## REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS INTERIM AS OF MARCH 31, 2015

### 1. PERIOD OVERVIEW

- **EBITDA** for 1Q15 reached **US$92.8 million**, less than the EBITDA of US$119.8 million in 1Q14. EBITDA for 1Q14 included a non-recurrent income of US$32.5 million as a consequence of the business interruption loss payable on the insurance associated to the Mar13 casualty occurred at the Nehuenco II Power Plant. Disregarding this effect the EBITDA was 6% higher in comparison to 1Q14.

- **Non-operating income** for 1Q15 presented a **loss of US$20.2 million** (vs. a loss of US$6.6 million in 1Q14) due mainly to a lower capitalization of financial expenses after the startup of the Angostura Power Plant in Apr14, and to a lesser extent, to an increase in finance costs explained by a higher level of gross debt.

- **Income Tax expense** reached **US$18.2 million** (vs. an expense of US$19.6 million in 1Q14). The tax expense in 1Q15 is explained mainly by: i) an increase in the first category corporate tax rate due to the tax reform enacted in Sep14 (Law 20,780), ii) 3% depreciation of the CLP/US$ exchange rate which affects the deferred tax calculation since both taxable property, plant and equipment and tax losses are accounted for in Chilean pesos, and iii) higher PPUA (Interim Payments on Absorbed Profits).

- In 1Q15 the company presented a **profit of US$7.0 million** (vs. a profit of US$51.5 million in 1Q14).

- **Physical sales to customers under contract** during 1Q15 reached 2,782 GWh, 7% lower than physical sales under contracts in the same period the year before. **Net sales in the spot market** reached 327 GWh, 49% more than in 1Q14.

- **Hydraulic generation** for 1Q15 reached **1,098 GWh,** 1% lower than in 1Q14. In spite of the fact that the Angostura Power Plant was in operation the entire quarter and that the Blanco Power Plant resumed operations on February 18, 2015 (after the breakdown of January 12, 2014), hydraulic generation was lower reflecting the period's dry weather conditions.

- **Coal generation** during 1Q15 amounted to **792 GWh**, 12% higher than in 1Q14. This is explained because the plant had a higher availability during the quarter in comparison with 1Q14, when the power plant was out of service during several days due to minor corrective maintenance.

- **The Punta Palmeras Wind Farm** began operating during 4Q14 and sells its energy production and NCRE attributes to Colbún at a stabilized price. Due to the above, for the purposes of the hourly energy balance performed by the CDEC-SIC, the power plant is modeled as one of Colbún's power plants. During the quarter this wind farm contributed a gross production of 18 GWh.

- As of 1Q15 close, Colbún has **liquidity of US$816.7 million** and **net debt of US$1,071.3 million**.

## 1. GENERATION AND PHYSICAL SALES

Table 1 presents a comparative table showing physical sales of energy, capacity and production for quarters 1Q15 and 1Q14.

**Table 1**: Physical Sales and Generation

| Sales | Quarterly figures | | Var % |
|---|---|---|---|
| | 1Q14 | 1Q15 | T/T |
| **Total physical sales (GWh)** | **3,203** | **3,109** | **(3%)** |
| Regulated customers | 1,751 | 1,734 | (1%) |
| Unregulated customers | 1,233 | 1,048 | (15%) |
| Sales (CDEC) | 219 | 327 | 49% |
| **Capacity sales (MW)** | **1,750** | **1,593** | **(9%)** |

| Production | Quarterly figures | | Var % |
|---|---|---|---|
| | 1Q14 | 1Q15 | T/T |
| **Total production (GWh)** | **3,268** | **3,196** | **(2%)** |
| Hidraulic | 1,109 | 1,098 | (1%) |
| Thermal- Natural gas | 1,357 | 1,147 | (15%) |
| Thermal- Diesel | 96 | 141 | 47% |
| Thermal- Coal | 706 | 792 | 12% |
| Win - The Punta Palmeras | 0 | 18 | - |
| **Purchases spot market** | **0** | **0** | **-** |
| | | | |
| **Sales- Purchases CDEC** | **219** | **327** | **49%** |

### Generation Mix

In spite of the fact that the conditions of the recently ended hydrological year (Apr14-Mar15) were slightly better than in previous years, the first quarter of 2015 was extremely dry, especially March. In effect, excluding the contribution of Angostura to make the periods comparable, this quarter represents the lowest hydraulic generation by Colbún in the last 5 years. This lower hydraulic generation was partly offset by efficient generation using coal and gas.

**Hydraulic generation of 1Q15 was 1% less than in 1Q14**. Despite the fact that the Angostura Power Plant was in operation the entire quarter and that the Blanco Power Plant began operating again on February 18, 2015 (after the breakdown of January 12, 2014), hydraulic generation was lower, which reflects the extremely dry weather conditions for the period.

**Coal generation during 1Q15 amounted to 792 GWh**, 12% higher than in 1Q14. This is explained because during the quarter the power plant had high availability in comparison with 1Q14 when the plant was out of service for several days due to minor corrective maintenance.

**Natural gas thermal generation for 1Q15 decreased by 15%** in compared to 1Q14. The decrease was due to a lower contracted volume for this quarter. It should be noted that the agreements reached with ENAP and Metrogas ensure supply for this year.

**Generation with diesel for 1Q15 reached 141 GWh,** greater than the 96 GWh generated in 1Q14. Even with this greater generation, diesel generation costs decreased in comparison to the same period of the previous year as a consequence of the lower reference price of diesel in international markets. For example, the variable cost of diesel reported to the CDEC associated to the Los Pinos Power Plant a year ago was US$198/MWh versus US$144/MWh as of the Mar15 close.

Regarding the generation mix for 1Q15, **68% of commercial commitments were met with efficient base generation**: hydraulic and coal (vs. 61% for 1Q14). The rest of the commitments were supplied mainly with natural gas generation, and due to the trade conditions negotiated by Colbún, it is currently a cost efficient source of generation.

## 2. INCOME STATEMENT ANALYSIS

Table 2 shows a summary of the Income Statement for 1Q15 and 1Q14. Key accounts and / or variations of the quarter are analyzed afterwards.

**Table 2**: Income Statement (US$ million)

| | Quarterly figures | | Var % |
|---|---|---|---|
| | 1Q14 | 1Q15 | T/T |
| **OPERATING REVENUES** | **413.2** | **317.0** | **(23%)** |
| Regulated Customers Sales | 166.0 | 167.6 | 1% |
| Non-regulated Customers Sales | 150.8 | 73.0 | (52%) |
| Other Generators Sales | 1.5 | 38.0 | 2427% |
| Transmission Tolls | 41.2 | 36.0 | (12%) |
| Other Operating Income | 53.8 | 2.3 | (96%) |
| **RAW MATERIAL AND CONSUMABLES USED** | **(275.4)** | **(205.2)** | **(25%)** |
| Transmission Tolls | (48.9) | (39.1) | (20%) |
| Energy and Capacity Purchases | (18.0) | (4.5) | (75%) |
| Gas | (143.1) | (95.1) | (34%) |
| Diesel | (22.9) | (22.5) | (2%) |
| Coal | (23.4) | (26.6) | 14% |
| Other Operating Expenses | (19.1) | (17.4) | (9%) |
| **GROSS PROFIT** | **137.9** | **111.8** | **(19%)** |
| Personnel Expenses | (13.5) | (14.0) | 3% |
| Others Expenses, by nature | (4.6) | (5.1) | 10% |
| Depreciation and Amortization Expenses | (42.0) | (47.5) | 13% |
| **OPERATING RESULT** | **77.8** | **45.3** | **(42%)** |
| **EBITDA** | **119.8** | **92.8** | **(23%)** |
| Financial Income | 1.5 | 1.0 | (35%) |
| Financial Expenses | (10.6) | (22.2) | 109% |
| Readjustment Profit (Loss) | 2.4 | 0.1 | (98%) |
| Exchange rate Differences | (8.9) | 0.4 | - |
| Share in the Profit (Loss) of Associates and Joint Ventures | 1.3 | 1.5 | 11% |
| Other Profit (Loss) | 7.7 | (0.9) | - |
| **NON-OPERATING INCOME** | **(6.6)** | **(20.2)** | **205%** |
| **PROFIT (LOSS) BEFORE TAXES** | **71.2** | **25.1** | **(65%)** |
| Income Tax Expense | (19.6) | (18.2) | (7%) |
| **PROFIT (LOSS)** | **51.5** | **7.0** | **(86%)** |

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

## Operating revenues

**Income from operating activities for 1Q15, amounted to US$317.0 million**, a 23% decrease in comparison to 1Q14, mainly due to lower income from unregulated customers and "other income", partially offset by higher energy and power sales in the spot market.
Income is detailed as follows:

**Regulated Customers:** Income from sales to regulated customers reached US$167.6 million in 1Q15, in line with 1Q14. Although during the quarter the average monomic price of sales to this type of customer increased, it was offset by a lower volume of physical sales.

**Unregulated Customers:** Sales to unregulated customers reached US$73.0 million in 1Q15, a 52% decrease in comparison to 1Q14. The main effect of this decrease is explained by the expiry of the contract with Codelco at marginal cost in Dec14, which was replaced by another contract with the same customer at a long-term price. This new contract contemplates the commercialization by Colbún of part of the supply contracted by Codelco, whose margin is accredited in the customer's billing. That amount is recognized simultaneously as sales to other generators. In second place, lower income is explained by the expiry of the contract with another customer (Metro) in Mar14.

**Energy and Power Sales:** During 1Q15 the company recorded physical sales of energy and power on the spot market in the amount of US$38.0 million (equivalent to 327 GWh), a significant increase in comparison to 1Q14 (US$1.5 million – 219 GWh). It should be noted that part of these sales are discounted in income from unregulated customers as a consequence of the aforementioned energy sale contract with Codelco.

**Tolls:** In quarterly terms tolls decreased by 12% in comparison to 1Q14, because in that quarter there tariff income associated to trunk transmission was higher.

**Other Income:** During the quarter there were no relevant other income (US$2.3 million). However, 1Q14 income of US$53.8 million included US$32.5 million from the business interruption loss insurance payable associated to the loss occurred in Mar13 at the Nehuenco II Power Plant, which kept this plant out of service for 132 day; and US$16.9 million from the resulting margin between injections and withdrawals values accumulated in 1Q14 during the testing period of the Angostura Power Plant.

## Cost of Raw Materials and Consumables used

**Costs of raw materials and consumables used in 1Q15 amounted to US$205.2 million**, a decrease of 25% compared to 1Q14, mainly given by a lower consumption of natural gas and lower purchases on the spot market.

Costs are detailed as follows:

**Tolls:** In quarterly terms tolls decreased by 20% in comparison to 1Q14 since there were greater expenses associated to trunk transmission during that quarter.

**Energy and Power Purchases:** During 1Q15 there were physical energy and power purchases in the spot market equivalent to US$4.5 million. This represents a 75% decrease in comparison to the US$18.0 million in 1Q14. Even though neither of the periods recorded energy purchases in the physical balance sheet, in the monetary balance sheet there were disbursements for energy, power and NCRE energy. In addition, it should be noted that in 1Q14 there were disbursements associated to power purchases due to the reduction of firm power caused by the unavailability of the Nehuenco II Power Plant, which suffered a breakdown during part of the firm power control period (May to September 2013).

**Fuel costs:** During 1Q15 fuel costs reached US$144.2 million, 24% less than in the same period of the previous year. The quarterly decrease is mainly due to lower gas generation and lower price of gas, partly offset by more coal generation. The average cost of own thermal generation was more efficient, reflecting the decrease in the price of these commodities in international markets.

## 2.2 ANALYSIS OF NON-OPERATING ITEMS

**Non-operating result for 1Q15 recorded a loss of US$20.2 million**, higher than a loss of US$6.6 million in 1Q14, due to higher financial expenses which increased by US$11.6 million. .

The main components of this income are detailed as follows:

**Financial Expenses:** during 1Q15 financial expenses reached US$22.2 million, higher than the US$10.6 million recorded in 1Q14. This difference is mainly due to lower capitalization of financial expenses due to the startup of the Angostura Power Plant in Apr14, and to a lesser extent to the increase of financial debt given by the issuance of the international bond in Jul14 for US$500.0 million.

**Exchange rate difference:** during 1Q15 exchange rate difference recorded a gain of US$0.4 million, versus a loss of US$8.9 million recorded in 1Q14. The change in this account in comparison to the first quarter of 2014 is explained mainly by the effect of the higher volatility of the CLP/US$ exchange rate in 1Q14 on temporary items local currency on the balance sheet, mainly accounts receivable and accounts payable. In addition, in 1Q15 there was a lower depreciation of the exchange rate in comparison to the same period the previous year (3% vs 5%) on a balance sheet position that presents a slight excess of assets over liabilities in local currency.

**Other profits (losses):** during 1Q15 this line recorded a loss of US$0.9 million, less than the profit of US$7.7 million in the same period of the previous year. 1Q14 considered a non-recurring income of US$15.7 million due to the loss on property damage insurance payable associated to the breakdown of the Nehuenco II Thermal Power Plant occurred in Mar13. This effect was partly offset by the non-recurrent loss of US$7.0 million for the concept of impairment of assets due to the failure at the Blanco Hydraulic Power Plant occurred in Jan14. It should be noted that the latter has been in operation since Feb15.

**Income Tax Expense:** as of Mar15 the accumulated income tax expense amounts to US$18.2 million, in comparison to an expense of US$19.6 million as of Mar14. The tax expense in 1Q15 is mainly explained by: i) an increase in the first category corporate tax rate due to the tax reform enacted in Sept14 (Law 20,780), ii) 3% depreciation of the CLP/US$ exchange rate which affects the calculation of deferred taxes since both taxable property, plant and equipment and tax losses are accounted for in Chilean pesos, and iii) due to higher PPUA.

## 3. STATEMENT OF FINANCIAL POSITION ANALYSIS

Table 3 presents an analysis of the most relevant captions of the Statement of Financial Position as of December 31, 2014 and March 2015.
Later key accounts and / or variations are analyzed.

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

| | Dec-14 | Mar-15 | Var | Var % |
|---|---|---|---|---|
| **Current Assets** | **1,270.2** | **1,251.6** | **(18.5)** | **(1%)** |
| Cash and cash equivalents | 832.8 | 816.7 | (16.1) | (2%) |
| Trade and other accounts receivable | 243.7 | 237.8 | (5.8) | (2%) |
| *Other* | 132.3 | 146.5 | 14.2 | 11% |
| *Trade* | 111.3 | 91.3 | (20.0) | (18%) |
| Current tax receivable | 47.0 | 57.2 | 10.2 | 22% |
| Other current assets | 146.7 | 139.9 | (6.8) | (5%) |
| **Non- Current Assets** | **5,112.2** | **5,090.1** | **(22.1)** | **0%** |
| Property, plant and equipment | 4,956.2 | 4,935.5 | (20.8) | 0% |
| Other current assets | 156.0 | 154.7 | (1.3) | (1%) |
| **Total Assets** | **6,382.3** | **6,341.8** | **(40.6)** | **(1%)** |
| Current liabilities | 258.3 | 192.0 | (66.4) | (26%) |
| Non- current liabilities | 2,763.5 | 2,786.1 | 22.7 | 1% |
| Total net equity | 3,360.6 | 3,363.6 | 3.1 | 0% |
| **Total Liabilities and net Equity** | **6,382.3** | **6,341.8** | **(41.0)** | **(1%)** |

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

**Cash and Cash Equivalents:** reached US$816.7 million, lower than as of 2014 year-end, explained mainly by the interim dividend paid in Jan15 (US$41.1 million disbursed to date) and payment of interest on financial debt, partly offset by cash flows from operating activities.

**Trade and Other Accounts Receivable:** reached US$237.8 million, in line with the balance existing as of Dec14.

**Current Tax Assets:** recorded a balance of US$57.2 million as of the Mar15, a 22% increase in comparison to the 2014 year-end. This is mainly due to higher monthly interim payments and higher PPUA.

**Other Current Assets:** reached US$139.9 million as of Mar15, 5% lower than as of Dec14, mainly due to amortization of insurance premiums to date and lower inventory balances.

**Property, Plant and Equipment, net:** recorded a balance of US$4,935.5 million as of Mar15, a decrease of US$20.8 million in comparison to Dec14, explained mainly by depreciation for the period. This effect was partially offset by the investment projects that are being carried out by the Company (mainly the La Mina Project).

**Current Liabilities:** reached US$192.0 million, a US$66.4 million decrease in comparison to Dec14. This change is mainly explained by payment of the interim dividend in Jan15 (US$41.1 million disbursed to date).

**Non-current Liabilities:** totaled US$2,786.1 million as of the Mar15 close, in line with the figures as of Dec14.

**Debt Analysis:** Financial debt reached US$1,888.0 million, in line with Dec14. Financial investments and LTM EBITDA (last 12 months) decreased slightly, which implied that the Net Debt/LTM EBITDA ratio was 2.1, similar to the value recorded in Dec14.

The average life of the long-term financial debt is 6.2 years.

The average interest rate of the long-term financial debt in US dollar is 4.8%.

| | Dec-14 | Mar-15 | Var | Var % |
|---|---|---|---|---|
| Financial debt - gross | 1,893.9 | 1,888.0 | (5.9) | (0%) |
| Financial investments | 832.8 | 816.7 | (16.1) | (2%) |
| Financial debt - net | 1,061.1 | 1,071.3 | 10.2 | 1% |
| EBITDA LTM | 536.6 | 509.6 | (27.0) | (5%) |
| Net debt /EBITDA LTM | 2.0 | 2.1 | 0.1 | 6% |

**Shareholders' Equity:** the Company's net shareholders' equity reached US$3,363.6 million, in line with 2014 year-end.

## 4. INDICATORS

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

**Table 4:** Financial Indicators

| Indicator | Dec-14 | Mar-15 | Var% |
|---|---|---|---|
| Current Liquidity:<br>Current Assets in operation/ Current Liabilities in operation | 4.92 | 6.52 | 33% |
| Acid Ratio:<br>(Current Assets - Inventory- Advanced Payments) / Current Liabilities in operation | 4.54 | 6.03 | 33% |
| Debt Ratio:<br>( Curent Liabilities in operation + Non- current Liabilities)/ Total Net Equity | 0.90 | 0.89 | (2%) |
| Short- term Debt (%):<br>Current Liabilities in operation/ ( Current Liabilities in operation + Non- current Liabilities) | 8.55% | 6.45% | (25%) |
| Long- term Debt (%):<br>Non- current Liabilities in operation/ ( Current Liabilities in operation + Non-current liabilities) | 91.45% | 93.55% | 2% |
| Financial Expenses Coverage:<br>( Profir (Loss) Before Taxes + Financial Expenses)/ Financial Expenses | 3.23 | 2.41 | (25%) |
| Equity Profitability (%):<br>Profit (Loss) After taxes. Continuing Activities/ Average Net Equity | 2.30% | 1.00% | (57%) |
| Profitability of Assets (%):<br>Profit (Loss) Controller/ Total Average Assets | 1.28% | 0.56% | (56%) |
| Performance of Operating Assets (%)<br>Operating Income/ Property, Plant and Equipment, Net ( Average) | 7.09% | 6.46% | (9%) |

*Cash flow indicators correspond to values in 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)*

| | Quarterly figures | | Var % |
|---|---|---|---|
| | **1Q14** | **1Q15** | **T/T** |
| **Cash Equivalents, Beg. Of period** | **260.4** | **832.8** | 220% |
| Net cash flow provide by (used in) operating activities | 83.1 | 77.2 | (7%) |
| Net cash flow provide by (used in) financing activities | (83.1) | (67.3) | (19%) |
| Net cash flow provide by (used in) investing activities | (48.1) | (26.3) | (45%) |
| **Net Cash Flows for the period** | **(48.0)** | **(16.4)** | (66%) |
| Effects of exchange rate changes on cash and cash equivalents | (4.0) | 0.3 | - |
| **Cash Equivalents, End Of period** | **208.3** | **816.7** | 292% |

(*) The "Cash and Cash Equivalents" represented herein, include the amount associated to time deposits which are recorded as "Other Current Financial Assets" in the financial statements since they have an investment term in excess of 90 days.

During 1Q15, the Company presented a **negative cash flow of US$16.4 million**, which compares positively with the same period of the previous year.

**Operating activities:** net cash flows from operating activities in 1Q15 amounted to US$77.2 million, in line with 1Q14, given that the generation and supply mix of commitments was similar in both periods.

**Financing activities:** generated negative net cash flows of US$67.3 million in 1Q15, explained mainly by the payment of the interim dividend in Jan15 (US$41.1 million disbursed to date) and the payment of financial debt interests for the period.

**Investing activities:** generated negative net cash flows of US$26.3 million in 1Q15, a decrease in comparison to 1Q14 which is mainly explained by lower disbursements in projects due to the completion of the Angostura Power Plant. Disbursements for this quarter were mainly associated to the La Mina Project, whose construction began in Dec14.

## 6. ENVIRONMENT AND RISK ANALYSIS

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

Through its commercial policy, the Company seeks to be a safe and sustainable competitive energy provider with a sales volume that allows maximizing long-term profitability of its asset base, limiting 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 complement efficient coal-fired generation. Eventually the Company purchases energy in the spot market at marginal cost.

### 6.1 Medium-Term Perspective

Income during the last 12 months presented a considerable improvement, recording an EBITDA for this period of US$509.6 million. This increase in comparison to the same period of last year is explained by: an increase in hydraulic generation due to a slight increase in the rainfall conditions and due to the remarkable placement in operation of the new Angostura Power Plant, and greater availability of our power plants, which in turn led to a surplus position on the spot market.

Regarding the next few months, in terms of generation and as a protection against low rainfalls, the Company has the back up of natural gas as a consequence of the contracts signed with ENAP and Metrogas. Colbún signed a natural gas medium-term supply agreement with Metrogas – until 2019 – for one unit of the Nehuenco complex. Additionally, other contracts with ENAP Refinerías S.A. were signed for the other combined-cycle unit of the Nehuenco complex for 2015. Between the two natural gas suppliers, Colbún has a contract supply of about 2,300 GWh during 2015. It also has the possibility of accessing to additional gas via spot purchases if necessary.

Regarding contracts for 2015, it should be noted that contracts with Codelco expired in Dec14. On January 1, 2015 the Company began a new long-term agreements with this customer for a contracted power of up to 510 MW and associated energy of approximately 4,000 GWh annually. The Company's contract level will remain without significant variations until 2019.

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

### 6.2 Growth plan and long-term actions

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

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

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

## Projects Under Construction

▪ **La Mina Hydroelectric Project (34 MW):** La Mina is an NCRE project that is located in the community of San Clemente, approximately 110 km. east of Talca. The project contemplates an installed capacity of 34 MW and average annual generation of 191 GWh. The energy will be injected in 220 kV to the SIC, at the Ancoa substation, through Endesa's Los Cóndores high voltage line. The project uses the hydraulic potential of the Maule River from a water extraction point located downstream of its convergence with the Puelche River, restoring the water to the same river 2 km. downriver from the water extraction point.

The actions to obtain the building permit for the hydraulic works and pending water rights were successfully undertaken in 2014. The design of the waterfall zone was optimized, retendering the civil works' construction contracts and contracts for supply and erection of hydro-mechanical equipment, which were granted the order to proceed in Nov14.

It is expected that the project will start commercial operation at the beginning of 2017. The investment amount, including the transmission line, will be approximately US$130 million.

The overall project is progressing according to schedule as of the end of Mar15.

## Projects being developed

▪ **Project for Unit II of the Santa María Complex (350 MW):** The project is located in the community of Coronel in the Biobío Region and considers an installed capacity of 350 MW. Colbún currently has an approved environmental permit to develop the second unit of the complex.

The Company improved the unit's design in 2014, incorporating new technology to comply with the strict emissions standard in force since January 1, 2012. Likewise, the social, economic and commercial dimensions of the project are being analyzed in order to define the beginning of its construction in a timely manner.

▪ **San Pedro Hydroelectric Project (160 MW – 170 MW):** The San Pedro Hydroelectric Power Plant Project is located approximately 25 km. northeast of the community of Los Lagos, in the Los Ríos Region and considers the use of the river of the same name, through a power plant located between the effluent of the Riñihue Lake and the Malihue Bridge. Considering the adjustments contemplated in the project, it will have an estimated design flow of 460 $m^3/s$ (+ 10% with over opening) and an approximate installed capacity of 160 – 170 MW for an annual generation of 950 GWh under normal rainfall conditions. This power plant will connect to the SIC through a high voltage line in 220 kV to the Ciruelos Substation. The operation of the power plant will be such that the reservoir height will remain practically constant, which means that the flow downstream of the power plant will not be altered by its operation.

The geological studies and associated adjustments required in the project's engineering were concluded in 2014. The adjustments do not imply changing the main environmental parameters and the Company intends to file these modifications with the Environmental Assessment System in 2015. In the second half of 2014, Colbún began a socialization process prior to the studies and adjustments to the project, through information meetings with the municipalities, communities, neighborhood associations and regional authorities, among other interest groups.

Important works were completed and delivered to the Municipalities of Los Lagos and Panguipulli which were defined in the project's RCA, such as the Riñihue Vacation and Camping Spot and the Panguipulli Tourist Information Centre, demonstrating the project´s commitment with the neighboring communities.

▪ **San Pedro-Ciruelos Transmission Line Project:** The San Pedro - Ciruelos transmission line will allow the evacuation of energy of the San Pedro Power Plant to the SIC through a 220 kV line that is 47 km. long, which will connect at the Ciruelos Substation, located approximately 40 km. northeast of Valdivia.

The main activities for 2014 were related to negotiations on line easements, and relevant and strategic agreements for the project have already been reached with landowners.

Certain engineering modifications were made for the stretch arriving at the Ciruelos Substation line and soil studies were undertaken for the entire length of the line. This will serve as information for the re-filing of the electrical concession process.

▪ **NCRE Projects (Non-Conventional Renewable Energy):** The electrical standard requires that part of the contracted energy to come from non-conventional renewable generation, establishing as a goal that by 2025, 20% of energy will come from this type of technology.

In this context, in 2013 Colbún signed a contract with Acciona Energía for the purchase of energy and attributes generated by the Punta Palmeras 45 MW wind farm, located in the community of Canela, 70 km. from Los Vilos, in the IV Region. This plant came into commercial operation in November 2014.

Likewise, Colbún continues to analyze the technical and economic feasibility of various mini hydraulic power plant projects, which would use the water rights of irrigation associations, companies and individuals. Participation in generation projects using other technologies is also being studied.

▪ **HidroAysén:** Colbún has a 49% interest in HidroAysén S.A.

Notwithstanding the natural uncertainty regarding the deadlines and contents of the resolutions of judicial instances to which HidroAysén has resorted to or will resort to in the future, as well as the guidelines, conditions or possible reformulations that the processes that are being carried out by the government on long-term energy policies and territorial planning of basins may determine in relation to the development of the Aysen's hydroelectric potential, Colbún S.A. reiterates its conviction that current water rights, requests for additional water rights, the environmental qualification resolution, concessions, soil studies, engineering, authorizations and real estate of the project are assets that have been acquired and developed by the company during the last 8 years, in accordance with current institutional arrangements and international technical and environmental standards.

Colbún S.A. ratifies that the development of the referred hydroelectric potential has benefits for the country's future growth and that the option of being a part of it represents for our company a potential source to add value in the long term. Colbún S.A. reaffirms the process of judicial defense of the Environmental Qualification Resolution (RCA) project wich is currently based in the Environmental Courts and the defense of additional water rights that are currently in process, within the framework provided by our rule of law.

- **Others:** In 2014, the company continued performing technical, economic and environmental preliminary feasibility studies for hydroelectric projects using the water rights that Colbún has in the Maule Region.

In addition, the company is working on developing options to directly acquire LNG in the international market.

## 6.3 Electricity Business Risks

At Colbún, risk management is a strategic issue to safeguard the principles of company stability and sustainability, eliminating or mitigating uncertainty variables that could significantly affect the achievement of objectives.

Fully managing risks assumes the identification, assessment and control of the different risks faced by the different areas of the company, as well as the estimation of their impacts on its consolidated position, follow up and control over time. This process involves Colbún's senior management as well as the areas that directly manage the risks.

The Risks Committee, with the support of Corporate Risk Department and in coordination with the rest of the Company's divisions, follows up on risk management.

### 6.3.1. Hydrology Risks

Forty-eight percent (48%) of Colbún's power plants are hydraulic and therefore are exposed to variable rainfall conditions. Under dry conditions, in order to be able to fulfill its contracts, Colbún must operate its combined-cycle thermal plants with purchases of natural gas or diesel, operate its inefficient thermal plants or else resort to the spot market.

This situation increases Colbún's costs, increasing the variability of its results depending on rainfall conditions. The Company's exposure to hydrological risk is reasonably mitigated through a commercial policy whose purpose is to maintain a balance between the competitive base generation (hydraulic in a medium to dry year and coal thermal generation) and its commercial commitments.

### 6.3.2. Risk of fuel prices

In situations of low affluents at hydraulic plants, Colbún must mainly use its thermal plants or buy energy on the spot market at marginal cost. The abovementioned generates a risk due to changes in international fuel prices. Part of this risk is mitigated with contracts that consider a selling price indexed to changes in fuel prices. In addition, hedging programs are undertaken with various derivative instruments, such as call and put options, among others, to hedge the remaining portion of this exposure, should it exist.

### 6.3.3. Fuel supply risk

Regarding the supply of liquid fuels, the Company has agreements with suppliers and its own storage capacity to ensure adequate reliability in respect to the availability of these types of fuel. As for purchases of coal for thermal power station Santa María Unit I, new tenders have been undertaken inviting important international suppliers to bid, awarding the supply contract to solvent and competitive companies. This is in line with an early purchasing policy in order to mitigate any risk of not having this fuel available.

### 6.3.4 Risk of equipment failure and maintenance

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

### 6.3.5 Project Construction Risks

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

The Company's exposure to such risks is managed through a commercial policy that considers the effects of potential project delays. Alternatively, it incorporates clearance levels in the time and cost of construction estimates. Additionally, the Company's exposure to this risk is partially covered with the "All Risk Construction" insurance policies covering both physical damage and loss of profit from a delay in commissioning the plant as a result of a disaster, both with standard deductibles for this types of insurance.

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

Likewise, Colbún has a policy of excellent integration of the social and environmental dimensions of its projects in their development. The Company has developed a social engagement model that allows it to work in conjunction with neighboring communities and society in general, initiating a transparent citizen participation and trust-building process at the early stages of the projects and during their entire life cycle.

### 6.3.6 Regulatory Risks

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

The government's energy agenda contemplates various regulatory changes which depending on the manner in which they are implemented could represent an opportunity or a risk for the company. The changes that are currently being discussed in Parliament, regarding the Water Code and the role of ENAP in the generation sector are especially relevant. The bills that are in the process of being prepared are also important: (i) Association Law that seeks to facilitate development of new electrical projects at a local level and (ii) New Transmission Law which would redefine fundamental aspects of this segment. The necessary and balanced development of the electrical market in the next few years will depend to a great extent on the quality of this new regulation and the signals given by authorities in this respect.

#### 6.3.7. Risk of change in the demand and selling price of electric energy

The projection of future electricity consumption demand is information that is very relevant to the determination of its market price. In the medium term, lower-than-projected growth in demand would produce an imbalance between supply and demand, thus affecting energy prices.

### 6.4 Financial Risks

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

#### 6.4.1 Foreign Exchange rate risk

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

In terms of currency matching, the annual average balance as of March 31, 2015 of the company shows a fairly balanced position between assets and liabilities in Chilean pesos. This "long" position translates into an exchange rate difference of approximately US$1 million for each Ch$10 variation in the CLP/US$ exchange rate.

#### 6.4.2 Interest Rate Risk

Refers to changes in interest rate that affect the value of future cash flows referenced at variable interest rates, and changes in the fair value of assets and liabilities referenced at fixed interest rates that are accounted for at fair value. The company uses fixed interest rate swaps to mitigate this risk.

The company's financial debt, incorporating the effect of interest rate derivatives engaged in is detailed as follows:

| Interest Rate | mar-14 | mar-15 |
|---|---:|---:|
| Fixed | 90% | 100% |
| Variable | 10% | 0% |
| **Total** | **100%** | **100%** |

### 6.4.3 Credit Risk

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

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

As of March 31, 2015, 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 banks, local ones have a local credit rating equal or superior to AA- and the foreign ones have an international investment grade credit rating. These investments are diversified over a wide range of financial institutions, with the one having the highest share of 20%. Regarding existing derivatives, the Company's international counterparts have a credit rating equivalent to A- or above and national counterparts have local rating of AA+ or higher. It should be noted that no counterpart concentrates more than 16% in notional terms.

### 6.5.4 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 the ordinary activity of Colbún and by contracting credit lines to ensure sufficient funds to cover projected needs for a given period.

As of March 31, 2015 Colbún has cash in excess in the amount of US$816.7 million invested in fixed-time deposits with an average duration of less than 30 days and in short-term mutual funds with maturity of less than 90 days. Furthermore, the Company has available as additional liquidity sources to date: (i) a committed line with local banks for UF 4 million, (ii) two lines of bonds registered in the local market for a total amount of UF 7 million, (iii) a line of trade notes in the local market for UF 2.5 million and (iv) uncommitted bank credit lines for approximately US$150 million.

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

As of March 31, 2015 Colbún has a local credit rating of A+ from Fitch Ratings and AA- from Humphreys, both with stable perspectives.  At an international level, the Company's rating is BBB with stable perspective from Fitch Ratings and BBB- with negative perspective from Standard & Poor’s.