Consolidated Financial Statements
for the periods ended December 31, 2016 and 2015

(Translation of Consolidated Financial Statements originally issued in Spanish - See note 3.1)

COLBÚN S.A. AND SUBSIDIARIES

Thousands of US dollars – ThUS$

This document is composed of:
-Consolidated Financial Statements
-Notes to the Consolidated Financial Statements

Colbún S.A. and Subsidiaries

Classified Consolidated Statements of Financial Position
As of December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

ASSETS	Note Nº	December 31, 2016 ThUS$	December 31, 2015 ThUS$
Current Assets			
Cash and cash equivalents	8	593,720	895,507
Other financial current assets	9	74,285	185,393
Other non-financial current assets	20	27,190	28,270
Trade receivables and other receivables accounts	10	199,159	164,947
Accounts receivable from related entities	12.b	2,792	2,590
Inventories	13	45,114	39,919
Tax assets	19	5,364	8,740
Total current assets		**947,624**	**1,325,366**
Non-current assets			
Other financial assets, non-current	9	5,377	212
Other non-financial assets, non-current	20	45,798	32,262
Accounts receivable from related entities, non-current	12.b	263	280
Investments accounted for using the equity method	16	38,576	36,012
Intangible assets other than goodwill	17	138,129	91,340
Goodwill	6	4,000	4,000
Property, plant and equipment	18	5,635,827	5,660,763
Deferred taxes	21.b	7,004	6,922
Total non-current assets		**5,874,974**	**5,831,791**
TOTAL ASSETS		**6,822,598**	**7,157,157**

Colbún S.A. and Subsidiaries
Classified Consolidated Statements of Financial Position (continued)
As of December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

LIABILITIES AND NET EQUITY	Note Nº	December 31, 2016 ThUS$	December 31, 2015 ThUS$
Current liabilities			
Other financial, current liabilities	22.a	53,044	453,385
Payables trade and other payables, current	23	207,945	174,433
Accounts payable to related entities	12.b	32,339	30,252
Other provisions	24.a	7,393	15,501
Tax liabilities	21.a	32,605	24,045
Provisions for employee benefits, current	24.a	14,996	11,237
Other non-financial liabilities, current	25	11,733	4,648
Total current liabilities		**360,055**	**713,501**
Non-current liabilities			
Other financial liabilities, non-current	22.a	1,656,988	1,782,256
Payables trade and other payables, non-current liabilities	23	18,960	6,422
Deferred tax liabilities	21.b	957,848	955,956
Provisions for employee benefits, non-current	24.a	27,508	23,001
Other non-financial, non-current liabilities	25	11,407	10,603
Total non-current liabilities		**2,672,711**	**2,778,238**
Total liabilities		**3,032,766**	**3,491,739**
Equity			
Issued capital	26.a	1,282,793	1,282,793
Retained earnings	26.f	1,510,514	1,411,684
Share premiums	26.c	52,595	52,595
Other reserves	26.e	730,483	715,588
Net Equity attributable to equity holders of the parent		3,576,385	3,462,660
Non-controlling interests		213,447	202,758
Total net equity		**3,789,832**	**3,665,418**
TOTAL LIABILITIES AND NET EQUITY		**6,822,598**	**7,157,157**

Colbún S.A. and Subsidiaries

Consolidated Statements of Comprehensive Income by Nature
for the periods ended December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

STATEMENT OF COMPREHENSIVE INCOME BY NATURE	Note Nº	January- December 2016 ThUS$	2015 ThUS$
Revenue from ordinary activities	7 y 27	1,436,240	1,313,856
Raw materials and consumables used	28	(724,587)	(645,934)
Employee benefits expenses	29	(67,813)	(56,082)
Depreciation and amortization	30	(227,918)	(194,947)
Other expenses by nature	-	(42,090)	(28,503)
Other gains (losses)	34	(17,577)	(1,220)
Profit from operating activities		**356,255**	**387,170**
Financial income	31	10,054	5,517
Financial costs	31	(103,440)	(90,536)
Share of profit (loss) of associates and jont ventures accounted for using the equity method	33	5,414	6,620
Exchange rate differences	32	3,426	(11,160)
Result from indexation units	32	(55)	2,425
Profit before taxes		**271,654**	**300,036**
Income tax expense	21.a	(66,914)	(99,603)
Profit from continuing operations		**204,740**	**200,433**
PROFIT		**204,740**	**200,433**
Profit attributable to:			
Profit attributable to owners of the parent	7 y 26.i	201,429	203,806
Profit attributable to non-controlling interests	0	3,311	(3,373)
PROFIT		**204,740**	**200,433**
Earnings per share			
Basic earnings from continuing operations per share **US$/share**	26.i	0.01149	0.01162
Basic earnings per share		**0.01149**	**0.01162**
Diluted earnings from continuing operations per share **US$/share**	26.i	0.01149	0.01162
Diluted earnings per share		**0.01149**	**0.01162**

Colbún S.A. and Subsidiaries
Consolidated Statements Other of Comprehensive Income by Nature
for the periods ended December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

STATEMENTS OF OTHER COMPREHENSIVE INCOME BY NATURE	Note	January- December	
		2016	2015
	N°	ThUS$	ThUS$
Profit		**204,740**	**200,433**
Components of other comprehensive income not to be reclassified to profit or loss in subsequent periods, before taxes:			
Profits (losses) from new measurements of defined benefit plans		(2,699)	(2,433)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, before taxes:		**(2,699)**	**(2,433)**
Components of other comprehensive income to be reclassified to profit or loss in subsequent periods, before taxes:			
Exchange gains (losses) on translation	16.a	1,386	(4,321)
Gains (losses) from cash flow hedges		19,782	1,685
Share of other comprehensive income of associates and jont ventures accounted for using the equity method		1,230	(1,207)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, before taxes:		**22,398**	**(3,843)**
Components of other comprehensive income, before taxes		**19,699**	**(6,276)**
Income taxes on components of other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Income taxes related to new measurements of defined benefit plans	21.c	729	657
Income taxes on components of other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Income taxes related to share of other comprehensive income of associates and jont ventures accounted for using the equity method	21.c	(332)	326
Income taxes related to cash flow hedges	21.c	(5,201)	1,381
Income taxes related to components of other comprehensive income		**(4,804)**	**2,364**
Total other comprehensive income		**14,895**	**(3,912)**
Total comprehensive income		**219,635**	**196,521**
Total comprehensive income attributable to:			
Total comprehensive income attributable to owners of the parent		214,545	199,894
Total comprehensive income to non-controlling interests		5,090	(3,373)
TOTAL OTHER COMPREHENSIVE INCOME		**219,635**	**196,521**

Colbún S.A. and Subsidiaries

Consolidated Statements of Cash Flows - Direct Method
for the periods ended December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

CASH FLOW STATEMENTS - DIRECT METHOD	Note N°	December 31, 2016 ThUS$	December 31, 2015 ThUS$
Cash flows provided by (used in) operating activities			
Classes of receipts from operating activities			
Receipts from sales of goods and rendering of services		1,631,555	1,536,831
Receipts from royalties, fees, commissions and other revenue		447	33,082
Other receipts from operating activities		3,915	11,330
Classes of payments			
Payments to suppliers for goods and services		(905,043)	(792,771)
Payments to and on behalf of employees		(61,978)	(62,051)
Payments for premiums and claims, annuities and other policy benefits		(15,970)	(37,271)
Other payments for operating activities		(88,790)	(18,537)
Net cash flows provided by (used in) operating activities		**564,136**	**670,613**
Dividends received		8,682	7,550
Interest received		9,662	5,823
Income taxes refunded (paid)		(52,722)	17,274
Other cash inflows (outflows)		(11,908)	16,828
Net cash flows provided by (used in) operating activities		**517,850**	**718,088**
Cash flows provided by (used in) investing activities			
Other payments for acquiring participation in joint ventures		(3,324)	(3,922)
Payments to related companies		(5,428)	(202,222)
Additions to property, plant and equipment		(152,145)	(85,722)
Additions to Intangible assets		(35,529)	(1,929)
Other cash inflows (outflows)		110,368	393,404
Net cash flows provided by (used in) investing activities		**(86,058)**	**99,609**
Cash flows provided by (used in) financing activities			
Proceeds from borrowings		**365,700**	**-**
Proceeds from long-term borrowings		365,700	-
Repayments of borrowings		(894,007)	(22,894)
Dividends paid		(98,923)	(53,479)
Interest paid		(92,404)	(114,918)
Other cash inflows (outflows)		(21,381)	21,721
Net cash flows provided by (used in) financing activities		**(741,015)**	**(169,570)**
Net increase (decrease) in cash and cash equivalents, before the effect of exchange rate differences		**(309,223)**	**648,127**
Effects of changes in foreign exchange rate on cash and cash equivalents			
Effects of changes in foreign exchange rate on cash and cash equivalents		7,436	(6,710)
Net increase (decrease) in cash and cash equivalents		**(301,787)**	**641,417**
Cash and cash equivalents at beginning of period		895,507	254,090
Cash and cash equivalents at end of period	8	**593,720**	**895,507**

Colbún S.A. and Subsidiaries
Consolidated Statements of Changes in Equity
for the periods ended December 31, 2016 and 2015
(In thousands of US dollars – ThUS$)

Statement of changes in equity	Note	Equity attributable to equity holders of the parent										
				Changes in Other reserves								
		Issued capital ThUS$	Share premiums ThUS$	Exchange differences on translation reserve ThUS$	Cash flow hedges reserve ThUS$	Actuarial gains or losses reserve ThUS$	Other various reserves ThUS$	Total Other reserves ThUS$	Retained earnings (losses) ThUS$	Equity attributable to equity holders of the parent ThUS$	Non-controlling interests ThUS$	Total equity ThUS$
Beginning balance as of 01.01.2016		1,282,793	52,595	(266,792)	(6,854)	-	989,234	715,588	1,411,684	3,462,660	202,758	3,665,418
Changes in equity												
Comprehensive income		-	-	-	-	-	-	-	-	-	-	-
Profit (loss)		-	-	-	-	-	-	-	201,429	201,429	3,311	204,740
Other comprehensive income		-	-	1,386	13,700	(1,970)	-	13,116	-	13,116	1,779	14,895
Dividends		-	-	-	-	-	-	-	(100,898)	(100,898)	-	(100,898)
Increase (decrease) due to transfers and other changes		-	-	-	-	1,970	(191)	1,779	(1,701)	78	5,599	5,677
Total changes in equity		-	-	**1,386**	**13,700**	-	**(191)**	**14,895**	**98,830**	**113,725**	**10,689**	**124,414**
Ending balance as of 12.31.2016	**26**	**1,282,793**	**52,595**	**(265,406)**	**6,846**	-	**989,043**	**730,483**	**1,510,514**	**3,576,385**	**213,447**	**3,789,832**

Statements of changes in net equity	Note	Attributable to equity holders of the parent										
				Changes in Other reserves								
		Issued capital ThUS$	Share premiums ThUS$	Exchange difference on translation reserve ThUS$	Cash flow hedeges reserve ThUS$	Actuarial ThUS$	ThUS$	ThUS$	Retained earnings ThUS$	Attributable to equity holders of the pareny ThUS$	Non-controlling interests ThUS$	Total Equity ThUS$
Beginning balance as of 01.01.2015		1,282,793	52,595	(262,471)	(9,039)	-	989,403	717,893	1,284,692	3,337,973	-	3,337,973
Changes in Equity												
Comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	-
Profit (loss)		-	-	-	-	-	-	-	203,806	203,806	(3,373)	200,433
Other comprehensive income		-	-	(4,321)	2,185	(1,776)	-	(3,912)	-	(3,912)	-	(3,912)
Dividends		-	-	-	-	-	-	-	(73,670)	(73,670)	-	(73,670)
Increase (decrease) due to transfers and other changes		-	-	-	-	1,776	(169)	1,607	(3,144)	(1,537)	206,131	204,594
Total changes in equity		-	-	**(4,321)**	**2,185**	-	**(169)**	**(2,305)**	**126,992**	**124,687**	**202,758**	**327,445**
Ending balance as of 12.31.2015	**26**	**1,282,793**	**52,595**	**(266,792)**	**(6,854)**	-	**989,234**	**715,588**	**1,411,684**	**3,462,660**	**202,758**	**3,665,418**

COLBÚN S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. General information

Colbún S.A. was formed by public deed dated April 30, 1986, signed in Santiago by Public Notary, Mr. Mario Baros G., and is registered in the Commercial Registry of the Talca Real Estate Register, on sheet 86, on May 30, 1986. The Company's taxpayer number is 96.505.760-9.

The Company is registered as a public company in the Securities Registry under 0295, as of September 1, 1986 and therefore is subject to the supervision of the Superintendency of Securities and Insurance ("SVS").

Colbún is an electric energy generating company, which as of December 31, 2016 is the ultimate parent company of the group (hereinafter, the "Company" or "Colbún"), composed of thirteen companies: Colbún S.A., and twelve subsidiaries.

The commercial domicile of Colbún is Avenida Apoquindo 4775, 11th Floor, Las Condes, Santiago, Chile.

The Company's line of business is generation, transportation and distribution of electricity and power capacity, as explained in note 2.

The Company is directly controlled by Matte Group that holds investments in the electrical, financial, forestry, real estate, telecommunications and port sectors. It is controlled indirectly by the following persons, in the manner and share stated below, who are all members of the Larraín Matte, Matte Capdevila and Matte Izquierdo families:

Patricia Matte Larraín, National I.D. No. 4.333.299-6 (6.49%) and her children, María Patricia Larraín Matte, National I.D. No. 9.000.338-0 (2.56%); María Magdalena Larraín Matte, National I.D. No. 6.376.977-0 (2.56%); Jorge Bernardo Larraín Matte, National I.D. No. 7.025.583-9 (2.56%), and Jorge Gabriel Larraín Matte, National I.D. No. 10.031.620-K (2.56%).

Eliodoro Matte Larraín, National I.D. No. 4.336.502-2 (7.21%) and his children, Eliodoro Matte Capdevila, National I.D. No. 13.921.597-4 (3.27%); Jorge Matte Capdevila, National I.D. No. 14.169.037-K (3.27%), and María del Pilar Matte Capdevila, National I.D. No. 15. 959.356-8 (3.27%).

Bernardo Matte Larraín, National I.D. No. 6.598.728-7 (7.79%) and his children, Bernardo Matte Izquierdo, National I.D. No. 15.637.711-2 (3.44%); Sofía Matte Izquierdo, National I.D. No. 16.095.796-4 (3.44%), and Francisco Matte Izquierdo, National I.D. No. 16.612.252-K (3.44%).

The aforementioned shareholders belong, by family relation, to the same business group and have a formal joint action agreement, by the group of legal entities indicated as follows, which own 49.96% of the stock capital of the Company:

Controller	Shares Numbers	Participation %
Minera Valparaíso S.A.	6,166,879,733	35.17
Forestal Cominco S.A.	2,454,688,263	14.00
Forestal Constructora y Comercial del Pacífico Sur S.A.	34,126,083	0.19
Forestal y Minera Canadilla S.A.	31,232,961	0.18
Forestal Cañada S.A.	22,308,320	0.13
Forestal Bureo S.A.	17,846,000	0.10
Inversiones Orinoco S.A.	17,846,000	0.10
Inversiones Coillanca Ltda.	16,473,762	0.09
Inmobiliaria Bureo S.A.	38,224	0.00
Total	**8,761,439,346**	**49.96**

2. Business description

Purpose of the Company

The Company's line of business is to produce, transport, distribute and supply energy and power capacity, for which it may acquire and exploit concessions and grants or use rights obtained. Likewise, it is empowered to transport, distribute, supply and commercialize natural gas for sale to industrial or generating processes. It can provide advisories in the field of engineering both domestically and abroad.

Business description in Chile

Main assets

Generating assets are composed of hydraulic power plants (reservoir and run-of-the-river) and of coal and diesel thermoelectric plants (combined cycle and open cycle), which altogether contribute maximum capacity of 3,278 MW to the Central Interconnected System (SIC) ("Sistema Interconectado Central").

Hydroelectric power plants cumulatively reach the capacity of 1,589 MW which are distributed in 16 power plants: Colbún, Machicura, San Ignacio, Chiburgo and San Clemente located in the Maule Region; Rucúe, Quilleco and Angostura in the Biobío Region; Carena in the Metropolitan Region; Los Quilos, Blanco, Juncal, Juncalito, Chacabuquito and Hornitos, in the Region of Valparaíso; and Canutillar, in the Los Lagos Region. Colbún, Machicura, Canutillar and Angostura power plants have their own reservoirs, whereas the remaining hydraulic facilities correspond to run-of-the-river power plants.

Thermal power plants cumulatively reach the capacity of 1,689 MW and are distributed in the Nehuenco Complex located in the Region of Valparaíso; the Candelaria Power Plant in the O'Higgins Region; the Antilhue Power Plant in the Los Rios Region; the Power Plants Los Pinos and Santa María I located in the Biobío Region.

Commercial policy

The Company commercial policy is to reach an appropriate balance between the level of electricity sales agreements and its own capacity in terms of generation methods, with the objective of obtaining an increase and stabilization in operating margins, with an acceptable level of risk in the event of droughts. This also requires maintaining an adequate mix of thermoelectric and hydroelectric generation.

As a consequence of this policy, the Company tries to ensure that spot market sales or purchases do not reach significant volumes since the prices on the market experience significant variations, which are mostly due to the hydrological conditions.

Main clients

The client´s portfolio is composed of regulated and unregulated clients:

Regulated clients with Tendered Long-term Node Price Contracts are: Enel Distribución Chile S.A., CGE Distribución S.A.; Saesa S.A., Frontel S.A., Compañía Eléctrica de Osorno S.A., Cooperativa Eléctrica de Curicó Ltda., Compañía Distribuidora de Energía Eléctrica Codiner Ltda., Cooperativa de Consumo de Energía Eléctrica Chillán Ltda., Cooperativa Eléctrica Los Ángeles Ltda., Cooperativa Regional Eléctrica Llanquihue Ltda., Cooperativa Eléctrica Paillaco Ltda., Cooperativa Eléctrica Charrúa Ltda., Compañia Nacional de Fuerza Electrica S.A. Empresa Eléctrica de Puente Alto Ltda., and Cooperativa Rural Eléctrica Río Bueno Ltda.

Unregulated clients are: Anglo American Sur S.A. for its Los Bronces/Las Tórtolas sites; unregulated clients associated with Enel Distribución Chile S.A. (Aguas Andinas S.A. La Farfana Plant) and Codelco for the divisions Salvador, Andina, Ventanas and El Teniente.

In addition, since September 1, 2011 and as a result of the financial insolvency of the company Campanario Generación S.A., the Superintendency of Electricity and Fuels (SEC) issued Exempt Resolution No. 2.288 dated August 26, 2011, amended by Exempt Resolution No. 239 dated February 9, 2012. The Resolution instructs all generating companies of the Central Interconnected System (SIC) to supply the consumption of regulated customers whose supply was awarded to Campanario Generación S.A., at the prices and conditions obtained in the respective tenders.

The electric market

The Chilean electric sector has a regulatory framework with almost 3 decades of operation. This has allowed the development of a very dynamic industry with a high level of participation from the private sector. The sector has been able to satisfy the growing energy demand, with an average growth rate of 3.3% in the last 10 years and with an increase in the GDP during the same period.

Chile has 4 interconnected systems and Colbún operates in the largest one, the Central Interconnected System (SIC), which extends from Taltal in the north up to the Large Island of Chiloé in the south. This zone's consumption represents 75% of the electricity demand in Chile. Colbún is the second electricity generator in terms of the SIC's installed capacity, with a market share of around 21%.

The tariff system distinguishes between different mechanisms for the short and long-term. As for the short-term tariffs, the sector is based on a marginal cost scheme, which in turn includes security criteria and efficiency in the allocation of resources. Marginal energy costs result from the operation of the electricity system in accordance with programming based on economic merit carried out by the Center for Economic Capacity Dispatch (CDEC) ("Centro de Despacho Económico de Carga") and which corresponds to the variable production cost of the most expensive unit that is operating at any given time. Power capacity remuneration is calculated on the basis of the sufficiency of the plants' power capacity, i.e. the level of reliable power that the plant can contribute to the system to supply peak demand, considering the uncertainty associated with the availability of their fuels, forced and scheduled unavailability of the units, and the unavailability of facilities that connect the unit to the transmission or distribution system. The price of power capacity is determined as an economic signal, representative of the investment in those more efficient units to absorb the power demand at peak hours for the supply system.

For long-term tariff purposes, generators can have 2 types of clients: regulated and unregulated.

In compliance with Law No. 20,018 (Short Law II) that came into force on January 1, 2010, in the regulated clients market, made up of distribution companies, generators sell energy at a price resulting from public competitive tenders.

Unregulated clients are those that have a connected power over 2,000 kW, and freely negotiate their prices with their suppliers.

In the spot market generators trade energy and power capacity surpluses or deficits among themselves at marginal costs (at an hourly level) that result from the net commercial position of their production capacity since dispatch orders are based on the economic and exogenous merits of each generator.

The regulation allows users with connected power between 500 KW and 2,000 KW, to opt for an unregulated or regulated price regime, with a minimum period of permanence of four years in each regime.

To inject its electricity to the system and supply energy and electric power capacity to its clients, Colbún uses its own and third party transmission facilities, in compliance with the existing electric legislation.

In this context, it is worth to mention that on July 20, 2016, was published in the Official Journal the New Law that establishes a new electricity transmission system and creates an Independent Coordinator of the National Electric System. The main changes included in this Law is that the entire remuneration of the transmission service will be charged to electricity demand. Furthermore, a new Coordinator being a legal entity was established to operate a single system called National Electric System, which will begin to exercise its functions gradually from January 1, 2017.

Description of the Business in Peru

Main Assets

Combined cycle natural gas 570 MW power plant located in Las Salinas, Chilca district, 64 kilometers south of Lima, owned by the subsidiary Fenix Power Perú. Its location is strategic because it is near the Camisea gas pipeline and Chilca electrical substation, allowing the power generation at efficient costs.

This plant began commercial operations in December 2014 and consists of two dual General Electric turbines (gas or diesel) generating 60% of the plant's power and a General Electric steam turbine generating the remaining 40%. Given its characteristics, this plant is a strategic asset of the Peruvian electricity market since it is the most efficient and the third largest of the power plants in the country.

Main clients

Regulated customers with long-term contracts: Group Distriluz, consisting of Electro Norte S.A., Electro Noreste S.A., Electrocentro S.A., COELVISAC, Hidrandina S.A., Grupo Luz del Sur, consisting of Edecañete S.A., Edelnor S.A.A., Electricidad del Oriente S.A., Electro Dunas S.A.A. and Luz del Sur S.A.A.

Customers with short-term contracts Celepsa S.A., Distriluz Group and GCZ Energía.

Unregulated clients: Pamolsa e Inversiones Centenario.

The electric market

Peru restructured the energy market in 1992 (Electricity Law 25,844) and in the last four years major reforms have been made to the regulatory framework for the sector.

The Peruvian electricity market has, as of December 2015, on the national level an installed capacity of approximately GW 10.3, of which GW 9.3 corresponds to the National Interconnected Electric System (Sistema Eléctrico Interconectado Nacional, or SEIN), of which approximately 60% is thermal capacity, 36% hydro and the remaining 4% is based on renewable energies. Therefore, natural gas plays a fundamental role in the thermal generation of the country given the substantial reserves and exploration wells it has, Camisea being the main oilfield with more than 15 trillion cubic feet.

The tariffication system distinguishes between two categories of customers: regulated users that consume less than 200 kW and unregulated customers (large private users with consumption above 2,500 kW). Customers with demand falling between 200 kW and 2,500 kW have the option of being regulated or unregulated customers.

The National Interconnected Electric System (SEIN) is administered by a Committee of Economic Operation System (COES), which is constituted as a private non-profit and is a legal public entity. COES consists of all SEIN agents (generators, transmitters, distributors and free users) and its decisions are binding for all agents. Its purpose is to coordinate the short, medium and long-term operation of SEIN preserving the security of the system and the best use of energy resources, as well as plan the development of SEIN transmission and administer the Short Term Market, the latter that is based on marginal costs.

In terms of consumption, annual expected energy demand for the 2016 is around TWh 48.3 with the demand concentrated by mining and residential sectors. In 2015, the demand of the system was TWh 44.5.

3. Summary of significant accounting policies

3.1 Accounting principles

These consolidated financial statements as of December 31, 2016 and 2015 have been prepared in accordance with the International Financial Reporting Standards (hereinafter “IFRS”), issued by the International Accounting Standards Board (hereinafter the “IASB”).

With respect to the Company's consolidated financial statements as of and for the year ended December 31, 2015, these were prepared in accordance with instructions and regulations for the preparation and presentation of financial information issued by the SVS, which are comprised of the IFRS and SVS regulations, including Circular Letter (Oficio Circular) No. 856 of October 2014, which instructed to register in the year 2014 against equity the differences in assets and liabilities for deferred taxes that arose as the direct effect of the first category tax rate increase introduced by Law 20.780, changing the framework for preparation and presentation of financial information adopted until that date, since the previous framework (IFRS) requires to be adopted in an integral, explicit and unreserved manner.

In the re-adoption of IFRS as of January 1, 2016, Colbún has applied these standards as if it had never stopped applying them in the preparation of its financial statements. Thus, none of the exemptions contemplated in IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been opted for.

These consolidated financial statements have been prepared the going concern basis and have been approved by its Board of Directors at the meeting held on January 31, 2017.

The following are the accounting principles adopted in the preparation of these consolidated financial statements. These policies have been defined in compliance with instructions and standards of preparation and presentation of financial information issued by the SVS as of December 31, 2016, applied in a uniform manner to all periods presented in these consolidated financial statements.

For the convenience of the reader, these consolidated financial statements and their accompanying notes have been translated from Spanish to English.

a. Basis of preparation and period covered - These consolidated financial statements of Colbún S.A. are composed of the statements of financial position as of December 31, 2016 and 2015, statements of comprehensive income for the periods ended as of December 31, 2016 and 2015, and the corresponding statements of changes in net equity and cash flows for the periods ended December 31, 2016 and 2015 and related notes.

The Company is responsible for the information contained in these consolidated financial statements.

The consolidated financial statements have been prepared using historical cost criteria, with the exception of assets and liabilities that are recorded at fair value (Note 3.h and 3.i).

a.1 Functional currency

The Company's functional currency is the U.S. dollar, as this is the primary currency that influences the sales prices of the goods and services in the Company's sector. All information in the present consolidated financial statements is presented in thousands of dollars (ThUS$), unless indicated otherwise.

b. Basis of consolidation – The consolidated financial statements include the financial statements of the Parent Company and companies controlled by the Company (subsidiaries).

Control is the basis for determining which entities are consolidated in the consolidated financial statements.

Subsidiaries are entities for which Colbún S.A. is exposed to, or has rights to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the case of the Company, in general, the power over its subsidiaries is derived from the possession of the majority of voting rights granted by the subsidiaries' capital instruments.

Subsidiaries are detailed as follows:

Subsidiary	Country	Functional currency	Taxpayer number	Percentage of intereses			
				12.31.2016			12.31.2015
				Direct	Indirect	Total	Total
Empresa Eléctrica Industrial S.A.	Chile	US Dollar	96.854.000-9	99.9999	-	99.9999	99.9999
Sociedad Hidroeléctrica Melocotón Ltda.	Chile	US Dollar	86.856.100-9	99.9000	0.1000	100	100
Río Tranquilo S.A.	Chile	US Dollar	76.293.900-2	99.9999	0.0001	100	100
Termoeléctrica Nehuenco S.A.	Chile	US Dollar	76.528.870-3	99.9999	0.0001	100	100
Termoeléctrica Antilhue S.A.	Chile	US Dollar	76.009.904-K	99.9998	-	99.9998	99.9998
Colbún Transmisión S.A.	Chile	US Dollar	76.218.856-2	99.9999	0.0001	100	100
Colbún Desarrollo SpA	Chile	US Dollar	76.442.095-0	100	-	100	100
Inversiones SUD SpA	Chile	US Dollar	76.455.649-6	100	-	100	100
Inversiones Andinas SpA	Chile	US Dollar	76.455.646-1	100	-	100	100
Colbún Perú S.A.	Peru	US Dollar	0-E	99.9996	0.0004	100	100
Inversiones Las Canteras S.A.	Peru	US Dollar	0-E	-	51.0000	51.0000	51.0000
Fenix Power Perú S.A.	Peru	US Dollar	0-E	-	51.0000	51.0000	51.0000

Variations in the consolidation perimeter

During the 2016 period, no variations in the consolidation perimeter have been produced.

In the year 2015, the following changes in the consolidation perimeter took place:
Colbún International Limited was dissolved on March 31, 2015.

Colbún Desarrollo SpA was incorporated on March 18, 2015 with a capital of ThUS$ 160. The company is a direct, wholly owned subsidiary of Colbún S.A.

On March 31, 2015, Inversiones SUD SpA was constituted with a capital of ThUS$ 10. On April 6, 2015, a share subscription contract was signed by which Colbún S.A. subscribed 100% of the shares. Therefore, as of said date, the company is a direct subsidiary of Colbún S.A.

On March 31, 2015, Inversiones Andinas SpA was constituted with a capital of ThUS$ 10. On April 6, 2015, a share subscription contract was signed by which Colbún S.A. subscribed 100% of the shares. Therefore, as of said date, the company is a direct subsidiary of Colbún S.A.

Colbún Perú S.A. is a closed stock corporation organized according to the laws of the Republic of Peru, acquired by Colbún Desarrollo SpA on September 28, 2015. Subsequently, at the Extraordinary Shareholders Meeting on December 15, 2015, Colbún S.A was incorporated, which currently owns 99.9996% of the shares, with Colbún Desarrollo SpA owning the 0.0004%.

Inversiones Las Canteras S.A. is a closed corporation organized under the laws of the Republic of Peru, incorporated on November 16, 2015 by Inversiones Hacienda Montalbán S.A. (now Colbún Perú S.A) and Juan Carlos Escudero Velano, who later transferred his share to the former. On December 18, 2015, a capital increase was carried out, in which Colbún Perú S.A. subscribed and paid 51% of the shares and incorporated as new partners Sigma Fondo de Inversión en Infraestructura with 13% of the shares and Blue Bolt A 2015 Limited with 36% of the shares.

Fenix Power Perú S.A. is a closed corporation organized under the laws of the Republic of Peru, incorporated on September 15, 2004, by Enrique Victor Macedo Abreu, Fernando Enrique Macedo Abreu, and Horace Alfred Sklar. Currently, Inversiones Las Canteras S.A. owns 100% of the shares.

All significant intercompany transactions and balances have been eliminated upon consolidation and non-controlling interests corresponding to third party interests in subsidiaries have been recognized and are incorporated as a separate component in Colbún's consolidated equity.

b.1 Business combinations and Goodwill – Business combinations are accounted for using the acquisition method. The cost of acquisition is the sum of the consideration transferred, valued at fair value at the date of acquisition, and the amount of non-controlling interest of the acquiree, if any. For each business combination, the Company determines whether to value the non-controlling interest of the acquire at fair value or the proportionate share of the net identifiable assets acquired. Related acquisition costs are recorded as incurred and are classified as other expenses by nature.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification based on contractual terms, economic conditions and other relevant conditions existing at the date of acquisition. This includes the separation of embedded derivatives from the main contracts of the acquiree.

If the business combination is achieved in stages, the shares previously held in the acquired assets are valued at fair value and gains or losses are recognized in the income statement.

Any contingent consideration that must be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent considerations classified as financial assets or liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement are measured at fair value and changes in fair value with changes in profit or loss recorded in other comprehensive income. In cases where contingent considerations are not within the scope of IAS 39, they are valued according to the corresponding IFRS. If the contingent consideration is classified as equity, it is not revalued and any subsequent settlement is recorded in equity.

Goodwill is the excess of the sum of the consideration transferred over the net value of the assets acquired and liabilities assumed. If the fair value of the net assets acquired exceeds the value of the consideration transferred, the Company makes a new assessment to ensure that it has correctly identified all the assets acquired and all liabilities assumed and reviews the procedures for assessing the amounts recognized at the acquisition date. If this re-assessment results in an excess of fair value of net assets acquired over the aggregate amount of the consideration transferred, the difference is recognized as profit in the income statement.

After initial recognition, goodwill is recorded at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the date of acquisition, to each cash-generating unit of the Company that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units. Once the accounting for business combination is completed (measurement period ends) goodwill is not amortized and the Company should periodically review its book value to record any impairment loss.

When goodwill forms part of a cash-generating unit and part of the operations of the unit are derecognized, the goodwill associated with these disposed operations is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation. The goodwill derecognized in these circumstances is valued on the basis of the relative values of the disposed operation and the portion of the cash-generating unit that is retained.

b.2 Non-Controlling Interests

The value of the interest of non-controlling shareholders in equity and in comprehensive income of subsidiaries is presented respectively in the items "Non-Controlling Interests" in the consolidated statement of financial position and "Profit (Loss) Attributable to Non-Controlling Interests" and "Total Comprehensive Income Attributable to Non-Controlling Interests" in the statement of comprehensive income.

b.3 Special purpose entities

On May 17, 2010, the Chilean Ministry of Justice granted legal personality to Colbún Foundation (Fundación Colbún) and approved its statutes, according to D.E. Nº3,024, hereinafter the "Foundation". The main objectives of the Foundation include:

Promoting, encouraging and supporting all types of work and activities aimed to perfect and improve the living standards of the sectors of the population with the greatest needs.

Research, development and spread of culture and arts. The Foundation can participate in the formation, organization, management and support of all entities, institutions, associations, companies and organizations, both public and private, which pursue similar goals.

The Foundation shall support all entities whose purpose is the dissemination, investigation, encouragement and development of culture and the arts.

The Foundation can finance the acquisition of real estate, equipment, furniture, laboratories, classrooms, museums and libraries, finance readjustment of infrastructure to support academic training. In addition, it can finance development of research, develop and implement instruction programs, provide development training or coaching and finance the edition and distribution of books, leaflets and any type of publication.

As of December 31, 2016, Colbún contributed ThUS$ 85 to the Foundation for the achievement of its objectives; this amount has been included in these consolidated financial statements.

c. Investments accounted by using the equity method – Corresponds to the participation in Companies over which Colbún exercises joint control with another Company or in which it has significant influence.

The equity method consists of recording the participation by the portion of net equity represented by the Company's interest over the adjusted capital of the investee.

If the resulting amount is negative, the participation would be recorded at zero unless there is a commitment from the Company to restore the subsidiary's equity situation, in which case the corresponding accrual is recorded.

Dividends received from these companies are recorded reducing the value of the interest and profits (losses) obtained by these companies corresponding to Colbún based on its interest are incorporated, net of their tax effects to the statement of comprehensive income account "Participation in the profits (losses) of associates and joint ventures accounted for using the equity method".
Companies accounted for using the equity method are detailed as follows:

Type of relation	Associated company	Country	Functional currency	Taxpayer number	Percentage of interest as of	
					12.31.2016	12.31.2015
					Direct	Direct
Associated	Electrogas S.A.	Chile	US Dollar	96.806.130-5	42.5	42.5
Joint venture	Centrales Hidroeléctricas de Aysén S.A.	Chile	Chilean peso	76.652.400-1	49.0	49.0
Joint venture	Transmisora Eléctrica de Quillota Ltda.	Chile	Chilean peso	77.017.930-0	50.0	50.0

c.1 Investments in associated entities

Associate entities are entities in which the Company has significant influence, but not control over the financial and operating policies. In general, it is assumed that there is significant influence when the Company holds between 20% and 50% of the other entity's voting rights.

c.2 Jointly controlled entities

Are entities in which the Company has joint control over their activities, established by means of contractual agreements and that unanimous consent is required for making strategic financial and operating decisions.

d. Effects of variations in foreign currency exchange rates – Transactions in local and foreign currency, other than the functional currency, are converted to the functional currency using exchange rates from the transaction dates.

Loss and profits in foreign currency resulting from settlement of these transactions and from the conversion of monetary assets and liabilities denominated in currencies other than the functional currency at closing exchange rates are recognized in the Statement of Comprehensive Income, except for when they are deferred in net equity as cash flow hedges and net investment hedges. Likewise, the conversion of accounts receivable or payable as of each closing date is performed with the closing exchange rate during consolidation. Valuation differences produced are recorded as "Exchange rate differences" in the statement of comprehensive income.

e. Basis of conversion – Assets and liabilities in Chilean pesos, Euros, Peruvian soles and UF (Unidades de Fomento – a Chilean peso-dominated inflation-indexed monetary unit) have been converted into US Dollars at the exchange rates as of the closing date of the financial statements, detailed as follows:

Equivalency per one US Dollar	12.31.2016	12.31.2015
Chilean Pesos	669.47	710.16
Euros	0.9488	0.9168
Peruvian Soles	3.3600	3.4130
UF	0.0254	0.0277

f. Property, plant and equipment - Property, plant and equipment items are those used in the generation of electricity services or for management purposes and are recorded at cost, net of accumulated depreciation and impairment, if applicable. The cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate as intended. This cost value includes – in addition to the purchase price of the assets – the following concepts, as permitted by IFRS:

- Financial cost of loans used to finance the work in progress; this is capitalized during the construction period.

- Employee expenses related directly to work in progress.

- Expansion, modernization or improvement costs that represent an increase in productivity, capacity or efficiency or an increase in the useful lives of the assets are capitalized as higher cost of the corresponding assets.

- Substitutions or renewals of complete elements that increase the useful lives of the asset or their economic capacity are recorded as higher value of property, plant and equipment components, with the consequent derecognition of the substituted or renovated elements.

- The costs of decommissioning, withdrawing or rehabilitating property, plant and equipment are based on the contractual obligation of each project (Note 24 c).

Work in progress is transferred to operational fixed assets once the testing period is completed, moment at which their depreciation begins.

Periodic maintenance expenses, conservation and repairs are accounted for in the statement of comprehensive income in the period in which they are incurred.

Property, plant and equipment items, net of their residual value are depreciated using the straight-line method distributing the cost of the different elements that compose the asset over their estimated technical useful lives (Note 5.a.(i)).

The residual value and useful lives of assets are reviewed and adjusted as necessary, as of each statement of financial position closing date.

g. Intangibles other than goodwill - Intangible assets acquired individually are initially measured at cost. In the case of intangible assets acquired in a business combination, it is the fair value on the acquisition date. After initial recognition, they are recognized at cost less cumulative amortization and cumulative impairment losses.

The Company assesses at initial recognition whether the useful life of intangible assets is definite or indefinite.

Assets with finite useful lives are amortized over their economic useful lives and impairment is assessed when there are indicators that they may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each year. The criteria for recognizing impairment losses on these assets and, where applicable, the recovery of impairment losses recorded are explained in Note 5 a.

Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are taken into consideration in order to change the period or method of amortization, if applicable, and are treated as a change in accounting estimate. The amortization expense of intangible assets with finite useful lives is recognized in the statement of comprehensive income.

h. Financial instruments

h.1. Financial assets – Financial assets are classified into the following categories:

a) Loans and accounts receivable.
b) Financial assets held to maturity.
c) Financial assets at fair value through profit or loss.
d) Available-for-sale financial assets.

Classification depends on the nature and purpose of financial assets and is determined at the initial recognition.

h.1.1 Loans and accounts receivable – They are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After their initial recognition, they are recorded at amortized cost, this being amount of the consideration received less accumulated amortization (calculated using effective interest rate method) and are classified as current assets, except for those expiring in more than 12 months from the date of the statement of financial position which are classified as non-current assets. Trade and other accounts receivables are classified as Loans and accounts receivable.

The effective interest rate method corresponds to the method for calculating the amortized cost of a financial asset and the allocation of interest income within the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash flows receivable (including all charges on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the financial asset.

h.1.2 Investments held to maturity – are investments in which the Company has the intention and capacity to hold the investment to maturity, and which are also accounted at their amortized cost. In general, investments in instruments such as fixed time deposits are recognized in this category.

h.1.3 Financial assets recorded at fair value through profit or loss – Financial assets recorded at fair value through profit or loss include the trading portfolio and financial assets that are managed and evaluated using the fair value criteria. Changes in value are recorded directly in the statement of comprehensive income when they occur. Short-term investments in mutual funds are classified in this category.

h.1.4 Available-for-sale investments – correspond to the rest of investments assigned specifically as available for sale or those that do not qualify for any of the previous three categories. These investments are recorded at their fair value when it is possible to determine this in a reliable manner.

Changes in fair value are recorded in other reserves through statement of other comprehensive income.

h.1.5 Derecognition financial assets – The Company only derecognizes financial assets when the rights to receive cash flows have been cancelled, annulled, expired or have been transferred.

h.1.6 Impairment of financial assets – Financial assets other than those valued at fair value through profit and loss are evaluated as of the closing date of each exercise to establish the presence of impairment indicators. Financial assets are impaired when there is objective evidence that the estimated future cash flows from the investment have been affected as a result of one or more events occurred after initial recognition.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor will declare bankruptcy or a financial reorganization and default or delay in payments, are considered indicators that the accounts receivable have been impaired. The value of the provision is the difference between the book value of the asset and the current value of estimated future cash flows, discounted at the effective interest rate. The loss is recognized in the statement of comprehensive income.

When an account receivable finally becomes uncollectable (all reasonable pre-judicial and judicial collection instances have been exhausted, based on the respective legal regulations) and their financial write-off is applicable, it is adjusted against the allowance established for impaired accounts receivable.

When the fair value of an asset is lower than its acquisition cost and there is objective evidence that the asset has suffered impairment that cannot be considered temporary, the difference is recorded directly in results for the year.

In the case of instruments classified as available for sale, to determine whether they have suffered impairment losses, the Company considers if there has been a significant or prolonged decrease in the fair value of the instrument below cost. Should there be any evidence of this type for financial assets available for sale, the accumulated loss determined as the difference between the cost of acquisition and the current fair value, less any impairment loss in this financial asset previously recognized in Other Comprehensive Income is eliminated from other reserves and recognized in the statement of Comprehensive Income. Impairment losses recognized in the statement of comprehensive income statement on equity instruments are not reversed.

It is not required to test financial assets at fair value through profit and loss for impairment.

Considering that, as of December 31, 2016, all the Company’s financial investments have been made in institutions of the highest credit quality and they mature in the short-term (less than 90 days), impairment tests indicate that there is no observable impairment.

h.2. Financial liabilities

h.2.1 Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or equity, depending on the substance of the contractual agreement.

h.2.2 Equity instruments – An equity instrument is any contract that manifests a residual interest in the entity’s assets once all its liabilities have been deducted. Equity instruments issued by Colbún S.A. are recorded when the compensation is received, net of direct issuance costs. To the moment, the parent Company has only issued single series shares.

h.2.3 Financial liabilities – Financial liabilities are classified either as financial liabilities at 'fair value through profit or loss' or as 'other financial liabilities'.

h.2.4 Financial liabilities at fair value through profit or loss – Financial liabilities are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss.

h.2.5 Other financial liabilities - Other financial liabilities, including loans, are initially valued for the effective amount received, net of transaction costs. Other financial liabilities are subsequently valued at amortized cost by using the effective interest rate method.

The effective interest rate method corresponds to the method of calculating the amortized cost of a financial liability and the allocation of interest expenses during the entire corresponding period. The effective interest rate corresponds to the rate that discounts exactly estimated future cash flows payable during the expected life of the financial liability or, when applicable, a shorter period when the associated liability has a prepayment option that is believed will be exercised.

h.2.6 Derecognition of financial liabilities – The Company only derecognizes, financial liabilities when the obligations are paid, void or expired.

i. Derivatives – Derivative contracts are signed by the Company to mitigate the risks of changes in interest rates, exchange rates and the price of fuels.

The effects that arise as a result of changes in the fair value of these instruments at the date of the consolidated financial statements are recorded in the statement of comprehensive income, to the extent that they have been designated as a hedging instrument for accounting purposes and all requirements to apply IFRS hedge accounting are met.

Hedges are classified in the following categories:

- Fair value hedges: hedge from exposure to changes in the fair value of recognized assets or liabilities or unrecognized firm commitments that can be attributed to a particular risk. For this type of hedge, both the value of the hedge instrument and the hedged element are recorded in the statement of comprehensive income netting both effects in the same heading.

- Cash flow hedges: hedge from exposure to changes in cash flows that (i) are attributed to a particular risk associated to a recognized asset or liability or to a highly probable foreseen transaction. Changes in the fair value of derivatives are recorded, for the part of those hedges that are effective, in the Total Equity reserve called "Cash Flow Hedge Hedges". The accumulated deficit or profit in that heading is transferred to the statement of comprehensive income to the extent that the underlying has an impact on the statement of comprehensive income due to the risk hedged, netting that effect in the same heading. Profits (losses) from the ineffective part of hedges are recorded directly in the statement of comprehensive income.

A hedge is considered highly effective when changes in the fair value or in cash flows of the underlying attributable to the risk hedged, are offset with changes in fair value or in effective cash flows of the hedge instrument, with effectiveness in the range of 80% - 125%. In the periods covered by these consolidated financial statements the Company designates certain derivatives as hedge instruments on highly probable foreseen transactions or exchange rate risk hedge instruments on firm commitments (cash flows hedge instruments).

In this respect, all derivatives have been designated as hedge accounting.

j. Inventory – Inventory includes gas, petroleum and coal stocks and inventory in warehouse (spare parts and materials) that are valued at cost, net of any obsolescence allowance, calculated at the end of each year. The cost is determined using the weighted average price method.

j.1 Criteria to calculate obsolescence allowance on spare parts – The estimation of the spare parts that are obsolete is based on an item-by-item basis and general analysis that is performed by the company's technical personnel, who assessed the rotation and technological obsolescence of the spare parts stock at each plant.

k. Statement of cash flows – the Company has determined the following considerations for the purpose of preparing the statement of cash flows:

The cash and cash equivalents include available cash, term deposits to credit entities and other short-term investments with high liquidity that mature in less than 3 months and which are subject to significantly low risk of changes in value. In the statement of financial position, bank overdrafts are classified as current liabilities.

Operating activities: correspond to the activities that constitute the Company's main source of ordinary income, as well as other activities that cannot be qualified as investing or financing.

Investing activities: correspond to activities involving acquisition, alienation or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

Financing activities: correspond to activities that produce changes in the size and composition of net equity and of liabilities of a financial segment.

l. Income taxes – the Company and its subsidiaries determine the taxable income and calculate their income taxes in compliance with the valid legal provisions for each period.

Deferred taxes arising from temporary differences and other events that create differences between the accounting and tax base of assets and liabilities are recorded in accordance with the standards established in IAS 12 "Income taxes".

Corporate taxes are recorded in the statement of comprehensive income or other comprehensive income of the consolidated statement of financial position depending on where the profits or losses that originate them were recorded. Differences between the accounting value of assets and liabilities and their tax base generate balances of deferred tax assets or liabilities that are calculated using the tax rates expected to be effective when the assets are realized and liabilities are canceled.

Variances produced during the period in deferred tax assets or liabilities are recorded in the profits account on the consolidated comprehensive income statement or in the categories of total equity in the statement of financial position, based on where profits or losses generated have been recorded.

Deferred tax assets are only recognized when it is expected that the Company will have sufficient future tax profits in order to recover deductions for temporary differences and use the tax losses.

Each accounting close deferred tax assets and liabilities are recorded in order to verify that they are still current, making timely corrections in accordance with the results of the mentioned analysis.

A level of accounts in the consolidated statement of financial position has been clearing assets and deferred tax liabilities of the Colbun´s and subsidiaries if, and only if, they relate to the tax corresponding to the same income tax administration, provided that the entity has a legally enforceable set off the current tax assets with current tax liabilities law.

m. Severance Benefits– Obligations recognized for the concept of termination benefits at any event arise as a consequence of agreements of a collective nature signed with the Company's employees, which establish the Company's commitment. The Company recognizes the cost of employee benefits in accordance with an actuarial calculation as required by IAS 19 "Employee Benefits", which includes variables such as life expectancy, salary increases, etc.

The amount of net actuarial liabilities accrued as of the end of the period is shown under the heading "Provisions for employee benefits" of non-current liabilities in the consolidated statement of financial position.

The Company recognizes all actuarial profits or losses arising from the valuation of defined benefits plans in other comprehensive income, whereas costs related to benefit plans are recorded under employee expenses in the statement of comprehensive income.

n. Provisions – obligations existing as of the date of the statement of financial position, arising as a consequence of past events which can probably affect the Company equity and whose amount and time of payment can be reliably estimated, are recorded as provisions for the current value of the most probable estimated amount that the Company will have to disburse to pay the obligation.

Provisions are reviewed periodically and are quantified considering the best information available as of the consolidated financial statements closing date.

n.1 Restructuring – A restructuring provision is recognized when the Company has approved a detailed and formal restructuring plan, and the restructure as such has already begun or has been publicly announced. Future operating costs are not provisioned.

n.2 Vacations – The expense related to the personnel vacations is recorded in the statement of comprehensive income when the employee acquires the right to it in compliance with IAS 19.

o. Recognition of revenue - revenue from the sale of electricity, in Chile and Peru, is valued at the fair value of the amount received or receivable and represents the amounts for the services rendered during normal commercial activities, reduced by any related tax or discount.

The following is a description of the revenue recognition policies for each type of client:

- Regulated clients - distribution companies: revenue from sale of energy and power capacity is recorded based on physical delivery, in conformity with its long-term contracts and at tendered prices.
- Unregulated clients – connected capacity greater than 2,000 KW in Chile and Peru between 200 KW and 2,500 KW: Revenue from sale of energy and power capacity for these clients is recorded based on physical delivery at the rates specified in the respective contracts.
- Spot market clients: Revenue from sale of energy and power capacity are recorded based on physical delivery to other generating companies, at the marginal cost. By law the spot market is organized and coordinated through the Dispatch Centers ("Centros de Despacho") (CDEC in Chile and COES in Peru), where the surplus and deficit of energy and power capacity is commercialized. Surplus energy and power capacity is recorded as income and deficits are recorded as expenses in the consolidated statement of comprehensive income.

When goods or services are exchanged for other goods or services of a similar nature and value, the exchange is not considered a transaction that generates income.

In addition, any tax received from clients and sent to the government authorities (for example VAT, sales tax or duties, etc.) is recorded on a net basis and therefore is excluded from revenue in the consolidated statement of comprehensive income.

p. Dividends - Article 79 of the Companies Law establishes that, unless there is another agreement adopted at an Ordinary Shareholders' Meeting, by unanimity of shares issued, publicly traded stock companies must distribute annually at least 30% of distributable net income for the year as cash dividends to their shareholders, prorated to their shares or in the proportion established in the bylaws, should there be preferred shares, except when accumulated deficit from previous years must be absorbed.

As of each year-end, the amount of the obligation with shareholders is determined, net of dividends that have been approved during the year and are recorded under "Trade and Other Accounts Payable, current" or under "Accounts Payable to Related Entities", as applicable, with a charge to Equity.

The provisional and final dividends are recorded as a decrease in equity at the moment of their approval by the competent body, which, in the first case, is generally the Company's Board of Directors, or in the second case the Ordinary Shareholders' Meeting.

q. Environment – In the event of environmental liabilities, they are recorded on the basis of the current interpretation of environmental laws and regulations, when it is probable that a real obligation will be produced and the amount of that liability can be reliably calculated (see note 24.c).

Investments in infrastructure destined to complying with environmental requirements are capitalized following the general accounting criteria for property, plant and equipment.

r. Classification of balances as current and non-current - In the consolidated statement of financial position, balances are classified based on their expiration, i.e. as current those expiring in twelve months or less and as non-current those expiring in excess of that period.

s. Leases –The Company applies IFRIC 4 to assess whether an agreement is or contains a lease. Leases, in which substantially all risks and benefits inherent to ownership are transferred, are classified as finance leases. All other leases are classified as operating leases.

Financial leases in which Colbún S.A. and subsidiaries act as lessee are recognized at the beginning of the contract. They record an asset based on its nature and a liability for the same amount and equal to the fair value of the leased asset or else at the present value of minimum payment of the lease should be lower. Subsequently, minimum lease payments are divided between the finance cost and reduction of the debt. The finance cost is recognized as an expense and distributed over the term of the lease in order to obtain a constant interest rate in each year on the balance of the debt pending amortization. The asset is depreciated under the same terms as the rest of similar depreciable assets, should there be reasonable certainty that the lessee will acquire ownership of the asset at the end of the lease. If such certainty does not exist, the asset is depreciated over the useful life of the asset or over the term of the lease, whichever is shorter.

Operating lease installments are recognized as an expense using the straight-line method over the term of the lease, unless another systematic distribution basis is more representative.

t. Operations with related parties - Operations between the Parent Company and its dependent subsidiaries or between subsidiaries, known as related parties, are part of the Company's regular transactions in terms of its purpose and conditions, and are eliminated in the consolidation process. The identification of the relationship between the Parent Company, Subsidiary, Joint Ventures and Associates is described in note 3.1.b and c.

All related party transactions are carried out under market terms and conditions.

u. Government grants - Government subsidies are measured at the fair value of the asset received or to be received. A subsidy without specific future performance conditions is recognized as income when the amounts obtained from the subsidy are received. A subsidy that imposes specific future performance conditions is recognized as income when such conditions are fulfilled.

Government subsidies are presented separately from the assets to which they are related. Government subsidies recognized as income are presented separately in the notes. Government subsidies received before the income criteria are fulfilled are presented as a separate liability in the statement of financial position.

No amount whatsoever is recognized for government assistance to which fair value cannot be assigned. However, if it exists, the entity must disclose information regarding that assistance.

v. Interest Costs - Interest costs that are directly attributable to the acquisition, construction or production of an asset and whose start-up or sale necessarily requires a prolonged period of time are capitalized as part of the cost of the asset. The Company has established a policy to capitalize interest based on the phase of construction. All other interest costs are recognized as expenses in the period incurred. Financial expenses include interest and other costs incurred by the Company in relation with financing obtained.

w. Reclassifications – For comparison purposes, the following reclassifications were made as of December 31, 2015: i) from non-current assets line "Other financial assets, non-current" to line "Trade receivables and other accounts receivable" for the concept of global sales tax (IGV) an amount of US$ 17.7 million; ii) from current assets line "Trade receivables and other accounts receivable" to line "Cash and cash equivalents" an amount of US$ 19.4 million (see note 8.a); iii) from current assets line "Inventories" to non-current assets line "Property, plant and equipment" an amount of US$ 58,1 million (see note 13); iv) from current assets line "Other non-financial assets, current" to line "Income tax assets" US$ 106 thousand for the concept of tax credit for donations.

3.2 New accounting pronouncements

The following new Standards and Interpretations have been issued, but their application date is not yet effective:

New IFRS		Date of mandatory application
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019

<u>IFRS 9 "Financial Instruments"</u>

In July 2014, it was issued the final version of IFRS 9 Financial Instruments, gathering all phases of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard includes new requirements based on principles for the classification and measurement, introduces a "more forward-looking" model of expected accounting impairment substantially reformed and focus hedge accounting for credit losses. The institutions also have the option of applying in advance accounting gains and losses from changes in fair value related to the "own credit risk" to financial liabilities designated at fair value through profit or loss, without using the other requirements of IFRS 9.The standard is mandatory for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

<u>IFRS 15 "Revenue from Contracts with Customers"</u>

It is a new standard that is applicable to all contracts with customers except leases, financial instruments and insurance contracts. It is a joint project with the FASB to eliminate differences in the recognition of income between IFRS and US-GAAP. This new standard is intended to improve the inconsistencies and weaknesses of IAS 18 and provides a model that will facilitate the comparability of companies from different industries and regions. It provides a new model for recognizing revenue and more detailed requirements for contracts with multiple elements. It also requires more detailed disclosures. Application is effective starting on January 1, 2017 and early adoption is permitted.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The Interpretation addresses how to determine the date of transaction in order to establish the exchange rate to be used in the initial recognition of assets, expenses or related revenue (or the corresponding part thereof), in the de-recognition of non-monetary assets or non-monetary liabilities arising from the payment or charge of advance consideration in foreign currency. For these purposes, the date of transaction corresponds to the moment when an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or collection of advance consideration. If there are multiple advance payments or charges, the entity shall determine a date of transaction for each payment or collection of advance consideration.

This Interpretation shall apply for annual periods beginning on or after January 1, 2018. Its early application is permitted. If an entity applies this Interpretation to previous periods, it shall disclose this fact.

IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 establishes the definition of a lease contract and specifies the accounting treatment of assets and liabilities arising from these contracts from the point of view of the lessor and lessee. The new standard does not differ significantly from the norm that precedes it, IAS 17 Leases, regarding the accounting treatment from the point of view of the lessor. However, from the point of view of the leasee, the new standard requires the recognition of assets and liabilities for most leases. IFRS 16 is mandatory for annual periods beginning on or after January 1, 2019. Early application is permitted if it is adopted in conjunction with IFRS 15 Revenue from Contracts with Customers.

Amendments to IFRS		Date of mandatory application
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 7	Statement of Cash Flows	January 1, 2017
IAS 12	Income Taxes	January 1, 2017
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018
IFRS 10	Consolidated Financial Statements	To be determined

IFRS 12 “Disclosure of Interests in Other Entities”

The modifications clarify the disclosure requirements of IFRS 12, applicable to an entity’s participation in a subsidiary, joint venture or associate classified as held for sale. The modifications shall be effective as of January 1, 2017, and they shall be applied retrospectively.

IAS 7 “Statement of Cash Flows”

Amendments to IAS 7 Statement of Cash Flows, issued in January 2016, as a part of the Disclosure Initiative project, require that an entity disclose information that allows users of financial statements to assess the changes in obligations derived from financing activities, including both the changes from the cash flows and the changes that are not in cash. The application of these amendments is mandatory for annual periods beginning on January 1, 2017. Early application is permitted.

IAS 12 "Income Taxes"

These amendments issued by the IASB in January 2016 clarify how to record deferred tax assets corresponding to debt instruments measured at fair value. The application of these amendments is mandatory for annual periods beginning on January 1, 2017. Early application is permitted.

IAS 28 "Investments in Associates and Joint Ventures", IFRS 10 "Consolidated Financial Statements"

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) address a recognized inconsistency between the requirements of IFRS 10 and IAS 28 (2011) in the treatment of the sale or supply of goods between an investor and its associate or joint venture. The amendments issued in September 2014, provides that when the transaction involves a business (both when in a subsidiary or not) a full gain or loss is recognized. A partial gain or loss is recognized if the transaction involves assets that do not constitute a business, even when the assets are in a subsidiary. The amendments are mandatory for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

The new IFRS standards, interpretations and modifications that came into effect beginning January 1, 2016, were not applicable to the Company or their application did not have significant effects. Management is evaluating the impact of applying IFRS 9, IFRS 15 and IFRS 16, however, it is not possible to provide a reasonable estimate of the effects that these standards will have until management completes its detailed analysis.

3.3 Responsibility for information and estimates made

The information contained in the present consolidated financial statements is the responsibility of the Company's Board of Directors, which expressly states that it has applied all IFRS issued by the "IASB", and the instructions and specific rules issued by the SVS.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements and the amount of income and expenses during the reported year. These estimates are based on management's best knowledge of the amounts, events or actions reported.

In the preparation of the consolidated financial statements estimates such as the following have been used:

- Useful lives and residual values of property, plant and equipment and intangibles (see notes 3.1.f and 5.a)
- Asset valuation to determine the existence of impairment losses (see Note 5.b).
- Hypothesis used to calculate the fair value of financial instruments (see Note 3.1.h).
- Hypothesis used in the actuarial calculation of liabilities and obligations with employees (see Note 3.1.m).
- Probability of occurrence and the amount of uncertain or contingent liabilities (see Note 3.1.n).
- The taxable income of the different subsidiaries of the Company, which will be declared to the respective tax authorities in the future and have been the basis for the recording of different balances related to income taxes in these consolidated financial statements (see Note 3.1.l)

Although these estimates have been prepared using the best information available on the date of issuance of these consolidated financial statements, it is possible that events that might take place in the future could result in modifications (upward or downward) in future periods, which would be applied prospectively when the change becomes known, recognizing the effects of the change in estimate in the corresponding future consolidated financial statements in accordance with IAS 8.

4. Financial Risk Management

4.1 Risk management policy

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

Risks 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 measuring risk and periodicity of risk analysis are policies established by the Company’s Board of Directors.

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

4.2 Risk factors

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

4.2.1 Electrical business risks

a. Hydrological risk

In Chile, 48% of Colbún’s power plants correspond to hydro facilities that 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 operating its back-up thermal plants or even buying the energy on the spot market.

This situation might rise 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 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.

In Peru, Colbún owns a combined-cycle power station 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. 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 by contracts with selling prices that are also indexed to changes in fuel prices. 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 offering 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.

c. Fuel supply risks

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

Regarding natural gas supply, in Chile Colbún has medium-term contracts with ENAP and Metrogas and 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.

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

d. Equipment failure and maintenance risks

The availability and reliability of Colbún’s generating units and transmission facilities are essential to the Company’s business. This is why Colbún has a policy to conduct regular maintenance on its equipment according to the recommendations of its suppliers and to maintain a policy to cover such risks through insurances for its physical assets, including coverage for physical damage and/or for loss of profit.

e. Project construction risks

The development of new generation and transmission projects can be affected by factors such as delays in obtaining environmental approvals, regulatory framework changes, prosecutions, increases in 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, we incorporate clearance levels with respect to the time and cost of construction estimates. 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 disaster, both with standard deductibles for this type of insurance.

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

Colbún also has a policy to integrate with excellence the social and environmental dimensions of its projects. Meanwhile, 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.

f. 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 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.

In Chile, the energy agenda promoted by the government considers different regulatory changes, which, depending on the form in which they are 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 on 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 as follows: (i) definition of the regulations necessary for the proper implementation of the recently enacted Law on Electricity Transmission, (ii) the definition of the long-term Energy Policy for the country (2050) which is already in its diffusion stage, and (iii) Technical Standard for planning and scheduling the operation of units using natural gas (LNG), among others.

In Peru, the authority is conducting studies of regulatory changes for the electricity sector. Some of the matters being considered are related to: (i) Generation / Wholesale Market (to include in the short-term market the large unregulated clients), (ii) Duality (new methodology to control 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 the indications provided by the authorities, both in Chile and Peru.

g. Risk of change in 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 Chile a lower growth in demand, a drop in fuel prices and the entrance into operation of solar and wind renewable energy projects with variable dispatch resulted in a decrease in the short-term price of energy (marginal cost) during the year 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 that the irruption of new technologies - solar and wind fundamentally - with a significant reduction of costs due to massive expansion. 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 impact in the long-term values of energy.

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).

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.

4.2.2 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.

a. Foreign Exchange rate risk

The exchange rate risk is mainly due to currency fluctuations that come from two sources. The first source of exposure comes from cash flows corresponding to revenue, 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 dollar is limited because virtually all sales of the Company are denominated directly in or indexed to dollar. Similarly, the main costs are related to the purchases of diesel, natural gas and coal, which incorporate pricing formulas based on international prices denominated in dollars. Regarding disbursements of investment projects, the Company incorporates indexers in its contracts with suppliers and resorts to the use of derivatives to fix the expenses in currencies other than dollar.

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 dollar. 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.

b. 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:

Interest rate	12.31.2016	12.31.2015
Fixed	97%	100%
Floating	3%	0%
Total	**100%**	**100%**

As of December 31, 2016, a 97% of the financial debt of the Company hears fixed interest rates, while the remaining 3% corresponds to a portion of Fenix's loan.

c. Credit risk

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

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

As of December 31, 2016, cash surpluses are invested in mutual funds (of subsidiaries of banks) and in fixed-time deposits in local and international banks. The former correspond to short-term mutual funds with maturities of less than 90 days, and known as "money market".

The information about the customers' credit risk rating is disclosed in the Note 11.b of these financial statements.

d. 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 December 31, 2016, Colbún has cash in excess for an amount of approximately US$ 600 million, invested in time deposits with a maturity of less than 60 days and short-term mutual funds with maturity lower than 90 days. The Company also has as additional liquidity sources available to date: (i) two lines of bonds 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$80.7 million in interests and amortization of principal. This last credit, with the remaining interest and lower amortization, is expected to be covered with the Company's own cash flow generation.

As of December 31, 2016, Colbún has a national risk rating of A+ by Fitch Ratings and AA- by Humphreys, both with stable perspectives. At the international level, the Company's rating is BBB by Fitch Ratings and BBB- by Standard & Poor's (S&P), both with stable perspectives.

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

The information about contractual maturities of principal financial liabilities is disclosed in the Note 22.c.1 of these financial statements.

4.3 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 indexations 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 equipment failure or in the projects construction, the Company has insurance coverage for damage to its physical property, business interruption damages and loss of profit for 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 exposure exists.

Exchange rate risk is considered limited because the main cash flows of the Company (revenues, costs and projects disbursements) are directly denominated in or indexed to dollar. Exposure to 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 dollar. Based on the above, as of December 31, 2016 the Company's exposure to this risk translates into a potential impact of approximately US$ 2.7 million for the concept of exchange rate difference, in quarterly terms, based on an analysis of sensitivity at 95% confidence.

The risk of interest rate variation is largely mitigated, since 97% of the financial debt is contracted at a fixed rate (directly and using derivatives). As a result, as of December 31, 2016, the Company's exposure to the variable interest rate is limited, resulting in a potential impact of approximately US$ 0.6 million in quarterly terms, based on a sensitivity analysis at 95% confidence.

Credit risk is limited because Colbún works 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 investment grade rating. At the end of the period, the financial institution with the largest share of cash surplus, concentrates 20%. With respect to existing derivatives, the Company's international counterparties have a risk equivalent to BBB+ or higher and domestic counterparties are rated BBB+ or higher. It is noteworthy that in derivatives no counterparty concentrates more than 21% in terms of notional.

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 access to additional sources of funding, including committed and uncommitted credit lines.

5. Critical accounting criteria

Management must necessarily use its judgment and make estimates that have a significant effect on the figures presented in consolidated financial statements. Changes in assumptions and estimates might have a significant impact on the financial statements. Critical estimates and judgments used by management to prepare these consolidated financial statements are detailed as follows:

a. Calculation of depreciation, amortization and estimate of associated useful lives:

Property, plant and equipment and intangible assets other than goodwill with a defined useful life are depreciated and amortized linearly based on their estimated useful lives. Useful lives have been estimated and determined considering technical aspects, the nature of the assets and their condition.

(i) Useful lives of property, plant and equipment:

The useful lives of the main property, plant and equipment items are detailed as follows:

Classes of property, plant & equipment	Range of estimated useful lives	Average remaining useful life
Buildings and infrastructure	30 - 50	30
Machinery and equipment	20 - 50	25
Transport equipment	5 - 15	7
Office equipment	5 - 30	28
IT equipment	3 - 10	5
Leases	20	16
Other property, plant & equipment	30 - 50	32

The following provides additional detailed subdivided by type of plant:

Classes of plants	Range of estimated useful lives	Average remaining useful life
Generating facilities		
Hydraulic power plants		
Civil works	30 - 50	33
Electromechanical equipment	20 - 50	37
Thermoelectric power plants		
Civil works	20 - 50	26
Electromechanical equipment	20 - 35	21

(ii) Useful lives of intangible assets other than goodwill (with definite useful lives)

Intangible assets of a contractual relationship with customers relate mainly to energy supply contracts acquired.

Other material intangible assets correspond to software, rights, concessions and other easements with finite useful lives. These assets are amortized over their expected useful lives.

Intangible Assets	Interval of years estimated useful life
Customers contractual relationships	2 - 15
Software	1 - 15
Rights and concessions	1 - 10

At the close of each fiscal year, it is assessed whether there is any indication that an asset might have suffered an impairment loss. If there is, an estimate is made of the recoverable amount of the asset to determine, if applicable, the amount of impairment.

(iii) Intangible assets with indefinite useful lives

The Company analyzed the useful lives of intangible assets, that have indefinite useful lives (e.g. easements and water rights, among other items), concluding that there is no foreseeable limit to the period, in which the asset will generate net cash inflows. The useful lives of those assets was determined to be indefinite.

b. Impairment of non-financial assets (tangible and intangible assets, excluding goodwill)

As of each year end or on the dates considered necessary, the value of assets is analyzed to determine whether there is any indication that those assets have suffered an impairment loss. Should there be any indicator; an estimate of the recoverable amount of that asset is made to determine the necessary write-down. In the case of identifiable assets that do not generate cash flows in an independent manner, the recoverability is tested at the level of the Cash Generating Unit ("CGU") to which the asset belongs. For this purpose, it has been determined that all assets located in Chile make up a single cash-generating unit (CGU), while assets located in Peru make another CGU.

In the case of CGUs to which intangible assets with indefinite useful lives have been allocated, the analysis of their recoverability is performed systematically as of each year-end or under circumstances considered necessary to perform such analysis, except when it is considered that the most recent calculations of the recoverable amount, made in the previous year, can be used in the current year, provided that all of the following criteria is met:

(a) the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;

(b) the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and

(c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

The recoverable amount is the higher between the fair value less the cost necessary for its sale and value in use, understanding this to be the current value of estimated future cash flows generated by the asset or CGU. For the calculation of the recoverable value of tangible and intangible assets, the value in use is the criteria used by the Company.

In order to estimate value in use, the Company prepares future cash flows provisions before taxes using the most recent budgets approved by the Company's management. These budgets incorporate the best estimates available of income and costs of CGU using the best information available as of that date, past experience and future expectations.

These cash flows are discounted to calculate their current value at a rate, before taxes, which covers the cost of capital of the business in which it operates. To calculate it, current cost of money and risk premiums used in a general manner for the business are taken into account.

Should the recoverable amount be less than the net book value of the asset, the corresponding impairment loss provision is recorded for the difference with a charge to the "depreciation and amortization expenses" account in the statement of income.

Impairment losses, recognized on an asset in previous years, are reverted when there is a change in the estimates of the recoverable amount increasing the value of the asset with a credit to income with the limit of the book value that the asset would have had, had no write-down been recognized.

As of December 31, 2016, the Company considers that there are no significant impairment indicators of fixed and intangible assets as well as intangibles with indefinite useful life.

c. Fair value of derivatives and other financial instruments

As described in Note 3.1, Management uses its criteria to select an appropriate valuation technique for financial instruments that are not traded in an active market using valuation techniques commonly used by market professionals. In the case of derivative financial instruments, assumptions are formed on the basis of quoted market rates, adjusted in accordance with the specific characteristics of the instrument. Other financial instruments are valued using an analysis of the restatement of cash flows based on support assumptions, whenever possible, by observable market prices or rates.

6. Business combinations

On December 18, 2015, Inversiones Las Canteras S.A., a subsidiary of the Company, acquired 100% of the shares with voting rights of Fenix Power Perú S.A. ("Fenix"), a closed corporation organized under the laws of the Republic of Peru.

Fenix has a 570 MW thermoelectric generation plant located in the town of Las Salinas, south of Lima, in the Chilca district of Cañete province. The construction of the power plant was completed in 2014 and it began commercial operations in December 2014.

According to IFRS 3, the measurement period is that after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. This period shall not exceed more than one year from the date of acquisition.

Considering the nature of Fenix business and assets, the measurement of the assets acquired and liabilities assumed was made using the fair value criteria and there were no significant differences with the carrying amounts of such assets and liabilities. Regarding property, plant and equipment, Fenix's plant has little time in operation (about 2 years), which present no significant differences with respect to the book value.

Intangible assets, mainly customer contracts, are valued by focusing on Excess Earnings, which is based on the assumption that economic returns, beyond those attributable to tangible assets, are derived from certain intangible assets, discounted in the case of Fenix Power Perú S.A. at an approximate rate between 7% and 8%.

Assets acquired and liabilities assumed

The fair values of the identifiable assets acquired and liabilities assumed from Fenix Power Perú S.A. at the date of acquisition were:

Assets acquired and liabilities assumed	12.31.2015	Adjustment	12.31.2016
	Fair value recorded in the acquisition	PPA	Fair value Ajust
	ThUS$	ThUS$	ThUS$
Assets			
Cash and cash equivalent (see Note 8.c)	11,378	-	11,378
Trade receivables and other receivable accounts	29,464	-	29,464
Other non financial assets, current	14,424	-	14,424
Inventories	3,896	-	3,896
Other non financial assets, non current	17,035	-	17,035
Property, plant and equipment	735,538	-	735,538
Intangible assets other than goodwill	3,541	-	3,541
Deferred tax assets	2,743	-	2,743
Total Assets	**818,019**	**-**	**818,019**
Liabilities			
Other financial liabilities, current	15,684	-	15,684
Trade payables and other payables, current	3,184	-	3,184
Accounts payable to related entities	224,095	-	224,095
Other provisions	2,232	-	2,232
Other liabilities non financial, non current	361,929	-	361,929
Trade payables and other payables, non current	25,186	-	25,186
Provisions for employee benefits, non current	890	-	890
Other non financial, non current liabilities	6,046	-	6,046
Total Liabilities	**639,246**	**-**	**639,246**
Total net identifiable assets at fair value	**178,773**	**-**	**178,773**
Gain from business combination	(1,672)	5,672	4,000
Consideration transferred	**177,101**	**5,672**	**182,773**

As of December 31, 2016, and within the period of initial measurement, a goodwill of US$ 4.0 million has been recognized, which originates from an additional payment resulting from price adjustment provisions of the purchase agreement for the acquisition of Fénix Power Perú S.A. As of 31 December 2015, a purchase bargain profit of US$ 1.6 million was recognized, that in these consolidated financial statements was offset with the additional payment (goodwill) mentioned.

As the result of this adjustment, the following effects were included in the financial statements as of December 31, 2015:

Impact in heritage (increase/decrease) in net equity	**December 31, 2015** ThUS$
Goodwill	4,000
Total Assets	**4,000**
Payables trade and other payables, current	5,672
Total liabilities	**5,672**
Retained earnings	(853)
Non-controlling interests	(819)
Net impact on heritage	**(1,672)**

Impact in Statement of comprehensive income by nature (increase/decrease) in result	**December 31, 2015** MUS$
Retained earnings	(853)
Non-controlling interests	(819)
Net impact on heritage	**(1,672)**
Profit attributable to:	
Profit attributable to owners of the parent	**(853)**
Profit attributable to non-controlling interests	**(819)**

The change has no impact in the statement of cash flows.

7. Operations by segments

Colbún's principal business is the generation and sale of electric energy. The Company owns assets that produce the energy, which is sold to various clients, which either have supply contracts or do not have contracts, in accordance with what is stipulated in regulations currently in force.

Colbún's management control system analyzes the business from a perspective of a mix of hydraulic /thermoelectric assets that produce electric energy to serve a portfolio of customers. Consequently, the allocation of resources and performance measurements will be analyzed in aggregate terms.

Notwithstanding the above, the internal management considers classification criteria for assets and clients, for merely descriptive purposes but at no time the business segmentation according to the criteria established by IAS 8.

Some of these classification criteria are, for example, production technology: hydroelectric plants (which in turn can be run-of-the-river or reservoir type) and thermoelectric plants (which in their turn can be coal, combined cycle, open cycle, etc.). Customers, in turn, are classified following concepts contained in the Chilean electric regulation into free clients, regulated clients and the spot market, and regulated clients and unregulated clients according to the Peruvian electric regulations (see note 2).

In general, there is no direct relation between each of the generator plants and the supply contracts, but these are established according to the total capacity of Colbún, always supplied by the Company's and third parties' most efficient generation, purchasing energy in the spot market from other generation companies. One exception is the case of Codelco in Chile, which has two supply contracts signed with the Company. One of these contracts is covered with Colbún's entire power generating matrix and the other's supply is preferentially based on the production of Santa Maria I.

Colbún is part of the SIC dispatch system in Chile and SEIN dispatch system in Peru; therefore the generation of each of the plants in this system is defined by this dispatch order, in accordance with the definition of economic optimum in the case of both systems.

Electrical regulation in both systems contemplates a conceptual distinction between energy and power capacity, not because they are different physical elements, but rather for the purpose of an economically efficient pricing. Hence, the energy is valued in monetary units per unit of energy (KWh, MWh, etc.) and power capacity is valued in monetary units per unit of power – unit of time (KW-month).

Since Colbún S.A. operates in two electrical systems, in the Central Interconnected System in Chile, and the National Interconnected System in Peru, for the purposes of applying IFRS 8, the information by segment is structured according to the geographic distribution by country.

The following table presents information by geographic area:

Disclosure about segments of operation	12.31.2016					
	Country		Segments that must be reported	Operating segments	Eliminations	Total of the entity by segments of operation
	Chile	Peru				
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Statement of financial situation						
Current Assets						
Cash and cash equivalent	571,111	22,609	593,720	593,720	-	593,720
Other financial assets, current	74,285	-	74,285	74,285	-	74,285
Other non financial assets, current	26,211	979	27,190	27,190	-	27,190
Trade receivables and other receivable accounts	135,075	64,084	199,159	199,159	-	199,159
Trade receivables to related entities, current	2,792	-	2,792	2,792	-	2,792
Inventories	40,282	4,832	45,114	45,114	-	45,114
Tax assets	928	4,436	5,364	5,364	-	5,364
Total current assets	**850,684**	**96,940**	**947,624**	**947,624**	-	**947,624**
Non-current assets						
Other financial assets, non current	224	5,153	5,377	5,377	-	5,377
Other non financial assets, non current	41,711	4,087	45,798	45,798	-	45,798
Accounts receivable to related entities, non current	263	-	263	263	-	263
Investments accounted for using the equity method	260,946	-	260,946	260,946	(222,370)	38,576
Intangible assets other than goodwill	134,266	3,863	138,129	138,129	-	138,129
Goodwill	-	4,000	4,000	4,000	-	4,000
Properties, plant and equipment	4,913,177	722,650	5,635,827	5,635,827	-	5,635,827
Deferred tax assets	4,345	2,659	7,004	7,004	-	7,004
Total non-current assets	**5,354,932**	**742,412**	**6,097,344**	**6,097,344**	**(222,370)**	**5,874,974**
TOTAL ASSETS	**6,205,616**	**839,352**	**7,044,968**	**7,044,968**	**(222,370)**	**6,822,598**
Current Liabilities						
Other financial, current liabilities	49,099	3,945	53,044	53,044	-	53,044
Payables trade and other payables, current	188,319	19,626	207,945	207,945	-	207,945
Accounts payable to related entities	32,339	-	32,339	32,339	-	32,339
Other provisions	5,161	2,232	7,393	7,393	-	7,393
Tax liabilities	32,493	112	32,605	32,605	-	32,605
Provisions for employee benefits, current	13,391	1,605	14,996	14,996	-	14,996
Other non financial liabilities, current	11,260	473	11,733	11,733	-	11,733
Total current liabilities	**332,062**	**27,993**	**360,055**	**360,055**	-	**360,055**
Non-current liabilities						
Other financial liabilities, non-current	1,298,049	358,939	1,656,988	1,656,988	-	1,656,988
Payables trade and other payables, non-current liabilities	3,217	15,743	18,960	18,960	-	18,960
Deferred tax liabilities.	956,988	860	957,848	957,848	-	957,848
Provisions for employee benefits, non-current	27,508	-	27,508	27,508	-	27,508
Other non financial, non-current liabilities	11,407	-	11,407	11,407	-	11,407
Total non-current liabilities	**2,297,169**	**375,542**	**2,672,711**	**2,672,711**	-	**2,672,711**
Equity						
Issued capital	1,282,793	219,635	1,502,428	1,502,428	(219,635)	1,282,793
Retained earnings	1,510,514	882	1,511,396	1,511,396	(882)	1,510,514
Share premiums	52,595	-	52,595	52,595	-	52,595
Other reserves	730,483	1,853	732,336	732,336	(1,853)	730,483
Net Equity attributable to equity holders of the parent	**3,576,385**	**222,370**	**3,798,755**	**3,798,755**	**(222,370)**	**3,576,385**
Not controlled shares	-	213,447	213,447	213,447	-	213,447
Total net equity	**3,576,385**	**435,817**	**4,012,202**	**4,012,202**	**(222,370)**	**3,789,832**
TOTAL LIABILITIES AND NET EQUITY	**6,205,616**	**839,352**	**7,044,968**	**7,044,968**	**(222,370)**	**6,822,598**

Continued

Disclosure about segments of operation	12.31.2016					
	Country		Segments that must be reported	Operating segments	Eliminations	Total of the entity by segments of operation
	Chile	Peru				
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Statement of comprehensive result						
Net income from ordinary activities						
Net income from ordinary activities	1,219,514	216,726	1,436,240	1,436,240	-	1,436,240
Whole income of ordinary activities proceeding from external clients and deals with other segments of operation of the same entity.	**1,219,514**	**216,726**	**1,436,240**	**1,436,240**	-	**1,436,240**
Raw materials and consumables used	(580,246)	(144,341)	(724,587)	(724,587)	-	(724,587)
Expenses for benefit to employees	(61,919)	(5,894)	(67,813)	(67,813)	-	(67,813)
Depreciation and amortization expenses	(195,754)	(32,164)	(227,918)	(227,918)	-	(227,918)
Other expenses, by nature	(31,531)	(10,559)	(42,090)	(42,090)	-	(42,090)
Other profit (losses)	(13,571)	(4,006)	(17,577)	(17,577)	-	(17,577)
Financial income	9,479	575	10,054	10,054	-	10,054
Financial costs	(88,777)	(14,663)	(103,440)	(103,440)	-	(103,440)
Share of profit of associated and joint ventures accounted for using the equity method	8,919	-	8,919	8,919	(3,505)	5,414
Exchange rate differences	2,099	1,327	3,426	3,426	-	3,426
Readjustment profit (loss)	(55)	-	(55)	(55)	-	(55)
Profit (loss) of continuing operations	**268,158**	**7,001**	**275,159**	**275,159**	**(3,505)**	**271,654**
Income tax expense	(66,729)	(185)	(66,914)	(66,914)	-	(66,914)
Profit (loss)	**201,429**	**6,816**	**208,245**	**208,245**	**(3,505)**	**204,740**
Attributable to:						
Profit attributable to the owners of the controller	201,429	3,505	204,934	204,934	(3,505)	201,429
Profit attributable to non-controlling stakes	-	3,311	3,311	3,311	-	3,311
Profit	**201,429**	**6,816**	**208,245**	**208,245**	**(3,505)**	**204,740**
Statements of cash flow						
Cash flows from (used in) operating activities.	494,408	23,442	517,850	517,850	-	517,850
Cash flows from (used in) investment activities.	(76,980)	(9,078)	(86,058)	(86,058)	-	(86,058)
Cash flows from (used in) financing activities	(705,868)	(35,147)	(741,015)	(741,015)	-	(741,015)

Disclosure about segments of operation	12.31.2015					
	Country		Segments that must be reported	Operating segments	Eliminations	Total of the entity by segments of operation
	Chile	Peru				
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Statement of financial situation						
Current Assets						
Cash and cash equivalent	851,587	43,920	895,507	895,507	-	895,507
Other financial assets, current	185,393	-	185,393	185,393	-	185,393
Other non financial assets, current	27,732	538	28,270	28,270	-	28,270
Trade receivables and other receivable accounts	117,256	47,691	164,947	164,947	-	164,947
Trade receivables to related entities, current	2,590	-	2,590	2,590	-	2,590
Inventories	36,058	3,861	39,919	39,919	-	39,919
Tax assets	8,740	-	8,740	8,740	-	8,740
Total current assets	**1,229,356**	**96,010**	**1,325,366**	**1,325,366**	-	**1,325,366**
Non-current assets						
Other financial assets, non current	212	-	212	212	-	212
Other non financial assets, non current	32,262	-	32,262	32,262	-	32,262
Trade receivables and other receivables	-	-	-	-	-	-
Accounts receivable to related entities, non current	280	-	280	280	-	280
Investments accounted for using the equity method	247,919	-	247,919	247,919	(211,907)	36,012
Goodwill	-	-	-	-	-	-
Intangible assets other than goodwill	87,803	3,537	91,340	91,340	-	91,340
Properties, plant and equipment	0	4,000	4,000	4,000	-	4,000
Goodwill	4,926,371	734,392	5,660,763	5,660,763	-	5,660,763
Deferred tax assets	4,409	2,513	6,922	6,922	-	6,922
Total non-current assets	**5,299,256**	**744,442**	**6,043,698**	**6,043,698**	**(211,907)**	**5,831,791**
TOTAL ASSETS	**6,528,612**	**840,451**	**7,369,063**	**7,369,063**	**(211,907)**	**7,157,157**
Current Liabilities						
Other financial, current liabilities	91,371	362,014	453,385	453,385	-	453,385
Payables trade and other payables, current	133,290	41,143	174,433	174,433	-	174,433
Accounts payable to related entities	30,252	-	30,252	30,252	-	30,252
Other provisions	13,269	2,232	15,501	15,501	-	15,501
Tax liabilities	23,878	167	24,045	24,045	-	24,045
Provisions for employee benefits, current	10,236	1,001	11,237	11,237	-	11,237
Other non financial liabilities, current	4,302	346	4,648	4,648	-	4,648
Total current liabilities	**306,598**	**406,903**	**713,501**	**713,501**	-	**713,501**
Non-current liabilities						
Other financial liabilities, non-current	1,766,573	15,683	1,782,256	1,782,256	-	1,782,256
Payables trade and other payables, non-current liabilities	3,217	3,205	6,422	6,422	-	6,422
Deferred tax liabilities.	955,107	849	955,956	955,956	-	955,956
Provisions for employee benefits, non-current	23,001	-	23,001	23,001	-	23,001
Other non financial, non-current liabilities	10,603	-	10,603	10,603	-	10,603
Total non-current liabilities	**2,758,501**	**19,737**	**2,778,238**	**2,778,238**	-	**2,778,238**
Equity						
Issued capital	1,282,793	213,600	1,496,393	1,496,393	(213,600)	1,282,793
Retained earnings	1,412,537	(2,546)	1,409,991	1,409,991	1,693	1,411,684
Share premiums	52,595	-	52,595	52,595	-	52,595
Other reserves	715,588	-	715,588	715,588	-	715,588
Net Equity attributable to equity holders of the parent	**3,463,513**	**211,054**	**3,674,567**	**3,674,567**	**(211,907)**	**3,462,660**
Not controlled shares	-	202,758	202,757.54	202,758	-	202,758
Total net equity	**3,463,513**	**413,811**	**3,877,324**	**3,877,324**	**(211,907)**	**3,665,418**
TOTAL LIABILITIES AND NET EQUITY	**6,528,612**	**840,451**	**7,369,063**	**7,369,063**	**(211,907)**	**7,157,157**

Continued

Disclosure about segments of operation	12.31.2015					
	Country		Segments that must be reported	Operating segments	Eliminations	Total of the entity by segments of operation
	Chile	Peru (1)				
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Statement of comprehensive result						
Net income from ordinary activities						
Net income from ordinary activities	1,307,633	6,223	1,313,856	1,313,856	-	1,313,856
Whole income of ordinary activities proceeding from external clients and deals with other segments of operation of the same entity.	**1,307,633**	**6,223**	**1,313,856**	**1,313,856**	-	**1,313,856**
Raw materials and consumables used	(641,146)	(4,788)	(645,934)	(645,934)	-	(645,934)
Expenses for benefit to employees	(55,911)	(171)	(56,082)	(56,082)	-	(56,082)
Depreciation and amortization expenses	(193,730)	(1,217)	(194,947)	(194,947)	-	(194,947)
Other expenses, by nature	(28,525)	22	(28,503)	(28,503)	-	(28,503)
Other profit (losses)	(3,013)	1,793	(1,220)	(1,220)	-	(1,220)
Financial income	5,474	43	5,517	5,517	-	5,517
Financial costs	(85,170)	(5,366)	(90,536)	(90,536)	-	(90,536)
Share of profit of associated and joint ventures accounted for using the equity method	4,927	-	4,927	4,927	1,693	6,620
Exchange rate differences	(10,658)	(502)	(11,160)	(11,160)	-	(11,160)
Readjustment profit (loss)	2,425	-	2,425	2,425	-	2,425
Profit (loss) of continuing operations	**302,306**	**(3,963)**	**298,343**	**298,343**	**1,693**	**300,036**
Income tax expense	(98,500)	(1,103)	(99,603)	(99,603)	-	(99,603)
Profit (loss)	**203,806**	**(5,066)**	**198,740**	**198,740**	**1,693**	**200,433**
Attributable to:						
Profit attributable to the owners of the controller	203,806	(1,693)	202,113	202,113	1,693	203,806
Profit attributable to non-controlling stakes	-	(3,373)	(3,373)	(3,373)	-	(3,373)
Profit	**203,806**	**(5,066)**	**198,740**	**198,740**	**1,693**	**200,433**
Statements of cash flow						
Cash flows from (used in) operating activities.	682,470	35,618	718,088	718,088	-	718,088
Cash flows from (used in) investment activities.	99,675	(66)	99,609	99,609	-	99,609
Cash flows from (used in) financing activities	(166,560)	(3,010)	(169,570)	(169,570)	-	(169,570)

(1) Result for the period of 12 days of December 2015.

Information on goods and services

Services	January- December	
	2016 ThUS$	2015 ThUS$
Energy	1,058,575	981,605
Capacity	190,918	153,020
Other	186,747	179,231
Total	**1,436,240**	**1,313,856**

Information on sales to main clients

Main clients	January- December			
	2016		2015	
	ThUS$	%	ThUS$	%
Chile				
CGE Distribución S.A.	334,798	23%	293,825	22%
Corporación Nacional del Cobre Chile	336,014	23%	296,758	23%
Enel Distribución Chile S.A. (ex Chilectra S.A.)	209,945	15%	202,844	15%
Sociedad Austral del Sur S.A.	89,748	6%	75,969	6%
Anglo American S.A.	84,046	6%	90,059	7%
Others	164,963	12%	348,178	27%
Subtotal	**1,219,514**	**85%**	**1,307,633**	**100%**
Peru (*)				
Luz del Sur	103,255	7%	4,655.0	0%
Empresa de Distribución Electrica de Lima Norte S.A.	21,974	2%	-	0%
Electronoroeste S.A.	7,326	1%	-	0%
Hidrandina S.A.	5,305	0%	-	0%
Electrocentro	-	0%	1,187.0	0%
Electrodunas	-	0%	187.0	0%
Others	78,866	5%	194.0	0%
Subtotal	**216,726**	**15%**	**6,223**	**0%**
Total	**1,436,240**	**100%**	**1,313,856**	**100%**

(*) For the period 2015 corresponds to revenues for 12 days recorded by the subsidiary Fenix Power Perú S.A..

8. Classes of cash and cash equivalents

a. Account composition

Cash and cash equivalents are detailed as follows:

Cash and cash equivalent	12.31.2016 ThUS$	12.31.2015 ThUS$
Cash	53	52
Banks balances	21,706	44,842
Time deposits	459,522	770,796
Other fixed-income instruments	112,439	79,817
Total	**593,720**	**895,507**

Balance in banks includes trust funds (fideicomiso) of the subsidiary Fenix Power Perú S.A. amounting to US$ 15.7 million. As of December 31, 2015, this amount was US$ 19.4 million.

Time deposits have a maturity in a term of less than three months and accrue market interest for this type of current investment.

The Other Net Instruments correspond to fixed income funds in Chilean pesos, Euros and in US dollars, of very low risk, which are recorded at the value of the respective unit as of the closing date of these consolidated financial statements.

In addition to these instruments, as of December 31, 2016 and 2015, the Company has other time deposits, which matured more than three months from their acquisition, which are presented in Note 9.

b. Detail by type of currency

Cash and cash equivalents, organized by type of currency, considering the effect of derivatives are detailed as follows:

Currency	12.31.2016		12.31.2015	
	Original currency ThUS$	Currency with derivative [1] ThUS$	Original currency ThUS$	Currency with derivative [1] ThUS$
EUR	516	516	440	440
CLP	435,370	135,370	220,942	134,145
PEN	17,359	17,359	25,192	25,192
USD	140,475	440,475	648,933	735,730
Total	**593,720**	**593,720**	**895,507**	**895,507**

(1) Considers the effect of the mark-to-market of foreign exchange forwards signed to re-denominate certain time deposits in Chilean Pesos to US dollars.

c. Acquisition of subsidiaries

Acquisition of subsidiaries	12.31.2015 ThUS$
Cash and cash equivalents cash paid by entities acquired	(213,600)
Cash and cash equivalents received from entities acquired [1]	11,378
Total Net [2]	**(202,222)**

[1] Corresponds to the cash balance of Fenix Power Perú S.A.(see note 6).
[2] See Consolidated Statement of Cash Flows.

9. Other financial assets

Other financial assets are detailed as follows:

	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Time Deposit [1]	73,277	185,269	-	-
Hedge derivate instruments [2] (See Note 14.1)	1,008	124	5,153	-
Investment in the CDEC	-	-	224	212
Total	**74,285**	**185,393**	**5,377**	**212**

(1) As of December 31, 2016 and 2015 investments in time deposits that were classified in this category have an original investment term within less than six months and the remaining maturity period is 60 days on average. These investments are presented under Cash Flows from investment activities in other cash inflows (outflows).
(2) Corresponds to positive mark-to-market of hedging derivatives outstanding at the close of each period.

10. Trade and other accounts receivable

Trade and other accounts receivable are detailed as follows:

Description	Current	
	12.31.2016 ThUS$	12.31.2015 ThUS$
Trade receivables with contract	161,672	123,967
Other receivables [1]	37,487	40,980
Total	**199,159**	**164,947**

(1) As of December 31, 2016, current balance includes the recoverable taxes (tax on general sales (IGV) and specific tax) of ThUS$ 21,658, fiduciary guarantee of ThUS$ 8,988, JP Morgan collateral guarantee of ThUS$ 4,161 and other minor items of ThUS$ 2,680. While as of December 31, 2015, the corresponding balance of recoverable taxes was ThUS$ 36,313 and the other minor items amounted to ThUS$ 4,667. The Company estimates that the recovery period of these assets is 12 months.

The average client collection period is 30 days.

Colbún's commercial counterparts are first level companies in terms of credit quality and distribution companies which due to their regulation and/or historical behavior do not show signs of significant impairment or delay in payment terms.

Considering the solvency of the debtors, the quality of the accounts receivable and the current regulations in accordance with the policy on allowance for doubtful accounts declared in our accounting policies (see Note 3.1.h.1.6); The Company has estimated that there is evidence of impairment of certain accounts receivable of the subsidiary Fenix Power Perú S.A. and recorded an allowance, which in the Management's opinion properly covers the risk of loss of these accounts receivable.

Fair values of trade accounts receivable and other accounts receivable are the same as their commercial values.

As of December 31, 2016 and 2015, the analysis of Trade Accounts Receivable is as follows:

a) Portfolio distribution by overdue.

Trade accounts receivable invoiced	Balance as of 12.31.2016					
	Current ThUS$	1-30 days ThUS$	31-60 ThUS$	61-90 ThUS$	91-more ThUS$	Total ThUS$
Regulated customers	5,858	4,752	30	28	12,838	23,506
Unregulated customers	148	552	-	-	-	700
Other receivables	1,881	674	463	29	121	3,168
Imparment	-	-	-	-	(11,187)	(11,187)
Subtotal	**7,887**	**5,978**	**493**	**57**	**1,772**	**16,187**
Trade accounts receivable to be invoiced	**Balance as of 12.31.2016**					
	Current ThUS$	**1-30 days ThUS$**	**31-60 ThUS$**	**61-90 ThUS$**	**91-more ThUS$**	**Total ThUS$**
Regulated customers	89,987	-	-	-	-	89,987
Unregulated customers	48,912	-	-	-	-	48,912
Other receivables	6,586	-	-	-	-	6,586
Subtotal	**145,485**	**-**	**-**	**-**	**-**	**145,485**
Total trade accounts receivable	**153,372**	**5,978**	**493**	**57**	**1,772**	**161,672**
Number of clients (unaudited)	**46**	**173**	**105**	**97**	**133**	

Trade accounts receivable invoiced	Balance as of 12.31.2015					
	Current ThUS$	1-30 days ThUS$	31-60 ThUS$	61-90 ThUS$	91-more ThUS$	Total ThUS$
Regulated customers	-	1,656	5	2	5,585	7,248
Unregulated customers	-	-	-	-	-	-
Other receivables	-	774	237	17	-	1,028
Imparment	-	-	-	-	(5,463)	(5,463)
Subtotal	**-**	**2,430**	**242**	**19**	**122**	**2,813**
Trade accounts receivable to be invoiced	**Balance as of 12.31.2015**					
	Current ThUS$	**1-30 days ThUS$**	**31-60 ThUS$**	**61-90 ThUS$**	**91-more ThUS$**	**Total ThUS$**
Regulated customers	79,608	-	-	-	-	79,608
Unregulated customers	35,167	-	-	-	-	35,167
Other receivables	6,379	-	-	-	-	6,379
Subtotal	**121,154**	**-**	**-**	**-**	**-**	**121,154**
Total trade accounts receivable	**121,154**	**2,430**	**242**	**19**	**122**	**123,967**
Number of clients (unaudited)	**32**	**140**	**44**	**72**	**10**	

b) Accounts Receivable in judicial collection

There are no trade accounts receivables or other accounts receivable recorded in the accounting in judicial collection.

11. Financial instruments

a. Financial instruments by category

Accounting policies related to financial instruments have been applied to the categories detailed below:

a.1 Assets

December 31,2016	Cash and Cash Equivalent ThUS$	Held at maturity ThUS$	Loans and receivables [1] ThUS$	Assets at fair value with changes in results ThUS$	Hedge derivatives ThUS$	Total ThUS$
Cash on hand and bank balance (see Note 8)	21,759	-	-	-	-	21,759
Time Deposits (see Note 8)	-	459,522	-	112,439	-	571,961
Trade and other accounts receivable (see Note 10)	-	-	177,501	-	-	177,501
Accounts receivable from related parties (see Note 12.b.1)	-	-	3,055	-	-	3,055
Financial derivative instruments (see Note 14.1)	-	-	-	-	6,161	6,161
Other financial assets (see Note 9)	-	73,501	-	-	-	73,501
Total	**21,759**	**533,023**	**180,556**	**112,439**	**6,161**	**853,938**

December 31, 2015	Cash and Cash Equivalent ThUS$	Held at maturity ThUS$	Loans and receivables [1] ThUS$	Assets at fair value with changes in results ThUS$	Hedge derivatives ThUS$	Total ThUS$
Cash on hand and bank balance (see Note 8)	44,894	-	-	-	-	44,894
Time Deposits (see Note 8)	-	770,796	-	79,817	-	850,613
Trade and other accounts receivable (see Note 10)	-	-	128,634	-	-	128,634
Accounts receivable from related parties (see Note 12.b.1)	-	-	2,870	-	-	2,870
Financial derivative instruments (see Note 14.1)	-	-	-	-	124	124
Other financial assets (see Note 9)	-	185,481	-	-	-	185,481
Total	**44,894**	**956,277**	**131,504**	**79,817**	**124**	**1,212,616**

[1] As of December 31, 2016, it does not consider the recoverable taxes of ThUS$ 21,658. While as of December 31, 2015, the balance corresponding to current recoverable taxes was ThUS$ 36,313.

a.2 Liabilities

December 31, 2016	Other financial liabilities ThUS$	Hedge derivatives ThUS$	Total ThUS$
Loans that accrue interest (see note 22.a)	1,690,057	-	1,690,057
Liabilities from leasing (see note 22.a)	15,451	-	15,451
Financial derivative instruments (see note 14.1)	-	4,524	4,524
Trade accounts payable (see note 23)	226,905	-	226,905
Accounts payable to related parties (see Note 12.b.2)	32,339	-	32,339
Total	**1,964,752**	**4,524**	**1,969,276**

December 31, 2015	Other financial liabilities ThUS$	Hedge derivatives ThUS$	Total ThUS$
Loans that accrue interest (see note 22.a)	2,177,968	-	2,177,968
Liabilities from leasing	16,025	-	16,025
Financial derivative instruments (see note 14.1)	-	41,648	41,648
Trade accounts payable (see note 23)	180,855	-	180,855
Accounts payable to related parties (see Note 12.b.2)	30,252	-	30,252
Total	**2,405,100**	**41,648**	**2,446,748**

b. Financial assets credit rating

The credit rating of financial assets that have not yet matured and which have not suffered impairment losses can be evaluated on the basis of the credit rating granted to the counterparts of the Company by risk rating agencies with renowned national and international prestige.

Credit rating of financial assets	12.31.2016 ThUS$	12.31.2015 ThUS$
Customers with local credit rating		
AAA	40,958	27,377
AA+	15,466	1
AA	56,277	23,685
AA-	267	-
A+	36	50,067
A	-	26
Total	**113,004**	**101,156**
Customer without local credit rating		
Total	**48,668**	**22,811**
Banks balances and short-term time deposits - local market		
AAA	231,337	258,438
AA+	102,717	32,679
AA	86,204	100,297
AA-	14,942	80
A+o lower	20,457	6,907
Total	**455,657**	**398,401**
Banks balances and short-term time deposits - international market (*)		
BBB- o higher	98,901	602,558
Total	**98,901**	**602,558**
Financial assets with international counterpart (*)		
A o higher	1,008	124
Total	**1,008**	**124**

(*) International risk rating

12. Related party information

Operations between the Parent Company and its dependent subsidiaries, which are related parties, form part of the Company's regular transactions related to their line of business and conditions, and have been eliminated in the process of consolidation. The relationship between the parent, subsidiaries and associates is detailed in note 3.1.b and c.

a. Controlling shareholders

The distribution of the Parent Company's shareholders, as of December 31, 2016, is detailed as follows:

Shareholders name	Participation %
Minera Valparaíso S.A. (*)	35.17
Forestal Cominco S.A. (*)	14.00
Antarchile S.A.	9.58
AFP Habitat S.A. (**)	4.85
AFP Provida S.A. (**)	4.61
Banco de Chile por cuenta de terceros	4.55
AFP Cuprum S.A. (**)	3.87
AFP Capital S.A. (**)	3.69
Banco Itaú por cuenta de inversionistas	3.38
Banco Santander JP Morgan	1.53
Others shareholders	14.77
Total	**100.00**

(*) Companies belonging to the controlling group (Matte Group).
(**) Correspond to the total participation of each pension fund administrator.

b. Balances and transactions with related entities

Operations receivable, payable and transactions with related entities were conducted under terms and market conditions and according to the provisions of Article No. 44 of Law No. 18,046 on Corporations. The Company did not register a provision for doubtful accounts receivable, since such obligations are paid within the prescribed time limits (less than 30 days) or relate to payments of dividends which related entities have provisioned (this is the case of Electrogas S.A.)

b.1. Accounts receivable from related entities

Taxnumber payer	Company	Country	Relationship	Currency	Current		Non-current	
					12.31.2016 ThUS$	31.12.2015 ThUS$	12.31.2016 ThUS$	31.12.2015 ThUS$
96.806.130-5	Electrogas S.A.	Chile	Asociated	US Dollar	2,380	2,527	-	-
96.853.150-6	Papeles Cordillera S.A.	Chile	Common group	Chilean peso	40	40	263	280
96.529.310-8	CMPC Tissue S.A.	Chile	Common group	Chilean peso	13	13	-	-
77.017.930-0	Transmisora Eléctrica de Quillota Ltda.	Chile	Joint Venture	Chilean peso	11	10	-	-
96.731.890-6	Cartulinas CMPC S.A.	Chile	Common group	Chilean peso	348	-	-	-
				Total	**2,792**	**2,590**	**263**	**280**

b.2. Accounts payable to related entities

Taxpayer number	Company	Country	Relationship	Currency	Current 12.31.2016 ThUS$	Current 12.31.2015 ThUS$
77.017.930-0	Transmisora Eléctrica de Quillota Ltda.	Chile	Joint venture	Chilean Pesos	197	-
96.565.580-8	Cía. Leasing Tattersall S.A.	Chile	Common director	Chilean Pesos	202	56
99.520.000-7	Compañía de Petróleos de Chile Copec S.A.	Chile	Common director	Chilean Pesos	2,282	227
96.806.980-2	Entel PCS Comunicaciones S.A.	Chile	Common director	Chilean Pesos	28	24
90.412.000-6	Minera Valparaíso S.A.	Chile	Majority shareholder	US Dollar	21,194	21,419
79.621.850-9	Forestal Cominco S.A.	Chile	Majority shareholder	US Dollar	8,436	8,526
				Total	**32,339**	**30,252**

There are no guarantees, given or received, for transactions with related parties.

b.3 Most significant transactions and their effects on income

Taxpayer number	Company	Country	Relationship	Currency	Description	January- December 2016 Amount ThUS$	2016 Effect in income (expense) ThUS$	2015 Amount ThUS$	2015 Effect in income (expense) ThUS$
77.017.930-0	Transmisora Eléctrica de Quillota Ltda.	Chile	Joint - Venture	Chilean pesos	Transmission line tolls	2,502	(2,103)	2,225	(1,871)
				UF	Services rendered	132	111	131	110
76.652.400-1	Centrales Hidroeléctricas de Aysén S.A.	Chile	Joint - Venture	Chilean pesos	Capital contributions (1)	3,323	-	3,906	-
96.806.130-5	Electrogas S.A.	Chile	Asociated	US Dollar	Gas transportation service	9,167	(7,703)	9,608	(8,073)
				US Dollar	Diesel transportation service	1,094	(919)	1,150	(969)
				US Dollar	Declared dividends (2)	2,380	-	2,527	-
				US Dollar	Dividends received (2)	8,682	-	7,550	-
96.853.150-6	Papeles Cordillera S.A.	Chile	Common director	Chilean pesos	Other leases	37	31	414	348
97.080.000-K	Banco Bice	Chile	Common director	Chilean pesos	Services received	28	(24)	26	(22)
96.731.890-6	Cartulinas CMPC S.A.	Chile	Common director	Chilean pesos	Easements	1,118	939	1,185	996
79.621.850-9	Forestal Cominco S.A.	Chile	Major shareholder	US Dollar	Dividens (3)	15,072	-	16,229	-
90.412.000-6	Minera Valparaíso S.A.	Chile	Major shareholder	US Dollar	Dividens (3)	37,865	-	40,770	-
99.520.000-7	Compañía de Petróleos de Chile Copec S.A.	Chile	Common director	Chilean pesos	Diesel Supply Service	45,163	(34,071)	46,093	(35,028)
96.565.580-8	Leasing Tattersall S.A.	Chile	Common director	Chilean pesos	Car leasings (4)	1,460	(1,227)	1,385	(1,213)
96.806.980-2	Entel PCS Telecomunicaciones S.A.	Chile	Common director	Chilean pesos	Phone service	418	(351)	409	(353)
96.697.410-9	Entel Telefonia Local S.A.	Chile	Common director	Chilean pesos	Phone service	54	(45)	69	(57)
76.115.889-9	MR Consult Limitada	Chile	Principal Partner	Chilean pesos	Advisory Service	121	(121)	89	(89)
4.523.287-5	Arturo Mackenna	Chile	Director	Chilean pesos	Advisory Service	28	(28)	-	-

(1) Contributions to Centrales Hidroeléctricas de Aysén S.A.
- On July 8, 2016 Colbún carried out third capital contribution to Centrales Hidroeléctricas de Aysén S.A for Ch$ 441 million (ThUS$ 664), as agreed upon at the Extraordinary Shareholders' Meeting of Hidroaysén held on December 4, 2015.
- On March 08, 2016 Colbún carried out a capital contribution to Centrales Hidroeléctricas de Aysén S.A for Ch$ 1,813 million (ThUS$2,660), as agreed upon at the Extraordinary Shareholders' Meeting of Hidroaysén held on December 4, 2015.
- On March 2, 2015 Colbún carried out a capital contribution for Ch$ 1,715 million (ThUS$2,753), as agreed upon at the 18th Extraordinary Shareholders' Meeting of Hidroaysén held on October 22, 2014.

(2) Dividends declared by and received from Electrogas S.A.
- In March 2016, Electrogas S.A. declared a provisional dividend with charge to profits for 2015, of US$ 14.3 million, 42.5% of which correspond to Colbún.
- In May 2016, Colbún received ThUS$ 5,950 leaving an outstanding balance of payment to be received of ThUS$ 2,732.
- In September 2016, outstanding balance of the dividend of ThUS$ 2,732 was received.
- In December 2016, Electrogas S.A. declared a provisional dividend with charge to profits for 2016, of ThUS$ 5,600, of which ThUS$ 2,380 correspond to Colbún.

(3) Dividends declared and paid to Minera Valparaíso S.A and Forestal Cominco S.A.
- At the Board of Directors Meeting held on December 20, 2016, it was agreed to distribute a provisional dividend with a charge to the profits for 2016, payable in cash, of ThUS $ 45,760, which was paid on September 9, January 2017.
- Corresponds to definitive dividend declared by the Shareholders Meeting on April 22, 2016 and paid on May 5, 2016.
- Corresponds to the interim dividend agreed at Board Meeting dated December 22, 2015 and paid on January 12, 2016.
- Corresponds to definitive dividend declared by the Shareholders Meeting on April 24, 2015 and paid on May 6, 2015.
- Corresponds to the interim dividend agreed at Board Meeting dated December 25, 2014 and paid on January 6, 2015.

(4) Entity related through common Director until April 2016.

c. Administration and Senior Management

Senior management and other people that assume the management of the Company, as well as the shareholders, individuals or companies, which they represent, have not participated in any unusual and/or relevant transactions, as of December 31, 2016 and 2015.

The Company is managed by a Board of Directors composed by 9 members, who serve for a 3-year term with possibility of reelection.

In an Extraordinary Session of the Board of Directors held on March 22, 2016, the Board of Directors was informed of the resignation presented by Ms. Vivianne Blanlot S., which became effective as of the same date.

At the Ordinary Shareholders' Meeting held on April 22, 2016, the Board of Directors of the Company was renewed. María Ignacia Benítez Pereira, Vivianne Blanlot Soza, Luz Granier Bulnes, Bernardo Larraín Matte, Arturo Mackenna Iñiguez, Eduardo Navarro Beltran, Jorge Matte Capdevila, Juan Eduardo Garcia and Francisco Correa Matte Izquierdo were elected as Board members. Maria Ignacia Benítez Pereira and Luz Granier Bulnes were elected as independent directors.

At the Board of Directors Meeting held on November 30, 2016, the Board of Directors took note of the resignation presented by Eduardo Navarro B., which became effective on December 1, 2016. As of this date, Mr. Andrés Lehuedé Bromley took over as Director.

d. Directors Committee

In conformity with Article 50 bis of Companies Law 18,046, Colbún and its subsidiaries have a Directors Committee composed of 3 members, with the faculties contemplated in that article.

On April 22, 2016, at the Extraordinary meeting of the Board, Bernardo Larraín Matte was appointed as Chairman and Vivianne Blanlot Soza as Vice President of the Board. Juan Eduardo Correa García, Luz Granier Bulnes and María Ignacia Benítez Pereira were designated as members of the Committee of Directors.

e. Compensation and other services

In conformity with Article 33 of Companies Law 18,046, the remuneration of the Board is determined at the Company's Ordinary Shareholders' Meeting.

Amounts paid during the periods ended as of December 31, 2016 and 2015; include the members of the Directors Committee are detailed as follows:

e.1 Board's remuneration

Name	Tittle	January-December				
		2016			2015	
		Colbún Board ThUS$	Variable Remuneration [2] ThUS$	Directors Committee ThUS$	Colbún Board ThUS$	Directors Committee ThUS$
Bernardo Larraín Matte [1]	President	132	128	-	92	-
Vivianne Blanlot Soza [1]	Vice-president	66	64	5	46	15
Juan Eduardo Correa García [1]	Director	66	64	18	46	-
Luz Granier Bulnes [1]	Director	66	48	22	34	11
Arturo Mackenna Iñiguez [1]	Director	66	64	-	46	-
Eduardo Navarro Beltrán	Director	60	64	-	46	-
María Ignacia Benitez Pereira [1]	Director	54	-	18	-	-
Jorge Matte Capdevila [1]	Director	54	-	-	-	-
Francisco Matte Izquierdo [1]	Director	54	-	-	-	-
Luis Felipe Gazitúa Achondo	Director	16	64	5	46	15
Eliodoro Matte Larraín	Director	16	64	-	46	-
Juan Hurtado Vicuña	Director	16	64	-	46	-
Sergio Undurraga Saavedra	Director	-	16	-	12	4
Andrés Lehuedé Bromley [1]	Director	6	-	-	-	-
		672	**640**	**68**	**460**	**45**

(1) Current directors as of December 31, 2016
(2) Variable compensation related to the year 2015 and paid on May 5, 2016.

At the Ordinary Shareholders' Meeting held on April 22, 2016, an annual variable remuneration of 0.75% of 2016 fiscal year profits was agreed to. On December 31, 2016, the provision for this concept was made for ThUS$ 875.

e.2 Board advisory expenses

Periods ended December 31, 2016 and 2015, the Board of Directors had no advisory expenses

e.3 Remuneration of members of Senior Management who are not Directors

Name	Position
Thomas Keller Lippold	General manager
Juan Eduardo Vásquez Moya	Manager division business and Energy management
Carlos Luna Cabrera	Manager division generation
Sebastián Moraga Zúñiga	Manager Division Finance and Administration
Eduardo Lauer Rodríguez	Manager Engineering Division and projects.
Juan Pablo Schaeffer Fabres	Manager Division Sustainable Development.
Rodrigo Pérez Stiepovic	Legal Manager
Paula Martínez Osorio	Manager of Organization and People
Sebastián Fernández Cox	Development Manager
Heraldo Alvarez Arenas	Manager of Internal Audit

Remunerations accrued for key executives are detailed as follows:

Concept	January- December 2016 ThUS$	January- December 2015 ThUS$
Current employee benefits	5,360	4,561
Termination benefits	10	107
Total	**5,370**	**4,668**

e.4 Accounts Receivable, payable and other transactions

There are no other transactions between the Company and its Directors and the Company's Management.

e.5 Other transactions

There are no other transactions between the Company and its Directors and the Company's Management.

e.6 Guarantees established by the Company in favor of Directors

During the periods ended as of December 31, 2016 and 2015, the Company has not undertaken this type of transaction.

e.7 Incentive plans for executives and managers

The Company has established bonuses for its entire executive staff on the basis of evaluation of their individual performance and achievement of goals at the company level as well as the Company and individual performance of each executive.

e.8 Indemnities paid to executives and managers

During the periods ending December 31, 2016 no indemnities were, while for the period ended as of December 31, 2015, payments for such concept amounted to ThUS$ 155.

e.9 Guarantee clauses: Company Board of Directors and Management

The Company has not agreed upon guarantee clauses with its directors and management.

e.10 Retribution plans associated with shares traded

The Company does not engage in this type of operation.

13. Inventory

Inventory is detailed as follows:

Classes of inventory	12.31.2016 ThUS$	12.31.2015 ThUS$
Spare parts [1]	21,259	19,395
Coal	15,603	15,750
Inventory in transit [2]	6,462	1,233
Petroleum	4,863	5,927
Gas Line Pack	274	274
Provision for obsolescence [3]	(3,347)	(2,660)
Total	**45,114**	**39,919**

(1) As of December 31, 2016, spare parts for maintenance amounting to US$ 69.9 million were reclassified to non-current assets under Property, Plant and Equipment determined based on the inventory turnover. As of December 31, 2015, US$ 58.1 million was reclassified for that concept.

(2) Corresponds to coal inventory to be used at Santa María I Complex power plant.

(3) Corresponds to the obsolescence allowance of spare parts.

No inventory items are pledge as debt guarantees.

Cost of inventory recognized as expense

Consumption recognized as expense during the periods ended are as follows:

Cost of inventory	January- December	
	2016 ThUS$	2015 ThUS$
Warehouse supplies	9,935	10,360
Petroleum (see Note 28)	41,330	44,073
Gas Line Pack (see Note 28)	262,823	253,413
Coal (see note 28)	63,381	77,637
Total	**377,469**	**385,483**

14. Derivative instruments

Following the financial risk management policy described in Note 4, the Company enters into financial derivatives to hedge its exposure to changes in interest rate, currency (exchange rate) and fuel prices.

Interest rate derivatives are used to establish or limit the variable interest rate of financial obligations and correspond to interest rate swaps.

Currency derivatives are used to set the exchange rates of the US dollar in respect to Peso (CLP), Unidad de Fomento (UF), Peruvian Soles (PEN) and Euro (EUR), among others, due to existing obligations or investments in these currencies. These instruments correspond mainly to Forwards and Cross Currency Swaps.

Derivatives related to fuel prices are used to mitigate the risk of variation in revenues from sales and the Company's energy production costs due to a change in the price of fuels used for such purposes. The instruments used mainly correspond to options and forwards.

As of December 31, 2016, the Company classifies all its hedges as "Cash Flow Hedges".

14.1 Hedging instruments

The detail of this caption that includes the fair value of the financial instruments, by each risk hedged is as follows:

Hedge Assets		Current		Non-current	
		12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Exchange rate hedge	Cash flows hedge	103	-	-	-
Interest rate hedge	Cash flows hedge	-	-	5,153	-
Fuel price hedge	Cash flows hedge	905	124	-	-
	Total (see Note 9)	**1,008**	**124**	**5,153**	**-**

Hedge Liabilities		Current		Non-current	
		12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Exchange rate hedge	Cash flows hedge	1,034	3,604	2,918	34,256
Interest rate hedge	Cash flows hedge	572	1,179	-	2,609
	Total (see Note 22.a)	**1,606**	**4,783**	**2,918**	**36,865**

The hedging instrument portfolio of Colbún S.A. is detailed as follows:

Hedging Instrument	Fair value Hedging instrument 12.31.2016 ThUS$	Fair value Hedging instrument 12.31.2015 ThUS$	Hedged item	Hedged Risk	Type of hedge
Currency forwards	2	(1,401)	Future Disbursements Project	Exchange rate	Cash flow
Currency forwards	-	353	Dividends	Exchange rate	Cash flow
Currency forwards	100	(217)	Financial investment	Exchange rate	Cash flow
Interest rate swaps	4,939	(1,079)	Bank loans	Interest rate	Cash flow
Interest rate swaps	-	(2,215)	Obligations with the public (Bonds)	Interest rate	Cash flow
Cross Currency Swaps	(4,309)	(37,089)	Obligations with the public (Bonds)	Exchange rate	Cash flow
Oil options	905	124	Oil purchases	Oil price	Cash flow
	1,637	**(41,524)**			

During the periods ended as of December 31, 2016, the Company did not recognize profits or losses due to hedge ineffectiveness on the cash flow hedges.

14.2 Fair value hierarchy

The fair value of financial instruments recognized in the statement of financial position has been determined using the following hierarchy, according to the entry data used to perform the valuation:

Level 1: Prices quoted in active markets for identical instruments.

Level 2: Prices quoted in active markets for similar assets or liabilities or other valuation techniques, for which all significant inputs are based on observable market data.

Level 3: Valuation techniques using all relevant inputs are not based on observable market data.

As of December 31, 2016, the calculation of fair value of all financial instruments subject to valuation has been determined on the basis of Level 2 of the aforementioned hierarchy.

15. Investments in subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and controlled companies. The following table includes detailed information of subsidiaries as of December 31, 2016 and 2015:

Subsidiary	12.31.2016						
	Current assets ThUS$	Non-current assets ThUS$	Current liabilities ThUS$	Non-current liabilities ThUS$	Equity ThUS$	Revenue ThUS$	Net profit (loss) ThUS$
Empresa Eléctrica Industrial S.A.	811	14,861	3,685	8,833	3,154	6,077	1,303
Sociedad Hidroeléctrica Melocotón Ltda.	685	6,040	148	146	6,431	3,212	2,493
Río Tranquilo S.A.	1,589	47,003	2,997	15,159	30,436	21,330	11,527
Termoeléctrica Nehuenco S.A.	265	4,345	2,003	20,002	(17,395)	8,278	432
Termoeléctrica Antilhue S.A.	164	41,048	1,318	18,880	21,014	4,800	1,403
Colbún Transmisión S.A.	3,148	96,731	14,079	20,576	65,224	25,562	14,897
Colbún Desarrollo S.P.A.	160	-	-	-	160	-	-
Inversiones SUD S.P.A.	10	-	-	-	10	-	-
Inversiones Andinas S.P.A.	10	-	-	-	10	-	-
Colbún Perú S.A.	198	222,173	1	-	222,370	-	3,428
Inversiones Las Canteras S.A.	390	436,087	10	860	435,607	-	6,758
Fenix Power Perú S.A.	96,363	735,358	27,992	374,682	429,047	216,727	7,130

Subsidiary	12.31.2015						
	Current assets ThUS$	Non current assets ThUS$	Current liabilities ThUS$	Non current liabilities ThUS$	Equity ThUS$	Revenue ThUS$	Net profis (loss) ThUS$
Empresa Eléctrica Industrial S.A.	622	12,742	2,962	8,507	1,895	4,689	(2,799)
Sociedad Hidroeléctrica Melocotón Ltda.	3	4,557	478	144	3,938	3,504	1,788
Río Tranquilo S.A.	1,612	58,088	3,427	11,754	44,519	14,633	(1,060)
Termoeléctrica Nehuenco S.A.	225	4,409	1,750	20,488	(17,604)	7,693	(4,384)
Termoeléctrica Antilhue S.A.	90	43,455	1,735	18,065	23,745	4,800	(308)
Colbún Transmisión S.A.	2,787	113,452	1,201	21,851	93,187	26,084	8,841
Colbún Desarrollo S.P.A.	160	-	-	-	160	-	-
Inversiones SUD S.P.A.	10	-	-	-	10	-	-
Inversiones Andinas S.P.A.	10	-	-	-	10	-	-
Colbún Perú S.A.	15	211,893	1	-	211,907	-	(1,693)
Inversiones Las Canteras S.A.	7,908	421,613	13,197	862	415,462	-	(5,212)
Fenix Power Perú S.A. (*)	94,289	781,884	394,236	63,652	418,285	6,224	(6,855)

(*) Considers revenues and net profit (loss) for the 12 days of December 2015. See note 3.1.b.

16. Investments accounted for using the equity method

a. Equity method

As of September 30, 2016 and December 31, 2015, the associates and joint controlled companies accounted for using the equity method and their movements are detailed as follows:

Type of relation	Company	Number of shares	Participation 12.31.2016	Balance as 01.01.2016	Additions	Result of the period	Dividends	Equity reserves			Total
								Exchange conversion difference	Hedging derivates reserve	Adjustment of equity at associate	12.31.2016
			%	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Associated	Electrogas S.A.	175,076	42.50%	16,968	-	7,640	(8,458)	-	899	-	17,049
Joint ventures	Centrales Hidroeléctricas de Aysén S.A.	8,731,996	49.00%	8,201	3,323	(3,106)	-	827	-	-	9,245
Joint ventures	Transmisora Eléctrica de Quillota Ltda.	-	50.00%	10,843	-	880	-	559	-	-	12,282
			Totals	**36,012**	**3,323**	**5,414**	**(8,458)**	**1,386**	**899**	**-**	**38,576**

Type of relation	Company	Number of shares	Participation 12.31.2015	Balance as 01.01.2015	Additions	Result of the period	Dividends	Equity reserves			Total
								Exchange conversion difference	Hedging derivates reserve	Adjustment of equity at associate	12.31.2015
			%	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Associated	Electrogas S.A.	175,076	42.50%	17,351	-	8,388	(7,889)	-	(882)	-	16,968
Joint ventures	Centrales Hidroeléctricas de Aysén S.A.	8,731,996	49.00%	12,120	3,906	(3,563)	-	(2,725)	-	(1,537)	8,201
Joint ventures	Transmisora Eléctrica de Quillota Ltda.	-	50.00%	10,644	-	1,795	-	(1,596)	-	-	10,843
			Totals	**40,115**	**3,906**	**6,620**	**(7,889)**	**(4,321)**	**(882)**	**(1,537)**	**36,012**

b. Financial information of associates and companies under joint control

The following table includes information as of December 31, 2016 and 2015, from the financial statements of associates and companies under joint control in which the Company has an interest:

Type of relation	Company	12.31.2016						
		Current Assets ThUS$	Non-current assets ThUS$	Current liabilities ThUS$	Non-current Liabilities ThUS$	Revenue ThUS$	Ordinary expenses ThUS$	Profit (losses) ThUS$
Associated	Electrogas S.A.	13,933	60,928	14,099	20,649	35,679	(3,048)	17,977
Joint ventures	Centrales Hidroeléctricas de Aysén S.A.	1,291	22,644	4,965	102	29	(6,042)	(6,399)
Joint ventures	Transmisora Eléctrica de Quillota Ltda.	9,465	18,021	254	2,667	4,176	(1,010)	1,780

Type of relation	Company	12.31.2015						
		Current Assets ThUS$	Non-current assets ThUS$	Current liabilities ThUS$	Non-current Liabilities ThUS$	Revenue ThUS$	Ordinary expenses ThUS$	Profit (losses) ThUS$
Associated	Electrogas S.A.	13,808	65,959	17,177	22,667	35,964	(2,949)	19,737
Joint ventures	Centrales Hidroeléctricas de Aysén S.A.	708	21,346	4,633	80	9	(5,820)	(7,271)
Joint ventures	Transmisora Eléctrica de Quillota Ltda.	7,471	17,151	650	2,492	4,017	(919)	3,590

Additional information

i) <u>Electrogas S.A.:</u>

Company dedicated to the transportation of natural gas and other fuels. It has a gas pipeline going from "City Gate III" located in the community of San Bernardo in the Metropolitan Region to "Plant Gate" located in the community of Quillota in the V Region, and a gas pipeline that goes from "Plant Gate" to the Colmo zone, in the community of Concón. Its main customers are Compañía Eléctrica San Isidro S.A., Colbún S.A., Empresa de Gas Quinta Región (Gasvalpo), Energas S.A. and Refinería de Petróleos de Concón (RPC). Colbún has a 42.5% direct ownership interest in this Company.

ii) <u>Centrales Hidroeléctricas de Aysén S.A. (HidroAysén S.A.):</u>

Notwithstanding the natural uncertainty regarding the deadlines and contents of the resolutions of judicial instances to which HidroAysén has resorted, as well as the guidelines, conditions or possible reformulations that the processes that are being carried out by the government on long-term energy policy and territorial planning of basins may determine in relation to the development of Aysén'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. has ratified that the development of the aforementioned hydroelectric potential presents benefits for the country's growth and that the option of participation in it would be a potential source of long-term value generation for the company.

Colbún has a 49% share of HidroAysén S.A.

iii) <u>Transmisora Eléctrica de Quillota Ltda.:</u>

Company created by Colbún S.A. and San Isidro S.A. (now Compañía Eléctrica de Tarapacá S.A.), in June 1997, with the purpose of jointly developing and operating the necessary facilities to evacuate the power and energy generated by their respective power stations to the Quillota Substation owned by Transelec S.A.

Transmisora Eléctrica de Quillota Ltda. owns San Luis substation, located close to the combined cycle Nehuenco and San Isidro plants, in addition to the 220 KV high voltage line which joins that substation to the SIC's Quillota Substation.

Colbún has a 50% share of Transmisora Eléctrica de Quillota Ltda.

17. Intangible assets other than goodwill

a. Detail by class of intangibles

The detail as of the dates of the balances of financial position is as follows:

Intangible assets, net		12.31.2016 ThUS$	12.31.2015 ThUS$
Rights not internally generated	Particulate material emission rights	9,582	7,701
	Concessions	96	87
	Water rights	18,510	18,418
	Easements	58,118	57,844
	Customer relationships	46,539	3,315
Licenses	Software	5,284	3,975
	Total	**138,129**	**91,340**

Intangible assets, gross		12.31.2016 ThUS$	12.31.2015 ThUS$
Rights not internally generated	Particulate material emission rights	9,582	7,701
	Concessions	113	98
	Water rights	18,522	18,426
	Easements	59,273	58,796
	Customer relationships	46,815	3,315
Licenses	Software	12,889	10,347
	Total	**147,194**	**98,683**

Accumulated amortization		12.31.2016 ThUS$	12.31.2015 ThUS$
Rights not internally generated	Concessions	(17)	(11)
	Water rights	(12)	(8)
	Easements	(1,155)	(952)
	Customer relationships	(276)	-
Licenses	Software	(7,605)	(6,372)
	Total	**(9,065)**	**(7,343)**

b. Movement of intangibles during the period

Movements during the periods are detailed as follows**:**

Movements in 2016	Not generated internally					Licenses	Net intangibles
	Rights emission particulate material	Concessions	Water rights	Easements	Customer relationships	Software	
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Beginning balance as of 01.01.2016	7,701	87	18,418	57,844	3,315	3,975	91,340
Additions	-	15	96	1,548	43,500	690	45,849
Expropiations	-	-	-	(1,099)	-	(228)	(1,327)
Accumulated amortization Expropiations	-	-	-	-	-	63	63
Transfers.	1,881	-	-	-	-	2,108	3,989
Amortization expenses (see note 30)	-	(6)	(4)	(175)	(276)	(1,324)	(1,785)
Final balance at the 12.31.2016	**9,582**	**96**	**18,510**	**58,118**	**46,539**	**5,284**	**138,129**

Movements in 2015	Not generated internally					Licenses	Net intangibles
	Rights emission particulate material	Concessions	Water rights	Easements	Customer relationships	Software	
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Beginning balance as of 01.01.2015	7,701	2	17,647	55,880	-	4,158	85,388
Additions	-	87	775	477	-	658	1,997
Acquisitions through business combinations (see note 6)	-	-	-	-	3,315	226	3,541
Current additions	-	-	-	1,662	-	-	1,662
Amortization expenses (see note 30)	-	(2)	(4)	(175)	-	(1,067)	(1,248)
Final balance at the 12.31.2015	**7,701**	**87**	**18,418**	**57,844**	**3,315**	**3,975**	**91,340**

In accordance with what was explained in Note 5.b the Company management considers that there is no impairment of the carrying amount of intangible assets. The Company does not have intangible assets that guarantee compliance with these obligations.

18. Classes of property, plant and equipment

a. Detail by classes of property, plant and equipment

Property, plant and equipment by class as of the dates of the balances of financial position are as follows:

Classes of Property, Plant & Equipment, net	12.31.2016 ThUS$	12.31.2015 ThUS$
Land	296,368	288,393
Buildings and infrastructure	230,010	237,900
Machinery and equipment	2,227,372	2,317,244
Transport equipment	591	485
Office Equipment	3,394	3,640
Computer equipment	1,620	1,227
Construction in progress	558,480	438,170
Finances leases	12,064	13,012
Other property, plant & equipment	2,305,928	2,360,692
Total	**5,635,827**	**5,660,763**
Classes of Property, Plant & Equipment, gross	**12.31.2016** ThUS$	**12.31.2015** ThUS$
Land	296,368	288,393
Buildings and infrastructure	279,186	277,139
Machinery and equipment	2,892,049	2,865,477
Transport equipment	1,581	1,514
Office Equipment	8,666	8,540
Computer equipment	7,925	6,904
Construction in progress	560,724	439,729
Finances leases	15,154	15,376
Other property, plant & equipment	2,932,782	2,900,656
Total	**6,994,435**	**6,803,728**
Classes of Property, Plant & Equipment, accumulated depreciation and impairment	**12.31.2016** ThUS$	**12.31.2015** ThUS$
Buildings and infrastructure	(49,176)	(39,239)
Machinery and equipment	(664,677)	(548,233)
Transport equipment	(990)	(1,029)
Office Equipment	(5,272)	(4,900)
Computer equipment	(6,305)	(5,677)
Construction in progress	(2,244)	(1,559)
Finances leases	(3,090)	(2,364)
Other property, plant & equipment	(626,854)	(539,964)
Total	**(1,358,608)**	**(1,142,965)**

b. Movements of property, plant and equipment

Movements in property, plant and equipment were as follows:

Movements in 2016	Land ThUS$	Buildings and infrastructure ThUS$	Machinery and equipment ThUS$	Transpot equipment ThUS$	Office equipment ThUS$	IT equipment ThUS$	Construction in progress ThUS$	Finance leases ThUS$	Other Property, plant & equipment ThUS$	Property, plant & equipment, net ThUS$
Beginning balance as of 01.01.2016	288,393	237,900	2,317,244	485	3,640	1,227	438,170	13,012	2,360,692	5,660,763
Additions	8,262	108	2,493	218	19	314	195,607	-	12,188	219,209
Current additions	180	-	-	-	-	-	-	-	-	180
Expropiations	(467)	-	(21,032)	(194)	-	-	(2,778)	(222)	-	(24,693)
Accumulated depretiations expropiations	-	-	10,975	200	-	-	-	-	-	11,175
Impairment losses recognized in the result of period	-	-	-	-	-	-	(685)	-	-	(685)
Transfers	-	1,939	45,154	-	107	707	(71,834)	-	19,938	(3,989)
Asset Transfers	-	-	(43)	43	-	-	-	-	-	-
Accumulated Amortization Asset	-	-	21	(21)	-	-	-	-	-	-
Amortization expenses (see note 30)	-	(9,937)	(127,440)	(140)	(372)	(628)	-	(726)	(86,890)	(226,133)
Total Movement	**7,975**	**(7,890)**	**(89,872)**	**106**	**(246)**	**393**	**120,310**	**(948)**	**(54,764)**	**(24,936)**
Final Balance at the 12.31.2016	**296,368**	**230,010**	**2,227,372**	**591**	**3,394**	**1,620**	**558,480**	**12,064**	**2,305,928**	**5,635,827**

Movements in 2015	Land ThUS$	Buildings and infrastructur ThUS$	Machinery and equipment ThUS$	Transpot equipment ThUS$	Office equipment ThUS$	IT equipment ThUS$	Construction in progress ThUS$	Finance leases ThUS$	Other Property, plant & ThUS$	Property, plant & equipment, ThUS$
Beginning balance as of 01.01.2015	288,068	141,577	1,782,798	346	3,896	1,091	358,925	-	2,379,505	4,956,206
Additions	-	-	3	-	17	656	105,985	-	58,165	164,826
Acquisitions through business combinations (see note 6)	34	101,961	608,148	187	154	74	3,523	13,041	8,416	735,538
Expropiations	(52)	(25)	(430)	-	(28)	(64)	-	-	-	(599)
Accumulated depretiations expropiations	-	2	526	-	19	62	-	-	-	609
Impairment losses recognized in the result of period	-	-	(40)	-	-	-	(1,559)	-	(519)	(2,118)
Transfers	343	1,394	24,953	-	1	-	(28,704)	-	2,013	-
Amortization expenses (see note 30)	-	(7,009)	(98,714)	(48)	(419)	(592)	-	(29)	(86,888)	(193,699)
Total Movement	**325**	**96,323**	**534,446**	**139**	**(256)**	**136**	**79,245**	**13,012**	**(18,813)**	**704,557**
Final Balance at the 12.31.2015	**288,393**	**237,900**	**2,317,244**	**485**	**3,640**	**1,227**	**438,170**	**13,012**	**2,360,692**	**5,660,763**

c. Other disclosures

i) The Company does not possess property, plant and equipment that is affected as guarantees for the fulfillment of obligations, with the exception of the subsidiary Fenix Power Perú S.A., which has guarantees granted in favor of Banco Scotiabank Peru S.A. as agent bank among other creditors under a credit contract signed in February 2016.

Assets provided as collateral as of December 31, 2016 are as follows:

Assets	Net Cost ThUS$
Land	28
Machinery	464,989
Other fixed Assets	6,863
Total	**471,880**

ii) Colbún and subsidiaries have signed insurance policies to cover possible risks, which the different elements of its tangible property, plant and equipment are exposed to, as well as possible claims that might be filed against them for carrying out its line of business, in the understanding that such policies adequately cover the risks to which they are exposed.

In addition, the loss of benefits that might occur as a consequence of a shutdown is covered through insurance.

iii) As of December 31, 2016 and 2015 the Company had commitments for the acquisition of property, plant and equipment derived from construction contracts for the amount of ThUS$ 19,895 and ThUS$65,724, respectively. The companies with which it operates are: ABB S.A., Siemens S.A., Andritz Chile Limitada, Power Machines Agency in Chile, Sociedad O.G.M. Mecánica Integral S.A., Cobra Chile Servicios S.A., Autotrol Chile S.A., Abengoa Chile S.A., ENV Obras Civiles y Montajes SPA, Soenco Soluciones Geotecnicas Limitada, Vigaflow S A., Power Machines, Andritz Hydro S.R.L., L + M AG y Siemens Energy, Inc.

iv) Capitalized interest costs (IAS23) for the periods ended December 31, 2016 and 2015 amounted to:

Concept	January- December	
	2016 ThUS$	**2015** ThUS$
Loan costs		
Capitalized loan cost	(2,399)	-
Costs for loans recognized as expenses	(19,751)	(9,189)
Total costs for loans incurred	**(22,150)**	**(9,189)**
Interest costs		
Capitalized interest cost	(7,481)	(7,292)
Interest expenses	(81,921)	(80,378)
Total interest costs incurred	**(89,402)**	**(87,670)**
Corporate's average financing rate	4.78%	5.08%

See Note 31

v) Operating lease

As of December 31, 2016 and 2015, the Company has implicit operating leases corresponding to:

1) Transmission Line Contracts (220 KV Alto Jahuel-Candelaria and 220 KV Candelaria-Minero), signed between the Company and National Copper Corporation of Chile. Those contracts are for a term of 30 years.
2) Additional Toll contracts (Transmission Line – Substation Polpaico/ Substation Maitenes) signed between the Company and Anglo American Sur. The term of the contract is for 21 year.
3) Energy and capacity supply signed between the Company and Codelco. The term of the contract is 30 years.

Future collections derived from those contracts are detailed as follows:

December 31, 2016	Next twelve months ThUS$	Between 1 and 5 years ThUS$	More than 5 years ThUS$	Total ThUS$
Future collections derived from operating leases corresponding to Trasmission Line Contracts	115,870	463,476	2,535,964	3,115,310
Total	**115,870**	**463,476**	**2,535,964**	**3,115,310**

December 31, 2015	Next twelve months ThUS$	Between 1 and 5 years ThUS$	More than 5 years ThUS$	Total ThUS$
Future collections derived from operating leases corresponding to Trasmission Line Contracts	114,343	457,371	2,614,726	3,186,440
Total	**114,343**	**457,371**	**2,614,726**	**3,186,440**

vi) Financial lease

As of December 31, 2016, property, plant and equipment include ThUS$ 12,064, corresponding to the net book value of assets that are the subject of financial lease contracts. While as of December 31, 2015, they included ThUS$ 13,012 for this concept.

Leased assets come from the Fenix subsidiary and correspond to a contract signed with Consorcio Transmantaro S.A. ("CTM"), in which CTM is obliged to provide the service operation and maintenance of the transmission line of approximately 8 kilometers from the Chilca substation to the Fenix thermal plant. This contract has a term of 20 years and accrues interest at an annual rate of 12%. In addition, CTM is obliged to build facilities for the provision of the transmission service.

The present value of future payments under these contracts is as follows:

December 31, 2016	Next twelve ThUS$	Between 1 and 5 years ThUS$	More than 5 years ThUS$	Total ThUS$
Gross	2,362	11,040	34,710	**48,112**
Interests	1,982	9,071	21,608	**32,661**
fair Value (see note 22.a)	380	1,969	13,102	**15,451**
December 31, 2015	**Next twelve** ThUS$	**Between 1 and 5 years** ThUS$	**More than 5 years** ThUS$	**Total** ThUS$
Gross	2,354	12,918	23,177	**38,449**
Interests	2,012	8,920	11,492	**22,424**
fair Value (see note 22.a)	342	3,998	11,685	**16,025**

vii) Information required by the XBRL taxonomy

1. Disbursements recognized in work in progress

Disbursements recognized in the course of its construction, gross	12.31.2016 ThUS$	12.31.2015 ThUS$
Construction in progress	141,736	82,679
Total	**141,736**	**82,679**

2. Assets completely depreciated but being used

Assets depreciated as a whole still in use, Gross	12.31.2016 ThUS$	12.31.2015 ThUS$
Buildings and infrastructure	62	20
Machinery and equipment	35,186	23,918
Transport equipment	452	403
Office Equipment	3,730	3,381
Computer equipment	5,325	4,341
Other property, plant and equipment	8,949	4,734
Total	**53,704**	**36,797**

Assets depreciated as a whole still in use, accumulated depreciation and impairment	12.31.2016 ThUS$	12.31.2015 ThUS$
Buildings and infrastructure	(62)	(20)
Machinery and equipment	(35,186)	(23,918)
Transport equipment	(452)	(403)
Office Equipment	(3,730)	(3,380)
Computer equipment	(5,325)	(4,341)
Other property, plant and equipment	(8,949)	(4,675)
Total	**(53,704)**	**(36,737)**

viii) Details of other property, plant and equipment

As of December 31, 2016 and 2015, the details of other property, plant and equipment are as follows:

Other property, plant and equipment	12.31.2016 ThUS$	12.31.2015 ThUS$
Civil works	1,909,843	1,960,720
Substations	157,618	166,655
Transmission lines	140,218	146,834
Parts of long-term classified as fixed assets	98,238	86,469
Other fixed assets	11	14
Total other properties, plants and equipment, net	**2,305,928**	**2,360,692**

Other property, plant and equipment	12.31.2016 ThUS$	12.31.2015 ThUS$
Civil works	2,462,776	2,438,905
Substations	205,041	204,513
Transmission lines	165,284	169,326
Parts of long-term classified as fixed assets	98,238	86,469
Other fixed assets	1,443	1,443
Total other properties, plants and equipment, gross	**2,932,782**	**2,900,656**

Depretiation other property, plant and equipment	12.31.2016 ThUS$	12.31.2015 ThUS$
Civil works	(552,933)	(478,185)
Substations	(47,423)	(37,858)
Transmission lines	(25,066)	(22,492)
Other fixed assets	(1,432)	(1,429)
Total depreciations and impairment	**(626,854)**	**(539,964)**

19. Current tax assets

Tax accounts receivable as of the dates of the statements of financial position, are as follows:

	Current	
	12.31.2016 ThUS$	12.31.2015 ThUS$
Reminent tax credit	85	-
Monthly provisional payments	677	919
Provisional payment for absorbed earning	-	7,715
Tax recoverable for the year	4,602	106
Total	**5,364**	**8,740**

20. Other non-financial assets

Other assets as of the dates of the Balances of Financial Position are as follows:

	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Installations and civil insurance premiums	14,026	15,726	-	-
Prepayments	13,064	12,430	20,710	16,988
Patents on non-use of water rights (1)	-	-	8,040	7,113
Anticipate supplies GE - Siemens	-	-	15,927	6,969
Other miscellaneous assets	100	114	1,121	1,192
	27,190	**28,270**	**45,798**	**32,262**

(1) Credit in accordance with Article 129 bis 20 of the Water Code DFL 1,122. As of December 31, 2016, the Company had recognized an impairment of ThUS$ 1.730, whereas as of December 31, 2015, an impairment of ThUS$ 1,831 was recognized. Payment of these licenses is associated to the implementation of projects that will use this water; therefore, it is an economic variable that the Company evaluates on an ongoing basis. In this context, the Company adequately controls payments made and recognizes estimates for project start-ups, in order to record impairment of the asset if it projects that the use will be subsequent to the period where it can take advantage of the tax credit.

21. Income taxes

a. Income taxes

Income Tax	January- December 2016 ThUS$	2015 ThUS$
Current income tax (expense) income		
Current income tax	(66,413)	(33,559)
Utilization of tax losses	-	-
Others taxes current	(926)	(4,400)
Adjustments to current tax of prior period	(82)	(10)
Total current tax (expense) income	**(67,421)**	**(37,969)**
Deferred income tax (expense) income		
Temporary differences (1)	-	(51,686)
Other expenses deferred tax	507	(9,948)
Total deferred tax (expense) income	**507**	**(61,634)**
Total income tax (expense) income	**(66,914)**	**(99,603)**

(1) Primarily includes the effect of temporary differences related to property, plant and equipment, expenses capitalized to assets under construction and effects of unused tax losses.

a.1 Reconciliation of current taxes

As of December 31, 2016 and 2015, current taxes can be reconciled with income as follows:

Current tax reconciliation	12.31.2016						
Company	Current income tax result ThUS$	Current tax equity adjustment ThUS$	Provisional monthly payment ThUS$	Other credits ThUS$	Income tax ThUS$	Tax Assets ThUS$	Tax Liabilities ThUS$
Colbún S.A.	(51,816)	(2,154)	24,753	325	(181)	-	(29,073)
Empresa Eléctrica Industrial S.A.	(716)	-	581	7	(1)	-	(129)
Soc. Hidroeléctrica Melocotón Ltda.	(806)	-	716	-	-	-	(90)
Termoeléctrica Antilhue S.A.	(821)	-	985	-	-	164	-
Termoeléctrica Nehuenco S.A.	-	-	-	1	-	1	-
Río Tranquilo S.A.	(4,575)	-	3,127	18	-	-	(1,430)
Colbún Transmisión S.A.	(5,580)	-	3,697	-	-	-	(1,883)
Fenix Power S.A.	(1,916)	-	3,279	3,074	-	4,437	-
Totals	**(66,230)**	**(2,154)**	**37,138**	**3,425**	**(182)**	**4,602**	**(32,605)**

Current tax reconciliation	12.31.2015						
Company	Current income tax result ThUS$	Current tax equity adjustment ThUS$	Provisional monthly payment ThUS$	Other credits ThUS$	Income tax ThUS$	Tax Assets ThUS$	Tax Liabilities ThUS$
Colbún S.A.	(25,068)	-	5,821	-	(566)	-	(19,813)
Colbún Perú S.A	(23)	-	-	-	(144)	-	(167)
Empresa Eléctrica Industrial S.A.	(494)	-	44	-	-	-	(450)
Soc. Hidroeléctrica Melocotón Ltda.	(884)	-	458	-	-	-	(426)
Termoeléctrica Antilhue S.A.	(985)	-	385	-	-	-	(600)
Termoeléctrica Nehuenco S.A.	-	-	-	-	-	-	-
Río Tranquilo S.A.	(2,788)	-	219	-	(20)	-	(2,589)
Colbún Transmisión S.A.	(3,317)	-	3,317	-	-	-	-
Totals	**(33,559)**	**-**	**10,244**	**-**	**(730)**	**-**	**(24,045)**

At December 31, 2016, Colbún S.A. and its domestic subsidiaries generated taxable profits and thus current income tax provision amounting to ThUS$ 32,493 at consolidated level net of provisional income tax payments and tax credits.

Foreign subsidiary Fenix Power Perú S.A. recorded at December 31, 2016 accumulated tax losses amounting to ThUS$ 133,268. Given the above and in accordance with the provisions of the tax legislation in Peru, the subsidiary will use annually carryforward tax losses for up to 50% of the taxable income for the period, generating at this date income tax provision of ThUS$ 1,916. The domestic subsidiary Thermoelectric Nehuenco S.A. presents, at end of the current period, accumulated tax losses amounting to ThUS$ 13,608. With respect of those two subsidiaries that maintain accumulated tax losses it is expected that those will reverse in the future, and so the corresponding deferred tax assets was recognized.

According to IAS 12, a deferred tax asset for tax losses is recognized when the Company's management has determined that it is probable that taxable income will be generated in the future, on which the losses may be applied, and that is the case for both subsidiaries with the accumulated tax losses.

a.2 Reconciliation of Consolidated tax expenses

As of December 31, 2016 and 2015, current taxes can be reconciled with income as follows:

Income tax expense	January- December	
	2016 ThUS$	2015 ThUS$
Profit before tax	271,654	300,036
Income tax using the legal rate (1)	**(65,197)**	**(67,508)**
Tax income (expense) using the effective rate	-	(19)
Difference in allocation of tax losses carryforward	-	19
Difference between financial accounting expressed in USD and tax accounting in CLP with effect in deferred taxes (2)	1,971	(32,095)
Tax effect for differential of rates in other jurisdictions	(296)	-
Other differences	(3,392)	-
Income tax expense	**(66,914)**	**(99,603)**

(1) As of December 31, 2016, the Income Tax charge was calculated using a 24% tax rate (Law 20,780), operations in Chile and 28% tax rate in Peru. As of December 31, 2015, the Company only recorded domestic operations by calculating the tax with a tax rate of 22.5%.

(2) In accordance with IFRS, the Company and its subsidiaries record their transactions in their functional currency - US Dollar. However, until December 31, 2015, for tax purposes they kept the tax records in local currency. Balances of assets and liabilities were translated to US dollars and then compared to the IFRS accounting balances and deferred taxes on the resulting differences between those two amounts were determined.

Notwithstanding the foregoing, as of January 1, 2016 Colbún S.A. and its domestic subsidiaries were authorized by the Internal Revenue Service (Servicio de Impuestos Internos) to keep their accounts in foreign currency. Regarding foreign subsidiaries, they keep for tax purposes the local currency.

a.3 Effective rate calculation

Tax rate	January- December	
	2016 %	2015 %
Statutory tax rate	24%	22.5%
Adjustment to the legal tax rate, total	0.5%	10.7%
Tax effect for differential of rates in other jurisdictions, total	0.1%	0.0%
Effective tax rate	**24.6%**	**33.2%**

b. Deferred taxes

Deferred tax assets and liabilities by concept are as follows:

Deferred tax assets	12.31.2016 ThUS$	12.31.2015 ThUS$
Tax losses	43,001	42,631
Inventory	2,833	2,862
Others	7,298	6,236
Provisions	3,515	2,960
RNR	583	-
Contingency	46	2,084
Hedge instruments	-	4,745
Post-Employment Benefits Obligations	4,959	3,746
Tax Expenses	3,939	7,361
Deferred tax assets	**66,174**	**72,625**
Deferred tax liabilities	**12.31.2016 ThUS$**	**12.31.2015 ThUS$**
Depreciation	(1,006,785)	(1,013,221)
Intangible assets	(4,388)	-
Others	(5,561)	(8,438)
Hedge instruments	(284)	-
Deferred tax liabilities	**(1,017,018)**	**(1,021,659)**
Deferred tax assets and liabilities, net	**(950,844)**	**(949,034)**

The deferred tax position of each company is as follows:

Net position on deferred tax per company				
Company	**Net position**			
	Assets		**Liabilities**	
	12.31.2016 ThUS$	**12.31.2015** ThUS$	**12.31.2016** ThUS$	**12.31.2015** ThUS$
Empresa Eléctrica Industrial S.A.	-	-	(383)	(470)
Termoeléctrica Nehuenco S.A.	4,345	4,409	-	-
Soc. Hidroeléctrica Melocotón Ltda.	-	-	(146)	(144)
Colbún S.A.	-	-	(917,325)	(912,216)
Termoeléctrica Antilhue S.A.	-	-	(8,396)	(8,671)
Río Tranquilo S.A.	-	-	(10,162)	(11,754)
Colbún Transmisión S.A.	-	-	(20,576)	(21,851)
Colbún Perú S.A.	13	6	-	-
Inversiones Las Canteras S.A.	-	-	(860)	(850)
Fenix Power Perú S.A.	2,646	2,507	-	-
Subtotal	**7,004**	**6,922**	**(957,848)**	**(955,956)**
Deferred tax, net			**(950,844)**	**(949,034)**

c. Income taxes on other comprehensive income

Tax rate	January- December 2016 ThUS$	2015 ThUS$
Related to cash flow hedges	(5,201)	1,381
Related to defined benefit plans	729	657
Income taxes related to components of other comprehensive income	**(4,472)**	**2,038**
Related to participation of another integral result of associated and joint assessed business using the method of the participation	(332)	326

22. Other financial liabilities

As of the date of the balances of financial position, other financial liabilities are detailed as follows:

a. Obligations with financial entities

Other financial liabilities	Current		Non current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Loans from financial entities [1]	3,350	402,596	343,868	366,964
Leasing obligations	380	342	15,071	15,683
Negotiable instruments (Bonds, commercial papers) [1]	47,708	45,664	1,295,131	1,362,744
Hedge derivatives [2]	1,606	4,783	2,918	36,865
Total	**53,044**	**453,385**	**1,656,988**	**1,782,256**

(1) Interest accrued on loans with financial entities and obligations with the public have been determined at an effective rate. On May 24, 2016, the Series H bond was prepaid for a total of US$ 80.8 million plus interest accrued to that date, unwind of the associated derivatives and the amortization of capitalized transaction costs. On June 10, 2016, the Club Deal credit for US$ 160 million plus interest accrued to that date was prepaid, unwind the associated derivatives and amortization of capitalized transaction costs. On July 15, 2016, Club Deal BTMU credit was prepaid for a total of US$ 250 million plus interest accrued to that date, unwind of the associated derivatives and the amortization of capitalized transaction costs. On December 30, a partial prepayment of the debt plus related interests was made by the subsidiary Fenix Power S.A. of US$ 18.2 million.

(2) See detail in Note 14.1.

b. Financial debt by type of currency

The value of Colbún's financial debt (bank liabilities, bonds and leasing) considering only the effect of derivative instruments with a liability position is detailed as follows:

Financial debt by currency	12.31.2016 ThUS$	12.31.2015 ThUS$
US Dollars	1,614,379	2,124,600
UF	95,653	111,041
Total	**1,710,032**	**2,235,641**

c. Maturity and currency of obligations with financial entities

Obligations with banks

As of 12.31.2016		
Debtor's taxpayer No.	0-E	
Debtor's name	Fenix Power Perú S.A.	
Debtor's country	Perú	
Creditor's taxpayer No.	0-E	
Creditor's name	The Bank of Nova Scotia	
Creditor's country	Canada	
Currency or readjustment unit	US$	
Type of amortization	Bullet	
Interest rate	Variable	
Base	Libor 6M	
Effective rate	2.86%	
Nominal rate	2.34%	
Nominal amounts	**ThUS$**	**Total**
Up to 90 days	3,350	**3,350**
More than 90 days up to 1 year	-	-
More than 1 year up to 3	-	-
More than 1 year up to 2	-	-
More than 2 years up to 3	-	-
More than 3 years up to 5	**347,700**	**347,700**
More than 3 years up to 4	347,700	**347,700**
More than 4 years up to 5	-	-
More than 5 years	-	-
Subtotal nominal amounts	**351,050**	**351,050**
Accounting values	**ThUS$**	**Total**
Up to 90 days	3,350	**3,350**
More than 90 days up to 1 year	-	-
Current bank loans	**3,350**	**3,350**
More than 1 year up to 3	-	-
More than 1 year up to 2	-	-
More than 2 years up to 3	-	-
More than 3 years up to 5	**343,868**	**343,868**
More than 3 years up to 4	343,868	**343,868**
More than 4 years up to 5	-	-
More than 5 years	-	-
Non-current banks loans	**343,868**	**343,868**
Bank loans total	**347,218**	**347,218**

Obligations with banks

As of 12.31.2015				
Debtor's taxpayer No.	96505760-9	96505760-9	0-E	
Debtor's name	Colbún S.A.	Colbún S.A.	Fenix Power Peru S.A.	
Debtor's country	Chile	Chile	Perú	
Creditor's taxpayer No.	0-E	0-E	0-E	
Creditor's name	The Bank of Tokyo-Mitsubishi UFJ, Ltd	Scotiabank & Trust (Cayman) Ltd	Banco BTG Pactual S.A.	
Creditor's country	USA	Cayman	Brasil	
Currency or readjustment unit	US$	US$	US$	
Type of amortization	Bullet	Anual	Bullet	
Interest rate	Variable	Variable	Fixed	
Base	Libor 6M	Libor 6M	-	
Effective rate	2.30%	2.46%	7.63%	
Nominal rate	2.02%	2.22%	6.25%	
Nominal amounts		**ThUS$**		**Total**
Up to 90 days	-	-	362,000	**362,000**
More than 90 days up to 1 year	1,083	40,207	-	**41,290**
More than 1 year up to 3	**250,000**	**40,000**	-	**290,000**
More than 1 year up to 2	-	40,000	-	40,000
More than 2 years up to 3	250,000	-	-	250,000
More than 3 years up to 5	-	**40,000**	-	**40,000**
More than 3 years up to 4	-	40,000	-	40,000
More than 4 years up to 5	-	-	-	-
More than 5 years	-	**40,000**	-	**40,000**
Subtotal nominal amounts	**251,083**	**160,207**	**362,000**	**773,290**
Accounting values		**ThUS$**		**Total**
Up to 90 days	-	-	361,672	**361,672**
More than 90 days up to 1 year	1,083	39,841	-	**40,924**
Current bank loans	**1,083**	**39,841**	**361,672**	**402,596**
More than 1 year up to 3	**248,062**	**39,634**	-	**287,696**
More than 1 year up to 2	-	39,634	-	39,634
More than 2 years up to 3	248,062	-	-	248,062
More than 3 years up to 5	-	**39,634**	-	**39,634**
More than 3 years up to 4	-	39,634	-	39,634
More than 4 years up to 5	-	-	-	-
More than 5 years	-	**39,634**	-	**39,634**
Non-current banks loans	**248,062**	**118,902**	-	**366,964**
Bank loans total	**249,145**	**158,743**	**361,672**	**769,560**

Obligations with the public

As of 12.31.2016						
Debtor's taxpayer No.	96505760-9	96505760-9	96505760-9	96505760-9	96505760-9	
Debtor's name	Colbún S.A.	Colbún S.A.	Colbún S.A.	Colbún S.A.	Colbún S.A.	
Debtor's country	Chile	Chile	Chile	Chile	Chile	
Registration number	234	499	538	-	-	
Series	Serie C	Serie F	Serie I	144A/RegS	144A/RegS	
Maturity date	10-15-2021	05-01-2017	06-10-2029	01-21-2020	07-10-2024	
Currency or readjustment unit	UF	UF	UF	US$	US$	
Periodicity of amortization	Biannual	Biannual	Biannual	Bullet	Bullet	
Interest rate	Fixed	Fixed	Fixed	Fixed	Fixed	
Base	Fixed	Fixed	Fixed	Fixed	Fixed	
Effective rate	8.10%	4.46%	5.02%	6.26%	4.97%	
Nominal rate	7.00%	3.40%	4.50%	6.00%	4.50%	
Nominal amounts			ThUS$			**Total ThUS$**
Up to 90 days	-	-	-	13,250	10,625	**23,875**
More than 90 days up to 1 year	7,392	16,742	292	-	-	**24,426**
More than 1 year up to 3	**14,756**	**31,484**	**16,100**	-	-	**62,340**
More than 1 year up to 2	7,196	15,742	5,367	-	-	28,305
More than 2 years up to 3	7,560	15,742	10,733	-	-	34,035
More than 3 years up to 5	**16,288**	**31,484**	**21,466**	**500,000**	-	**569,238**
More than 3 years up to 4	7,943	15,742	10,733	500,000	-	534,418
More than 4 years up to 5	8,345	15,742	10,733	-	-	34,820
More than 5 years	-	**102,322**	**80,498**	-	**500,000**	**682,820**
Subtotal nominal amounts	**38,436**	**182,032**	**118,356**	**513,250**	**510,625**	**1,362,699**
Book values			ThUS$			**Total ThUS$**
Up to 90 days	-	-	-	13,250	10,625	**23,875**
More than 90 days up to 1 year	7,276	16,265	292	-	-	**23,833**
Current obligations with the public	**7,276**	**16,265**	**292**	**13,250**	**10,625**	**47,708**
More than 1 year up to 3	**14,506**	**30,530**	**15,740**	-	-	**60,776**
More than 1 year up to 2	7,074	15,265	5,247	-	-	27,586
More than 2 years up to 3	7,432	15,265	10,493	-	-	33,190
More than 3 years up to 5	**16,013**	**30,530**	**20,986**	**497,437**	-	**564,966**
More than 3 years up to 4	7,809	15,265	10,493	497,437	-	531,004
More than 4 years up to 5	8,204	15,265	10,493	-	-	33,962
More than 5 years	-	**99,222**	**78,699**	-	**491,468**	**669,389**
Non-current obligations with the public	**30,519**	**160,282**	**115,425**	**497,437**	**491,468**	**1,295,131**
Obligations with the public total	**37,795**	**176,547**	**115,717**	**510,687**	**502,093**	**1,342,839**

Obligations with the public

As of 12.31.2015							
Debtor's taxpayer No.	96505760-9	96505760-9	96505760-9	96505760-9	96505760-9	96505760-9	
Debtor's name	Colbún S.A.	Colbún S.A.	Colbún S.A.	Colbún S.A.	Colbún S.A.	Colbún S.A.	
Debtor's country	Chile	Chile	Chile	Chile	Chile	Chile	
Registration number	234	499	537	538	-	-	
Series	Serie C	Serie F	Serie H	Serie I	144A/RegS	144A/RegS	
Maturity date	10-15-2021	05-01-2028	06-10-2018	06-10-2029	01-21-2020	07-10-2024	
Currency or readjustment unit	UF	UF	US$	UF	US$	US$	
Periodicity of amortization	Biannual	Biannual	Bullet	Biannual	Bullet	Bullet	
Interest rate	Fixed	Fixed	Variable	Fixed	Fixed	Fixed	
Base	Fixed	Fixed	Libor 6M	Fixed	Fixed	Fixed	
Effective rate	8.10%	4.46%	3.31%	5.02%	6.26%	4.97%	
Nominal rate	7.00%	3.40%	2.83%	4.50%	6.00%	4.50%	
Nominal amounts	ThUS$						**Total ThUS$**
Up to 90 days	-	-	-	-	13,250	10,625	**23,875**
More than 90 days up to 1 year	6,562	15,432	127	268	-	-	**22,389**
More than 1 year up to 3	**12,880**	**28,870**	**80,800**	**4,921**	-	-	**127,471**
More than 1 year up to 2	6,281	14,435	-	-	-	-	20,716
More than 2 years up to 3	6,599	14,435	80,800	4,921	-	-	106,755
More than 3 years up to 5	**14,217**	**28,870**	-	**19,684**	**500,000**	-	**562,771**
More than 3 years up to 4	6,933	14,435	-	9,842	-	-	31,210
More than 4 years up to 5	7,284	14,435	-	9,842	500,000	-	531,561
More than 5 years	**7,652**	**108,264**	-	**83,659**	-	**500,000**	**699,575**
Subtotal nominal amounts	**41,311**	**181,436**	**80,927**	**108,532**	**513,250**	**510,625**	**1,436,081**
Book values	ThUS$						**Total ThUS$**
Up to 90 days	-	-	-	-	13,250	10,625	**23,875**
More than 90 days up to 1 year	6,450	14,945	127	267	-	-	**21,789**
Current obligations with the public	**6,450**	**14,945**	**127**	**267**	**13,250**	**10,625**	**45,664**
More than 1 year up to 3	**12,638**	**27,896**	**76,030**	**4,794**	-	-	**121,358**
More than 1 year up to 2	6,163	13,948	-	-	-	-	20,111
More than 2 years up to 3	6,475	13,948	76,030	4,794	-	-	101,247
More than 3 years up to 5	**13,950**	**27,896**	-	**19,178**	**496,546**	-	**557,570**
More than 3 years up to 4	6,803	13,948	-	9,589	-	-	30,340
More than 4 years up to 5	7,147	13,948	-	9,589	496,546	-	527,230
More than 5 years	**7,507**	**104,610**	-	**81,504**	-	**490,195**	**683,816**
Non-current obligations with the public	**34,095**	**160,402**	**76,030**	**105,476**	**496,546**	**490,195**	**1,362,744**
Obligations with the public total	**40,545**	**175,347**	**76,157**	**105,743**	**509,796**	**500,820**	**1,408,408**

Lease obligations

As of 12.31.2016		
Debtor's taxpayer No.	0-E	
Debtor's name	Fenix Power Perú S.A.	
Debtor's country	Perú	
Registration number	0-E	
Series	Consorcio Transmantaro S.A	
Maturity date	Perú	
Currency or readjustment unit	USD	
Periodicity of amortization	Quarterly	
Interest rate	Fixed	
Base	-	
Effective rate	12.00%	
Nominal rate	12.00%	
Nominal amounts	**ThUS$**	**Total**
Up to 90 days	-	-
More than 90 days up to 1 year	380	**380**
More than 1 year up to 3	**885**	**885**
More than 1 year up to 2	428	428
More than 2 years up to 3	457	457
More than 3 years up to 5	**1,084**	**1,084**
More than 3 years up to 4	511	511
More than 4 years up to 5	573	573
More than 5 years	**13,102**	**13,102**
Subtotal nominal amounts	**15,451**	**15,451**
Accounting values	**ThUS$**	**Total**
Up to 90 days	-	-
More than 90 days up to 1 year	380	**380**
Current bank loans	**380**	**380**
More than 1 year up to 3	**885**	**885**
More than 1 year up to 2	428	428
More than 2 years up to 3	457	457
More than 3 years up to 5	**1,084**	**1,084**
More than 3 years up to 4	511	511
More than 4 years up to 5	573	573
More than 5 years	**13,102**	**13,102**
Liabilities from leasing non	**15,071**	**15,071**
Total leasing liabilities	**15,451**	**15,451**

Lease obligations

As of 12.31.2015		
Debtor's taxpayer No.	0-E	
Debtor's name	Fenix Power Perú S.A.	
Debtor's country	Perú	
Registration number	0-E	
Series	Consorcio Transmantaro S.A	
Maturity date	Perú	
Currency or readjustment unit	USD	
Periodicity of amortization	Quarterly	
Interest rate	Fixed	
Base	-	
Effective rate	12.00%	
Nominal rate	12.00%	
Nominal amounts	**ThUS$**	**Total**
Up to 90 days	-	-
More than 90 days up to 1 year	342	**342**
More than 1 year up to 3	**1,564**	**1,564**
More than 1 year up to 2	704	704
More than 2 years up to 3	860	860
More than 3 years up to 5	**2,434**	**2,434**
More than 3 years up to 4	1,080	1,080
More than 4 years up to 5	1,354	1,354
More than 5 years	**11,685**	**11,685**
Subtotal nominal amounts	**16,025**	**16,025**
Accounting values	**ThUS$**	**Total**
Up to 90 days	-	-
More than 90 days up to 1 year	342	**342**
Current bank loans	**342**	**342**
More than 1 year up to 3	**1,564**	**1,564**
More than 1 year up to 2	704	704
More than 2 years up to 3	860	860
More than 3 years up to 5	**2,434**	**2,434**
More than 3 years up to 4	1,080	1,080
More than 4 years up to 5	1,354	1,354
More than 5 years	**11,685**	**11,685**
Liabilities from leasing non	**15,683**	**15,683**
Total leasing liabilities	**16,025**	**16,025**

c.1 Projected interest on obligations with financial entities detailed by currency:

Liability	Currency	Interests as of 12.31.2016 Accrued	Interests as of 12.31.2016 Projected	Principal	Due Date	Expiration Up to 3 months	Expiration 3 to 12 months	Expiration 1 to 3 years	Expiration 3 to 5 years	Expiration More than 5 years	Total interests	Total debt
The Bank of Nova Scotia (Fenix Power Perú)	US$	3,351	25,177	347,700	05-02-2020	4,075	4,075	16,302	4,075	-	28,528	376,228
Leasing Financiero (Fenix Power Perú)	US$	-	20,363	15,684	28-03-2033	-	1,882	3,628	3,407	11,446	20,363	36,047
Bono Serie C	UFR	14	175	963	15-04-2021	-	63	90	36	-	189	1,152
Bono Serie F	UFR	25	905	4,600	01-05-2028	-	152	263	209	306	930	5,530
Bono Serie I	UFR	7	961	3,000	10-06-2029	-	134	258	212	364	968	3,968
Bono 144A/RegS 2010	US$	13,250	91,750	500,000	21-01-2020	15,000	15,000	60,000	15,000	-	105,000	605,000
Bono 144A/RegS 2014	US$	10,625	169,375	500,000	10-07-2024	11,250	11,250	45,000	45,000	67,500	180,000	680,000

Liability	Currency	Interests as of 12.31.2015 Accrued	Interests as of 12.31.2015 Projected	Principal	Due Date	Expiration Next 3 months	Expiration 3 to 12 months	Expiration 1 to 3 years	Expiration 3 to 5 years	Expiration More than 5 years	Total interests	Total debt
Crédito The Bank of Tokyo-Mitsubishi UFJ, Ltd [(1)]	US$	1,083	14,326	250,000	15-10-2018	-	5,174	10,235	-	-	15,409	265,409
Crédito Scotiabank & Trust (Cayman) Ltdl [(1)]	US$	207	8,321	160,000	10-06-2021	-	2,941	3,349	1,866.00	372.00	8,528	168,528
Banco BTG Pactual S.A. (Fenix Power Perú)	US$	3,457	2,325	362,000	06-02-2016	5,782	-	-	-	-	5,782	367,782
Leasing Financiero (Fenix Power Perú)	US$	0	22,268	16,026	28-03-2033	480	1,425	3,720	3,524	13,119.00	22,268	38,294
Bono Serie C	UFR	16	248	1,128	15-04-2021	-	75	114	63	12.00	264	1,392
Bono Serie F	UFR	28	1,068	5,000	01-05-2028	-	165	290	236	405.00	1,096	6,096
Bono Serie H [(1)]	US$	127	5,589	80,800	10-06-2018	-	2,287	3,429	-	-	5,716	86,516
Bono Serie I	UFR	7	1,094	3,000	10-06-2029	-	134	267	236	464.00	1,101	4,101
Bono 144A/RegS 2010	US$	13,250	121,750	500,000	21-01-2020	15,000	15,000	60,000	45,000	-	135,000	635,000
Bono 144A/RegS 2014	US$	10,625	191,875	500,000	10-07-2024	11,250	11,250	45,000	45,000	90,000.00	202,500	702,500

(1) Liabilities with variable rate, consider current set rate as of December 31, 2016 and 2015 respectively, to calculate projected interest.

d) Committed and uncommitted lines of credit

The Company has uncommitted lines of credit amounting to US$150 million.

Other lines:

The Company has a line of credit for UF 2.5 million for the issuance of negotiable instruments, registered with the SVS in July 2008, for a 10-year period.

Additionally, the Company has registered two lines of bonds with the SVS for a joint amount of up to 7 million UF, with a ten and thirty-year maturity, respectively (since their approval in August 2009), and against which no placements have been made to date.

23. Trade and other accounts payable

Trade and other accounts payable as of the dates of the Balances of Financial Positions are as follows:

	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Trade payable	197,393	160,150	-	-
Other accounts payable	10,552	14,283	18,960	6,422
Total	**207,945**	**174,433**	**18,960**	**6,422**

The main suppliers to December 31, 2016 are:

Suppliers	%
CMC - Coal Marketing Dac	9
Mapfre Cía. Seguros Grles. de Chile S.A.	9
ACE Seguros S.A.	7
B.Bosch S.A.	4
COES	4
Andritz Hydro S.R.L.	3
GE Energy Parts International, Llc.	3
Transnet S.A.	2
Empresa Eléctrica Pehuenche S.A.	2
Enel Generación Chile S.A.	2
ABB S.A.	2
Campanario Generación S.A.	2
Siemens Energy, Inc.	2
Transelec S.A.	1
General Electric International Inc.	1
Voith Hydro Services Ltda.	1
Siemens AG	1
Others	45
	100

a) The ageing of the trade payables balance that are no due is as follows:

	Balances as of 12.31.2016	
	1-30 days ThUS$	Total ThUS$
Goods	67,365	67,365
Services	94,750	94,750
Others	32,622	32,622
Subtotal	**194,737**	**194,737**

	Balances as of 12.31.2015	
	1-30 days ThUS$	Total ThUS$
Goods	9,397	9,397
Services	129,076	129,076
Others	11,469	11,469
Subtotal	**149,942**	**149,942**

As of December 31, 2016, there were accrued expenses for which the invoice has not been received for an amount of ThUS$ 101,652 (ThUS$ 67,110 as of December 31, 2015).

b) The ageing of the trade payables balance that are overdue is as follows:

	Balances as of 12.31.2016						
	1-30 days ThUS$	31-60 ThUS$	61-90 ThUS$	91-120 ThUS$	121 - 180 ThUS$	Más de 180 ThUS$	Total ThUS$
Goods	23	-	-	-	-	33	56
Services	2,148	-	-	-	-	350	2,498
Others	-	-	-	-	-	102	102
Subtotal	**2,171**	**-**	**-**	**-**	**-**	**485**	**2,656**

	Balances as of 12.31.2015						
	1-30 días ThUS$	31-60 ThUS$	61-90 ThUS$	91-120 ThUS$	121 - 180 ThUS$	Más de 180 ThUS$	Total ThUS$
Goods	-	103	1,150	65	6,893	-	8,211
Services	-	1,499	-	8	474	-	1,981
Others	-	1	-	5	10	-	16
Subtotal	**-**	**1,603**	**1,150**	**78**	**7,377**	**-**	**10,208**

The average period for payments to suppliers is 30 days; therefore, fair value does not significantly differ from book value.

Trade payables overdue for more than 180 days, are outstanding, pending documents from suppliers to proceed with the respective payments.

24. Provisions

a. Classes of provisions

As of the dates of the balances of financial position, provisions are as follows:

Provisions	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Other				
Other provisions, current	7,393	15,501	-	-
Total	**7,393**	**15,501**	-	-
Employee benefits				
Employee benefits (Note 24.f)	14,996	11,237	1,067	926
Severances, non-current (Note 24.g)	-	-	26,441	22,075
Total	**14,996**	**11,237**	**27,508**	**23,001**
Total provisions	**22,389**	**26,738**	**27,508**	**23,001**

b. Movement of provisions during the period

Movement of provisions during the period is as follows:

Movements in 2016	Provisions				
	Holidays & vacation bonus ThUS$	SEC lawsuit reserves ThUS$	Contracts of supplies (1) MUS$	Other provisions (2) ThUS$	Total ThUS$
Beginning balance as of 01.01.2016	11,237	-	10,918	4,583	26,738
Increase (decrease) in existing provisions	14,026	-	(8,685)	1,172	6,513
Utilization	(10,267)	-	-	(595)	(10,862)
Ending balance as of 12.31.2016	**14,996**	-	**2,233**	**5,160**	**22,389**

Movements in 2015	Provisions				
	Holidays & vacation bonus ThUS$	SEC lawsuit reserves ThUS$	Contracts of supplies (1) MUS$	Other provisions (2) ThUS$	Total ThUS$
Beginning balance as of 01.01.2015	11,475	127	10,500	168	22,270
Increase (decrease) in existing provisions	8,318	(59)	418	4,415	13,092
Utilization	(8,556)	(68)	-	-	(8,624)
Ending balance as of 12.31.2015	**11,237**	-	**10,918**	**4,583**	**26,738**

(1) Provisions that originate in differences related to supply agreed upon with customers.
(2) Provisions made for differences and/or administrative and tax contingencies. (See note 35.c)

c. Environmental restoration

The provision for decommissioning costs includes the future disbursements necessary for the removal of ash and rehabilitation of the seabed in the Santa Maria Complex Unit I, at the end of its useful life. The net present value of these disbursements is incorporated as part of the property, plant and equipment. The amount at the end of the period is ThUS$ 202.

d. Restructuring

The Company has not established provisions for this concept.

e. Litigation

As of December 31, 2016 and 2015 the Company records a provision for litigation, in accordance with IAS 37 (see Note 35.c).

f. Breakdown of provisions

Employee benefits The Company recognizes provisions for benefits and bonuses for its employees, such as vacation accrual, benefits from completion of project contracts and production incentives.

Employee benefits	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Performance incentives, current	3,783	3,164	-	-
Vacation accrual, current	11,213	8,073	-	-
Termination of project term contracts	-	-	1,067	926
Total	**14,996**	**11,237**	**1,067**	**926**

g. Non-current employee benefits accrual

The Parent Company and certain subsidiaries have established a provision to cover the obligation for termination benefits that will be paid to its employees, in accordance with collective contracts signed with its employees. This provision represents the entire accrued provision (see Note 3.1.m).

The Company constantly assesses the basis used in the actuarial calculation of obligations with employees. At December 31, 2016, the Company updated certain indicators in order to better reflect current market conditions.

i) Composition of employee benefits provision - The main concepts included in the employee benefits accrual as of the dates of the balances of financial position, is detailed as follows:

Employee benefits provision	12.31.2016 ThUS$	12.31.2015 ThUS$
Severance, non-current	26,441	22,075
Total	**26,441**	**22,075**

Net present value of defined	12.31.2016 ThUS$	12.31.2015 ThUS$
Beginnig balance	22,075	23,040
Service cost	1,626	1,716
Interests cost	394	380
Exchange rate difference	1,342	(3,355)
Actuarial (losses) gains on experience	1	(131)
Actuarial (losses) gains on hypotheses	2,907	2,353
Payments	(1,904)	(1,928)
Ending balance (see Note 24.a)	**26,441**	**22,075**

ii) Actuarial hypotheses - The main assumptions used in the actuarial calculation are:

Hypotheses used		12.31.2016	12.31.2015
Discount rate		1.68%	1.93%
Expected salary increase		2.65%	2.65%
Retirement age	Voluntary	3.30%	3.10%
	Dismissed	2.40%	3.80%
Retirement age	Men	65	65
	Women	60	60
Mortality table		RV-2014	RV-2009

Discount rate: corresponds to the interest rate used to bring estimated services to be paid in the future to the current moment. This is determined using the discount rate for Chilean Central Bank Bonds in UF at a 20-year term as of the dates of the balances of financial position. The source for this rate is Bloomberg.

Expected salary increase rate: is the salary growth rate estimated by the Company for its employees' remunerations, based on the internal compensation policy.

Turnover Index: correspond to turnover rates calculated by the Company based on its historical information.

Retirement Age: corresponds to the legal retirement age, both for men and women, as stated in DL 3,500, which contains the standards that govern the current pension system.

Mortality Table: corresponds to the mortality table published by the Superintendency of Securities and Insurance.

iii) Sensitivity to actuarial assumptions - for sensitivity purposes, only the discount rate has been considered a relevant parameter. The results of changes in actuarial liabilities, due to sensitivity to the discount rate are detailed as follows:

Sensibility	Rate		Obligation	
	12.31.2016 %	12.31.2015 %	12.31.2016 ThUS$	12.31.2015 ThUS$
Discount rate used	1.68	1.93	26,441	22,075
Decrease of 50 basis points	1.18	1.43	27,827	23,086
Increase of 50 basis points	2.18	2.43	25,166	21,140

iv) Projection for actuarial calculation for the following year - the following table shows the projection of the liability one year later than the date of the balance of financial position as of December 31, 2017 for the concept of employee benefits under IAS 19, using actuarial assumptions and data reported by the Company.

Projections	Obligation ThUS$
Situation as of 12.31.2016	26,441
Projection to 12.31.2017	26,670
Projected increase	229

v) Future disbursements - according to the Company's estimate, the projection of expected cash flows payments for the following periods is detailed as follows:

Period 2017	Payments ThUS$
January	724
February	125
March	203
April	86
May	91
June	231
July	85
August	84
September	111
October	155
November	139
December	83
Total	**2,117**

25. Other non-financial liabilities

As of the dates of the balances of financial position, other non-financial liabilities are detailed as follows:

	Current		Non-current	
	12.31.2016 ThUS$	12.31.2015 ThUS$	12.31.2016 ThUS$	12.31.2015 ThUS$
Withholdings	10,866	3,955	-	-
Unearned income (1)	750	630	11,407	10,603
Other liabilities	117	63	-	-
Total	**11,733**	**4,648**	**11,407**	**10,603**

(1) Corresponds to prepayments received related to maintenance operations and services. Income is recognized when the services are provided. The balance classified as non-current includes ThUS$ 4,644 for the leasing with Anglo American (2030 contract expiration).

26. Net equity information disclosures

a. Subscribed and paid-in capital and number of shares

At the General Shareholders' Meeting of Colbún S.A. held on April 29, 2009, the shareholders approved a change in the currency in which stock capital is expressed. The change came into force on December 31, 2008. The currency stock capital is expressed in US Dollars and using the exchange rate used as of December 31, 2008, divided 17,536,167,720 into the same number of registered ordinary shares, each of the same value and without par value.

As of the dates of the balances of financial position, subscribed and paid-in capital and number of shares is detailed as follows:

Number of shares

Series	Number of subscribed shares	Number of paid shares	Number of shares with voting rights
Single	17,536,167,720	17,536,167,720	17,536,167,720

Capital (Amount US$)

Series	Subscribed capital ThUS$	Paid-in capital ThUS$
Single	1,282,793	1,282,793

Number of shares

Series	Number of subscribed shares	Number of paid shares	Number of shares with voting rights
Single	17,536,167,720	17,536,167,720	17,536,167,720

Capital (Amount US$)

Series	Subscribed capital ThUS$	Paid-in capital ThUS$
Single	1,282,793	1,282,793

a.1 Reconciliation of shares

The following table details the conciliation between the number of outstanding shares at the beginning and end of the reported periods:

Shares	12.31.2016	12.31.2015
Number of outstanding shares at the beginning of the period	17,536,167,720	17,536,167,720
Changes on the number of outstanding shares		
Increase (decrease) in the number of outstanding shares	-	-
Number of outstanding shares at the end of the period	17,536,167,720	17,536,167,720

a.2 Number of shareholders

As of December 31, 2016 Colbún, S.A. had 3,152 shareholders (unaudited).

b. Social capital

Stock capital corresponds to paid-in capital indicated in a).

c. Share premiums

As of December 31, 2016 and 2015 issuance premiums amount to ThUS$ 52,595 and are generated by an amount of ThUS$ 30,700, corresponding to the surcharge received in the subscription period from issuance of shares approved at the Extraordinary Shareholders' Meeting held on March 14, 2008, plus a surcharge of ThUS$ 21,895, product of capital increases prior to 2008.

d. Dividends

The general policy and procedure for distributing dividends agreed at the shareholders' meeting held on April 22, 2016, established the distribution of a minimum dividend of 30% of net income. According to IFRS, there is a legal and assumed obligation, which requires recognition of a liability at the close of each year for the concept of minimum legally required dividend.

In the Board of Directors Meeting on December 22, 2015, it was agreed to distribute an interim dividend with a charge to earnings for the year ended December 31, 2015, payable in money up to the amount of ThUS$ 39,632, corresponding to US$ 0.00226 per share. On January 12, 2016, the Company began paying that dividend.

The Board of Directors agreed on its meeting held on March 29, 2016 to propose at the Shareholders Meeting to distribute as a dividend 50% of the corresponding profit for the financial year 2015. The increase in the percentage of the profit to be distributed comparing to the policy of distributing 30%, reflects positive cash generation experienced by the Company in recent years as a result of the consolidation of its operating results. This proposal reached the amount of ThUS$ 101,507.

The Shareholders' Meeting dated April 22, 2016 approved the distribution of a final dividend No. 46, charged to earnings for the year ended December 31, 2015, for the total amount of MUS $ 61,875 corresponding to US $ 0.00353 per share, which began being paid on May 5, 2016.

At the Board of Directors' meeting held on December 20, 2016, a provisional dividend was declared with a charge to the profits for the year ended December 31, 2016, payable in cash for the total amount of ThUS$ 45,760, corresponding to US$ 0.00261 per share. This dividend began to be paid on January 9, 2017.

e. Composition of other reserves

Following is a detail of other reserves:

Other reserves	12.31.2016 ThUS$	12.31.2015 ThUS$
Effect of first-time adoption deflation of paid-in capital. Official Circular No.456 SVS	517,617	517,617
Effect of first-time adoption, conversion IAS 21	(230,797)	(230,797)
Effect of conversion associates	(49,950)	(51,336)
Effect of Hedge associates	70	(827)
Hedge reserves	6,775	(6,027)
Subtotal	**243,715**	**228,630**
Merger reserve, Hidroélectrica Cenelca S.A.	500,761	500,761
Subsidiaries reserves	(13,993)	(13,803)
Subtotal	**486,768**	**486,958**
Total	**730,483**	**715,588**

Effect of first-time adoption deflation of paid-in capital: Official Circular No. 456 issued by the SVS and effect of first-time adoption conversion IAS 21: Reserves generated by first-time adoption of IFRS, which are considered susceptible to being capitalized, if accounting standards and the law allow it.

Effect of conversion in associates: corresponds to foreign currency translation generated by variations in exchange rates on investments in associates and joint businesses, which maintain the Chilean peso as the functional currency.

Effect of hedging reserve: Represents the effective portion of those transactions that have been designated as cash flow hedges, awaiting the recognition of the item covered in income.

Subsidiaries reserves: corresponds to reserves originated from the merger and increased participation of subsidiaries; they are considered susceptible to being capitalized if accounting standards and the law allows it.

f. Retained earnings (losses)

The movement of retained earnings reserve has been as follows:

Distributable Retained earnings	12.31.2016 ThUS$	12.31.2015 ThUS$
Beginning Balance	1,021,114	885,723
Errors in previous exercises	201,429	204,659
Purification business combination [1]	-	(853)
Beginning balance re expressed	**1,222,543**	**1,089,529**
Effect of adjustment performed on first-time application of IFRS	9,190	8,399
Effect profit (losses) actuarial	(1,701)	(1,607)
Dividends	(100,898)	(73,670)
Adjust heritage associates	-	(1,537)
Total distributable reatained earnigs	**1,129,134**	**1,021,114**
Non distributable adjustments on first time application of IFRS		
Revaluation of property, plant & equipment	458,312	469,799
Deferred tax revaluation	(76,932)	(79,229)
Total non-distributable retained earnings	**381,380**	**390,570**
Total	**1,510,514**	**1,411,684**

[1] See note 6

The following table shows the detail of adjustments on first-time adoption of IFRS, as required by Circular No. 1,945 issued by the SVS, to present the adjustment on first-time application of IFRS recorded as a credit on retained earnings and their corresponding realization.

Realized amounts and amounts pending realization as of the dates of the balances of financial position are detailed as follows:

Concepts	12.31.2016		12.31.2015	
	Realized during the period ThUS$	Pending to be realized ThUS$	Realized during the period ThUS$	Pending to be realized ThUS$
Revaluation of property, plant & equipmer	(11,487)	458,312	(10,499)	469,799
Revaluation deferred tax[2]	2,297	(76,932)	2,100	(79,229)
Total	**(9,190)**	**381,380**	**(8,399)**	**390,570**

[1] Revaluation of Property, plant and equipment: The method used to quantify the assets under this concept corresponds to the application of the useful lives by asset type used for the depreciation method at the revaluation amount determined on the date of adoption.

[2] Deferred taxes: Adjustments to the valuation of assets or liabilities generated by the application of IFRS have meant the determination of new temporary differences that were recorded against the Retained Income account in Equity. The realization of this concept has been determined in the same proportion as the entries that led to it.

g. Capital management

Capital management is framed within the Company's Investing and Financing Policies, which establishes that investments must have appropriate financing, depending on the project, in accordance with the Financing Policy. Total investments for each year shall not exceed 100% of the Company's equity and must be in accordance with the Company's financial capacity.

The Company shall attempt to maintain sufficient liquidity to have an adequate financial leeway to cover its commitments and the risks associated with its businesses. The Company's cash surpluses shall be invested in securities issued by financial institutions and marketable securities in accordance with the criteria for selection and diversification of portfolio determined by the Company's management.

Investments shall be controlled by the Board, who will approve the amount and financing of each specific investments, with a reference framework stated in the Company's Bylaws. Additionally, the approval of the Shareholders' Meeting is required.

Financing must endeavor to provide the funds necessary for the adequate operation of existing assets, as well as for making new investments in accordance with the Investing Policy. Internal and external resources available shall be used to a limit that does not compromise the Company's equity position or limit its growth.

Consistent with the above, the debt level cannot compromise the "investment grade" credit rating of the debt instruments issued by Colbún in national and international markets.

The Company shall endeavor to maintain multiple financing options open, for which the following sources of financing shall be preferred: bank loans (both national and international), non-current bond market (both international and domestic), supplier credit, retained earnings and capital increases.

As of the dates of the balances of financial position, leverage ratios are detailed as follows:

	12.31.2016 ThUS$	**12.31.2015** ThUS$
Total liabilities	**3,032,766**	**3,491,739**
Total current liabilities	360,055	713,501
Total non-current liabilities	2,672,711	2,778,238
Total equity	**3,789,832**	**3,665,418**
Attributable company	3,576,385	3,462,660
Non-controlling interests	213,447	202,758
Debt ratio	**0.80**	**0.95**

On a quarterly basis, the Company has to report compliance with its obligations with financial entities. As of December 31, 2016, the Company has complied with all the financial indicators specified in those contracts (See note 36).

h. Restrictions on disposal of funds of subsidiaries

The Company through its subsidiary Fenix Power Perú S.A. maintains a "Fiduciary Cash Flows Guarantee Contract" ("Contrato de Fideicomiso en Garantía sobre Flujos"), governed under the laws of the Republic of Peru. The purpose of this contract is the establishment of a trust being managed and irrevocably guaranteed in order to (i) manage the trust property during the term of the credit agreement with The Bank of Nova Scotia as agent bank and until full and timely payment of the secured obligations; and (ii) that the trust assets serve as a means of payment and guarantee of compliance with each and every one of the obligations guaranteed by the settlor under the contract, as this is amended from time to time.

This fiduciary contract is renewed every 30 days without loss to the Company's cash value.

i. Earnings per share and distributable net profit

Earnings per share is calculated by dividing the profit attributable to shareholders of the parent by the weighted average number of ordinary shares outstanding during the reported period.

	12.31.2016	**12.31.2015**
Profit (loss) attributable to holders of equity instruments in the net equity of the parent company (ThUS$)	201,429	203,806
Income (loss) available for common shareholders, basic (ThUS$)	201,429	203,806
Weighted average number of shares, basic (No. of shares)	17,536,167,720	17,536,167,720
Basic earnings (loss) per share (US Dollars per share)	**0.01149**	**0.01162**

The Company has not conducted any operation with a potential dilutive effect that supposes diluted earnings per share different from basic earnings per share during the reporting period.

Under the provisions of Circular No. 1,945 dated September 29, 2009, Colbún S.A. agreed to establish as a general policy that the distributable net profit considered for the calculation of the Mandatory and Additional Minimum Dividend, it is determined on the realized basis, adjusting it of those relevant changes in the fair value of assets and liabilities that are not realized, which must be reintegrated into the calculation of the net profit in the year in which such changes are realized.

Consequently, aggregates and deductions to be made to the distributable net profit for changes in fair value of assets or liabilities that are not realized and that have been recognized in "profit (loss) attributable to owners of the parent" correspond to the possible effects generated by the changes in fair value of derivative instruments kept by the Company at the end of each reporting period, net of related income taxes.

The calculation of the distributable net profit, for the dates indicated, is as follows:

Calculated distributable liquid net income (cash flows)	12.31.2016 ThUS$	12.31.2015 ThUS$
Net income according to the Financial Statements	**201,429**	**203,806**
Cash flows in the year with a charge to prior years	(541)	(5,668)
Effect on unearned financial income that does not generate cash flows	-	4,022
Net cash flows for the period	**(541)**	**(1,646)**
Distributable net income	**200,888**	**202,160**
Minimum mandatory dividend	**60,266**	**60,648**

27. Revenue from ordinary activities

Revenue for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail:

	January - December	
	2016 ThUS$	2015 ThUS$
Sale to distribution clients	769,523	623,443
Sale to industrial clients	383,526	357,640
Tolls	182,154	146,463
Sale to other generators	96,444	153,471
Other income	4,593	32,839
Total	**1,436,240**	**1,313,856**

28. Raw materials and consumables used

The consumption of raw materials and secondary materials for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail:

	January - December	
	2016 ThUS$	2015 ThUS$
Oil consumption (see note 13)	(41,330)	(44,073)
Gas consumption (see note 13)	(262,823)	(253,413)
Coal consumption (see nota 13)	(63,381)	(77,637)
Purchase of energy and power	(101,700)	(41,222)
Tolls	(177,516)	(142,769)
Third party work and supplies	(77,837)	(86,820)
Total	**(724,587)**	**(645,934)**

29. Employee benefits expenses

The employee benefits expenses for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail (see note 3.1.m and 3.1.n.2):

	January - December	
	2016 ThUS$	2015 ThUS$
Wages and salaries	(53,492)	(43,602)
Current benefits to employees	(5,516)	(4,536)
Compensation for end of employment relationship	(3,176)	(2,716)
Other employee expenses	(5,629)	(5,228)
Total	**(67,813)**	**(56,082)**

30. Depreciation and amortization expenses

The depreciation and amortization for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail:

	January - December	
	2016 ThUS$	2015 ThUS$
Depreciations (see note 18.b)	(226,133)	(193,699)
Amortization of intangibles (see Note 17.b)	(1,785)	(1,248)
Total	**(227,918)**	**(194,947)**

31. Financial income and financial costs

Financial income for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail:

Income (loss) from investment	January - December 2016 ThUS$	2015 ThUS$
Cash income and other equivalent means	10,054	5,517
Total financial income	**10,054**	**5,517**

Financial costs	January - December 2016 ThUS$	2015 ThUS$
Bond expenses	(68,146)	(69,461)
Financial provision expense	(15,549)	(9,724)
Expenses/profit from valuation of net financial derivatives	(11,353)	(9,319)
Bank loan expenses	(16,799)	(8,891)
Other expenses (bank expenses)	(1,473)	(433)
Capitalized financial expenses (see note 18.c.iv)	9,880	7,292
Total financial cost	**(103,440)**	**(90,536)**
Total financial result	**(93,386)**	**(85,019)**

32. Exchange rate differences and result from indexation units

The items that cause the effect on income by net foreign exchange items and result from indexation units are detailed as follows:

Exchange rate differences

Exhange difference	Currency	January - December	
		2016 ThUS$	2015 ThUS$
Cash and cash equivalents	Chilean pesos	7,638	(8,676)
Cash and cash equivalents	Peruvian sol	1,340	225
Trade and other accounts receivable	Chilean pesos	3,612	(10,524)
Trade and other accounts receivable	Peruvian sol	(583)	(24)
Current tax assets	Chilean pesos	48	(13,701)
Current tax assets	Peruvian sol	(189)	288
Other non-current non-financial assets	Chilean pesos	643	(1,355)
Other non-current non-financial assets	Peruvian sol	350	-
Non-current accounts receivable from related entities	Chilean pesos	(350)	(492)
Exchange rate differences on assets		**12,509**	**(34,259)**
Other current financial liabilities	UF	(8,240)	18,239
Other current financial liabilities	Peruvian sol	360	-
Trade and other accounts payable	Chilean pesos	636	801
Trade and other accounts payable	Peruvian sol	34	21
Other non-financial liabilities	Chilean pesos	38	(1,250)
Other non-financial liabilities	Peruvian sol	15	-
Employee benefits provision accrual	Chilean pesos	(1,926)	5,296
Other non-current financial liabilities	Chilean pesos	-	(8)
Exchange rate differences on liabilities		**(9,083)**	**23,099**
Total exchange difference		**3,426**	**(11,160)**

Income from indexation units

Indexation units	Currency	January - December	
		2016 ThUS$	2015 ThUS$
Current tax assets	UTM	(55)	2,425
Total income from indexation units		**(55)**	**2,425**

33. Income (loss) from investments accounted for using the equity method

The revenue from investments recorded using the share method for the periods ended December 31, 2016 and 2015, respectively, are presented in the following detail:

Net participation in income from associates	January - December	
	2016 ThUS$	2015 ThUS$
Electrogas S.A.	7,640	8,388
Centrales Hidroeléctricas de Aysén S.A.	(3,106)	(3,563)
Transmisora Eléctrica de Quillota Ltda.	880	1,795
Total	**5,414**	**6,620**

34. Other gains (losses)

The others gains (losses) are as follows:

Other incomes, other than operation	January - December	
	2016 ThUS$	2015 ThUS$
Insurance [1]	445	11,518
Other incomes	3,198	1,859
Total other incomes	**3,643**	**13,377**
Other expenses, other than operation	**January - December**	
	2016 ThUS$	**2015** ThUS$
Impairment of property, plant and equipment	(685)	-
Impairment of patents of water rights not used	(1,731)	(1,831)
Results derivative contracts	(820)	(4,023)
Lawsuits fees	(856)	(860)
Disposals of property, plant and equipment [2]	(6,711)	(2,129)
Punishmentes and fines	(773)	(75)
Cost of out debt restructuring	-	(4,132)
Inventory obsolescence	(687)	1,740
Other	(8,957)	(3,287)
Total other expenses	**(21,220)**	**(14,597)**
Total other profits (loss)	**(17,577)**	**(1,220)**

(1) In 2015 corresponds to insurance indemnity payment received in relation to physical damage of the Central Blanco.

(2) In 2016, derecognition of partially damaged assets of US$ 2.0 million corresponding to the accident at the Nehuenco plant was recorded as well as a write-off in certain projects of US$ 3.6. In 2015, an impairment was recorded for projects that, with the current information, the management has decided to temporarily abandon.

35. Committed guarantees with third parties, contingent assets and liabilities

a. Third party guarantees

a. 1 Direct guarantees

Creditor´s guarantee	Debtor		Commited assets			Outstanding balances	Release of guarantees		
	Name	Relationship	Type of guarantee	Currency	Book value	12.31.2016 ThUS$	2016	2017	2099
Comité Innova Chile	Colbún S.A.	Acreedor	Guarantee Deposit	CLP	51,500,000	77	-	77	-
GNL Chile S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	20,968,932	20,969	-	20,969	-
Consorcio Transmantaro	Fenix Power Perú S.A.	Acreedor	Guarantee Deposit	USD	3,000,000	3,000	-	3,000	-
TSGF SpA	Colbún S.A.	Acreedor	Guarantee Deposit	USD	1,000,000	1,000	-	1,000	-
Bío Bío Cementos S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	653,005	653	-	653	-
Cementos Bío Bío del Sur S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	263,394	263	-	263	-
Inacal S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	69,643	70	-	70	-
Ministerio de Obras Públicas	Colbún S.A.	Acreedor	Guarantee Deposit	UF	42,380	1,669	-	1,669	-
Arenex S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	23,121	23	-	23	-
Minera El Way S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	USD	12,563	13	-	13	-
Aguas Andinas S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	UF	5,000	197	-	197	-
Clínica Las Condes S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	UF	3,640	143	-	143	-
Fisco de Chile Servicio Nacional de Aduanas	Colbún S.A.	Acreedor	Guarantee Deposit	USD	2,000	2	-	2	-
Transelec S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	UF	1,000	39	-	39	-
Indura S.A.	Colbún S.A.	Acreedor	Guarantee Deposit	UF	500	20	-	20	-
Director Regional de Vialidad Región del Bío Bío	Colbún S.A.	Acreedor	Guarantee Deposit	UF	445	17	-	17	-
SCM Franke	Colbún S.A.	Acreedor	Guarantee Deposit	UF	400	16	-	16	-
Chilectra S.A. (1)	Colbún S.A.	Acreedor	Guarantee Deposit	UF	100	4	-	-	4

(1) Indefinite maturity warranty.

b. Guarantees obtained from third parties

Current guarantees in US Dollars, as of December 31, 2016 are as follows:

Deposited by	Relationship	Total ThUS$
General Electric International Inc.	Supplier	15,000
Siemens Financial Services Inc.	Supplier	9,000
OJSC Power Machines	Supplier	7,020
GE Energy Parts Inc.	Supplier	5,250
Ingeniería Agrosonda SpA	Supplier	2,661
Abengoa Chile S.A.	Supplier	2,252
TSGF SpA	Supplier	2,157
ABB Ltda.	Supplier	1,175
Vigaflow S.A.	Supplier	459
ABB S.A.	Supplier	339
Pine SpA	Supplier	323
Sedicon AS	Supplier	220
Isotron Chile S.A.	Supplier	210
Siemens S.A.	Supplier	189
Acciona Energía Chile SpA	Supplier	150
Autotrol Chile S.A.	Supplier	149
Cobra Chile Servicios S.A.	Supplier	132
Sistemas Eléctricos Ingeniería y Servicios S.A.	Supplier	112
HMV Ingenieros Ltda.	Supplier	100
Pine Instalaciones y Montajes S.A.	Supplier	100
Hamon Esindus Latinoamérica Ltda.	Supplier	80
Techimp HQ S.R.L.	Supplier	35
Hyosung Corporation	Supplier	34
IMA Tecnología Ltda.	Supplier	29
Rhona S.A.	Supplier	26
Max Control SpA	Supplier	17
Química del Sur y Cía. Ltda.	Supplier	16
Jorpa Ingeniería S.A.	Supplier	10
Tekmain Ltda.	Supplier	6
Distribuidora Cummins Chile S.A.	Supplier	5
Fernández Fica S.A.	Supplier	4
	Total	**47,260**

Current guarantees in Euros, as of December 31, 2016 are as follows:

Deposited by	Relationship	Total ThUS$
Andritz Chile Ltda.	Supplier	1,129
Andritz Hydro S.R.L.	Supplier	976
Andritz Hydro	Supplier	727
Alstom Hydro France S.A.	Supplier	229
Inerco Ingeniería, Tecnología y Consultoría S.A.	Supplier	50
Dynavec AS	Supplier	43
	Total	**3,154**

Current guarantees in CLP, as of December 31, 2016 are as follows:

Deposited by	Relationship	Total ThUS$
Metalizaciones Industriales Soc. Comercial e Ind.S.A.	Supplier	177
ODR Ingeniería y Montaje Ltda.	Supplier	129
Efepe S.A.	Supplier	106
Soc. Comercial y Servicios Industriales Solman Ltda.	Supplier	54
Metalizaciones Industriales Soc. Com. e Ind. S.A.	Supplier	43
Constructora y Maquinarias Pulmahue SpA	Supplier	42
Ecopreneur Chile S.A.	Supplier	40
Serv. Industriales y Técnica Científica Ltda.	Supplier	29
Rafael Mauna Silva Contrucciones y Servicios EIRL	Supplier	29
Sistema Integral de Telecomunicaciones Ltda.	Supplier	28
Wilfred Parra Lobos y Cía. Ltda.	Supplier	26
Mindugar S.A.	Supplier	23
Andes Minerals SpA	Supplier	20
Constructora Pesa Ltda.	Supplier	20
Constructora Gómez Salazar Ltda.	Supplier	18
Soc. Comercial Ind. Mora y Cía. Ltda.	Supplier	14
Serv. de Respaldo de Energía Teknica Ltda.	Supplier	14
Soenco Soluciones Geotécnicas Ltda.	Supplier	13
Betech Ingeniería Ltda.	Supplier	12
Ingeniería y Comercial San Andrés Ltda.	Supplier	10
Transportes José Carrasco Retamal EIRL	Supplier	9
Constructora Javag SpA	Supplier	8
Centro de Estudios, Medición y Certificación de Calidad Cesmec S.A.	Supplier	8
Sistemas contra Incendios Eurocomercial Ltda.	Supplier	8
Soc. Transredes Serv. Eléctricos Integrales Ltda.	Supplier	8
Soc. Comercial Camin Ltda.	Supplier	8
Ingeniería Multidisciplinaria, Arquitectura, Consultoría y Logística	Supplier	7
Eduardo Antonio Gómez Miranda	Supplier	7
Víctor Hugo Contreras Lagos	Supplier	7
Comercial Dinsa Ltda.	Supplier	6
Igor Marcelo Ocampo Vargas	Supplier	6
Serv. Empresariales Mol Ltda.	Supplier	5
Eulen Seguridad S.A.	Supplier	5
Constructora Izquierdo SpA	Supplier	5
Juan Angel Ortiz Soto	Supplier	5
Soc. de Serv. Estructurales y Montaje Soldatec Ltda.	Supplier	4
Mundifica SpA	Supplier	4
José David Rojas Vejar	Supplier	4
Fanor Velasco Altamirano y Cía. Ltda.	Supplier	3
Marcelo Alberto Vargas Espinosa	Supplier	2
Hidro Servicios Hidrochile Ltda.	Supplier	1
	Total	**967**

Current guarantees in UF, as of December 31, 2016 are as follows:

Deposited by	Relationship	Total ThUS$
Zublin International GMBH Chile SpA	Supplier	8,509
Soc. OGM Mecánica Integral S.A.	Supplier	471
Ingeniería y Construcción Sigdo Koppers S.A.	Supplier	378
Arcadis Chile SpA	Supplier	303
KDM Industrial S.A.	Supplier	216
ABB S.A.	Supplier	180
G4S Security Services Regiones S.A.	Supplier	89
Serv. Industriales Ltda.	Supplier	83
Oma Topografía y Construcciones Ltda.	Supplier	59
Ecopreneur Chile S.A.	Supplier	43
Aseos Industriales de Talca Ltda.	Supplier	37
Flota Verschae S.A.	Supplier	30
Sodexo Chile S.A.	Supplier	29
Knight Piesold S.A.	Supplier	23
Universidad de Concepción	Supplier	20
Transportes José Carrasco Retamal E.I.R.L.	Supplier	13
Soc. Comercial Camin Ltda.	Supplier	13
Unilink Soluciones y Servicios SpA	Supplier	13
Eulen Seguridad S.A.	Supplier	13
Serv. Emca SpA	Supplier	12
Sistemas Eléctricos Ingeniería y Servicios S.A.	Supplier	9
Andritz Chile Ltda.	Supplier	9
Soc. Comercial y de Inv. Conyser Ltda.	Supplier	9
Mantención de Jardines Arcoiris Ltda.	Supplier	6
Jaime Illanes y Asociados Consultores S.A.	Supplier	6
Serv. Integrales de Mantenimientos Técnicos S.A.	Supplier	6
MWH Américas Inc Chile Ltda.	Supplier	5
Proyecto Automatización Ltda.	Supplier	5
Serv. Integrales de Seguridad Marítima y Terrestre Ltda.	Supplier	5
Marcelo Javier Urrea Caro	Supplier	5
Ingeniería y Servicios S.A.	Supplier	4
Alfredo Edwards Ingenieros Consultores Ltda.	Supplier	3
	Total	**10,606**

c. Detail of litigations and others

With the information available to date, Colbún's management considers that the provisions recorded in the consolidated statement of financial position adequately covers the risks of litigation and other operations described in this note, therefore it does not expect that liabilities other than those recorded will result from them.

Due to the characteristics of the risks covered by these provisions, it is not possible to determine an exact schedule of payment dates, if any.

In accordance with IAS 37, as of December 31, 2016 a description of the most important litigations is included:

Chile

<u>1.- Arbitrage with CGE Distribution on the application of Sub Transmission Decree N°14</u>

In October 7, 2014 Colbún S.A. filed an arbitrage demand against the Arbitrage and Mediation Center of the Cámara de Comercio de Santiago A.G. against CGE Distribution S.A. because of the unilateral modification of the invoicing methodology of two supply contracts signed between the two parties as a consequence of the application of the Sub Transmission Decree N°14, issued by the Ministry of Energy, that set the tariffs to be paid for the use of the sub transmission system. Colbún demanded the fulfillment of the contract indicating that the invoicing methodology cannot be modified unilaterally, and any change must be implemented by mutual agreement, or by default, determined by the mechanism set forth in the contract to settle any discrepancy.

On January 4, 2017, the arbitration award that accepted the application filed by Colbún was notified, condemning CGE, among other, to the payment of Ch$ 1,813,000,000 plus interest. Judgment is not yet executable.

<u>2.- Lawsuit for environmental damage for the operation of the Santa María CT before the Third Environmental Court of Valdivia.</u>

(i) Lawsuit filed on October 15, 2015, case No. D-11-2015, before the Environmental Court of Valdivia by 6 fishermen's unions of Coronel and a group of fishermen from Lota who claim alleged environmental damage caused by the operation of the Santa Maria power station (unauthorized emissions of heavy metals in the ground and water of the bay, excessive presence of sulfur oxides and nitrogen produced by the combustion of the plant, thermal shock from the cooling and antifouling system).
The complaint was answered by Colbún on September 30, 2016.

The conciliation, evidence and allegations hearing is scheduled for January 12, 2017.

(ii) Lawsuit filed on October 15, 2015, case No. D-12-2015, before the Environmental Court of Valdivia by 6 fishermen's unions of Coronel and a group of fishermen from Lota who claim alleged environmental damage caused by the operation of the Santa Maria power station (unauthorized emissions of heavy metals in the ground and water of the bay, excessive presence of sulfur oxides and nitrogen produced by the combustion of the plant, thermal shock from the cooling and antifouling system). Given that the lawsuit has the same subject as Cause No. D-11-2015 described in section 2(i) above, it was accumulated in the latter.

3.- Tax proceedings against Empresa Eléctrica Industrial SA before the Internal Revenue Service (SII).

By Settlement No. 373, of 08.30.2010, the Regional Director of SII challenged the income statements of Empresa Eléctrica Industrial SA (EEI) of 2007. The initial amount of the settlement was ThUS$ 568 (ThCh$ 403,410) (judgment case no. 10-120-2010). Subsequently, by assessments No. 439, 440 and 441, all of 08.29.2011, the SII disputed 3 items of IAS income declarations for tax periods 2008, 2009 and 2010. The initial amount of the settlement was ThUS$ 259 (ThCh$ 183,769), ThUS$ 352 (ThCh$ 249,906) and ThUS$ 358 (ThCh$ 254,555), respectively (judgment case no. 10-541-2011). As of December 31, 2016 the maximum amount of contingency for both trials amounts to ThUS$ 5,405 (ThCh$ 3,618,808), including adjustments and interest.

First instance judgment notified on December 2, 2015, that rejected the complaints brought by EEI was issued. On December 14, 2015, an appeal with subsidy appeal was filed against this ruling, which is currently pending resolution. To date an audit report requested by the IRS' Control Department for Medium and Large Enterprises is pending.

4.- Tax proceeding against Termoeléctrica Antilhue S.A. before IRS (Servicio de Impuestos Internos).

By Settlement No. 275, of 24.09.2015, notified on September 24, 2015, the Regional Director of the IRS' Eastern Metropolitan Santiago district rejected items in the 2013 income tax return of Termoeléctrica Antilhue S.A., and accumulated tax losses for the years 2009 - 2012 for other items. The total questioned amount as of December 31, 2016 is ThCh$ 2,447 (ThCh$ 1,638,386), (Rol RIT GR-18-00002-2016).

An administrative appeal was filed against the settlement, which was rejected.

On January 14, 2016, a tax claim before the Fourth Court of Tax and Customs of Santiago was filed. The IRS presented its discharges and the start of the trial period is pending.

5.- Patent fee collection for non-use of water use rights. Collection process 2015

By means of Res DGA 252, dated January 29, 2016, the DGA rejected an appeal for reconsideration filed by Hidroeléctrica Melocotón Ltda. against Res DGA 3,438 / 2014, which established the list of water rights subject to the payment of a patent fee for non-use of water during the year 2014.

Included in this list were the rights to use water owned by Sociedad Hidroeléctrica Melocotón Ltda., which were leased to Colbún in 2012, and which since 2014 are used for the generation of electricity at the Angostura plant.

For purposes of avoiding the auction of the water rights for non-payment of the patent fee, on April 29 the corresponding patent fee was paid. The amount paid was ThCh$ 456,362.

In opposition to Res DGA 252/2016, Sociedad Hidroeléctrica Melocotón Ltda. presented an appeal to the Court of Appeals of Santiago, which was admitted on December 16, 2016.

In opposition to the aforementioned judgment, the General Directorate of Water (DGA) filed an appeal for cassation in the case before the Supreme Court, which is pending resolution.

6.- <u>Patent fee collection for non-use of water use rights. Collection process 2016</u>

On February 18, 2016, Sociedad Hidroeléctrica Melocotón Ltda. filed a reconsideration petition against Res DGA No. 4,420, dated December 29, 2015, which established the list of water rights subject to the payment of patent fees for not using water during the year 2016.

The aforementioned resolution included in the referred list of the rights to use water the rights owned by Sociedad Hidroeléctrica Melocotón Ltda., which were leased to Colbún in 2012, , and which since 2014 are used for the generation of electricity at the Angostura plant.

The amount charged for as a patent fee for the non-use of the aforementioned rights to use water during the year 2015 was 10,391.51 Monthly Tax Units.

To date, the review action is pending resolution by the DGA.

Peru

1.- Arbitrage Termochilca S.A. with Fenix Power Perú S.A.

Termochilca S.A. ("Termochilca") filed a lawsuit petition for alleged breaches by Fenix Power Perú S.A. (Fenix) for the Purchase Option Contract of Active Energy and Installed Capacity, alleging that Fenix would have settled and billed energy considering parameters that would not relate to the provisions of the Contract, and that is related to the effective capacity of Fenix. Additionally, it seeks compensation for energy not supplied due to the delay of launch of Fenix operations, partial operations and unscheduled outages. The size of the judgment would amount to an approximate ThUS $ 5,000. On March 23, 2016, the Arbitration Tribunal was formed. On April 22, 2016, Termochilca filed the arbitration claim, which was answered by Fenix on May 24, 2016, at which time Fenix also demands Termochilca for unpaid invoices since July 2015 amounting to ThUS$ 11,000.

On June 27, 2016 Termochilca responds to Fenix's counterclaim.

Audience of Acts was held on August 12, 2016. The Court requested technical and economic expert reports for September 29, 2016. Fenix presented its economic report and Termochilca its technical report. On November 23, 2016 Fenix and Termochilca replicated the respective reports. During the week of January 23, 2017, the hearings of tests and of assessment of facts were carried out.

36. Commitments

Commitments entered into with financial entities

The loan contracts signed by Colbún S.A. with financial entities and the bonds and negotiable instruments issue contracts, assign the Company different obligations beyond mere payment, including compliance with various financial indicators during the effective terms of these contracts, which are customary in these types of financing operations.

The Company must report compliance with these obligations in a quarterly manner. As of December 31, 2016, the Company is in compliance with all the financial indicators required in those contracts. These obligations are detailed as follows:

Covenants	Condition	12.31.2016		Maturity
Bonds Local Market				
Ebitda/Net interest expense	>3,0	6.44		jun-2029
Debt ratio	<1,2	0.80		jun-2029
Minimun equity	> ThUS$ 1.348.000	ThUS$	3,576,385	jun-2029

Indicator	Headings	Value at 12.31.2016	
Equity	Total Equity	ThUS$	3,789,832
Net Equity of the Parent Compar	Total Equity - Non-controlling Interests	ThUS$	3,576,385
Minimum Equity	Total Equity - Non-controlling Interests	ThUS$	3,576,385
Total liabilities	Total current liabilities + Total non-current liabilities	ThUS$	3,032,766
Debt Ratio	Total liabilities/Equity		0.80
Ebitda	Income from ordinary activities - Raw materials and supplies used - Employees benefits expenses - Other expenses by nature	ThUS$	601,750
Net financial cost	Financial costs - Financial income	ThUS$	93,386

37. Environment

The subsidiaries of the Company with disbursements associated with the environment are the following: Colbún S.A., Empresa Eléctrica Industrial S.A., Río Tranquilo S.A. Termoeléctrica Nehuenco S.A. and Fenix Power Perú S.A., respectively.

The disbursements made for the concept of environment are primarily associated with facilities; therefore, they shall be recognized under income via depreciation according to their useful lives, except the development of Environmental Impact Studies and Declarations, which correspond to environmental permits given prior to the construction phase.

The main projects in progress including a brief description of them are detailed as follows:

San Pedro hydroelectric power plant: reservoir hydropower plant located in the Los Ríos Region.

Currently, the Company is analyzing the public services' observations formulated in the framework of the Environmental Impact Study (EIA) of June 2015, with the aim of collecting and preparing the necessary background information that would allow it to give an opportune and technically grounded response. In parallel, a plan to implement explanatory meetings and training is being carried out with municipalities, public services and regional authorities, in addition to indigenous communities, among other interest groups, with the purpose of presenting a new EIA with the adjustments to the project again in the last quarter of the year.

La Mina hydroelectric power plant: run-of-the-river hydropower plant located in the high basin of the Maule River, in the Maule Region.

During the last quarter of 2016, the 98.5% of the advance of the construction was exceeded. All the works of the project and their respective environmental management have advanced according to plan.

The project is expected to begin the commercial operations at the first quarter of 2017. The amount to be invested, including a Transmission Line from the power station to the Loma Alta substation, is of approximately US$130 million.

In addition to the foregoing, the disbursements associated to the 24 generation plants under operating conditions are added, including the power station Fenix Power (Chilca, Peru) and transmission assets such as electrical substations and transmission lines.

Expenditures related to the environment made by the companies are as follows:

Accumulated disbursements made as of 12.31.2016

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Colbún S.A.	Santa María 1	Power Plants Environmental management	Expense	Cost	1,121	12-30-2016
Colbún S.A.	Angostura	Power Plants Environmental management	Expense	Cost	982	12-31-2016
Colbún S.A.	CH Guaiquivilo-Melado	Project Environmental management	Asset	Construction in progress	375	12-12-2016
Colbún S.A.	Gestión Ambiental Corporativa	Parent Environmental management	Expense	Cost	356	12-30-2016
Colbún S.A.	Candelaria	Power Plants Environmental management	Expense	Cost	324	12-31-2016
Colbún S.A.	Antilhue	Power Plants Environmental management	Expense	Cost	255	12-31-2016
Colbún S.A.	Los Pinos	Power Plants Environmental management	Expense	Cost	211	12-31-2016
Colbún S.A.	CH San Pedro	Project Environmental management	Asset	Construction in progress	160	12-29-2016
Colbún S.A.	CH La Mina	Project Environmental management	Asset	Construction in progress	76	12-29-2016
Colbún S.A.	Colbún	Power Plants Environmental management	Expense	Cost	38	12-31-2016
Colbún S.A.	Canutiillar	Power Plants Environmental management	Expense	Expense	11	12-29-2016
Colbún S.A.	Los Quilos	Power Plants Environmental management	Expense	Expense	10	12-20-2016
Colbún S.A.	Quilleco	Power Plants Environmental management	Expense	Cost	2	09-16-2016
Empresa Eléctrica Industrial S.A.	Carena	Power Plants Environmental management	Expense	Cost	62	12-31-2016
Termoeléctrica Nehuenco S.A.	Nehuenco	Power Plants Environmental management	Expense	Cost	615	12-31-2016
				Total	**4,598**	

Future expenses as of 12.31.2016

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Colbún S.A.	CH Guaiquivilo-Melado	Project Environmental management	Asset	Construction in progress	1,099	08-30-2016
Colbún S.A.	CH La Mina	Project Environmental management	Asset	Construction in progress	50	05-27-2016
Colbún S.A.	Angostura	Power Plants Environmental management	Expense	Cost	28	06-30-2017
Colbún S.A.	Gestión Ambiental Corporativa	Parent Environmental management	Expense	Cost	24	01-09-2017
Colbún S.A.	Quilleco	Power Plants Environmental management	Expense	Cost	22	12-30-2016
Colbún S.A.	Antilhue	Power Plants Environmental management	Expense	Expense	18	12-31-2016
Colbún S.A.	Santa María	Power Plants Environmental management	Expense	Expense	7	07-01-2016
Colbún S.A.	Rucúe	Power Plants Environmental management	Expense	Expense	6	12-31-2016
Colbún S.A.	Los Pinos	Power Plants Environmental management	Expense	Cost	5	12-31-2016
Colbún S.A.	Candelaria	Power Plants Environmental management	Expense	Cost	2	12-31-2016
Colbún S.A.	Colbún	Power Plants Environmental management	Expense	Cost	2	12-31-2016
Empresa Eléctrica Industrial S.A.	Carena	Power Plants Environmental management	Expense	Cost	3	12-31-2016
Termoeléctrica Nehuenco S.A.	Nehuenco	Power Plants Environmental management	Expense	Cost	92	12-02-2016
Río Tranquilo S.A.	Hornitos	Power Plants Environmental management	Expense	Cost	15	06-30-2017
Total					**1,373**	

Accumulated disbursements made as of 12.31.2015

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Colbún S.A.	Angostura	Power Plants Environmental management	Expense	Cost	1,408	12-31-2015
Colbún S.A.	Santa María 1	Power Plants Environmental management	Expense	Cost	1,196	12-31-2015
Colbún S.A.	CH San Pedro	Project Environmental management	Asset	Construction in progress	359	12-30-2015
Colbún S.A.	Gestión Ambiental Corporativa	Parent Environmental management	Expense	Expense	290	12-31-2015
Colbún S.A.	Candelaria	Power Plants Environmental management	Expense	Cost	283	12-31-2015
Colbún S.A.	Antilhue	Power Plants Environmental management	Expense	Cost	229	12-31-2015
Colbún S.A.	Los Quilos	Power Plants Environmental management	Expense	Cost	203	12-31-2015
Colbún S.A.	Los Pinos	Power Plants Environmental management	Expense	Cost	181	12-31-2015
Colbún S.A.	Quilleco	Power Plants Environmental management	Expense	Cost	179	12-31-2015
Colbún S.A.	CH La Mina	Project Environmental management	Asset	Construction in progress	99	12-21-2015
Colbún S.A.	Candelaria	Project Environmental management	Asset	Construction in progress	81	01-01-2016
Colbún S.A.	Canutillar	Power Plants Environmental management	Expense	Cost	71	12-30-2015
Colbún S.A.	Rucúe	Power Plants Environmental management	Expense	Cost	55	12-24-2015
Colbún S.A.	Colbún	Power Plants Environmental management	Expense	Cost	37	12-31-2015
Colbún S.A.	Santa María 1	Project Environmental management	Asset	Construction in progress	21	12-31-2015
Colbún S.A.	Angostura	Project Environmental management	Asset	Construction in progress	16	01-01-2016
Colbún S.A.	CH Guaquivilo Melado	Project Environmental management	Asset	Construction in progress	7	11-27-2015
Colbún S.A.	Santa María 1	Project Environmental management	Asset	Construction in progress	4	01-01-2016
Empresa Eléctrica Industrial S.A.	Carena	Power Plants Environmental management	Expense	Cost	38	12-31-2015
Río Tranquilo S.A.	Hornitos	Power Plants Environmental management	Expense	Cost	176	12-31-2015
Termoeléctrica Nehuenco S.A.	Nehuenco	Power Plants Environmental management	Expense	Cost	716	12-31-2015
Total					**5,649**	

Future expenses as of 12.31.2015

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Colbún S.A.	CH San Pedro	Project Environmental management	Asset	Construction in progress	80	12-21-2016
Colbún S.A.	CH La Mina	Project Environmental management	Asset	Construction in progress	56	11-28-2016
Colbún S.A.	Gestión Ambiental Corporativa	Parent Environmental management	Expense	Cost	52	12-29-2016
Colbún S.A.	Angostura	Power Plants Environmental management	Expense	Cost	31	11-26-2016
Colbún S.A.	Santa María 1	Power Plants Environmental management	Expense	Cost	4	11-27-2016
Colbún S.A.	Candelaria	Power Plants Environmental management	Expense	Cost	4	11-29-2016
Colbún S.A.	Colbún	Power Plants Environmental management	Expense	Cost	1	12-15-2016
Total					**228**	

Disbursements in Peru

Accumulated disbursements made as of 12.31.2016

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Fenix Power Perú S.A.	Monitoreo y Gestión Ambiental	Power Plants Environmental management	Expense	Cost	800	12-30-2016
Total					**800**	

Future expenses as of 12.31.2016

Company	Name of the project associated to disbursement	Concept	Asset / Expense	Description asset / expense	Amount ThUS$	Certain date or estimated in disbursements were or will be made
Fenix Power Perú S.A.	Monitoreo y Gestión Ambiental	Power Plants Environmental management	Expense	Cost	15	12-31-2016
Total					**15**	

38. Events occurred after the date of the statement of financial position

In the session held on January 31, 2017, the Board of Directors of the Company approved the consolidated financial statements as of December 31, 2016, prepared in accordance with the Preparation and Presentation of Financial Reporting Standards, issued by the SVS, which are in conformity with the International Financial Reporting Standards (IFRS), issued by the IASB.

The Board of Directors of Colbún, after considering a review by the Directors' Committee, both of January 31, reviewed and approved to transfer the trunk transmission assets of Colbún S.A. consisting of the transmission line 2x220 KV Polpaico - Los Maquis, sub-stations Paño J12 of Polpaico, Tap El Llano, Los Maquis and Mulchén and related assets including easements, land and contracts to its subsidiary Colbún Transmisión S.A. The foregoing in order to comply with the legal requirement set forth in the Electric Services Law that establishes that trunk transmission assets must be owned by a company that has as its exclusive objective the electricity. It should be noted that Colbún Transmisión S.A. is directly and indirectly fully owned by Colbún S.A., was incorporated in the year 2012 and currently holds other trunk transmission assets.

No other subsequent events have occurred between December 31, 2016 and the date of issue of these consolidated financial statements.

39. Foreign currency

The detail of Assets and Liabilities in foreign currency with effects in profits due to the foreign currency translation is as follows:

Assets	Foreign currency	Functional currency	12.31.2016 ThUS$	12.31.2015 ThUS$
Total current assets				
Cash and cash equivalents	Chilean pesos	US Dollar	135,370	134,145
Cash and cash equivalents	Euro	US Dollar	516	440
Cash and cash equivalents	Peruvian sol	US Dollar	17,359	25,192
Other non-financial assets, current	Chilean pesos	US Dollar	940	638
Other non-financial assets, current	Peruvian sol	US Dollar	-	13
Trade and other current accounts receivable	Chilean pesos	US Dollar	123,348	77,022
Trade and other current accounts receivable	Euro	US Dollar	-	-
Trade and other current accounts receivable	Peruvian sol	US Dollar	49,781	64,636
Current accounts receivable from related companie	Chilean pesos	US Dollar	411	63
Inventories	Chilean pesos	US Dollar	-	-
Current tax assets	Chilean pesos	US Dollar	927	8,634
Current tax assets	Peruvian sol	US Dollar	4,437	-
Total current assets			**333,089**	**310,783**
Non-current assets				
Other non-current financial assets	Chilean pesos	US Dollar	225	212
Other non-current non-financial assets	Chilean pesos	US Dollar	8,761	7,905
Total non-current assets			**8,986**	**8,117**
Total assets			**342,075**	**318,900**

Liabilities	Foreign currency	Functional currency	12.31.2016 ThUS$	12.31.2015 ThUS$
Current liabilities				
Other current financial liabilities	UF	US Dollar	7,422	10,453
Trade and other accounts payable	Chilean pesos	US Dollar	168,272	102,887
Trade and other accounts payable	Peruvian sol	US Dollar	15,530	6,096
Current accounts payable to related entities	Chilean pesos	US Dollar	2,708	307
Other current provisions	Chilean pesos	US Dollar	7,394	15,501
Current tax liabilities	Chilean pesos	US Dollar	-	23,878
Current tax liabilities	Peruvian sol	US Dollar	112	167
Current provisions for employee benefits	Chilean pesos	US Dollar	13,388	10,235
Current provisions for employee benefits	Peruvian sol	US Dollar	1,608	1,002
Other current non-financial liabilities	Chilean pesos	US Dollar	11,260	10,893
Other current non-financial liabilities	Peruvian sol	US Dollar	473	344
Total current liabilities			**228,167**	**181,763**
Non-current liabilities				
Other non-current financial liabilities	UF	US Dollar	81,509	100,588
Non current provisions for employee benefits	Chilean pesos	US Dollar	27,508	23,001
Other non current non-financial liabilities	Chilean pesos	US Dollar	15,960	3,422
Total non-current liabilities			**124,977**	**127,011**
Total liabilities			**353,144**	**308,774**

The detail of assets and liabilities in foreign currency does not include Investments reported using the share method, as the differences originated from foreign currency translation are reported in equity as foreign currency translation adjustments (see note 26.e).

The maturity of other financial liabilities in foreign currency is detailed as follows:

As of 12.31.2016	Foreign currency	Functional currency	Up to 91 days ThUS$	From 91 days to 1 year ThUS$	From 1 year to 3 years ThUS$	From 3 years to 5 years ThUS$	More than 5 years ThUS$	Total ThUS$
Other financial liabilities	UF	US Dollar	-	7,422	22,376	26,506	39,349	95,653
		Totals	**-**	**7,422**	**22,376**	**26,506**	**39,349**	**95,653**

As of 12.31.2015	Foreign currency	Functional currency	Up to 91 days ThUS$	From 91 days to 1 year ThUS$	From 1 year to 3 years ThUS$	From 3 years to 5 years ThUS$	More than 5 years ThUS$	Total ThUS$
Other financial liabilities	UF	US Dollar	-	6,629	15,498	26,799	62,115	111,041
		Totals	**-**	**6,629**	**15,498**	**26,799**	**62,115**	**111,041**

40. Personnel (unaudited)

As of the dates of the statements of financial position, the Company's personnel is detailed as follows:

	Number of employees					
	12.31.2016			12.31.2015		
	Chile	Peru	Total	Chile	Peru	Total
Managers and primary executives	69	7	76	66	4	70
Professional & technicians	654	54	708	605	53	658
Employees and others	288	30	318	291	30	321
Total	1,011	91	1,102	962	87	1,049
Annual average	**990**	**90**	**1,080**	**970**	**86**	**970**

Annex No. 1 Additional information required for XBRL taxonomy

This annex forms an integral part of the Company's consolidated financial statements.

Remunerations paid to external auditors

Remunerations paid to the external auditors during the periods are detailed as follows:

	January-December	
	2016 ThUS$	**2015** ThUS$
Audit services	291	302
Tax services	14	30
Other services	30	11
Auditor´s fees	**335**	**343**

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