Emgesa S.A. E.S.P.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB–
Senior Unsecured Notes	BBB–

Local Currency

Long-Term IDR	BBB–

National

Long-Term Rating	AAA(col)
Short-Term Rating	F1+(col)
Local Bonds	AAA(col)

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable

Financial Data

Emgesa S.A. E.S.P.

(USD Mil.)	LTM 9/30/11	12/31/10
Revenues	1,020	994
EBITDA	662	584
EBITDA Margin (%)	64.9	58.8
Cash and Marketable Securities	330	160
Total Debt	1,322	915
Total Debt/ EBITDA (x)	2.1	1.6
EBITDA/Interest Expenses (x)	8.3	8.0

Related Research

2012 Outlook: Latin America Power Sector, Jan. 6, 2012

Latin American Generation Projects, May 13, 2011

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Key Rating Drivers

Strong Competitive Position: Emgesa S.A. E.S.P. is the second largest generation company in Colombia. As of Sept. 30, 2011, the company had 20% of Colombia's total installed generation capacity and accounted for 20% of the country's total generation. The combination of the company's low marginal cost hydroelectric generating base along with some thermal generating capacity (85% hydro, 15% thermal) makes the company less exposed to changes in the hydrology system and weather conditions.

Conservative Financial Profile: Emgesa's credit profile is characterized by moderate leverage and strong interest coverage and is consistent with the assigned rating level (debt to EBITDA of 2.1x and EBITDA to interest expense of 8.3x as of Sept. 30, 2011). As of September 2011, Emgesa had a total financial debt of approximately USD1.3 billion denominated in Colombian pesos. Most of Emgesa's debt is composed of bond issuances with maturities spread between 2012 and 2024.

Robust Liquidity: Emgesa's liquidity position is considered satisfactory with cash on hand of approximately USD330 million, available committed lines with local banks of almost USD200 million, and short-term debt of USD371 million as of September 2011. In Fitch Ratings' opinion, the company's short-term capital requirements are supported by its strong operating cash generation and broad access to financial markets (available bond lines, committed and uncommitted credit lines with banks, and a commercial paper line).

El Quimbo Will Increase Leverage: Emgesa's expansion plan includes the construction of the El Quimbo hydroelectric plant, a 400-MW hydroelectric generation plant with an estimated investment of USD837 million. El Quimbo is expected to start commercial operations by December 2014. The company plans to finance the project with on-balance sheet debt, which will lead to an increase in leverage to approximately 2.3x before the project starts commercial operations. This leverage has been incorporated into the assigned ratings.

Strategic Asset for Endesa Group: Emgesa is indirectly controlled by Endesa S.A. ('A–', issuer default rating [IDR] by Fitch) through its subsidiaries, Endesa Latinoamerica and Endesa Chile ('BBB+', IDR by Fitch), which together control the company and have a 48.48% economic interest and a 56.4% of voting rights. Endesa's relationship with Emgesa is positive due to the transfer of know-how, technology integration, and business practices. Emgesa is a sizable asset for the Endesa Group and represents 24% of Endesa's generation and transmission businesses EBITDA in Latin America. The El Quimbo project should increase the relative size of Emgesa in the group once commercial operation commences.

What Could Trigger a Rating Action

Positive Rating Drivers: A combination of conservative credit metrics, assets diversification, and sustained growth in cash flows might result in a positive rating action.

Negative Rating Drivers: A negative rating action could result from a combination of: a significant change in the company's capital structure, deteriorating operating performance, regulatory intervention, and/or negative results from the El Quimbo project in terms of schedule, budget, and expected cash flows.

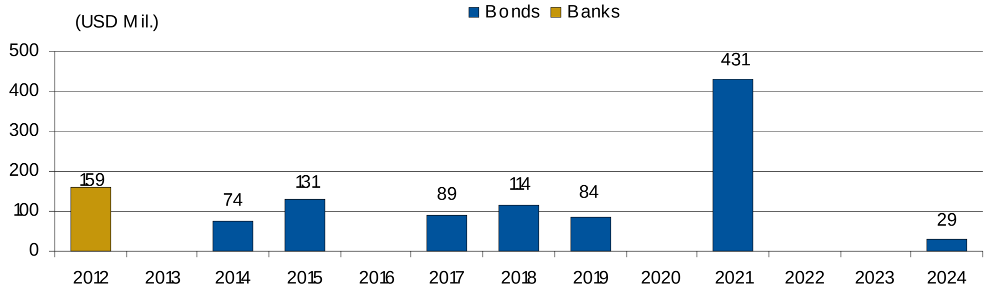
Liquidity and Debt Structure

As of September 2011, Emgesa had a total financial debt of approximately USD1.3 billion. Most of the company's debt is composed of bonds and commercial papers issuances in the local and international markets, and a small portion corresponds to a club deal loan with local banks due in 2012.

The average term for Emgesa's obligations is 5.5 years with a weighted average interest rate of 8.87% per year. As of September 2011, the company's total debt was denominated in Colombian pesos. The amortization schedule is considered manageable since it is spread between 2012 and 2024.

Emgesa has a conservative financial strategy. Historically, the company has financed its capital expenditures with a combination of debt and internal cash flow generation. This strategy is expected to be maintained for the coming years.

Long-Term Maturities
(Dec. 31, 2011)



Source: Emgesa.

Emgesa's liquidity position is manageable, and it is supported by cash on hand, relatively stable cash flows, a manageable amortization schedule, and committed facilities to fund its expansion plan. As of September 2011, the company had cash and marketable securities of USD330 million and short-term debt of USD371 million (corresponding to the debt service of a long-term bond issuance and commercial papers due in November 2011 and the payment of the club deal due in April 2012). In order to serve its USD161 million bond and commercial paper maturities, the company used part of its cash on hand.

The company has a broad access to financial markets supported by available bond lines for approximately USD435 million, uncommitted credit lines with local banks for USD780 million, and a commercial paper line for USD313 million. In January 2011, Emgesa signed committed credit lines with local banks for around USD200 million. All these, together with a strong operating cash generation of more than USD300 million per year, position the company to more than adequately serve its USD159 million of debt maturing in 2012 and approximately USD290 million of the 2012 capital expenditure program.

Fitch expects Emgesa to end 2011 with a total debt of nearly USD1.0 billion, similar to that of December 2010 due to the amortization payment in the last quarter of the year. Fitch expects this debt level to increase in order to finance the El Quimbo project. Despite the higher indebtedness, the company's leverage ratios will be close to those currently presented.

Related Criteria

Corporate Rating Methodology. Aug. 12, 2011

Parent and Subsidiary Rating Linkage, Aug. 12, 2011

Cash Flow and Coverage Ratios

Emgesa's cash flows are exposed to seasonal variations in hydrology, energy, and fuel prices. Following the intense rains caused by the La Niña phenomenon, hydrological inputs recovered from the droughts of El Niño and increased the country's hydrological dams and basins. In response, Emgesa recovered its hydro generation levels, as well as its EBITDA generation and profitability margins.

For the LTM ended in Sept. 30, 2011, Emgesa's EBITDA margin was 64.9%, which compares favorably to that of 2010 (58.8%) due to lower fuel consumption given the increase in the company's hydro generation. During the LTM ended in Sept. 30, 2011, Emgesa's cash flow from operations (CFFO) was USD246 million, weakened by higher working capital needs caused by advances to suppliers related to the El Quimbo project. With capital expenditures of USD164 million and dividends of USD284 million, free cash flow was a negative USD202 million, funded by debt and an existing cash balance.

Given Emgesa's shareholders agreement, which includes a commitment for favorably voting towards distributing the maximum possible dividends each year, the dividend payout ratio has historically been 100% distributable net income, which is considered high yet manageable.

Emgesa's credit metrics are consistent with Fitch's expectations and remain appropriate for the assigned rating category. As of the LTM ended Sept. 30, 2011, the company reported a moderate leverage ratio of 2.1x (1.6x at the end of 2010), as measured by total debt to EBITDA. Interest coverage, as measured by EBITDA to interest expense, was solid at 8.3x for the same period (8.0x at Dec. 31, 2010).

Although the company's leverage will increase due to El Quimbo's financing needs, this increase should not significantly affect the company's credit profile in the midterm.

Company Overview

Emgesa is the second largest electricity generation company in Colombia with 20% of the country's total installed generation capacity. Its 2,914 MW of capacity are distributed as follows: 84.8% in hydroelectric and 15.2% in thermoelectric generation. The company's hydro generation assets are geographically located in regions with different climatic conditions, somewhat mitigating hydrology risk.

During the period of Jan.–Sept. 2011, the company accounted for approximately 20% of the country's total generation with 8,616 GWh, an increase from 8,519 GWh for the same period of 2010 as a result of the high hydrology conditions in the country.

Emgesa has 12 generation plants, out of which 10 are hydroelectric and two are thermoelectric. Six of its hydroelectric generation plants are small plants with capacity of 20 MW each, located in the state of Cundinamarca.

Emgesa's main generation facility is Guavio, a 1,213-MW installed capacity hydroelectric plant located in Cundinamarca. This plant accounts for almost 44% of the company's total generation. The company's second largest unit is Betania, a run-of-the-river 540.9-MW installed capacity plant located in the state of Huila, downstream from the El Quimbo project.

Emgesa is indirectly controlled by Endesa S.A. through its subsidiaries, Endesa Latinoamerica and Endesa Chile, which together control the company and have a 48.48% economic interest and a 56.4% of voting rights. Despite not having control of Emgesa, Empresa de Energia de

Bogota S.A. E.S.P. (EEB, 'BB+' IDR by Fitch) also participates in the company with 51.51% of economic rights. EEB also owns noncontrolling majority participations in the electric distribution companies Codensa and Empresa de Energia de Cundinamarca, as well as in Colombia's largest natural gas pipeline transportation company, Transportadora de Gas Internacional.

Operating Statistics

	Jan.–Sept. 2011	2010	2009
Installed Capacity (MW)	2.914	2.914	2.895
% Hydro	84.8	84.8	85.6
% Fuel Oil and Coal	15.2	15.2	14.4
Generation (GWh)	8.616	11.305	12.660
% Hydro	95.6	90.9	92.3
% Thermo	4.4	9.1	7.7
Sales (GWh)	11,041	14,817	16,807.0
Regulated Market (% Sales GWh)	51.2	56.3	56.0
Nonregulated Market (% Sales GWh)	19.7	17.6	15.0
Spot Market (% Sales GWh)	29.0	26.1	28.8

Source: Emgesa.

Financial Summary — Emgesa S.A. E.S.P.

(USD Mil., Years Ended Dec. 31)	LTM 9/30/11	2010	2009	2008	2007	2006	2005
Profitability (%)							
Operating EBITDA	662	584	514	470	381.8	260	254
Operating EBITDA Margin (%)	64.9	58.8	57.3	61.2	59.7	55.9	58.1
Funds from Operations (FFO) Return on Adjusted Capital (%)	13.8	11.8	10.5	11.1	10.6	9.2	9.0
Free Cash Flow (FCF) Margin (%)	(19.8)	(8.7)	9.6	7.6	(13.2)	22.4	9.1
Return on Average Equity (%)	12.0	10.3	9.2	8.0	7.7	5.9	5.3
Coverage (x)							
FFO Interest Coverage	7.4	5.9	4.2	4.7	4.9	7.2	6.6
Operating EBITDA/Gross Interest Expense	8.3	8.0	5.7	5.3	5.0	8.2	7.9
Operating EBITDA/Debt Service Coverage	1.5	2.2	2.5	1.5	2.7	2.2	2.1
FFO Fixed-Charge Coverage	7.4	5.9	4.2	4.7	4.9	7.2	6.6
FCF Debt Service Coverage	(0.3)	(0.1)	0.9	0.5	(0.1)	1.1	0.6
(FCF + Cash and Marketable Securities)/Debt Service Coverage	0.5	0.6	2.4	1.1	0.2	1.9	0.7
Cash Flow from Operations/Capital Expenditures	1.5	5.2	8.9	8.8	2.9	5.5	16.1
Capital Structure and Leverage (x)							
FFO Adjusted Leverage	2.4	2.1	2.3	2.0	2.1	1.5	1.5
Total Debt/Operating EBITDA	2.1	1.6	1.7	1.8	2.0	1.3	1.3
Total Net Debt/Operating EBITDA	1.6	1.3	1.1	1.3	1.9	1.0	1.2
Implied Cost of Funds (%)	6.7	7.7	11.1	10.9	13.5	9.7	9.7
Short-Term Debt/Total Debt (%)	28.0	20.6	12.4	31.2	8.4	25.6	27.5
Balance Sheet							
Total Assets	4,456	4,065	4,005	3,579	3,794	2,691	2,488
Cash and Marketable Securities	330	160	318	210	41	87	13
Short-Term Debt	371	189	113	227	66	87	87
Long-Term Debt	951	726	798	500	715	253	230
Total Debt	**1,322**	**915**	**911**	**727**	**780**	**340**	**317**
Total Equity	2,748	2,682	2,909	2,566	2,798	2,190	2,059
Total Adjusted Capital	**4,070**	**3,597**	**3,820**	**3,293**	**3,578**	**2,529**	**2,376**
Cash Flow							
Funds from Operations	510	356	291	327	293	198	181
Change in Working Capital	(264)	(10)	20	12	(138)	(5)	(51)
Cash Flow from Operations	**246**	**346**	**311**	**339**	**155**	**192**	**130**
Capital Expenditures	(164)	(67)	(35)	(38)	(53)	(35)	(8)
Dividends	(284)	(367)	(190)	(242)	(187)	(53)	(83)
Free Cash Flow	**(202)**	**(87)**	**86**	**58**	**(85)**	**104**	**40**
Net Acquisitions and Divestitures	—	—	—	—	552	—	—
Other Investments, Net	—	—	(3)	—	(835)	—	—
Net Debt Proceeds	517	141	5	139	383	(31)	(29)
Net Equity Proceeds	—	(234)	—	—	—	—	(176)
Other, Financing Activities	(27)	—	(6)	(6)	—	—	(3)
Total Change in Cash	**288**	**(180)**	**82**	**192**	**15**	**73**	**(167)**
Income Statement							
Net Revenue	1,020	994	896	768	639	464	437
Revenue Growth (%)	2.2	10.9	16.7	20.1	37.7	N.A.	3.9
Operating EBIT	593	511	442	401	314	205	196
Gross Interest Expense	80	73	90	89	76	32	32
Net Income	350	301	250	231	195	126	110

N.A. – Not applicable.
Source: Emgesa.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.