

Accumulated Figures			Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
110.5	94.6	OPERATING INCOME	55.0	47.0	(14%)	(15%)
73.8	59.6	Regulated Customers Sales	35.7	29.2	(19%)	(18%)
0.0	7.8	Nonregulated Customers Sales	0.0	3.8	-	-
15.0	5.1	Sales to Other Generators	6.4	3.7	(66%)	(43%)
21.4	19.6	Transmission Tolls	12.5	9.0	(9%)	(28%)
0.3	2.5	Other Operating Income	0.3	1.3	681%	100%
(74.1)	(68.3)	RAW MATERIAL AND CONSUMABLES USED	(41.8)	(34.0)	(8%)	(19%)
(19.7)	(17.2)	Transmission Tolls	(11.0)	(8.4)	(12%)	(23%)
(11.2)	(2.9)	Energy and Capacity Purchases	(8.7)	(0.0)	(74%)	-
(36.8)	(43.1)	Gas Consumption	(19.9)	(23.0)	17%	15%
(6.4)	(5.2)	Other Operating Expenses	(2.1)	(2.5)	(19%)	18%
36.4	26.3	GROSS PROFIT	13.2	13.0	(28%)	(1%)
(2.9)	(2.8)	Personnel Expenses	(1.0)	(1.4)	(4%)	47%
(7.7)	(1.2)	Other Expenses, by Nature	(3.1)	(0.7)	(84%)	(78%)
(15.9)	(16.1)	Depreciation and Amortization Expenses	(7.9)	(8.0)	1%	1%
9.9	6.3	OPERATING INCOME (LOSS)	1.2	2.9	(37%)	146%
25.8	22.3	EBITDA	9.1	10.9	(14%)	20%

Operating income from ordinary activities during 2Q17 reached US\$47.0 million, decreasing by 15% compared to 2Q16, mainly due to lower sales to regulated customers and sales to other generators due to the expiration of bi-lateral contracts and lower revenues from transmission tolls. This was partially offset by higher sales to non-regulated customers and other operating income.

In cumulative terms, operating revenues as of Jun17 reached US\$94.6 million, down by 14% compared to Jun16, explained by the same reasons that explain the quarterly variations.

Raw materials and consumables used decreased by 19% compared to the same quarter from the previous year. The decreased compared to 2Q16 is mainly explained by the fact that the quarter recorded no spot market purchases and lower transmission tolls expenses, partially offset by higher gas consumption as a result of the higher generation of the quarter.

In cumulative terms, raw materials and consumables used totalized US\$68.3 million as of Jun17, decreasing by 8% compared to Jun16. The decrease is mainly due to the same reasons that explain the quarterly variations, partially compensated by the higher gas consumption due to the higher generation of the period.

Fenix's EBITDA reached US\$10.9 million in 2Q17 vs. US\$9.1 million in 2Q16. The increase is mainly explained by lower expenses, registered in the line "Other expenses, by nature", corresponding to a higher provision for doubtful accounts, accounted for in 2016.

In cumulative terms, Fenix's EBITDA as of Jun17 totalized **US\$22.3 million** vs. US\$25.8 million as of Jun16. The decrease is mainly explained by lower revenues from ordinary activities, partially offset by lower costs of raw materials and consumables used.

3.3. Consolidated Non-Operating Income Analysis

Table 8 shows a summary of the consolidated non-operational income in 2Q16, 2Q17, and cumulative as of Jun16 and Jun17 for Chile and Peru. Below, the major accounts/variations will be analyzed.

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

Accumulated Figures			Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
5.4	5.3	Financial Income	2.7	2.8	(2%)	1%
(59.5)	(40.4)	Financial Expenses	(32.0)	(20.2)	(32%)	(37%)
5.0	1.4	Exchange rate Differences	1.9	0.8	(72%)	(58%)
3.1	1.8	Profit (Loss) of Companies Accounted for Using the Equity Method	1.7	1.1	(40%)	(33%)
(4.7)	10.0	Other Profit (Loss)	(4.2)	14.6	(313%)	(448%)
(50.7)	(21.9)	NON-OPERATING INCOME	(29.9)	(0.9)	(57%)	(97%)
159.7	171.4	PROFIT (LOSS) BEFORE TAXES	66.1	97.2	7%	47%
(32.2)	(32.6)	Income Tax Expense	(14.7)	(18.9)	1%	29%
127.5	138.8	PROFIT (LOSS) AFTER TAX	51.4	78.3	9%	52%
123.7	124.2	PROFIT (LOSS) OF CONTROLLER	51.5	67.3	0%	31%
3.8	14.6	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	(0.1)	11.0	288%	-

Non-operating Income in 2Q17 recorded **losses of US\$0.9 million**, which compares favorably with the loss of US\$29.9 million in 2Q16. The lower loss in the quarter is mainly explained by a non-recurring income of US\$23.4 million, as a result of the recognition of a deferred tax asset in our subsidiary, Fenix. This value represents a profit at the business combination level, which has been recorded prospectively in the current period, after the proper evaluation by the management.

On its part, during the quarter, there were lower financial expenses, explained by the lower outstanding financial debt during the period resulting from debt prepayments of ~ US\$500 million performed in June and July of 2016. These lower expenses were mainly offset by higher expenses recorded in the line "Other Profit (Losses)", which mainly correspond to the tax expense on the emissions of thermal power plants (Law 20,780).

In cumulative terms, non-operating income as of Jun17 recorded losses of US\$21.9 million vs. losses of US\$50.7 million as of Jun16. The lower loss is explained by the same reasons that explain the variations in quarterly terms.

Income tax expenses amounted to **US\$18.9 million** in 2Q17, higher when compared to tax expenses of US\$14.7 million in 2Q16. The higher tax expenses are mainly explained by the higher profit before taxes recorded on this quarter.

Income tax expenses **in cumulative terms** as of Jun17 reached US\$32.6 million, in line with the US\$32.2 million presented in Jun16, despite that profit before taxes for the period was higher compared to Jun16. Tax expenses were in line since the non-recurrent income of US\$23.4 million previously explained (by recording a deferred tax asset) does not affect the determination of tax expense for the period.

4. CONSOLIDATED BALANCE SHEET ANALYSIS

Table 9 presents an analysis of the Balance Sheet's relevant accounts as of December 31, 2016 and June 30, 2017. Subsequently the main changes will be analyzed.

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

	Dec-16	Jun-17	Var	Var %
Current assets	947.6	979.5	31.9	3%
Non-current assets	5,875.0	5,846.3	(28.7)	(0%)
TOTAL ASSETS	6,822.6	6,825.8	3.2	0%
Current liabilities	360.1	278.4	(81.6)	(23%)
Non-current liabilities	2,672.7	2,662.4	(10.3)	(0%)
Total net equity	3,789.8	3,884.9	95.1	3%
TOTAL LIABILITIES AND NET EQUITY	6,822.6	6,825.8	3.2	0%

Current Assets: Reached US\$979.5 million, increasing by 3% compared to Dec16 closing, mainly explained by an increase in cash and cash equivalents resulting from the flows from operating activities.

Non-current Assets: Recorded US\$5,846.3 million at the end of Jun17, slightly decreasing compared to the existing balance as of Dec16 due to the depreciation of the period of fixed assets, partially offset by the capex of the period.

Current Liabilities: Amounted to US\$278.4 million at Jun17 closing, a decrease of US\$81.6 million compared to Dec16 closing. This variation is mainly explained by: (1) the payment of the interim dividend in Jan17 for US\$45.8 million, (2) payment of the final dividend in May 2017 for US\$53.2 million, and (3) higher income tax payments in April 2017. These effects were partially offset by higher fuel purchases due to the dry hydrology.

Non-current Liabilities: Totalized US\$2,662.4 million at Jun17 closing, in line compared to Dec16.

Total Net Equity: The Company posted a net worth of US\$3,884.9 million, which meant an increase of 3% compared to Dec16. The increase is mainly explained by the retained earnings recorded during the period, for the reasons explained above.

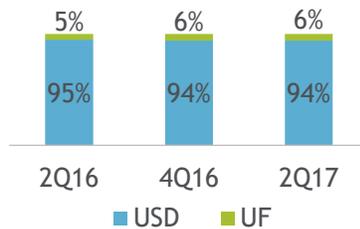
Debt Analysis: Financial debt reached US\$1,702.6 million, in line compared to Dec16. On its part, financial Investments totalized US\$680.5 million, a slight increase compared to Dec16, mainly explained by the flows from operations. Given the above, Net Debt totalized US\$1,022.1 million. On its part, EBITDA LTM (last 12 months) remained in line compared to 2016 closing.

Net Debt/EBITDA LTM ratio remained in line compared to Dic16 closing by 1.7 times.

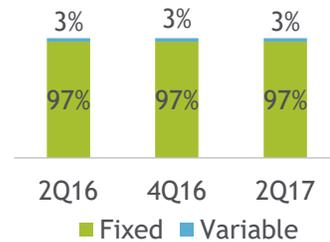
The average maturity life of Colbún's long-term financial debt is 4.6 years.

The average USD long-term financial debt interest rate is 4.95%.

Debt by currency*



Debt by Interest Rate*



* Includes financial derivatives

Long term Debt Amortization Schedule (US\$ million)

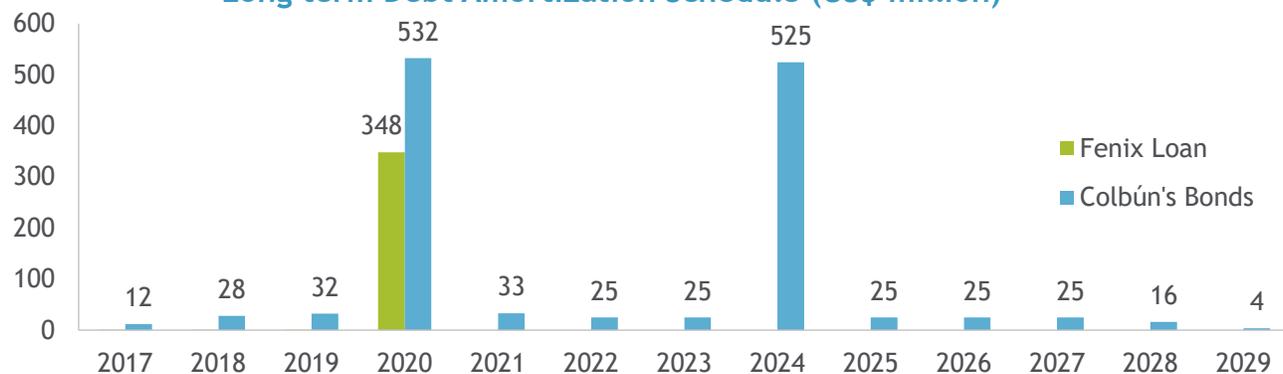


Table 10: Main Debt Items (US\$ million)

	Dec-16	Jun-17	Var	Var %
Gross Financial Debt*	1,710.0	1,702.6	(7.4)	(0%)
Financial Investments**	667.0	680.5	13.5	2%
Net Debt	1,043.0	1,022.1	(20.9)	(2%)
EBITDA LTM	601.7	593.7	(8.1)	(1%)
Net Debt/EBITDA LTM	1.7	1.7	(0.0)	(1%)

(*) Includes bank debt for US\$347.7 million and financial leasing for US\$15.4 million, associated to Fenix without recourse to Colbún.

(**)The account "Financial Investments" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

5. CONSOLIDATED FINANCIAL RATIOS

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

Table 11: Financial Ratios

Ratio	Dec-16	Jun-17	Var %
Current Liquidity: Current Assets in operation / Current Liabilities in operation	2.63	3.52	33.7%
Acid Test: (Current Assets - Inventory - Advanced Payments) / Current Liabilities in operation	2.51	3.37	34.5%
Debt Ratio: (Current Liabilities in Operation + Non-current Liabilities) / Total Net Equity	0.80	0.76	(5.4%)
Short-term Debt (%): Current Liabilities in operation / (Current Liabilities in operation + Non-current Liabilities)	11.87%	9.47%	(20.3%)
Long-term Debt (%): Non-current Liabilities in operation / (Current Liabilities in Operation + Non-current Liabilities)	88.13%	90.53%	2.7%
Financial Expenses Coverage: (Profit (Loss) Before Taxes + Financial Expenses) / Financial Expenses	3.63	4.36	20.1%
Equity Profitability (%): Profit (Loss) After Taxes. Continuing Activities / Average Net Equity	5.49%	5.66%	3.1%
Profitability of Assets (%): Profit (Loss) Controller / Total Average Assets	2.93%	3.13%	6.8%
Performance of Operating Assets (%) Operating Income / Property, Plant and Equipment, Net (Average)	6.62%	6.40%	(3.3%)

Income Statement ratios correspond to last 12 months values.

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

■ ■ **Current Liquidity** and **Acid Test** reached 3.52x and 3.37x as of Jun17 respectively, increasing when compared to Dec16 by 33.8% and 34.6% respectively. Mainly due to: (1) an increase in current asset, explained by an increase in cash and cash equivalents resulting from operating activities, and (2) the decrease in current operating liabilities resulting from the payments of dividends for US\$99 million during the period.

■ ■ **Debt Ratio** reached 0.76x as of Jun17, compared with 0.80x as of Dec16. The decrease of 4.8% is mainly explained by the decrease in current liabilities in operation, as a result of the interim dividend explained above and by the increase in the net equity as a result of the retained earnings recorded during the period.

■ ■ The percentage of **Short-Term Debt** as of Jun17 was 9.47%, 20.3% lower than the value of 11.87% measured on Dec16, mainly explained by the decrease in current liabilities in operation as a result of the interim dividend previously explained.

■ ■ The percentage of **Long-Term Debt** as of Jun17 was 90.53%, 2.7% higher than the value of 88.13% obtained on Dec16, mainly explained by the decrease in current liabilities in operation previously explained.

■ ■ **Financial Expenses Coverage** as of Jun17 was 4.36x, higher than the value of 3.63x obtained on Dec16, as a result of lower financial expenses recorded during the period, mainly explained by the lower outstanding financial debt during the period due to debt prepayments for ~US\$500 million in 2016. The higher profit for the quarter is mainly explained by the recognition of a non-recurring income of US\$23.4 million, previously explained.

■ ■ **Equity Profitability** and **Profitability of Assets** of the quarter totalized 5.66% and 3.13%, increasing when compared to Dec16. The decrease in Equity Profitability is mainly explained by an increase in LTM Net income as of Jun17 compared to Dec16, due by the non-recurring income recorded explained above, and to an increase in average Net Equity compared to the same period of 2016. On its part, the increase in the Profitability of Assets is mainly explained by the increase in the result of operations.

■ ■ **Performance of Operating Assets** of the quarter was 6.40%, decreasing compared to the yield obtained in 2016. The decrease is mainly explained by the lower operating income.

6. CONSOLIDATED CASH FLOW ANALYSIS

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

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

Accumulated Figures			Quarterly Figures		Var %	
Jun-16	Jun-17		2Q16	2Q17	Ac/Ac	Q/Q
1,080.8	667.0	Cash Equivalents, Beg. of Period*	1,081.9	664.2	(38%)	(39%)
307.0	236.4	Net cash flows provided by (used in) operating activities	154.8	124.2	(23%)	(20%)
(416.6)	(152.4)	Net cash flows provided by (used in) financing activities	(334.4)	(76.4)	(63%)	(77%)
(112.1)	(71.5)	Net cash flows provided by (used in) investing activities**	(36.7)	(31.1)	(36%)	(15%)
(221.7)	12.5	Net Cash Flows for the Period	(216.3)	16.6	-	-
9.0	1.0	Effects of exchange rate changes on cash and cash equivalents	2.4	(0.4)	(89%)	-
868.1	680.5	Cash Equivalents, End of Period	868.1	680.5	(22%)	(22%)

(*)The account "Cash and Cash Equivalents" presented includes the amount associated to time deposits that, for having an investment term of more than 90 days, are recorded as "Other Current Financial Assets" in the Financial Statements.

(**) "Cash Flow from Investing Activities" differs from the Financial Statements because it does not incorporate the amount associated with deposits with maturity over 90 days.

During 2Q17, the Company recorded a **net cash inflow of US\$16.6 million**, compared to the net cash outflow of US\$213.3 million from 2Q16.

Operating Activities: During 2Q17 a positive net cash flow of US\$124.2 million was generated, decreasing by 39% compared to 2Q16. The decrease is mainly explained by a higher monthly provisional payments rate and by higher income tax expenses.

In cumulative terms, a positive net cash flow of US\$236.4 million was generated as of Jun17, 23% lower when compared to Jun16, explained for the same reasons as in quarterly terms and by higher payments to suppliers as of Jun17.

Financing Activities: Generated a net cash outflow of US\$76.4 million during 2Q17, which compares with 2Q16's net outflow of US\$334.4 million. The higher cash outflow of 2Q16 is mainly associated with financial debt prepayments for US\$240.8 million made during that quarter.

In cumulative terms, a net outflow for US\$152.4 million was recorded as of Jun17, lower than the net outflow of US\$416.6 million as of Jun16, mainly explained for the same reasons as in quarterly terms.

Investing Activities: Generated a net cash outflow of US\$31.1 million during 2Q17, lower than the outflow of US\$36.7 million in 2Q16. The lower net cash outflow for this quarter was mainly associated with the La Mina project whose construction was completed in April 2017.

In cumulative terms, investing activities generated a net cash outflow of US\$71.5 million as of Jun17, lower when compared to disbursements of US\$112.1 million as of Jun16, mainly explained by the purchase of SunEdison's assets in Chile.

7. ENVIRONMENT AND RISK ANALYSIS

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

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

7.1 Medium-Term Outlook in Chile

The hydrological year that began in April 2017 has presented dry hydrological conditions, showing lower rainfall than an average year, as of June 30, the probability of exceedance of the SIC reached 91%. Given this, the energy matrix has continued its operation with higher thermal sources. For this reason, regarding gas supply, the Company signed supply agreements with ERSA and Metrogas for the period 2017-2019. With these contracts the Company has enough natural gas to operate two natural gas combined cycle units for the most part of 1H of each calendar year, period of the year in which generally there is less availability of water resources. There is also the possibility of accessing additional natural gas via spot purchases, allowing the Company to have efficient backup in the case of unfavorable hydrological conditions in the second half of the year.

In this line, on May 24, 2017, the Company subscribed a new contract with ERSA for the supply of natural gas with reserved regasification capacity, to provide operational continuity to the Nehuenco Complex. Subsequently, on July 26, 2017 Colbún and ERSA agreed to modify the contract in order to anticipate its entry into force and expand the volume of regasification capacity originally agreed. With the amendment, the entry into force of the contract will begin to be effective as of January 1, 2018, extending its duration to a term of 13 years. In addition, it was agreed to increase the regasification reserve capacity offered by ERSA, which gives Colbún the option of extending from one to two the combined cycle units of its Nehuenco complex that can operate based on this fuel.

During the last few months, Colbún has subscribed medium-term supply contracts with unregulated customers for approximately 800 GWh and is currently under negotiations to finalize new agreements. The prices and volumes of these contracts reflect the current market conditions and the cost structure of the Company.

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

7.2 Medium-Term Outlook in Peru

The second quarter of 2017 has developed with a humid hydrological condition and with lower rates of demand growth.

The future trajectory of marginal costs is mainly subject to the trajectory of demand, hydrology and to the changes in commodity prices.

7.3 Growth Plan and Long-Term Actions

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

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

In Chile, Colbún currently has several projects under different stages of maturity, including hydro, thermal, projects from variable sources and in a lower degree, transmission line projects.

Projects under Construction

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

The construction of this plant was carried out from January 2015 to April 2017 and is currently undergoing a testing phase. The first synchronization of units 1 and 2 was carried out in May, it is estimated that the commercial operation will begin during the third quarter of 2017. The investment amount, including the transmission line, is approximately US\$131 million.

Projects under Development

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

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

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

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

■ ■ ■ **Guaiquivilo Melado Project:** the hydroelectric project Guaiquivilo Melado is a complex located in the basins of Guaiquivilo and Melado rivers, in Colbún's municipality, in Linares' province. The project considers a total installed capacity of approximately 316 MW and an average annual generation of approximately 1,629 GWh.

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

During the second quarter of 2017, the preparation of the Environmental Impact Study and the engineering development of the last adjustments to the project continue.

■ ■ ■ **Los Cuartos Project:** The hydroelectric project Los Cuartos is located in Biobío river, near San Carlos de Purén locality, about 5 km upstream the intersection with Panamericana Sur highway. This hydroelectric power plant has water rights that allow it to achieve a capacity of approximately 93 MW, with an average annual generation of approximately 511 GWh. The project also considers a 10 kilometers transmission line to connect the power plant with Mulchén substation.

The project is in definition from the point of view of the business to be able to continue its development in the basic engineering stage.

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

During the second quarter of 2017, the development of basic engineering was continued and the preparation of the data to carry out the processing of the Environmental Impact Study, which was submitted in July 2017.

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

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

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

Additionally, during this first half of 2016, Colbún awarded an energy supply contract and a purchase agreement for renewable energy attributes for 500 GWh per year with Total SunPower.

In addition to this, during 2017 Colbún is developing a PMGD (Small Mean of Distributed Generation) - photovoltaic project of 9 MW in the Metropolitan Region through its subsidiary Inversiones Sud SpA.

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

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

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

During 2014-2015 the design of the project was improved, incorporating new technology to meet the demanding regulations on emissions in force since January 1st, 2012. Regarding the development of this project, Colbún has decided to defer the construction of the second unit of the Santa Maria thermoelectric complex as long as market and social conditions are not met to execute the initiative.

7.4 Risk Management

A. Risk Management Policy

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

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

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

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

B. Risk Factors

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

B.1. Electrical Business Risks

B.1.1. Hydrological risk

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

To comply with its commitments in dry hydrologic conditions, Colbún must operate its combined thermal cycle plants mainly with natural gas purchases or with diesel, or by default operating its back-up thermal plants or even buying energy on the spot market. This situation raises Colbún's costs, increasing earnings variability depending on the hydrological conditions.

The Company's exposure to hydrological risk is reasonably mitigated by a commercial policy that aims to maintain a balance between competitive base load generation (hydro generation in a medium to dry year and thermal coal generation, cost efficient natural gas generation, other renewables cost efficient generation. All properly complemented by other sources of generation given their intermittency and volatility) and commercial commitments. Under conditions of extreme and recurrent drought, a potential shortage of water for refrigeration could affect the generation capacity of the combined cycles, whose impact could be mitigated by the purchase of water from third parties and/or by operating these units in an open cycle, as well as implementing technical solutions in the medium and long term that are being analyzed for the aforementioned combined cycle complex. The plant completed its construction in May 2017 and will be operational from the second half of 2017.

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

B.1.2. Fuel price risk

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

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

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

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

B.1.3. Fuel supply risks

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

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

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

B.1.4. Equipment failure and maintenance risk

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

B.1.5. Project construction risks

The development of new generation and transmission projects can be affected by factors such as: delays in obtaining environmental approvals, regulatory framework changes, prosecutions, increase in equipment price, opposition from local and international stakeholders, adverse geographical conditions, natural disasters, accidents or other unforeseen events.

The Company's exposure to such risks is managed through a commercial policy that considers the effects of potential project delays. Alternatively, clearance levels with respect to time and costs of construction estimates are incorporated. Additionally, the Company's exposure to this risk is partially covered with the “All Construction Risk” insurance policies covering both physical damage and loss of profit as a result of delay in service resulting from a casualty, both with standard deductibles for this type of insurances.

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

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

B.1.6. Regulatory risks

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

In Chile, the energy agenda promoted by the government considers different regulatory changes, which, depending on the form in which they get be implemented, could represent an opportunity or risk for the Company. Changes that are currently being discussed in the Congress regarding (i) the amendment to the Water Code, (ii) the law related to strengthening the regionalization of the country, (iii) the bill that creates the Ministry of Indigenous Peoples, (iv) the bill that creates the National Council and the Councils of Indigenous Peoples and (v) the Law on Biodiversity and Protected Areas. There are also important initiatives in the sector such as: (i) definition of the regulations necessary for the proper implementation of the recently enacted Law on Electricity Transmission and (ii) the definition of the long-term Energy Policy for the country (2050) which is already in its diffusion stage, among others.

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

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

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

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

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

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

Additionally, given the difference generated between regulated and unregulated clients, a portion of regulated clients may choose a non-regulated regime. This can occur because the electricity legislation allows clients with connected capacity between 500 kW and 5,000 kW to choose to be categorized as regulated or non-regulated customers. Colbún has one of the most efficient generation matrix in the Chilean system, thus we have the ability to offer competitive conditions and costs to customers who require it.

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

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

B.2 Financial risks

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

B.2.1 Exchange rate risk

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

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

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

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

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

B.2.2 Interest rate risk

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

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

Table 13: Interest Rate Profile

Interest Rate	Jun-16	Dec-16	Jun-17
Fixed	97%	97%	97%
Variable	3%	3%	3%
Total	100%	100%	100%

As of June 30, 2017, the Company's financial debt is 97% denominated in fixed rate, the remaining 3% corresponds to a portion of Fenix' loan.

B.2.3 Credit risk

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

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

As of June 30, 2017, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, which are known as "money market".

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

B.2.4 Liquidity risk

This risk results from different funding requirements to meet investment commitments and business expenses, debt payments, among others. The funds needed to meet these cash flow outputs are obtained from our own

resources generated by Colbún's ordinary activity and by contracting credit lines to ensure sufficient funds to cover projected needs for a given period.

As of June 30, 2017, Colbún has cash in excess for approximately US\$680 million, invested in time deposits with an average maturity of 80 days (includes time deposits with a duration of more than 90 days, which are recorded as "Other Current Financial Assets" in the Consolidated Financial Statements) and in short-term mutual funds with a maturity of less than 90 days.

The Company also has as additional liquidity sources available to date: (i) two bonds lines registered in the local market for a total amount of UF 7 million, (ii) a line of trade notes in the local market for UF 2.5 million and (iii) uncommitted bank lines of approximately US\$150 million.

In the next 12 months, the Company must disburse approximately US\$86 million in interests and principal amortization. This remaining interest and minor amortization is expected to be covered with the Company's own cash flow generation.

As of June 30, 2017, Colbún has a local credit rating of A+ by Fitch Ratings and AA- by Humphreys, both with stable outlooks. At the international level, the Company's rating is BBB by Fitch Ratings and BBB by Standard & Poor's (S&P), both with stable outlooks.

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

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

B.2.5 Risk measurement

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

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

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

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

The exchange rate risk is considered to be limited, since the Company's main flows (revenues, costs and projects disbursements) are denominated directly in or indexed to USD. Exposure to the mismatching of accounts is mitigated by applying a policy of maximum mismatch between assets and liabilities for those structural items denominated in currencies other than USD. Given the above, as of June 30, 2017, the Company's exposure to this risk is limited, resulting in a potential impact due to exchange differences of approximately US\$1.9 million, on a quarterly basis, based on a sensitivity analysis with 95% confidence.

The risk of interest rate variation is partially mitigated, given that 97% of the Company's financial debt is contracted at a fixed rate (in a direct way and using derivatives). Therefore, as of June 30, 2017, the exposure of the Company to variable interest rates is limited, which results in a potential impact of approximately US\$0.7 million in quarterly terms, based on a sensitivity analysis with 95% confidence.



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

At the end of the period, the financial institution that has the largest share of cash surplus reached 21%. Regarding existing derivatives, the Company's international counterparts have a credit rating equivalent to BBB+ or higher and national counterparts have local credit rating of BBB+ or higher. It should be noted that no counterparty concentrates more than 22% in notional terms.

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

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This document may contain forward-looking statements concerning Colbún's future performance and should be considered as good faith estimates by Colbún S.A.

In compliance with the applicable laws, Colbún S.A. publishes on its website (www.colbun.cl) and sends the financial statements and its corresponding notes to the Superintendencia de Valores y Seguros, those documents should be read as a complement to this report.