

 Colbún



Annual Report

2013



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Milestones

JANUARY

Boiler Replacement at Coronel Hospital

By virtue of a public-private Alliance between the Health Service of Concepción and Colbún, Hospital San José of Coronel implemented a new thermoelectric power plant to replace the old coal-fired boilers with a new system that uses gas and diesel. This project is framed within the atmospheric emission compensation plan implemented at the Santa María Complex; it will bring about a reduction of 99.2% of the particulate material generated by the old boiler; i.e., from 27 to 0.2 tons per year. In addition, in June of 2013, another facility was inaugurated at the Hospital de Lota with a similar percentage of emission reduction.



APRIL

Colbún is recognized for its contribution to Education

Within the framework of the eighth version of the "Human Capital Development Award INACAP 2013", the Universidad Tecnológica de Chile recognized Colbún for the development of technical and professional training programs for high school students of zones where the Company is present. These programs, that were created six years ago, have benefited more than one thousand eleventh and twelfth graders of vulnerable public schools of the central-southern zone of Chile, providing these students with development opportunities to facilitate their insertion to the workplace.

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MAY**End of Colbún-Ancoa connection project**

May saw the completion of Colbún-Ancoa connection project, which purpose is to increase the transmission capacity and the security of the electric system between the south, where Colbún and Ancoa substations are located and the Metropolitan Region, The Project allowed increasing the transmission capacity from Ancoa to the Metropolitan Region by 30%. In practice, this project is equivalent to having available a 350 MW power plant at the Metropolitan Region during the months of highest rainfalls, with an investment of US\$4.9 million.

**Approval of the EIS – La Mina Hydroelectric Plant Improvement**

Approval of the EIS (Environmental Impact Study) for La Mina hydroelectric power plant improvement works, that were submitted to the SEIA in December of 2012. The improvement works relate to a change in the location of some permanent Project works (adduction and power house), for which Colbún had an Environmental Impact Statement approved in November of 2011.



JUNE

Colbún is recognized for its Excellent Labor Practices

Caja Los Andes granted Colbún the “Sergio May Colvin” award; it recognizes good labor practices and the commitment with the workers’ well-being. The Company was chosen by a jury made up of several affiliated companies, after evaluating elements such as the Company’s social security plans, educational and training policies, the promotion of health and protection and the Corporate Social Responsibility initiatives implemented, among others.



NCRE Award to Wind Project and Biomass Power Plant

After a careful review of 69 NCRE projects, presented for a bid called the year before, Colbún reached an agreement to purchase the energy generated by the new Acciona’s Punta Palmeras wind farm and the NCRE attributes of Comasa’s Lautaro biomass plant. Through this bid, the Company assured more than 220 GWh of NCRE generation power for a 12-year term.



JULY

Largest Issuer of Carbon Credits in Chile

During the year, the Company issued more than US\$8 million in carbon bonds certified by the United Nations, related to the operation of power plants registered under the Clean Development Mechanism (MDL): Chacabuquito, Hornitos and Quilleco. This consolidates Colbún’s leadership as the main hydroelectric generator of these credits. In addition, for the second year in a row, Colbún’s corporate offices are CO₂e neutral.

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250^{people}

Participated in the launching of the Sustainability Report 2012

OCTOBER

Colbún ranks first in the Climate Change Champions Ranking

Colbún was recognized for incorporating the climate change management as a comprehensive part of its business. Such recognition was granted by Fundación Chile and Capital magazine. The Company was also recognized among the best 8 CDP reports in Latin America (former Carbon Disclosure Project).



Bank Loan Structuring

The Company structured an international bank loan by US\$250 million; the loan has a bullet structure and was obtained at Libor rate plus 150 bps for a 5-year term. The funds were used to refinance short-term debt; hence the operation did not increase the Company's indebtedness level.



NOVEMBER

Good Corporate Citizen Award

This distinction awarded by AmCham Chile (Chilean- North American Chamber of Commerce) in the “Environmental” category, seeks to recognize corporate social responsibility programs that directly benefit the community. In this case, the award recognized the initiative that links Colbún to the Irrigators Association of the Southern zone of Maule.



First Public Address of Santa María Complex

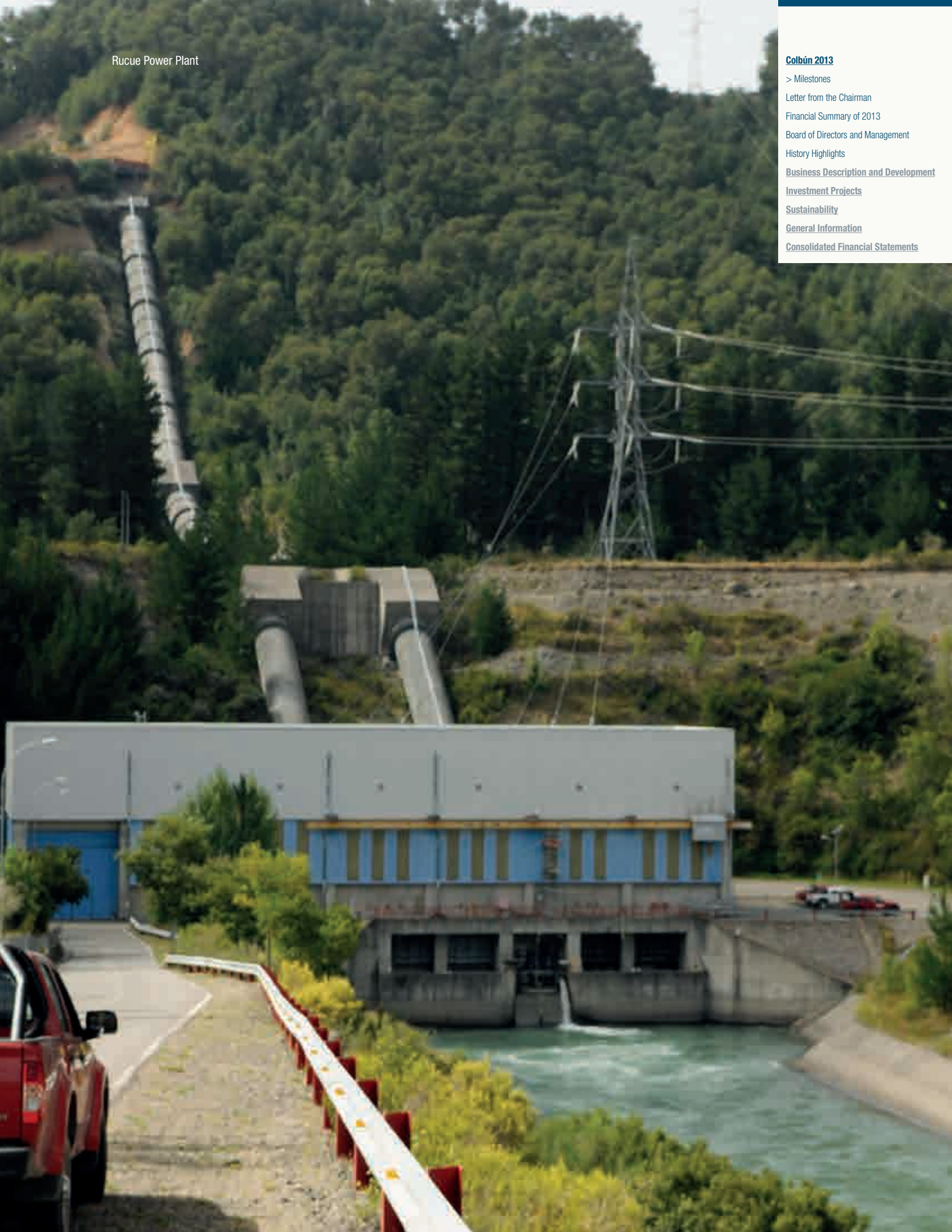
After one year of operations, Santa María's Unit 1 gave its first public address, inviting local communities, representatives of social organizations, authorities and executives. In such occasion, the Company reported positive environmental and social performance results. This was also an opportunity for the Company to speak directly with the community, and the participants had their questions and doubts addressed and resolved.



DECEMBER

Angostura hydroelectric power plant completes reservoir filling and synchronizes its First Unit

During 2013, Colbún continued completing the Angostura hydroelectric power plant, the engineering works and the commitments acquired with the communities. We completed the commissioning and the energization of the transmission line and the substation that will inject its energy to the system. In addition, we finished filling the reservoir and synchronized the first unit (135 MW), which by year end was still in a test stage. The power plant will contribute 316 MW of renewable capacity to the system and will be the largest hydroelectric power plant built in Chile over the last decade.





Bernardo Larrain M.
Chairman of the Board

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Letter from the Chairman

Dear Shareholders,

2013 is gone and I am very pleased to present Colbún's Annual Report and the Financial Statements for the fiscal year. As has been the tradition, I would like to start this letter by providing an outlook of the sector and by sharing with you some relevant milestones and the Company's future vision.

Many forums have extensively dealt with the challenges of the electric sector. In my last year's letter I discussed some of them. Virtually all the elements I mentioned there continue to exist. Only to recall some of them:

- Imbalance between a growing demand and a sustainable competitive supply;
- Long and uncertain environmental processes followed by litigations of the same characteristics that hold up the investment decisions;
- Industrial and mining clients that confront difficulties to obtaining long-term competitive supply to drive their growth plans;
- High and volatile generation costs;
- Neighboring communities and the society in general are legitimately demanding more participation and relevance, and better environmental standards in all productive activities

There is great consensus on these matters, what's important now is to act accordingly. We must start with a private-public dialogue, engaging the government, the civil society and the private sector, not to perfect the diagnosis or to defer decisions, but to actually implement them. We need to promote an ambitious plan for new competitive, sustainable and secure generation power, at a time where Chile wants to take a leap towards development. The economic and social development of a country goes hand in hand with a greater use of energy. This is an irrefutable fact.

At Colbún, we are prepared to be an agent that participates in this challenge, contributing with our know-how which is: "to develop and manage energy infrastructure assets, integrating with excellence the economic, technical, environmental and social dimensions to create long-term value". This declaration is in quotes because it is established in our Mission. Let me explain to you why we think Colbún is prepared to be part of this challenge, combining this statement with some milestones from the previous year.

First, we are finishing the commissioning of Angostura Project thus closing an investment cycle that started in 2006, which included new capacity above 900 MW with an investment of approximately US\$2,000 million, which positioned Colbún as the company that contributed more capacity to the Central Interconnected System (SIC) over the same period. This investment plan, together with that of many other companies, was the result of the country's need to substitute natural gas power purchased from Argentina. Such need was immediately addressed by the different players, which through a public-private dialogue, as we require today, led to a significant regulatory change – the so-called Short Law II – which, among other matters, generated the necessary long-term price signals to encourage the investments we know now.

In addition to contributing approximately 1,500 GWh during an average hydrological year according to the historic statistic (3% of the SIC's consumption) and to being the largest hydroelectric power plant built in Chile over the last decade, Angostura Project set a new way of doing projects by integrating the community, the environment and other activities such as tourism to the power plant operations. I encourage you to visit our website www.angosturadelbio-bio.cl to know the Angostura Park that is developing around the power plant and its reservoir and the activities conducted therein. We have proven with concrete facts that it is possible to carry out projects that harmonically merge with the environment and we want to use this know-how in other hydroelectric projects in of our portfolio.

Second, we closed 2013 with an EBITDA of US\$ 352 million. This figure that we don't feel happy about, was achieved in spite of the fact that we experienced a fourth dry year, which made hydroelectric power generation to drop to 4,856 GWh, 30% below what the hydrological statistic pinpoints as an average year. We are aware that our return on assets is still low, but we must consider we have undergone the longest draught period ever, and at the same time we have developed a major investment plan. With the commissioning of Angostura hydroelectric power plant, the expiry of some supply contracts dating from the beginning of the 2000s, and the better commercial balance of these factors, among other reasons, we are confident we will achieve long-term profitability indicators that are consistent with the risk levels of this industry.

Third, our financial structure has had a positive evolution. During 2013, we refinanced our short-term debt through a syndicated loan at very attractive interest rates and terms. We have also explored the national and international long-term debt market and we may say we have access to competitive financing.

Fourth, we have a portfolio of future projects, as the second coal-fired unit of Santa María Complex located in the district of Coronel. We have improved its design, incorporating technology to meet the demanding emission standard, and we started the process to inform these matters to the environmental authority. Likewise, the first unit of the complex recorded a plant factor of 86%

during 2013, percentage that is greater than the SIC's average for similar power plants. In addition and consistent with our objective of keeping our neighboring communities informed, in November we gave a public address and presented the "Social-Environmental and Productive Balance of Santa María Complex" at the House of the Culture in Coronel, which was attended by more than 250 neighbors. In that occasion, our plant manager provided a complete analysis of the power plant operation in connection with its environmental parameters. We had a very significant achievement in that plant such as the installation of the most modern filtering system for seawater intake, system that was also presented to the community. This improvement was the result of a study on the best technologies available to face an unusual phenomenon such as the onset, due to natural reasons, of large quantities of biomass on the sea surface.

In connection with San Pedro Project located in Los Ríos Region, we have concluded the prospecting analysis and the field studies collected over the last 2 years. With this information, we are defining the civil works and the design adjustments that shall not affect the main environmental parameters of the already approved project. After this stage, we will be in conditions to present the new design to the corresponding authorities.

We also have several hydroelectric projects at different stages, which approximately account for 500 MW located mainly at the Maule basin.

We have certain issues outstanding such as to ensure competitive and flexible gas supply for our combined cycle thermoelectric power plants over the long-term. Although we have entered into some medium and short-term contracts that have enabled us to use part of our capacity in 2013, we are looking for other avenues to assure long-term, efficient and reliable gas supply.

In sum, we are prepared and we have a project portfolio that allow us to be a relevant player in the challenge of adding the new generation capacity Chile needs, integrating the environmental, social, economic and technical dimensions. The above also applies to many other players, both new and existing. However, it is not enough to have a project portfolio and the internal capabilities to undertake these projects. Beyond environmental permitting Statements, it is

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fundamental to obtain the participation of the governments, the civil society and the companies to generate the conditions to make sure that environmental authorities will not hinder the development of the projects. We believe that the environmental authorities must evolve, and incorporate territorial consultation and early citizen involvement mechanisms, among other matters.

Two decades ago, when this country started the virtuous growth years, we were proud to show the price of energy in Chile, and how this energy was preferably obtained from independent and renewable sources. Today, the cost of energy, its sustainability and the reliance thereof are among our main weaknesses and many analysts are alerting of the impact they will have on growth. We have a big hydroelectric potential that has not been tapped yet, and there is no developed country which having this resource has failed to use it.

And I am referring to countries regarded amongst the "greenest" of the planet, such as New Zealand, Norway, Switzerland and Canada. We also have a great potential in new energies, such as solar energy, geothermal energy and although more recent, sea water energy. We will develop those that are efficient, both from an environmental and economic viewpoint, without neglecting the structural problems of some that generate negative externalities such as larger backup and transmission capacity requirements. Finally, we recognize we will still need new efficient thermoelectric capacity, due to its stability and competitiveness. Both for the developed world and for our neighboring countries, energy is synonym of significant agreements and decisions. In Chile, instead, it has been synonym of divergences and of deferred decisions. It would be good to achieve a major national agreement to sort out this energy problem.

I would like to finish this letter with this reflection, and I leave you an invitation to read this Annual Report. Through its pages you will see we are working in several fields: these pages talk about a "living" company. It is alive because there is a group of professionals and workers who are driving its development and its growth every day of the year and every hour of the day. I would like to thank them all for their effort, commitment and professionalism.

Bernardo Larraín Matte

Chairman of the Board

Candelaria Power Plant



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Financial Summary of the Business Year 2013

In spite of the unfavorable hydrological conditions, the improvement in our results is due mainly to a better cost structure and a one-time gain relating to the payment of an insurance policy. The result could have been better, if it hadn't been for the failure affecting Nehuenco II, which put the plant out of business for approximately 5 months. Likewise, Santa Maria's Unit 1 favorably completed one year of operation featuring a greater than average availability factor as compared to other coal-fired power plants in the SIC.

2013 was characterized by unfavorable and extremely dry hydrological conditions for the fourth year in a row in the northern and central-southern regions of the country, with even lower precipitations, as compared to the previous year.

These conditions translated into low hydroelectric generation, recording the lowest values of the recent history, both at the level of the system and at the level of the hydroelectric generation, which decreased 7% as compared to 2012. In spite of the above, the greater efficient thermoelectric capacity of the system and the reliable generation achieved by Santa María's Unit 1 during its first year in operation allowed reducing diesel generation, thus bringing down the marginal costs.

Our 2013 results show profits for US\$ 63.0 million, greater than the US\$ 50.9 million recorded in the previous year. Similarly, 2013 EBITDA reached US\$352.4 million as compared to US\$286.7 million in 2012. Although the drought still persists and in spite of the fact that Nehuenco II plant was affected by a failure in March of 2013 that put the plant out of generation for 132 days, the improvement as compared to 2012 is due to:

- A better cost structure: Santa María's Unit 1 completed one year in operation, greater access to gas and lower diesel generation.
- A one-time gain of US\$63.9 million due to the payment of business interruption insurance for the failure that affected Nehuenco I in December of 2007.

Ordinary income for 2013 amounted to US\$ 1,696 million, 20% greater than the US\$ 1,409 million recorded in 2012. This increase is due mainly to greater physical sales to regulated and free customers; at greater average monomic sale prices; and the gain associated to the above-mentioned insurance payment.



US\$ **352.4** million

EBITDA 2013

The increase in sales to free customers is due mainly to a new long-term contract with Codelco that started in March and, to a lower extent, an additional supply to this same free customer started in May, which will be applicable until December of 2014. This second contract does not involve any price risk to the Company.

In turn, the costs of raw materials and consumption goods in 2013 reached US\$1,260 million, 20% up from 2012 due mainly to greater purchases from the CDEC and greater gas consumption, partially offset by lower diesel oil consumption.

Non-operating income recorded a loss of US\$32.8 million, greater than the US\$4.2 million loss of 2012. This increase is due mainly to a lower capitalization of financial expenses resulting from the accounting treatment of Santa María plant's Unit 1 as an asset in operation, together with lower profits from the exchange rate difference and two asset impairment charges (failure affecting Nehuenco II and Los Pinos).

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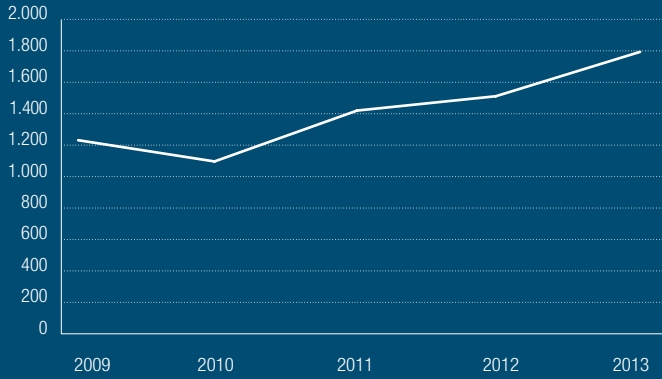
2013 was characterized by unfavorable and extremely dry hydrological conditions for the fourth year in a row in the northern and central-southern regions of the country, with even lower precipitations as compared to the previous year.

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION (IN THOUSAND US\$)	2012	2013
Current assets	788,630	744,129
Non-current assets	5,214,774	5,321,644
Total Assets	6,003,404	6,065,773
Current liabilities	550,790	341,908
Non-current liabilities	1,939,832	2,167,559
Total net equity	3,512,782	3,556,306
Total Liabilities and Net Equity	6,003,404	6,065,773

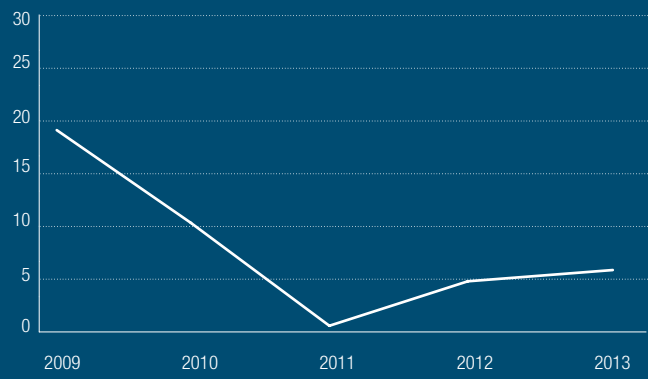
ESTADOS DE RESULTADOS INTEGRALES CONSOLIDADOS (MILES DE US\$)	2012	2013
Net income from ordinary activities	1,409,497	1,695,928
Raw materials and consumables used	(1,047,391)	(1,260,062)
Personnel expenses	(53,716)	(60,110)
Depreciation and amortization expenses	(136,048)	(162,602)
Other expenses by segment	(21,650)	(23,339)
Other profits (losses)	(31,365)	(38,019)
Operating result	119,327	151,796
EBITDA	286,740	352,417
Non-operating result	(4,218)	(32,800)
Profit (loss) before taxes	115,109	118,996
Income tax expense	(64,580)	(56,031)
Profit (loss)	50,529	62,965
Profit attributable to parent company	50,529	62,965
Profit attributable to non-controlling interest	15	0

Note: December 2012 shows a slightly positive EBITDA adjustment due to 1) Change in the recognition and valuation policy of actuarial profits (losses) for personnel expenses. For further information, please refer to Note 23.g. of the Financial Statements. 2) Restatement of US\$0.7 million from "Other profits/losses" to "Other Income" from the sale of carbon credits.

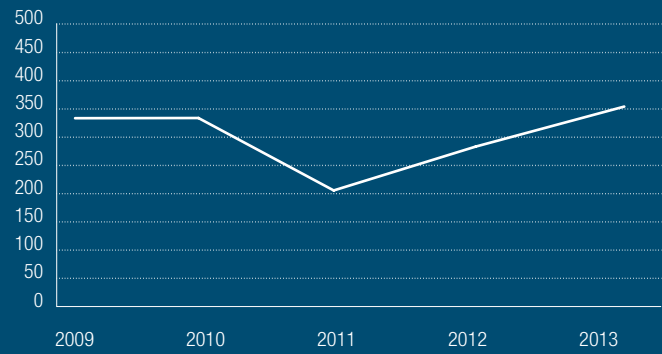
Graph 1.1 Total revenues (million US\$)



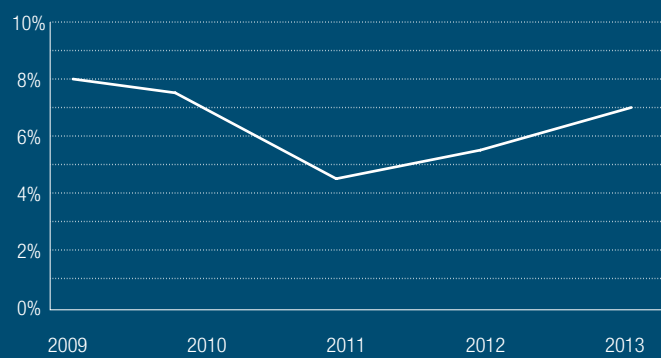
Graph 1.4 Earnings per share (US\$ / 1,000 shares)



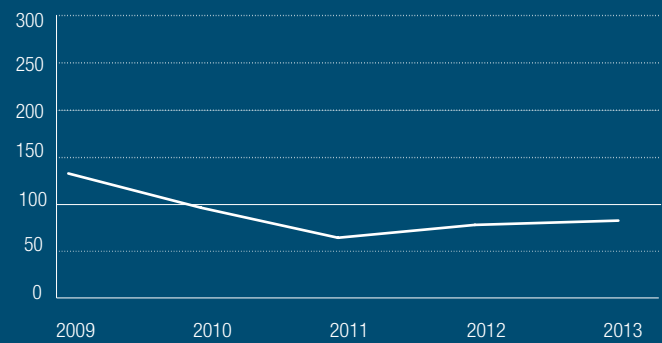
Graph 1.2 EBITDA (million US\$)



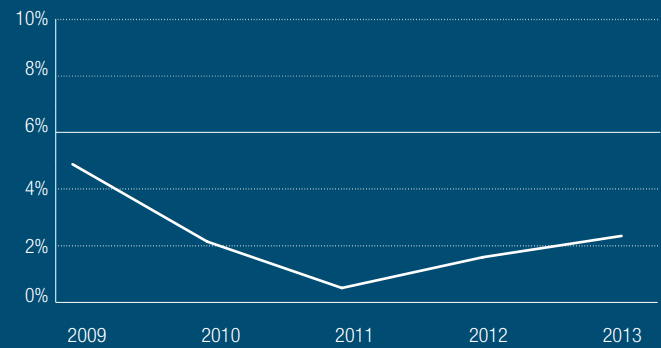
Graph 1.5 EBITDA / Fixed assets (%)



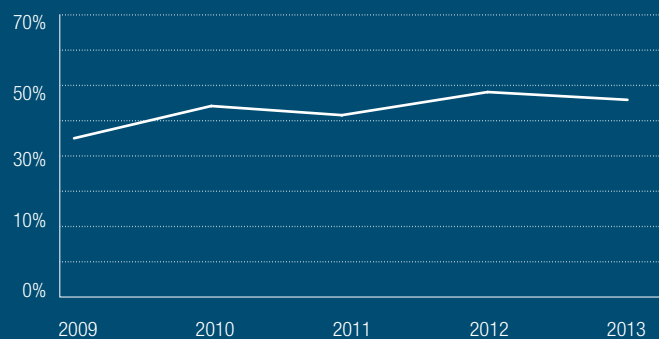
Graph 1.3 Profits (million US\$)



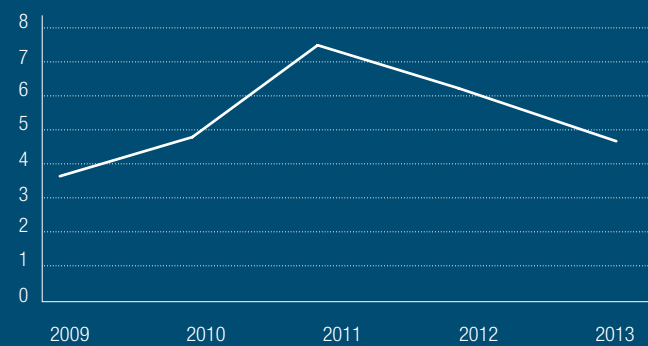
Graph 1.6 Profits / Equity (%)



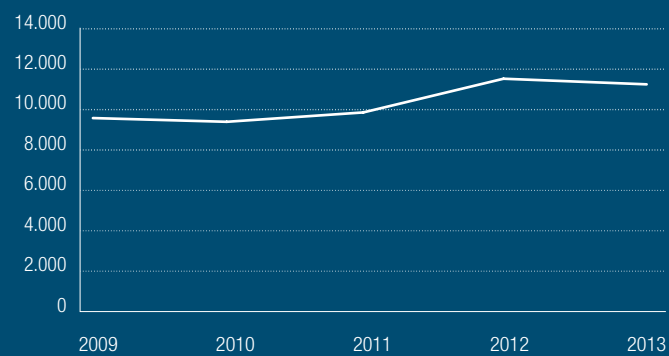
Graph 1.7 Debt / Equity (%)



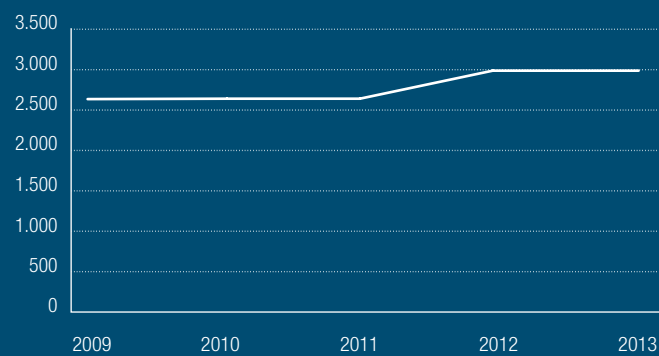
Graph 1.8 Debt / EBITDA (times)



Graph 1.9 Generation (GWh)



Graph 1.10 Installed Capacity (MW)



Board of Directors and Management

Our Board of Directors is composed of nine members who may be re-elected indefinitely, and may or may not be shareholders. The Board of Directors appoints the Chief Executive Officer, who exercises all the powers and undertakes all the obligations to a business agent and others contemplated by the law, as well as those that the Board of Directors may expressly establish.

At December 31, 2013, our Board of Directors was made up of nine incumbent members, four of which are independent. The Board of Directors was elected on April 26, 2012. In such occasion, Ms. Viviane Ballot Sosa (R.U.T.: 6.964.638-7; Economist from the Universidad Catholic de Chile) joined the Board and Messrs. Fernando Franke García (R.U.T.: 6.318.139-0; Commercial Engineer from the Universidad Adolfo Ibáñez) and Jorge Gabriel Larraín Bunster (R.U.T.: 4.102.581-6, Commercial Engineer from the Universidad Católica de Chile) resigned to the Board. The last two members were elected at the Regular Shareholders' Meeting of 2011.

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Arturo Mackenna Iñiguez

Director
RUT: 4.523.287-5
Civil Industrial Engineer
Universidad de Chile

2

Bernardo Matte Larraín

Director
RUT: 6.598.728-7
Commercial Engineer
Universidad de Chile

3

Sergio Undurraga Saavedra

Director
RUT: 4.280.259-K
Commercial Engineer
Pontificia Universidad Católica de Chile

4

Luis Felipe Gazitúa Achondo

Vice-chairman
RUT: 6.069.087-1
Commercial Engineer
Universidad de Chile

5

Juan Hurtado Vicuña

Director
RUT: 5.715.251-6
Civil Engineer
Universidad de Chile

6

Eliodoro Matte Larraín

Director
RUT: 4.436.502-2
Civil Industrial Engineer
Universidad de Chile

7

Vivianne Blanlot Soza

Director
RUT: 6.964.638-7
Economist
Pontificia Universidad Católica de Chile

8

Eduardo Navarro Beltrán

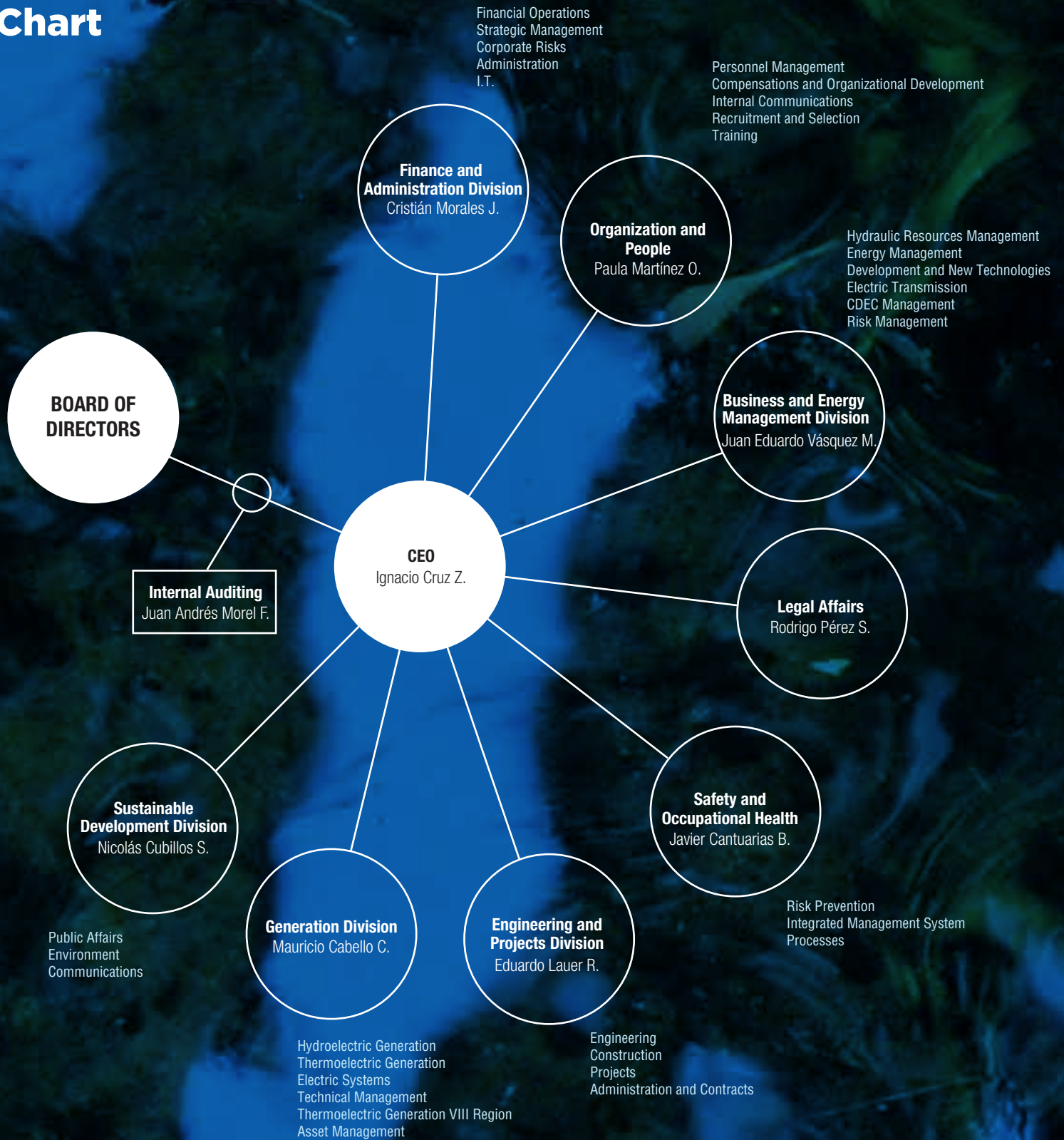
Director
RUT: 10.365.719-9
Commercial Engineer
Pontificia Universidad Católica de Chile

9

Bernardo Larraín Matte

Chairman
RUT: 7.025.583-9
Commercial Engineer
Pontificia Universidad Católica de Chile

Organizational Chart



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	NAME	POSITION	RUT	PROFESSION	UNIVERSITY	INCORPORATED ON
①	Eduardo Lauer Rodríguez	Manager, Engineering and Projects Division	6.994.492-2	Civil Mechanical Engineer	Fach Hochschule de Munchen	01-Nov-10
②	Mauricio Cabello Cádiz	Manager, Generation Division	10.391.635-6	Civil Mechanical Engineer	Universidad de Santiago de Chile	01-Dec-12
③	Rodrigo Pérez Stiepovic	Manager, Legal Affairs	10.313.675-K	Lawyer	Pontificia Universidad Católica de Chile	01-Dec-07
④	Cristián Morales Jaureguiberry	Manager, Finance and Admin. Division	7.106.267-8	Civil Industrial Engineer	Universidad de Chile	01-Jun-08
⑤	Javier Cantuarias Bozzo	Manager, Safety and Occupational Health	7.452.263-7	Nurse	Universidad de Chile	01-Oct-12
⑥	Ignacio Cruz Zabala	Chief Executive Officer	7.431.687-5	Civil Hydraulic Engineer	Pontificia Universidad Católica de Chile	26-Apr-12
⑦	Nicolás Cubillos Sigall	Manager, Sustainable Devel. Division	6.370.430-k	Lawyer	Pontificia Universidad Católica de Chile	18-Mar-13
⑧	Juan Andrés Morel Fuenzalida	Manager, Internal Auditing	7.096.735-9	Civil Hydraulic Engineer	Pontificia Universidad Católica de Chile	01-Oct-12
⑨	Paula Martínez Osorio	Gerente Organización y Personas	14.449.738-4	Psychologist	Universidad Diego Portales	01-Jan-12
⑩	Juan Eduardo Vásquez Moya	Manager Business and Energy Management Division	7.868.160-8	Civil Electric Engineer	Universidad de Chile	01-Jul-08

History Highlights

Colbún's business activity is the generation, transmission and distribution of electric energy.



1985

Commissioning of Colbún and Machicura hydroelectric power plants.



1986

Stemming from the agreement to split Empresa Nacional de Electricidad S.A., Endesa, Empresa Eléctrica Colbún Machicura S.A. is created, currently known as Colbún S.A.



1996

Commissioning of San Ignacio hydroelectric power plant.



1997

CORFO ceases to be a main shareholder of the Company by selling 37% of its shares in Empresa Eléctrica Colbún Machicura S.A.

Creation of the affiliate Empresa Eléctrica Industrial S.A.

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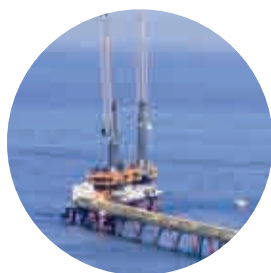
1998

Commissioning of Rucúe hydroelectric power plant.



1999

Commercial commissioning of Nehuenco I combined-cycle thermoelectric power plant through its affiliate Empresa Eléctrica Industrial S.A., Colbún S.A. acquires the run-of-the river hydroelectric power plant Carena.



2001

CORFO sells most of its shares in the local stock market and the Company's name is changed to Colbún S.A.



2002

Commercial operation of Nehuenco III open-cycle thermoelectric power plant begins.



2004

Commissioning of Nehuenco II combined-cycle thermoelectric power plant.



2005

Commercial operation of Candelaria open-cycle thermoelectric power plant begins.

Minera Valparaíso S.A., an affiliate of Matte Group becomes the principal shareholder of Colbún S.A. as a result of the merger with Hidroeléctrica Cenelca S.A.

With the merger, the following run-of-the-river hydroelectric plants are incorporated: Chacabuquito, Los Quilos, Blanco, Juncal, Juncalito, together with the reservoir hydroelectric plant Canutillar, and the thermoelectric plant Antilhue.



2007

Commissioning of Quilleco and Chiburgo run-of-the-river hydroelectric power plants. Chiburgo is the first Company's power plant built within the framework of the law that promotes non conventional renewable energies.

Start up of the dual operation (natural gas and diesel oil) of Nehuenco II power plant.

Registration of Chacabuquito run-of-the-river hydroelectric power plant before the United Nations' Clean Development Mechanism, which



2006

Tractebel sells its entire share ownership in Colbún S.A. In this sale Antarchile S.A., company related to the Angelini group acquires 9.53% of the ownership of Colbún S.A.

A new company is set up to develop the HidroAysén project, where Colbún S.A. contributes 49% of HidroAysén's capital and Endesa contributes the other 51%.

will allow an annual reduction of approximately 80 thousand tons of CO₂e., equivalent to removing from circulation more than 20 thousand cars. It is the first hydroelectric power plant in the world that trades carbon credits.

Within the framework of the first bids with distribution companies, Colbún is awarded supply contracts for 10-15 year terms with CGED, SAESA and Chilectra for 2,800 GWh annually, starting in 2010; and 2,500 GWh annually starting in 2011.

Colbún 2013[Milestones](#)[Letter from the Chairman](#)[Financial Summary of 2013](#)[Board of Directors and Management](#)[> History Highlights](#)[Business Description and Development](#)[Investment Projects](#)[Sustainability](#)[General Information](#)[Consolidated Financial Statements](#)**2008**

Commissioning of Hornitos hydroelectric power plant.

Registration of two run-of-the-river hydroelectric power plants before the United Nations' Clean Development Mechanism; Hornitos and Quilleco, which will allow an annual reduction of 118 thousand and 172 thousand tons of CO₂e respectively.

**2009**

Begins the application of International Financial Reporting Standards (IFRS) and the U.S. dollar is adopted as the functional currency.

Commissioning of Los Pinos open-cycle thermoelectric power plant.

**2010**

Commissioning of San Clemente mini-hydro power plant.

Issue of the first International Bond by US\$500 million for a 10-year term.

**2011**

Registration of San Clemente run-of-the-river mini-hydro power plant before the UN's Clean Development Mechanism (CDM), which will allow an annual reduction of approximately 17 thousand tons of CO₂e., equivalent to removing from circulation more than 4 thousand cars.

**2012**

Commissioning of Santa Maria's Unit 1, the first coal-fired thermoelectric power plant pertaining to Colbún S.A.

Publication of our first Sustainability Report, which compiles all the indicators that measure our performance in this matter, according to the methodology of the Global Reporting Initiative (GRI).

Setting up of the affiliate Colbún Transmisión S.A. The affiliates of Hidroeléctrica Guardia Vieja S.A., Hidroeléctrica Aconcagua S.A. and Obras y Desarrollo S.A. merge with Colbún S.A.



Chapter. 2 : Description and Development of the Business

[Regulatory framework of the sector](#)

[Development of the power sector in 2013](#)

[Colbún's corporate strategy](#)

[Business development in 2013](#)

Regulatory framework of the sector

Description of the foundations of the regulatory framework for the Chilean power sector

Chile's electricity sector has a regulatory framework which, in its main aspects has been in effect for the last three decades. This has enabled the development of an industry with a high level of participation of private capital. The sector has been able to satisfy the demand for electricity, which has grown at an annual compound rate of 4.1% between 2003 and 2013.

Such regulatory framework that regulates the Chilean electric power sector as well as our operations is made up of the following laws:



Los Pinos Station

GENERAL LAW ON ELECTRIC POWER SERVICES:

DFL No. 1 of 1982, which systematic and merged text is included under DFL No. 4-2006, which contains the main amendments thereto:

- "Short Law 1" (Ley Corta 1), Law No. 19,940 enacted in 2004. This law introduced (i) new regulation applicable to the transmission system, development of the transmission system and the rates transmission facility owners can charge to users of the system and (ii) regulation regarding reliability and ancillary services.
- "Short Law 2" (Ley Corta 2), Law No. 20,018 enacted in 2005. This law, established among others, the framework of bids for energy supply to regulated customers through long-term contracts (up to 15 year-term). These contracts are indexed to the United States' CPI and other relevant fuel indexes.
- Law No. 20,257, an amendment to the Chilean Electricity Law enacted in 2008. This amendment promotes the use of non-conventional renewable energies ("NCRE"). Under this law, power generation companies are required to supply 5% of their total contractual obligations entered into after August 31, 2007 for the period between 2010 and 2014 with NRCE. The obligation to supply electricity with NCRE will increase by 0.5% annually up to 2024, when the requirement will reach 10% of total contractual obligations. In addition, an amendment to this law was enacted in 2013, which will increase the magnitude of the obligation from 10% in 2024 to 20% in 2025, for all contracts entered into after July 1, 2013. This new system contemplates a gradual application of the standard.

[Colbún 2013](#)[Business Description and Development](#)[> Regulatory Framework of the Sector](#)[Development of the Power Sector in 2013](#)[Colbún's Corporate Structure](#)[Business Development in 2013](#)[Investment Projects](#)[Sustainability](#)[General Information](#)[Consolidated Financial Statements](#)

Chile's electric sector has a regulatory framework which, in its main aspects has been in effect for the last three decades. This has enabled the development of an industry with a high level of participation of private capital. The sector has been able to satisfy the demand for electricity, which has grown at an annual compound rate of 4.1% between 2003 and 2013.

ENVIRONMENTAL LAW:

The "General Environmental Law" (No.19,300) regulates and establishes the environmental framework in Chile. This law was amended early in 2009 by Law No. 20,417, which changed the environmental regulation that existed so far. Among the main changes is the creation of the Environmental Ministry, the Environmental Superintendence, the Environmental Courts and the Biodiversity and Wild Protected Area Service. Among the main modifications is the reformulation of the fines. In addition, there are numerous laws, regulations, decrees and municipal ordinances that may rule our operations, or the development of new projects, which are aimed at protecting the environment.

WATER RIGHTS:

Water rights are governed by the Water Code ("Código de Aguas"), which defines the means by which water rights may be obtained, the characteristics of these water rights and how such rights may be constituted and exercised. Water rights are granted by the Water Management Board (Dirección General de Aguas or "DGA"). The Water Code dates back 50 years and was modified for the last time in 2005 to establish, among other things, the payment of a permit for unused water rights.



Main Institutions

Three government entities have primary responsibility for the implementation and the enforcement of the Chilean Electricity Law: the Ministry of Energy, the National Energy Commission (CNE) and the Superintendence of Electricity and Fuel (SEC). The main objective of the Ministry of Energy is to prepare and coordinate the plans, policies and standards to ensure the proper functioning and the development of the sector, to enforce compliance with its regulations and to advise the government in all energy-related matters. The CNE is a technical entity entrusted with analyzing prices, tariffs and technical standards that power generation, transmission and distribution companies must abide by and, among other regulatory duties, it prepares a 10-year recommendation for the expansion of the system that must be consistent with the calculated node prices. The SEC is charged with ensuring compliance with legal and regulatory provisions and with technical standards on the generation, production, storage, transport and distribution of liquid fuel, gas and electricity.

The sector's operational model

The operation of the sector is based on a marginal cost scheme (cost incurred by the system in supplying an additional unit of demand), which includes in turn the safety and efficiency criteria in assigning the resources.

To meet the “efficiency” goal, generation companies coordinate their operations through the CDEC (Economic Load Dispatch Center, Centro de Despacho Económico de Carga) that strives to minimize the operating costs of the system and prevent its failure, in addition to ensuring the quality and the safety of the service provided by generation and transmission companies. The main purpose of CDEC system is to ensure that customers are served by the most efficient units available at every moment.

The CDEC dispatches plants in the order of their respective variable costs of production, starting with the lowest cost plants. The variable production cost of the most expensive unit under operation represents the marginal cost of the system and will determine the price of energy in the spot market at each hour and is measured in US\$/MWh. Power plants whose variable costs are lower than the spot price earn a margin over the production delivered to the system. In turn, the last unit dispatched by the CDEC will only recover its variable production costs because its variable costs are equal to the spot price. Power generation companies meet their contractual sale commitments with electricity dispatched by the CDEC, whether produced by them or purchased from other generation companies in the spot market.

To meet the “safety” objective, the tariff system also contemplates a “capacity charge”. It is an additional remuneration for generation companies that maintain their power plants available and that seeks to promote backup capacity in the system. The CNE sets the price of capacity every 6 months and it is measured in US\$/KW per month. The price is determined in function of a profitability rate over the investment amount in an efficient thermoelectric diesel unit to cover the demand during peak hours. Given that the peak demand of the system is lower than the total installed capacity, every year the CDEC calculates the total capacity remuneration associated to the peak demand of the system and distributes it pro rata among generation companies based on their “firm capacity”

Generation companies coordinate their operations through the CDEC (Economic Load Dispatch Center) that strives to minimize the operating costs of the system and prevent its failures.



Machicura Power Plant

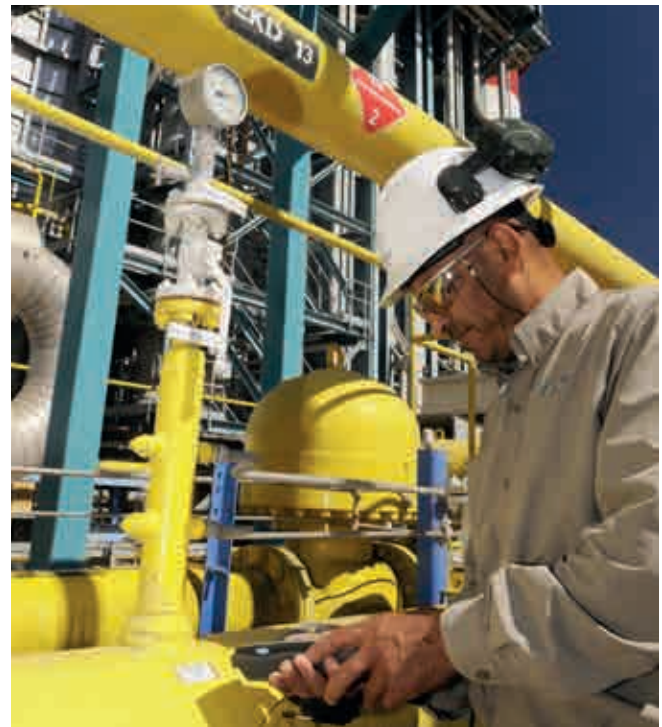
To determine this firm capacity, the CDEC takes into consideration the statistics of the availability of each power plant and assumes a dry hydrological scenario for hydroelectric power plants, among many other factors. Generation companies collect the capacity charge from their customers, and the CDEC will periodically resettle differences between generation companies to ensure each company receives capacity revenues in proportion to their firm capacity.

The commercialization model of the sector

Generation companies may: (i) commit to sell energy to customers through contracts (in general, medium /long term); (ii) or sell their energy production to other generation companies with a deficit in the spot market; (iii) or select a mix of both. The generation companies may sign contracts with three types of customers:

- On the regulated customer market, made up of distribution companies, the generation companies sell energy pursuant to long-term contracts at prices obtained in regulated bids denominated Long-Term Node Prices. For contracts subscribed before 2005 the energy sale price was subject to the so-called Short-Term Node Price. The Short-Term Node Price is calculated twice a year by the National Energy Commission (CNE) by means of a method that calculates the average of the marginal costs or spot prices expected for the next 48 months, based on assumptions of new capacity, growth in demand, fuel costs, among others. Since the “Short Law 2” was published in May of 2005, sales prices to distribution companies must be the result of public, open and transparent bids. Those prices vary from contract to contract. Therefore, in the measure that the contracts subscribed before 2005, the Short Term Node Price calculated by the CNE will no longer be used to sell to distribution companies. Long-Term Node Prices include indexation formulas that incorporate indicators such as the United States’ inflation index, fuel price indices namely diesel and coal, and even indexation to energy prices in the spot market, among others.
- Non regulated customers are those that have a connected capacity greater than 2,000 KW and negotiate their prices freely with its suppliers. The users with connected capacity between 500 KW and 2,000 KW may choose a free price or a Long-Term Node Price regime, with a minimum permanency period of four years in each regime. Prices negotiated with non-regulated customers usually include mechanisms to share the risks with other generation companies through indexation formulas at fuel prices or spot prices, or other variables that reflect the actual supply costs of a generation company.
- Lastly, it is possible for a generation company to commit to supply power to another generation company through a contract whose price is negotiated freely.

As said above, any surplus or deficit in energy and capacity between contractual commitments and own generation is settled among generators in the spot market. Surpluses or shortages between a generation company's own production and the consumption of its customers occur because dispatch orders are outside the control of each generation company, as shown in the operational model for the sector.



Nehuenco Plant

Transmission Sector Regulation

In order to deliver our electric power to the system and to supply energy and capacity to our customers, we use transmission facilities of our own as well as those of third parties. The legislation breaks down the transmission system into three types: Trunk Transmission System, Subtransmission System and Additional Transmission System. A transparent, participative and regulated methodology was established to determine the tariffs associated with the use of the Trunk and Subtransmission Systems that subjects the use of Additional Systems to a bilateral negotiation between the owner and the user.

The law grants the Trunk Transmission and Subtransmission Systems the nature of public service and consequently this type of facilities is provided free access, i.e., the owners may not restrict the connection to any interested user. Transmission companies recover their investment through tariffs which, depending upon the type of transmission installation, are charged to generation companies, end customers or both. Trunk transmission and subtransmission tariffs are regulated and are set every four years by a decree issued by the Ministry of Energy.

Development of the power sector in 2013

Electric power demand in the SIC increased by 4.1% as compared to 2012. In connection with the supply, the percent contribution of hydroelectric power in 2013 was even lower than the contribution in 2012 due to a fourth consecutive dry year, recording a historic low of 38% over the last years.

Chile counts on 4 interconnected systems and Colbún operates in the largest one, the Central Interconnected System (SIC), which covers the area from Taltal in the north to the Island of Chiloé in the south, where we reach the second largest market share. The SIC covers an approximate extension of 2,100 km and consumption of this area represents close to 75% of the total electricity demand of Chile with an installed capacity of 14,068 MW at the closing of 2013. The SIC covers approximately 92% of the population in Chile.

Table 2.1 SIC Market Share by Corporation at December 2013 (% of installed capacity)

COMPANY	PERCENTAGE
Endesa	37.3%
Colbún S.A.	20.7%
AES Gener	18.0%
Others	23.9%
TOTAL	100.0%

Source: Own data based on the information provided by Colbún and the CDEC-SIC.

Demand, supply and spot prices evolution

The strong economic activity of 2013 drove the 4.1% increase in power demand as compared to 2012. We expect this high growth rate to prevail over coming years. In fact, in its last semi-annual node price report of October 2013, the CNE forecasted an annual growth rate of electricity demand of 5.2% over the next five years.

In 2013, the net energy generation of the SIC reached a total of 50,906 GWh, equivalent to energy sales to customers in the amount of 47,778 GWh. In addition, the peak hourly demand of the system was in December and reached 7,276 MW, which was 4.3% higher than 2012, with 6,974 MW.

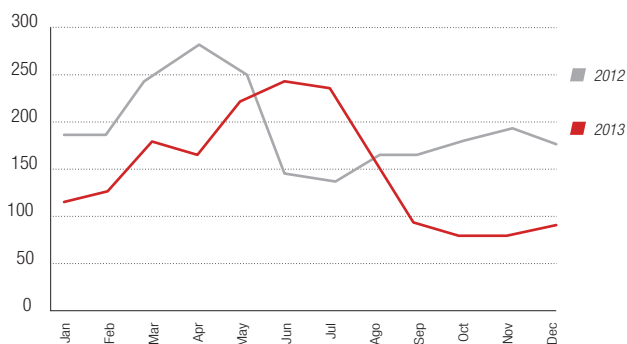
Table 2.2 Participation of each fuel in the SIC total generation (%)

	2012	2013
Hydro	41%	38%
Coal/petcoke	21%	33%
LNG	21%	19%
Diesel	13%	4%
Wind	1%	1%
Others	3%	4%
	100%	100%

Source: Own data based on information provided by the CDEC-SIC.

During 2013, lower hydraulic generation was recorded as a result of the dry hydrological condition of the year, completing a sequence of four extremely dry years in a row. The above was partially offset by the commissioning of coal-fired power plants which entailed lower thermoelectric diesel generation in the SIC as compared to the previous year.

In summary, this year the company recorded a growth in demand and a lower hydroelectric production, but the contributions from coal-fired power plants led to a reduction of the marginal cost from an average of 175 US\$/MWh in 2012 to 149 US\$/MWh in 2013 (measured at the Quillota 220 kV substation).

Graph 2.1 Monthly Average Marginal Costs for 2013 in Quillota (US\$ / MWh)

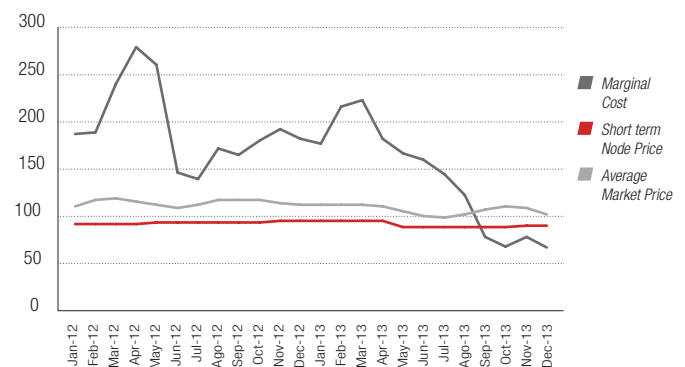
Source: Own data based on information provided by Colbún and the CDEC-SIC.

107^{US\$/MWh}

Average Market Price in 2013

In connection with the average price charged by generation companies directly to their contracted customers, known as the Market Average Price, it recorded an average value of 107 US\$/MWh for 2013, which represents a reduction of 6.1% as compared to 2012.

Likewise, the Short-Term Node Price applied to regulated customers that still have old contracts in force slightly decreased in Alto Jahuel 220 kV power plant from 95 US\$/MWh in the tariff setting of October 2012 to 90 US\$/MWh in the tariff setting of October 2013.

Graph 2.2 Monomic Prices in Alto Jahuel (US\$ / MWh)

Source: Own data based on information provided by Colbún and the CDEC-SIC.

Colbún's Corporate Strategy

Colbún's core strategy is to generate energy for our future

We seek to generate long-term value by developing and managing energy infrastructure assets and to excel in integrating the economic, technical, environmental and social dimensions thereof. We do this by generating trust relationships with our stakeholders in order to create shared value, and by working based on three strategic pillars: 1) Consolidation, 2) Growth and 3) Diversification and Risk Management.

Current Colbún's asset base

GENERATION ASSETS

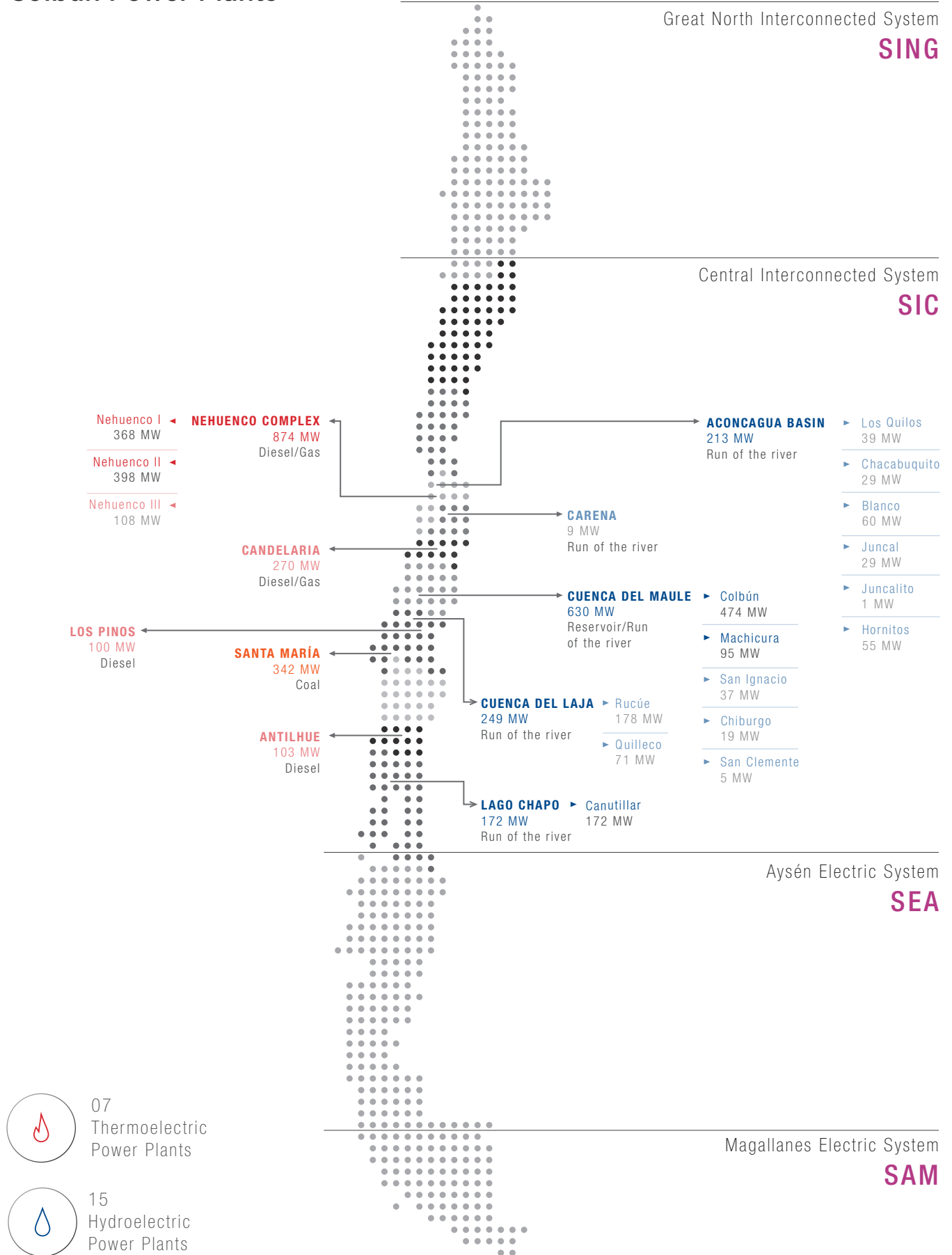
We have a diversified portfolio of hydroelectric power plants (reservoir and run-of-the-river) and thermoelectric power plants (coal-fired and combined and open cycle both with natural gas and/or diesel) contributing power by 2,962 MW to the Central Interconnected System (SIC). Hydroelectric power plants add up a capacity of 1,273 MW and are distributed in 15 power plants, of which three have their respective reservoirs. Likewise, thermoelectric power plants add up a capacity of 1,689 MW.

Thermoelectric power plants are distributed as follows: Nehuenco Complex, situated in the Valparaíso Region, district of Quillota; Candelaria power plant, in the O'Higgins Region, districts of Mostazal and Codegua; Santa María's Unit 1 and Los Pinos power plants in the Biobío Region, districts of Coronel and Cabrero respectively; and Antihue, in Los Ríos Region, district of Valdivia.

Table 2.3 Colbún's Corporate Strategy

MISSION	We seek to generate long-term value by developing and managing energy infrastructure assets and to excel in integrating the economic, technical, environmental and social dimensions thereof.					
VISION	A Chilean company that is the raw model for the generation of safe, competitive and sustainable energy.					
VALUES	INTEGRITY	EXCELLENCE	PASSION	INNOVATION	COLLABORATION	
STRATEGIC PILLARS	CONSOLIDATION		GROWTH	DIVERSIFICATION AND RISK MANAGEMENT		
INTEGRATION WITH STAKEHOLDERS	INVESTORS Maximize the value of the Company over a long-term horizon, through an operation of excellence and our sustainable and profitable growth.	WORKERS Offer high-quality employment and a work environment that allows collaboration and personal development.	COMMUNITY AND SOCIETY Foster local development and provide clear and transparent information about our projects and operations.	CONTRACTORS AND PROVIDERS Exchange good practices, seeking to promote high safety, quality, environmental and social standards.	ENVIRONMENT Generate electric energy balancing the safety, competitiveness and sustainability pillars, minimizing environmental impact.	CLIENTS AND SUPPLIERS Achieve a safe, competitive and sustainable electric power supply and provide information and analysis to make better decisions.

Colbún Power Plants



07 Thermoelectric Power Plants

15 Hydroelectric Power Plants

TRANSMISSION ASSETS

At December of 2013, we own 890.9 kms. of single and double-circuit transmission lines and 27 substations. These lines enable us to carry the production from our power plants to the points of injection into the Central Interconnected System (SIC) or to withdraw electric power from this system, for its transmission to the customers' consumption points. As defined in the General Law on Electric Power Services (Electric Law), 261.9 kms of lines of Colbún's and its affiliates pertain to the Trunk Transmission System (Colbún- Alto Jahuel 2 – 220kV line and interconnection Colbún-Ancoa 220 kV), 80 kms of lines are classified as pertaining to the Subtransmission System (Los Maquis-Esperanza 2 x 110 kV line and San Clemente – Talca 1 x 66 kV line) and the rest pertains to the Additional Transmission System.

Table 2.4 Transmission Assets

TRANSMISSION ASSETS	VOLTAGE KV	2012 KM	2013 KM
Trunk	220	46.4	261.9
Subtransmission	110	67.1	67.1
	66	12.9	12.9
Additional	220	550.1	374.5
	110	12.0	12.0
	66	71.1	71.1
	44	91.3	91.3
TOTAL		850.9	890.9

SUBSTATIONST	2012	2013
Quantity	25	27

Also, during 2013:

- Commissioning of the 220 kV Colbún-Ancoa trunk interconnection expansion project in May, which allowed increasing transmission from the south to the central zone by approximately 350 MW.
- In May, and pursuant to Decree No. 61, the 220 kV double-circuit portion connecting Colbún and Candelaria became part of the trunk transmission system (214.4 kms).
- Mulchén substation was commissioned in August; this substation divides the 2x220 kV Charrúa-Cautín line pertaining to Transchile.
- Commissioning of the 2x220 kV Mulchén-Angostura line in December, which will allow transmitting the energy and the capacity generated by Angostura power plant.

In addition, through Transquillota Ltda., we own 50% of San Luis substation and the 220 kV-line that connects to the trunk system through the Quillota substation. Our Nehuenco complex and Endesa's San Isidro and Quintero power plants add up a total of 1,850 MW and inject their production into the SIC by means of the Transquillota transmission system.

OTHER ELECTRIC POWER INFRASTRUCTURE ASSETS

We have 42.5% ownership share in Electrogas S.A. the company that operates a 130 km gas pipeline between the terminal San Bernardo and Quillota, through which the Neuquenco complex is supplied. Electrogas S.A. also operates a 21 km pipeline between Concón and Quillota, which supplies oil to the same complex and a 28 km gas pipeline between Quintero and Quillota which carries re-gasified natural gas from the liquefied natural gas terminal situated in Quintero.

In addition, the Company holds rights to operate several facilities, namely those relating to geothermal power, electric power, transmission and water.

All the main facilities described above, as well as the water rights pertain to Colbún and its affiliates.

42.5%

Stake in Electrogas S.A.



Colbún's commercial policy

Our commercial policy seeks to maximize the long-term profitability of our asset portfolio, limiting the volatility of our profits and losses. To this end we need to obtain a balance between the energy sales commitments and the generation capacity of our own facilities, with an acceptable level of risk in the face of droughts and fuel prices, among others. As a consequence of this policy, we seek to ensure that sales or purchases of electric power in the spot market do not attain significant volumes inasmuch as their prices undergo considerable variations.

The key is to determine the optimum contracting level. The factors we need to consider to optimize the equation are several: our generation matrix, sale price levels, indexation mechanisms, other mechanisms and clauses to share the risks with the customers, the projections of our new capacity and the system's capacity, and the evolution of spot prices, among others. The above added to statistical data, hydrology variables and sophisticated simulation models enable us to determine our optimum contracting level. In simple terms, we commit the energy produced by our base capacity facilities in long-term contracts, e.g. hydroelectric power plants (assuming generation under mild to dry hydrological conditions) and our efficient thermoelectric facilities.

It should be noted that in order to protect our exposure to extreme hydrological conditions and very high fuel prices that may occur in a particular year, it is efficient to face the exposure to extreme events through hedge mechanisms and a prudent financial policy.

Business Development in 2013



Commercial Management

During 2013, the following objectives were achieved:

- Signature of an agreement to supply natural gas for the last quarter of 2013 and the beginning of 2014 with Enap Refinerías S.A. which added to the natural gas supply contract still in force with Metrogas S.A. will allow operating two combined cycle units of our Nehuenco Complex over the first months of 2014.
- Bid to subscribe agreements with companies that have non-conventional renewable energy projects under operation or in study. Such process concluded with the award of Acciona's wind farm project and Comasa's biomass power plant.
- Implementation of a hedging program (Call options over Henry Hub) in order to limit the increase in Company's costs due to the rise in international natural gas prices during the first months of 2014.
- Continuous improvement of the reliable supply management on the purchase of coal for Santa Maria's Unit I.

Contracts Portfolio

Our customer portfolio is made up of regulated and non-regulated customers. As from March of 2013, a new long-term contract with Codelco was enforced. In addition, during the second quarter of 2013, Colbún signed an additional medium-term supply contract with the same free customer, which will be in force until December of 2014.

As a result of these changes, the demand for our contracts increased in net terms from 9,833 GWh to 12,323 GWh in 2013 as compared to 2012. By the end of 2013, Colbún finished its contractual relationship with CMPC Procart and CMPC Puente Alto, and therefore, we expect fewer contracts for 2014.

A portion of these contractual obligations has its prices indexed to the United States CPI, and another portion is indexed to diesel and coal prices.

Three customers concentrated at least 10% of the revenues recorded for this year.

Long-Term Regulated Customers	Non-Regulated Customers	Short-Term Regulated Customers
Chilectra S.A.	Cartulinas CMPC S.A. for its Maule plant.	Conafe S.A.
CGE Distribución S.A. for the Metropolitan Region.	Papeles Cordillera S.A. y CMPC Tissue S.A for the Puente Alto factory.	
CGE Distribución S.A. for O'Higgins, Maule, BíoBío and La Araucanía Regions.	Anglo American Sur S.A. for its Los Bronces and Las Tórtolas divisions.	
Saesa S.A., Frontel S.A., Compañía Eléctrica de Osorno S.A.	Chilectra S.A., Metro S.A. and Aguas Andinas S.A.'s La Farfana Plant	
Cooperativa Eléctrica de Curicó Ltda.	Codelco for its divisions Salvador, Andina, Ventanas and El Teniente	
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.		
Energía del Limarí S.A.		
Cooperativa Rural Eléctrica Río Bueno Ltda.		

Energía sales

Our total physical sales in 2013 were 25% higher than in 2012 and physical sales to free customers increased by 74% due mainly to new contracts with Codelco for its various divisions. Sales to regulated customers increased by 5% due mainly to the greater demand from the contracts held with CGE Distribución 2008, SAESA and Cooperatives.



Carena Power Plant

Table 2.5 Quarterly Energy Sales (GWh)

ENERGY SALES 2012				
QUARTER	REGULATED	UNREGULATED	CDEC	TOTAL
Jan-Mar	1,721	1,156	59	2,935
Apr-Jun	1,718	589	534	2,841
Jul-Sep	1,750	594	322	2,667
Oct-Dec	1,723	582	641	2,947
TOTAL	6,912	2,921	1,556	11,390

ENERGY SALES 2013				
QUARTER	REGULATED	UNREGULATED	CDEC	TOTAL
Jan-Mar	1,790	779	511	3,081
Apr-Jun	1,853	1,363	-	3,216
Jul-Sep	1,872	1,471	-	3,343
Oct-Dec	1,725	1,469	8	3,202
TOTAL	7,241	5,082	519	12,842

Capacity Sales

Our capacity sales increased by 18% in 2013 as compared to 2012. Capacity sales to free customers increased by 80% due mainly to the new contracts with Codelco. Sales to regulated customers increased by 5% due mainly to the greater demand from the contracts held with CGE Distribución 2008, SAESA and Cooperatives.



Table 2.6 Average Annual Capacity Sales (MW)

TYPE OF CUSTOMER	2012	2013
Distributors	1,045	1,099
Industrial	359	647
CDEC	102	24
TOTAL	1,507	1,770

Operational Management

In 2013 we saw the persistence in the trend of the year before in terms of the significant participation of thermoelectric generation in the total energy produced by our power plants. This thermoelectric generation could have been even greater, if it hadn't been for the failure of the gas turbine of Nehuenco II, which was repaired in a record time and meant significant effort from Colbún's professional and technical staff. In spite of the above and considering the serious rainfall deficit, this failure had a negative impact on the operational result and the reliability indicators of our power plants. During the year Santa Maria I's Unit 1 consolidated its operation with a year-to-date availability of 86% since its commissioning in 2012.

This year we set up an Asset Management Department led by a top professional team; its purpose is to strengthen our predictive maintenance systems. The Company continues its way through modernization and standardization of processes and procedures that allow increasing the availability of generation units and the safety standards of our collaborators.



Table 2.7 Plant Reliability (%)

	2012	2013
Hidroeléctrica	96.1%	95.5%
Termoeléctrica	92.6%	79.8%

Production

Our annual gross production in 2013 reached 11,253 GWh, showing a decrease of 3% as compared with the previous year. Production by type of technology shows a 7% decline in hydroelectric production and a 1% increase in thermoelectric production. Out of the total thermoelectric generation, 51% was the result of gas based generation, 41% was the result of coal based generation and the rest was the result of diesel based generation.

In connection with our suppliers, it is worth noting that two of them accounted for at least 10% of the purchase of goods and services throughout the year.



Table 2.8 Quarterly Composition of Production per Type of Technology and Purchases from the CDEC (GWh)

2012							
QUARTER	OWN PRODUCTION					PURCHASES FROM CDEC	TOTAL ENERGY
	HYDRO	THERMAL GAS	THERMAL DIESEL	THERMAL COAL	TOTAL		
Jan - Mar	1,426	690	650	145	2,911	101	3,012
Apr - Jun	1,190	391	885	428	2,893	66	2,959
Jul - Sep	1,450	415	331	560	2,755	47	2,802
Oct - Dec	1,167	747	374	721	3,009	50	3,059
TOTAL	5,233	2,242	2,240	1,853	11,568	264	11,832

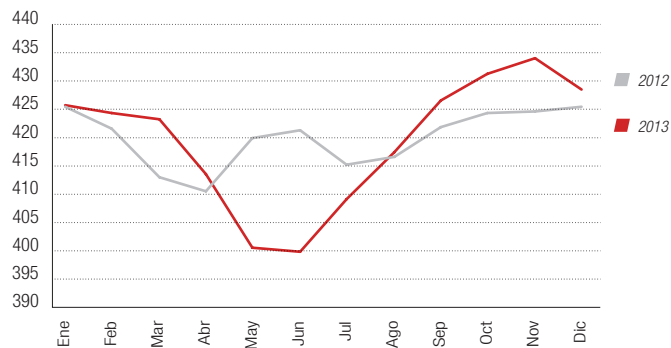
2013							
QUARTER	OWN PRODUCTION					PURCHASES FROM CDEC	TOTAL ENERGY
	HYDRO	THERMAL GAS	THERMAL DIESEL	THERMAL COAL	TOTAL		
Jan - Mar	1,052	1,243	28	732	3,055	82	3,137
Apr - Jun	1,193	713	249	647	2,802	463	3,264
Jul - Sep	1,166	499	260	646	2,571	817	3,388
Oct - Dec	1,446	779	8	592	2,825	442	3,267
TOTAL	4,857	3,234	546	2,616	11,253	1,802	13,055



Chiburgo Plant

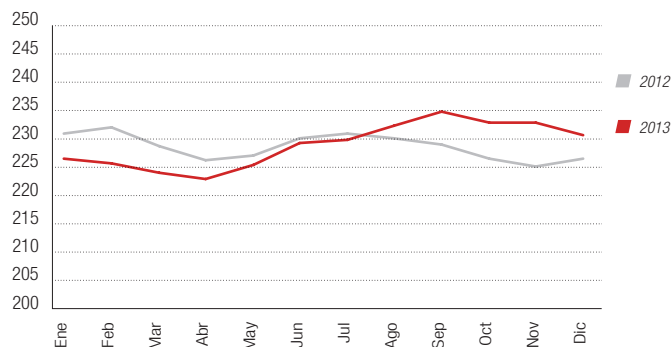
It should be noted that 2013 was the fourth consecutive dry year, which is unprecedented in the statistic of the last 50 years. Colbún's reservoir level shows the dry condition of 2013 in the Maule basin, especially during the months of winter, while Chapo Lake reservoir level shows a more positive precipitation condition. At December 31, 2013, Colbún and Chapo Lake had an accumulated reserve equivalent to 510 GWh, which altogether account for approximately 24% of the total SIC reserve.

Graph 2.3. Water level in Colbún Reservoir (masl)



Source: Own data based on information provided by Colbún and the CDEC-SIC.

Graph 2.4. Water level in Chapo Lake (masl)



Source: Own data based on information provided by Colbún and the CDEC-SIC.



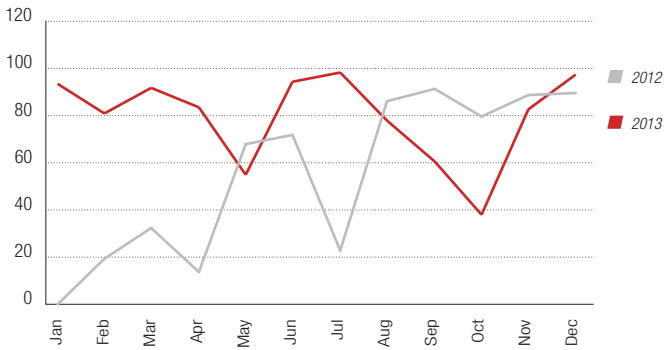
Nehuenco Complex

Fuel Consumption

COAL CONSUMPTION

Total coal used in 2013 by Santa María I power plant amounted to 958,000 tons, higher than the 667,000 tons used in 2012 due to its commercial commissioning in August 2012.

Graph 2.5. Coal consumption in Colbún's power plants (thousands of tons)



Santa María Power Plant

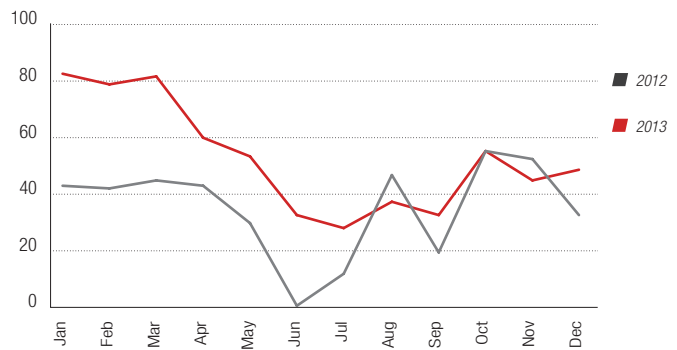


Nehuenco Power Plant

NATURAL GAS CONSUMPTION

Natural gas supplied in 2013 amounted to 639 million m³. Natural gas consumption increased as compared to the previous year, as we made available two combined cycle units during the first months of 2013.

Graph 2.6 Natural gas consumption in Colbún's power plants (millions of m³)



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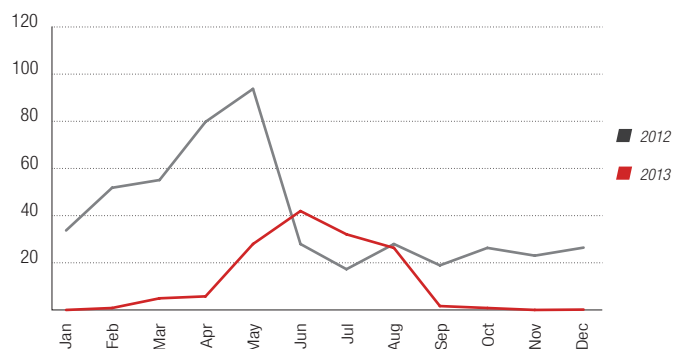
DIESEL OIL CONSUMPTION

Total diesel oil consumed in 2013 was 148,000 m³. Diesel oil consumption declined by 70% as compared to the previous year, due mainly to the greater availability of natural gas for the Nehuenco complex. Diesel oil was transported to Antilhue, Candelaria and Los Pinos power plants on trucks belonging to the distribution companies and others which were contracted directly by Colbún. In the case of Nehuenco, diesel oil was carried mainly through the oil pipeline and to a lesser extent, on trucks.

-70%

Decrease in oil consumption from 2012

Graph 2.7 Diesel oil consumption in Colbún's power plants (thousands of m³)



Los Pinos Power Plant

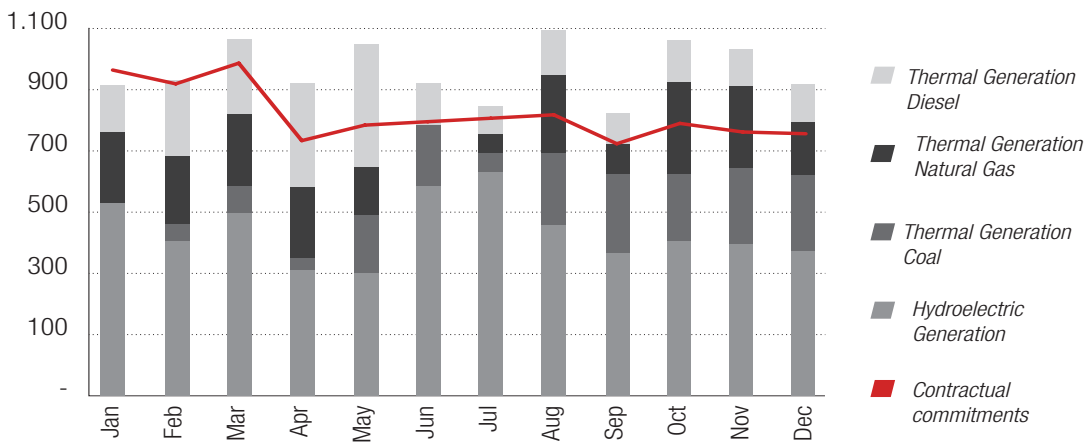
Commercial Balance versus Production

In summary, the graphs show the monthly balance of our commitments for 2012 and 2013 versus the production of energy. Graph 2013 shows that most months of the year the contractual commitments were covered by own Colbún's production and by purchases from the spot market.

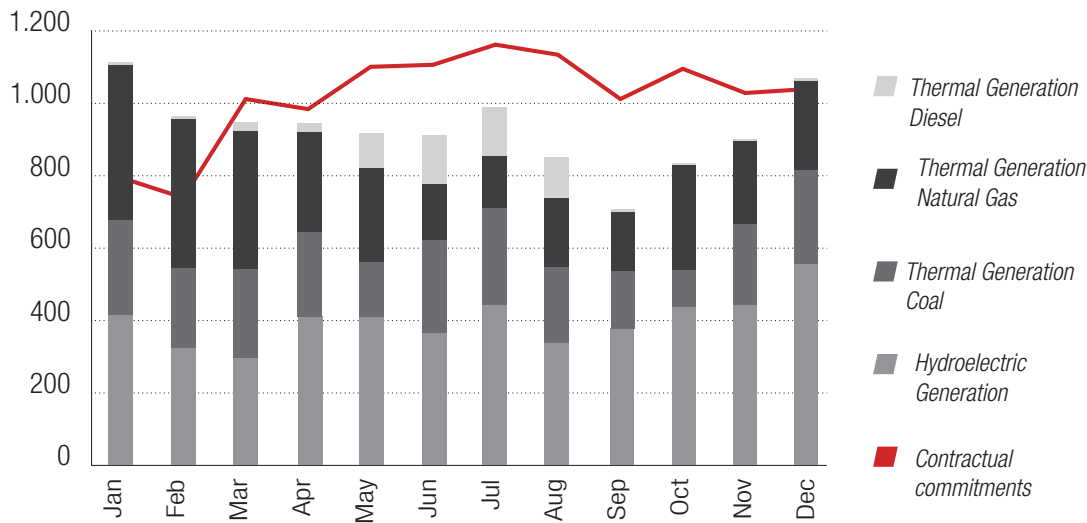
Greater purchases from the spot market as compared to 2012 were due to an increase in the level of commitments during 2013. The new energy sale contracts incorporate mechanisms to partially transfer cost price increases, thus reducing the Company's exposure.



Graph 2.8 Own generation versus commitments 2012 (GWh)



Graph 2.9 Own generation versus commitments 2013 (GWh)



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Environmental Management

NCRE (Non Conventional Renewable Energy)

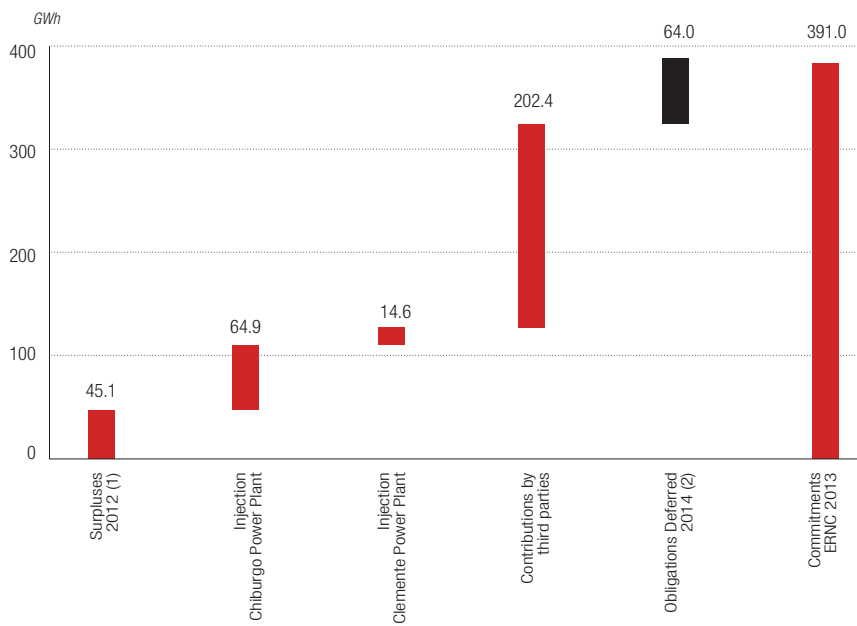
After evaluating 69 NCRE projects, Colbún S.A. awarded the companies, Acciona Energía, of Spain and Comasa Generación, of Chile, the bidding initiated last year for the purchase of energy and attributes associated with efficient projects of Non-Conventional Renewable Energy (NCRE). In the case of Acciona Energía, Punta Palmera wind farm situated in the district of Canela, IV Region, the contract contemplates the purchase of energy for a 12-year term. The estimated generation of such power plant is approximately 124 GWh per year.

In the case of Comasa Generación, the contract provides for the purchase of NCRE attributes associated to Comasa's Lautaro plant, a biomass plant of 26 MW located in the district of Lautaro, IX Region. This is a 12-year term agreement and comprises the NCRE attributes associated to an average generation of 100 GWh per year.

Similarly, Colbún has 8 power plants with a capacity of less than 40 MW that would qualify as NCRE pursuant to the current standard. Of these, San Clemente and Chiburgo together with the contracts awarded will allow the effective compliance with the requirements set forth by this law.

During 2013, we committed to contribute 391 GWh of Non-Conventional Renewable Energy. Since 2012 this commitment has been met with surpluses, injection from our Chiburgo and San Clemente power plants, contributions by third parties; we have deferred a balance of 64 GWh for 2014.

Graph 2.10. NCRE Balance in 2013



Note 1: Surpluses from the previous year can be carried over to the next year.

Note 2: Obligations deferred for next year.



Nehuenco Complex

Carbon Credits

Colbún owns four hydroelectric power plants registered with the Clean Development Mechanism (CDM) of Kyoto Protocol, which allow achieving an annual average reduction of 387 thousand tons of CO₂e, equivalent to taking more than 96 thousand vehicles out of circulation. The table below shows the carbon credit generation potential of these power plants:

Table 2.9 Detail of Power Plants Registered with the CDM

	COMMISSIONING	MW	CDM REGISTRATION	ANNUAL CO ₂ REDUCTION (AVERAGE HYDROLOGY)	VEHICLE TRAFFIC EQUIVALENCE
Chacabuquito	2002	29	2007	80,000	20,000
Hornitos	2008	55	2008	118,000	29,500
Quilleco	2007	74	2008	172,000	43,000
San Clemente	2010	5	2011	17,000	4,250
TOTAL		166		387,000	96,750

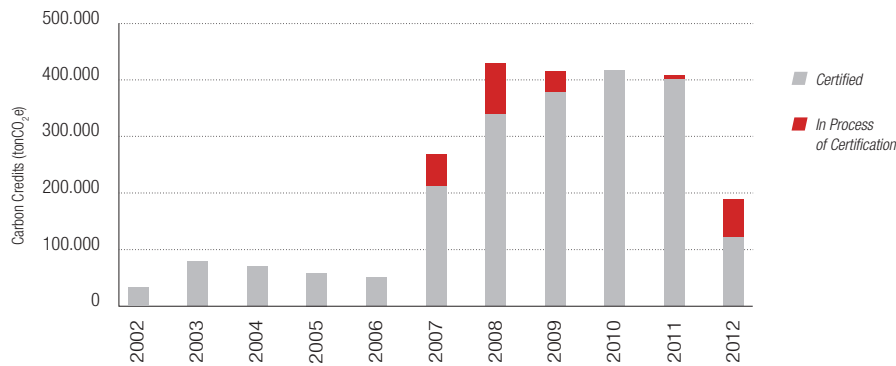
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Carbon credits are certified by the United Nations' Secretary of Climate Change; therefore, the process takes time and there is usually a time lag with respect to the period in which the CO₂e emission reduction is actually attained in our power plants. Consequently, we have been working very hard to certify the credits generated over the last 10 years (2002 to 2012), obtaining the corresponding certification for a significant portion thereof.



Nehuenco Complex

Graph 2.11 Detail of carbon credits certified and in process of certification (Tons CO₂e)



Note: Credits "In process of certification" corresponding to the period 2007- 2012 are associated with Chacabuquito and San Clemente power plants.



Chapter. 3: Investment Projects

Investment Projects

Projects Concluded in 2013

Projects under Execution

Projects under Development

Projects under Development in Conjunction with Other Companies

Investment Projects

Investment Projects

Our investment plan seeks to build long-term value, developing energy projects and infrastructure that responds to the country's requirements.

We want to be relevant players in the energy development of the country based on principles such as sustainability, safety and competitiveness. To that end, we are studying and implementing a significant investment plan for projects of considerable size, both in hydroelectric and thermoelectric generation, which will enable us to maintain an outstanding position within the national power generation sector as well as to continue diversifying our generation risks and providing value to our shareholders.

With the imminent commissioning of Angostura hydroelectric power plant, the only project in construction stage, we have added more than 900 MW of new capacity to the SIC over the last 7 years, being the company that has added more hydraulic capacity to the SIC over such period.



Angostura Reservoir Hydroelectric Project, VIII Región



San Pedro Reservoir Hydroelectric Project, XIV Región



La Mina Run of the River Hydroelectric Project, VII Región



Santa María's Unit 2 Coal-Fired Thermoelectric Project, VIII Región

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Colbún-Ancoa Connection Project

Description: The purpose of Colbún-Ancoa Connection Project is to improve the transmission deficit and increase the safety of the power system between Colbún and the Metropolitan Region. It connects Colbún and Ancoa substations, allowing the Traselec's 500 kV line to be operated in parallel with Colbún's 220 kV line. The project was commissioned on May 11, 2013 increasing the transmission capacity from Ancoa to the Metropolitan Region by 30%. The project's cost amounted to US\$4.9 million, which was financed with the Company's own resources.



Angostura – Mulchén Transmission Line Project and Mulchén substation

Description: The Angostura – Mulchén high voltage line is aimed at injecting the energy produced by Angostura hydroelectric power plant to the SIC. It comprises the construction of a 2 x 220 kV transmission line, denominated Angostura – Mulchén, 41 kms long and Mulchén substation that divides the existing Charrúa-Cautín line in the vicinity of Mulchén. In May of 2013, we were able to finish the works corresponding to the transmission line and the substation, leaving outstanding the connections and the final tests that need to be coordinated with the CDEC and the company that owns Charrúa-Cautín line. Mulchén substation was commissioned in early September, while the Angostura-Mulchén line was commissioned in December of 2013, after Angostura power plant works were in condition to be energized. Therefore, not only we were able to meet the goal of delivering on time and on budget, but also we fully complied with all environmental obligations, which was checked by independent Environmental Audits; we also maintained high performance in safety standards, which eventually meant completing the project without lost time accidents.

Projects under Execution

10^{W/M²}

Colbún Reservoir

47^{W/M²}

Angostura Project

12^{W/M²}

Machicura Reservoir

55^{W/M²}

San Pedro Project

Angostura Hydroelectric Plant Project

Description: Description: Angostura hydroelectric plant Project will use the water resources of Biobío and Huequecura Rivers thank to the construction of a 641-hectare reservoir. This project will have an installed capacity of 316 MW and will generate close to 1,542 GWh annually. The power plant is located some 63 km southeast of Los Ángeles, and 18 km upstream from the cities of Santa Bárbara and Quilaco, Biobío Region. The electric power generated will be injected to the SIC, by means of a high-tension transmission line to Mulchén substation 40 kms. away from the power plant. This minimum regulation reservoir plant will generate 241 GWh by km² of flooded surface, demonstrating its high efficiency. The ratio between its installed capacity and the flooded area is 47 W/m², which is many times higher than the standards established by the United Nations to qualify the project as efficient and with low environmental impact.

Progress: Angostura power plant project, started in February of 2010 shows 99% progress at December 31, 2013. In 2013, the civil works were finished with the construction of the reinforced concrete plug to definitely close the diversion channel and with the hydro mechanical assembly of the dump gates.

Among the most important milestones of 2013, it is worth mentioning the filling of Angostura reservoir after concluding the purchase of the impoundment surface lots, the tree felling, the rescue of the terrestrial and ichthyic fauna and the agreement to reallocate the 46 families included in the Reallocation Plan. The above allowed the Company to conduct commissioning tests of units U1 and U3 in December, achieving progress of 97% and 56% respectively. In addition, unit U1 was synchronized with the SIC's CDEC on December 29.

In connection with infrastructure works for the community, the Company completed the implementation of the nature trail and the lookout, and is building the Visitors' Center, 3 camping facilities and two public beaches that will boost the tourism development of the sector. At the closing of 2013, the project recorded a historic average of 34% of local manpower, mainly from the districts of Quilaco and Santa Bárbara, with a peak of 1,194 local workers in February. The amount invested in the last phase of the project amounts to US\$ 661 million, expressed in base currency.



Angostura Power Plant

Projects under Development



San Pedro Project



Rucue Power Plant

San Pedro Hydroelectric Power Plant Project

Description: Description: The San Pedro Hydroelectric power plant Project is located some 25 km northeast of Los Lagos Municipality in Los Ríos Region and will use the water of the river of the same name through a power plant located in the span between the outflow of the Riñihue Lake and Malihue Bridge. The project's design water flow is 460 m³/s and its estimated capacity amounts to 150 MW for an annual average generation of 930 GWh under normal hydrological conditions. This project will connect to the Central Interconnected System (SIC) through a 220 kV high-tension power line to the Ciruelos substation. The power plant will be operated so as to preserve the flow conditions of the river downstream of the power plant.

Progress: During 2013 we continued with the field studies undertaken early in 2011. At the closing of the year we finished analyzing the results of the prospecting and field studies. We are working with this information to define the adjustments that will be introduced to the civil works and to the design. We deem that this stage will last until the first half of 2014, to then be in conditions to submit the new design to the corresponding authorities. The project construction timeline will be determined after completing these stages. We also concluded and delivered to the Municipalities of Los Lagos and Panguipulli important works defined in the Environmental Qualification Resolution of the project, such as the Panguipulli Promenade Project and most of Riñihue Resort and Camping works, showing the Project's commitment with the neighboring communities. The money invested in the project amounts to US\$115 million, stated in base currency.

San Pedro-Ciruelos Transmission Line Project

Description: San Pedro – Ciruelos transmission line project will inject the energy from San Pedro power plant to the Central Interconnected System over a 40 km, 220 kV line that will connect to the Ciruelos substation, located some 40 km al northeast of Valdivia.

Progress: The main activities conducted in 2013 related to the line easement negotiations, and we reached an agreement with Celulosa Arauco for the lots required to expand Ciruelos Substation; we also held rights of way negotiations with same company over lots that cover almost 50% of the line layout. In addition, pegging works were conducted in lots over which we had easement agreements signed in 2010, leaving notarized records thereof in order to extend the enforcement of those rights of way. In connection with engineering development, we finished preparing the information corresponding to the sector permits that should be requested to disturb the gorges during the construction.



La Mina Project



Santa María Complex's Unit 1

La Mina Hydroelectric Plant Project

Description: La Mina hydroelectric power plant is located in the Municipality of San Clemente, some 110 km east of Talca. The project contemplates an installed capacity of 34 MW and an annual average generation of 180 GWh. The power will be injected to the Central Interconnected System (SIC) over a 220 kV line at the Loma Alta substation. The power plant will use the Maule River waters downstream of the intersection with Puelche river, to return them to the Maule river 2 km downstream of the catchment point.

Progress: During the year, we obtained the Environmental Impact Declaration for the project improvement works, and progressed in the construction of access roads both to the water intake and to Puelche Bridge, as well as the technical and economic evaluation of the participants in the bidding of the Electromechanical Works and Equipment. At December of 2013 we were about to sign the easement deeds and the purchase and sale contracts over all the properties located at both river banks, just leaving outstanding the legalization of 19 hectares located on the right bank before the Ministry of National Assets.

In December of 2013 we entered with the SEC the request for the 66 kV La Mina –Loma Alta high tension line and filed the Environmental Impact Declaration (DIA) of this line with the Environmental Evaluation Service; we expect to obtain the corresponding Environmental Qualification Resolution (RCA).

Santa María II Coal-Fired Thermoelectric Plant Project

Description: Colbún has the environmental permit to build a second unit of the Thermoelectric Santa María Complex, which is currently under operation

Progress: The new emission standard issued in 2011 requires the installation of a nitrite removal filter, which was not necessary per the standard applicable at the time we were granted the environmental permit mentioned above. The Company has started a process to inform the environmental authority of the installation of such equipment to meet the new environmental requirements for unit II. In parallel, we continue performing a detailed review of the various aspects involved in the project to define the commencement of the works.

Non-Conventional Renewable Energy (NCRE) Projects

An amendment to the NCRE Law was enacted during 2013, to increase the percentage of energy included in each new contract that must be covered with energy from non-conventional renewable generation sources. It grew from 10% at 2024 (previous goal) to 20% at 2025 (new goal). This means reinforcing the policies that provide special priority to this type of technologies.

Similarly, we have analyzed the technical and economic feasibility of mini-hydro power plant projects that would use the water rights of irrigator associations, companies and individuals. In addition, we have boosted our studies on solar photovoltaic technology in order to assess the possibility of developing this technology in our own or to open up a tender process. In connection with wind and geothermal projects, we are progressing with our own studies started in previous years.

Similarly, in June of 2013, Colbún awarded two 12-year term contracts: the first for 103 GWh-year to Comasa Generación to purchase NCRE attributes associated to the biomass plant (26 MW) situated in the district of Lautaro, IX Region; and the second contract for 124 GWh to Acciona Energía, starting from 2015 to purchase, at a stabilized price, the energy that will be generated by the wind farm Punta Palmeras located in the district of Canela, 70 kms away from Los Vilos city in the IV Region.



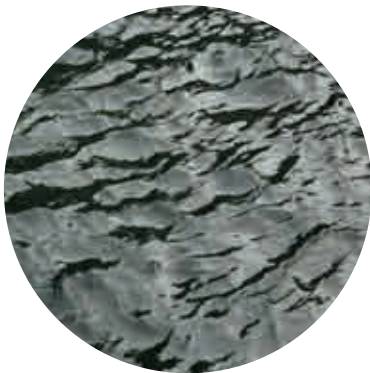
Santa María Power Plant



Others

During 2013 we continued with the technical, economic and environmental pre-feasibility and feasibility studies for hydroelectric projects that would use water rights Colbún possesses mainly in the Maule Region, and which would enable us to develop projects for approximately 500 MW. In addition, we have looked for new lower-scale projects at the Maule river basin, particularly mini-hydro power plants.

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HidroAysén Hydroelectric Project

We have 49% share in the ownership of Hidroeléctrica Aysén S.A. (“HidroAysén”) the company that seeks to execute the HidroAysén Project. This project, which is the principal investment initiative in the development of hydroelectric energy in the country, consists of the construction of 5 power plants in the Aysén region, utilizing the resources of Baker and Pascua rivers. The total installed capacity would amount to 2,750 MW. The project entered the Environmental Impact Evaluation System in August 2008 and received the environmental approval in May of 2011. The Environmental Qualification Resolution was the object of a remedy of protection filed by groups opposing the project. Both the Court of Appeals of Puerto Montt and the Supreme Court disregarded all the remedies of protection filed against the Environmental Qualification Resolution of the project. Later, both HidroAysén and 34 individuals or organizations that posed observations to the Environmental Impact Study (“PAC claimants”) filed claims before the Ministers’ Committee. Although HidroAysén was in the stage of drafting the Environmental Impact Study for the engineering and the dissemination of the transmission Project, on May 30, 2012 Colbún’s Board of Directors decided to recommend, to the corresponding instances of HydroAysén S.A., the indefinite suspension of the submission of the Environmental Impact Study, while the government does not issue a national policy agreed to by all the stakeholders and which provides clear guidelines on the energy matrix that Chile requires. It should be noted that on January 30, 2014 the Ministers’ Committee resolved the claim filed by the plaintiff HidroAysén and the 17 PAC claims; however, in connection with 17 PAC outstanding claims it provided measures to make a more substantiated decision by requesting two additional studies. Later a new Ministers’ Committee gathered on March 19, 2014 and decided to file an appeal to annul the resolutions issued by the Ministers’ Committee in January.



Chapter 4: Sustainability

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Ecotourism workshop in Quilaco

Sustainability strategy

Our objective is to generate shared value with all of our stakeholders: workers, investors, contractors, clients, suppliers and providers.

STAKEHOLDERS

> Workers

> Investors

> Communities

> Clients and Suppliers

> Contractors and Providers

Our goal is to create long-term value, generating safe, competitive and sustainable energy, meeting the energy demand of our country. In order to achieve this goal in a sustainable manner, we need to generate shared value with all of our stakeholders: with our **workers**, by providing them with a high quality employment; with our **investors**, by contributing value to the Company; respecting the **environment** so as to meet current needs without compromising the opportunities of future generations; with the **communities and the society** in general, by generating trust and opportunities to develop the locations where Colbún

operates; with our **clients and suppliers**, by sharing the information; and with our **contractors and providers** by exchanging our practices.

In the following sections of this chapter we will provide a summary of the main activities conducted with each of our stakeholders during 2013. Our Sustainability Report contains more information of the initiatives undertaken with each of them.

Investors

We are committed with our investors to maximizing the value of the Company over a long-term horizon, through excellence in our operation and a sustainable growth, in agreement with the risks involved in this business.



Visit to Angostura Plant

Main Achievements in 2013

New Financing: Structuring of a new international bank loan for US\$250 million, the loan has a bullet structure and was obtained for a 5-year term at a very competitive interest rate.



Visit to Santa María Complex

Communication, Transparency and Availability

In our search for long-term profitability, we have constantly sought to maintain an open communication channel with our investors to enable them to know the Company through **our investor relations team**. This team is dedicated to address the questions and the requests of every investor and analyst from the power sector.

A great opportunity to know and to interact with current or potential investors is the “one on one” meetings. During 2013, we participated in the following meetings:

- Santander 17th Annual Latin American CEO Conference, January, Cancún, Mexico
- Larraín Vial 7th Annual Andean Conference, March, Santiago, Chile.
- Deutsche Bank Chile’s 3rd Annual Chile Conference, May, London, United Kingdom.
- Corpbanca 4th Latin American Summit for Integrated Markets, November, Santiago, Chile

We took people from different financial institutions to a field visit to Angostura Project and Santa María’s Unit 1.

Throughout the year, we also conducted other meetings with investors. In one of them, Ignacio Cruz, the Company’s Chief Executive Officer participated in the panel “The keys of energy development in a time of decisions” of the 12th ElecGas Energy Meeting, where he outlined the compelling need to reach consensus in connection with the SIC’s supply for the period 2014-2020. In addition, in October our finance and investors’ relations team took a group of close to 30 people from different financial institutions to **visit the Angostura Project** facilities, the new school of the zone and Santa María Complex’s Unit 1.

The last chapter of this Annual Report groups several subjects of particular interest to our investors and analysts, such as constitutive data and financial information, risk factors, relevant facts of 2013, among others.

Workers

Our commitment with our workers is to offer them high-quality employment in a work environment that enables continuous improvement, collaboration and personal development.

We seek to provide them with the tools and the policies to increase their motivation, which will allow them to fulfill their tasks in an efficient and safe manner, accordingly with their personal and family lives. We trust that these conditions will facilitate attracting and retaining talents and will enable us to have high performance personnel.

Main Achievements in 2013

Sergio May Colvin Award: Recognition awarded by Caja Los Andes that rewards good labor practices and the commitment with the workers' well-being. Our Company was selected by a jury out of many other companies affiliated to the Compensation Fund, after evaluating elements such as the social security status of the Company, educational and training policies, the promotion of health and the Social Corporate Responsibility initiatives implemented, among others.

Certification of the Parity Committees in the Bronze Category: Certification of 7 out of the 9 committees. Such certification was issued by the Safety Mutual (Mutual de Seguridad) of the Chilean Chamber of Construction, which verifies the proper operation undertaken by the Committees in protecting the workers' safety.

Reduction in the Insurance Rate: The Chilean Chamber of Construction, the entity that manages the Labor Accident and Occupational Illnesses Insurance, brought down the Insurance Rate paid by Colbún to its lowest level (0.95%) for the period 2014 - 2015 (previously, it was 1.24%) with the subsequent economic savings.



Carena Power Plant

To achieve our objectives, we want to count on workers who have a strong sense of belonging and pride toward Colbún. Our goal is to have a team integrated by professionals and technicians with a deep sense of responsibility for work and for our country's development; people with a sense of leadership, who are respectful and closet o their teams, individuals who seek to open up room for dialogue, participation, integration and recreation.


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Personnel

At December 31, 2013, Colbún's S.A. headcount (including the affiliates) reached 991 employees. In 2013, we worked to promote internal mobility inside Colbún through internal contests and direct promotions. Out of 201 openings filled in during 2013, 41% were with internal personnel.

991

 People

Headcount 2013

Table 4.1 Personnel

	2012		2013	
	PARENT	AFFILIATE	PARENT	AFFILIATE
Executives	65	0	67	0
Managers, Professionals and Technicians	526	70	538	75
Other Workers	250	51	258	53
TOTAL	841	121	863	128

PLANT OR FACILITY	2012	2013
Nehuenco Complex	66	72
Aconcagua Power Plants	145	143
Colbún Complex	77	82
Rucúe-Quilleco	41	41
Angostura	0	34
Santiago	451	431
Los Pinos	17	17
Santa María	75	78
Antilhue	15	17
Canutillar	19	18
Carena	34	34
Candelaria	22	24
TOTAL	962	991

Table 4.2 Recruitment

INTERNAL MOBILITY	2012	2013
Internal calls to job openings	26	32
Effectiveness of the calls	9	20

FAIRS	2012	2013
Number of University and Work Fairs	5	5

RECRUITMENT SOURCES	2012	2013
Trabajando.com	✓	✓
Laborum	✓	✓
University Fairs	✓	✓
Linkedin	-	✓
Referrals	✓	✓
University Websites	✓	✓
Newspapers	✓	✓
Internal Candidates	✓	✓
Head Hunter	✓	✓
Database	✓	✓



Negotiation with Union No.1 of Colbún

Collective Negotiations

During 2013 we conducted **three new collective negotiations** with two unions (Union No. 1 Colbún S.A. and Affiliates and Sindicato de Empresa Eléctrica Industrial S.A.) and another with workers grouped to such end (Los Pinos Power Plant), all of which involved a 4-year term agreement and a total of 148 workers.

The negotiations were held in a friendly and respectful environment, which is characteristic of the collaboration spirit that prevails in the relations the Company holds with its workers. Similarly, over the course of the year the **new Union of Company N°1 of Nehuenco S.A. Thermoelectric Power Plant** was set up, which groups 31 workers.

Of the total number of workers, 17% hold individual and not collective contract negotiations. Of the remaining 83%, more than half actively participate in collective negotiations.

Table 4.3 Collective Agreements

COLLECTIVE INSTRUMENTS	LOCALITY	N° OF CONTRACTORS 2012	% OF THE FACILITY'S TOTAL	% OF COLBÚN'S TOTAL
Nehuenco	Santiago	34	51%	4%
Union No. 2 Int. de Trabajadores de Emp. Hidro. G. Vieja	Los Andes	139	95%	14%
Union No. 1 Hidroeléctrica Aconcagua S.A.	Los Andes	0	0%	0%
Candelaria	Santiago	18	81%	2%
Union No. 1 de Colbún S.A.and Affiliates	Santiago			
- Colbun Complex		57	74%	6%
- Rucúe-Quilleco		30	73%	3%
- Angostura		-	-	-
- Santiago		28	6%	3%
Los Pinos	Concepción	13	76%	1%
Santa María	Coronel	40	53%	4%
Antilhue	Valdivia	11	73%	1%
Canutillar	Puerto Montt	12	63%	1%
Sindicato de Empresa Eléctrica Industrial S.A.	Santiago	26	76%	3%
TOTAL		408		42%

148^{Workers}

Participated in new collective bargaining agreements

In 2013 three new collective negotiations were held, two with unions (Union N°1 Colbún S.A. and Affiliates and the Union of Empresa Eléctrica Industrial S.A.) and another with workers grouped to such end (Los Pinos Power Plant).

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	N° OF CONTRACTORS 2013	% OF THE FACILITY'S TOTAL	% OF COLBÚN'S TOTAL	YEAR OF AGREEMENT	AGREEMENT TERM
	39	54%	4%	2012	2016
	103	72%	10%	2012	2016
	26	32%	3%	2013	2016
	19	46%	2%	2012	2016
				2013	2017
	58	71%	6%		
	30	73%	3%		
	23	68%	2%		
	24	6%	2%		
	12	71%	1%	2013	2017
	48	62%	5%	2011	2014
	12	65%	1%	2012	2016
	12	67%	1%	2012	2016
	25	74%	3%	2013	2017
	431		43%		

Management Level Compensation

Management-level compensation is structured in fixed and variable compensation. The latter is established on the basis of individual performance of each executive, the specific challenges of each business year, the performance of the business, the development of the projects and people's management.

Table 4.4 Management Level Compensation

US\$	2012	2013
Management Level Compensation	3,524,383	4,618,472
Fixed	2,477,265	3,719,256
Variable	1,047,118	899,215
Indemnification to Management Executives	0	0
Fixed	0	0
Variable	0	0



“Energy is Future”

In order to align, motivate and enhance our workers' sense of belonging, commitment and pride, we started to work the “Colbún Hallmark” through different actions. Upon the celebration of Colbún's anniversary, we launched the core concept “Energy is Future” with a video showing the lives of 7 people from Colbún and their stories as to how they strive day after day to be better off. During the year we continued disseminating this initiative inside the Company and toward year end, this effort was reinforced by the recognition program “Shine with Energy” aimed at underlining the merits and good practices that turns any Colbún worker in a raw model inside his/her work team.



Internal Campaign: Energy is Future

Organizational Climate and Culture

Throughout 2013, we continued our efforts to improve the labor climate, through workshops and concrete action plans in areas that showed low performance results in 2012. The above was demonstrated with the award “Sergio May Colvin” received in June, and also through surveys that yielded a significant improvement as compared to previous years, in the workers' perception of the organizational climate in their area (survey Great Place to Work) and the satisfaction regarding their supervisory level (bottom-up evaluation).

Our Workers' families, an Important stakeholder

Colbún's workers have access to various activities and initiatives aimed at incorporating their families. In 2013, for the fifth year in a row our employees were invited to celebrate the **Labor Day with their children**, activity that was held in 8 power plants, in addition to Santiago. Likewise, we granted the **Academic Excellence Award** for the fifth consecutive year; this award symbolically and economically rewards our workers' children for their outstanding performance both in school and university.

As traditional, we celebrated **Christmas** in all power plants, projects and our headquarters with outdoor family activities.

Also, thanks to the commitment of Colbún's workers and their families, many children, young people and senior citizens who live in localities close to our facilities were visited and received a Christmas present.

Starting in 2013 Colbún made available to its workers a new benefit that consists in **two days off with pay per year**. This benefit can be used to have a free afternoon, celebrate a birthday, pick up your children from school or simply to indulge yourself; and its main purpose is to allow our workers balancing their work and family lives.

To reinforce the relationship we have established with the people close to our workers, toward year-end we launched the magazine “**+ Energy in Family**” publication that will be sent every quarter to our personnel's homes, which contains Information both on Colbún's activities and on various subjects of interest.



Labor Day with children of Candelaria Plant workers

Training

Colbún's investment in training plans amounted to US\$ 1.2 million in 2013, equivalent to a total of 57,628 hours, and 699 workers trained. A portion of this budget was dedicated to technical training conducted at the power plants, especially in preparing the workers who will operate the new Angostura Power Plant. Other activities included leadership, negotiation, communicational skills and English training courses. We also implemented the in-person induction program with the participation of 79 people in 2013.

Table 4.5 Training Indicators

YEAR	N°PARTICIPANTS	MAN HOURS	AMOUNT (US\$)
2013	1,991	57,628	1,170,726
2012	1,531	50,444	598,407

Tabla 4,6 Indicadores de Becas

YEAR	PRE-GRADUATE	AMOUNT (US\$)	POST GRADUATE
2013	50	98,135	5
2012	40	102,934	8

Safety

During 2013 we made a strong effort to consolidate the work strategies and programs aimed at reaching the “**Zero accident**” goal both with contractors as well as with our own personnel. To this end, we applied and implemented the Zero Fatality Protocol, the Special Regulation for own workers and subcontracted personnel, we readapted the Management System for Subcontracted Companies and Suppliers and introduced some changes to Lockout/Tagout Procedures. Along these lines, we audited and evaluated the suspended load learning and handling conditions.

From the viewpoint of results, in 2013 we achieved significant progress as compared to previous years. In connection with generation, considering own and subcontracted workers, the Accident Rate and the Lost Time Accident Rate fell by 25% and 14%, respectively, way below the national reference levels for the electric power and construction industries. Regarding projects, we reduced the Frequency Index by 57% and the Seriousness Rate by 42%. At Company level, our Overall Safety Index, which includes both own and subcontracted personnel from the generation and projects area reached 18%. No fatalities were recorded in 2013.



Occupational Health

During 2013, we worked in modeling the risk maps of our power plants and their mitigation and control measures; we updated the evaluation of environmental conditions at our headquarters and implemented improvement measures in the ventilation and lighting systems and in the infrastructure. We also conducted an overall health evaluation program, which purpose was to evaluate and determine the risk factors and their respective control and mitigation recommendations.



Canutillar

Table 4.7 Safety Indicators

GENERATION AREA	2012	2013	VARIATION
Accident Rate	0.8%	0.6%	-25%
Lost Time Accident Rate	14.3%	12.8%	-10%

PROJECT AREA	2012	2013	VARIATION
Frequency Index	9.0	3.9	-57%
Seriousness Rate	247.8	143.9	-42%

COLBÚN	2012	2013	VARIATION
Global Safety Indicator	77%	91%	-18%

ISO 14,001

OHSAS 18,001

Re-certified standards

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Management Systems and Process based Management

This year we conducted an **ISO 14,001 and OHSAS 18,001 standard recertification**, which will last until 2016 to ensure better environmental performance and the protection of safety and occupational health of our workers. Crossed audits were held by internal auditors from the various power plants. Also, the people's incidents report system was implemented being applied for the first time in July of 2013. As a second stage, the system will incorporate the environmental, community and operational aspects.

Environmental

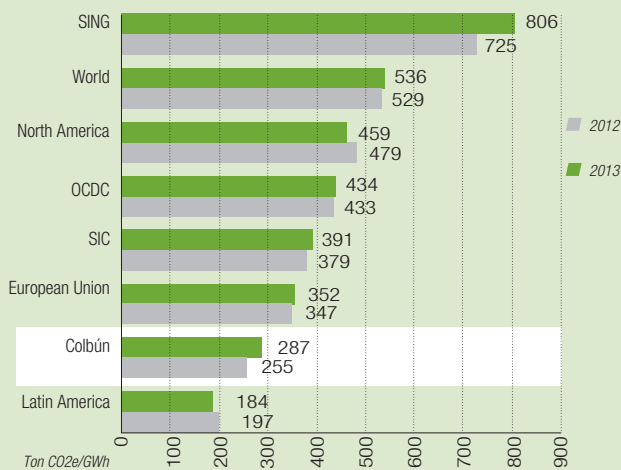
In connection with the Environment, we commit to develop our projects and operations so that they integrate with the environment in a harmonious way minimizing its adverse impacts. Our environmental management will also adapt to climate change, recognize biodiversity and protect natural habitats to ensure the environmental feasibility of our projects.

We will take care of our natural resources and use them in an efficient manner, so that they can be later recycled or regenerated.

Main Achievements in 2013

Reduction of CO₂e emissions: We are the Company that invests more heavily in reducing CO₂e emissions in hydroelectric projects. During 2013 we certified before the United Nations 1.5 million of carbon credits (CERs), totaling to date more than 2 million tons of CO₂e verified with the Clean Development Mechanism and other voluntary standards.

Graph 4.1. Emission Factors



Climate Change: Recognized among the 3 companies that are better prepared to face Climate Change, according to the ranking developed by Fundación Chile and Capital Magazine.

Colbún's Footprint Report ranked amongst the top 8 in Latin America: Just like in previous years, we measured and reported under a format "available to the public" our 2012 corporate carbon footprint through the CDP (formerly, the Carbon Disclosure Project), where our report was recognized as one of the top 8 in Latin America.

Carbon Neutral Corporate Offices: We neutralized CO₂e emissions at Colbún's corporate offices in 2012, in connection with the use of vehicles pertaining to the Company, purchase of electric energy, transfer of workers from their homes to the offices, air trips, waste disposal and others..

Neutralization of CO₂e emissions at public events: As a result of the subscription of an agreement with Deportes Sparta Ltda. we contributed the necessary carbon credits to neutralize and offset CO₂e emissions associated with mountain bike and marathon races organized by its brands Trek and New Balance. In addition, Colbún supported the neutralization of CO₂ emissions at the meetings held by Acción RSE's partners, as well as other activities and events.



Canutillar Power Plant

Our commitment with integrating sustainability at the core of our business has led us to make consistent efforts to improve our monitoring systems, by establishing protocols and supporting tools to allow systematic management and reporting to our stakeholders.

Changes to the Law and the Regulations

2013 was marked by the enforcement of the new environmental law issued by the Environmental Superintendency. This change is at the heart of the 2010 Environmental Base Law reform and has become the most relevant modification to the Chilean Environmental Law since its inception. At Colbún we prepared ourselves in advance to be ready for this new context of more stringent regulations and enforcement by the authorities and of increasing scrutiny and pressure by the stakeholders. To such end, we have strengthened and will continue to strengthen the organization, by adopting new practices and establishing better control mechanisms and by putting the focus on the Company's most strategic plants and facilities

The most relevant regulatory change was the enforcement of the emissions standard for thermal power plants that provides for maximum emission levels similar to those currently in force in Europe, which are more stringent. As a result of the above, we worked in implementing and certifying the **continuous emission monitoring systems (CEMS)** for our nine thermoelectric generation units. We were able to install and to operate all CEMS and we were the first in Chile to receive two certificates for our power plants. In addition to certifying compliance with the standard limits, the CEMS will allow us to accurately and continuously monitor atmospheric emissions (MP, NO_x, SO₂, CO_{2e}) of our thermoelectric power plants (see graph 4.2.), a key element to better manage these externalities.

Environmental Performance at our Facilities

During the first months of the year, decision was made to install a **stainless steel wire mesh at the intake of the seawater cooling system** of Santa María's Unit 1 in Coronel. This project was successfully implemented in an extremely short time period, which allowed us to have this 4 mm physical barrier that will effectively prevent the entry of marine species to our facilities.

In addition, in an endeavor to mitigate the aesthetic and sound impacts of some of our power plants, we implemented and/or improved the vegetation

curtains or "green fences" at Nehuenco Complex, Los Pinos power plant and Santa María Complex in Coronel.

Lastly, a significant line of work was the performance of activities aimed at closing environmental management gaps. Along these lines, we implemented a sanitization plan for the disposal of waste waters of Los Quillos Plant to the Aconcagua River and undertook the reforestation and the planting of several deficitarian species across the country.

The Environment Around Us

We have deepened the study of environmental elements at the zones where Colbún operates so as to detect gaps or redundancies in our environmental follow-up plans or to identify some risks and opportunities.

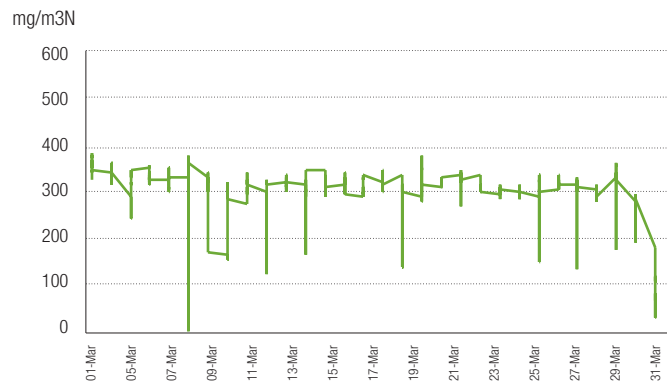
In Coronel we have analyzed the environmental footprint generated by our coal-fired power plant during its first full year of operation. Moreover, we have communicated and disseminated these results to the public, just as we did in our public address to the community in November, of which we can outline the following:

- We offset more than 5 times the actual particulate material emissions.
- Improvement in the air quality of Coronel as compared to previous years.
- Need to increase the mitigation for the main sources of noise.
- No effects on the chemical and biological composition of Coronel bay.
- Need to prevent the exceptional entry of marine biota by the seawater intake.
- The temperature pattern of the bay did not show modifications (see graph 4.3).

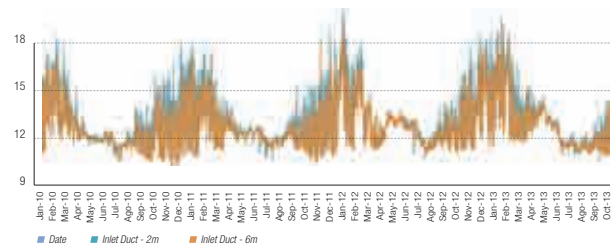
At Angostura, we completed more than four years of ichthyic fauna study, which will help us acquire more knowledge to handle native species in the future.

We have furthered our studies to establish a biodiversity preservation area and have deepened our knowledge of native tree species to implement management plans for the preservation of forests.

Graph 4.2.Sulphur Dioxide Emission (SO₂) from the Stack of Santa María's Unit 1 - March 2013



Graph 4.3 Coronel Bay Temperature (C°) - Last 4-Year Period





- TRANSMISSION LINES
- REFORESTATION AND/OR REVEGETATION
- WATER QUALITY MONITORING
- BURROWING PARROT REPRODUCTION CENTER
- RESERVOIR HYDROELECTRIC POWER PLANT
- RUN-OF-THE-RIVER HYDROELECTRIC POWER PLANT
- POWER PLANT THAT GENERATES CARBON CREDITS
- FISH SAMPLING
- ZONE OF ICHTHYC FAUNA UNDER CONSERVATION CATEGORY
- ZONE OF SPECIES UNDER CONSERVATION CATEGORY: BURROWING PARROT

Burrowing Parrot (Loro Trichahue) Conservation Project

85% of burrowing parrots live between the regions of O'Higgins and Maule. At a national level, we have estimated that there are approximately 1,200 parrots, which has forced this species to be classified under the "vulnerable" conservation condition. Consequently, Colbún, jointly with Universidad de Talca and Criadero Chicureo have created a new reproduction center for this species, which purpose is to promote captive reproduction and the later reinsertion of the offspring to their natural environment.

Fish in Conservation Category

At the Maule River basin, including its tributaries, the presence of three native fish species has been detected, which are classified under the conservation category. These are velvet catfish (classified as "endangered"), the pejerrey and the "bocachico" (both under the "vulnerable" category).

Reforestation Plans

In connection with reforestation relating to Colbún's activity at the Maule River basin, it amounted to 10 hectares, with Quillay, Maitén and Peumo species (connected with San Clemente power plant and San Clemente – Chiburgo transmission line).

Community and Society

With our Community and Society in general, we seek to contribute value to our business, generating trust based relationships with the people, civil society organizations, the mass media and the authorities that make up our neighboring communities. To this end, we build projects that contribute to long-term local development.

Main Achievements in 2013

Good Corporate Citizen in Environmental Matters: Award granted by AMCHAM to Colbún for the program "Creating shared value through an efficient, integrated and responsible use of water". This initiative is under the Framework Agreement subscribed between Colbún and the Association of Maule South Canal Irrigators', and points at anticipating water deficits and taking advantage of the opportunities resulting from the efficient use of water.

Más por Chile Stamp: Granted by the Ministry of Social Development to Acción Emprendedora and to Colbún for the Entrepreneurial Support Program developed jointly at Coronel. This program is aimed at improving the competitiveness of small companies by providing them with tools to improve their skills and competencies.

IDEAS Fund: Granted by FOSIS to Gestión de Comunidades Spa (GECO) and sponsored by Colbún to develop an inclusive business project that will promote the sustainable production of maqui in the neighborhood close to our Angostura power plant

RSE PROhumana 2013 Ranking: Colbún ranked 18 in the list of companies with best CSR reputation in Chile.

Recognition for its Contribution to Education (INACAP): The Universidad Tecnológica de Chile recognized Colbún for the development of technical-professional training programs.

Integration of the Community Relations Policy

In order to promote the integration of the Community Relations Policy to the Company's processes and culture, in 2013 we carried out perception surveys among our neighbors and groups of interest, in addition to implementing the community management software. Social indicators were incorporated to the Company's objectives as well as to the personal goals of top executives.

Most Relevant Initiatives Developed with the Community during 2013

Our community strategy is set out in the following chart that summarizes its objectives and activities based on three main pillars:

- **Generating Trust**
- **Generating Opportunities**
- **Generating Future**

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FINAL OBJECTIVE: Be recognized as a company that generates shared value in a sustainable way with its neighboring communities

 **Generating Trust**

- Build and maintain associative and collaborative relations with the community

 **Generating Opportunities**

- Maximize the positive impact of Colbún's business in the community, promoting the development of local economy

 **Generating Future**

- Collaboratively drive the development of the community by means of innovative and sustainable social projects

 **Energy for Participation**

- Definition of community
- Informative meetings about the project
- Meeting with the authorities
- Work tables
- Dialogue tables
- Visits to power plants
- More Energy Bulletin
- Work with local media
- Alliances with union associations
- Participation in community activities

 **Energy for Local Employment**

- Diagnosis of goods and services: (Colbún versus local supply)
- Training for local manpower
- Hiring of local manpower

 **Energy for Entrepreneurs**

- Training for the development of entrepreneurial and work competencies
- Integrated Production
- Provide the infrastructure and enabling entrepreneurship

 **Energy for Leadership**

- School of leaders
- Support in Resource Management

 **Energy for our Suppliers**

- Developing and supporting local suppliers to meet Colbún's standards
- Hiring local suppliers for products and services

 **Energy for Quality of Life**

- Sports
- Healthy life
- Sports infrastructure
- Implementation of green areas



Colbún Reservoir

Generating Trust

In our attempt to get closer to the communities, we continued to hold periodic meetings with neighbors and authorities aimed at reaching mutually beneficial agreements and aligning objectives. Within this context, we held **five work tables** at different sites to promote tourism, resolve neighbors' concerns, reach agreements with unions and neighbors' associations and reach agreements and participative solutions in a transparent and inclusive manner. At the closing of the year, only the dialogue table with fishermen of Coronel had not been able to reach concrete agreements, which poses a significant challenge for 2014. **Three cooperation agreements** were signed in 2013: CSR Agreements with the Municipalities of Los Andes and San Esteban and the Framework Cooperation Agreement with the Municipality of San Clemente.

In terms of communications, we continued with the **"More Energy" Bulletin**, initiative that seeks to get Colbún closer to our neighbors in Maule, Coronel and Santa Bárbara-Quilaco, and which has allowed us to disseminate news about Colbún and the municipalities, as well as topics of interest to the community. During 2013 we distributed a total of six editions (24,500 copies). The **"House of Energy"** in Maule, our interactive and didactic center continued to receive visitors, and the Company progressed in the construction of the **Visitors' Center** in Biobío. These centers, which are open to the community allow our neighbors to learn about the electric industry who we are and what we do in a didactic manner.

A significant milestone of this year was the **First Public Address at Santa María Complex** in Coronel. In order to keep the community of Coronel informed, the plant manager made a presentation before more than 250 social leaders, businessmen and community authorities, where he discussed the social-environmental and operational performance results for the first year of operation of the power plant. He outlined Colbún's compliance with all environmental standards.

Generating Opportunities

In order to promote the local economy of our neighbors we seek to maximize the **contracting of local manpower and suppliers**. For example, 55% of Colbún's full time workers and contractors of Santa María Complex are from Coronel and Lota. Together with the above, training is crucial to enhance employability; therefore, in 2013 we continued providing trade **certification courses**. Along these lines, at the closing of 2013, 790 workers (81% local) have been trained in high-employability trades in the Angostura project.

Lastly, in 2013 we reinforced the work with Labor Intermediation Offices (LIO) from the municipalities of Santa Bárbara, Quilaco and San Clemente to promote local contracting.



Santa María Power Plant

Generating Future

To foster local development by means of socially innovative and sustainable projects, we progressed in the construction of new social infrastructure, and developed entrepreneurship, technical and environmental training programs.

In connection with infrastructure, we inaugurated the new Los Notros School and the Community Headquarters in Santa Bárbara; we delivered 2 public beaches and progressed in the implementation of tourism camping sites related with the Angostura Project. Meanwhile, in Coronel, and as part of the CSR Agreement signed with the Municipality, we implemented the Vet Clinic, conducted educational shows (Energízate), improved libraries, and finished the construction of the Community Center at Manco creek, which during its first 6 months of operation received 1,200 visitors per month, and developed 6 community workshops; we also inaugurated in a public-private alliance the new synthetic grass football field of Bernardino Luna Stadium. In Talca, the company continued the reconstruction of Marta Donoso Espejo Public School, reaching 90% progress and where Colbún contributed with US\$3 million. In other sites, the Company funded the improvement of the heating systems and laboratory equipment for schools; it also contributed with modern mechanized

irrigation systems and developed a tree planting and a hospital improvement project, among others.

We continue with the **Complementary Training Program (FORCOM)** in 10 districts where we operate, which in an alliance with the Technology University INACAP since 2008 seeks to promote the entry of high-school students to the labor world, by providing them with employment tools in different areas. We have also gone forward with the **Program "Taking Care of the Planet"** in four districts; this program is aimed at promoting the Environmental Certification of Schools, by training teachers, and by conducting "Environmental Gatherings", among other activities.

Lastly, it is worth outlining the **Program "Energy for Entrepreneurs"** through the joint agreement signed with the NGO Acción Emprendedora. Colbún supports three entrepreneurial centers in the Biobío Region that seek to promote local entrepreneurial management. These centers provide training courses (790 beneficiaries), personalized consulting courses (100 beneficiaries) and grant funds aimed at developing and consolidating their start-ups.

Contractors and Providers

With our Contractors and Providers, we are committed to transferring best practices, seeking to promote high safety, quality, environmental and social standards, and to mutually support each other in our growth and development. This will enable us to achieve excellence throughout our value chain.



Main Achievements in 2013

Improvement of REEC and SIGECS Standards: We optimized our Standard for contracting and subcontracting companies (REEC) and the Contractor and Subcontractor Management System (SIGECS) in order to facilitate our contractors' management, through training and guidance in the implementation thereof.

Publication of Zero Fatality Protocols and Related Standards: We produced printed materials and trained own and subcontracted personnel..

Integration of the Contractors and Providers Policy

One of the pillars of our Supplier Policy is the search of relationships that generate long-term shared value. In this sense, we are committed with promoting, strengthening and developing our suppliers and contractors, in order to expand their business opportunities. We work to achieve sustainability, emphasizing the transfer of safety, quality, environmental care and social responsibility to our contractors, subcontractors and/or suppliers. We also promote the use of contractors and suppliers from the localities and regions where our facilities and projects are located in order to promote local development.

Table 4.8 Hours worked by Contractors and Subcontractors

	2012	2013
Projects (under construction)	8,421,080	6,494,971
Generation Plants (in operation)	1,433,591	1,562,721

In connection with the table above, we may mention that there is a reduction in the number of contracted personnel as a result of the completion of projects under development. In turn, the number of contractors in operational duties has increased as a result of maintenance activities and others relating to the power plant operation.

Table 4.9. Safety Indicators among our Contracted Personnel at Power Plants and Projects

	2012	2013
Frequency Rate	8.7	4.6
Seriousness Rate	223.9	147.4
Lost Time Accidents	86	38
Serious Accidents or Fatalities	0	0

Table 4.10. Geographic Distribution of our Purchases (Thousand US\$)

	2012	2013
Foreign Providers	54,655	84,093
Domestic Providers	207,375	151,346
Local/Regional Providers	80,414	79,953
TOTAL PROVIDERS	342,444	315,392

Table 4.11 Geographic Distribution of our Purchases (Number)

	2012	2013
Foreign Providers	148	148
Domestic Providers	1,338	1,368
Local/Regional Providers	1,247	1,276
TOTAL PROVIDERS	2,733	2,792

Note: our domestic providers are domiciled in Santiago and they dispatch to our power plants and projects around the country. Regional providers have local presence. We included purchases made by power plants and projects, and excluded energy, capacity purchases as well as tolls and fuels.

3,378

Contractors

We have also developed and maintained a series of measures aimed at developing and strengthening the development of our providers, namely:

- Payment in advance of 30 consecutive days following the receipt of the payment document; this action is certified by means of the ProPYME qualification, which compliance is reviewed every 6 months by external auditors
- Development of local providers, which now account for 48% of our domestic providers, mainly concentrated in the Regions of Valparaíso and Biobío.
- Development of medium and small size companies; they account for 48% of our providers and specifically at our plants the participation of PYMEs is 56%.

Clients and Suppliers

Our commitment with our primary energy Clients and Suppliers is to generate long-term and transparent relationships, timely sharing the information necessary to provide a reliable, competitive and sustainable electric power supply.

Main Achievements in 2013

Breakfast meeting with our main clients: Such instance gave rise to a more active and formal relationship (although there is permanent contact by the commercial area); in that meeting, we held an open conversation about our long-term view, and shared the different opinions.



Candelaria Power Plant



Suppliers

It is important for our primary energy suppliers to understand the relevance of their product in the power generation value chain that feeds the development of our country. We want to build a close and long-term relationship for them to understand our fuel supply requirements and to be constantly informed of the operational situation of our power plants and the market where we operate. Our main suppliers are those relating to fossil fuels.

Clients

We want our customers, both regulated and non-regulated to have the best energy generation and supply service, by incorporating the highest safety, service quality, competitiveness, social and environmental standards. In delivering this service, we want to share with them the dynamic of the variables relating to electric energy: prices and availability of fuels, technologies, variability of the hydrological conditions, social/political events, among others. The breakfast meeting mentioned above served these purposes.

Table 4.12 Type of Clients

	2012	2013
Regulated (distributors)	15	16
Non-regulated	8	6
TOTAL	23	22

Table 4.13 Plant Reliability

	2012	2013
Hydroelectric	96.1%	95.5%
Thermoelectric	92.6%	79.8%



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Incorporation Documents and Information

The legal incorporation of Colbún S.A., originally under the name of Empresa Eléctrica Colbún Machicura S.A. is recorded in public deed drawn up and formalized on April 30, 1986 by Santiago Notary Public Mario Baros González, whose abstract was inscribed in the 1986 Trade Registry of Talca folio 86 and reverse 86 and published in Chile's Official Gazette N° 32,484 dated May 31, 1986. At present, following the change of the company's business name, Colbún S.A. is inscribed in the Trade Registry of Santiago folio 12,773 N° 10,265 of 1999.

COMPANY IDENTIFICATION

Company Name :	Colbún S.A.
Taxpayer ID Number:	96.505.760-9
Type of Company:	Sociedad Anónima Abierta
Inscription in the Securities Register:	N° 0295
External Auditors:	Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada
Address:	Av. Apoquindo 4775, 11th floor, Santiago.
Telephone:	(56 2) 2460 4000
Fax:	(56 2) 2460 4005
Website:	http://www.colbun.cl

INVESTOR RELATIONS TEAM	EMAIL ADDRESS	TELEPHONE
Olivia Heuts	ohcuts@colbun.cl	56 2 24604176
Miguel Alarcón	malarcon@colbun.cl	56 2 24604394
María Elena Palma	mpalma@colbun.cl	56 2 24604450



Candelaria Power Plant

Colbún 2013

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CONSOLIDATED COMPANY	PERCENTAGE OF OWNERSHIP AT 12.31.2013		
	DIRECT	INDIRECT	TOTAL
Empresa Eléctrica Industrial S.A.	99.9999	-	99.9999
Colbún International Limited	99.9999	-	99.9999
Sociedad Hidroeléctrica Melocotón Ltda.	99.9000	0.1000	100
Río Tranquilo S.A.	99.9999	0.0001	100
Termoeléctrica Nehuenco S.A.	99.9999	0.0001	100
Termoeléctrica Antilhue S.A.	99.9999	0.0001	100
Colbún Transmisión S.A.	99.9999	0.0001	100

Table 5.2 Affiliated Companies

TYPE OF OWNERSHIP	COMPANY	PERCENTAGE OF OWNERSHIP AT	
		31.12.2013	
		DIRECT	
Related	Electrogas S.A.	42.5	
Joint venture	Centrales Hidroeléctricas de Aysén S.A.	49.0	
Joint venture	Transmisora Eléctrica de Quillota Ltda.	50.0	

Note: The percentage ownership has not changed over the past year.

Table 5.3 Subscribed and Paid-in Capital Affiliates and Related Companies

AFFILIATES	CURRENCY	SUBSCRIBED CAPITAL	PAID IN CAPITAL
Empresa Eléctrica Industrial S.A.	MUS\$	3,680	3,680
Colbun International Limited	MUS\$	150	150
Sociedad Hidroeléctrica Melocotón Ltda.	MUS\$	1,114	1,114
Río Tranquilo S.A.	MUS\$	64	64
Termoeléctrica Nehuenco S.A.	MUS\$	212	212
Termoeléctrica Antihue S.A.	MUS\$	3,332	3,332
Colbún Transmisión S.A.	MUS\$	20,503	20,503

AFFILIATES	CURRENCY	SUBSCRIBED CAPITAL	PAID IN CAPITAL
Electrogas S.A.	MUS\$	21,266	21,266
Centrales Hidroeléctricas de Aysén S.A.	M\$	168,945,665	168,945,665
Transmisora Eléctrica de Quillota Ltda.	M\$	4,404,446	4,404,446

Table 5.4 Percentage that Represents the Investment in each Affiliated and Related Company over the Total Assets owned by the Parent Company

AFFILIATES	INVESTMENT MUS\$	% OVER ASSETS
Empresa Eléctrica Industrial S.A.	2,749	0.05%
Colbun International Limited	497	0.01%
Sociedad Hidroeléctrica Melocotón Ltda.	315	0.01%
Río Tranquilo S.A.	66,232	1.09%
Termoeléctrica Nehuenco S.A. *	(14,724)	(0.24%)
Termoeléctrica Antihue S.A.	24,899	0.41%
Colbún Transmisión S.A.	94,115	1.55%

RELATED COMPANY	INVESTMENT MUS\$	% OVER ASSETS
Electrogas S.A.	18,424	0.30%
Centrales Hidroeléctricas de Aysén S.A.	127,398	2.10%
Transmisora Eléctrica de Quillota Ltda.	11,625	0.19%

Note: * This Company has negative equity



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The main commercial relationships between Colbún and its affiliates are energy purchase, sale and transportation contracts. Such affiliates are fully consolidated and these contracts do not have an impact on the results. In connection with the relationship with all our affiliates/related companies, it should remain unchanged.

Table 5.5 Subsidiaries

COMPANY NAME	CORPORATE PURPOSE	GENERAL INFORMATION	EQUITY (MUS\$)
TERMOELÉCTRICA ANTILHUE S.A.	Generation, transportation, transformation, distribution, supply or commercialization of electric power or operation of power plants.	Closed Stock Company. Established on December 14, 2007. Owner of Antilhue thermoelectric power plant.	24,899
EMPRESA ELÉCTRICA INDUSTRIAL S.A.	Production, transportation, distribution, supply or commercialization of electric power and management or operation of power plants.	Closed Stock Company. Established on December 31, 1997. Owner of the Carena hydroelectric power plant.	2,749
TERMOELÉCTRICA NEHUENCO S.A.	Production, transportation, distribution, supply or commercialization of electric power and management or operation of power plants.	Closed Stock Company. Established on April 13, 2006. In charge of the operation of the power plants that make up the Nehuenco thermoelectric complex situated in Quillota, V Region, as well as of the Candelaria thermoelectric power plant situated in Mostazal, VI Region	(14,724)
COLBÚN INTERNATIONAL LIMITED	To support the optimization of the international business activities in which the Company may engage.	Limited Liability Company, established on July 3, 2001 in the city of George Town, Grand Cayman, pursuant to the laws of Cayman Islands	497
SOCIEDAD HIDROELÉCTRICA MELOCOTÓN LTDA.	To conduct prefeasibility studies and develop projects for hydroelectric power plants and to operate the said power plants.	Limited Liability Company, established on July 1, 1980. This company although is not currently engaged in operating activities owns water rights to develop hydroelectric projects.	(316)
RÍO TRANQUILO S.A.	Generation, transportation, distribution, purchase and sale of electric power and capacity.	Closed Stock Company. Established on May 20, 2005. Owner of the Hornitos hydroelectric power plant.	66,232
COLBÚN TRANSMISIÓN S.A.	Electricity transmission; commercialization of power transportation and transformation capacity; management and operation of electric transmission installations and providing services relating with its purpose.	Closed Stock Company. Established on June 28, 2012. Colbún S.A. owns 99% of its shares.	94,115

	PROFIT (LOSS) (MUS\$)	DIRECT AND INDIRECT OWNERSHIP	CHAIRMAN	CEO	BOARD OF DIRECTORS
	1,696	100%	Luis Felipe Gazitúa A., Director of Colbún S.A.	Cristián Morales J., CFO of Colbún S.A.	Luis F. Gazitúa A., Director of Colbún S.A. Ignacio Cruz Z., CEO of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.
	(1,485)	99.99%	Luis Felipe Gazitúa A., Director of Colbún S.A.	Cristián Morales J., CFO of Colbún S.A.	Luis F. Gazitúa A., Director of Colbún S.A. Ignacio Cruz Z., CEO of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.
	3,012	100%	Luis Felipe Gazitúa A., Director of Colbún S.A.	Cristián Morales J., CFO of Colbún S.A.	Luis F. Gazitúa A., Director of Colbún S.A. Ignacio Cruz Z., CEO of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.
	(13)	99.99%	Legal Representative: Bernardo Larrain M., Chairman of Colbún S.A.		
	2,497	100%	Legal Representative Legal: Ignacio Cruz Z., CEO of Colbún S.A.		
	12,715	100%	Luis Felipe Gazitúa A., Director of Colbún S.A.	Cristián Morales J., CFO of Colbún S.A.	Luis F. Gazitúa A., Director of Colbún S.A. Ignacio Cruz Z., CEO of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.
	16,926	100%	Luis Felipe Gazitúa A., Director of Colbún S.A.	Eduardo Calderón A.; Transmission Manager of Colbún S.A.	LLuis F. Gazitúa A., Director of Colbún S.A. Ignacio Cruz Z., CEO of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.

Tabla 5.6 Affiliated Companies

COMPANY NAME	CORPORATE PURPOSE	GENERAL INFORMATION	EQUITY (MUS\$)
TRANSMISORA ELÉCTRICA DE QUILLOTA LTDA.	Transmission, distribution and supply of electric power.	Limited Liability Company. Owner of the San Luis substation, located alongside of the Nehuenco thermoelectric complex, as well as of the 220 KV high tension line that connects this substation with the Quillota substation. The company began its operations in 1999.	23,155
CENTRALES HIDROELÉCTRICAS DE AYSÉN S.A.	Development, financing, ownership and operation of a hydroelectric Project in the Aysén Region.	Closed Stock Company. Incorporated by public deed on September 4, 2006, granted at the Santiago Public Notary of Eduardo Avello Concha.	260,455
ELECTROGAS S.A.	Buy, sell, invest and hold shares of Electrogas S.A.	Closed Stock Company. Established on March 11, 1999. Inversiones Electrogas S.A. is a company whose shareholders are Colbún S.A. (42.5%), Endesa S.A. (42.5%) and Enap (15%).	43,350

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	PROFIT (LOSS) (MUS\$)	DIRECT AND INDIRECT OWNERSHIP	CHAIRMAN	CEO	BOARD OF DIRECTORS
	1,701	50.00%	Gabriel Carvajal M.	-	Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A. Ricardo Santibáñez Z. Mauricio Cabello C., Generation Division Manager
	8,498	49.00%	Joaquín Galindo V.	-	Joaquín Galindo V. Juan Benabarre B. Ramiro Alfonsín B. Bernardo Larraín M., Chairman of Colbún S.A. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.
	19,571	42.50%	Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A.	Carlos Andreani L.	Alan Fisher H. Pedro Gatica K. Fernando Promis B. Juan Eduardo Vásquez M., Business and Energy Management Division Manager of Colbún S.A. Eduardo Lauer R., Engineering and Project Division Manager of Colbún S.A.

Ownership and Control

As at December 31, 2013 the capital stock of the company consisted of 17,536,167,720 fully subscribed and paid non-par value shares. The number of shareholders at the closing date amounts to 3,409. The Company's shares are traded at the Santiago Stock Exchange, the Electronic Stock Exchange and the Valparaíso Stock Exchange. In the first two Stock Exchanges our stock market presence is 100%, while on the Valparaíso Stock Exchange our presence is 13.31%. The following table shows the list of the twelve largest shareholders as at December 31, 2013.

Table 5.7 Twelve Largest Shareholders at December 31, 2013

MAJORITY SHAREHOLDERS	NO OF SHARES	%
Minera Valparaíso S.A.	6,166,879,733	35.17
Forestal Cominco S.A.	2,454,688,263	14.00
Antarchile S.A.	1,680,445,653	9.58
AFP Habitat S.A.	900,410,721	5.13
AFP Provida S.A.	882,841,291	5.03
AFP Capital S.A.	700,067,647	3.99
AFP Cuprum S.A.	575,088,479	3.28
Banco de Chile on behalf of third	569,160,209	3.25
Banco Itaú on behalf of inverstors	529,305,393	3.02
Banco Santander - JP Morgan	329,483,340	1.88
Larraín Vial S.A. Brokerage	261,057,864	1.49
BTG Pactual Chile S.A. Brokerage	193,568,477	1.10
Sub Total	15,242,997,070	86.92
Other Shareholders	2,293,170,650	13.08
Total Subscribed and Paid Shares	17,536,167,720	100.00

The main ownership changes that took place between December 31, 2012 and December 31, 2013 are shown in the following tables.

Table 5.8 Main increases in Share Ownership

SHAREHOLDER	NO. SHARES AT 12/31/2012	NO. SHARES AT 12/31/2013	2013/2012 VARIATION IN SHARES
BTG Pactual Chile S.A. Brokerage	-	193,568,477	193,568,477
Banco de Chile on behalf of third	428,585,081	569,160,209	140,575,128
Banco Itaú por cuenta de Inversionistas	435,611,939	529,305,393	93,693,454
Banco Santander - JP Morgan	253,448,840	329,483,340	76,034,500
Bolsa Electrónica de Chile, Bolsa de Valores	157,085,330	184,682,550	27,597,220
MBI Arbitrage Investment fund	8,520,789	34,844,082	26,323,293
Negocios y Valores S.A. Corredores de Bolsa	23,087,064	47,705,581	24,618,517
Costa Verde Financial Investments S.A.	-	21,478,686	21,478,686
AFP Modelo S.A.	31,355,990	51,671,001	20,315,011
Inversiones Mar Adentro Limitada	-	19,954,432	19,954,432

Table 5.9 Main Decreases in Share Ownership

SHAREHOLDER	NO. SHARES AT 12/31/2012	NO. SHARES AT 12/31/2013	2013/2012 VARIATION IN SHARES
AFP Capital S.A.	791,047,105	700,067,647	(90,979,458)
Bolsa de Comercio Stgo. Bolsa de Valores	165,793,413	112,492,464	(53,300,949)
BanChile Brokerage S.A.	185,962,006	155,844,994	(30,117,012)
Larraín Vial S.A. Brokerage	280,669,576	261,057,864	(19,611,712)
BICE Brokerage investors S.A.	100,346,553	82,524,413	(17,822,140)
AFP Provida S.A.	899,733,782	882,841,291	(16,892,491)
CHG Brokerage S.A.	45,297,709	28,670,176	(16,627,533)
AFP Cuprum S.A.	589,523,085	575,088,479	(14,434,606)
Valores Security S.A., Brokerage	30,602,429	17,780,282	(12,822,147)
Santander S.A. Brokerage	60,372,626	49,186,830	(11,185,796)

Main Shareholders

At December 31, 2013 Minera Valparaíso S.A., directly and through its affiliates Forestal Cominco S.A. and indirectly through Inversiones Coillanca Ltda. holds the control of the Company. Minera Valparaíso S.A., is a corporation belonging to a business group (Matte Group) that has investments in the electric power, financial, forestry, real estate, telecommunications and port services sectors, and whose ultimate controllers in equal share are the following individuals: Patricia Matte Larraín, ID N° 4.333.299-6; Eliodoro Matte Larraín ID N° 4.436.502-2 and Bernardo Matte Larraín, ID N° 6.598.728-7. The current members of the controlling group have signed a joint action agreement which is already formalized.

Table 5.10 Ownership of Main Shareholders at December 31, 2013

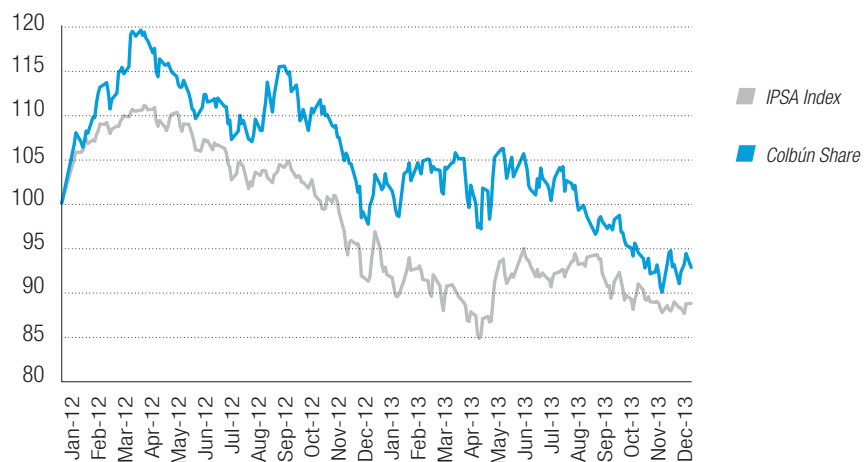
ID NUMBER	SHAREHOLDER	SHARES	%
90.412.000-6	Minera Valparaíso S.A.	6,166,879,733	35.17
79.621.850-9	Forestal Cominco S.A.	2,454,688,263	14.00
77.320.330-K	Inversiones Coillanca LTDA.	16,473,762	0.09
TOTAL		8,638,041,758	49.26

Share Transactions

The following graph shows the evolution of Colbún's share Price and the IPSA price evolution over the last two years taking as base 100 January of 2012.



Graph 5.1 Colbún Share Price and IPSA Index Evolution





Aconcagua Power Plant

Table 5.11 shows the purchases and sales of shares recognized in the Company shareholders' registry during 2012 and 2013 by the majority shareholders, the chairman, directors and main executives of the Company. Table 5.12 shows a summary of the trading of Colbún's share over the last 2 years

Table 5.11 Share Transactions by Executives and Main Shareholders over the last 2 Years

	NAME	RELATIONSHIP	PURCHASES			SALES		
			N° SHARES	UNIT PRICE (CH\$)	TOTAL AMOUNT (CH\$)	N° SHARES	UNIT PRICE (CH\$)	TOTAL AMOUNT (CH\$)
2012	No transactions							
2013	Andrés Salgado Romeo	Executive	76,388	143.68	10,975,428			
2013	José Cavallo García	Executive				46,000	130	5,980,000

Table 5.12 Summary of Transactions of Colbún's Shares over the past 2 years

2012	QUARTER	UNTS	AMOUNT (CH\$)	AVERAGE PRICE (CH\$/SHARE)
	1	702,008,102	93,462,249,309	133
	2	834,382,498	118,081,330,132	142
	3	605,297,552	82,159,749,108	136
	4	530,799,234	70,503,498,548	133
2013	QUARTER	UNTS	AMOUNT (CH\$)	AVERAGE PRICE (CH\$/SHARE)
	1	667,386,619	79,142,523,214	119
	2	625,012,811	75,020,130,884	120
	3	455,169,849	54,037,134,357	119
	4	431,337,282	53,122,367,284	123



Santa María Power Plant

Board of Directors' Compensation

According to the stipulations of Law N° 18,046 at the Regular Shareholders' Meeting held on April 26, 2013, the Board of Directors' compensation for the business year was approved. It is placed on the record that the Board members have not received any payment by way of entertainment expenses, per diem expenses, royalties, attendance payments and in general any other type of payment. Members of the Board of Directors and executives of Colbún S.A., who are also directors of Company's affiliates do not receive any compensation for this condition. In addition, this year the Board of Directors did not incur any disbursement by way of consulting services.

Table 5.13 Board of Directors' Compensation over the last 2 years

	FIXED ANNUAL COMPENSATION (US\$)		ANNUAL DIRECTORS' COMMITTEE (US\$)	
	2013	2012	2013	2012
B. Larraín	111,465	74,463	-	-
L.F. Gazitúa	55,721	62,282	18,566	20,091
B. Matte	55,760	74,135	-	-
E. Matte	55,607	54,744	-	-
A. Mackenna	55,753	54,744	-	-
E. Navarro	55,634	54,744	-	-
J. Hurtado	55,734	52,244	-	-
S. Undurraga	55,684	55,773	18,661	20,000
V. Blanlot	55,580	37,247	18,561	13,847
F. Franke	-	19,963	-	6,153
J. Larraín	-	13,819	-	-
TOTAL	556,938	554,158	55,788	60,091

Directors' Committee

At the Regular Shareholders' Meeting held on April 26, 2012 and in agreement with the provisions set forth by article 50 bis of Law 18,046 on Corporations, in its text merged by Law Nº 20,382, and in agreement with the instructions provided by the Superintendence of Securities and Insurance, the Board designated as members of the Directors' Committee Ms. Vivianne Blanlot, Messrs. Sergio Undurraga S., and Luis Felipe Gazitúa A. It was placed on the record that Ms. Vivianne Blanlot S. and Mr. Sergio Undurraga S. fulfilled the requirements to be qualified "independent board members." In 2012 the Directors' Committee was made up of the same members; however, it should be noted that in advance of the Regular Shareholders' Meeting of 2012, time at which Ms. Vivianne Blanlot S. joined Colbún's Board of Directors this position was held by Mr. Fernando Franke G. who also qualified as "independent director".

During 2013 the Committee held meetings to review the proposals by the Management to the Board of Directors, in connection with transactions with related parties, where it agreed to propose their approval to the Board of Directors inasmuch as they were consistent with the fairness conditions prevailing in the market for this type of transactions. In particular, the Committee provided an opinion regarding the following transactions:

- Modification and termination of the "Consulting Services and Technical Assistance Contract" between Colbún S.A. and Echeverría Izquierdo Montajes Industriales S.A. Such contract had been previously reviewed by the Committee in connection with the commissioning of Unit 1 of Santa María thermoelectric power plant, and its term was extended to provide additional services to repair the boiler which made the contract price increase by UF 39,000. This contract was reviewed by the Committee because the Director Mr. Bernardo Matte L. is related by marriage to one of the controlling partners of Echeverría Izquierdo Montajes Industriales S.A.
- Service Delivery Contract between Colbún S.A. and the Ernst & Young. The purpose of the contract is the delivery of additional consulting services necessary to improve and to implement the Company's internal audit unit. The additional services have an approximate value of UF 1,680. This contract was reviewed by the Committee as Ernst & Young is also the Company's external auditor.



- The Company contributed funds to the Center of Public Studies (CEP) for two investigation projects denominated "Mechanisms to strengthen the design and the discussion of public policies" and "Institutional strengthening of public policies". These studies will be conducted in conjunction with the Corporación de Estudios para Latinoamérica (CIEPLAN) and are aimed at reinforcing the institutionality of the country, which is beneficial for the society where the company operates. Such contribution, which amounted to UF 1,000 was reviewed by the Directors' Committee, as the director Mr. Eliodoro Matte L. is in turn the Chairman of the Center of Public Studies (CEP).

- Easement contracts subscribed between Colbún S.A. with Forestal Mininco S.A. and Colbún S.A. with Forestal Monteaguila S.A.. These are perpetual easement contracts over lots situated in the Angostura dam impoundment area or neighboring properties, in addition to an easement contract over a smaller strip of land for the construction of roads and other related agreements. The surface of the impoundment area is 46.7 hectares, plus 2.7 hectares dedicated to road easements. The average price agreed to was UF 650 by hectare. This transaction was reviewed by the Committee because Forestal Mininco S.A. is an affiliate of CMPC S.A., which is related to our directors Messrs. Bernardo Matte L., Eliodoro Matte L. and Arturo Mackenna I; similarly, our Chairman Mr. Bernardo Larraín M. is also director of Forestal Mininco S.A.
 - Contract for Communicational Consulting Services between Colbún S.A. and Asesorías e Inversiones Nexos SpA. The contract is aimed at providing communicational services to Colbún S.A. for a monthly fee of UF 375, over an indefinite term and with an option for early contract termination by means of a 60-day advance notice. This contract was reviewed by the Committee because the Director Mr. Bernardo Matte L. is the spouse and the father to indirect partners of Nexos SpA, who in turn own approximately 18% of the Company's equity.
 - Contract for the subscription of Centrales Hidroeléctricas de Aysén's S.A shares. Colbún S.A. subscribed a total of 627,000 payment shares of Centrales Hidroeléctricas de Aysén S.A. by CH\$6,272,000,000. This is a transaction between related parties, since Messrs. Bernardo Larraín M. and Luis Felipe Gazitúa A., Chairman and Vice-Chairman of Colbún S.A. respectively, are also directors of Centrales Hidroeléctricas de Aysén S.A.
 - Consulting Services Contract between Colbún S.A. and MR Consult Limited. This is a contract that provides for the development, planning, management, direction and control of projects under development or to be developed by the Company, either in connection with transmission lines, power substations, hydroelectric or thermoelectric power plants as well as other facilities undertaken by Colbún S.A. or its affiliates. Its term is 12 months; the price is CH\$7 million per month, which includes 50 work hours that will be calculated on a quarterly basis. This transaction was reviewed by the Committee because the director Mr. Arturo Mackenna I. is the main partner and the administrator of such company.
 - Electric easement contract between Colbún S.A. and Celulosa Arauco y Constitución S.A. This is an easement contract required for the expansion of Ciruelos Power Substation, located in the district of San José de la Mariquina, where the future San Pedro hydroelectric power plant will connect to the SIC. The surface that will be subject to the easement contract is 6 hectares and the total payable price is CH\$180 million. By virtue of an agreement signed with Transelec S.A., this easement will be later transferred, pursuant to similar conditions, to this company (or to a related company), in order to meet the so-called "Expansion of the Trunk Transmission System for the period 2012-2013".
 - In addition, the Directors' Committee carried out the following activities:
 - It reviewed the Company's Financial Statements as at December 31, 2012.
 - It met the representatives of the external auditing company Ernst & Young to discuss the scope of the services provided through the year 2012, the accounting criteria used and the results of the audit as at December 31, 2012.
 - It authorized the transactions with related companies that are excluded from fulfilling with the formalities set forth in Article 147 of Law 18,046 on Corporations.
 - Within the framework of additional services provided by the external auditing company Ernst & Young, individualized in Article 242 of Law 18,045 on Securities' Market, which are additional to those established in Article 239 of the same legal body, the Committee approved the delivery of the service "External Review of the Greenhouse Gas Effect (GGE) emission inventory of Colbún S.A. for 2012– 2013". The fee charged by E&Y for the review of the period that goes from January 1, 2012 to December 31, 2012 was 225 UF, while for the period that goes from January 1, 2013 to December 31, 2013 the fee amounted to 200 UF.
 - Report on the activities conducted by the Committee during 2012.
 - The Committee evaluated the Management's proposals to designate the external auditing companies for 2013, and it agreed to recommend the Board of Directors to propose the Shareholders' Committee to appoint as external auditors for the 2013 management period either of the two companies in the list.
 - It reviewed the remunerations and the compensation plans of the Company's managers, executives and workers.
- During 2013, the Directors' Committee did not contract any consulting services nor incur any expenses. The Annual Management Report of the Directors' Committee contains the same information provided herein.



Financial Information



Aconcagua Hydroelectric Power Plant

Main Financial Activities in 2013

2013 was characterized by the gradual withdrawal of the monetary stimulus from United States that helped drive the world's economy as a result of a recovery in the economy of developed countries. Within that framework, over the last quarter of 2013, the Company subscribed an international bank loan for US\$250 million, for a 5-year term, at a very competitive interest rate. Similarly, we renewed our existing credit facility from UF 8 million to UF 4 million in agreement with lower liquidity requirements, which in turn result from a lower level of investments and improvements.

Taking advantage of short-term financing opportunities, the Company undertook "confirming" transactions with local banks at very attractive interest rates over the invoices of our oil and gas suppliers. The financial management was centered on managing the Company's liquidity to consolidate the operation and the development of projects in the portfolio, especially Angostura. During the year the Company amortized long-term debt for approximately US\$151 million .

As at December 31, 2013, the net consolidated financial debt of the Company amounted to US\$1,440 million, showing a debt/equity ratio of 0.76 and a coverage ratio (EBITDA over financial expenses) of 7.8.

The graph 5.2 shows a slight reduction of the net debt between December 2012 and December 2013 by approximately US\$ 66 million. The reduction in the net debt is due mainly to the increase in net positive cash flow (US\$423 million) used in operating activities during 2013, partially offset by the net negative cash flow from investment activities (US\$329 million).

At December 31, 2013 at a national level, Colbún was rated with A+ by Fitch Ratings and AA- by Humphreys, both with stable perspectives. At an international level, the Company was rated BBB with stable perspectives by Fitch Ratings and BBB- with negative perspectives by Standard & Poor's.

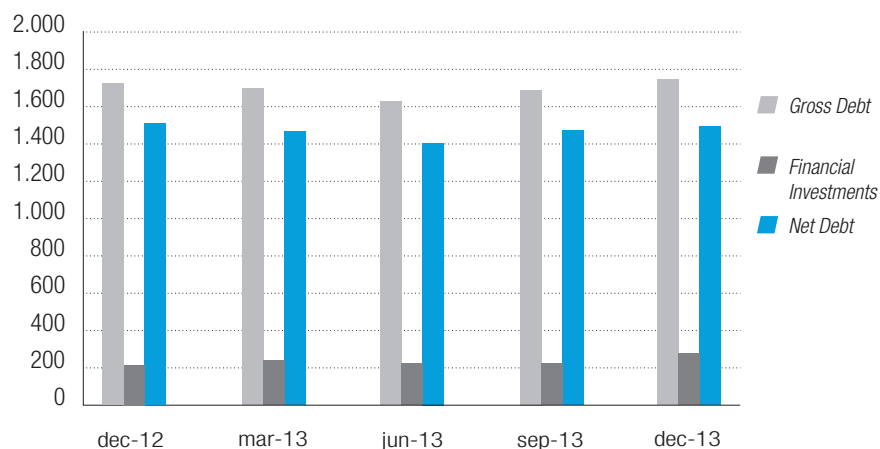
BBB

International Risk rating by Fitch Ratings
with stable perspective

BBB-

International risk rating by Standard Poor's
with negative perspective.

Graph 5.2 Quarterly Evolution of Gross Debt, Financial Investments and Net Debt (US\$ million)



Investment and Financing Policy

The Regular Shareholders' Meeting held on April 23, 2013, approved the investment and financing policy explained below:

INVESTMENT POLICY

Colbún S.A. will make investments predominantly within its main line of business, namely the generation of electric power. In general, investment decisions shall consider, among other elements, the Company's electric power sales contract portfolio, the contribution of each project to the Company's generation mix and medium to long term profitability suited to the risks involved in the business..

The Company seeks to maintain cash balances that enable it to have excess financial capacity to face its commitments and the risks associated with the business. Cash surpluses shall be invested in securities issued by financial institutions and in negotiable securities in agreement with the portfolio selection and diversification criteria to be determined by the Company's management.

Furthermore, the investments shall have the appropriate financing available in accordance with the individual project involved, in line with the corresponding Financing Policy. Total investments for the business year shall not exceed 100% of the net equity of the Company and shall be in agreement with the Company's financial capacity.

Control over investments shall be exercised by the Board of Directors, which shall approve specific investments with regard to their value as well as to their financing, in line with the stipulations of the Company's bylaws and with whatever the Shareholders' Meeting should approve.

FINANCING POLICY

Financing shall seek to provide the necessary funds for the adequate operation of the existing assets, as well as for the new investments in agreement with the investment policy described above. Consistent with this, the Company will use the available internal as well as the external resources up to a limit that does not jeopardize the Company's assets or growth ability.

To this end, proposal is made to limit the consolidated debt/equity ratio of the Company to 1.2. For purposes of the above, the minority interest shall be considered as part of the Company's equity. The Company shall maintain several financing options available, giving preference to the following: bank loans, both international and domestic, long-term

bond market, both international and domestic, supplier credit, retained earnings and capital increases.

The Company's management will agree restrictions with its creditors, after obtaining the Board of Directors' approval in connection with dividend distribution, indebtedness and other regular financial transaction matters, and provide securities in agreement with the powers established by the law and the Company's bylaws.

The following power plants were declared to be essential assets to the functioning of the Company: Colbún, Machicura, San Ignacio, Rucúe, Nehuenco I, Nehuenco II, Nehuenco III, Candelaria, Los Quilos,

Juncal and Juncalito, Blanco, Chacabuquito, Canutillar, Quilleco, Hornitos, Chiburgo and San Clemente. The Company's management shall have broad powers of attorney to subscribe, modify and annul purchase, sale and lease contracts for goods and services that are essential to the normal functioning of the Company.

Dividend Policy

The general policy regarding distribution of dividends agreed upon during the Regular Shareholders' Meeting held on April 23, 2013 established the distribution of dividends equivalent to 30% of the net profits obtained during the business period. Total annual dividend paid per share over the past five years are shown in the Table below. This policy will materialize through the distribution of a provisional dividend to be decided by the Board of Directors in the last quarter of the year and a definite dividend that will be distributed after the Regular Shareholders' Meeting of 2014. The above is notwithstanding the Board's powers to propose to the Regular Shareholders' Meeting the distribution of additional dividends, provided the Company has enough profits and liquidity to pay those dividends. The Management deems that this policy will be maintained over the next few years.

Table 5.14. Dividend per Share (Chilean pesos)

DIVIDEND PER SHARE			
MANAGEMENT YEAR	PROVISIONAL	DEFINITE	TOTAL
2009	0.71	1.37	2.08
2010	0.50	0.50	1.00
2011	-	-	-
2012	-	0.36	0.36

Insurance

We have diverse insurance policies in place, among which we may mention:

- Full-risk coverage for physical assets including machinery breakdown and business interruption losses for all our plants and substations.
- Civil liability coverage for Colbún S.A., for damages caused to third parties and third party property.
- Civil liability coverage for the Company's board members and top management.
- Life and casualty insurance coverage for Company's employees and full-risk insurance coverage for the Company's vehicles, buildings, chattel property and electronic equipment.
- Full-risk coverage for construction and assembly risks, including transportation, civil liability and start-up delays for investment projects under execution.

Risk Factors

To Colbún, diversification and risk management is a key strategic pillar to safeguard the Company's stability and sustainability principles, eliminating or mitigating the uncertainty variables that could affect compliance with its objectives.

Comprehensive risk management includes identifying, evaluating and controlling the various risks faced by the different management areas of the Company, and also estimating their impact on the Company's consolidated position, its follow-up and control over time. This process involves both Colbún's top management and the areas that are directly charged with managing the risks.

The risk management function is performed by a Risk Committee with the Support of the Corporate Risk Management in coordination with the other divisions of the Company.

Business Risks

Through its commercial policy the Company seeks to be a competitive, safe and reliable energy supplier, with a volume that enables it to maximize the long-term profitability of its asset base, limiting the volatility of its results. They show a structural variability as they strongly rely on exogenous conditions such as the hydrological conditions and the price of fuels (oil, gas and coal). During dry years, the hydraulic generation deficit is offset by increasing the production of thermoelectric units with gas or diesel oil, which supplements efficient coal generation. Eventually, the Company may resort to purchases on the spot market at marginal costs based on diesel oil when its own capacity is not enough.

To mitigate the impact of external variables on our business and therefore, on our cash flow generation, it is important to maintain an adequate balance between electric power sale commitments, our own competitive generation capacity and our production costs in general.



Angostura Power Plant

[Colbún 2013](#)[Business Description and Development](#)[Investment Projects](#)[Sustainability](#)[General Information](#)[Incorporation Documents and Information](#)[Ownership and Control](#)[> Financial Information](#)[Risk Factors](#)[Relevant Facts Reported to the SVS](#)[Liability Statement](#)[Consolidated Financial Statements](#)

The actions undertaken to restore the balance during 2013 were the following:

- Purchase of fuel under hedge contracts in the financial markets.
- Liquefied Natural Gas contracts with ENAP and Metrogas for our Nehuenco thermoelectric complex and Candelaria power plant, mainly to provide for the unfavorable hydrological conditions of the central zone over the past years
- Evaluation and implementation of hedging mechanisms to back up changes in hydroelectric conditions and fuel prices, subject to the analysis of the level of correlation of contract prices with these variables.
- Maintenance of an adequate diversification level of our power generation sources: hydroelectric and thermoelectric energy, base capacity and back-up power.

In addition, given the dry hydrological conditions in 2013 and the melting forecasts for the beginning of 2014, the Company has subscribed natural gas supply contracts with Metrogas S.A. and Enap Refinerías S.A. for the operation of Nehuenco Complex during the first four months of 2014.

We will maintain this hedging policy, considering factors such as the changes in the hydrological conditions; correlation in the price levels of the contracts with the price of diesel oil; and the evolution of the commodities market.

The volatility of our cash flows is expected to decrease gradually, upon the expiry of the contracts signed in advance of the gas crisis as the Company will have available the capacity generated by the new Angostura hydroelectric power plant.



In order to mitigate market risks our challenge is to convince the communities that they will be better off with the projects. To this end, it is fundamental to start citizen participation processes and generate trust in the early stages of the project.

Market Risks

We face a very challenging electric market that shows unbalance between a growing demand and a decreasing supply. The stagnation of new projects in the SIC due to the hurdles to investment projects generates considerable uncertainty about the way in which the future demand will be supplied, considering that the existing capacity will be shortly exceeded since there are few projects currently under construction.

The issue is not the lack of interest in investing (there is a great deal of projects approved or being processed before the Environmental Evaluation System), the main topic is that only a small percentage of these projects is currently under construction.

The causes that explain this situation are as follows:

1. The neighboring communities and the society in general are legitimately demanding more participation and relevance.
2. Long and uncertain environmental processes followed by litigation processes of the same characteristics.

Colbún has strived to develop a community relationship model that enables us to work with neighboring communities and the society in general. The challenge is to achieve the conditions so that the communities find out they are better off with the projects than without them. To this end, we have focused our efforts in starting an early citizen participation process, strengthening the confidence of our neighbors and in maintaining throughout the project life cycle (design, construction and operation) an open and transparent presence.

It is also necessary to have broad social and political buy-in to promote an agenda that will reactivate investments and materialize efficient electric generation projects to foster a sustained economic development taking care of the environment.



Regulatory Risks

Regulatory stability is fundamental for a sector such as power generation, where investment projects have long development, execution and return on investment times. Such regulatory stability has been a valuable characteristic of the Chilean power sector.

However, regulation can always be perfected. Along these lines, we deem it is extremely important to develop new initiatives that will allow clearing up the uncertainties relating to the rational and balanced operation of the power market and the lack of new large-scale generation projects. Below is a list of recent regulatory risks or measures:

- **Electric Highway Bill:** this bill contemplates the construction of utility power transmission lines along the country to allow connecting all the electric power capacity available with the trunk system in an efficient manner. This long-term plan is fundamental to provide for the future growth in demand and its implementation is very relevant to the country; Colbún will search for the best possible way to contribute to the national discussion.
- **Legal regulation of compensations to neighboring communities:** It seems to us that promoting the delivery of direct compensation to communities where projects are generated is the right way to proceed. This mechanism would allow financing social projects to the benefit of neighboring communities.

Operational Risks

The availability and the reliability of generation and transmission facilities is fundamental to ensure production levels that will enable the Company to meet its commercial commitments. Colbún regularly undertakes maintenance of its equipment in agreement with the recommendations of its suppliers and the experience gained in connection with failures and accidents throughout its operational history.

In light of the above, we have adopted the necessary maintenance policies, processes and procedures, and have undertaken the necessary investments to increase the levels of reliability and availability of our thermoelectric units. In order to provide for these risks, Colbún holds insurance policies for all its physical assets, including coverage for physical damages and business interruption losses.



Los Pinos Power Plant

Environmental Risks

a) Risks associated with the execution of projects

As described in previous sections hereof, we have several power generation projects in study, development and construction. Environmental conditions such as hydrology, topography and geology in the case of hydroelectric projects and the logistic, the incorporation of new technologies in the case of thermoelectric projects are factors that could cause unforeseen events and affect the execution term and the cost of these projects.

In addition, the time that the competent environmental authority takes to grant the pertinent approval may also affect the completion date of these projects. We have implemented an environmental management system for projects that includes the elaboration of complete baselines, early dissemination of projects to the authorities as well as to the public through voluntary citizen participation, elaboration of a high-level Environmental Impact Study or Declaration, and finally, the utilization of high-standard technologies in environmental matters. We expect that the environmental authorities will evaluate the projects on the basis of technical criteria in agreement with the applicable legislation and within the time periods established therein, and also that the mitigation and/or compensation measures that the authority may approve will be associated with the environmental impacts of the projects.

b) Operational Risks

On June 23, 2011, Decree N° 13 was published in the Official Gazette; this decree establishes the emission standard for thermoelectric power plants and sets the emission limits for particulate material (PM), sulfur dioxide (SO₂) and nitrous oxide (NOx) of new and existing power plants, also providing the terms to comply with the said limits. In our case, all thermoelectric power plants meet this new standard or are undergoing minor modifications to become compliant within the applicable term.

In connection with the installation and validation of CEMS (Continuous Emission Monitoring Systems), Colbún has installed CEMS in all its units and has validated or is in the process of validating all of its base power plants. The validation process has been quite difficult due to the short time to implement the standard, considering that the application protocol was published in January of 2013 and then in May an Appendix was published that contains details regarding discontinuous units as they are back up units in the system. Diesel oil power plants are among the latter.

Financial Risks

They are associated with the impossibility of conducting transactions or meeting commitments from operating activities due to the unavailability of funds, interest rate and exchange rate variations, bankruptcy of our counterpart or other financial market variables that may affect Colbún's equity.

a) Exchange Rate Risk

The exchange rate risk is due mainly to the payments made in currencies other than the US dollar for power generation, the investments in already existing power generation plants or in plants under construction, as well as to the debt contracted in a currency different from the Company's functional currency. The instruments used to manage the exchange rate risk are currency swaps and forwards.

b) Interest Rate Risk

Interest rate risk is mainly related to the variation of the interest rate value of future flows stated at variable exchange rate, and to the variation in the fair value of assets and liabilities stated at a fixed interest rate that are recorded at fair value.

The purpose of managing this risk is to achieve a balance in the debt structure, decrease the impacts in costs due to the fluctuations in the interest rates and therefore reduce the volatility in the profit and loss statement of the Company. In order to mitigate these risks hedge derivatives are acquired. The instruments used are fixed interest rate swaps.

c) Credit Risk

The Company is exposed to credit risk as a result of a counterpart's failure to meet its contractual obligations thereby causing an economic or financial loss. Historically, all the counterparts that hold energy supply commitments with Colbún have timely met their obligations. In addition, Colbún mostly collects from members of the Chilean Central Interconnected System, which are highly solvent companies. Notwithstanding the above, during the past years we have observed specific insolvency problems affecting some members of the CDEC.

In connection with funds placed in treasury and derivative transactions, Colbún engages with entities having high credit ratings, recognized both nationally and internationally, in order to minimize the Company's credit risk. In addition, the Company has established participation limits on each counterpart, which are approved by the Board of Directors and reviewed on a periodic basis.

Liquidity Risk

This risk is due mainly to the need for cash funds to meet investment and business expense commitments, debt maturities, etc. These cash disbursements are financed with own resources coming from Colbún's regular business activities and from the contracting of credit lines that ensure the availability of enough funds to face the needs foreseen for a period of time.

Summary of Relevant Facts Reported to the SVS

March 27, 2013

The Board informed that the Regular Shareholders' Meeting would take place on April 23, 2013 indicating the matters that would be subject to the shareholders' consideration. The Board proposed to distribute a minimum definite dividend in the amount of US\$ 13,524,782.27, equivalent to US\$0.0007713 per share. It also informed that the Financial Statements as at December 31, 2012, and the Annual Report of 2012 are available on the Company's website.

April 24, 2013

The Board informed that the Regular Shareholders' Meeting agreed to the following, among other matters: a) to distribute as definite dividend charged against the profits of the management period ended December 31, 2012, the sum of US\$ 13,524,782.27, equivalent to US\$0.0007713 per share, and b) To appoint as external auditing company for the 2013 management period Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada.

May 7, 2013

On September 27, 2012, Colbún S.A. informed that the day before it had been notified on the award in first instance issued by the arbitrator Mr. Raúl Varela Morgan in the arbitration procedure undertaken by Colbún against Chilena Consolidada Seguros Generales S.A., Penta Security S.A. and Mapfre Compañía de Seguros Generales S.A. (the "Insurance Companies") in connection with the policy that provided for the fire occurred at Nehuenco I power plant on December 29, 2007 (the "First Instance Award"). As stated in that opportunity, the Award in First Instance mostly agreed to the claim filed by Colbún S.A., instructing the Insurance Companies to pay, as part of the unpaid balance for the loss, an approximate sum of US\$61 million, decision that was appealed by both parties. This was published as essential fact on the date first mentioned above.

On May 6, 2013, Colbún S.A. was notified of the sentence issued by such Arbitration Court (the "Award in Second Instance"), which substantially confirmed the Award in First Instance, increasing the indemnification payable to Colbún S.A. to US\$62.5 million.

As a result of the favorable award to Colbún over the fire occurred at Nehuenco I power plant in December of 2007, the Company recorded a one-time profit of US\$63.9 million.





Liability Statement

In compliance with what is set forth in General Standard N° 283 of the Superintendence of Securities and Insurance, the subscribing parties declare under oath that all the Information contained in this Annual Report is faithful expression of the truth, and as such, we undertake the corresponding legal liability.



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Chapter 6: Summarized Consolidated Financial Statements

Table 6.1. Summarized Consolidated Financial Statements

SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS (THOUSAND US\$)	2012	2013
Current assets	788,630	744,129
Non-current assets	5,214,774	5,321,644
Total Assets	6,003,404	6,065,773
Current liabilities	550,790	341,908
Non-current liabilities	1,939,832	2,167,559
Equity	3,512,782	3,556,306
Total Liabilities and Net Equity	6,003,404	6,065,773



Table 6.2. Statements of Comprehensive Income by Segment for the Management Period Ended December 31, 2013 and 2012.

STATEMENTS OF COMPREHENSIVE INCOME BY SEGMENT	JANUARY - DECEMBER	
	2013 MUS\$	2012 (1) MUS\$
Net income from ordinary activities	1,695,928	1,409,497
Raw materials and consumables used	(1,260,062)	(1,047,391)
Personnel expenses	(60,110)	(53,716)
Depreciation and amortization expenses	(162,602)	(136,048)
Other expenses, by segment	(23,339)	(21,650)
Other profit (losses)	(38,019)	(31,365)
Profit (loss) from operating activities	151,796	119,327
Financial income	5,068	5,032
Financial expenses	(50,143)	(32,541)
Share in the profits (losses) of associates and joint ventures accounted for using the equity method	4,869	8,340
Exchange rate differences	2,333	10,432
Income for adjustment units	5,073	4,519
Profit (loss) before taxes	118,996	115,109
Income tax expense	(56,031)	(64,580)
Profit (loss) from continuing activities	62,965	50,529
PROFIT (LOSS)	62,965	50,529
Profit (loss) attributable to		
Profit (loss) attributable to parent company	62,965	50,514
Profit (loss) attributable to non-controlling interests	-	15
PROFIT (LOSS)	62,965	50,529
Earnings per share		
Basic earnings (losses) per share from continuing operations	0.00359	0.00288
Basic earnings (losses) per share	0.00359	0.00288

Note (1): See note 3.2 of Financial Statements (effects of the NIC 19 amendment)



Table 6.3 Statements of Comprehensive Income by Segment for the Management Period Ended December 31, 2013 and 2012.

STATEMENT OF OTHER COMPREHENSIVE INCOME	JANUARY - DECEMBER	
	2013 MUS\$	2012 (1) MUS\$
Profit (loss)	62,965	50,529
Components of other comprehensive income not restated to income for the period, before taxes		
Actuarial profit (loss) from defined benefit plans	(3,599)	(2,149)
Other comprehensive income not restated to income for the period, before taxes	(3,599)	(2,149)
Components of other comprehensive income restated to income for the period, before taxes		
Profit (loss) from exchange rate differences	(12,991)	11,050
Profit (loss) from cash flow hedges	19,031	(1,184)
Other comprehensive income restated to income for the period, before taxes	6,040	9,866
Other components of comprehensive income, before taxes	2,441	7,717
Income tax relating to components of other comprehensive income not restated to income for the period		
Income tax relating to defined benefit plans	720	430
Income tax relating to components of other comprehensive income restated to income for the period		
Income tax relating to cash flow hedges	(3,806)	5,450
Income tax relating to other comprehensive income components	(3,086)	5,880
Other total comprehensive income	(645)	13,597
Total comprehensive income	62,320	64,126
Comprehensive income attributable to		
Comprehensive income attributable to parent company	62,320	64,111
Comprehensive income attributable to non-controlling interests	-	15
TOTAL COMPREHENSIVE INCOME	62,320	64,126

Note (1): See note 3.2 of Financial Statements (effects of the NIC 19 amendment)





Table 6.4. Summarized Equity Adjustment Sheet for the Management Period Ended December 31, 2013 and 2012

	JANUARY - DECEMBER	
	2013 MUS\$	2012 MUS\$
Share premiums	1,282,793	1,282,793
Share premiums	52,595	52,595
Total other reserves	739,766	737,942
Retained earnings (losses)	1,481,152	1,439,452
Minority interest	-	-
TOTAL Equity	3,556,306	3,512,782

Table 6.5. Summarized Consolidated Statements of Cash Flows for the Management Period Ended December 31, 2013 and 2012

CASH FLOW STATEMENT DIRECT METHOD	DECEMBER 31, 2013 MUS\$	DECEMBER 31, 2012 MUS\$
Net cash flows provided by (used in) operating activities	423,445	320,684
Net cash flows provided by (used in) investment activities	(329,281)	(491,306)
Net cash flows provided by (used in) financing activities	(47,710)	83,513
Net increase (decrease) in cash and cash equivalents, before the effect of changes in the exchange rate	46,454	(87,109)
Effects of changes in foreign exchange rate on cash and cash equivalents	(3,741)	9,023
Net increase (decrease) in cash and cash equivalents	42,713	(78,086)
Cash and cash equivalents at beginning of period	217,740	295,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	260,453	217,740

