

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT")) OR (2) NON-US PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

You must read the following disclaimer before continuing. The following disclaimer applies to the attached final offering memorandum dated January 20, 2011 (the "Offering Memorandum") accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Offering Memorandum. In accessing the attached Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT). THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

CONFIRMATION OF YOUR REPRESENTATION: You have been sent the attached Offering Memorandum on the basis that you have confirmed to Citigroup Global Markets Inc. or Deutsche Bank Securities Inc., as initial purchasers, that sent the attached, that you (i) either (a) are a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act or (b) are not a US person within the meaning of Regulation S under the Securities Act or have not received delivery of this electronic mail in the United States of America, its territories and possessions, any state of the United States and the District of Columbia; and "possessions" include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands and (ii) consent to delivery by electronic transmission. This Offering Memorandum has been sent to you in an electronic form.

You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission, and consequently, none of the initial purchasers nor any person who controls any initial purchaser or any of their directors, officers, employees or agents, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the any initial purchaser.

You are reminded that the attached Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Memorandum to any other person. You will not transmit the attached Offering Memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the initial purchasers.

Canadian Offering Memorandum dated January 20, 2011

This Canadian offering memorandum constitutes an offering of these securities in those jurisdictions and to those persons where and to whom they may lawfully be offered for sale, and therein only by persons permitted to sell such securities. This Canadian offering memorandum is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of these securities in Canada. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This Canadian offering memorandum is for the confidential use of only those persons to whom it is transmitted in connection with this offering. By their acceptance of this Canadian offering memorandum, investors agree that they will not transmit, reproduce or make available to any person, other than their professional advisers, this Canadian offering memorandum or any of the information contained herein. No person has been authorized to give any information or to make any representations about the issuer not contained in this Canadian offering memorandum. Any such information or representation which is given or received must not be relied upon by any investor.

Private Placement

EMGESA S.A. E.S.P.

8.750% Senior Notes due 2021

This Canadian offering memorandum (as defined below) constitutes an offering in Canada of the issuer's Col\$-denominated 8.750% senior notes due 2021.

Certain accredited investors in Canada are being offered the opportunity to purchase securities of the issuer on a private placement basis. The Canadian offering is part of a concurrent offering of securities being made in the United States and elsewhere.

Attached hereto and forming part of this Canadian offering memorandum is the confidential offering memorandum dated January 20, 2011 regarding the offering of the securities for sale in the United States and elsewhere; this document together with the confidential offering memorandum, as amended or supplemented from time to time, is referred to as the Canadian offering memorandum. Except as otherwise provided, references to "herein" or "hereof" and similar terms mean all of these documents taken together. The details of this offering are set out in such documents and any decision to purchase securities should be based solely on information contained in these documents.

Information in the documents incorporated by reference has not been prepared with regard to matters that may be of particular concern to Canadian purchasers and, accordingly, should be read with this in mind. Prospective purchasers are advised to consult their own advisers about their individual circumstances.

Investing in the securities involves certain risks. See "Risk Factors". All monetary amounts used in the Canadian offering memorandum are stated in U.S. dollars or Colombian pesos, unless otherwise indicated. The securities are not denominated in Canadian dollars. The value of the securities to a Canadian investor, therefore, will fluctuate with changes in the exchange rate between the Canadian dollar and the currency of the securities. **Canadian purchasers are advised to review carefully this Canadian offering memorandum, including the documents incorporated by reference, and to consult with their own legal and financial advisers prior to investing in the securities.**

CANADIAN TAX CONSIDERATIONS

No representation or warranty is made as to the tax consequences to a Canadian resident of an investment in the securities. Canadian residents are advised that an investment in the securities may give rise to particular tax consequences affecting them. **Accordingly, Canadian residents are strongly encouraged to consult with their tax advisers prior to making any investment in the securities.**

CANADIAN RESALE RESTRICTIONS

The distribution of the securities in Canada is being made only on a private placement basis exempt from the requirement that the issuer prepare and file a prospectus with the applicable securities regulatory authorities. The issuer is not a reporting issuer in any province or territory in Canada and its securities are not listed on any stock exchange in Canada and there is currently no public market for the securities in Canada. The issuer currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the securities to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the securities in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. **Canadian purchasers are advised to seek legal advice prior to any resale of the securities.**

REPRESENTATIONS AND ACKNOWLEDGMENTS OF PURCHASERS

Each Canadian purchaser who purchases securities on a private placement basis pursuant to this Canadian offering memorandum will be deemed to have represented to and agreed with the issuer and the initial purchasers that such purchaser: (i) is entitled under applicable securities laws to purchase such securities without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. *Securities Act of 1933*; (iv) is purchasing the securities with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – *Prospectus and Registration Exemptions* (NI 45-106) (that is, such purchaser is an “accredited investor” within the meaning of NI 45-106 and is either purchasing securities as principal for its own account, or is deemed to be purchasing the securities as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold securities as an accredited investor under NI 45-106; and (vi) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the issuer in obtaining and filing such reports, undertakings and other documents relating to the purchase of the securities by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

PERSONAL INFORMATION

By purchasing securities, the purchaser acknowledges that the issuer and the initial purchasers and their respective agents and advisers may each collect, use and disclose its name and other specified personally identifiable information (Information), including the amount of securities that it has purchased for purposes of meeting legal, regulatory and audit requirements and as otherwise permitted or required by law or regulation. The purchaser consents to the disclosure of that Information.

By purchasing securities, the purchaser acknowledges (A) that Information concerning the purchaser will be disclosed to the relevant Canadian securities regulatory authorities, including the Ontario Securities Commission, and may become available to the public in accordance with the requirements of applicable securities and freedom of information laws and the purchaser consents to the disclosure of the Information; (B) the Information is being collected indirectly by the applicable Canadian securities regulatory authority under the authority granted to it in securities legislation; and (C) the Information is being collected for the purposes of the administration and enforcement of the applicable Canadian securities legislation; by purchasing the securities, the purchaser shall be deemed to have authorized such indirect collection of personal information by the relevant Canadian securities regulatory authorities. Questions about such indirect collection of Information by the Ontario Securities Commission should be directed to the Ontario Securities Commission, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Attention: Administrative Support Clerk, Telephone (416) 593-3684.

ENFORCEMENT OF LEGAL RIGHTS

All of the issuer’s directors and officers, as well as certain experts named herein, are located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and of such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against the issuer or such persons outside of Canada.

PURCHASERS' RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with rights of rescission or damages, or both, where an offering memorandum or any amendment to it contains a misrepresentation. A "misrepresentation" is an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made. These remedies must be commenced by the purchaser within the time limits prescribed and are subject to the defences contained in the applicable securities legislation. Purchasers should refer to the applicable provisions of the securities legislation of their province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or damages, or both, under securities legislation in certain of the provinces of Canada where such summary is required to be disclosed under the relevant securities legislation, and as such, is subject to the express provisions of the legislation and the related regulations and rules. The rights described below are in addition to, and without derogation from, any other right or remedy available at law to purchasers of the securities.

Ontario Purchasers

Ontario securities legislation provides that where an offering memorandum is delivered to a purchaser and contains a misrepresentation, the purchaser will, except as provided below, have a statutory right of action for damages or for rescission against the issuer and a selling security holder on whose behalf the distribution is made, without regard to whether the purchaser relied on the misrepresentation; if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the issuer or any selling security holder. No such action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action, or, in the case of any action other than an action for rescission, the earlier of: (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the transaction that gave rise to the cause of action. The Ontario legislation provides a number of limitations and defences to such actions, including: (a) the issuer or any selling security holder is not liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation; (b) in an action for damages, the issuer shall not be liable for all or any portion of the damages that the issuer or any selling security holder proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the securities were offered.

These rights are not available for a purchaser that is: (a) a Canadian financial institution, meaning either: (i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a province or territory of Canada to carry on business in Canada or a province or territory of Canada; (b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the *Bank Act* (Canada); (c) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or (d) a subsidiary of any person referred to in clauses (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

New Brunswick Purchasers

New Brunswick securities legislation provides that where any information relating to an offering that is provided to a purchaser of the securities contains a misrepresentation, a purchaser who purchases the securities shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase. Such purchaser has a right of action for damages against the issuer or a selling security holder on whose behalf the distribution is made, or may elect to exercise a right of rescission against the issuer or any selling security holder, in which case the purchaser shall have no right of action for damages. No such action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or, in the case of any action, other than an action for rescission, the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of the transaction that gave rise to the cause of action. The New Brunswick legislation provides a number of limitations and defences to such actions, including: (a) the issuer or a selling security holder is not liable if it proves that the purchaser purchased the

securities with knowledge of the misrepresentation; (b) in an action for damages, the issuer or a selling security holder shall not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the securities were offered.

Nova Scotia Purchasers

Nova Scotia securities legislation provides that in the event that an offering memorandum or a record incorporated by reference in an offering memorandum, together with any amendments thereto, or any advertising or sales literature (as defined in the Nova Scotia securities legislation) contains a misrepresentation, a purchaser who purchases the securities referred to in it is deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase. Such purchaser has a statutory right of action for damages against the seller (which includes the issuer) and, subject to certain additional defences, the directors of the seller. Alternatively, the purchaser while, still an owner of the securities, may elect instead to exercise a statutory right of rescission against the issuer, in which case the purchaser shall have no right of action for damages against the seller or the directors. No such action shall be commenced to enforce the right of action for rescission or damages more than 120 days after the date payment was made for the securities (or after the date on which initial payment was made for the securities where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment). The Nova Scotia legislation provides a number of limitations and defences, including: (a) no person or company is liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation; (b) in the case of an action for damages, no person or company is liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation; and (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

A person or company, other than the issuer, is not liable with respect to any part of the offering memorandum or any amendment to the offering memorandum not purporting (a) to be made on the authority of an expert or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation.

A person or company, other than the issuer, will not be liable if that person or company proves that: (a) the offering memorandum or any amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent; (b) after delivery of the offering memorandum or any amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum or any amendment to the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum or any amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or (c) with respect to any part of the offering memorandum or any amendment to the offering memorandum purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a misrepresentation, or (B) the relevant part of the offering memorandum or any amendment to the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Saskatchewan Purchasers

Saskatchewan securities legislation provides that in the event that an offering memorandum, together with any amendments thereto, or advertising and sales literature disseminated in connection with an offering of securities contains a misrepresentation, a purchaser who purchases such securities has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against: (a) the issuer and the selling security holder on whose behalf the distribution is made; (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered; (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them; (d) every person or company that, in addition to the persons or companies mentioned in clauses (a) to (c), signed the offering memorandum or the amendment to the offering

memorandum; and (e) every person who or company that sells securities on behalf of the issuer and the selling security holder under the offering memorandum or amendment to the offering memorandum. If such purchaser elects to exercise a statutory right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that person or company. No such action for rescission or damages shall be commenced more than, in the case of a right of rescission, 180 days after the date of the transaction that gave rise to the cause of action or, in the case of any action, other than an action for rescission, before the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan legislation provides a number of limitations and defences, including: (a) no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation; (b) in the case of an action for damages, no person or company will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation; and (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

No person or company, other than the issuer, will be liable if the person or company proves that: (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; (b) after the filing of the offering memorandum or any amendment to it and before the purchase of securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum or any amendment to it, the person or company withdrew the person's or company's consent to it and gave reasonable general notice of the person's or company's withdrawal and the reason for it; (c) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that (i) there had been a misrepresentation, or (ii) the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert or was not a fair copy of, or an extract from, the report, opinion or statement of the expert; (d) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the person's or company's own authority as an expert or purporting to be a copy of or an extract from the person's or company's own report, opinion or statement as an expert that contains a misrepresentation attributable to failure to represent fairly his, her or its report, opinion or statement as an expert, (i) the person or company had, after reasonable investigation, reasonable grounds to believe, and did believe, that the part of the offering memorandum or any amendment to it fairly represented the person's or company's report, opinion or statement, or (ii) on becoming aware that the part of the offering memorandum or of any amendment to it did not fairly represent the person's or company's report, opinion or statement as an expert, the person or company immediately advised the Saskatchewan Securities Commission and gave reasonable general notice that such use had been made of it and that the person or company would not be responsible for that part of the offering memorandum or of the amendment to it; or (e) with respect to a false statement purporting to be a statement made by an official person or contained in what purports to be a copy of or extract from a public official document, the statement was a correct and fair representation of the statement or copy of or extract from the document and the person or company had reasonable grounds to believe, and did believe, that the statement was true.

The Saskatchewan legislation also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

The Saskatchewan legislation provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of Saskatchewan securities legislation, regulations or a decision of the Saskatchewan Financial Services Commission.

The Saskatchewan legislation also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by the Saskatchewan legislation.

The Saskatchewan legislation also provides that a purchaser who has received an amended offering memorandum that was amended and delivered in accordance with such legislation has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

LANGUAGE OF DOCUMENTS

Upon receipt of this document, the purchaser hereby confirms that he, she or it has expressly requested that all documents evidencing or relating in any way to the offer and/or sale of the securities (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, l'acheteur confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à l'offre ou à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Col\$736,760,000,000

**EMGESA S.A. E.S.P.***("Emgesa," a sociedad anónima organized under the laws of the Republic of Colombia)***8.750% Senior Notes due 2021**

We are offering Col\$736,760,000,000 aggregate principal amount of our Col\$-denominated 8.750% senior notes due 2021 (the "Notes"). The Notes will mature on January 25, 2021. Interest on the Notes will accrue at a rate of 8.750% per annum and will be payable annually in arrears on January 25 of each year, commencing on January 25, 2012. Principal and interest on the Notes will be converted into, and payment of principal and interest will be made in, U.S. dollars at a foreign exchange rate calculated in the manner described under "*Description of the Notes—General.*"

You will make payment of the offering price in U.S. dollars based on an exchange rate for the conversion of Colombian pesos into U.S. dollars of Ps.1,841.90 per U.S.\$1.00, which is the "*Representative Market Rate*" (as such term is defined in the Description of the Notes) in effect on January 20, 2011. The Notes may also be redeemed, at any time, upon the occurrence of specified events relating to Colombian tax law, as set forth in this offering memorandum. See "*Description of the Notes—Redemption for Taxation Reasons.*" If we experience specific kinds of changes of control, we must offer to repurchase all of the Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date. See "*Description of the Notes—Repurchase of Notes upon a Change of Control.*" Payments in respect of the Notes may be subject to withholding or deduction for or on account of, taxes imposed by the Republic of Colombia or any jurisdiction through which payment is made. Subject to certain exceptions, we will pay such additional amounts as will result in the receipt by holders of such amounts as would have been received had no such withholding or deduction been required. See "*Description of the Notes—Payment of Additional Amounts.*"

The Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations and will rank at all times *pari passu* in right of payment with all our other existing and future unsecured and unsubordinated indebtedness (other than obligations preferred by statute or by operation of law).

There is currently no public market for the Notes. We have applied to have the Notes listed on the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange.

Investing in the Notes involves risk. See "Risk Factors" beginning on page 13.

Issue Price: 100% plus accrued interest, if any, from January 25, 2011.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the U.S. or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers ("QIBs") are hereby notified that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Notes, see "*Plan of Distribution*" and "*Transfer Restrictions.*"

The Notes may not be publically offered or sold in Colombia without the prior authorization of the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia* or "SFC") and registration with the National Registry of Securities and Issuers. Pursuant to Article 6.12.1.1 of Decree 2555 of July 15, 2010, as amended, the issuance and sale of the Notes on the terms and conditions set forth in this offering memorandum do not require the prior authorization of the SFC.

The Notes in book-entry form are expected to be delivered through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream") on or about January 25, 2011.

Joint Bookrunners

Citi**Deutsche Bank Securities**

The date of this offering memorandum is January 20, 2011.

Prospective purchasers should rely only on the information contained in this offering memorandum. No person has been authorized to provide prospective purchasers with different information. If anyone provides prospective purchasers with different or inconsistent information, prospective purchasers should not rely on it. None of Emgesa S.A. E.S.P. or any of the Initial Purchasers is making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum. Emgesa S.A. E.S.P.'s business, financial condition, results of operations and prospects may have changed since that date. None of Emgesa S.A. E.S.P. or any of the Initial Purchasers makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum after the date hereof.

In this offering memorandum, unless otherwise specified or the context otherwise requires, all references to the “Company” and “Emgesa”, “we”, “us” and words of similar effect refer to Emgesa S.A. E.S.P.

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This offering memorandum has been prepared solely for use in connection with the proposed offering of the Notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. You are not authorized to distribute this offering memorandum to any person other than a prospective purchaser and any person retained to advise such prospective purchaser with respect to a purchase, and you are prohibited from disclosing any of its contents without Emgesa's prior written consent. Each prospective purchaser, by accepting delivery of this offering memorandum, agrees to the foregoing stipulations and to make no electronic or physical copies of this offering memorandum or of any documents referred to in this offering memorandum.

This offering memorandum is based on information provided by Emgesa and other sources that Emgesa believes to be reliable. This offering memorandum summarizes certain documents and other sources of information, and Emgesa refers prospective investors in the Notes to those sources for a more complete understanding of the information contained therein. Copies of documents referred to herein will be made available to prospective purchasers upon request to Emgesa, the Initial Purchasers or at the office of The Bank of New York Mellon (Luxembourg) S.A. (the "Paying Agent in Luxembourg").

By purchasing the Notes, prospective purchasers will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "*Transfer Restrictions*" in this offering memorandum. The Notes will bear a legend referring to such restrictions. See "*Transfer Restrictions*." As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "*Plan of Distribution*" and "*Transfer Restrictions*."

There is currently no market for the Notes being offered hereby and there can be no assurance that one will develop or, if one develops, that it will continue. We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange.

THE NOTES WILL BE SOLELY EMGESA'S OBLIGATIONS, AND THE HOLDERS OF THE NOTES WILL HAVE NO RECOURSE AGAINST EMGESA'S DIRECT OR INDIRECT OWNERS, AND/OR AGAINST ANY OF SUCH OWNERS' OFFICERS, DIRECTORS, EMPLOYEES, MEMBERS OR MANAGERS WITH RESPECT TO EMGESA'S OBLIGATIONS UNDER THE NOTES AND THE INDENTURE GOVERNING THE NOTES.

You hereby acknowledge that you have been afforded an opportunity to request from Emgesa, and have received, all information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained herein, and you have had the opportunity to review all the documents described herein.

In making an investment decision, you must rely on your own examination of Emgesa's business and the terms of the offering, including the merits and risks involved. You should not construe anything in this offering memorandum as legal, business or tax advice. Before investing in any Note, you should consult with your own business, legal, accounting, regulatory and tax advisors to determine the appropriateness and consequences of an investment in the Notes in your specific circumstances and arrive at an independent evaluation of the investment based upon, among other things, your own views as to the risks associated with the Notes or Emgesa.

If your investment authority is subject to legal restrictions you should consult your legal advisors to determine whether and to what extent the Notes constitute legal investments for you. None of Emgesa or any of the Initial Purchasers is making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations.

YOU SHOULD NOT DISTRIBUTE THE DOCUMENTS RELATING TO THE OFFERING OF THE NOTES IN COLOMBIA, OR THE INFORMATION CONTAINED THEREIN, EXCEPT UNDER CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OF SECURITIES UNDER APPLICABLE COLOMBIAN SECURITIES LAWS OR REGULATIONS. NEITHER SHOULD YOU USE SUCH DOCUMENTS AND INFORMATION IN CONNECTION WITH ANY PUBLIC OFFER OF THE NOTES IN COLOMBIA. THE INITIAL PURCHASERS HAVE AGREED NOT TO OFFER OR SELL THE NOTES IN COLOMBIA, EXCEPT UNDER CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OF SECURITIES UNDER APPLICABLE COLOMBIAN SECURITIES LAWS AND REGULATIONS.

THE NOTES HAVE NOT BEEN REGISTERED IN THE REPUBLIC OF COLOMBIA AND MAY ONLY BE EXCHANGED IN THE TERRITORY OF THE REPUBLIC OF COLOMBIA TO THE EXTENT PERMITTED BY APPLICABLE LAW.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION, NOR ANY STATE SECURITIES COMMISSION NOR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES HAS APPROVED OR DISAPPROVED THE NOTES NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS IN THE UNITED STATES. THEREFORE, THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON UNLESS THE OFFER OR SALE WOULD QUALIFY FOR A REGISTRATION EXEMPTION FROM THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QIBS IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT AND OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS OF THE NOTES IN THE UNITED STATES THAT ARE QIBS ARE HEREBY NOTIFIED THAT EMGESA MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

Notwithstanding anything in this offering memorandum to the contrary, each potential holder and/or beneficial owner of the Notes (and each employee, representative, or other agent of each potential holder and/or beneficial owner of the Notes) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the potential holder or beneficial owner of the Notes relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with potential holders or beneficial owners of Notes regarding the transactions contemplated herein.

NOTICE TO NEW HAMPSHIRE INVESTORS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED (“RSA 421-B”), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEMENT OF FOREIGN JUDGMENTS

Emgesa is organized under the laws of Colombia. Most of Emgesa's directors and all of its executive officers named in this offering memorandum are residents of Colombia. All of Emgesa's assets are located outside the United States. Although Emgesa will appoint an agent for service of process in the United States of America (the "United States" or "U.S."), it may be difficult for you to effect service of process on, or to enforce judgments of U.S. courts against Emgesa or its directors and officers based on the civil liability provisions of the U.S. federal securities laws.

Emgesa has been advised by Gómez-Pinzón Zuleta Abogados S.A., its Colombian counsel, that Colombian courts determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as *exequatur*. Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 693 and 694 of Colombia's *Código de Procedimiento Civil* (Code of Civil Procedure), which provide that the foreign judgment will be enforced if:

- a treaty exists between Colombia and the country where the judgment was granted or there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;
- the foreign judgment does not relate to "*in rem* rights" vested in assets that were located in Colombia at the time the suit was filed and does not contravene, or conflict with, Colombian laws relating to public order other than those governing judicial procedures;
- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal and a duly certified and authenticated copy of the judgment has been presented to a competent court in Colombia;
- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties; and
- in the proceeding commenced before the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designed to give the defendant an opportunity to defend itself against the action.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court has in the past accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. However, such enforceability decisions are considered by Colombian courts on a case-by-case basis.

AVAILABLE INFORMATION

Emgesa will make available to the prospective holders of Notes at the offices of Emgesa and at the office of the Paying Agent in Luxembourg, copies of the Indenture, the articles of incorporation (*escritura pública*) pursuant to which Emgesa was incorporated, the by-laws (*estatutos sociales*) and all other agreements and documents referred to in this offering memorandum and Emgesa's historical financial information for each of the three financial years preceding the date of this offering memorandum as included in this offering memorandum.

Emgesa will furnish, upon prior written request of any registered owner of a Note, or holder of a Note, or beneficial owner of a Note, or Note owner, such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act: (a) to such holder of a Note or Note owner, (b) to a prospective purchaser of such Note (or beneficial interest therein) who is a QIB designated by such holder of a Note or Note owner or (c) to the trustee for delivery to such holder of a Note or Note owner or such prospective purchaser so designated, in each case in order to permit compliance by such holder of a Note or Note owner with Rule 144A in connection with the resale of such Note (or a beneficial interest therein) in reliance upon Rule 144A unless, at the time of such request, (1) we are subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or (2) we qualify for the exemption to Rule 12g3-2(b).

MARKET INFORMATION AND OTHER STATISTICAL INFORMATION

Emgesa obtained certain information contained in this offering memorandum regarding the Colombian electricity market and Emgesa's participation in the electricity sector from third-party sources believed to be reliable, including, among others, the Colombian Ministry of Mines and Energy (*Ministerio de Minas y Energía* or "MME"), the Colombian Energy and Gas Regulatory Commission (*Comisión de Regulación de Energía y Gas* or "CREG"), the Colombian Mining and Energy Planning Unit (*Unidad de Planeación Minero Energética* or "UPME"), the National Hydrocarbon Agency (*Agencia Nacional de Hidrocarburos* or "ANH"), the Colombian Superintendency of Domiciliary Public Services (*Superintendencia de Servicios Públicos Domiciliarios* or "SSPD") and the Market Experts Company (*Compañía de Expertos en Mercados XM S.A. E.S.P.*, or "XM"). None of Emgesa or the Initial Purchasers has independently verified such information and data and, therefore, they cannot assure you that such information is accurate or complete.

Similarly, internal company surveys, industry forecasts and market research, which Emgesa believes to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources. Forecasts are particularly likely to be inaccurate, especially over long periods of time. In addition, Emgesa does not know what assumptions regarding general economic growth were used in preparing the forecasts Emgesa cites.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the U.S. securities laws. Forward-looking statements include statements preceded by, followed by or that include expressions such as “believes,” “expects,” “intends,” “plans,” “projects,” “estimates,” or “anticipates” and similar expressions and appear in, among others, the sections in this offering memorandum entitled “*Summary*,” “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” and “*Business*.” Although Emgesa believes that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to Emgesa. Forward-looking statements include, among others, statements regarding Emgesa’s intent, belief or current expectations, as well as those of their directors or executive officers with respect to, but not limited to:

- corporate strategy, plans, objectives or goals;
- ability to realize the benefits of its acquisitions and capital expenditures;
- plans and prospects regarding its business units;
- future operating income, net income (loss), financial position, cash flows, capital expenditures, dividends, capital structure or other financial items or ratios;
- future growth and development of the energy industry;
- expected demand for Emgesa’s services;
- Emgesa’s future economic performance or that of Colombia, the United States and other markets, including emerging markets, that, directly or indirectly, can have an influence over Emgesa’s performance;
- assumptions underlying any such statements; and
- other statements contained in this offering memorandum regarding matters that are not historical facts.

Such forward-looking statements include expectations with respect to Emgesa’s businesses following the completion of the offering and speak only as of the date of this offering memorandum.

None of Emgesa nor the Initial Purchasers can assure prospective purchasers of the Notes that these forward-looking statements, estimates, assumptions or intentions will prove to be correct or that the information, interpretations and understandings on which they are based will prove to be valid. The actual results of Emgesa’s forward-looking statements, estimates, assumptions or intentions may depend on factors beyond Emgesa’s control.

None of Emgesa nor the Initial Purchasers undertakes any obligation to release publicly any revisions to such forward-looking statements after completion of this offering to reflect later events or circumstances or to reflect the occurrence of unanticipated events even if new information, future events or other circumstances have made them incorrect or misleading. In light of the risks and uncertainties underlying the forward-looking statements, there can be no assurance that the events described or implied in the forward-looking statements contained in this offering memorandum will in fact transpire. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that Emgesa or the Initial Purchasers may issue or make in the future.

You should understand that the following important factors, in addition to those discussed in this offering memorandum, including those entitled “*Summary*,” “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Industry*,” and “*Business*” could affect Emgesa’s future results and could cause results to differ materially from those expressed in such forward-looking statements:

- general economic, political and other conditions in Colombia, Colombia's main trade partner countries and in other emerging market countries;
- the general economic, business, political, demographic and social conditions in the markets in which Emgesa operates or offers its services, as well as the effect of world events, climate events or variations, catastrophic accidents and natural disasters;
- market or other trends affecting Emgesa's financial condition or results of operations;
- Emgesa's ability to identify and consummate acquisitions, joint ventures or strategic alliances and to realize the benefits of those acquisitions, joint ventures or strategic alliances;
- Emgesa's ability to complete new projects or make capital investments and realize the benefits from those new projects or capital investments;
- the results of the litigation proceedings in which Emgesa is currently involved or in which Emgesa may be involved in the future;
- Emgesa's ability to generate cash and the cost and availability of the financing required to fund its operations and capital expenditures;
- the business skills and judgment of Emgesa's personnel, including their expectations and estimates concerning Emgesa's future financial performance;
- the enactment of new and stricter regulations, including judicial or administrative decisions setting forth stricter interpretation of existing regulations, in the markets where Emgesa operates or offers its services;
- the future impact of competition and regulations in the markets where Emgesa operates or offers its services;
- Emgesa's ability to maintain its existing concessions and licenses, when applicable, or to obtain new concessions or licenses that may be required to provide its services;
- weather conditions and water shortages;
- business interruptions or impairment of Emgesa's assets;
- the potential for acts of terrorism, vandalism or other similar events that may affect the integrity of Emgesa's infrastructure; and
- other factors discussed under the heading "*Risk Factors.*"

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

In this offering memorandum, references to “dollars,” “U.S. dollars” and “U.S.\$” are to the currency of the United States of America and references to “Colombian pesos,” “pesos,” “Ps.” and “Col\$” are to the currency of Colombia.

This offering memorandum contains our unaudited interim financial statements as of and for the nine months ended September 30, 2009 and our audited interim financial statements as of and for the nine months ended September 30, 2010, including in each case the notes thereto (the “Interim Financial Statements”) and our audited annual financial statements as of December 31, 2008 and 2009 and for each of the three years ended December 31, 2009 including the notes thereto (the “Annual Financial Statements” and, together with the Interim Financial Statements, the “Financial Statements”). Our Annual Financial Statements and our audited interim financial statements as of and for the nine months ended September 30, 2010 have been audited by our independent accountants, Deloitte & Touche Ltda.

We prepare our Financial Statements in Colombian pesos in accordance with generally accepted accounting principles accepted in Colombia (“Colombian GAAP”) and the standards set forth in the Accounting Manual for Domiciliary Public Utilities Providers (*Plan de Contabilidad para Entes Prestadores de Servicios Públicos Domiciliarios*) published by the SSPD (the “SSPD Accounting Manual”). Colombian GAAP differs in certain material aspects from generally accepted accounting principles adopted in the United States (“U.S. GAAP”). The principal differences between Colombian GAAP and U.S. GAAP are discussed in “Annex A—Summary of Certain Differences Between Colombian GAAP and U.S. GAAP.”

U.S. dollar amounts presented in this offering memorandum have been translated from Colombian peso amounts solely for the convenience of the reader. No representation is being made that the peso or dollar amounts shown in this offering memorandum could have been or could be converted into U.S. dollars or Colombian pesos at the rates shown in this offering memorandum or at any other rate. The Federal Reserve Bank of New York does not report a buying rate for Colombian pesos. The translation of amounts expressed in Colombian pesos as of a specified date at the then prevailing exchange rate may result in presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by translating Colombian pesos as of another specified date. Unless otherwise noted in this offering memorandum, all figures corresponding to 2007, 2008 and 2009 have been translated into U.S. dollars at the December 31, 2007, 2008 and 2009 exchange rates of Col\$2,014.76 per U.S.\$1.00 for 2007, Col\$2,243.59 per U.S.\$1.00 for 2008 and Col\$2,044.23 per U.S. \$1.00 for 2009, respectively, which were the rates published at such dates by the SFC. Colombian peso figures corresponding to nine months ended September 30, 2010 have been translated into U.S. dollars at the exchange rate of Col\$1,799.89 per U.S.\$1.00, which was the published rate at September 30, 2010 by the Colombian Superintendency of Finance (“SFC”).

Furthermore, fluctuations in exchange rates significantly affect the comparability of the financial figures presented in U.S. dollars throughout this offering memorandum. The exchange rate between the Colombian peso and the U.S. dollar has had significant fluctuations during 2007, 2008 and 2009 and the nine months ended September 30, 2010. See “*Foreign Exchange.*”

Calculation of the amount of appreciation or depreciation of the Colombian peso against the U.S. dollar in any given period is made by determining the percent change between the reciprocals of the Colombian peso equivalent of U.S.\$1.00 for the two periods under examination. For example, to calculate the appreciation of the Colombian peso in 2007, one determines the percent change between the reciprocal of Col\$2,238.79 (the value of one dollar as of December 31, 2006) and Col\$2,014.76 (the value of one dollar as of December 31, 2007). In this example, the percentage change between 0.000446670 (the reciprocal of Col\$2,238.79) and 0.000496337 (the reciprocal of Col\$2,014.76) is 11.1%. A positive percentage change means that the Colombian peso has appreciated against the U.S. dollar, while a negative percentage change means that the peso has depreciated against the dollar.

Colombia experienced annual inflation rates of 5.7%, 7.7% and 2.0% for the years ended December 31, 2007, 2008 and 2009 respectively. The inflation rate through September 30, 2010 was 2.3%. Currently, Colombian GAAP does not require Emgesa to restate its financial statements, and therefore restated financial statements have not been included or used in this offering memorandum.

Certain figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the numbers that precede them. Emgesa maintains its books and records in Colombian pesos.

Payments of principal and interest on the Notes will be converted from Colombian pesos into U.S. dollars and made in U.S. dollars based upon the Representative Market Rate (as such term is defined under the “*Description of the Notes*”). On January 20, 2011, the *Representative Market Rate* is Ps. 1,841.90 per US\$1.00.

NOTE REGARDING NON-GAAP FINANCIAL MEASURES

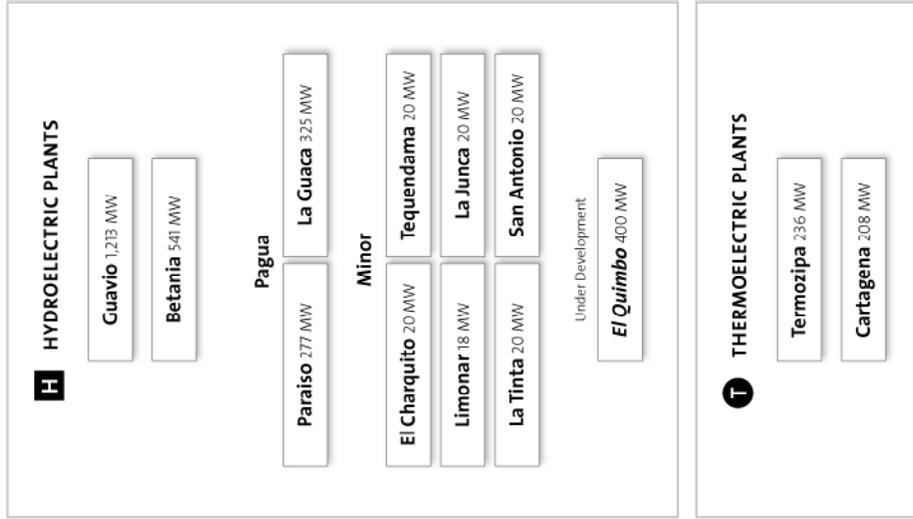
Emgesa discloses in this offering memorandum certain non-GAAP financial measures, including adjusted EBITDA. Emgesa believes that adjusted EBITDA is useful for the purpose of understanding its financial performance as well as its ability to satisfy principal and interest obligations under its indebtedness and to fund capital expenditures and operation requirements. Even though commonly used as a financial indicator in Colombia and abroad, adjusted EBITDA is not a measure of financial performance under U.S. GAAP or Colombian GAAP.

Emgesa calculates adjusted EBITDA by adding back the depreciation and amortization (included in cost of sales and administrative expenses) to operating income (which is calculated by subtracting cost of sales and administrative expenses from operating revenues). Emgesa's calculation of adjusted EBITDA may include or exclude certain expenses that may be included or excluded in calculations of adjusted EBITDA provided by other companies.

Emgesa's calculation of adjusted EBITDA does not include any adjustments to exclude the impact of unusual or non-recurring events, restructuring or other one-time charges or discontinued operations.

Adjusted EBITDA is provided for information purposes only and should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain financial figures. Adjusted EBITDA and other non-GAAP financial measures included in this offering are not a substitute for GAAP measures of financial performance.

Emgesa's Electricity Generation Plants



SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It does not contain all the information that you may consider important in making your investment decision. Therefore, you should read the entire offering memorandum carefully, including in particular the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and the related notes thereto appearing elsewhere in this offering memorandum.

Emgesa S.A. E.S.P.

We are engaged in the electricity generation and commercialization business in Colombia. We are the largest electricity generator in Colombia measured both by total electricity generation, with a market share as of September 30, 2010 of 20.2%, and by installed capacity, with a market share as of September 30, 2010 of 21.2%. We supply electricity to distribution companies, large industrial and commercial customers and other electricity generation companies in the National Interconnected System (*Sistema Interconectado Nacional* or "NIS"). We are a utility company (*empresa de servicios públicos* or "E.S.P.") established as a privately owned stock corporation (*sociedad anónima*) under Colombian law.

We operate ten hydroelectric power plants and two thermoelectric power plants. As of September 30, 2010, we had a total installed capacity of 2,914 MW, of which 2,471 MW (84.8%) is attributable to our hydroelectric power plants and 444 MW (15.2%) is attributable to our thermoelectric power plants.

We are currently building the El Quimbo hydroelectric power plant located in the Department of Huila, approximately 70 km from the city of Neiva, on the Magdalena River, Colombia's largest river, in the southeastern region of Colombia. The plant, which we expect to complete in 2014, will have an installed capacity of 400 MW, and is expected to achieve an average power generation of 2,216 GWh per year. The El Quimbo hydroelectric power plant was awarded to Emgesa in the Firm Energy auction in 2008, as a result of which Emgesa was allocated additional Reliability Payments of nearly U.S.\$430 million to be received from December 2014 until November 2034.

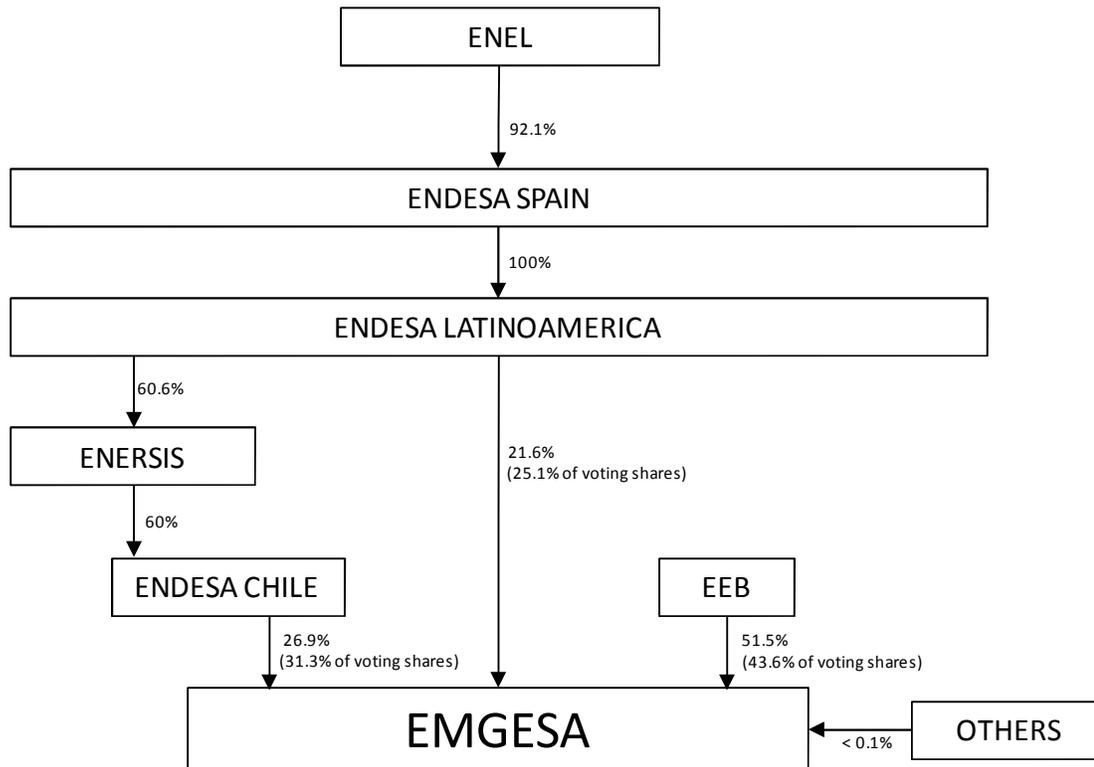
Our adjusted EBITDA was Col\$1,106,611 million (U.S.\$541 million) for fiscal year 2009 and Col\$826,934 million (U.S.\$459 million) for the nine months ended September 30, 2010.

Strategic Owners

Empresa Nacional de Electricidad S.A. ("Endesa Chile"), a Chilean publicly held limited liability stock company, together with its affiliate (Endesa Latinoamerica S.A. ("Endesa Latinoamerica")), owns 48.5% of the capital stock of Emgesa, and 56.4% of the voting shares. Pursuant to the terms of a shareholders agreement between Endesa Chile and Endesa Latinoamerica, Endesa Chile has the right to appoint a majority of Emgesa's board of directors (one of which is required to satisfy the independence requirements under Colombian law). Endesa Chile is 60.0% owned by Enersis S.A. ("Enersis"), a Chilean publicly held limited liability stock company engaged in electricity generation, transmission and distribution in five South American countries. Over the last five years, Enersis through its affiliates has added more than 1.5 GW of new capacity in Latin America. Enersis is 60.6% owned by Endesa Latinoamerica, which in turn is 100% owned by ENDESA, S.A. ("Endesa Spain"), a Spanish electricity generation and distribution company with operations in Latin America through Enersis and other direct investments, as well as significant electricity assets in Europe. Endesa Spain is 92.1% owned by the Italian utility Enel S.p.A ("Enel"), making Enel the ultimate controlling entity of Emgesa. Enel has approximately 95 GW of installed capacity and more than 61 million customers worldwide.

Empresa de Energía de Bogotá S.A. E.S.P. ("EEB") holds 51.5% of the capital stock of Emgesa and 43.6% of the voting shares. EEB is a Colombian state-owned integrated financial and energy holding company through which the District of Bogotá participates in the electricity generation, transmission, commercialization and distribution businesses, as well as in the natural gas industry.

The following chart depicts our ownership structure:



Enersis, Endesa Latinoamerica and EEB are the controlling shareholders of Codensa S.A. E.S.P. (“Codensa”), the largest electricity distribution company in Colombia. Emgesa and Codensa were both formed in connection with a restructuring process undertaken by EEB in 1997, which resulted in EEB’s electricity generation business being transferred to Emgesa and its electricity distribution business being transferred to Codensa. Codensa, one of Emgesa’s affiliates by virtue of being controlled by Emgesa’s controlling shareholders, is Emgesa’s largest customer, accounting for 27.4% of Emgesa’s total operating revenues in 2009. In addition, Emgesa and Codensa have entered into a shared services agreement pursuant to which they have combined their financial, administrative, legal, regulatory, communications, control planning and human resources functions. See “*Principal Shareholders and Related Transactions—Related Party Transactions.*”

Our Strategy

Our strategy is based on the following four key objectives:

- (1) grow our market leadership in Colombia by expanding our generation capacity to satisfy increasing electricity demand;
- (2) remain as one of the lowest cost producers in Colombia by maintaining a high concentration of hydroelectric generation plants and applying operational efficiency at all levels of our organization;
- (3) maintain a prudent commercial risk profile by balancing contractual commitments with the sale of excess electricity in the spot market in order to reduce our exposure to fluctuation in spot prices during periods of extreme hydrological conditions; and
- (4) engage in a proactive and transparent dialogue with our regulators in order to exert leadership in the electricity sector, which in turn benefits all of our stakeholders.

Competitive Strengths

We believe that our strategy is supported by our competitive strengths described below:

- *Market Leader.* We are the market leader in electricity generation in Colombia as measured by total electricity generation. During 2007, 2008 and 2009, we generated 22.2%, 23.7% and 22.6% of the total amount of electricity generated in Colombia, respectively. In 2008, we were awarded the right to build the 400 MW El Quimbo hydroelectric plant as part of Colombia's Firm Energy auctions, enabling us to grow our electricity generation business in Colombia. We continuously evaluate other opportunities for additional growth consistent with our objective to maintain our position as market leader.
- *High Quality Asset Portfolio.* We hold strategic assets that we consider vital for the Colombian electricity generation sector. In addition, the geographic diversification of our hydroelectric assets and our sources of energy, which are located in three different river basins, gives us a competitive advantage in the Colombian electricity generation sector. As a result of our regular maintenance programs, we are able to maintain the availability to generate electricity in accordance with international standards.
- *Low Cost Producer.* Our significant hydroelectric generation capacity, which represents 84.8% of our total generation capacity (compared to an overall average of 67% of hydroelectric generation capacity in the NIS), enables us to achieve low electricity generation costs. Our hydroelectric generation assets are among the first to be used under normal hydrological conditions. Our two thermoelectric power plants provide balance and support to our asset portfolio, enabling us to develop operational strategies to address low hydrology periods. In addition, we seek excellence in all of our technical and management areas, thereby leading to lower costs than those of our competitors.
- *Experienced Strategic Owners.* Our strategic owners, the Enel Group and EEB, have significant experience in the electricity generation business. Endesa Chile, which controls us, is one of the largest publicly listed electricity generation companies in Latin America, and is in turn owned and controlled by Enersis, Endesa Spain, and ultimately the Italian utility Enel. Endesa Chile has developed and built some of the largest hydroelectric projects in Latin America. Over the last five years, Enersis through its affiliates has added more than 1.5 GW of new capacity in Latin America. The other companies in our chain of control also add and share significant know-how and expertise in the electricity generation sector. EEB is engaged directly and through its related companies in all segments of the electricity business in Colombia. Our owners provide us strategic support in analyzing and evaluating market opportunities and operational efficiencies.
- *Commercial Policy that Optimizes Returns on Asset Portfolio.* We have implemented a commercial policy that seeks to balance our contractual commitments to supply electricity with our electricity generation capacity, thereby optimizing our mix of revenues from contract sales and spot sales. We seek to enter into electricity supply contracts with terms ranging between one and three years with creditworthy counterparties, including our largest customer, Codensa, an affiliate of ours, which accounted for 27.4% of our operating revenues in 2009. We engage in spot sales to maximize the commercial margin of our business in the short-term through effective resource management, market opportunities and future risk perception.
- *Firm Energy Provider.* We have a competitive advantage resulting from our substantial ability to maintain the availability to generate electricity above the industry average in Colombia. As a result of the firm availability and reliability of our power plants, we have been assigned the right to receive Reliability Payments, which are payments made to electricity generators as compensation for their firm commitment to supply electricity generation to the NIS during scarcity periods to avoid electricity shortages, of U.S.\$859 million for the four-year period between December 2010 and November 2014 for maintaining available electricity capacity or Firm Energy. We expect to receive significant compensation on account of Reliability Payments from the development of our El Quimbo project for the provision of Firm Energy.
- *Strong Financial Profile.* We have a low financial leverage, sound and stabilized cash flow generation and a strong cash liquidity base with excellent access to financial markets. Our financial strength provides us a competitive advantage in the realization of our strategic objectives. Our ratio of net debt to adjusted EBITDA for fiscal year 2009 was 1.0x and our annualized net debt to adjusted EBITDA for the nine months ended September 30, 2010 was 1.5x, while the ratio of total debt to adjusted EBITDA remained at 1.6x during both periods. Also, our financial leverage, measured as total debt to shareholders' equity, was 30.1% as of December 31, 2009 and 33.0% as of September 30, 2010. Our adjusted EBITDA was Col\$1,106,611 million (U.S.\$541 million) for fiscal year 2009 and Col\$826,934 million (U.S.\$459

million) for the nine months ended September 30, 2010. Our ratio of adjusted EBITDA to interest expense for the fiscal year 2009 and for the nine months ended September 30, 2010 was 5.7x and 8.4x, respectively.

- *Experienced Management Team.* Our senior executives and their management teams have extensive experience and expertise in all relevant fields. Our principal executives have an average of 19 years of relevant sector-related experience.
- *Proactive Leader of Sector Initiatives.* Our proactive participation in the electricity regulatory sector enables us to provide sector leadership. We participate in a proactive and transparent manner with governmental entities involved in our regulatory sector to promote efficient and balanced improvements to the legal and regulatory framework. We seek to develop significant environmental impact mitigation initiatives, and encourage appropriate use of water and fuels, as well as non-conventional renewable sources. Our proactive approach enables us to provide sector leadership on issues of importance to us and to all of our stakeholders, including our customers, shareholders, bondholders, other creditors, employees and citizens in the communities in which we operate, while maintaining the highest standards in environmental and social responsibility.

SUMMARY FINANCIAL AND OPERATING DATA

The following table presents our summary financial and operating data as of and for each of the periods indicated. This data is qualified in its entirety by reference to and should be read in conjunction with our Annual Financial Statements, our Interim Financial Statements, including the notes thereto, and the section “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

The summary income statement data for the years ended December 31, 2007, 2008, 2009 and the summary balance sheet data as of December 31, 2008 and 2009 have been derived from our Annual Financial Statements included elsewhere in this offering memorandum, which have been audited by our independent accountants, Deloitte & Touche Ltda. The summary income statement data for the nine months ended September 30, 2009 and the summary balance sheet data as of September 30, 2009 have been derived from our unaudited interim financial statements as of and for the nine months ended September 30, 2009, which are unaudited and include, in the opinion of our management, all adjustments necessary (consisting only of normal recurring adjustments) for a fair presentation of the information set forth therein. The summary income statement data for the nine months ended September 30, 2010 and the summary balance sheet data as of September 30, 2010 have been derived from our audited interim financial statements as of and for the nine months ended September 30, 2010, which have been audited by our independent accountants, Deloitte & Touche Ltda. Our historical results for the nine months ended September 30, 2010 are not necessarily indicative of results to be expected for the year ended December 31, 2010 or any other period.

Our Annual Financial Statements and our Interim Financial Statements have been prepared in accordance with Colombian GAAP and the standards set forth in the SSPD Accounting Manual. Colombian GAAP differs significantly from U.S. GAAP. See “*Annex A—Summary of Certain Differences between Colombian GAAP and U.S. GAAP*” for a brief overview of the key differences between Colombian GAAP and U.S. GAAP. A reconciliation to U.S. GAAP of our Financial Statements, has not been, and will not be, prepared, nor have such differences been, nor will they be, quantified.

Solely for your convenience, some amounts included in the following table have been translated from Colombian pesos into U.S. dollars using, in the case of balance sheet and income statement data as of and for the nine months ended September 30, 2010, the daily market exchange rate (*tasa de cambio representativa del mercado* or “TRM”) published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00, and, in the case of balance sheet and income statement data as of and for the year ended December 31, 2009, the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. See “*Foreign Exchange*” for a more comprehensive description of the Colombian exchange rate system.

Certain rounding adjustments have been made in calculating some of the figures included in this offering memorandum. Accordingly, numerical figures shown as totals in some tables may not be precisely equal to the sum of the figures that preceded them. We maintain our books and records in Colombian pesos, the official currency of Colombia.

SUMMARY FINANCIAL AND OPERATING DATA

Income Statement Data

	Year ended December 31,				For the nine months ended September 30,		
	2007	2008 (Col\$ in millions)	2009	2009 ⁽¹⁾ (U.S.\$ in thousands)	2009 (Unaudited) (Col\$ in millions)	2010	2010 ⁽²⁾ (U.S.\$ in thousands)
OPERATING REVENUES:							
Contract sales.....	665,592	810,094	1,067,243	522,076	791,292	778,006	432,252
Spot sales.....	277,743	274,502	387,079	189,352	313,511	271,104	150,623
Sales to unregulated customers.....	381,606	424,016	472,323	231,052	347,634	381,271	211,830
Other services	1,620	2,100	2,489	1,217	1,942	1,197	665
	<u>1,326,561</u>	<u>1,510,712</u>	<u>1,929,134</u>	<u>943,697</u>	<u>1,454,379</u>	<u>1,431,578</u>	<u>795,370</u>
COST OF SALES:							
Purchase of electricity and related costs.....	(357,015)	(376,409)	(557,065)	(272,506)	(388,963)	(381,849)	(212,151)
Depreciation	(130,749)	(133,727)	(148,693)	(72,738)	(111,087)	(114,370)	(63,543)
Other generation costs	(108,395)	(133,143)	(190,381)	(93,131)	(126,508)	(174,699)	(97,061)
Transfers Law No. 99 and other	(48,918)	(55,755)	(58,008)	(28,376)	(44,421)	(38,371)	(21,319)
	<u>(645,077)</u>	<u>(699,034)</u>	<u>(954,147)</u>	<u>(466,751)</u>	<u>(670,979)</u>	<u>(709,289)</u>	<u>(394,074)</u>
GROSS MARGIN.....	681,484	811,678	974,987	476,946	783,400	722,289	401,296
Administrative expenses ..	(29,944)	(21,760)	(22,988)	(11,245)	(16,753)	(14,113)	(7,841)
OPERATING INCOME	651,540	789,918	951,999	465,701	766,647	708,176	393,455
Non operating income.....	37,225	41,375	51,468	25,177	41,782	20,024	11,125
Non operating expenses ...	(194,708)	(191,024)	(204,315)	(99,947)	(163,367)	(111,355)	(61,867)
INCOME BEFORE INCOME TAX	494,057	640,269	799,152	390,931	645,062	616,845	342,713
Income tax	(88,750)	(185,959)	(260,728)	(127,544)	(208,457)	(200,192)	(111,225)
NET INCOME	405,307	454,310	538,424	263,387	436,605	416,653	231,488

⁽¹⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽²⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

SUMMARY FINANCIAL AND OPERATING DATA

Balance Sheet Data

	As of December 31,			As of September 30,		
	2008	2009	2009 ⁽¹⁾	2009	2010	2010 ⁽²⁾
	(Col\$ in millions)		(U.S.\$ in thousands)	(Col\$ in millions)		(U.S.\$ in thousands)
ASSETS						
CURRENT ASSETS:						
Cash.....	102,812	625,186	305,830	439,910	90,227	50,129
Temporary investments.....	369,302	23,598	11,544	522,317	15,569	8,650
Accounts receivable, net.....	394,857	358,014	175,134	379,249	389,799	216,568
Inventories.....	23,124	25,960	12,699	29,417	26,566	14,760
Prepaid expenses.....	4,330	6,267	3,065	9,886	8,341	4,634
TOTAL CURRENT ASSETS.....	894,425	1,039,025	508,272	1,380,779	530,502	294,741
Long-term investments.....	8,326	8,331	4,075	8,326	8,330	4,629
Long-term accounts receivable, net.....	9,431	10,494	5,134	9,484	10,154	5,641
Long-term inventories.....	19,491	20,637	10,095	22,575	20,609	11,450
Deferred charges, net.....	94,177	99,925	48,882	98,257	98,406	54,673
Intangibles, net.....	58,120	56,454	27,616	55,755	54,812	30,453
Other assets.....	873	3,771	1,845	3,518	1,438	799
Property, plant and equipment, net.....	5,009,273	4,933,888	2,413,568	4,939,951	4,846,898	2,692,886
Revaluation of assets.....	1,954,560	2,010,693	983,594	1,954,768	2,009,723	1,116,581
TOTAL ASSETS.....	8,048,676	8,183,218	4,003,081	8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS⁽³⁾.....	4,346,758	5,258,132	2,572,182	7,135,941	2,126,616	1,181,526
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Financial obligations.....	509,615	230,335	112,676	384,827	201,097	111,727
Accounts payable.....	315,482	111,418	54,504	283,666	167,559	93,094
Labor obligations.....	7,142	8,412	4,115	7,745	8,351	4,640
Retirement and pension obligations.....	12,440	12,420	6,075	12,252	12,655	7,031
Provisions.....	212,499	153,796	75,234	113,923	53,209	29,562
Unamortized premium of notes issuance.....	4,274	4,274	2,091	4,274	4,274	2,375
Other liabilities.....	12,130	12,049	5,894	12,528	11,913	6,619
TOTAL CURRENT LIABILITIES.....	1,073,582	532,704	260,589	819,215	459,058	255,048
LONG-TERM LIABILITIES:						
Financial obligations.....	1,125,009	1,630,009	797,371	1,790,009	1,630,009	905,616
Retirement and pensions obligations.....	67,848	69,594	34,044	70,205	70,563	39,204
Provisions.....	2,107	1,845	902	1,594	1,526	848
Unamortized premium of notes issuance.....	10,361	6,087	2,978	7,155	2,881	1,600
TOTAL LONG-TERM LIABILITIES.....	1,205,325	1,707,535	835,295	1,868,963	1,704,979	947,266
TOTAL LIABILITIES.....	2,278,907	2,240,239	1,095,884	2,688,178	2,164,037	1,202,318
SHAREHOLDERS' EQUITY:						
Capital stock.....	1,100,000	1,100,000	538,100	1,100,000	655,222	364,034
Premium on stock issuance.....	113,256	113,256	55,403	113,256	113,256	62,924
Equity revaluation.....	1,896,375	1,883,907	921,573	1,883,907	1,871,439	1,039,752
Reserves.....	251,268	296,699	145,140	296,699	350,542	194,758
Surplus from revaluation of assets.....	1,954,560	2,010,693	983,594	1,954,768	2,009,723	1,116,581
Net income for the current year/period.....	454,310	538,424	263,387	436,605	416,653	231,488
TOTAL SHAREHOLDERS' EQUITY.....	5,769,769	5,942,979	2,907,197	5,785,235	5,416,835	3,009,537
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	8,048,676	8,183,218	4,003,081	8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS⁽³⁾.....	4,346,758	5,258,132	2,572,182	7,135,941	2,126,616	1,181,526

⁽¹⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽²⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽³⁾ Corresponds to the Colombian GAAP measure "cuentas de orden." See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Memorandum Accounts."

	Year ended December 31,				For the nine months ended September 30,	
	2007	2008	2009	2009	2010	2010
	(Col\$ in millions)			(U.S.\$ in thousands)	(Col\$ in millions)	(U.S.\$ in thousands)
Other Financial Data						
Adjusted EBITDA ⁽¹⁾	785,590	928,519	1,106,611	541,334	826,934	459,436
Ratio of net debt to adjusted EBITDA ⁽²⁾	1.8x	1.2x	1.0x	1.0x	1.5x ⁽³⁾	1.5x ⁽³⁾
Ratio of total debt to adjusted EBITDA	1.9x	1.7x	1.6x	1.6x	1.6x ⁽³⁾	1.6x ⁽³⁾
Ratio of adjusted EBITDA to interest expense.....	5.0x	5.3x	5.7x	5.7x	8.4x	8.4x
Leverage (financial debt to total shareholders' equity)	26.7%	27.0%	30.1%	30.1%	33.0%	33.0%

⁽¹⁾ We calculate adjusted EBITDA by adding back the depreciation and amortization (included in cost of sales and administrative expenses) to operating income (which is calculated by subtracting cost of sales and administrative expenses from operating revenues). The following table shows a reconciliation of our adjusted EBITDA to operating income for the periods indicated.

	Year ended December 31,				For the nine months ended September 30,	
	2007	2008	2009	2009	2010	2010
	(Col\$ in millions)			(U.S.\$ in thousands)	(Col\$ in millions)	(U.S.\$ in thousands)
Operating income.....	651,540	789,918	951,999	465,701	708,176	393,455
Depreciation (cost of sales)	130,749	133,727	148,693	72,738	114,370	63,543
Amortization (cost of sales)	2,222	3,609	3,633	1,777	2,749	1,527
Depreciation and amortization (administrative expenses).....	1,079	1,265	2,286	1,118	1,639	911
Adjusted EBITDA.....	785,590	928,519	1,106,611	541,334	826,934	459,436

Our calculation of adjusted EBITDA does not include any adjustments to exclude the impact of unusual events, restructuring or other one-time charges or discontinued operations. In addition, our calculation of Adjusted EBITDA may include or exclude certain expenses that may be included or excluded in calculations of adjusted EBITDA provided by other companies. Adjusted EBITDA is not a recognized term under U.S. GAAP or Colombian GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, adjusted EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under Colombian GAAP. Adjusted EBITDA is provided for information purposes only and should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain financial figures. Adjusted EBITDA and other non-Colombian GAAP financial measures included in this offering are not a substitute for Colombian GAAP measures of financial performance. Our calculation of adjusted EBITDA does not include any adjustments to exclude the impact of unusual or non-recurring events, restructuring or other one-time charges or discontinued operations.

⁽²⁾ Net debt calculated as the sum of principal amounts of all financial debt minus cash and temporary investments at December 31, 2007, 2008 and 2009 and September 30, 2010.

⁽³⁾ For purposes of calculating the ratio of net debt to adjusted EBITDA and the ratio of total debt to adjusted EBITDA for the nine months ended September 30, 2010, we used the adjusted EBITDA figures for the nine months ended September 30, 2010 divided by nine and multiplied by 12.

Operating Data

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	2007	2008	2009	2009	2010
Installed Capacity (MW)					
Hydroelectric capacity	2,451	2,451	2,451	2,451	2,471
Thermoelectric capacity.....	378	444	444	444	444
Total installed capacity	2,829	2,895	2,895	2,895	2,914
Energy Sales (GWh)					
Wholesale market	8,046	8,739	9,485	6,965	6,293
Unregulated market	2,493	2,430	2,475	1,840	1,918
Spot market.....	4,412	4,677	4,117	3,485	2,592
AGC ⁽¹⁾ sales.....	662	522	730	499	397
Total energy sales.....	15,613	16,368	16,806	12,790	11,200
Production (GWh)					
Hydroelectric	11,416	12,414	11,688	9,384	7,700
Thermoelectric.....	515	501	971	538	820
Total production	11,930	12,915	12,660	9,922	8,519
Average monomic prices (Col\$/kWh)					
Wholesale market	82.7	92.7	112.5	113.6	123.6
Unregulated market	85.2	97.2	115.2	113.2	123.0
Spot market.....	82.5	92.4	125.0	116.9	150.0

⁽¹⁾ Represents payments for automatic generation control (*control automático de generación* or "AGC"), which are fees paid to electricity generators in connection with the implementation of technology that moderates the frequency of electricity in order to guarantee the quality of electricity along the STN.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description, see “Description of the Notes” in this offering memorandum.

Issuer	Emgesa S.A. E.S.P.
Notes Offered	Col\$736,760,000,000 aggregate principal amount of Col\$-Denominated 8.750% Senior Notes due 2021.
Issue Price	100% of the principal amount, plus accrued interest, if any, from January 25, 2011. The issue price will be payable in U.S. dollars based on an exchange rate for the conversion of Colombian pesos into U.S. dollars of Ps. 1,841.90 per U.S.\$1.00, which is the <i>Representative Market Rate</i> (as such term is defined under the “Description of the Notes”) in effect on January 20, 2011.
Issue Date	January 25, 2011.
Maturity Date	January 25, 2021
Interest Payment Dates	Interest will be payable in cash in U.S. dollars as described below annually on January 25 of each year, commencing on January 25, 2012. Interest on the Notes will be computed on the basis of the actual number of days during the period in respect of which interest is being paid, not to exceed 365, divided by 365.
Change of Control	Upon a change of control (as defined under “Description of the Notes”), we will be required to make an offer to purchase the Notes. The purchase price will equal 101% of the principal amount of the Notes on the date of purchase plus accrued and unpaid interest, if any. We may not have sufficient funds available at the time of any change of control to make any required debt repayment (including repurchases of the Notes). See “Risk Factors—We may be unable to purchase the Notes upon a change of control repurchase event.”
Tax Redemption	We may redeem the Notes in whole, but not in part, at any time at a redemption price equal to 100% of the principal amount, plus and unpaid accrued interest, if any, if the laws or regulations affecting certain taxes change in certain respects. See “Description of the Notes — Redemption for Taxation Reasons.”
Ranking of Notes	<p>The Notes will be general unsecured and unconditional obligations of Emgesa and at all times will, other than with respect to certain obligations granted preferential treatment under the laws of the Republic of Colombia, rank <i>pari passu</i> in right of payment among themselves and at least equally in right of payment with all of our other present and future unsecured and unsubordinated indebtedness.</p> <p>As of September 30, 2010, on an as-adjusted basis after giving effect to this offering and the application of the net proceeds therefrom as described under “Use of Proceeds”, our outstanding senior indebtedness would have been U.S.\$1,376.68 million, including the Notes, of which U.S.\$967.34 million ranks <i>pari passu</i> to the Notes. As of September 30, 2010, we had no secured debt outstanding.</p>
Conversion of the payment amounts	All amounts due in respect of principal and interest on the Notes will be paid in U.S. dollars, calculated by the calculation agent by converting the Colombian peso amounts into U.S. dollars at the <i>Representative Market Rate</i> in effect on the applicable Rate Calculation Date (each term as defined under “Description of the Notes”).
Certain Covenants	Under the terms of the Notes and the indenture, we will agree to observe certain covenants, such as limitations on the incurrence of certain liens and limitations on sale and leaseback transactions for so long as the Notes are outstanding. These covenants are subject to a number of important limitations and exceptions. See “Description of the Notes—Covenants.”

Taxation	<p>Payments of interest in respect of the Notes made by us to a foreign holder of the Notes may be subject to a 14.0% Colombian withholding tax, although under an interpretation of the relevant Colombian withholding tax laws the withholding tax rate could be determined to be 0%. Absent further clarification of the relevant Colombian withholding tax laws, we intend to withhold at the 14% withholding tax rate. Subject to certain exceptions, we have agreed to pay Additional Amounts (as defined in “<i>Description of the Notes—Payment of Additional Amounts</i>”) to the holders of Notes in respect of this tax. See “<i>Description of the Notes—Payment of Additional Amounts</i>” and “<i>Taxation.</i>”</p> <p>The Notes will not be deemed to be a loan possessed in Colombia and, therefore, any gains realized on the sale or other disposition of the Notes outside Colombia would not generate taxable income in Colombia. See “<i>Certain Colombian Tax Considerations.</i>”</p>
Denomination, Book-Entry Delivery and Form	<p>The Notes will be issued in fully registered form without interest coupons and with a minimum denomination of Col\$5,000,000, and in multiples of Col\$1,000,000 in excess thereof. The Notes may be sold only (i) to qualified institutional buyers in reliance on Rule 144A under the Securities Act and (ii) to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes sold in offshore transactions in reliance on Regulation S will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. See “<i>Description of the Notes—General</i>” and “<i>—Book-entry; Delivery and Form.</i>”</p>
Transfer Restrictions; No Registration Right	<p>The Notes have not been and will not be registered under the Securities Act or any state securities laws. The Notes may not be offered or sold except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See “<i>Transfer restrictions.</i>”</p> <p>We will not be required to, nor do we intend to, register the notes for resale under the Securities Act or to offer to exchange the Notes for notes registered under the Securities Act or the securities laws of any jurisdiction.</p>
No Established Trading ...	<p>The Notes are a new issue of securities with no established trading market. Application has been made to list the Notes on the Luxembourg Stock Exchange (and to trade on the Euro MTF Market). We cannot assure you that an active or liquid trading market for the Notes will develop. If an active or liquid trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.</p>
Additional Notes	<p>We may, from time to time, without the consent of the holders of Notes issue additional Notes, which may have a different issue price, original issue date, initial interest accrual date and initial interest payment date, but otherwise have the same terms, including interest rate, maturity and redemption provisions as the Notes so that the additional notes are consolidated and will be treated as a single series of notes with the Notes offered hereby; provided however, that any additional notes must be fungible with the Notes for U.S. federal income tax purposes in order for them to be issued under the same CUSIP, ISIN or common code as the Notes.</p>
Use of Proceeds	<p>The net proceeds from the sale of the Notes are intended to be used: (i) to finance new projects, such as El Quimbo, aimed at increasing our installed electricity generation capacity, (ii) to repay up to Col\$260 billion of our existing indebtedness, (iii) to repay two short-term loans we borrowed on January 19 and 20, 2011, the proceeds of which were used to purchase Colombian pesos in order to mitigate the risk of appreciation of the Colombian peso against the U.S. dollar</p>

between the date of this offering memorandum and the settlement of the sale of the Notes, and (iv) for other general corporate purposes. See “*Use of Proceeds.*”

Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange (and to trade on the Euro MTF Market). The approval for such listing is not a condition to the consummation of this offering.
Governing Law; Submission to Jurisdiction	The indenture and the notes will be governed by New York law. We will submit to the non-exclusive jurisdiction of the United States federal and state courts located in the Borough of Manhattan in The City of New York, in respect of any action arising out of or based on the Notes.
Trustee	The Bank of New York Mellon will be the trustee under the indenture.
Calculation Agent	The Bank of New York Mellon will be initially the calculation agent under the Indenture.
CUSIP	Rule 144A Global Note: 291208AA4 Regulation S Global Note: P3703CAA8
ISIN	Rule 144A Global Note: US291208AA45 Regulation S Global Note: USP3703CAA82
Risk Factors	Investing in the Notes involves substantial risks and uncertainties. See “ <i>Risk Factors</i> ” and other information included in this offering memorandum for a discussion of factors you should carefully consider before deciding to purchase any Notes.

RISK FACTORS

Before making any investment decision, you should read this offering memorandum and carefully consider, in light of your own financial circumstances and investment objectives, all of the information set forth in this offering memorandum and, in particular, certain matters relating to Emgesa and other matters associated with investments in securities of issuers in countries that do not have highly developed capital markets, including, without limitation, the risk factors set forth below. Additional risks not presently known to Emgesa or that it currently deems immaterial may also impair Emgesa's business and operations.

Emgesa's business, financial condition, results of operations and ability to satisfy its obligations under the Notes, including Emgesa's obligation to repay the Notes, could be adversely affected by any of these risks. The trading price of the Notes could decline due to these risks.

Risk Factors Relating to the Republic of Colombia

All of Emgesa's assets are located in, and all of Emgesa's income is earned in Colombia, making Emgesa highly dependent on economic and political conditions in Colombia.

Emgesa is a privately owned stock corporation (*sociedad anónima*) registered as a utility company organized under the laws of Colombia. All of Emgesa's assets and income are located or earned in Colombia and denominated in Colombian pesos. Emgesa's assets and income are subject to political, economic and other uncertainties, including expropriation, nationalization, renegotiation or voiding of existing contracts, currency exchange restrictions and international monetary fluctuations. Accordingly, Emgesa's financial condition and results of operations depend significantly on macroeconomic and political conditions prevailing in Colombia.

The Colombian government and the Central Bank exercise significant influence on the Colombian economy. Therefore, political and economic conditions in Colombia may have an impact on Emgesa's business.

The Colombian government and the Central Bank intervene frequently in Colombia's economy and occasionally make significant changes in monetary, fiscal and regulatory policies. Emgesa's business and results of operations or financial condition may be adversely affected by changes in government policies or fiscal policies, and other political, diplomatic, social and economic developments that may affect Colombia or the international markets. Possible developments include fluctuations in exchange rates, inflation, price instability, changes in interest rates, liquidity of domestic capital markets, exchange controls, deposit requirements on foreign borrowings, controls on capital flows, and limits on foreign trade, among others.

The Colombian government has considerable power to shape the Colombian economy and, consequently, affect the operations and financial performance of businesses. The Colombian government may seek to implement new policies aimed at controlling further appreciation of the peso against the U.S. dollar and fostering domestic price stability. In addition, the Colombian government may adopt policies that may have a negative impact on the Colombian economy and on Emgesa's business and financial performance.

Colombia's economy remains vulnerable to external shocks that could cause future significant economic difficulties of its major regional trading partners, which could have a material adverse effect on Colombia's economic growth.

Colombia's growth recently slowed down due to the adverse economic and financial effects of the 2008 global economic crisis. According to preliminary figures based on the new methodology for calculating Colombia's GDP data by using 2005 as the base year for calculating constant prices, real GDP grew approximately 6.3% in 2007, 2.7% in 2008 and 0.8% in 2009. The government's projection for real GDP growth for 2010 is 3.0%. Due to the volatility in the current global economic environment, no assurances can be given concerning actual results for the 2010 period and beyond. Tightening credit conditions in the financial markets could have potential, although limited, impact in the balance of payments mainly as a result of lower foreign direct investment.

Colombia is considered an emerging market. Emerging-market investment generally poses a greater degree of risk than investment in more mature economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

A significant decline in the economic growth of any of Colombia's major trading partners, such as the United States or Venezuela, could have a material adverse effect on Colombia's balance of trade and adversely affect Colombia's economic growth. According to the Colombian Ministry of Commerce (*Ministerio de Comercio, Industria y Turismo*), the United States and Venezuela are Colombia's largest export markets. According to the Colombian National Department of Statistics (*Departamento Nacional de Estadística* or "DANE"), for the year ended December 31, 2009, the United States accounted for 39.9% of Colombia's total exports while exports to Venezuela accounted for 12.3% of Colombia's total exports. A decline in United States or Venezuelan demand for imports could have a material adverse effect on Colombian exports and Colombia's economic growth.

Developments and the perception of risk in other countries may have general "contagion" effects that may adversely affect the market price of securities issued by Colombian companies, including the Notes.

Securities issued by Colombian companies may be affected by economic and market conditions in other countries, including the United States, as well as other Latin American and emerging countries. Securities issued by Colombian issuers are also likely to be affected by economic and political conditions in Colombia's neighbors: Venezuela, Ecuador, Peru, Brazil and Panama. Colombia has been adversely affected by such "contagion" effects on various occasions, including the 1999 devaluation of the Brazilian real, the 2001 Argentine financial crisis and the 2008 global economic crisis. Similar developments can be expected to affect the Colombian economy in the future.

Due to financial and economic crises that may occur in countries around the world and which may have an effect in emerging markets' economies, investors may view investments in emerging markets with heightened caution. As a result of financial and economic crises in other countries including, among others, the United States or countries with emerging market economies, foreign investment into Colombia may be reduced. Crises in other countries may hamper investor appetite for securities of Colombian issuers, which may in turn adversely affect the price of the Notes.

A fluctuating exchange rate and Colombia's growing public debt could adversely affect the economy, and therefore, our results of operation.

The Colombian peso is a highly volatile currency that has been subject to significant devaluations and appreciations in the past and may be subject to similar fluctuations in the future. During the first nine months of 2010, the Colombian peso has been one of the currencies in Latin America with the highest appreciation against the U.S. dollar. We will continue to be exposed to fluctuations of the Colombian peso against the dollar because spot and contractual revenues are primarily in pesos, the Reliability Payment revenues are directly linked to U.S. dollars and certain payments under some of the construction and equipment supply and service agreements entered or to be entered into in connection with the El Quimbo project are payable in dollars. As a result, a significant devaluation or appreciation of the Colombian peso in relation to the U.S. dollar could adversely affect our financial condition and operating results.

Colombia's fiscal deficit and growing public debt could adversely affect the Colombian economy. According to the Colombian Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público* or "MHCP") the 2008 Colombian fiscal deficit was 2.3% of GDP, reaching a total amount of Col\$11.1 trillion, while in 2009 it reached 4.2% of GDP, totaling Col\$20.7 trillion. Moreover, if the Colombian peso experiences a material devaluation, Colombian public debt will increase with respect to Colombian GDP, which could have an adverse effect on the Colombian economy and, as a consequence, on Emgesa's performance and results of operations.

There are risks associated with investing in securities denominated in Colombian pesos.

This offering memorandum does not describe all the risks of an investment in securities denominated in currencies other than U.S. dollars. You should consult your own financial and legal advisors about the risks of an investment in the Notes. If you are unsophisticated with respect to foreign currency transactions, these Notes are not an appropriate investment for you.

The information in this section is directed to investors who are U.S. residents and does not address risks for investors who are not U.S. residents. We disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payments of the Notes. If you are not a U.S. resident, you should consult your own financial and legal advisors.

Currency exchange rates can be volatile and unpredictable. If the Colombian peso depreciates against the U.S. dollar, the effective yield on the Notes will decrease below the interest rate on the Notes. Depreciation of the Colombian peso against the U.S. dollar may also adversely affect the market value of the Notes.

Rates of exchange between the U.S. dollar and the Colombian peso have varied significantly over time. Historical Colombian peso/U.S. dollar exchange rates are presented under the caption “*Foreign Exchange*” and “*Presentation of Certain Financial and Other Information*” of this offering memorandum. However, historical trends do not necessarily indicate future fluctuations in rates, and should not be relied upon as indicative of future trends.

Colombia presently has a floating exchange rate. The Colombian Central Bank, from time to time, has intervened in the foreign exchange market when it considers the currency to be moving too far from its fundamentals and equilibrium value, which could result in costly reversions. These interventions have taken the form of transparent measures and have included clearly delineated periods and amounts involved, as well as the explanations for these actions. Similar interventions in the future could affect the value of the Notes as well as the yield on the Notes.

Even in the absence of action by the Colombian Central Bank directly affecting currency exchange rates, political or economic developments in Colombian or elsewhere could lead to significant and sudden changes in the exchange rate between the Colombian peso and the U.S. dollar. See “—*Risk Factors Relating to the Republic of Colombia —A fluctuating exchange rate and Colombia’s growing public debt could adversely affect the economy, and therefore, our results of operation.*”

A decline in GDP growth, and thus in domestic energy demand, in Colombia may adversely affect Emgesa’s operating results and financial condition.

Economic conditions in Colombia have a significant impact on Emgesa’s operating results and financial condition. Historically, GDP and domestic energy demand growth have been highly correlated. Any decrease from expected energy demand can adversely affect Emgesa’s operating results. A contraction in energy demand could lead to a decline in system energy prices due to decreased demand in the market, which may adversely affect Emgesa’s operating results and financial performance and, therefore, its ability to make payments under the Notes. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Colombian Economic Growth.*”

Colombia has experienced several periods of violence and political instability. Violence and political instability in Colombia may adversely affect the Colombian economy and Emgesa’s operations.

Colombia has experienced several periods of violence over the past decades, primarily due to the activities of guerrillas, paramilitary groups and drug cartels. These violent acts by such groups, their possible escalation and the effects associated with them have had and may have in the future a negative impact on the Colombian economy or on us, which may affect our customers, employees, assets or results of operations and financial condition.

The Colombian energy industry has been affected by terrorist attacks in the past.

Guerrilla organizations have long been active in Colombia. In many regions of Colombia, guerrilla organizations have engaged in acts of terrorism to draw attention to their causes. Although most of this activity has been directed towards the oil industry, the energy industry has been affected as well. Attacks by guerrilla groups have disrupted power supply, which, in some cases, has led to short-term regional power outages. For example, in August 2003 there was an incident that impacted transmission lines owned by Interconexión Eléctrica S.A. E.S.P. (“ISA”) that connect our Guavio facility to the STN. If any of these attacks were to damage Emgesa’s generation facilities or the transmission lines on which said facilities rely, our financial condition would be adversely affected, and therefore Emgesa’s ability to make payments under the Notes may be impaired.

Risk Factors Relating to Emgesa’s Business and Operations

Since our business depends heavily on hydrological conditions, such conditions may affect our business, results of operations and financial condition.

Because 84.8% of Emgesa’s installed capacity is hydroelectric, Emgesa is dependent on the prevailing hydrological conditions in the geographic region in which it operates. At the same time, the electricity business is affected by atmospheric conditions, such as average temperatures that impact the demand for electricity. Colombian hydrology typically follows a dual season annual cycle, with one period of low levels of rain precipitation from December to March and high levels during the rest of the year. However, in the last couple of decades, Colombia’s hydrology has been affected by a climactic phenomenon that affects the regularity of the rainfall season and leads to droughts, known as the El Niño-Southern Oscillation (“ENSO” or “El Niño”). In late 2009, CREG required electricity generation companies to use their thermoelectric plants and imposed restrictions on hydroelectric generation in order to preserve water resources to mitigate the negative

effects of El Niño on hydrological conditions during the last quarter of 2009 and the first six months of 2010 (which conditions were the most severe of the past 10 years). In addition to El Niño, Colombia has also been affected by an opposite phenomenon known as La Niña which leads to increased rain precipitation. In the last quarter of 2010, Colombia was affected by La Niña. The effects of El Niño or La Niña can unevenly affect different regions in the country. Below-average rainfall in the areas where we have our hydroelectric plants results in lower generation of electricity and may, therefore, reduce our revenues. Above-average rainfall in Colombia results in lower spot prices which may also reduce our revenues. A recurrence of low hydrological conditions that result in low supply of electricity to the entire Colombian market could cause, among other things, the creation of rationing programs for the reduction of energy consumption to avoid the interruption of energy supply. In the period of 1992-1993, the Colombian government established rolling blackouts in order to address the challenges posed by a dry season which extended from 1991 to 1992.

Emgesa may not be able to generate sufficient electricity to meet its obligations under current electricity supply agreements as a result of poor hydrological conditions. In such event, generation from thermoelectric plants is dispatched more frequently and our operating expenses increase during these periods. Moreover, Emgesa may be required to purchase electricity on the spot market, enter into electricity supply agreements with other generators or commercialization companies or indemnify their customers for delays or shortages in their supply of electricity. Depending on market and system conditions at any point in time, such purchases may have to be made at higher prices than electricity supply agreement prices, which may in turn affect Emgesa's financial and operating results. Also, if Emgesa fails to meet its Firm Energy obligations, it may be required to pay to other electricity generators an amount equivalent to the difference between the scarcity price and the spot market price of the electricity that Emgesa failed to supply under its Firm Energy obligations and that was supplied by other electricity generators, which may in turn affect Emgesa's financial and operating results. See "*Industry—The Reliability Payment.*"

Emgesa's operations are subject to significant operational risks and hazards.

Emgesa's operations involve risks and hazards, including environmental hazards, industrial accidents, labor disputes, unusual or unexpected hydrological conditions or acts of nature. These risks and hazards could lead to explosions, flooding or other events or circumstances which could result in the complete loss of our hydroelectric or thermoelectric facilities or could otherwise result in damage or impairment to, or destruction of, our electricity generation facilities, environmental damage, delays in electricity generation and business interruption, or could result in personal injury or death. Moreover, Emgesa may also be subject to a scarcity of fuel, coal, gas or water and, even if there is available fuel, coal and gas in the Colombian market, Emgesa may be unable to enter into the relevant supply agreements in order to cover its electricity generation and delivery obligations.

The completion of Emgesa's strategic projects is subject to several factors, some of which may be beyond our control and could lead to loss of revenues or increased expenses.

Our ability to engage in any strategic project is subject to, among other factors, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. The success of any expansion project may depend on, among others, the following factors:

- construction and operational delays or unanticipated cost overruns;
- a competitor could offer services that are more desirable because of costs, location, facilities or other factors;
- customers may be unable or unwilling to sign long-term electricity supply contracts which would make use of our planned expansion of electricity generation capacity;
- public protests and negative reactions in respect of our projects in the regions where we operate or intend to operate;
- changes in public policies, laws or regulations relative to electricity resulting in reduced or eliminated returns on invested capital;
- our potential inability to obtain required governmental permits and approvals or our inability to obtain these on a timely basis;
- we or any of our subsidiaries or related companies may be unable to obtain the requisite environmental and regulatory permits and approvals; and
- suppliers for strategic projects may not comply with their contractual obligations with us, or may be subject to material adverse changes that may affect their ability to comply with contractual obligations with Emgesa, resulting in delays or increased costs for our strategic projects.

We may also require additional capital to fund strategic projects. If we fail to generate or secure sufficient funds in the future, we may have to delay or abandon strategic projects. Also, a strategic project may cost more than planned to complete and such excess cost may not be recoverable. Emgesa's inability to successfully complete any strategic project, including the El Quimbo project described below, or to recover any related costs or capital expenditures may adversely affect Emgesa's financial condition and results of operations.

Adverse conditions may create delays in or the suspension of the construction of our El Quimbo project and/or significantly increase the amount of our expected investments.

As part of our strategy to increase our market share and increase our competitiveness through increased electricity generation capacity, we are pursuing the construction of a new hydroelectric plant called El Quimbo. El Quimbo will have an installed capacity of 400 MW and will be located on the Magdalena River in the southeastern region of Colombia. The construction of El Quimbo is expected to cost approximately U.S.\$837 million. We expect to raise financing to fund 80% of our investment in El Quimbo, with the remaining 20% coming from internally generated funds. See "*Business—Capital Expenditure Program—El Quimbo Hydroelectric Plant.*" We may be unable to raise the funds we will need to complete the project. The El Quimbo project involves various risks, including engineering, construction and regulatory risks, such as obtaining necessary permits and licenses as well as other significant challenges that can suspend the construction of the El Quimbo project, hinder or delay the project's scheduled completion date and successful operation or that can result in significant cost increases.

As it relates to the construction risk, there may be delays or cost overruns. Delays in the completion of the El Quimbo hydroelectric plant may result in unindemnified lost revenues and/or increased expenses, including higher operation and maintenance costs, any drawings up to a total aggregate amount of U.S.\$19.5 million under a stand-by letter of credit in favor of XM guaranteeing the construction of the plant, and the loss of the right to receive Reliability Payments associated with El Quimbo.

In addition, the El Quimbo project may not operate at projected capacity, and we may not be able to sell the electricity produced by the El Quimbo hydroelectric plant at competitive prices.

If (1) construction is delayed or suspended, (2) we are required to invest more than the budgeted amount to complete the project, (3) we are unable to raise the funds needed to complete the project on acceptable terms, or at all, (4) we fail to operate the hydroelectric plant or we operate it at a lower capacity than we anticipate or (5) we are unable to sell all of the electricity produced by the El Quimbo hydroelectric plant, our results of operations and financial condition may be adversely affected.

Our business is subject to substantial regulation, and governmental entities could penalize or, under certain circumstances, assume control of Emgesa if we fail to comply with the applicable regulations. Also, the agencies that regulate our business can take other actions that may adversely affect our operations and profitability.

We are subject to extensive energy, public service, environmental and other regulations at the national and local level, affecting certain aspects of our operations. Such laws and regulations may relate to, among other things, required licenses, permits and other approvals, the rates that we may charge for our services, the terms and conditions applicable to our services, our ability to recover various categories of costs and the acquisition, construction and transfer of electricity generating facilities by Emgesa. We may not be able to renew or maintain any applicable licenses, permits and approvals required or that may be required to operate our business. The failure to renew or maintain any required licenses, permits or approvals, or the inability of Emgesa to satisfy any applicable legal requirements may result in increased compliance costs and the payment of penalties to such regulatory agencies, the need for additional capital expenditures or a suspension of operations, which could have a material adverse effect on our cash flows, financial condition and results of operations.

Our operations may not comply at any given time with certain laws and regulations and certain conditions established by applicable licenses, permits or approvals. Our failure to meet such regulations and conditions, and/or the quality standards set forth by the relevant regulatory agencies, as applicable, for example, but not limited to our failure to comply with existing regulations relating to Reliability Payments, may result in the imposition of penalties, fines and restrictions. In addition to these penalties, fines and restrictions, the SSPD may assume control of our operations to ensure continued provision of public utility services and compliance with applicable laws and regulations. Any of the foregoing penalties, fines or restrictions, or the SSPD's intervention may, as the case may be, have a material adverse effect on our results of operations, financial condition and our ability to make payments under the Notes.

If electricity prices were reduced or redesigned pursuant to regulations issued by Colombian authorities in the future, or if the volume of business under currently permitted prices were decreased significantly, or if we were required to substantially discount the price for our energy sales because of regulatory pressure, the results of operations and financial condition of our business could be adversely affected. In addition, increased regulatory requirements relating to the integrity of our facilities or the quality of the services provided may require additional spending in order to meet these requirements and introduce operational inefficiencies, which could have a material adverse effect on our results of operations, cash flow and financial condition.

As with any regulated company, the laws or regulations in Colombia may change, or be interpreted, in a manner that could adversely affect our business, results of operations and financial condition.

It may be difficult to enforce your rights under the Notes if the SSPD takes control of Emgesa or any of its business units.

As a provider of domiciliary public services, Emgesa is subject to Law 142 of 1994. Under this law, the SSPD has the power to oversee our operations and the authority to take over management of the Company, if necessary, to ensure the continued provision of adequate public utilities services. The SSPD may take over our management upon the occurrence of certain events, including:

- material interruptions or failures in the provision of public utility services;
- material violations of laws governing our business or material breaches of the contracts to which we are a party;
- revocation or expiration of the licenses, permits or concessions that we require to operate our businesses to the extent that such events are deemed to be evidence of our intent to not comply with applicable laws and regulations;
- increases in public catastrophes or disturbances of the public order;
- a general payments moratorium; and
- Emgesa becoming subject to insolvency or liquidation proceedings.

Should the SSPD take possession and control of our businesses, we would then be either (i) managed by the SSPD's designees or by a fiduciary trust; (ii) ordered to reduce nominal capital without shareholder or creditor approval; or (iii) liquidated, in which case a liquidator will be appointed by the SSPD. In light of the broad powers of the SSPD, if the SSPD takes control of our business, the management or liquidating trustee appointed by the SSPD may change our business strategy. If, after taking control of Emgesa's businesses, the SSPD decides to liquidate Emgesa, subordinated and unsubordinated creditors may have the same priority and, if such scenario were to occur, payments under the Notes could be delayed for an undetermined length of time, and you may not be compensated for any such delay.

If the SSPD takes possession and control of our business, it could: (i) enter into all the necessary contracts with other utility companies in order to replace our contracts, or (ii) directly assume all or part of the activities that are essential to ensure continuity in service provision, in accordance with the appointed fiduciary trust.

The Colombian government could seize or expropriate our assets under certain circumstances.

Pursuant to Article 58 of the Colombian constitution, the Colombian government can exercise its eminent domain powers in respect of our assets in the event such action is required in order to protect public interests. According to Law 388 of 1997, eminent domain powers may be exercised through: (i) an ordinary expropriation proceeding, (ii) an administrative expropriation, or (iii) an expropriation in case of war. In all cases, we would be entitled to an indemnification for the expropriated assets. However, the indemnification may be lower than the price for which the expropriated asset could be sold in a free market sale or the value of the asset as part of an ongoing business, which may adversely affect our ability to make payments under the Notes.

We depend on information and processing systems to operate our businesses, the failure of which could adversely affect our financial condition and results of operations.

Information and processing systems are vital to Emgesa's ability to monitor hydroelectric and thermoelectric plants' operation, generation and network performance, and adequate generation of invoices to customers, achieve operating efficiencies and meet our service targets and standards. The future failures of any of these information and processing

systems to operate properly could have a material adverse effect on our financial and operation condition and results of operations.

We depend on a high concentration of sales to a single customer.

We make significant sales to a single distribution company, Codensa, which sales are in compliance with the regulatory and legal framework currently in effect in Colombia. Sales to Codensa accounted for 23.2% and 27.4% of our total operating revenues in 2008 and 2009, respectively. The loss of all or a substantial portion of our sales to Codensa, due to competitive factors or otherwise, could have an adverse effect on our results of operations.

Our controlling shareholders may have a conflict of interest relating to our largest single customer.

Enel beneficially owns 92.1% of Endesa Spain, which owns 100% of Endesa Latinoamérica. Endesa Latinoamérica owns 60.6% of Enersis, which owns 60% of Endesa Chile. Endesa Chile, together with Endesa Latinoamérica, owns 48.5% of the capital stock of Emgesa and 56.4% of our voting shares. Enersis also has a 21.7% economic interest in Codensa, our most important customer, and due to a shareholders' agreement, Enersis has the right to appoint the majority of the Board members (one of which is required to satisfy the independence requirements under Colombian law) and, therefore, controls this distribution company as well.

Our controlling shareholders have the power to determine the outcome of most material matters that require shareholders' votes, such as the election of the majority of our board members and, subject to contractual and legal restrictions, the distribution of dividends. They can also exercise influence over our operations and business strategy. Our controlling shareholders may have a potential conflict of interest associated with Codensa given the related party association and the fact that Codensa and Emgesa are parties to a shared services agreement. See "*Related Party Transactions.*" Pursuant to the shared services agreement with Codensa, several of our key executive and operational functions, such as finance and administration, legal and planning and control, have been combined with those of Codensa.

Our controlling shareholders may determine to seek further integration or consolidation of us with Codensa to compete more effectively against the vertically integrated companies in the sector. The implementation of any proposed further integration or consolidation with Codensa by merger would not be permissible unless existing laws and regulations currently limiting the percentages of ownership of electricity generation and distribution assets that may be owned by a single company are amended or repealed. There can be no assurance that any such further integration or consolidation will be undertaken or that, if undertaken, it will have a positive effect on our business, financial condition or results of operations.

There may be situations in which the interests of our controlling shareholder and the holders of Notes will not be aligned.

Pursuant to the terms of a shareholders agreement with its affiliate, Endesa Chile has the right to appoint a majority of Emgesa's board of directors (one of which is required to satisfy the independence requirements under Colombian law) and to control our business direction and policies. Consequently, circumstances may arise in which the interests of our controlling shareholder could be in conflict with your interests as a holder of the Notes, and our controlling shareholder may pursue transactions that, in its judgment, could enhance its equity investment, even though the transaction might involve risks to holders of Notes.

We are subject to laws relating to the safety and the protection of the environment which may increase the cost associated with operating our infrastructure or that may limit our ability to operate in certain locations.

Emgesa is subject to extensive national and local laws and regulations relating to the protection of the environment. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of remedial measures and the enforcement of injunctions to ensure future compliance. Under recently enacted Law 1333 of 2009, environmental authorities may impose fines that vary from the imposition of daily fines that may rise to approximately U.S.\$1.4 million, the termination of environmental licenses or permits, or even the definitive or temporary closing of a company's premises. Liability under certain environmental laws is strict, joint and several. Compliance with environmental regulations may require Emgesa to incur significant expenses to install and maintain pollution controls, or to limit our operations in certain locations. The adoption of remedial measures may lead to significant costs associated with the clean up of the affected properties, as well as with the payment of damage claims arising out of the contamination of properties or impact on natural resources.

Risks of substantial costs and liabilities are inherent to our operations and significant costs and liabilities may be incurred, including those relating to claims for damages to property or injury or loss of life, resulting from operations of our assets. Further, it is possible that other developments, such as increasingly stringent national or local safety and environmental laws and enforcement policies thereunder, could result in increased costs and liabilities for Emgesa. We cannot predict the effect that any future changes in safety laws or environmental laws may have on Emgesa's cash flows, financial condition or results of operations. Other environmental impacts may arise or be discovered in the future, which could be costly to remedy and could have a material adverse effect on Emgesa's cash flows, financial condition and results of operations.

Our financial statements are prepared in accordance with Colombian GAAP which may significantly differ from U.S. GAAP or other prevailing international accounting standards.

We prepare our financial statements in accordance with Colombian GAAP. These accounting standards may significantly differ from U.S. GAAP or other prevailing international standards. The main differences between our accounting standards and U.S. GAAP are summarized in Annex A of this offering memorandum. We cannot assure you that the summary of significant differences included in Annex A is accurate in all respects or complete or that they are or will be the only differences.

We are subject to significant litigation.

We are subject to significant litigation, which, if decided adversely to our interests, may have a material adverse effect on our business, results of operations, financial condition and/or prospects. We are involved as defendant in several litigation proceedings involving, among others, claims related to environmental matters and civil proceedings. As of September 30, 2010, Emgesa had provisioned Col\$1,526 million (U.S.\$847,830) to cover the potential probable losses for these claims. See "Business—Legal Proceedings."

Labor strikes could adversely affect our business.

As of September 30, 2010, 68% of our workforce was covered by a collective bargaining agreement. A work stoppage or strike could occur and adversely affect our revenues and earnings and could, in turn, limit or affect our ability to make payments under the Notes.

Our insurance, guaranty and warranty coverage may not be adequate or may not fully cover damages.

Insurance coverage may be unavailable on commercially reasonable terms or the amounts for which Emgesa is insured may be insufficient to compensate Emgesa fully for its losses. In the event there is a total or partial loss of our facilities or other assets, or an interruption of our business, insurance proceeds that we may receive may be insufficient in any particular situation to effect a restoration or replacement of assets or to cover lost profits, which may affect our ability to satisfy our obligations under the Notes.

In the event of a total or partial loss of Emgesa's facilities or other assets, certain equipment may not be easily replaced since it may be so expensive or system specific that it is not readily available. Accordingly, guaranty or warranty coverage over such equipment, the location of its facilities or limitations on its limited ability to replace equipment may disrupt our operations or give rise to significant delays in normalization of our operations and thereby result in financial losses. This could have a materially adverse effect on our cash flows, financial condition and results of operations.

Emgesa is subject to refinancing risks

As of September 30, 2010, Emgesa's total long-term debt amounted to Col\$1,790,009 million. Such debt had the following maturity timetable:

- Col\$160,000 million (U.S.\$89 million) in 2010;
- Col\$240,000 million (U.S.\$133 million) in 2011;
- Col\$305,009 million (U.S.\$169 million) in 2012;
- Col\$391,660 million (U.S.\$218 million) in the period 2013-2015; and
- Col\$693,340 million (U.S.\$385 million) thereafter.

We may be unable to refinance our indebtedness or obtain such refinancing on terms acceptable to us. In the absence of such refinancing, we could be forced to dispose of assets in order to make up for any cash shortfall to meet the payments due on our indebtedness under circumstances that might not be favorable to obtaining the best price for such assets. Furthermore, assets may not be sold quickly enough, or for amounts sufficient to enable us to make interest or principal payments under the Notes.

Our thermoelectric plants consume large amounts of natural gas, coal and other fuels. A significant interruption in the supply or an increase in the price of any of these fuels during a low rainfall period could have a material adverse effect on our financial condition and results of operations.

Fuel costs, primarily natural gas, coal and other fuels, represented 9% and 12% of our total costs of sale in 2009 and for the nine months ended September 30, 2010, respectively. Natural gas and coal are the primary fuel sources used in our thermoelectric plants. Our profitability is impacted by the price and availability of natural gas we purchase from third parties, particularly during the low rainfall periods during which we rely more heavily on our thermoelectric plants to generate electricity. We have entered into long-term contracts for the purchase of coal. Our contractual arrangements for the supply of natural gas do not specify quantities and are automatically renewed annually unless either party elects not to do so. We do not have arrangements in place with back-up suppliers. A significant increase in the price of natural gas, coal or other fuels that is not recovered through an increase in the sales price of the electricity we generate, or an extended interruption in the supply of natural gas, coal or other fuels to our thermoelectric plants, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risk Factors Relating to the Notes

Emgesa may incur a substantial amount of secured debt under the Indenture governing the Notes. Effective subordination of the Notes may reduce amounts available for payment of the Notes.

As of the date of this offering memorandum, Emgesa had no secured debt. However, Emgesa may incur a substantial amount of secured debt under the Indenture governing the Notes. See “*Description of the Notes— Limitation on Liens.*”

If Emgesa incurs secured debt in the future, the Notes will effectively rank junior to all future secured indebtedness. In the event of bankruptcy, liquidation or similar proceedings, or if payment under any secured obligation is accelerated, claims of any secured creditors for the assets securing such obligations will be prior in right of payment to any claim of the holders of Notes in an amount equal to the assets securing such secured obligations. After the claims of the secured creditors are satisfied, there may not be sufficient assets remaining to satisfy Emgesa’s obligations under the Notes.

There is no existing market for the Notes, and an active trading market may not develop.

The Notes are a new issuance of securities and there is no active trading market for them. Emgesa has applied to have the Notes admitted to listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. Even if the Notes are listed, there may be little or no secondary market for the Notes. Even if a secondary market for the Notes does develop, it may not provide significant liquidity.

The Initial Purchasers are under no obligation to make a market in the Notes and may discontinue any market-making activities at any time without notice. The price at which the Notes may trade will depend on many factors, including, but not limited to, prevailing interest rates, general economic conditions, Emgesa’s financial condition and the market for similar securities. Historically, the market for debt such as the Notes has been subject to disruptions that have caused substantial price volatility. The market, if any, for the Notes may be subject to similar disruptions, which may have an adverse effect on the holders of Notes.

Transferability of the Notes may be limited by restrictions on transfers under applicable securities laws and we do not intend to file a registration statement with respect to the Notes.

The Notes have not been registered under the Securities Act or the securities laws of any state of the United States of America or any other jurisdiction. Unless so registered, the Notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws or the laws of any other jurisdiction. The Notes may not be offered or sold in the United States except to qualified institutional buyers under Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act or unless they are registered. We do not intend to, and will not be required to, file a

registration statement with respect to resales of the Notes. As a result, for so long as the Notes remain outstanding, they may be transferred or resold only in accordance with the transfer restrictions described under “*Transfer Restrictions*” and you may not be able to sell your Notes at the time you wish or at a price that is acceptable to you. You should read the discussion under the heading “*Transfer Restrictions*” for further information about these transfer restrictions. It is your obligation to ensure that your offers and sales of Notes comply with applicable securities laws. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities and other factors, including general economic conditions and Emgesa’s financial condition and operations.

Payment of judgments against Emgesa in Colombia may be made in Colombian pesos, which may expose you to exchange rate risks.

Article 79 of Regulation 8 of the Central Bank (2000) provides that, in case of legal proceedings, the conversion of foreign currency denominated obligations of Colombian residents, such as Emgesa, would be made by using the foreign exchange rate prevailing on the payment date. As a consequence, in the event that proceedings are brought against Emgesa, we may be required to discharge these obligations in Colombian pesos. As a result, prospective purchasers may be exposed to foreign exchange risks.

The ratings of the Notes may be downgraded or withdrawn depending on various factors, including the rating agency’s assessments of Emgesa’s financial strength and Colombian sovereign risk.

Both Standard & Poors and Fitch Ratings have assigned a BBB- credit rating to the Notes. Ratings address the timely payment of interest on each interest payment date and principal at maturity. The ratings of the Notes are not a recommendation to purchase, hold or sell the Notes and may be changed, suspended or withdrawn by the rating agency at any time and the ratings do not comment on market price or suitability of the Notes as an investment for a particular investor. Emgesa’s current ratings and the rating outlooks currently assigned to Emgesa are, and any ratings attributed to the Notes will be, dependent upon economic conditions and other factors affecting credit risk that are outside the control of Emgesa. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies. A rating downgrade or the removal of ratings could have an adverse effect on the pricing of the Notes.

The obligations under the Notes will be subordinated to certain statutory liabilities.

Under Colombian bankruptcy law, the obligations under the Notes are subordinated to certain statutory preferences. In the event of liquidation, such statutory preferences, including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses, will have priority over any other claims, including claims by any holder of the Notes.

Holders of Notes may find it difficult to enforce judgments of courts of the United States and other jurisdictions against Emgesa, or any of Emgesa’s directors, officers or controlling persons.

Emgesa is organized under the laws of Colombia and its place of business is in Colombia. All of our directors, officers and controlling persons reside outside the United States. In addition, all of our assets are located outside the United States. As a result, it may be difficult for the holders of Notes to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of Emgesa’s Colombian counsel, foreign judgments may not be enforced against such persons in Colombia, whether in legal proceedings initiated in Colombia or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws. See “*Enforcement of Foreign Judgments.*”

We may not be able to repurchase the Notes upon a change of control repurchase event.

Upon the occurrence of a change of control repurchase event as set forth in “*Description of the Notes—Repurchase of the Notes upon a Change of Control.*” we will be required to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, if any. The source of funds for any such purchase of the Notes will be our available cash or cash generated from our subsidiaries’ operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the Notes upon a change of control repurchase event because we may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control repurchase event. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. Our failure to repurchase the Notes upon a change of control repurchase event would cause a default under the indenture governing the Notes.

The indenture governing the Notes offered hereby provides that we will timely repay indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit an Offer to Purchase (as defined under the “*Description of the Notes—Repurchase of Notes Upon a Change of Control*”) required to be made pursuant to the indenture. Notwithstanding the foregoing, there can be no assurance that our future indebtedness will not prohibit us from purchasing Notes in the event of a change of control, provide that a change of control is a default or require repurchase upon a change of control. Moreover, the exercise by the holders of Notes of their right to require us to purchase the Notes under the indenture governing the Notes offered hereby could cause a default under other debt, even if the change of control itself does not, due to the financial effect of the purchase on us.

Changes in tax laws could lead us to redeem the Notes.

Emgesa may redeem the Notes prior to maturity if a change in Colombian or other tax laws results in Emgesa becoming liable to compensate holders of Notes for certain withholding and other taxes. See “*Description of the Notes—Redemption for Taxation Reasons*” and “*Certain Colombian Tax Considerations*.”

On November 5, 2010, the Colombian government issued Decree 4145, pursuant to which, among other things, interest payments on foreign indebtedness by Colombian companies became subject to a 33% withholding tax rate. On December 29, 2010, the Colombian government enacted Law 1430 of 2010, which among other things reduced the withholding tax rate on interest payments on foreign indebtedness of Colombian companies. Under one interpretation of Law 1430 of 2010, the withholding tax rate applicable to the interest payments made to foreign holders of the Notes could be determined to be 14%, and under another interpretation such withholding tax rate could be determined to be 0%. Absent further clarification of the withholding tax issue, Emgesa intends to withhold at the 14% withholding tax rate. See “*Certain Colombian Tax Considerations*”. There can be no assurance that, during the life of the Notes, the Colombian government will not revert to imposing a 33% withholding tax rate or any other withholding tax rate. Any increase in the withholding tax rate in excess of 14% would give Emgesa the ability to redeem the Notes prior to maturity at 100% of their principal amount, together with interest accrued to the date fixed for redemption (see “*Description of the Notes—Redemption for Taxation Reasons*”).

FOREIGN EXCHANGE

In 1990, the Colombian government initiated a policy of gradual currency liberalization. Foreign currency holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Central Bank to the spot foreign exchange market.

The general principles that govern Colombia's legal aspects concerning general foreign exchange and international investments regulations ("FX Regulations") were established by Law 9 of 1991. Based on the general authority granted to the Colombian Central Bank in this Law, the Board of Directors of the Colombian Central Bank enacted Resolution 8 of 2000 (hereinafter "Resolution 8", as amended) which is considered to be the main framework governing Colombia's FX Regulations.

Resolution 8 establishes two types of markets for foreign currency exchange: (i) the free market, which consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX Market (as defined in numeral (ii) below) (the "Free Market"). The Free Market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September 1, 1990; and (ii) the controlled market (the "FX Market"), which consists of: (a) all foreign currencies originated in operations considered to be operations of the FX Market ("Controlled Operations"), which may only be transacted through foreign exchange intermediaries or through the registered compensation accounts mechanism ("Compensation Accounts"), or (b) foreign currencies, which although not required to be bought from a foreign exchange, including through the FX Market, are voluntarily channeled through such market.

Compensation Accounts are accounts opened abroad by Colombian residents (individuals and legal entities), which are registered with the Colombian Central Bank in order to channel foreign currency originated in controlled operations of the FX Market.

Under Colombian FX Regulations, foreign exchange intermediaries ("FX Intermediaries") are authorized to enter into foreign exchange transactions ("FX Transactions") to convert Colombian Pesos into foreign currencies or foreign currencies into Colombian Pesos. In addition, there are certain requirements and obligations established by law and by the Board of Directors of the Colombian Central Bank, in order to transfer currency into or out of Colombia.

Colombian law allows the Colombian Central Bank to intervene in the foreign exchange market if the value of the Colombian peso is subject to significant volatility. The Colombian Central Bank may also limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. See *"Risk Factors—Risk Factors Relating to the Republic of Colombia—The Colombian government and the Central Bank exercise significant influence on the Colombian economy. Political and economic conditions may have an impact on Emgesa's business."*

In addition to its past interventions in the exchange rate market, the Colombian Central Bank regulations also establish a deposit requirement on all foreign loans granted to Colombian residents, as an instrument to control the fluctuation of the peso against the U.S. dollar. To this end, the Central Bank has on some occasions required that a certain percentage of the debt incurred (depending on the maturity of the debt) to be deposited in Colombian pesos or foreign currency with the Central Bank in a non interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). As a result of this deposit requirement, short-term capital flows fluctuate significantly from year to year. A debtor of foreign loans can early prepay or redeem the certificate given by the Colombian Central Bank evidencing the deposit, but said prepayment or early redemption will imply a discount. The discount is reduced as the term for maturity is reduced. Currently the deposit requirement is equal to zero (0%) of the disbursements made under the loan, so in practice, there is currently no deposit that has to be made with the Colombian Central Bank by the debtor of foreign loans.

In addition to the deposit requirements, the Colombian Central Bank has prohibited Colombian financial institutions from funding foreign currency loans with borrowings having shorter maturities. The Colombian Central Bank has also set limits on a financial intermediary's net foreign currency position, which is defined as foreign currency denominated assets (including any off-balance sheet items, made or contingent, including those that may be sold in Colombian legal currency) minus foreign currency denominated liabilities.

Fluctuation of the Colombian Peso against the U.S. Dollar and Measures Adopted by the Colombian Government to Minimize Such Fluctuations

During 2007, the peso appreciated against the U.S. dollar by 11.1%. As the peso appreciated against the U.S. dollar, the Central Bank intervened the foreign exchange markets to control currency fluctuation. During 2008 the peso depreciated by 10.2% and closed at an exchange rate of Col\$2,243.59 per U.S.\$1.00. During 2009 the peso appreciated against the dollar by 9.8%. As of September 30, 2010, the peso had appreciated against the U.S. dollar by 13.6%.

The Colombian Central Bank and the MHCP have consistently adopted a set of measures intended to tighten monetary policy and control the fluctuation of the peso against the U.S. dollar. Pursuant to Resolution 5 of 2008 and Resolution 11 of 2008 of the Colombian Central Bank, such measures include, among others: reserve requirements on private demand deposits, Government demand deposits, savings deposits and other deposits on liabilities currently set at 11.0%, reserves of 4.5% for deposits with maturities for less than 540 days and 0% for term deposits with maturities for more than 540 days; and the deposit requirements with respect to indebtedness in a foreign currency, currently set at 0%.

During 2007 and 2008, both the MHCP and the Colombian Central Bank adopted several measures aimed at controlling the fluctuation of the Colombian peso against the U.S. dollar. These measures include, among others:

- a 50% non-interest bearing deposit requirement at the Colombian Central Bank, currently applicable to short-term portfolio investments in assets other than shares or convertible bonds or collective investment funds that only invest in shares or convertible bonds, for a period of six months, which was rescinded in 2008;
- a six-month 40% non-interest bearing deposit at the Colombian Central Bank applicable to corporate reorganization transactions, including mergers, acquisitions and spin-offs, if the successor thereof is a Colombian resident required to repay foreign indebtedness which would have otherwise been subject to the deposit requirement of Resolution No. 2 of May 6, 2007;
- exemptions to the 40% non-interest bearing deposit requirement applicable to foreign investment in local private equity funds and ADR and GDR programs of Colombian issuers;
- restrictions on the repatriation of foreign direct investments;
- increases to the reference rate (Repo Rate); and
- interest-free deposits with the Central Bank applicable to the proceeds resulting from imports financings.

On October 8, 2008 and October 9, 2008, through Decree 3913 and Resolution 10, issued by the Colombian government and the Central Bank, respectively, the deposit requirement was set at 0% in connection with foreign portfolio investment and foreign indebtedness operations, including foreign loans, import financing and export financing. Additionally, on September 1, 2008 by means of Decree 3264, the Colombian government eliminated restrictions on the repatriation of foreign direct investments.

On March 3, 2010, the Colombian Central Bank resumed intervention in the foreign exchange market, accumulating international reserves through daily purchases of U.S.\$20.0 million in competitive auctions during the first half of 2010 in response to indications of an exchange rate misalignment. From March to June 2010, the Colombian Central Bank accumulated U.S.\$1.6 billion. Recently, the Colombian Central Bank made public its decision to extend its intervention in the Colombian foreign exchange market until March 2011.

On November 5, 2010, the Colombian government issued Decree 4145, pursuant to which, among other things, interest payments on foreign indebtedness by Colombian companies became subject to a 33% withholding tax rate. On December 29, 2010, the Colombian government enacted Law 1430 of 2010, which among other things reduced the withholding tax rate on interest payments on foreign indebtedness of Colombian companies. Under one interpretation of Law 1430 of 2010, the withholding tax rate applicable to the interest payments made to foreign holders of the Notes could be determined to be 14%, and under another interpretation such withholding tax rate could be determined to be 0%. Absent further clarification of the withholding tax issue, Emgesa intends to withhold at the 14% withholding tax rate. See "*Certain Colombian Tax Considerations*".

The Colombian government and the Colombian Central Bank have considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Colombian Central Bank may seek to implement additional

measures aimed at controlling further fluctuation of the Colombian peso against other currencies and fostering domestic price stability.

According to the end of the month rates published by the SFC, the Colombian peso (i) depreciated against the dollar by 10.2% from December 31, 2007 to December 31, 2008, (ii) appreciated against the dollar by 9.8% from December 31, 2008 to December 31, 2009 (from Col\$2,243.59 per U.S.\$1.00 to Col\$2,044.23 per U.S.\$1.00), and (iii) appreciated against the dollar through September 30, 2010 by 13.6% (from Col\$2,044.23 per U.S.\$1.00 to Col\$1,799.89 per U.S.\$1.00).

The following table sets forth the period-average and period-end rates for U.S. dollars for the years ended December 31, 2005 through December 31, 2009 and through the date indicated in the table below, based on information published by the SFC.

	<u>Period Average⁽¹⁾</u>	<u>Period End</u>	<u>Appreciation (Depreciation)⁽²⁾</u>
Year Ended:			
December 31, 2005.....	2,319.26	2,284.22	4.6%
December 31, 2006.....	2,363.75	2,238.79	2.0%
December 31, 2007.....	2,076.57	2,014.76	11.1%
December 31, 2008.....	1,989.35	2,243.59	(10.2%)
December 31, 2009.....	2,180.19	2,044.23	9.8%
December 31, 2010.....	1,898.68	1,913.98	6.8%

⁽¹⁾ Calculated as the average of the month-end exchange rates during the relevant period.

⁽²⁾ Calculated based on the variation of period-end exchange rates. Please refer to “*Presentation of Certain Financial and other Information*” for conventions related to the appreciation (depreciation) of the Colombian peso in relation to the U.S. dollar.

Source: Colombian Superintendency of Finance

	<u>Low</u>	<u>High</u>	<u>Period Average⁽¹⁾</u>	<u>Period End</u>
Month Ended:				
January 31, 2010.....	1,957.82	2,044.23	1,983.43	1,982.29
February 28, 2010.....	1,914.87	2,003.76	1,951.72	1,932.32
March 31, 2010.....	1,888.05	1,934.21	1,908.99	1,928.59
April 30, 2010.....	1,911.07	1,973.05	1,937.45	1,969.75
May 31, 2010.....	1,950.44	2,029.54	1,983.59	1,971.55
June 30, 2010.....	1,886.05	1,971.55	1,926.85	1,916.46
July 31, 2010.....	1,841.35	1,913.15	1,874.41	1,842.79
August 31, 2010.....	1,806.93	1,842.79	1,821.20	1,823.74
September 30, 2010.....	1,788.05	1,826.31	1,805.77	1,799.89
October 31, 2010.....	1,786.20	1,846.41	1,808.61	1,831.64
November 30, 2010.....	1,817.70	1,916.96	1,862.99	1,916.96
December 31, 2010.....	1,880.82	2,027.33	1,922.33	1,913.98
January 2011 (through January 20).....	1,841.90	1,913.98	1,786.77	1,841.90

⁽¹⁾ Calculated as the average of the daily exchange rates during the relevant period.

Source: Colombian Superintendency of Finance

USE OF PROCEEDS

We intend to use the net proceeds from the sale of the Notes (which we estimate will be approximately Col\$734 billion (approximately U.S.\$399 million using an exchange rate of Col\$1,841.90 per U.S.\$1.00 in effect on January 20, 2011) after paying the Initial Purchasers' discount and out-of-pocket expenses): (i) to finance new projects, such as El Quimbo, aimed at increasing our installed electricity generation capacity, (ii) to repay up to Col\$260 billion of our existing indebtedness, (iii) to repay two short-term loans borrowed on January 19 and 20, 2011, the proceeds of which were used to purchase Colombian pesos in order to mitigate the risk of appreciation of the Colombian peso against the U.S. dollar between the date of this offering memorandum and the settlement of the sale of the Notes, and (iv) for other general corporate purposes.

CAPITALIZATION

The following table sets forth Emgesa's cash and cash equivalents, short-term debt, long-term debt and shareholders' equity, computed on the basis of Colombian GAAP as of September 30, 2010 and, as adjusted to give effect to the issuance of the Notes.

This table should be read in conjunction with our audited interim financial statements as of and for the nine months ended September 30, 2010 and the related notes thereto, included elsewhere in this offering memorandum and the sections "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Financial and Operating Data" and "Use of Proceeds."

	As of September 30, 2010			
	Actual	Actual	As Adjusted (Unaudited)	As Adjusted (Unaudited)
	<i>(Col\$ in millions)</i>	<i>(U.S.\$ in thousands)⁽¹⁾</i>	<i>(Col\$ in millions)</i>	<i>(U.S.\$ in thousands)⁽¹⁾</i>
	Col\$	U.S.\$	Col\$	U.S.\$
Cash and cash equivalents	105,796	58,779	749,977 ⁽⁴⁾	416,679 ⁽⁴⁾
Short-term debt:				
Short-term portion of notes payable.....	160,000	88,894	70,000 ⁽⁵⁾	38,891 ⁽⁵⁾
Interest payable ⁽²⁾	41,097	22,833	41,097	22,833
Total short-term debt	201,097	111,727	111,097⁽⁶⁾	61,724⁽⁶⁾
Long-term debt:				
Bank loans in local currency.....	305,009	169,460	305,009	169,460
Notes payable	1,325,000	736,156	1,325,000	736,156
Senior notes offered hereby ⁽³⁾	—	—	736,760	409,336
Total long-term debt	1,630,009	905,616	2,366,769	1,314,952
Total debt.....	1,831,106	1,017,343	2,477,866⁽⁷⁾	1,376,676⁽⁷⁾
Total shareholder's equity	5,416,835	3,009,537	5,414,256 ⁽⁸⁾	3,008,104 ⁽⁸⁾
Total capitalization	7,247,941	4,026,880	7,892,122	4,384,780

⁽¹⁾ Amounts are translated based on the exchange rate of Col\$1,799.89 per U.S. dollar as of September 30, 2010. Such translations should not be construed as representations that the Colombian peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽²⁾ Interest payable includes accrued interest on Emgesa's short-term debt and the current portion of interest relating to long-term debt.

⁽³⁾ The issue price of the Notes will be payable in U.S. dollars based on an exchange rate for the conversion of Colombian pesos into U.S. dollars of Ps.1,841.90 per U.S.\$1.00, which is the *Representative Market Rate* (as such term is defined under the "Description of the Notes") in effect on January 20, 2011.

⁽⁴⁾ Adjusted to reflect net proceeds of the Notes after paying the initial purchasers discount and out-of-pocket expenses, and the repayment of Col\$90,000 million of existing debt as of September 30, 2010.

⁽⁵⁾ Adjusted to reflect the repayment of Col\$90,000 million of existing debt as of September 30, 2010, with the proceeds of the Notes.

⁽⁶⁾ Does not include debt incurred by Emgesa after September 30, 2010 in respect of (i) the bridge loan made by Citibank, N.A. to Emgesa on January 19, 2011 for a total amount of U.S.\$50 million, the U.S. dollar proceeds of which were used to buy Colombian pesos on January 19, 2011 at the TRM published by the SFC on that date (less commissions paid to Citibank, N.A. for effectuating the purchase of the pesos), and (ii) the bridge loan made by a Colombian bank to Emgesa on January 20, 2011 for a total amount of U.S.\$175 million, the U.S. dollar proceeds of which were used to buy Colombian pesos on January 20, 2011 at the TRM published by the SFC on that date. These bridge loans were entered into in order to mitigate the risk of appreciation of the Colombian peso against the U.S. dollar between the date of this offering memorandum and the settlement of the sale of the Notes and will be repaid in full with the proceeds from the sale of the Notes on or about the date the Notes are issued.

⁽⁷⁾ Does not include debt incurred by Emgesa after September 30, 2010 in respect of (i) the issuance of Col\$70 billion in commercial paper on November 19, 2010, which was used to refinance the short-term portion of notes payable, (ii) the intercompany loan made by Codensa to Emgesa between November 5, 2010 and January 10, 2011 for an aggregate outstanding amount as of the date of this offering memorandum of Col\$137,610 million, which will be repaid with the proceeds of the Notes, and (iii) Col\$51,745 million in short-term bank loans that were incurred between January 4 and 14, 2011 and which will be repaid with the proceeds of the Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations" and "Description of Other Indebtedness."

⁽⁸⁾ Adjusted to reflect the payment of the initial purchasers discount and out-of-pocket expenses.

SELECTED FINANCIAL AND OPERATING DATA

The following table presents our selected financial and operating data as of and for each of the periods indicated. This data is qualified in its entirety by reference to and should be read in conjunction with our Annual Financial Statements, our Interim Financial Statements, including the notes thereto, and the section “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

The selected income statement data for the years ended December 31, 2007, 2008, 2009 and the selected balance sheet data as of December 31, 2008 and 2009 have been derived from our Annual Financial Statements included elsewhere in this offering memorandum, which have been audited by our independent accountants, Deloitte & Touche Ltda. The selected income statement data for the nine months ended September 30, 2009 and the selected balance sheet data as of September 30, 2009 have been derived from our unaudited interim financial statements as of and for the nine months ended September 30, 2009, which are unaudited and include, in the opinion of our management, all adjustments necessary (consisting only of normal recurring adjustments) for a fair presentation of the information set forth therein. The selected income statement data for the nine months ended September 30, 2010 and the selected balance sheet data as of September 30, 2010 have been derived from our audited interim financial statements as of and for the nine months ended September 30, 2010, which have been audited by our independent accountants, Deloitte & Touche Ltda. Our historical results for the nine months ended September 30, 2010 are not necessarily indicative of results to be expected for the year ended December 31, 2010 or any other period.

Our Annual Financial Statements and our Interim Financial Statements have been prepared in accordance with Colombian GAAP and the standards set forth in the SSPD Accounting Manual. Colombian GAAP differs significantly from U.S. GAAP. See “*Annex A— Summary of Certain Differences between Colombian GAAP and U.S. GAAP*” for a brief overview of the key differences between Colombian GAAP and U.S. GAAP. A reconciliation to U.S. GAAP of our Financial Statements, has not been, and will not be, prepared, nor have such differences been, nor will they be, quantified.

Solely for your convenience, some amounts included in the following table have been translated from Colombian pesos into U.S. dollars using, in the case of balance sheet and income statement data as of and for the nine months ended September 30, 2010, the TRM published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00, and, in the case of balance sheet and income statement data as of and for the year ended December 31, 2009, the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. See “*Foreign Exchange*” for a more comprehensive description of the Colombian exchange rate system.

Certain rounding adjustments have been made in calculating some of the figures included in this offering memorandum. Accordingly, numerical figures shown as totals in some tables may not be precisely equal to the sum of the figures that preceded them. We maintain our books and records in Colombian pesos, the official currency of Colombia.

SELECTED FINANCIAL AND OPERATING DATA

Income Statement Data

	Year ended December 31,				For the nine months ended September 30,		
	2007	2008	2009	2009 ⁽¹⁾	2009 (Unaudited)	2010	2010 ⁽²⁾
	(Col\$ in millions)			(U.S.\$ in thousands)	(Col\$ in millions)		(U.S.\$ in thousands)
OPERATING REVENUES:							
Contract sales.....	665,592	810,094	1,067,243	522,076	791,292	778,006	432,252
Spot sales.....	277,743	274,502	387,079	189,352	313,511	271,104	150,623
Sales to unregulated customers.....	381,606	424,016	472,323	231,052	347,634	381,271	211,830
Other services	1,620	2,100	2,489	1,217	1,942	1,197	665
	<u>1,326,561</u>	<u>1,510,712</u>	<u>1,929,134</u>	<u>943,697</u>	<u>1,454,379</u>	<u>1,431,578</u>	<u>795,370</u>
COST OF SALES:							
Purchase of electricity and related costs.....	(357,015)	(376,409)	(557,065)	(272,506)	(388,963)	(381,849)	(212,151)
Depreciation	(130,749)	(133,727)	(148,693)	(72,738)	(111,087)	(114,370)	(63,543)
Other generation costs	(108,395)	(133,143)	(190,381)	(93,131)	(126,508)	(174,699)	(97,061)
Transfers Law No. 99 and other	(48,918)	(55,755)	(58,008)	(28,376)	(44,421)	(38,371)	(21,319)
	<u>(645,077)</u>	<u>(699,034)</u>	<u>(954,147)</u>	<u>(466,751)</u>	<u>(670,979)</u>	<u>(709,289)</u>	<u>(394,074)</u>
GROSS MARGIN.....	681,484	811,678	974,987	476,946	783,400	722,289	401,296
Administrative expenses ..	(29,944)	(21,760)	(22,988)	(11,245)	(16,753)	(14,113)	(7,841)
OPERATING INCOME	651,540	789,918	951,999	465,701	766,647	708,176	393,455
Non operating income.....	37,225	41,375	51,468	25,177	41,782	20,024	11,125
Non operating expenses ...	(194,708)	(191,024)	(204,315)	(99,947)	(163,367)	(111,355)	(61,867)
INCOME BEFORE INCOME TAX	494,057	640,269	799,152	390,931	645,062	616,845	342,713
Income tax	(88,750)	(185,959)	(260,728)	(127,544)	(208,457)	(200,192)	(111,225)
NET INCOME.....	405,307	454,310	538,424	263,387	436,605	416,653	231,488

⁽¹⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽²⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

SELECTED FINANCIAL AND OPERATING DATA

Balance Sheet Data

	As of December 31,			As of September 30,		
	2008	2009	2009 ⁽¹⁾	2009	2010	2010 ⁽²⁾
	(Col\$ in millions)		(U.S.\$ in thousands)	(Col\$ in millions)		(U.S.\$ in thousands)
ASSETS						
CURRENT ASSETS:						
Cash.....	102,812	625,186	305,830	439,910	90,227	50,129
Temporary investments.....	369,302	23,598	11,544	522,317	15,569	8,650
Accounts receivable, net.....	394,857	358,014	175,134	379,249	389,799	216,568
Inventories.....	23,124	25,960	12,699	29,417	26,566	14,760
Prepaid expenses.....	4,330	6,267	3,065	9,886	8,341	4,634
TOTAL CURRENT ASSETS.....	894,425	1,039,025	508,272	1,380,779	530,502	294,741
Long-term investments.....	8,326	8,331	4,075	8,326	8,330	4,629
Long-term accounts receivable, net.....	9,431	10,494	5,134	9,484	10,154	5,641
Long-term inventories.....	19,491	20,637	10,095	22,575	20,609	11,450
Deferred charges, net.....	94,177	99,925	48,882	98,257	98,406	54,673
Intangibles, net.....	58,120	56,454	27,616	55,755	54,812	30,453
Other assets.....	873	3,771	1,845	3,518	1,438	799
Property, plant and equipment, net.....	5,009,273	4,933,888	2,413,568	4,939,951	4,846,898	2,692,886
Revaluation of assets.....	1,954,560	2,010,693	983,594	1,954,768	2,009,723	1,116,581
TOTAL ASSETS.....	8,048,676	8,183,218	4,003,081	8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS⁽³⁾.....	4,346,758	5,258,132	2,572,182	7,135,941	2,126,616	1,181,526
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Financial obligations.....	509,615	230,335	112,676	384,827	201,097	111,727
Accounts payable.....	315,482	111,418	54,504	283,666	167,559	93,094
Labor obligations.....	7,142	8,412	4,115	7,745	8,351	4,640
Retirement and pension obligations.....	12,440	12,420	6,075	12,252	12,655	7,031
Provisions.....	212,499	153,796	75,234	113,923	53,209	29,562
Unamortized premium of notes issuance.....	4,274	4,274	2,091	4,274	4,274	2,375
Other liabilities.....	12,130	12,049	5,894	12,528	11,913	6,619
TOTAL CURRENT LIABILITIES.....	1,073,582	532,704	260,589	819,215	459,058	255,048
LONG-TERM LIABILITIES:						
Financial obligations.....	1,125,009	1,630,009	797,371	1,790,009	1,630,009	905,616
Retirement and pensions obligations.....	67,848	69,594	34,044	70,205	70,563	39,204
Provisions.....	2,107	1,845	902	1,594	1,526	848
Unamortized premium of notes issuance.....	10,361	6,087	2,978	7,155	2,881	1,600
TOTAL LONG-TERM LIABILITIES.....	1,205,325	1,707,535	835,295	1,868,963	1,704,979	947,268
TOTAL LIABILITIES.....	2,278,907	2,240,239	1,095,884	2,688,178	2,164,037	1,202,316
SHAREHOLDERS' EQUITY:						
Capital stock.....	1,100,000	1,100,000	538,100	1,100,000	655,222	364,034
Premium on stock issuance.....	113,256	113,256	55,403	113,256	113,256	62,924
Equity revaluation.....	1,896,375	1,883,907	921,573	1,883,907	1,871,439	1,039,752
Reserves.....	251,268	296,699	145,140	296,699	350,542	194,758
Surplus from revaluation of assets.....	1,954,560	2,010,693	983,594	1,954,768	2,009,723	1,116,581
Net income for the current year/period.....	454,310	538,424	263,387	436,605	416,653	231,488
TOTAL SHAREHOLDERS' EQUITY.....	5,769,769	5,942,979	2,907,197	5,785,235	5,416,835	3,009,537
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	8,048,676	8,183,218	4,003,081	8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS⁽³⁾.....	4,346,758	5,258,132	2,572,182	7,135,941	2,126,616	1,181,526

⁽¹⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at December 31, 2009 of Col\$2,044.23 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽²⁾ We converted the amounts in this column from Colombian pesos into U.S. dollars solely for your convenience at the TRM published by the SFC at September 30, 2010 of Col\$1,799.89 per U.S.\$1.00. These convenience translations are not in accordance with U.S. GAAP and have not been audited. These translations should not be construed as a representation that the Colombian-peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

⁽³⁾ Corresponds to the Colombian GAAP measure "cuentas de orden." See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Memorandum Accounts."

	Year ended December 31,				For the nine months ended September 30,	
	2007	2008	2009	2009	2010	2010
	(Col\$ in millions)			(U.S.\$ in thousands)	(Col\$ in millions)	(U.S.\$ in thousands)

Other Financial Data

Adjusted EBITDA ⁽¹⁾	785,590	928,519	1,106,611	541,334	826,934	459,436
Ratio of net debt to adjusted EBITDA ⁽²⁾	1.8x	1.2x	1.0x	1.0x	1.5x ⁽³⁾	1.5x ⁽³⁾
Ratio of total debt to adjusted EBITDA	1.9x	1.7x	1.6x	1.6x	1.6x ⁽³⁾	1.6x ⁽³⁾
Ratio of adjusted EBITDA to interest expense.....	5.0x	5.3x	5.7x	5.7x	8.4x	8.4x
Leverage (financial debt to total shareholders' equity)	26.7%	27.0%	30.1%	30.1%	33.0%	33.0%

⁽¹⁾ We calculate adjusted EBITDA by adding back the depreciation and amortization (included in cost of sales and administrative expenses) to operating income (which is calculated by subtracting cost of sales and administrative expenses from operating revenues). The following table shows a reconciliation of our adjusted EBITDA to operating income for the periods indicated.

	Year ended December 31,				For the nine months ended September 30,	
	2007	2008	2009	2009	2010	2010
	(Col\$ in millions)			(U.S.\$ in thousands)	(Col\$ in millions)	(U.S.\$ in thousands)
Operating income.....	651,540	789,918	951,999	465,701	708,176	393,455
Depreciation (cost of sales)	130,749	133,727	148,693	72,738	114,370	63,543
Amortization (cost of sales)	2,222	3,609	3,633	1,777	2,749	1,527
Depreciation and amortization (administrative expenses).....	1,079	1,265	2,286	1,118	1,639	911
Adjusted EBITDA.....	785,590	928,519	1,106,611	541,334	826,934	459,436

Our calculation of adjusted EBITDA does not include any adjustments to exclude the impact of unusual events, restructuring or other one-time charges or discontinued operations. In addition, our calculation of Adjusted EBITDA may include or exclude certain expenses that may be included or excluded in calculations of adjusted EBITDA provided by other companies. Adjusted EBITDA is not a recognized term under U.S. GAAP or Colombian GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, adjusted EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under Colombian GAAP. Adjusted EBITDA is provided for information purposes only and should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain financial figures. Adjusted EBITDA and other non-Colombian GAAP financial measures included in this offering are not a substitute for Colombian GAAP measures of financial performance. Our calculation of adjusted EBITDA does not include any adjustments to exclude the impact of unusual or non-recurring events, restructuring or other one-time charges or discontinued operations.

⁽²⁾ Net debt calculated as the sum of principal amounts of all financial debt minus cash and temporary investments at December 31, 2007, 2008 and 2009 and September 30, 2010.

⁽³⁾ For purposes of calculating the ratio of net debt to adjusted EBITDA and the ratio of total debt to adjusted EBITDA for the nine months ended September 30, 2010, we used the adjusted EBITDA figures for the nine months ended September 30, 2010 divided by nine and multiplied by 12.

Operating Data

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	2007	2008	2009	2009	2010
Installed Capacity (MW)					
Hydroelectric capacity	2,451	2,451	2,451	2,451	2,471
Thermoelectric capacity.....	378	444	444	444	444
Total installed capacity	2,829	2,895	2,895	2,895	2,914
Energy Sales (GWh)					
Wholesale market	8,046	8,739	9,485	6,965	6,293
Unregulated market	2,493	2,430	2,475	1,840	1,918
Spot market.....	4,412	4,677	4,117	3,485	2,592
AGC ⁽¹⁾ sales.....	662	522	730	499	397
Total energy sales.....	15,613	16,368	16,806	12,790	11,200
Production (GWh)					
Hydroelectric	11,416	12,414	11,688	9,384	7,700
Thermoelectric.....	515	501	971	538	820
Total production	11,930	12,915	12,660	9,922	8,519
Average monomic prices (Col\$/kWh)					
Wholesale market	82.7	92.7	112.5	113.6	123.6
Unregulated market	85.2	97.2	115.2	113.2	123.0
Spot market.....	82.5	92.4	125.0	116.9	150.0

⁽¹⁾ Represents payments for automatic generation control (*control automático de generación* or “AGC”), which are fees paid to electricity generators in connection with the implementation of technology that moderates the frequency of electricity in order to guarantee the quality of electricity along the STN.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on our Annual Financial Statements and our Interim Financial Statements and should be read in conjunction with our Annual Financial Statements and Interim Financial Statements and the notes thereto included elsewhere in the offering memorandum, as well as the information set forth in "Summary Financial and Operating Data" and "Selected Financial and Operating Data." The discussion includes forward-looking statements which involve risks and uncertainties. You should review the Risk Factors set forth elsewhere in this offering memorandum for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. Our Annual Financial Statements and our Interim Financial Statements were prepared in accordance with Colombian GAAP and the standards set forth in the SSPD Accounting Manual. Colombian GAAP differs in significant respects from U.S. GAAP. See "Annex A—Summary of Certain Differences between Colombian GAAP and U.S. GAAP" for a summary of certain of these differences. A reconciliation of the Financial Statements and related footnote disclosures between Colombian GAAP and U.S. GAAP has not been, and will not be, prepared and such differences have not been, and will not be, quantified. Potential investors should consult their own professional advisors for an understanding of the differences between Colombian GAAP and U.S. GAAP. In making an investment decision, investors must rely upon their own examination of Emgesa, the terms of this offering and the financial information presented herein.

Overview

We are a company engaged in the electricity generation and commercialization business in Colombia. Substantially all of our revenues, income and cash flows are derived from our operations in this business. We are the largest electricity generator in Colombia measured both by total electricity generation, with a market share as of September 30, 2010 of 20.2%, and by installed capacity, with a market share as of September 30, 2010 of 21.2%.

We supply electricity to distribution companies, large industrial and commercial customers and other electricity generation companies in the NIS, Colombia's interconnected electricity grid. We are a utility company organized as a corporation under the laws of Colombia.

We operate ten hydroelectric power plants and two thermoelectric power plants. As of September 30, 2010, we have a total installed capacity of 2,914 MW, of which 2,471 MW (84.8%) corresponds to hydroelectric power plants and 444 MW (15.2%) to thermoelectric power plants.

We are currently building the El Quimbo hydroelectric power plant, which is expected to be completed in 2014, have an installed capacity of 400 MW and achieve an average power generation of 2,216 GWh per year.

Our operating revenues for the fiscal years ended December 31, 2007, 2008 and 2009 were Col\$1,326,561 million (U.S.\$658 million), Col\$1,510,712 million (U.S.\$673 million) and Col\$1,929,134 million (U.S.\$944 million), respectively, and our net income was Col\$405,307 million (U.S.\$201 million), Col\$454,310 million (U.S.\$202 million), and Col\$538,424 million (U.S.\$263 million), respectively.

Our operating revenues for the nine months ended September 30, 2009 and 2010 were Col\$1,454,379 million (U.S.\$757 million) and Col\$1,431,578 million (U.S.\$795 million), respectively, and our net income was Col\$436,605 million (U.S.\$227 million) and Col\$416,653 million (U.S.\$231 million), respectively.

Principal Factors Affecting our Results of Operations

Our results of operations have been affected and will continue to be affected by a variety of factors, including:

Hydrological Conditions

Our business is dependent on hydrological conditions prevailing in Colombia as 84.8% of our electricity installed capacity is hydroelectric. Our thermoelectric generation plants, which are fueled with natural gas, coal or diesel, are operated to cover peaks in electricity demand and any shortfalls in electricity generation from our hydroelectric plants due to insufficient water resources. Increases in the prices of the fuels that we use for the generation of electricity through our two thermoelectric plants result in higher costs of sales that we would not otherwise incur or be able to transfer to our customers under our supply agreements. Colombia's hydrology typically follows a dual season annual cycle, with one period of low levels of rain precipitation from December to March and high levels during the rest of the year. However, over the past two decades, Colombia's hydrological conditions have been affected by an abnormal and erratic climatic phenomenon that affects

the regularity of the rainfall season and can cause droughts, known as El Niño. In addition to El Niño, Colombia has been affected by an opposite phenomenon which leads to increase in rain precipitation, known as La Niña. The effects of El Niño or La Niña can unevenly affect different regions of the country and consequently, at a given time, certain generation plants can be affected by heavy rains while generation plants located elsewhere can be affected by extended droughts. Below-average rainfall in the areas where our hydroelectric plants are located result in lower generation of electricity to the entire Colombian market and could cause, among other things, the creation of rationing programs for the reduction of electricity consumption to avoid the interruption of electricity supply. In 1992, the Colombian government established rolling blackouts in order to address the challenges posed by a dry season during the 1991-1992 period. In late 2009, CREG required electricity generation companies to use their thermoelectric plants and imposed restrictions on hydroelectric generation in order to preserve water resources to mitigate the negative effects of El Niño on hydrological conditions during the last quarter of 2009 and the first six months of 2010 (which impact was the most severe of the past ten years). Conversely, above-average rainfall in Colombia can lead to lower electricity prices in the spot market. In the last quarter of 2010, Colombia was affected by La Niña.

We believe that the adverse effects from seasonality of rainfall are partially mitigated by (i) the Firm Energy program implemented by the Colombian government in 2007, (ii) the fact that the El Guavio hydroelectric plant has a different hydrologic pattern from the rest of the country and in dry seasons is usually more abundant in water than the rest of the dams, (iii) our ability to generate electricity through our two thermoelectric plants, Central Térmica Martín del Corral - Termozipa and the Central Cartagena, which become operational during dry seasons and account for 15.2% of our total installed capacity, and (iv) our strategy to sell electricity through medium-term contracts with a term of one to three years to Wholesale Customers and Unregulated Customers (which is based on our commercial policy that takes into account, among other factors, our Firm Energy), and to rely, to a lesser extent, on spot market prices, all of which allows us to mitigate the risks associated with spot price fluctuation.

For further information on the Firm Energy program, see *“Industry—Functional Segregation of the Electricity Sector—Generation—Firm Energy Auctions.”* For further information on the effects of hydrological conditions on our results of operations, see *“Risk Factors—Risk Factors Relating to Emgesa’s Business and Operations—Since our business depends heavily on hydrological conditions, such conditions may affect our business, results of operations and financial condition.”*

Currency Fluctuation, Interest Rates and Inflation

The Colombian peso floats freely and has been subject to substantial devaluations and appreciations against the U.S. dollar in the past and may be subject to significant fluctuations in the future.

Our revenues derived from payments received on account of Reliability Payments, which represent approximately 15% of our operating revenues, are indexed to a fixed U.S. dollar price per MWh of Firm Energy. Reliability Payments are collected by commercialization companies based on the total (monomic) price of electricity charged to buyers of electricity in the spot market for each kWh sold. In the case of contract sales, which are set at a fixed price per kWh, the Reliability Payment per kWh is included in such fixed price (by converting the amount of this payment into Colombian pesos at a U.S. dollar exchange rate in effect at such time), and the price is not adjusted to account for variations in the U.S. dollar exchange rate that was taken into account for calculating the portion of the price related to the Reliability Payment. As a result, to the extent that the total volume of electricity sold under contracts approaches the total volume of our Firm Energy Obligations or OEF, which provides the basis for the amount of Reliability Payments allocated to us by XM, the effect of any increase or decrease in the U.S. dollar exchange rate on our contracts’ price margin from Reliability Payments is offset by the Reliability Payments we receive from XM. Our policy is to have minimal exposure in our operating margin to the U.S. dollar. As of the date of this offering memorandum, we did not have any debt or assets denominated in U.S. dollars or any other foreign currency.

As of September 30, 2010, we had no material exposure to changes in the U.S. dollar exchange rate or any other foreign currency exchange rate, and therefore our results of operations are not materially exposed to changes in foreign exchange rates.

As of September 30, 2010, 94.8% of our indebtedness was variable rate debt (75.0% indexed to the variation of the Colombian Consumer Price Index (“CPI”), and 19.8% to the DTF, the annual effective interest rate calculated and published weekly by the Central Bank based on the weighted average of active effective interest rates for 90-day CDs offered by banks and other financial institutions in the Colombian market). Indexation to CPI represents an important hedging mechanism which allows us to mitigate the impact of inflation to the extent that prices under our electricity supply contracts, which represent our largest source of revenues, are adjusted for inflation based on the variation of the Colombian PPI, which

historically has had high positive correlation with the CPI (99.7% from 1991 to September 2010, and 96.7% from 2005 to September 2010).

To the extent that we incur any debt denominated in U.S. dollars or other currencies or with interest rates that are directly influenced by Colombia’s monetary policies, a depreciation of the Colombian peso or an increase in prevailing interest rates in Colombia could adversely impact our results of operations. However, this risk is partially mitigated by the fact that we invest a material portion of our cash in financial instruments and bank deposits with interest rates that are also linked to variations in Colombia’s monetary policies.

The following table shows the CPI and PPI variation in Colombia for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010.

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
CPI variation.....	5.7%	7.7%	2.0%	2.1%	2.4%
PPI variation.....	1.3%	9.0%	2.2%	1.8%	2.6%

Source: Departamento Administrativo Nacional de Estadística - DANE.

Regulatory Changes and Governmental Actions

Our results of operations are materially affected by regulatory changes and actions taken by the Colombian government and by the regulatory agencies, including the CREG and the SSPD, that regulate our business. Accordingly, our operating revenues could be materially affected by the actions of government regulators. Regulatory changes that could have the most direct and significant impact on our financial performance include, among others, restrictions on hydroelectric generation during El Niño, restrictions on fuel supply, or restrictions and changes to the prices we can charge for the electricity we sell.

For further information on the regulatory framework for electricity generation and commercialization and the effects of regulatory changes on our results of operations, see *“Industry—Regulatory Structure of the Electricity Market”* and *“Risk Factors—Risk Factors Relating to Emgesa’s Business and Operations—Our business is subject to substantial regulation, and governmental entities could penalize or, under certain circumstances, assume control of Emgesa if we fail to comply with the applicable regulations. Also, the agencies that regulate our business can take other actions that may adversely affect our operations and profitability.”*

Colombian Economic Growth

The Colombian economy has experienced sustained economic growth with an average real GDP growth for the five-year period from 2005 to 2009 of 4.4%. Higher economic growth rates in Colombia’s economy affect our results of operations mainly because they generally result in more manufacturing and industrial demand for electricity consumption, and, to a lesser extent, in increased demand for electricity from domestic consumers as a result of increased employment and higher income levels often associated with such higher growth. Lower economic growth and economic recession affect electricity demand, but to a lesser extent, because a large part of electricity demand (67%) comes from residential consumers, who are less prone to significantly reduce consumption during an economic downturn. CREG and UPME take these factors into consideration when developing plans for the expansion of Colombia’s electricity infrastructure. Therefore, in periods of high economic growth, we may benefit from an increase in electricity demand, while in periods of low growth or recession, electricity demand may not be severely impacted and thus our results of operations may not be adversely affected.

Real GDP growth rates were 6.3%, 2.7% and 0.8% in 2007, 2008 and 2009, respectively, according to data from DANE. These growth rates have contributed to an increase in electricity consumption in Colombia of 4.0% in 2007, 1.9% in 2008 and 1.5% in 2009. The projected annual average growth rate of the Colombian electricity market between 2010 and 2031, as provided by UPME, is 3.2%.

For further information on the effect of changes in Colombia’s economic growth on our results of operations, see *“Risk Factors—Risk Factors Relating to the Republic of Colombia—Colombia’s economy remains vulnerable to external shocks that could cause future significant economic difficulties of its major regional trading partners, which could have a material adverse effect on Colombia’s economic growth.”*

Electricity Demand

Our business is significantly affected by electricity demand in Colombia. Electricity demand in Colombia for the years ended 2007, 2008 and 2009, was 52,853 GWh, 53,870 GWh and 54,679 GWh, respectively, while for the nine months ended September 30, 2010, it was 42,006 GWh, a 3.5% increase compared to 40,593 GWh for the same period in 2009. The most significant impact that electricity demand has on our business is that it determines when thermoelectric generation capacity must be dispatched. This increase in demand for thermoelectric generation leads to an increase in spot market prices because the variable costs of thermoelectric generators, which are mainly costs of natural gas and other fossil fuels, set the marginal price. In recent years, thermoelectric generation has increased infrequently in normal hydrological conditions, compared to hydroelectric power, mainly due to prevailing demand levels and the availability of hydroelectric installed capacity to meet the existing demand. However, during certain periods of El Niño, nearly 50% of Colombia's demand was supplied by thermoelectric plants.

For further information on the effects of electricity on our results of operations, see *“Risk Factors—Risk Factors Relating to the Republic of Colombia—A decline in GDP growth, and thus in domestic energy demand, in Colombia may adversely affect Emgesa’s operating results and financial conditions”* and *“Risk Factors—Risk Factors Relating to Emgesa’s Business and Operations—Since our business depends heavily on hydrological conditions, such conditions may affect our business, results of operations and financial condition.”*

Electricity Sales

Our operating revenues are primarily derived from electricity sales under electricity supply contracts and in the spot market, as well as from amounts received on account of Reliability Payments, AGC and ancillary services we provide. Our revenues from electricity sales primarily depend on our electricity generation, our electricity purchases (and the margin we derive from reselling such electricity purchases) and electricity prices set in contracts and on the spot market.

Our annual electricity generation depends on hydrological conditions, reservoir management practices and technical considerations. For the nine months ended September 30, 2010, we generated 8,519 GWh, compared to 9,922 GWh for the same period of 2009. This decrease in electricity generation was due primarily to the impact of El Niño during the last quarter of 2009 and first six months of 2010, which was the most severe in the past ten years. To mitigate the impact of El Niño, in late 2009, CREG required electricity generation companies to use their thermoelectric plants and imposed restrictions on hydroelectric generation in order to preserve water resources. As a result, we increased our thermoelectric generation during that period, but overall our electricity generation decreased. In the years ended December 31, 2007, 2008 and 2009, we generated 11,930 GWh, 12,915 GWh and 12,660 GWh, respectively.

The electricity prices which are material to our operating revenues are either freely negotiated fixed prices under our medium-term contracts (one to three years) with Wholesale Customers and Unregulated Customers, or variable spot market prices. For the nine months ended September 30, 2010, we derived 81.0% of our revenues from sales under medium-term contracts, from which 32.9% were derived from contracts with Unregulated Customers and 67.1% from contracts with Wholesale Customers.

Spot market prices at any point in time depend directly on hydrological conditions, actual demand for and supply of electricity, and fuel prices for thermoelectric generators. Spot market prices tend to increase in the dry season and decrease in the rainy season. The average monomic prices under our electricity supply agreements with Wholesale Customers and Unregulated Customers for the years ended December 31, 2007, 2008 and 2009 were Col\$82.73, Col\$92.70, and Col\$112.52 per kWh, respectively, and Col\$85.20, Col\$97.18, and Col\$115.21 per kWh, respectively. For the nine months ended September 30, 2010, the average monomic prices under our electricity supply agreements with Wholesale Customers and Unregulated Customers were Col\$123.64 and Col\$123.03 per kWh, respectively, compared to Col\$113.61 and Col\$113.24 per kWh, respectively, for the nine months ended September 30, 2009. The average monomic spot prices for the years ended December 31, 2007, 2008 and 2009 were Col\$82.46, Col\$92.39 and Col\$125.00 per kWh, respectively. The average monomic spot price was Col\$149.97 per kWh for the nine months ended September 30, 2010, compared to Col\$116.85 per kWh for the nine months ended September 30, 2009.

We mitigate our exposure to the volatility of the spot market by selling a significant portion of our expected electricity generation through long-term electricity supply contracts. Our optimal level of electricity supply commitments is one that allows us to protect ourselves against low marginal cost conditions, such as those existing during the rainy season, while still taking advantage of high marginal cost conditions, such as higher spot market prices during the dry season. In order to determine the optimal mix of long-term contracts and sales in the spot market, we create demand estimates using standard economic theory, and we forecast the system's marginal cost using proprietary stochastic models.

Currently, our electricity supply contracts are not standardized and the terms and conditions of these contracts are individually negotiated. Typically, when we negotiate these contracts we try to set the price at a premium over future expected spot prices so as to mitigate the risk of future increases in spot prices. However, the premium can vary substantially depending on a variety of conditions. Electricity prices under electricity supply contracts with Wholesale Customers were 100.3%, 100.3% and 90.0% of our spot prices for 2007, 2008 and 2009, respectively; and 103.3%, 105.2% and 92.2% respectively, of our prices under our electricity supply contracts with Unregulated Customers. For the nine months ended September 30, 2010 electricity prices under electricity supply contracts with Wholesale Customers and Unregulated Customers were 82.4% and 82.0% respectively, of spot prices for these periods compared to 97.2% and 96.9%, respectively, for the nine months ended September 30, 2009.

Our strategy with respect to the spot market is to maximize the commercial margin of our business in the short-term through effective resource management (availability and hydrological storage levels) and taking advantage of market opportunities based on our assessment of the likelihood of future changes in the price of electricity. This strategy will also depend on our own and our competitors' particular technical and hydrological conditions. For example, during the dry season we rely more on our hydrological and thermoelectric plants to meet commitments under our supply contracts and use the residual electricity for spot sales, while we limit generation through our thermoelectric plants and increase our hydroelectric generation during the rainy season.

Our revenues from spot sales were Col\$277,743 million, Col\$274,502 million and Col\$387,079 million, during the years ended December 31, 2007, 2008 and 2009, respectively, and Col\$313,511 million and Col\$271,104 million during the nine months ended September 30, 2009 and 2010, respectively. These revenues represented 20.9%, 18.2% and 20.1% of our total operating revenues for the years ended 2007, 2008 and 2009, respectively, and 21.6% and 18.9% of our total operating revenues for the nine months ended September 30, 2009 and 2010, respectively.

Description of Principal Line Items

Our Financial Statements have been prepared in accordance with Colombian GAAP and the standards set forth in the SSPD Accounting Manual.

Operating Revenues

Our operating revenues include (i) revenues from contract sales, which are electricity sales to Wholesale Customers and Unregulated Customers, and from sales in the spot market (including AGC payments), all of which include payments received on account of Reliability Payments, and (ii) revenues for ancillary services such as technical and connection services we provide to Unregulated Customers.

Cost of Sales

Our cost of sales includes costs and expenses related to the purchase of electricity and related costs, depreciation, amortization and other charges (such as fuel costs, insurance, taxes, payroll and pension expenses) directly related to the generation of electricity. In addition, cost of sales includes transfers we are required to make pursuant to Law No. 99 which are related to contributions to regional autonomous corporations for security and environmental improvement projects at a rate equal to 6% of electricity generated by hydroelectric plants and 4% of gross sales of electricity by thermoelectric plants.

Administrative Expenses

Our administrative expenses include (i) general and administrative expenses (including, payroll, insurance and lease expenses, fees and commissions) not directly related to electricity generation and (ii) depreciation of property, plant and equipment, other than depreciation related to the generation of electricity, and to the amortization of intangible assets not directly related to the generation of electricity. See Note 22 to our Annual Financial Statements.

Non Operating Income

Our non operating income includes interest and other income on short-term investments and interest earned from customers on accounts receivables, including foreign exchange gains related to short-term investments denominated in foreign currencies, and other non operating revenues. See Note 23 to our Annual Financial Statements.

Non Operating Expense

Our non operating expense includes interest expense, fees and commissions related to debt financings incurred by us, and other non operating expenses. See Note 24 to our Annual Financial Statements.

Income Before Income Tax

Income before income tax is the sum of operating income and the difference between non-operating income and non operating expense.

Income Tax

Income tax includes estimated income tax payable for the period. See Note 19 to our Annual Financial Statements.

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2010 compared to the Nine Months Ended September 30, 2009

	For the nine months ended		% Change
	September 30,		
	2009	2010	
	(unaudited)		
	(Col\$ in millions)		
OPERATING REVENUES			
Contract sales	791,292	778,006	(1.7)
Spot sales	313,511	271,104	(13.5)
Sales to Unregulated Customers.....	347,634	381,271	9.7
Other services.....	1,942	1,197	(38.4)
	1,454,379	1,431,578	(1.6)
COST OF SALES			
Purchase of electricity and related costs.....	(388,963)	(381,849)	(1.8)
Depreciation	(111,087)	(114,370)	3.0
Other generation costs.....	(126,508)	(174,699)	38.1
Transfers Law No. 99 and other.....	(44,421)	(38,371)	(13.6)
	(670,979)	(709,289)	5.7
GROSS MARGIN	783,400	722,289	(7.8)
Administrative expenses	(16,753)	(14,113)	(15.8)
OPERATING INCOME	766,647	708,176	(7.6)
Non operating income	41,782	20,024	(52.1)
Non operating expense	(163,367)	(111,355)	(31.8)
INCOME BEFORE INCOME TAX	645,062	616,845	(4.4)
Income tax.....	(208,457)	(200,192)	(4.0)
NET INCOME	436,605	416,653	(4.6)

Operating Revenues

Operating revenues for the nine months ended September 30, 2010 decreased by Col\$22,801 million, or 1.6%, from Col\$1,454,379 million for the nine months ended September 30, 2009 to Col\$1,431,578 million for the nine months ended September 30, 2010. This decrease was mainly due to a Col\$42,407 million decrease in revenues from spot sales and a Col\$13,286 million decrease in revenues from contract sales to Wholesale Customers, which were partially offset by a

Col\$33,637 million increase in revenues from sales to Unregulated Customers. Total physical sales decreased by 1,590 GWh, bringing the total sales for the nine months ended September 30, 2010 to 11,200 GWh, a 12.4% decrease compared to 12,790 GWh for the nine months ended September 30, 2009. The 893 GWh decrease in sales in the spot market was driven by a significant reduction in excess electricity generated by our power plants, which in turn was due to low hydrology associated with El Niño, especially during the first six months of 2010.

Our electricity generation for the nine months ended September 30, 2010 was 8,519 GWh, a 14.1% decrease compared to 9,922 GWh in 2009. The first six months of 2010 was a period of significantly low hydrology, so we had to restrict generation in our hydroelectric plants and increase our reliance on thermoelectric plants. A decrease in excess electricity available for sale in the spot market, coupled with a sustained demand for such electricity in light of insufficient generation capacity in the country, resulted in a 28.3% increase in the average monomic price for spot sales, from Col\$116.85 per kWh in 2009 to Col\$149.97 per kWh in 2010. Higher spot prices partially offset the effect of lower physical sales for the nine months ended September 30, 2010. The reduction in revenues from contract sales, on the other hand, is attributable to our commercial policy to restrict such sales in times of low hydrology. Increased revenues from sales to Unregulated Customers at an average price of Col\$123.03 per kWh, 8.6% higher than the average price of Col\$113.24 per kWh the same period of 2009, was partially offset by a decrease in our spot and contract sales to Wholesale Customers.

Cost of Sales

Cost of sales for the nine months ended September 30, 2010 was Col\$709,289 million, a 5.7 % increase compared to Col\$670,979 million for the nine months ended September 30, 2009. This increase was mainly due to an increase of Col\$48,191 million in other generation costs, from Col\$126,508 million in the nine months ended September 30, 2009 to Col\$174,699 million in the nine months ended September 30, 2010, largely associated with an increase in our consumption of natural gas, coal and other fuels used for thermoelectric generation plants that went into operation as a result of the impact of El Niño during the first six months of 2010.

This increase in the fuel costs was partially offset by a Col\$7,114 million decrease in costs associated with electricity purchases, which in turn was driven by a lower volume of electricity purchases for the nine months ended September 30, 2010, as part of our commercial policy to reduce electricity purchases due to highly volatile spot market prices.

Administrative Expenses

Administrative expenses for the nine months ended September 30, 2010 were Col\$14,113 million, a 15.8 % decrease compared to Col\$16,753 million for the nine months ended September 30, 2009. This decrease was mainly due to the implementation of a plan aimed at achieving higher efficiency standards, which resulted in a decrease of Col\$1,888 million in the cost of other general services and other expenses. The plan consisted of (i) consolidating Endesa Group international contract activities and (ii) implementing best practices to achieve savings.

Operating Income

As a result of the foregoing, operating income for the nine months ended September 30, 2010 decreased by Col\$58,471 million, or 7.6%, from Col\$766,647 million for the nine months ended September 30, 2009 to Col\$708,176 for the nine months ended September 30, 2010. This was attributable primarily to a significant increase in operating costs and, to a lesser extent, a decrease in operating revenues. The combination of these factors led to a Col\$61,111 million decrease in our gross margin, which was only marginally offset by a decrease in administrative expenses.

Non Operating Income

Non operating income for the nine months ended September 30, 2010 was Col\$20,024 million, a 52.1% decrease compared to Col\$41,782 million for the nine months ended September 30, 2009. This decrease was mainly due to a decrease in financial income earned on lower cash balances as a result of the capital reduction effected in May 2010, as well as historically low interest rates, which led to a significant decrease in interest income.

Non Operating Expense

Non operating expense for the nine months ended September 30, 2010 was Col\$111,355 million, a 31.8% decrease compared to Col\$163,367 million for the nine months ended September 30, 2009. This decrease was mainly due to a

reduction of 36.1% in financial expenses, which resulted from lower interest expense for the nine months ended September 30, 2010 on Emgesa's financial debt, given that 95% of our financial debt yields interest at variable rates (either CPI or DTF) which reached historical lows during the nine months ended September 30, 2010.

Net Income

Net income for the nine months ended September 30, 2010 decreased by Col\$19,952 million, or 4.6%, from Col\$436,605 million for the nine months ended September 30, 2009 to Col\$416,653 million for the nine months ended September 30, 2010. Even though our operating income decreased by Col\$58,471 million due to higher cost of sales and lower operating revenues, this was partially offset by a decrease of Col\$30,254 million in net non operating expense and, to a lesser extent, an Col\$8,265 million decrease in income tax expense mainly resulting from lower taxable income.

Results of Operations for the Year Ended December 31, 2009 compared to the Year Ended December 31, 2008

	Year ended December 31,		% Change
	2008	2009	
	(Col\$ in millions)		
OPERATING REVENUES			
Contract sales	810,094	1,067,243	31.7
Spot sales.....	274,502	387,079	41.0
Sales to Unregulated Customers.....	424,016	472,323	11.4
Other services.....	2,100	2,489	18.5
	1,510,712	1,929,134	27.7
COST OF SALES			
Purchase of electricity and related costs.....	(376,409)	(557,065)	48.0
Depreciation	(133,727)	(148,693)	11.2
Other generation costs.....	(133,143)	(190,381)	43.0
Transfers Law No. 99 and other.....	(55,755)	(58,008)	4.0
	(699,034)	(954,147)	36.5
GROSS MARGIN	811,678	974,987	20.1
Administrative expenses	(21,760)	(22,988)	5.6
OPERATING INCOME	789,918	951,999	20.5
Non operating income	41,375	51,468	24.4
Non operating expense	(191,024)	(204,315)	7.0
INCOME BEFORE INCOME TAX	640,269	799,152	24.8
Income tax.....	(185,959)	(260,728)	40.2
NET INCOME	454,310	538,424	18.5

Operating Revenues

Operating revenues for the year ended December 31, 2009 increased by Col\$418,422 million, or 27.7%, from Col\$1,510,712 million for the year ended December 31, 2008 to Col\$1,929,134 million for the year ended December 31, 2009. This increase was mainly explained by an increase of Col\$257,149 million in contract sales to Wholesale Customers, an increase of Col\$112,577 million in spot sales and an increase of Col\$48,307 million in sales to Unregulated Customers. Total physical sales for the year ended December 31, 2009 increased by 2.7% to 16,806 GWh, while total production decreased by 2.0% from 12,915 GWh in 2008 to 12,660 GWh in 2009. The system's increased reliance on thermoelectric generation due to lower hydrology associated with the effect of El Niño during the last quarter of 2009 positively impacted spot prices as well as prices negotiated under new contracts, resulting in a 21.4% increase in average contract sales prices with Wholesale Customers from Col\$92.7 per kWh to Col\$112.50 per kWh. In addition, contract sales volume to Wholesale Customers increased by 8.5% as a result of new supply contracts awarded to Emgesa in 2009. Average spot prices also increased by 35.3%, offsetting lower spot sales volume, which in turn was driven by reduced excess of electricity generation

for sale in the spot market compared to the previous year. Finally, an 18.6% increase in average sales prices to Unregulated Customers, together with a 1.8% increase in sales volume, explains the 11.4% increase in revenues from sales to Unregulated Customers.

Cost of Sales

Cost of sales for the year ended December 31, 2009 was Col\$954,147 million, a 36.5% increase compared to Col\$699,034 million for the year ended December 31, 2008. This increase is explained by a Col\$180,656 million increase in the cost of electricity purchases, resulting from an 18.6% increase in the volume purchased due to reduced excess electricity generation to sell in the spot market and a 47% increase in average purchase prices due to El Niño, as well as a 43.0% increase in other generation costs mainly driven by an increase in gas, coal and fuel purchases due to our increased thermoelectric generation.

Administrative Expenses

Administrative expenses for the year ended December 31, 2009 were Col\$22,988 million, a 5.6% increase compared to Col\$21,760 million for the year ended December 31, 2008. This increase was mainly due to an increase in depreciation and amortization rates as a result of the acquisition of new administrative and technological systems and equipment, and to an increase in payroll expenses mainly due to the adjustment for inflation of salaries and other labor costs.

Operating Income

As a result of the foregoing, our gross margin increased by 20.1%. Operating income for the year ended December 31, 2009 was Col\$951,999 million, a 20.5% increase compared to Col\$789,918 million for the year ended December 31, 2008. This increase is explained by an increase in operating revenues, partially offset by higher costs of sales and administrative expenses.

Non Operating Income

Non-operating income for the year ended December 31, 2009 was Col\$51,468 million, a 24.4% increase compared to Col\$41,375 million for the year ended December 31, 2008. This increase was mainly due to an accumulation of cash balances to fund a capital reduction that took place in 2010, with the resulting significant increase in interest income.

Non Operating Expense

Non operating expense for the year ended December 31, 2009 was Col\$204,315 million, a 7% increase compared to Col\$191,024 million for the year ended December 31, 2008. This increase was due to higher interest expense associated with an increase of 15% in total financial debt outstanding due to new debt issuances to fund working capital and maintenance capital expenditures.

Net Income

Net income for the year ended December 31, 2009 was Col\$538,424 million, an 18.5% increase compared to Col\$454,310 million for the year ended December 31, 2008, mainly due to higher operating income and, to a lesser extent, an increase of 24.4% in non-operating income, which was partially offset by a substantial increase in income taxes due to the unavailability of tax loss carry-forward for the year ended December 31, 2009.

Results of Operations for the Year Ended December 31, 2008 compared to the Year Ended December 31, 2007

	Year ended December 31,		% Change
	2007	2008	
	(Col\$ in millions)		
OPERATING REVENUES			
Contract sales	665,592	810,094	21.7
Spot sales	277,743	274,502	(1.2)
Sales to Unregulated Customers	381,606	424,016	11.1
Other services	1,620	2,100	29.6
	1,326,561	1,510,712	13.9
COST OF SALES			
Purchases of electricity and related costs	(357,015)	(376,409)	5.4
Depreciation	(130,749)	(133,727)	2.3
Other generation costs	(108,395)	(133,143)	22.8
Transfers Law No. 99 and other	(48,918)	(55,755)	14.0
	(645,077)	(699,034)	8.4
GROSS MARGIN	681,484	811,678	19.1
Administrative expenses	(29,944)	(21,760)	(27.3)
OPERATING INCOME	651,540	789,918	21.2
Non operating income	37,225	41,375	11.1
Non operating expense	(194,708)	(191,024)	(1.9)
INCOME BEFORE INCOME TAX	494,057	640,269	29.6
Income tax	(88,750)	(185,959)	109.5
NET INCOME	405,307	454,310	12.1

Operating Revenues

Operating revenues for the year ended December 31, 2008 were Col\$1,510,712 million, Col\$184,151 million higher than the Col\$1,326,561 million for the year ended December 31, 2007. This 13.9% increase was mainly due to a Col\$144,502 million increase in contract sales to Wholesale Customers and an increase of Col\$42,410 million, or 11.1%, in sales to Unregulated Customers. Total physical sales for the year ended December 31, 2008 increased by 776 GWh, or 5.0%, from 15,592 GWh in 2007 to 16,368 GWh, while total production increased by 8.3% to 12,915 GWh in 2008, as a result of improved hydrological conditions.

The 21.7% increase in contract sales to Wholesale Customers is explained in part by a 12.1% increase in sales prices, which increased from Col\$82.7 per kWh in 2007 to Col\$92.7 per kWh in 2008, due to a sustained growth in electricity demand which was served by the same total generation capacity, and also due to an increase of 8.6% in sales' volume as a result of our commercial policy of increasing the portion of Wholesale contract sales in the total sales mix. The increase in sales to Unregulated Customers was due to a 14.1% increase in average prices, which partially offset a 2.6% decrease in sales volume.

Cost of Sales

Cost of sales for the year ended December 31, 2008 was Col\$699,034 million, an 8.4% increase compared to Col\$645,077 million for the year ended December 31, 2007. Higher cost of sales for the year ended December 31, 2008 is attributable in part to an increase of Col\$24,748 million in other generation costs, which was mainly due to higher fuel consumption as the El Guavio hydroelectric plant was partially unavailable during scheduled maintenance. Increased costs of sales are also explained by an increase of Col\$19,394 million in the cost of electricity purchases mainly driven by higher average prices in the spot market.

Administrative Expenses

Administrative expenses for the year ended December 31, 2008 were Col\$21,760 million, a 27.3% decrease compared to Col\$29,944 million for the year ended December 31, 2007. This decrease is mainly the result of a non-recurring payment of Col\$9,456 million in 2007 on account of a special tax for Democratic Security paid during 2007, which was not expensed by us in 2008.

Operating Income

As a result of the foregoing, our gross margin increased by Col\$130,194 million, or 19.1%. This increase is the result of higher operating revenues, partially offset by an increase in cost of sales, coupled with a decrease in administrative expenses, which led to a Col\$138,378 million, or 21.2%, increase in operating income for the year ended December 31, 2008, from Col\$651,540 million for the year ended December 31, 2007 to Col\$789,918 million for the year ended December 31, 2008.

Non Operating Income

Non operating income for the year ended December 31, 2008 was Col\$ 41,375 million, an 11.1% increase compared to Col\$ 37,225 million for the year ended December 31, 2007. This increase was mainly due to the reversal in 2008 of Col\$7,254 million of interest expense that had been overestimated in 2007, and Col\$4,999 million in the reserve for permanent investment due to a change in the accounting rules. These positive effects were partially offset by a decrease of Col\$8,271 million in financial income due to lower average cash balances during 2008 than those held during 2007.

Non Operating Expense

Non operating expense for the year ended December 31, 2008 was Col\$191,024 million, a 1.9% decrease compared to Col\$194,708 million for the year ended December 31, 2007. This decrease was mainly due to an adjustment in the prior year of a Col\$15,937 million expense for certain variable marginal costs and the amortization of certain economic benefits, which, in turn, resulted from changes in provisioning methodologies following the merger between Emgesa and Betania in 2007, which was partially offset by higher interest expense due to higher average interest rates during 2008 as compared to 2007.

Net Income

Net income for the year ended December 31, 2008 was Col\$454,310 million, a 12.1% increase compared to Col\$405,307 million for the year ended December 31, 2007. Both higher operating and non-operating income and lower non operating expense explained the increase in net income, which was partially offset by a substantial increase in income tax for the year ended December 31, 2008, which in turn was due to a lower tax loss carry-forward in 2008 compared to the tax loss carry-forward in 2007 arising from the merger of Emgesa and Betania.

Critical Accounting Policies

The following policies are the accounting policies that we believe are the most relevant to the presentation of our financial condition and results of operations. Critical accounting policies are those policies that require us to exercise our judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates that we make in this context require us to calculate variables and make assumptions about matters that are uncertain. The preparation of financial statements in conformity with Colombian GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses. Actual results may differ in some cases from these estimates. This information should be read in conjunction with Note 1 to our Financial Statements. There are other areas in which we use estimates about uncertain matters, but our management believes that the reasonably likely effect of changes in such other estimates is not material to our financial condition and results of operations.

Property, Plant and Equipment

The key judgments we must make under the property, plant and equipment policy include the estimation of the useful lives of our various asset types, expected residual values, the depreciation method, management's judgment regarding appropriate capitalization or expensing costs, and the determination whether impairment exists. Property, plant and equipment are stated at cost adjusted for inflation through December 31, 2005 less accumulated depreciation. Depreciation is

determined using the straight-line method. The estimation of useful lives would impact the level of annual depreciation expense recorded. In estimating the useful lives and expected residual value (which is estimated at zero after assets are fully depreciated), we have primarily relied on actual experience with similar assets and technical recommendations from engineers and manufacturers. Expenditures that substantially improve and/or increase the useful life of an asset are capitalized. Maintenance and repair costs are expensed when incurred. Our evaluation of whether an expenditure substantially increases the useful life of an asset and is appropriately capitalized as an addition to the asset's cost basis or is expensed as incurred can significantly affect our results of operations and financial condition. Under Colombian GAAP, long-lived assets are subject to revaluation every three years. In determining whether a revaluation is required, appraisals are conducted to determine if the recorded value of the assets is higher or lower than the market value of such asset. The revaluation of long-lived assets may have a material negative impact on our results of operations and financial condition in any period.

Recognition of Revenues, Costs and Expenses

The revenues from the sale of electricity are recorded based on output delivery and capacity provided at rates as specified under contract terms or at prevailing spot market prices. Since revenues in the spot market are derived from sales to other generation and commercialization companies in accordance with the daily price of electricity, we must prepare part of our invoices on the basis of estimated values, which we then reconcile in the following month's invoice. Revenues obtained from industrial customers and distribution companies do not require any reconciliation, as they are invoiced at the price established in their respective contracts. A substantial portion of our revenues is based on medium-term contractual agreements. Thus, we base our contractual terms on consumption demand projections and anticipated spot market prices. Should the actual market perform differently than our pricing models, our profit margin could be materially impacted.

The costs and expenses incurred in connection with the sale of electricity purchased from third parties are recorded based on monthly estimates (as electricity purchases are settled only once a month) of future prices of electricity in the spot market. A material portion of our revenues is based on sales of electricity purchased from third parties. Thus, we base our costs and expenses associated with such purchase projections and anticipated spot market prices. Should the actual prices be materially different from our estimated costs, our profit margin could be materially impacted.

Litigation and Contingencies

We are currently involved in certain legal proceedings. As discussed in Notes 16 and 17 to our Financial Statements, we have made an estimate of the probable outflow of resources needed to settle these claims. Our estimate has been made based on consultation with our legal advisors who have analyzed the potential outcomes in such legal proceedings assuming a combination of litigation and settlement strategies. For proceedings other than those described in Note 17 of our Financial Statements, we cannot estimate when those will be finally settled or the amounts to be paid under such legal proceedings.

Memorandum Accounts

Colombian GAAP requires that certain items be reported as memorandum accounts (or "*cuentas de orden*") and that such accounts be disclosed, but not recognized, in the balance sheet and in the notes to the financial statements. Memorandum accounts are not a U.S. GAAP measure. Memorandum accounts are contingent on future events; therefore, the future monetary impact of memorandum accounts on our results of operations and financial condition may vary substantially from the amounts reported on that account for any given period. The items included by us under this heading are the following:

- *Contingent liability.* Refers to potential obligations under guarantee contracts.
- *Contingent rights.* Refers to potential rights generated under contracts or agreements involving guarantees from contractors and electricity contracts.
- *Fiscal debit and credit accounts.* Refers to the monetary difference between the application of accounting standards for reporting purposes and the application of tax standards. These amounts do not entail potential gains or losses for us and are only disclosed for control purposes.
- *Legal proceedings.* Refers to potential rights or obligations arising out of legal proceedings. We assess the expected outcome of a legal proceeding and classify it as remote, possible or probable. A creditor memorandum account is recorded for any monetary claims arising out of lawsuits in which we act as defendant and in connection with which

our estimate that an adverse judgment is remote or possible. If we estimate that an adverse judgment is probable, then the claim is not disclosed in memorandum accounts but provisioned on our balance sheet. A debtor memorandum account is recorded for any lawsuits where we act as plaintiff.

- *Control debit account.* Corresponds to written-off depreciated assets and control accounts for the commercial margin.

Labor and Pension Obligations

We record as labor obligations our liabilities in connection with mandatory and voluntary employee benefits under applicable collective bargaining agreements, employee severance obligations, interest on severance, seniority bonuses, accrued vacation and social security contributions. Our pension obligations represent the present value of all expected future payments to those of our employees that have fulfilled or that will fulfill certain legal requirements regarding, among other factors, age and years of service. These obligations are determined based on independent actuarial studies conducted by independent actuarial consultants on a yearly basis, as required by applicable Colombian pension regulations. For employees subject to the statutory social security regime (Law 100 issued in 1993), we meet our pension obligations through the payment of contributions to the Social Security Institute and/or to the Private Pension Funds, as required by applicable Colombian pension regulations. We record our liability for retirement benefits other than pensions, such as education, recreation and electricity to which the retirees are entitled, based on actuarial calculations performed by an independent actuarial consultant. Thus, such liability is recorded as an estimate of our future obligations for these benefits. Should our actual pension obligations be greater than our estimated future liability, our results of operations and financial condition could be materially impacted.

Income Taxes

In accordance with Colombian tax law, we determine the current provision for income taxes based upon the taxable income estimated pursuant to the Colombian tax law. The effect of temporary differences that imply the payment of a lower or greater tax in the current year, calculated at the corresponding current rates, is recorded as a deferred tax asset or liability, as applicable, provided that there is reasonable expectation that those differences will reverse in the foreseeable future.

Liquidity and Capital Resources

Our capital requirements are primarily for the following purposes:

- operating and maintenance costs related to our electricity generation assets;
- electricity purchases;
- capital expenditures related to the construction of new electricity generation assets or improvement of our existing assets;
- debt service payments; and
- dividend payments.

Our primary sources for liquidity and capital resources are:

- funds generated by our electricity generation business;
- financial income from the investment of our cash and available funds; and
- access to Colombian debt capital markets and, to a lesser degree, to the bank debt market.

Cash Flows

The table below sets forth our cash flows for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010.

	Year ended December 31,			For the nine months ended September 30,	
	2007	2008	2009	2009	2010
	(Col\$ in millions)				
Cash generated by (used in)					
Operating activities	334,325	679,204	668,992	437,247	397,149
Investing activities	(696,584)	(75,399)	(81,770)	(46,645)	(30,353)
Financing activities	393,885	(214,441)	(410,552)	99,510	(909,784)
Increase (decrease) in cash and cash equivalents	31,626	389,364	176,670	490,112	(542,988)

Cash Flow Generated by (Used in) Operating Activities

The most significant factors in the generation of Emgesa's cash flow from operating activities are revenues from the electricity sales and Reliability Payments as well as the cost and expenses associated with its supply, mainly electricity purchases, fuel costs and other related variable costs.

Cash flow generated by operating activities in 2007, 2008 and 2009 was Col\$334,325 million, Col\$679,204 million and Col\$668,992 million, respectively. Our cash flow from operations in 2007, 2008 and 2009 was mainly affected by an average growth of operating revenues of 20.6% between 2007 and 2009 and an increase in sales revenues and a reduction in accounts receivables in 2009.

Cash flow generated by operating activities during the nine months ended September 30, 2009 and 2010 was Col\$437,247 million and Col\$397,149 million, respectively. In addition to the aforementioned factors, our cash flow from operations during the nine months ended September 30, 2010 was affected mainly by a decrease in spot and contract sales to Wholesale Customers, and an increase in cost of sales (due to an increase in the consumption of fuels for thermoelectric generation) as a result of El Niño. Cash flow generated by operating activities for the nine months ended September 2009 and 2010 was also affected by a reduction in estimated liabilities and provisions for income tax.

Cash Generated by (Used in) Investing Activities

Cash flow used in investing activities was Col\$696,584 million during the year ended December 31, 2007, Col\$75,399 million during the year ended December 31, 2008 and Col\$81,770 million during the year ended December 31, 2009. Cash flow used in investing activities was Col\$46,645 million and Col\$30,353 million during the nine months ended September 30, 2009 and 2010, respectively.

During the years ended December 31, 2007, 2008 and 2009, our investing activities were primarily related to the investment in maintenance capital expenditures resulting in a net change in property, plant and equipment of Col\$109,270 million, Col\$68,518 million and Col\$74,879 million, respectively. In addition, in 2007 our cash flow from investing activities was significantly affected by the netting out of certain non-cash balance-sheet items recorded as a result of the transfer of long-term investments, property, plant and equipment, and other assets following the merger of Emgesa and Betania. During the nine months ended September 30, 2010 our investment activities were primarily related to maintenance capital expenditures resulting in a net change in property, plant and equipment of Col\$30,836 million.

Cash Flow Generated by (Used in) Financing Activities

Cash flow generated by financing activities in 2007 was Col\$393,885 million, and cash flow used in financing activities in 2008 and 2009 was Col\$214,441 million and Col\$410,552 million, respectively, which was partially offset by dividend payments and the amortization of financial obligations. Cash flow used in financing activities in 2008 and 2009 was affected mainly by the net increase in financial obligations and dividend payments.

Cash flow generated by financing activities was Col\$99,510 million and cash flow used in financing activities was Col\$909,784 million for the nine months ended September 30, 2009 and 2010, respectively. Cash flow used in financing activities during the nine months ended September 30, 2010 was mainly affected by the use of cash for a capital reduction (see Note 1 to our Interim Financial Statements and “*Capital Reduction*” below) totaling Col\$444,778 million and a dividend distribution for Col\$484,582 million, whereas for the nine months ended September 30, 2009, the proceeds from financial obligations of Col\$1,174,690 million was partially offset by the repayment (with a portion of the proceeds from such financing) of other financial debt of Col\$634,478 million and intercompany loans with Codensa of Col\$174,926 million and by the distribution of dividends in an amount equal to Col\$253,308 million.

Capital Reduction

On May 6, 2010, Emgesa effected a capital reduction approved by the shareholders in 2009, pursuant to which it made a capital distribution in the amount of Col\$444,778 million (U.S.\$222 million based on an exchange rate of Col\$2,003.37 per U.S.\$1.00 published by the SFC on such date). This capital reduction was implemented as a decrease in the par value of each share of Emgesa’s common and preferred stock from Col\$7,386 to Col\$4,400 per share. The main objectives of this capital reduction were to reduce excess liquidity, improve the return on equity for our shareholders and improve Emgesa’s weighted average cost of capital, allowing us to be more competitive to evaluate investment alternatives *vis-à-vis* other competitors. See Note 1 to our Interim Financial Statements.

Capital Expenditures

In recent years, we have relied principally on our own cash flow generation from operations and on financing from the Colombian debt capital markets and, to a lesser extent, from local commercial banks to fund our capital expenditures plan and working capital needs.

Our main capital expenditures in recent years have been related to the maintenance of property and equipment. The table below sets forth our capital expenditures for the nine months ended September 30, 2010 and 2009 and the three years ended December 31, 2009, 2008 and 2007.

	As of December 31,			As of September 30,	
	2007	2008	2009	2009	2010
	(Col\$ in millions)				
Capital Expenditures	69,900	70,478	76,666	43,041	30,920

According to our current estimates, we anticipate making capital expenditures of up to approximately Col\$2.2 trillion during the period from 2010 to 2014, of which approximately Col\$1.8 trillion will be invested in the construction of the El Quimbo hydroelectric plant and the remainder corresponds to maintenance expenditures.

Loans and Financings

As of September 30, 2010, the aggregate principal amount of our outstanding debt was Col\$1,790,009 million. From this balance, 83.0%, or Col\$1,485,000 million, consists of bonds issued in several tranches and series in the Colombian market, while 17.0%, or Col\$305,009 million, consists of subordinated loans outstanding with a group of Colombian banks. As of September 30, 2010, 100% of Emgesa’s debt was denominated in Colombian pesos.

The following table shows changes to our financial debt from December 31, 2007 to September 30, 2010, in Colombian pesos:

	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	As of September 30, 2010
	(Col\$ in millions)			
Total Financings ⁽¹⁾	1,505,780	1,556,529	1,790,009	1,790,009

⁽¹⁾ Total Financings includes short-term and long-term financial obligations.

For additional information on our material indebtedness, see “*Description of Other Indebtedness.*”

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2010, as well as the payment dates with respect to those obligations:

	Payment due by period			
	Less than 1 year	1 to 3 Years	Over 3 Years	Total
	(Col\$ in millions)			
Total Debt Obligations ⁽¹⁾	160,000	545,009	1,085,000	1,790,009
Bank Loans	-	305,009	-	305,009
Local Bonds	160,000	240,000	1,085,000	1,485,000
Interest payable ⁽²⁾	126,188	285,711	253,122	665,021
Pensions and Post-Retirement Benefits ⁽³⁾	12,655	37,965	35,598	86,228
Others ⁽⁴⁾	16,537	156,551	-	173,088
Total Amount of Contractual Obligations ⁽⁵⁾	315,380	1,025,236	1,373,720	2,714,346

⁽¹⁾ Includes principal amortization payments with respect to our financial debt at the stated amount of such payments.

⁽²⁾ In the case of debt instruments bearing interest linked to CPI or DTF, interest payable was calculated using CPI of 2.28% per annum and a DTF of 3.46% per annum (which were the CPI and DTF rates as of September 30, 2010) for the remaining term of such debt instruments.

⁽³⁾ Annual amounts related to pension and post-retirement benefits were calculated using the current portion of pension and post-retirement liabilities recorded on our audited balance sheet as of September 30, 2010.

⁽⁴⁾ Includes electricity purchases and fuel oil and coal supply contracts and natural gas transportation contracts.

⁽⁵⁾ Does not include: (i) our dividends declared after September 30, 2010 corresponding to net income for the nine months ended September 30, 2010 for a total of Col\$438,143 million, which are expected to be paid as follows: Col\$210,746 million to Endesa Latinoamerica, Endesa Chile and to our minority shareholders in December 2010, with the remaining Col\$227,397 million to EEB in January 2011; (ii) the contracts entered into for the construction of the El Quimbo plant, which is expected to cost approximately U.S.\$837 million, including the contracts entered into by and between Emgesa and Impregilo-OHL Consortium and the Alstom Schrader Camargo Consortium (the "ASC Consortium") for civil works and equipment supply, respectively, which are expected to require substantial payments from January 2011 to 2014; (iii) amounts due under the issuance of Col\$70 billion in commercial paper completed in the Colombian debt market on November 19, 2010, which will mature on November 7, 2011; (iv) the intercompany loans made by Codensa to Emgesa between November 5, 2010 and January 10, 2011, for an aggregate outstanding amount as of the date of this offering memorandum of Col\$137,610 million, which were used to repay Col\$90,000 million of bonds that were redeemed on November 10, 2010, and for financing investments in El Quimbo in an amount of Col\$47,610 million, all of which will be repaid with the proceeds of the Notes; (v) Col\$51,745 million in short-term bank loans used for financing investments in El Quimbo that were incurred between January 4 and 14, 2011 which will be repaid with the proceeds of the Notes; (vi) the bridge loan made by Citibank N.A. to Emgesa on January 19, 2011 for a total amount of U.S.\$50 million, the U.S. dollar proceeds which were used to buy Colombian pesos on January 19, 2011 at the TRM published by the SFC on that date (less commissions paid to Citibank, N.A. for effectuating the purchase of the pesos), and (vii) the bridge loan made by a Colombian bank to Emgesa on January 20, 2011 for a total amount of U.S.\$175 million, the U.S. dollar proceeds which were used to buy Colombian pesos on January 20, 2011 at the TRM published on that date by the SFC (see "*Capitalization*," "*Description of Other Indebtedness*" and "*Related Party Transactions*").

Quantitative and Qualitative Disclosures on Market Risks

Exchange Rate and Interest Rate Risk

As of September 30, 2010, all of Emgesa's assets and outstanding debt obligations were denominated in Colombian pesos. Emgesa's peso-denominated debt, which as of September 30, 2010 totaled Col\$1,790,009 million, comprised (i) Col\$354 billion of debt obligations bearing interest at DTF plus a spread that ranges from 1.47% to 2.80%, (ii) Col\$1,343 billion of debt obligations bearing interest at CPI plus a spread that ranges from 5.04% to 6.29% and (iii) Col\$92 billion of

debt obligations bearing interest at fixed rate of 9.27%. A one percent increase in CPI would increase our interest expense by approximately Col\$14 billion for the next 12 months, whereas a one percent increase in DTF would increase our interest expense by approximately Col\$3.8 billion for the next 12 months.

To the extent some of our debt bears interest at variable rates, our financial condition and results of operations may be affected by changes in market rates of interest such as the DTF and CPI, which are the base interest rates for our variable rate debt. We expect the impact of such fluctuations to be mitigated by the fact that approximately 75% of our revenues derive from sales under contracts which are adjusted for inflation based on changes in the PPI, which historically has had high positive correlation with the CPI. In addition, most of our operating costs, administrative expenses and other expenses are indexed to the CPI, and therefore, a significant portion of our operating margin is directly or indirectly indexed to the CPI.

From time to time we enter into agreements or make commitments to purchase equipment and services related to maintenance and upgrades to our existing electricity generation assets and the construction or development of new electricity generation assets, such as the El Quimbo hydroelectric plant. Historically, none of these agreements or commitments included obligations to pay material amounts denominated in U.S. dollars or other foreign currencies. As a result, historically we have not had any relevant exposure to foreign exchange fluctuations with respect to these expenditures. In connection with the El Quimbo hydroelectric plant, we expect that nearly 15% of the price of construction services will be linked to changes in the U.S. dollar/Colombian peso exchange rate and approximately U.S.\$90 million of equipment purchases will be denominated in U.S. dollars.

As of the date of this offering memorandum, we had no hedges for our exposure to changes in interest rates. From time to time, we hedge our exposure to exchange rates with respect to certain committed payments under contracts that are denominated in foreign currencies. We intend to hedge a substantial portion of any exchange rate exposure arising from capital expenditure commitments related to the El Quimbo hydroelectric plant which are denominated in foreign currencies. As of the date of this offering memorandum, Emgesa had entered into a foreign exchange forward contract with a Colombian financial institution to swap from U.S. dollars into Colombian pesos payments under the equipment supply contract with ASC Consortium for a total notional amount of U.S.\$45,052,743.

Given our lack of foreign currency denominated debt or investments, we do not expect that changes in foreign currency exchange rates (primarily the U.S. dollar/Colombian peso rate) will impact our financial statements. If we were to incur foreign currency denominated indebtedness in the future, we will be exposed to foreign exchange fluctuations, unless such indebtedness is hedged by the use of derivative instruments.

Commodity Price Risks

In 2007, 2008 and 2009, we sold 20.9%, 18.2% and 20.1% of our total volume of electricity in the spot market, respectively, and purchased in the spot market 19.4%, 16.7% and 18.2% of the electricity sold during each respective year. For the nine months ended September 30, 2010, 18.9% of Emgesa's operating revenues derived from electricity sales in the spot market at prices which are set by supply and demand.

Spot market prices depend directly on, among other factors, hydrological conditions, with prices increasing during below-average rainfall seasons and falling during years of high rainfall levels, the levels of regional, national and international supply and demand of electricity, international oil and natural gas prices (particularly in dry seasons), energy laws and regulations, and taxes. As a result, income from our electricity sales on the spot market may fluctuate, which may adversely affect our financial condition and operating results.

Our commercial policy establishes the level of contracts and spot market exposure that are intended to allow us to comply with our contractual obligations while still taking on a controlled amount of risk in the spot market that will allow us to gain profits from trading on that market. For this reason, we do not hedge exposure to spot market electricity prices.

Off-Balance Sheet Arrangements

As of the date of this offering memorandum, we have no off-balance sheet arrangements or interest in or relationship with any special purpose vehicles.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the instruments evidencing our material indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the corresponding agreements and prospectuses related thereto, including the definitions of certain terms therein.

As of September 30, 2010, Emgesa's financial debt consisted of bond issuances in the Colombian market and bank loans. Betania merged with Emgesa in 2007, and Betania, as the surviving entity which then adopted the name of "Emgesa", assumed obligations of Former Emgesa under certain bond issuances that had been made by Former Emgesa prior to the merger.

Subordinated Loans

As of September 30, 2010, Emgesa had Col\$305 billion principal amount of subordinated loans outstanding with a syndicate of Colombian banks, which loans were granted to Betania prior to its merger with Former Emgesa and whose payment rights are subordinated to Betania's 2004 Bonds and Betania's 2006 Bonds, described under "*Betania's Bond Issuances*".

Structure. Emgesa's Col\$305 billion subordinated loans were documented through Debt Subordination Agreements (*Acuerdos de Subordinación de Deuda*) dated as of June 8, 2006 and Promissory Notes (*Pagarés*) entered into between Betania (prior to its merger with Emgesa) and each of Bancolombia, BBVA, Banco Davivienda and Banco Santander. All of these agreements and instruments are governed by Colombian law.

Interest Rate and Maturities. The loans under each Debt Subordination Agreement bear interest at a rate per annum of DTF +2.8%. The outstanding principal amount and the maturity date of each loan under each Debt Subordination Agreement is set forth under the following table:

Lender	Maturity	Principal Amount Outstanding as of September 30, 2010 (Col\$ million)
Bancolombia	August, 2012	22,599
Bancolombia	April, 2012	74,421
BBVA Colombia	April, 2012	82,506
Banco Davivienda	April, 2012	31,548
Banco Santander	April, 2012	93,934
Total		\$305,009

Covenants and Events of Default. The Debt Subordination Agreements do not contain restrictive covenants or financial covenants. However, they contain an event of default which is triggered if our senior debt is accelerated at any time by our bondholders or holders of our short-term debt. If our senior debt is accelerated, each lender party to a Debt Subordination Agreement has the right to (i) demand payment in full of any amounts of principal and interest due under its respective Debt Subordination Agreement and Promissory Note, and (ii) commence any legal proceedings available to it in order to obtain such payment. However, the right of each subordinated lender to demand such payment is subject to the repayment by us of all amounts of principal and interest due to the bondholders of Betania's 2004 and 2006 bonds. If a change of control event occurs, the interest rate payable on the subordinated loans will be increased by 200 basis points, unless waived by the subordinated lenders.

Bond Issuances in the Colombian Market

As of September 30, 2010, we had six peso-denominated unsecured bond issuances outstanding in the Colombian debt capital market, three of which were issued under our bond program, which was registered with the SFC in 2006 and subsequently extended and increased in 2009. The following table summarizes the principal terms and conditions of our outstanding bonds as of September 30, 2010:

Bond	Local Rating	Interest Rate	Placement Yield	Maturity	Amount (Col\$ millions)
Betania Bonds (first tranche)	AAA	B7 Series: CPI + 6.29%	CPI + 6.29%	40% November 10, 2010 60% November 10, 2011	\$300,000
Betania Bonds (second tranche)	AAA	B7 Series: CPI + 6.29%	CPI + 1.80%	40% November 10, 2010 60% November 10, 2011	100,000
Third Issuance (first tranche) ⁽¹⁾	AAA	A10 Series: CPI + 5.04%	CPI + 5.04%	February 23, 2015	210,000
Third Issuance (second tranche) ⁽¹⁾		A10 Series: CPI + 5.04%	CPI + 2.40%	February 23, 2015	40,000
Fourth Issuance (first issuance under the bond program) ⁽¹⁾	AAA	B10 Series: CPI + 5.15%	CPI + 5.15%	February 20, 2017	170,000
Fifth Issuance (second issuance under the bond program)	AAA	A5 Series: DTF TA + 1.47%	DTF TA + 1.47%	February 11, 2014	49,440
		B10 Series: CPI + 5.78%	CPI + 5.78%	February 11, 2019	160,060
		B15 Series: CPI + 6.09%	CPI + 6.09%	February 11, 2024	55,500
Sixth Issuance (third issuance under the bond program)	AAA	E-5 Series: Fixed Rate 9.27%	Fixed Rate 9.27%	July 2, 2014	92,220
		B-9 Series: CPI + 5.90%	CPI + 5.90%	July 2, 2018	218,200
		B.12 Series: CPI + 6.10%	CPI + 6.10%	July 2, 2021	89,580
Total					\$1,485,000

⁽¹⁾ Betania merged with Emgesa in 2007, and Betania, as the surviving entity which then adopted the name of “Emgesa”, assumed all of the obligations of Former Emgesa under these bond issuances.

Betania’s Bond Issuances

On November 10, 2004, Betania issued the first tranche of its peso-denominated, unsecured bonds for a total amount of Col\$300 billion (“Betania’s 2004 Bonds”). In February 2006, Betania issued a second tranche of bonds for a total amount of Col\$100 billion (“Betania’s 2006 Bonds”). Betania’s 2004 Bonds and Betania’s 2006 Bonds bear interest at a rate of 6.29% indexed to the CPI, and are repayable in two installments of principal, one equal to 40% of the outstanding principal amount which was due on the sixth anniversary of the issue date of the first tranche (November 10, 2010), while the remaining 60% is due on the seventh anniversary of the issue date of the first tranche (November 10, 2011). Emgesa paid the first principal installment of Col\$160 billion due under these Betania’s 2004 Bonds and Betania’s 2006 Bonds on November 10, 2010.

Covenants. The prospectus governing the issuance of Betania’s bonds contains restrictive covenants and other provisions that limit our ability to:

- modify (i) financial statements without complying with Colombian GAAP or (ii) the internal accounting policies;

- modify our articles of incorporation in a way that would allow us to breach our obligations under the prospectus; and
- make temporary investments without following the internal investment policy established by our board of directors.

Events of Default. The prospectus governing Betania's bonds includes the following events of default:

- failure to pay any principal amount when due;
- non-payment of any other amount (including accrued but unpaid interest) due to the bondholders pursuant to the prospectus within 15 days after the payment date thereof;
- a breach by Emgesa of certain covenants set forth in Chapter 2 of the prospectus;
- the discovery of any misleading, false, or incorrect statement which would have been material for the bondholders' decision to invest in the bonds; and
- the occurrence of a material adverse effect arising from an act, event or firm decision that terminates a claim, suit or legal action against Emgesa.

The prospectus governing Betania's bonds does not contain any financial covenants.

Emgesa's Third Bond Issuance

On February 23, 2005, Emgesa issued the first tranche of bonds of its third unsecured peso-denominated bond issuance for a total amount of Col\$210 billion. On February 23, 2006 Emgesa issued a second tranche of bonds under this third bond issuance for a total amount of Col\$40 billion.

Interest Rates and Maturities. The bonds issued under the first tranche bear interest at CPI+5.04% and mature on February 23, 2015. The bonds issued under the second tranche bear interest at CPI+2.40% and mature on February 23, 2015.

Covenants and Events of Default. The prospectus governing these two tranches of bonds does not contain any restrictive covenants, financial covenants or events of default other than non-payment of any amounts of principal or interest on the bonds when due, subject to the payment of default interest (after such payment date) at a rate not to exceed the maximum rate permitted by law.

Emgesa's Bond Program

Structure of the Program. In July 2006, we registered our bond program with the SFC. The initial aggregate amount of the program was Col\$700 billion and the authorized offering term was three years. In 2009, Emgesa obtained SFC's approval to increase the aggregate program's amount from Col\$700 billion to Col\$1.9 trillion and to extend the term for bond issuances under such program for an additional three years, ending on June 2012.

Interest Rates and Maturities. On February 20, 2007, a first series of bonds was issued under the program in an amount of Col\$170 billion. Such bonds bear interest at CPI+5.15%, and mature on February 20, 2017. On February 11, 2009 three simultaneous tranches of a second series of bonds were issued under the program. The first tranche was issued in the amount of Col\$49.4 billion, bears interest per annum at DTF+1.47%, and matures on February 11, 2014. The second tranche of bonds was for Col\$160 billion, bears interest at CPI+5.78%, and matures on February 11, 2019. The third tranche was issued in the amount of Col\$ 55.5 billion, bears interest at CPI+6.09%, and matures on February 11, 2024. On July 2, 2009 three simultaneous tranches of a third series of bonds were issued under the program. The first tranche was issued in the amount of Col\$92.2 billion, bears interest per annum at a fixed rate of 9.27%, and matures on July 2, 2014. The second tranche was issued for Col\$218.2 billion, bears interest at CPI+5.9%, and matures on July 2, 2018. The third tranche was issued in the amount of Col\$89.5 billion, bears interest at CPI+6.10%, and matures on July 2, 2021.

Covenants and Events of Default. The Emgesa 2007 bond program does not contain any restrictive covenants, financial covenants or events of default other than non-payment of any amounts of principal or interest on the bonds when due, subject to the payment of default interest (after such payment date) at a rate not to exceed the maximum rate permitted by law.

Additional Series. Emgesa has the ability to issue additional series of bonds under this outstanding program with a maturity ranging from one to 25 years; denominated in Colombian pesos, U.S. dollars or UVR, and at different interest rates, including fixed rates and variable rates determined by reference to DTF, CPI or IBR. The specific conditions of each series issued under this program will be determined in each offering notice.

Commercial Paper Program

In December 2009 we registered with the SFC a program to issue commercial paper in the amount of up to Col\$600 billion. On November 19, 2010, we issued the first tranche of commercial paper under this program for a total amount of Col\$70 billion, which bears interest at a rate of 4.2%, and matures on November 7, 2011. The proceeds from this issuance of commercial paper were used to (i) partially prepay an intercompany loan granted to us by Codensa on November 10, 2010 for a total amount of Col\$160 billion which had been disbursed to Emgesa on November 10, 2010 and (ii) make the first amortization payment under the Betania's 2004 Bonds.

Covenants and Events of Default. Our commercial paper program does not contain any restrictive covenants, financial covenants or events of default other than non-payment of any amounts of principal or interest on the bonds when due, subject to a 3% payment of default interest (after such payment date) as long as such rate does not exceed the maximum rate permitted by law.

Committed Revolving Lines of Credit

On January 1, 2011, we entered into three separate commitment letters for unsecured revolving lines of credit with Colombian banks. The aggregate amount of the lines of credit is Col\$360,000 million. Each commitment letter provides that the applicable bank is obligated to make disbursements to Emgesa during a four-year period commencing on the date of such contract subject to customary conditions. Amounts drawn under the contracts will have maturities of five, seven or ten years and will bear interest at varying interest rates depending on the length of the maturity. As of the date of this offering memorandum, no amounts have been drawn under any of the contracts.

INDUSTRY

Overview

Under the Colombian constitution, the Colombian government is responsible for ensuring the provision of public utility services. In order to enable the Colombian government to fulfill its obligations, the constitution grants the Colombian government powers to monitor and regulate public utility companies to ensure the continued availability of such services. Prior to 1991, the Colombian government either provided public utility services directly through specialized providers, or granted concessions to private parties to provide such services. After 1991, the constitution allowed private parties to provide public utility services, although the Colombian government remains ultimately responsible for the efficiency and availability of such services.

In 1994, the Colombian Congress passed significant reforms to the public utilities industry. These reforms, contained in Law 142 of 1994 (“LSPD”), known as the Public Utility Services Law, and Law 143 of 1994, were the result of constitutional amendments made in 1991, and created the basic legal framework that currently governs the electricity sector in Colombia. The most significant reforms included the opening of the electricity industry to private sector participation, the functional segregation of the electricity sector into four distinct activities, namely generation, transmission, distribution and commercialization, the creation of an open and competitive wholesale electricity market, the regulation of transmission and distribution activities as regulated monopolies and the adoption of universal access principles applicable to transmission and distribution networks.

Law 142 of 1994 established the fundamental legal framework for the provision of public utility services. The legal regime developed under the LSPD has facilitated investment, allowed for the entry of new private participants and promoted growth in the sector. Competition among private and state-owned providers has led to a substantial increase in the coverage and quality of public utility services in recent years.

The SSPD, created pursuant to the Colombian Constitution in 1991, is the supervisory agency which monitors and controls the provision of all public utility services. The LSPD framework created different regulatory authorities responsible for overseeing different services, including the CREG for the energy and gas sectors.

Regulatory Structure of the Electricity Market

The constitutional duties and responsibilities of the Colombian government with respect to the electricity sector are carried out through several governmental entities, including the following:

MME

The MME is responsible for the policy-making of the electricity sector, which aims for a better use of the mining and energetic resources available in the country to in turn aid in the social and economic development of the country.

DNP

The National Department of Planning (*Departamento Nacional de Planeación* or “DNP”), together with the Colombian National Council of Economic and Social Policy (*Consejo Nacional de Política Económica y Social* or “CONPES”), are technical entities responsible for conducting studies and advising the Colombian government on matters related to Colombia’s economic and social development, which include, for instance, the development of infrastructure projects.

MHCP

The MHCP is responsible for, among other duties, formulating Colombia’s tax, customs, public credit and fiscal policies.

CREG

The CREG is responsible for, among other duties, (i) promoting market competition; (ii) defining the Regulated and Unregulated end-user markets; (iii) establishing regulations for the planning and coordination of the operation of the National

Transmission System (*Sistema de Transmisión Nacional* or “STN”); (iv) establishing technical criteria relating to the quality, reliability and security of electricity supply; and (v) protecting users’ and customers’ rights.

CNO

The National Operation Council (*Consejo Nacional de Operación* or “CNO”) is a consultative entity composed by (i) one representative of each generation company accounting for more than 5% of the installed capacity of the NIS, (ii) two representatives appointed by state-owned generation companies accounting for between 1% and 5% of the installed capacity of the NIS, (iii) one representative appointed by transmission companies (which representative has limited voting rights), (iv) one representative appointed by all remaining generation companies, (v) the Director of the CND, who does not have voting rights, and (vi) two representatives appointed by distribution companies that do not engage primarily in generation activities.

The CNO is responsible for establishing technical standards to facilitate the efficient integration and operation of the NIS.

CAC

The Commercialization Advisory Committee (*Comité Asesor de Comercialización* or “CAC”) is an advisory entity created by the regulation which assists CREG with the commercial aspects of the Colombian Wholesale Energy Market (*Mercado de Energía Mayorista* or “MEM” or “Wholesale Market”). It is composed of (i) four representatives of companies that develop both the activities of generation and commercialization, (ii) four representatives of the companies that develop both the activities of distribution and commercialization, (iii) four representatives of commercialization companies and (iv) a representative of the ASIC, without voting rights.

SIC

The Superintendence of Industry and Commerce (*Superintendencia de Industria y Comercio* or “SIC”) investigates, corrects and sanctions restrictive commercial competition practices, such as disloyal competition. Likewise, the SIC is the competent Colombian antitrust authority. The SIC also oversees mergers of companies operating in the same productive activities to prevent the concentration or monopolization of certain industries.

SSPD

The SSPD is responsible for overseeing all public utility services companies. The SSPD monitors the efficiency of all utility companies and the quality of services, but does not regulate the electricity industry. The SSPD can also assume control over utility companies when the availability of utility services or the viability of such companies is at risk. Other duties of the SSPD include (i) enforcing regulations, imposing penalties and generally overseeing the financial and administrative performance of public utility companies, (ii) providing accounting norms and rules for public service companies, and (iii) in general, organizing information networks and databases pertaining to public utilities.

XM

XM, an affiliate of Grupo Empresarial ISA, is responsible for planning and coordinating the NIS’s operations, managing the commercial exchanges in the MEM and billing for the use of the NIS.

ASIC

The Colombian Administrator of the Commercial Exchange System (*Administrador del Sistema de Intercambios Comerciales* or “ASIC”) is a subdivision of XM which is responsible for the registration of contracts and the settlement and billing of all transactions that take place at the Wholesale Energy Market.

CND

The National Dispatch Center (*Centro Nacional de Despacho* or “CND”) is also a subdivision of XM and is responsible for the planning, supervision and control of the operations of the NIS.

Overview of Regulations Relating to Electricity Generation, Transmission, Distribution and Commercialization

Pursuant to applicable rules and regulations, the Colombian electricity sector is largely vertically segregated. In order to achieve efficiency in the provision of electricity services and encourage private sector investment, the LSPD and Law 143 segregated the electricity industry into four service functions: generation, transmission, distribution and commercialization.

The Colombian electricity sector includes a large number of market participants involved in one or more of the four different service functions. As of December 31, 2009, there were 43 generation companies, 9 transmission companies, 32 distribution companies and 72 commercialization companies.

Colombian law provides for a functional separation of the service functions in which the different types of market participants can operate, and different regulatory regimes to which each are subject to:

- the electricity utility companies that were vertically integrated prior to the enactment of Law 142 are permitted to continue engaging in all of the functions in which they were previously engaged to the extent that they maintain separate accounting records for each business activity; see “—*Functional Segregation of the Electricity Sector*;”
- for E.S.P. companies constituted after LSPD and Law 143, the following rules apply:
 - they can simultaneously operate activities considered as complementary, such as generation and commercialization, or distribution and commercialization;
 - generation and distribution activities are considered to be mutually exclusive; and
 - transmission companies cannot operate in any of the other activities.
- the purchase and sale of electricity can take place between electricity generators and distributors acting in their capacity as commercializers, sole commercializers (who do not generate or distribute electricity) and Unregulated Customers;
- customers in the unregulated market may freely contract for electricity supply directly from an electricity generator or a distributor, acting as a commercializer, or from a pure commercializer;
- trades of electricity to Regulated Users is subject to the “regulated freedom regime” under which tariffs are set by each commercializer using a combination of general cost formulas given by CREG and individual commercialization costs approved by CREG for each commercializer. The electricity is distributed to end-users through the networks of local distribution companies, although some large end-users have direct interconnections to regional transmission networks or the national grid; and
- CREG regulations establish certain other ownership and market share restrictions such as:
 - limits on the ownership interest that an electricity generation company may take in an electricity distribution company;
 - electricity generators can only exceed a market share of 25% of Colombia’s Firm Energy, under certain conditions; see “—*Functional Segregation of the Electricity Sector—Generation*”;
 - no company can have a market participation above 25% in the commercialization activity calculated on the basis of the company’s commercial demand, and considering non-domestic demand;
 - electricity transmission companies cannot decide on the level of investment required to expand the electricity transmission network or to establish utilization rights on the electricity transmission network as these decisions are made by the UPME; and
 - no distribution company can have a market share of over 25% in the distribution market, taking into account all electricity sales to end-users in the NIS.

General Characteristics of the System

After growing at an annual compounded rate of 3.0% from 2003 to 2009, Colombia’s total demand for electricity reached 54,679 GWh in 2009. Despite the growth trend in the demand for electricity, Colombia’s electricity demand is below most industrialized countries and some countries in Latin America. The UPME estimates that electricity demand will grow at

a rate between 2.2% and 4.2% per annum during the 2010-2031 period. The UPME expects that Colombia's demand for electricity in 2020 will be between 69,874 GWh and 88,330 GWh, and by 2031 will be between 88,421 GWh and 134,738 GWh.

As of December 31, 2009, the total net installed electricity generation capacity of the Colombian electricity system was 13,496 MW. Colombia's total installed electricity generation capacity was comprised of 8,997 MW (66.7%) from hydroelectric sources (including minor generation facilities), 4,445 MW (32.9%) from thermoelectric sources, and 53 MW (0.4%) from cogeneration facilities. As of December 31, 2009, Colombia's electricity needs were fully met by domestic supply. However, during the year, Colombia imported small volumes of electricity from Ecuador for security purposes at specific moments in time. The Colombian power grid is interconnected at three points with the Venezuelan power grid, and at two points with the Ecuadorian power grid. In 2009, Colombia imported 20.8 GWh from Ecuador. In 2009, Colombia exported 1,077 GWh and 282 GWh to Ecuador and Venezuela, respectively.

The STN is an interconnected system for electricity transmission formed by 14,046 km of transmission lines that operate at 220 kilovolts ("kV") or above. Out of the total network of transmission lines that comprise the STN, 2,399 km operate at 500 kV, and 11,674 km operate at 220-230 kV.

According to UPME estimates, Colombia's electricity generation capacity is expected to reach 17,822 MW by 2017. Also, interconnections with other power grids from Central America and the Caribbean are expected to increase by 2014 due to construction of the interconnection grid with Panama's infrastructure.

According to the Colombian Association of Electricity Generators (*Asociación Colombiana de Generadores de Energía Eléctrica*), investments by electricity generating companies made related to electricity generation projects for the period 2012-2018 are expected to exceed U.S.\$6.0 billion.

Functional Segregation of the Electricity Sector

Generation

Generation activities consist of the production of electricity through hydroelectric plants, thermoelectric plants and all other generation plants connected to the NIS.

Market Share and Vertical Integration

Pursuant to CREG regulations, electricity generation companies are subject to several restrictions. The following are the characteristics of generation market share:

- the principal market share metric used by CREG to regulate the generation market is the percentage of Firm Energy that a market participant holds;
- no market participant may hold more than 30% of Colombia's total Firm Energy. If an electricity generation company's share of Colombia's total Firm Energy ranges from 25% to 30% and the market's Herfindahl Hirschman Index ("IHH"), a measure of market concentration, is equal to or higher than 1,800, such company becomes subject to monitoring by the SSPD. If an electricity generation company's share of Colombia's total Firm Energy exceeds 30%, such company may be required to sell electricity exceeding such threshold;
- no electricity generator may have a participation in an electricity distribution company exceeding 25% of the distribution company's capital. However, this ownership restriction does not apply to affiliates or subsidiaries of electricity generation companies;
- the net effective capacity of a generator cannot exceed the power band (*franja de potencia*) adopted by CREG in connection with new acquisitions. The power band is calculated pursuant to CREG's regulations; and
- pursuant to article 74 of Law 143, the vertical integration of utilities incorporated after the enactment of such Law is prohibited. With respect to energy utility companies, this Law allows the integration of the activities of generation and commercialization or distribution and commercialization of energy. Likewise, according to Article 1 of CREG Resolution 095 of 1994, aiming to keep the activities referred to in Article 74 of Law 143 fully separated, the vertical integration of utilities incorporated before the enactment of Law 143 of 1994 with utilities incorporated after such enactment is not permitted.

The Electricity Market

The MEM is based on a competitive market model and operates under open access principles. The Colombian government participates in this market through an institutional structure that is responsible for setting forth policies and regulations, as well as for exercising surveillance and control powers in respect of market participants. See “—*Operation of the MEM.*” The MEM relies for its effective operation on a central agency known as the ASIC. This agency is in charge of the registration of contracts and the settlement and billing of all the transactions that take place at the MEM.

The MEM is formed by various systems for the exchange of information between electricity generation and commercialization companies operating in the NIS. These systems are designed to enable market participants to make short- and long-term electricity transactions. All of the electricity supply offered by generation companies connected to the NIS and all of the electricity requirements of end-users, whose demand is represented by commercialization companies, is traded at the MEM. The NIS is formed by generation plants, the STN, the regional and inter-regional transmission lines, the distribution lines and the electrical loading points of the users.

Substantially all of the electricity generated in Colombia is initially purchased on a wholesale basis through the MEM. The demand is covered through electricity sales contracts between electricity generators and commercializers. In the daily process, the participating agents converge on the spot market, adjusting their hourly transactions. XM, through CND, conducts the planning, supervision and control of the operation of the resources of the NIS. Also, the Liquidator and Administrator of Accounts (*Liquidador y Administrador de Cuentas* or “LAC”) is responsible for liquidating the transactions, and XM manages the ASIC and is in charge of the settlement and administration of the charges for the use of networks (STN and STR) in the NIS.

The designated participants of the MEM are generation and commercialization companies. Generation companies are required to participate in the MEM with all of their generation plants or units connected to the NIS with capacities equivalent to or exceeding 20 MW. Generation companies declare their energy availability and the price at which they are willing to sell it. This electricity is centrally dispatched by the CND.

All commercialization companies, which deal with end-users connected to the NIS, are required to conduct their electricity transactions through the MEM.

Electricity transactions in the MEM are carried out under the following modalities: the energy spot market, bilateral contracts and Firm Energy. All generation companies in the MEM can freely enter into any or all of these transactions.

Energy Supply Contracts Market

The dominance of hydroelectric generation and the marked seasonal variations in Colombia’s hydrology result in price volatility in the spot market. In order to mitigate this volatility, electricity generators can enter into energy supply contracts with distributors, commercializers or unregulated end-users. In addition, electricity generators can hedge against this volatility by entering into back-up energy supply contracts with each other. The terms and conditions of the contracts are freely agreed to by the parties and are governed by contract law. These agreements must be submitted for registration with XM.

The terms of the agreements for the sale or supply of energy between electricity generators, distributors, commercializers and unregulated end-users are not regulated, and no prior approval from CREG (or any other governmental entity) is required.

Energy Spot Market

The MEM relies on a single node system. Under this system, the transmission network is considered neutral, which implies that the electricity generator sets its daily price offer and its hourly availability declaration without considering the physical and technical restrictions of the transmission network. Electricity resources to be dispatched at a particular time are selected based on the lowest price offers. This mechanism is known as the optimal dispatch, and differs from the real dispatch because in the latter the CND takes into account the restrictions that may affect the transmission network. This price ranking system is intended to ensure that national (and applicable international) demand will be satisfied by the lowest possible cost combination of available generating units.

The price offered by generation companies that participate in the MEM reflects the variable costs of generation as well as opportunity costs. The price of the last resource used to meet the total demand in each hour is the one that sets the price to be used to pay all the inframarginal resources at the same hour, and it is known as the spot price. Electricity demand from commercialization companies that is not covered by bilateral contracts is settled at the spot price. Since December 1, 2006, electricity generators connected to the NIS are entitled to a payment known as the Reliability Payment. See “—*Electricity Generation—Revenues of Electricity Generation Companies—The Reliability Payment.*”

Bilateral Contracts Market

In the bilateral contracts market, generation and commercialization companies sell and purchase electricity under the terms of mutually and freely agreed contracts. The purpose of these contracts is to reduce the exposure of both the supplier and the end-user of electricity, to price volatility in the short-term market. The generation companies that initially entered into the agreement, or other electricity generators determined under the optimal dispatch mechanism, deliver the electricity committed under these contracts through the Energy Spot Market. There are no restrictions as to the amounts of electricity that a generation or commercialization company can commit under these agreements or as to the periods of time that may be covered therein. The only requirement is for the contract to specify the quantity of electricity that will be used on an hourly basis to enable ASIC to do the settlement.

The purchase of electricity by commercialization companies through bilateral contracts to supply the demand of Regulated Users is subject to certain rules aimed at ensuring fair competition among electricity generators. On the other hand, the purchase of electricity by commercialization companies through bilateral contracts to supply the demand of Unregulated Customers is freely negotiated between the parties to the contract. Companies engaged in both the generation and the commercialization businesses may only purchase up to 60% of their own electricity for sale on the Regulated Market, and are required to participate in the electricity market on the same terms as any other electricity generator in order to purchase the additional electricity that they may require.

Firm Energy Auctions

Firm Energy auctions are aimed at (i) allocating Firm Energy among electricity generators and prospective investors willing to commit to construct new generation assets to provide additional capacity to supply Firm Energy and (ii) ensuring a reliable and price-efficient supply of Firm Energy in the long-term. The allocation of Firm Energy among electricity generators and investors is conducted through a dynamic auction mechanism. The electricity demand of end-users connected to the NIS is determined by a price/quantity function established by the CREG in anticipation of the auction. Firm Energy auctions are conducted four years in advance of the date on which the Firm Energy obligation is due. The price of Firm Energy obligations is established through descending clock Dutch auctions.

In order to provide a funding mechanism for electricity projects for which development may take longer than the planning period, electricity generators and investors are authorized to sell a portion of their future Firm Energy under special circumstances, in auctions that take place within ten through five years before the Firm Energy of their projects becomes available. Once electricity generators and investors have sold part of their future Firm Energy under the special mechanism created by the CREG, they are required to participate in the auctions with the Firm Energy that has not been committed under the same rules applicable to all other participants.

The first Firm Energy auction took place in May 2008 and allocated Firm Energy commitments from December 2012 to November 2013. The next Firm Energy auction is expected to take place in 2015 or 2016.

Operation of the MEM

Access to the MEM is granted to generation and commercialization companies pursuant to agreements executed with XM. These agreements, also known as mandates, enable XM to act on behalf of generation and commercialization companies in the transactions conducted at the MEM and entitle XM to collect and distribute revenues resulting from the charges for the use of the STN and from transactions conducted in the energy spot market. Essentially, XM clears and settles MEM transactions and functions similar to a clearinghouse.

The mandates granted to XM include transmission, distribution, electricity generation and commercialization mandates. Under the transmission and distribution mandates, XM conducts the billing, collection, payment and settlement of charges for the use of transmission assets owned by electricity transmission companies and billing and settlement of charges by electricity regional transmission companies. Under the generation mandates, XM undertakes the clearing and settlement of electricity purchases and the billing and collection of amounts owed by purchasers to electricity generators as a result of

transactions carried out at the MEM. Under the commercialization mandates, XM undertakes the clearing and settlement of electricity purchases and the billing and collection of amounts owed by purchasers to electricity traders as a result of transactions carried out at the energy spot market.

XM also records all the energy supply contracts entered into by electricity generators and commercialization companies, analyzes dispatch on an hourly basis and calculates the amounts owed to or by electricity generators and commercialization companies under bilateral contracts or as a result of spot transactions. XM only bills and collects the amounts owed with respect to transactions executed at the MEM.

Dispatch and Pricing

The main purpose of the spot market is to enable participants such as electricity generators, traders and distributors (acting as traders) and Unregulated Customers (through traders) to purchase and sell electricity. The spot market provides the means for conducting sales of excess electricity that has not otherwise been committed under contracts or spot sales. The spot price for electricity traded on the spot market is the price of the highest priced generating unit dispatched in hourly periods based on the Optimal Dispatch mechanism to cover the demand.

Electricity generators in the spot market submit supply bids to XM daily in which they establish the daily prices for the electricity they generate and the available capacity, on an hourly basis, for the next day. Based on those bids, XM ranks electricity generators using the Optimal Dispatch system, which is a system that assumes unlimited transmission capacity through the NIS and disregards network restrictions. The ranking starts with the lowest bids and establishes, on an hourly basis, the merit order in which electricity generators would be dispatched on the following day to meet expected electricity demand. The price ranking system is intended to ensure that national demand, including international demand, is satisfied by the lowest cost combination of available generating units in Colombia.

In addition to the Optimal Dispatch mechanism, XM also uses a planned dispatch mechanism that takes into account the restrictions of the NIS as well as every other condition necessary to supply electricity demand expected for the following day in a predictable, reliable and cost efficient manner. XM periodically reviews the planned dispatch mechanism in response to changes that may affect the system throughout the day, including demand, availability and system restrictions, among other changes.

The differences between real dispatch capacity and optimal dispatch are known as “restrictions.” Restricted Generators, which are electricity generators whose actual generation is lower than Optimal Dispatch, are charged with the market price. Out-of-Merit Generators, which are electricity generators whose actual generation is greater than Optimal Dispatch, are credited with the difference. This credit is determined taking into account the regulated pricing mechanism set forth by the CREG. The net value of these restrictions is allocated proportionally among traders within the NIS in light of their electricity demand. The unavailability of electricity transmission assets, for reasons such as technical limitations or as a result of terrorist attacks, leads to significant increases in network restrictions. These restrictions, in turn, lead to increases in customers’ claims related to tariff increases. The CREG has intervened in the settlement of restrictions through several resolutions, which, among others, provide that in the case of Restricted Generators the difference between actual and Optimal Dispatch is determined using the spot price. Also, CREG regulations provide that Out-of-Merit Generators have a maximum cap on the recognized price, in accordance with pre-established values based on operating costs.

The Reliability Payment

In order to ensure the continued supply of electricity even throughout periods of electricity scarcity, in December 2006 the CREG adopted the Reliability Payment mechanism. This mechanism replaced the Capacity Payment mechanism that was in place for approximately ten years. The Reliability Payment is intended to compensate generation plants that contribute to the predictability and stability of generation during certain periods through a system of firm delivery of electricity. One of the essential features of this scheme is the existence of Firm Energy Obligations, or OEF, which is a commitment on the part of electricity generators backed by a physical resource capable of generating Firm Energy during scarcity periods. Firm Energy is the maximum electric energy that a generation plant is able to deliver on a continual basis during a year in extreme conditions of hydro inflows. Firm Energy is a product that has been designed to guarantee the reliability and efficiency of the supply of electricity in the long term, providing investment incentives, electricity back-up during critical periods and peak price hedging. The obligation to supply Firm Energy arises when the spot price reaches the Scarcity Price; in this event, generation companies with OEF allocations are required to supply a certain daily quantity of electricity at the Scarcity Price.

The Reliability Payment scheme aims to ensure the reliability in the supply of energy in the long-run at efficient prices. Electricity generators awarded with Firm Energy Obligations are entitled to compensation during the terms of the respective obligations and, in consideration for such compensation, are required to deliver the awarded Firm Energy at the price set for such Firm Energy when, as said before, the electricity spot price is higher than the Scarcity Price. ASIC settles and collects such compensation, which is paid by all of the end-users of the NIS through fees charged by commercialization companies.

The Scarcity Price, which is established by the CREG and updated monthly based on the variation of the Fuel Price Index, has a twofold purpose. On one hand, it indicates the time when the different generation units or plants will be required to fulfill their Firm Energy commitments, which happens when the spot price exceeds the Scarcity Price, and on the other hand, it is the purchase price for this electricity.

Firm Energy can be acquired through centralized transactions at the ASIC. Firm Energy is auctioned and allocated only among electricity generators or investors that have or are planning to own generation assets.

Contingency Mechanisms for the Reliability Payment

The contingency mechanisms relating to the Reliability Payment are market instruments designed to facilitate the supply of electricity during scarcity periods and compliance by electricity generators with their Firm Energy obligations. The several levels of contingency mechanisms include:

- *Secondary Market.* The secondary market for Firm Energy is a bilateral contracts market, where only electricity generators participate. The electricity generators who offer their electricity supply are those with available Firm Energy that has not been subject to OEFs, auctioned or committed under secondary market contracts.
- *Voluntary Disconnectable Demand.* Electricity generators that may not have enough electricity to meet their Firm Energy requirements may approach end-users of the NIS with back-up generation equipment or with the ability to modify their productive process, in order to have these end-users reduce their electricity demand. In this case, the demand reduction done by end-users is deducted from the electricity generator's obligation and, in exchange, the electricity generator is required to compensate the commercialization company that represents these end-users, at a price previously agreed upon between these two parties.
- *Generation Auction of Last Resource.* This mechanism involves generation assets that do not participate in electricity auctions or in the MEM. These generation resources are utilized exclusively to totally or partially cover the Firm Energy that has already been allocated to an electricity generator.
- *Reconfiguration Auction.* Based on the latest electricity demand projections for the year "t," the CREG evaluates in years "t-2" and "t-1" whether the Firm Energy allocated for "t" is sufficient to cover the demand for that year. If the CREG considers it necessary to adjust the Firm Energy allocations, it may announce a date for a reconfiguration auction to purchase (if it is a shortfall situation) or a reconfiguration auction to sell (if it is a Firm Energy surplus situation).

International Electricity Transactions

International electricity transactions are currently in place with Ecuador and Venezuela under different regulatory regimes. With respect to Ecuador, the regime is known as "TIES," which is a short-term operational and commercial energy exchange. This regime takes into account the difference of electricity prices between countries. This difference in prices results in what is known as congestion income or "*rentas de congestión*." International interconnection payments are made through charges for the use of the STN.

With respect to Venezuela, international electricity transactions are agreed to under bilateral contracts between market participants. International interconnections with Venezuela are considered connectivity assets, although they are not deemed to be part of the STN. Interconnection fees are freely agreed to between the parties.

Also, interconnections with the power grids of countries in Central America are expected to increase by 2014 due to construction of the interconnection grid with Panama's infrastructure, which would grant access to Central America's regional electricity market. See "*—Functional Segregation of the Electricity Sector—Transmission.*"

Commercialization

The commercialization activity consists of the intermediation between end-users and all other agents that are involved in the electricity chain (generation, distribution and market administrators, among others). Electricity commercialization can be performed by both electricity generators and distribution companies, as well as by pure commercialization companies that are not involved in other aspects of the electricity chain and do not own electricity infrastructure. The commercialization company purchases electricity in the Wholesale Market to resell it to end-users. Also, commercialization companies provide services such as billing and collection, metering and customer services, among others.

- ***Regulated Market.*** The Regulated Market is comprised of individual customers and industrial users, residential or commercial, with electricity demands below 0.1 MW or monthly consumption lower than 55 MWh. Users in the Regulated Market are free to select any service provider. However, tariffs are subject to a regulated liberty (*libertad regulada*) regime. The tariffs applicable to the Regulated Market are set forth by the CREG according to predetermined formulas. Purchases of electricity in the Regulated Market are made through public bids in order to ensure open and free access. Companies engaged in both the generation and the commercialization businesses may only purchase up to 60% of their own electricity for sale on the Regulated Market.
- ***Unregulated Market.*** The Unregulated Market is comprised of electricity consumers that either have a peak demand greater than 0.1 MW or a minimum monthly consumption greater than 55 MWh. In general, this segment is attended by generation and commercialization companies. Purchases of electricity in this segment can be freely made among participants at freely negotiated prices.

Individual commercialization companies may not, directly or indirectly, account for over 25% of the sector's total electricity sales at any time. If a commercialization company exceeds such restriction, it may be required to reduce its market share to less than 25% of the sector's total electricity sales. While Law 143 prohibits vertical integration between electricity generators and distributors, it allows both types of entities to participate in electricity commercialization activities. In order to determine whether an electricity generation or commercialization company is in compliance with Colombia's Firm Energy limitations or maximum ownership interests permitted, the applicable CREG regulations provide that ownership interests that any given company may have must be added to those of other companies that are controlled by or under common control with such company.

Transmission

Transmission activity consists of transporting electricity through the STN. The STN is an interconnected system for electricity transmission formed by three subsystems, one in Colombia's Atlantic coast region, one in Colombia's central region and one in Colombia's southwest region. The STN comprises 14,073 km of transmission lines that operate at 220 kV or above. The Colombian power grid is interconnected at three points with the Venezuelan power grid and at two points with the Ecuadorian power grid.

The STN is owned by nine electricity transmission companies, the largest being the state-controlled ISA, which controls 72% of the electricity transmission market. Although the Colombian government owns the STN through different state-owned companies, the Colombian electricity transmission system operates as a centralized system administered by XM.

The STN operates under open access principles. All market participants in the electricity industry are entitled to access the STN to the extent that they comply with legal, technical and certain payment obligations, including the payment of interconnection and usage charges. Electricity transmission companies have a less active role than other participants in the electricity industry. The main role of electricity transmission companies is to reach end-users via the STN, while maintaining required quality standards and asset availability. Electricity transmission companies cannot engage in the purchase or sale of electricity. Also, these companies have no decision-making power in respect of the expansion of the STN or in respect of the STN's utilization parameters. These decisions are made by MME following studies and recommendations made by the UPME. The revenues of electricity transmission companies are aimed at recouping their investments in the STN, as well as their operation and maintenance costs.

Electricity generation, distribution, and commercialization companies and integrated companies may own more than 15% of the capital stock of an electricity transmission company, provided that the income of such electricity transmission company attributable to transmission activities is less than 2% of the total income from electricity transmission of the STN.

Distribution

Distribution activities consist of transporting and delivering electricity to end-users through the Regional Transmission System (“STR”) and the Local Distribution System (“SDL”). The distribution is made by network operators (*operadores de red* or “ORs”). ORs are in charge of planning the expansion, investment, operation and maintenance of all or part of the STR or SDL. Assets may be owned by ORs or by third parties, although the expansion of the system is the responsibility of the ORs. In Colombia, there are 32 distribution companies, with eight of them controlling the majority of the distribution market in Colombia.

The SDL is an electricity distribution network formed by distribution lines and substations that operate at voltages lower than 57.5 kV (Levels 1, 2 and 3) and which are devoted to the rendering of electricity services in one commercialization market. The STR is an electricity transmission system formed by transmission lines and substations that operate between 57.5 kV and 220 kV (Level 4). An STR may be owned by one or more ORs.

The CREG is responsible for establishing the regulated Distribution Charges. Such charges are reviewed every 5 years. Distribution charges for STR (Level 4) are set using a Revenue Cap methodology, while charges related to Levels 3, 2 and 1 are set using Price Cap methodology. In the case of Level 4, income of the OR is guaranteed regardless of the energy demand of the area. In the cases of Levels 3, 2 and 1, income of the OR depends on the energy demand.

With respect to assets, constructive units (physical amounts) are defined and valued by the CREG. The administration, operation and maintenance (“AOM”) income is calculated using historic values of AOM expenses, provided that service quality improves. The CREG also defines the weighted average cost of capital–WACC, which is the regulated discount rate. The measure of electricity transmitted also takes into account efficiency on the management of energy losses. Once the methodology is defined, charges of distribution by level of tension are approved for each OR.

Pursuant to CREG regulations, electricity distribution companies cannot have, directly or indirectly, ownership interests in electricity generation companies in excess of 25%. This ownership restriction is not applicable to affiliates or subsidiaries of the relevant electricity distribution company. Also, electricity distribution companies may have ownership interests in excess of 25% of the shareholdings of integrated companies that perform electricity generation, distribution and commercialization activities, provided that the integrated company’s electricity generating capacity does not exceed 2% of the total Firm Energy declared for purposes of the Reliability Payment.

BUSINESS

Emgesa

We are engaged in the electricity generation and commercialization business in Colombia. We are the largest electricity generator in Colombia measured both by total electricity generation, with a market share as of September 30, 2010 of 20.2%, and by installed capacity, with a market share as of September 30, 2010 of 21.2%. We supply electricity to distribution companies, large industrial and commercial customers and other electricity generation companies in the NIS. We are a utility company (*empresa de servicios públicos* or “E.S.P.”) established as a privately owned stock corporation (*sociedad anónima*) under Colombian law.

We operate ten hydroelectric power plants and two thermoelectric power plants. As of September 30, 2010, we had a total installed capacity of 2,914 MW, of which 2,471 MW (84.8%) is attributable to our hydroelectric power plants and 444 MW (15.2%) is attributable to our thermoelectric power plants.

We are currently building the El Quimbo hydroelectric power plant located in the Department of Huila, approximately 70 km from the city of Neiva, on the Magdalena River, Colombia’s largest river, in the southeastern region of Colombia. The plant, which we expect to complete in 2014, will have an installed capacity of 400 MW, and is expected to achieve an average power generation of 2,216 GWh per year. The El Quimbo hydroelectric power plant was awarded to Emgesa in the Firm Energy auction in 2008, as a result of which Emgesa was allocated additional Reliability Payments of nearly U.S.\$430 million to be received from December 2014 until November 2034.

Our adjusted EBITDA was Col\$1,106,611 million (U.S.\$541 million) for fiscal year 2009 and Col\$826,934 million (U.S.\$459 million) for the nine months ended September 30, 2010.

History and Overview

Emgesa is the result of the merger of two Colombian generation companies, Emgesa S.A. E.S.P. (“Former Emgesa”) and Central Hidroeléctrica de Betania S.A. E.S.P. (“Betania”). Former Emgesa was incorporated on October 23, 1997 by Capital Energía S.A. (“CESA”), pursuant to the restructuring process of EEB in 1997, by which EEB’s electricity generation business was transferred to Former Emgesa and its electricity distribution business was transferred to Codensa. As such, CESA, a consortium formed by Endesa Chile and Endesa Spain, acquired 48.5% of the capital stock of Former Emgesa (which included 56.4% of the voting shares), and EEB retained the remaining 51.5% (which included 43.6% of the voting shares).

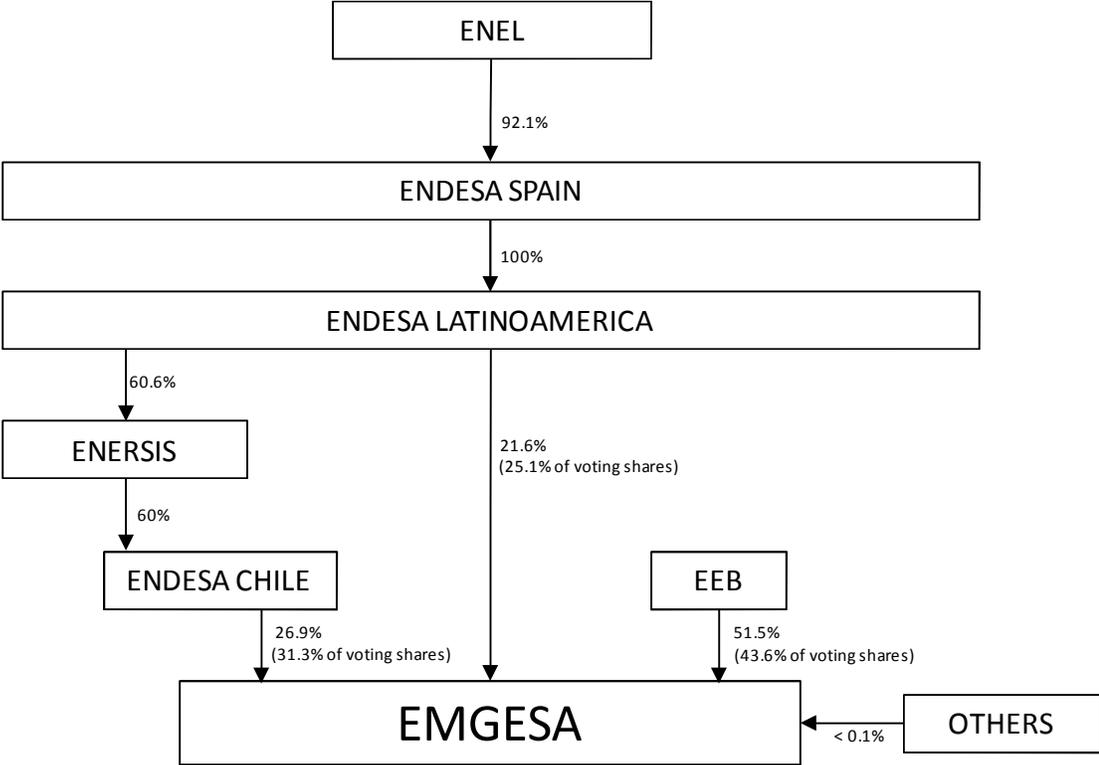
Betania was incorporated on October 15, 1980 as an industrial and commercial electricity generation utility company controlled by the Colombian government. Betania’s original shareowners were Icel (Ipse), ISA, and the power distribution companies of the departments of Huila, Caldas, Cundinamarca, Tolima, Boyacá, Cauca, Nariño and Norte de Santander. Endesa Chile obtained control of Betania in December 1996 when the Colombian government sold its stake in Betania in connection with a privatization initiative.

On December 14, 2006, Betania and Former Emgesa entered into a merger agreement. On February 20 and 21, 2007, the shareholders of Betania and Former Emgesa, respectively, approved the merger and on August 29, 2007 the merger was consummated, with Betania continuing as the surviving corporation. In connection with the merger, Betania changed its name to Emgesa S.A. E.S.P. (our company, the current “Emgesa”). The merger was structured so that Endesa Spain and EEB retained the same ownership interests in the surviving corporation that they held in Former Emgesa before the merger.

Endesa Chile, a Chilean publicly held limited liability stock company, together with its affiliate (Endesa Latinoamerica), owns 48.5% of the capital stock of Emgesa, and 56.4% of the voting shares. Pursuant to the terms of a shareholders agreement between Endesa Chile and Endesa Latinoamerica, Endesa Chile has the right to appoint a majority of Emgesa’s board of directors (one of which is required to satisfy the independence requirements under Colombian law). Endesa Chile is 60.0% owned by Enersis, a Chilean publicly held limited liability stock company engaged in electricity generation, transmission and distribution in five South American countries. Over the last five years, Enersis through its affiliates has added more than 1.5 GW of new capacity in Latin America. Enersis is 60.6% owned by Endesa Latinoamerica, which in turn is 100% owned by Endesa Spain, a Spanish electricity generation and distribution company with operations in Latin America through Enersis and other direct investments, as well as significant electricity assets in Europe. Endesa Spain is 92.1% owned by the Italian utility Enel, making Enel the ultimate controlling entity of Emgesa. Enel has approximately 95 GW of installed capacity and more than 61 million customers worldwide.

EEB holds 51.5% of the capital stock of Emgesa and 43.6% of the voting shares. EEB is a Colombian state-owned integrated financial and energy holding company through which the District of Bogotá participates in the electricity generation, transmission, commercialization and distribution businesses, as well as in the natural gas industry.

The following chart depicts our ownership structure:



Enersis, Endesa Latinoamerica and EEB are the controlling shareholders of Codensa, the largest electricity distribution company in Colombia. Codensa, one of Emgesa’s affiliates by virtue of being controlled by Emgesa’s controlling shareholders, is Emgesa’s largest customer, accounting for 27.4% of Emgesa’s total operating revenues in 2009. In addition, Emgesa and Codensa have entered into a shared services agreement pursuant to which they have combined their financial, administrative, legal, regulatory, communications, control planning and human resources functions. See “*Related Party Transactions.*”

Our Strategy

Our strategy is based on the following four key objectives:

- (1) grow our market leadership in Colombia by expanding our generation capacity to satisfy increasing electricity demand;
- (2) remain as one of the lowest cost producers in Colombia by maintaining a high concentration of hydroelectric generation plants and applying operational efficiency at all levels of our organization;
- (3) maintain a prudent commercial risk profile by balancing contractual commitments with the sale of excess electricity in the spot market in order to reduce our exposure to fluctuation in spot prices during periods of extreme hydrological conditions; and

- (4) engage in a proactive and transparent dialogue with our regulators in order to exert leadership in the electricity sector, which in turn benefits all of our stakeholders.

Competitive Strengths

We believe that our strategy is supported by our competitive strengths described below:

- *Market Leader.* We are the market leader in electricity generation in Colombia as measured by total electricity generation. During 2007, 2008 and 2009, we generated 22.2%, 23.7% and 22.6% of the total amount of electricity generated in Colombia, respectively. In 2008, we were awarded the right to build the 400 MW El Quimbo hydroelectric plant as part of Colombia's Firm Energy auctions, enabling us to grow our electricity generation business in Colombia. We continuously evaluate other opportunities for additional growth consistent with our objective to maintain our position as market leader.
- *High Quality Asset Portfolio.* We hold strategic assets that we consider vital for the Colombian electricity generation sector. In addition, the geographic diversification of our hydroelectric assets and our sources of energy, which are located in three different river basins, gives us a competitive advantage in the Colombian electricity generation sector. As a result of our regular maintenance programs, we are able to maintain the availability to generate electricity in accordance with international standards.
- *Low Cost Producer.* Our significant hydroelectric generation capacity, which represents 84.8% of our total generation capacity (compared to an overall average of 67% of hydroelectric generation capacity in the NIS), enables us to achieve low electricity generation costs. Our hydroelectric generation assets are among the first to be used under normal hydrological conditions. Our two thermoelectric power plants provide balance and support to our asset portfolio, enabling us to develop operational strategies to address low hydrology periods. In addition, we seek excellence in all of our technical and management areas, thereby leading to lower costs than those of our competitors.
- *Experienced Strategic Owners.* Our strategic owners, the Enel Group and EEB, have significant experience in the electricity generation business. Endesa Chile, which controls us, is one of the largest publicly listed electricity generation companies in Latin America, and is in turn owned and controlled by Enersis, Endesa Spain, and ultimately the Italian utility Enel. Endesa Chile has developed and built some of the largest hydroelectric projects in Latin America. Over the last five years, Enersis through its affiliates has added more than 1.5 GW of new capacity in Latin America. The other companies in our chain of control also add and share significant know-how and expertise in the electricity generation sector. EEB is engaged directly and through its related companies in all segments of the electricity business in Colombia. Our owners provide us strategic support in analyzing and evaluating market opportunities and operational efficiencies.
- *Commercial Policy that Optimizes Returns on Asset Portfolio.* We have implemented a commercial policy that seeks to balance our contractual commitments to supply electricity with our electricity generation capacity, thereby optimizing our mix of revenues from contract sales and spot sales. We seek to enter into electricity supply contracts with terms ranging between one and three years with creditworthy counterparties, including our largest customer, Codensa, an affiliate of ours, which accounted for 27.4% of our operating revenues in 2009. We engage in spot sales to maximize the commercial margin of our business in the short-term through effective resource management, market opportunities and future risk perception.
- *Firm Energy Provider.* We have a competitive advantage resulting from our substantial ability to maintain the availability to generate electricity above the industry average in Colombia. As a result of the firm availability and reliability of our power plants, we have been assigned the right to receive Reliability Payments, which are payments made to electricity generators as compensation for their firm commitment to supply electricity generation to the NIS during scarcity periods to avoid electricity shortages, of U.S.\$859 million for the four-year period between December 2010 and November 2014 for maintaining available electricity capacity or Firm Energy. We expect to receive significant compensation on account of Reliability Payments from the development of our El Quimbo project for the provision of Firm Energy.
- *Strong Financial Profile.* We have a low financial leverage, sound and stabilized cash flow generation and a strong cash liquidity base with excellent access to financial markets. Our financial strength provides us a competitive advantage in the realization of our strategic objectives. Our ratio of net debt to adjusted EBITDA for fiscal year 2009 was 1.0x and our annualized net debt to adjusted EBITDA for the nine months ended September 30, 2010 was 1.5x, while the ratio of

total debt to adjusted EBITDA remained at 1.6x during both periods. Also, our financial leverage, measured as total debt to shareholders' equity, was 30.1% as of December 31, 2009 and 33.0% as of September 30, 2010. Our adjusted EBITDA was Col\$1,106,611 million (U.S.\$541 million) for fiscal year 2009 and Col\$826,934 million (U.S.\$459 million) for the nine months ended September 30, 2010. Our ratio of adjusted EBITDA to interest expense for the fiscal year 2009 and for the nine months ended September 30, 2010 was 5.7x and 8.4x, respectively.

- *Experienced Management Team.* Our senior executives and their management teams have extensive experience and expertise in all relevant fields. Our principal executives have an average of 19 years of relevant sector-related experience.
- *Proactive Leader of Sector Initiatives.* Our proactive participation in the electricity regulatory sector enables us to provide sector leadership. We participate in a proactive and transparent manner with governmental entities involved in our regulatory sector to promote efficient and balanced improvements to the legal and regulatory framework. We seek to develop significant environmental impact mitigation initiatives, and encourage appropriate use of water and fuels, as well as non-conventional renewable sources. Our proactive approach enables us to provide sector leadership on issues of importance to us and to all of our stakeholders, including our customers, shareholders, bondholders, other creditors, employees and citizens in the communities in which we operate, while maintaining the highest standards in environmental and social responsibility.

Electricity Generation Assets

Our portfolio of power generation facilities consists of ten hydroelectric plants in three different river basins and two thermoelectric plants, one of which operates on natural gas and/or diesel oil and one of which operates on coal. The following table sets forth information relating to our power plants:

Power plants as of September 30, 2010				
	Type	Fuel type	In service since	Installed Capacity (MW)
Guavio	Reservoir	Water	1992	1,213
Betania	Reservoir	Water	1987	541
La Guaca	Reservoir / Run of the river	Water	1985	325
Paraiso	Reservoir / Run of the river	Water	1985	277
Charquito	Run of the river	Water	2003	20
La Tinta	Run of the river	Water	2003	20
Tequendama	Run of the river	Water	2004	20
San Antonio	Run of the river	Water	2004	20
La Junca	Run of the river	Water	2005	20
El Limonar	Run of the river	Water	2003	18
Termozipa	Open cycle	Steam turbine / coal	1964 - 1984 ⁽¹⁾	236
Cartagena	Open cycle	Steam turbine / natural gas + diesel oil	2006	208

⁽¹⁾ Termozipa has four units that have been in service starting on varying dates.

System Operation and Market Structure

We operate only in Colombia, which has a single interconnected national electricity grid (the NIS), existing interconnections with Ecuador and Venezuela, and a planned interconnection with Panama. We sell electricity primarily in Colombia but also in Ecuador and Venezuela. Substantially all of the electricity generated in Colombia is initially purchased on a wholesale basis through the MEM. The MEM is formed by various systems for the exchange of information between electricity generation and commercialization companies operating in the NIS. These systems are designed to enable market participants to make short and medium-term electricity transactions. All the electricity supply offered by generation companies connected to the NIS is traded at the MEM.

The designated participants of the MEM are generation and commercialization companies. Generation companies are required to participate in the MEM with all of their generation plants or units connected to the NIS with capacities equivalent to or exceeding 20 MW. Generators declare their energy availability and the price at which they are willing to sell it. This electricity is centrally dispatched by the CND. All commercialization companies that deal with end-users connected to the NIS are also required to conduct their electricity transactions through the MEM.

Electricity transactions carried out in the MEM include sales in the spot market, supply contracts and Firm Energy auctions. All generation companies in the MEM can freely enter into any or all of these transactions. See “*Industry—Functional Segregation of the Electricity Sector—Generation—The Electricity Market.*”

Electricity generation companies in Colombia derive revenues from:

- electricity sales;
- Reliability Payments, which are payments made to electricity generators as compensation for committing to generate electricity to the NIS during scarcity periods to avoid electricity shortages (see “*Industry—Functional Segregation of the Electricity Sector—Generation—The Reliability Payment.*”);
- payments for automatic generation control (*control automático de generación* or “AGC”), which are fees paid to electricity generators by XM acting on behalf of electricity generators in the MEM, for implementing technology that moderates the frequency of electricity in order to guarantee the quality of electricity along the STN; and
- the provision of ancillary services, such as technical and connection services to Unregulated Customers.

The pricing and other terms of the electricity supply contracts are determined either through public bids or direct bilateral negotiations. Any remaining non-contracted generated electricity is sold on the spot market. See “*Industry—The Electricity Market.*”

The following table sets forth information relating to the NIS’s power generation for years 2007, 2008 and 2009:

	NIS’ consolidated hydro/thermoelectric generation ⁽¹⁾					
	Year ended December 31,					
	2007		2008		2009	
	(GWh)	%	(GWh)	%	(GWh)	%
Hydroelectric	41,823	78.0	43,520	80.0	38,714	69.2
Thermoelectric	9,042	16.9	7,733	14.2	14,488	25.9
Other	2,760	5.1	3,142	5.8	2,764	4.9
Total	53,624	100	54,395	100	55,966	100

⁽¹⁾ Generation minus internal consumption and technical losses.

Demand in Colombia's electricity market has been affected by the agreement on Energy International Transactions governing the interconnection with Ecuador's electricity system, which began operations in 2003. During 2009, physical sales to Ecuador reached 1,077 GWh, 567 GWh higher than the 510 GWh reached in 2008.

The following table sets forth information relating to our power generation for years 2007, 2008 and 2009:

Emgesa's consolidated hydro/thermoelectric generation⁽¹⁾

	Year ended December 31,					
	2007		2008		2009	
	(GWh)	%	(GWh)	%	(GWh)	%
Hydroelectric	11,416	95.7	12,414	96.1	11,688	92.3
Thermoelectric	515	4.3	501	3.9	971	7.7
Total	11,931	100.0	12,915	100.0	12,660	100.0

⁽¹⁾ Generation minus internal consumption and technical losses.

During the last quarter of 2009 and the first half of 2010, very dry hydrological conditions in the Colombian system related to El Niño resulted in less hydroelectric generation. Emgesa reduced its hydro generation in 2009 by 726 GWh and increased its thermal generation by 470 GWh as compared to 2008 generation. Part of this decrease was replaced by thermoelectric generation (470 GWh more than in 2008).

Market Share

The following table shows the composition of the Colombian electricity generation market for the period indicated, as measured by Firm Energy as calculated in accordance with Resolution CREG 060/07:

For the period from December 1, 2009 through November 30, 2010		
Company	Firm Energy GWh/annual	Participation in Firm Energy%
Emgesa.....	13,624	20.8
EPM.....	12,529	19.1
Gecelca	9,184	14.0
Isagen.....	8,502	13.0
Termoflores	3,475	5.3
Epsa	3,294	5.0
AES Chivor.....	2,925	4.5
Gensa	2,575	3.9
Termoemcali	1,753	2.7
Merilétrica.....	1,404	2.1
Termotasajero	1,349	2.1
Urrá.....	716	1.1
Proelectria.....	708	1.1
Other	3,475	5.3
Total.....	65,514	100.0

The following tables summarize Emgesa's market share for the periods indicated in terms of installed capacity, generation, AGC service fees and Firm Energy:

Market	For the year ended December 31,		
	2007	2008	2009
Emgesa installed capacity (MW)	2,829	2,895	2,895
Market share (%)	20.8	21.2	21.1
Production (GWh)	11,930	12,915	12,660
Market share (%)	22.2	23.7	22.6
AGC service sales (GWh).....	662	522	730
Market share (%)	25.4	21.6	29.4

Market	For the twelve months		
	December 1, 2007 through November 30, 2008	December 1, 2008 through November 30, 2009	December 1, 2009 through November 30, 2010
Firm Energy (GWh).....	12,918	13,189	13,624
Market share (%)	20.0	20.9	20.8

Electricity Sales

Our revenue is primarily derived from (i) sales of electricity under electricity supply contracts with customers in the Wholesale Market (mainly generation, commercialization or wholesale companies that sell to Regulated Users), (ii) sales of electricity under supply agreements with Unregulated Customers (mainly large industrial and commercial companies and governmental entities with consumption levels equal to or above 55,000 kWh/month) and (iii) sales of electricity in the spot market. See "*Industry—Functional Segregation of the Electricity Sector—Generation—Electricity Generation.*" We also receive revenues for Reliability Payments which are a result of the OEFs allocated to us. In addition, we receive payments for AGC services in connection with the implementation of technology that improves the quality of electricity delivered. We also receive revenues for the provision of ancillary services, such as technical and connection services to Unregulated Customers.

A central objective of our commercial policy is achieving the optimal mix of revenues from contract sales and spot sales. To determine our optimal mix, we consider factors such as our hydraulic/thermoelectric generation mix, prevailing electricity sales prices, indexation mechanisms, risk-sharing mechanisms, forecasts of new capacity and forecasts of spot market prices, among others. We rely on statistical data and simulation models to determine our optimal contract level.

We enter into electricity supply contracts, the terms of which vary depending on whether the end customers are regulated (mainly distribution and commercialization companies) or unregulated (mainly large industrial companies). Prices under most of our electricity supply contracts are adjusted for inflation on a monthly basis using the PPI. Prices under other supply agreements are linked to the spot market price.

Sales under electricity supply contracts are the largest source of income for us. We enter into freely negotiated electricity supply contracts under which we generally agree to sell electricity at fixed prices. Prices for supply contracts of electricity for Wholesale Customers that sell to Regulated Users are determined based on a competitive bidding process conducted by the electricity commercialization or distribution company soliciting bids to be supplied electricity. This competitive bidding process is governed by rules and regulations issued by the CREG, pursuant to which the electricity generator that offers the lowest price in the bidding process can be assigned up to 100% of the energy offered, depending on the need of the purchaser agent. The agent may cancel the tender if the prices offered are not suitable. Supply contracts entered into with Wholesale Market customers usually have a term ranging from one to three years.

Prices for supply contracts entered into with Unregulated Customers are freely negotiated by electricity generators and Unregulated Customers and are not subject to limitations or requirements established by CREG or required to be set through competitive bidding. Supply agreements entered into with Unregulated Customers usually have a term of at least one year.

We also conduct operations in the spot market where prices are determined by market conditions. Spot market prices depend directly on, among other factors, hydrological weather conditions, with prices increasing during below-average rainfall seasons and falling during years of high rainfall levels, the levels of regional, national and international supply and demand of energy, international oil and natural gas prices, energy laws and regulations, and taxes.

Our current sales strategy is designed to account for the fact that 84.8% of our installed capacity is from hydroelectric plants, which are characterized by low marginal costs. Because generators are dispatched based on an “optimal dispatch” of price bids, during normal hydrological conditions, our hydroelectric plants are generally dispatched before thermoelectric plants. However, during low hydrological conditions when we must take into account the opportunity cost of hydroelectric reserves and conform to regulated minimum reservoir levels, thermoelectric electric generation facilities may be dispatched before our hydroelectric facilities. In the event that we are unable to generate sufficient electricity to meet our contractual obligations as a result of adverse hydrological conditions or other operational or external causes, we may purchase electricity on the spot market, enter into supply agreements with other generation or commercialization companies or generate thermoelectric electricity through our two thermoelectric plants. Such purchases are typically made at higher spot prices than supply contract prices. We do not hedge exposure to spot market electricity prices.

The following table sets forth for the periods indicated certain statistical information regarding our sales from our own production (which typically represent approximately 75% of our total sales) and from purchases from generation, commercialization or wholesale companies pursuant to supply contracts (which typically represent approximately 10% of our total sales) and in the spot market (which typically represent approximately 15% of our total sales).

Energy Available for Sale (GWh)

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
Generation	11,930	12,915	12,660	9,922	8,519
Contract purchases	789	885	1,232	926	285
Spot purchases	3,025	2,726	3,051	2,053	2,500
Plant auxiliaries and losses	(132)	(158)	(137)	(111)	(105)
Total Sales	15,613	16,368	16,806	12,790	11,200

One of the most critical goals of our commercial policy is to maintain an optimal mix between medium-term contracts and sales on the spot market. Our optimal level of electricity supply commitments is one that allows us to protect ourselves against low marginal cost conditions, such as those existing during the rainy season, while still taking advantage of high marginal cost conditions, such as higher spot market prices during the dry season. Our commercial policy is to estimate for each year the level of energy sales that we should contract to maximize profits, subject to maintaining a certain level of volatility of the operational margin and therefore assuming a limited and controlled amount of risk from the average level.

With respect to the spot market, our strategy is to maximize the commercial margin of our business in the short-term through effective resource management (availability and hydrological storage levels), market opportunities and future risk perception. This strategy will also depend on our own and our competitors’ particular financial and hydrological conditions.

The following table sets forth for each of the periods indicated certain information regarding our sales of electricity by volume and by type of customer:

Consolidated Physical Sales by Type of Customer (GWh)

	Year ended December 31,						Nine months ended September 30,			
	2007		2008		2009		2009		2010	
	Sales (GWh)	% of sales volume	Sales (GWh)	% of sales volume	Sales (GWh)	% of sales volume	Sales (GWh)	% of sales volume	Sales (GWh)	% of sales volume
Wholesale market ..	8,046	51.5	8,739	53.4	9,485	56.4	6,965	54.5	6,293	56.2
Unregulated market	2,493	16.0	2,430	14.8	2,475	14.7	1,840	14.4	1,918	17.1
Spot market ⁽¹⁾	5,074	32.5	5,199	31.7	4,847	28.8	3,984	31.2	2,989	26.7
Total	15,613	100.0	16,368	100.0	16,806	100.0	12,789	100.0	11,200	100.0

⁽¹⁾ Including AGC sales.

On average, during the nine months ended September 30, 2010, Emgesa served more than 300 Unregulated Customers and 17 distribution and commercialization companies. Our sales to Codensa, a distribution company that is an affiliate of Emgesa, accounted for 27.4% of our total operating revenues in 2009. Physical sales to our five largest Unregulated Customers in the aggregate accounted for 5.2% of total contracted sales in 2009.

The following are the main categories of contractual electricity supply arrangements that we enter into with our customers:

- *Pague lo contratado.* This contract is similar to a “Take or Pay” contract, whereby the purchaser commits to pay for all contracted electricity, regardless of actual consumption. If the consumption is higher than the contracted volume, the additional supply of electricity required by the purchaser generally is acquired by it in the spot market or through additional electricity supply contracts with the same or another electricity generation company. If consumption is lower than the contracted amount, the purchaser may sell the surplus energy in the spot market at the applicable spot price.
- *Pague lo demandado.* This contract is similar to a “Take and Pay” contract, whereby the purchaser only pays for the electricity that it consumes at the contract price for a specified period, but without a cap.
- *Pague lo demandado con tope.* This contract is a “Capped Take and Pay” contract, whereby the purchaser pays for the electricity that it consumes up to maximum volume, or cap, at the contract price. The cap applies to the seller’s obligation to supply electricity. The purchaser’s electricity requirements in excess of such cap may be acquired by the purchaser in the spot market or through an additional electricity supply contract.

The following table sets forth our contract sales to the Wholesale Market and Unregulated Market by volume to our principal customers for each of the periods indicated. Volume is determined based on the award of the competitive bidding process conducted by the electricity commercialization or distribution company soliciting bids to be supplied electricity.

Contract Sales to Principal Customers (GWh)

	Year ended December 31,						Nine months ended September 30,			
	2007		2008		2009		2009		2010	
	Sales (GWh)	% of sales	Sales (GWh)	% of sales	Sales (GWh)	% of sales	Sales (GWh)	% of sales	Sales (GWh)	% of sales
Codensa	3,036	28.8	3,784	33.9	4,697	39.3	3,431	39.0	3,222	39.2
Enertolima	437	4.1	150	1.3	471	3.9	359	4.1	373	4.5
Electrocosta	652	6.2	79	0.7	517	4.3	380	4.3	414	5.0
Electricaribe.....	479	4.5	1,194	10.7	954	8.0	706	8.0	263	3.2
EPM.....	1,102	10.5	1,455	13.0	720	6.0	540	6.1	1,328	16.2
Meta.....	649	6.2	624	5.6	163	1.4	113	1.3	131	1.6
Others.....	4,184	39.7	3,883	34.8	4,437	37.1	3,276	37.2	2,479	30.2
Total	10,539	100.0	11,169	100.0	11,959	100.0	8,805	100.0	8,210	100.0

Reliability Payment

In order to encourage electricity generation companies to invest in electricity generation projects, the CREG adopted the Reliability Payment system. These obligations must be backed by generation assets that are able to produce firm energy in a dry or critical period (adverse hydrological conditions). In the auction, the OEF value or price, which is called the Reliability Payment, is determined competitively. See *“Industry—Functional Segregation of the Electricity Sector—Generation—The Reliability Payment.”* The first Firm Energy auction took place in May 2008 and awarded Firm Energy to Emgesa for 13,664 GWh/year. Revenues derived from the Reliability Payment totaled Col\$295 billion and Col\$332 billion for years 2008 and 2009, respectively, and totaled Col\$227 billion for the nine months ended September 30, 2010.

Automatic Generation Control Payment

Payments for AGC are fees paid in connection with the implementation of technology that moderates the frequency of electricity in order to guarantee the quality of electricity along the STN. Revenues derived from AGC totaled Col\$79,824 million, Col\$88,758 million and Col\$153,038 million for years 2007, 2008 and 2009, respectively, and totaled Col\$93,698 million for the nine months ended September 30, 2010.

Capital Expenditure Program

Our main capital expenditures in recent years have been related to the maintenance of property and equipment. The table below sets forth our capital expenditures for the three years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010.

	As of December 31,			As of September 30,	
	2007	2008	2009	2009	2010
			(Col\$ in millions)		
Capital Expenditures	69,900	70,478	76,666	43,041	30,920

See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures.”*

El Quimbo Hydroelectric Plant

We are currently building the El Quimbo hydroelectric power plant, located in the Department of Huila, approximately 70 km from the city of Neiva, on the Magdalena River, Colombia's largest river, in the southeastern region of Colombia. We were awarded the El Quimbo project in the Firm Energy auctions conducted by the Colombian government in June 2008, as a result of which Emgesa was allocated additional Reliability Payments of nearly U.S.\$430 million to be received from December 2014 to November 2034. In May 2009, we received an environmental license for this project from the MAVDT, which was amended in September 2010, that permits us to begin construction and to operate the power plant once constructed. During the second half of 2009 and the first half of 2010, Emgesa carried out the selection process to designate the main contractor for the construction of the plant, which started during the fourth quarter of 2010 and is expected to be completed in December 2014. The plant will have an installed capacity of 400 MW, which we expect will achieve an average electricity generation of 2,216 GWh per year. The El Quimbo project is expected to cost approximately U.S.\$837 million. We expect to raise financing to fund approximately 80% of our investment in El Quimbo, with the remaining 20% coming from internally generated funds.

We will enter into several contracts relating to the construction of the various components of the power plant and the supply of equipment for the power plant. The principal contracts, which we have already entered into, are the civil works contract and the equipment supply contract.

We have selected the Impregilo-OHL Consortium to serve as the civil works contractor for the El Quimbo plant based on a competitive bidding process. We entered into a construction agreement with the Impregilo-OHL Consortium on November 30, 2010 that provides that the Impregilo-OHL Consortium will design and build the principal components of the El Quimbo plant, including the principal dam and auxiliary dams, a powerhouse that will contain the turbines, the intake, the tailrace and other tunnels for the project, and the transmission facilities, and that completion of the works will occur 51 months from the date of the construction contract. This construction agreement is governed by Colombian law.

We have also selected the ASC Consortium to serve as the equipment supplier for the El Quimbo plant based on a competitive bidding process. We signed a definitive equipment supply contract with the ASC Consortium on December 20, 2010 that provides that the ASC Consortium will manufacture, supply, install, test and initiate operation of the gates, turbines, generators, transformers, crane gates, auxiliary services and the control and protection system, among others. The completion of the foregoing services under the equipment supply contract will occur 51 months after such work has commenced. This equipment supply contract is governed by Colombian law.

Contractors party to the various construction, equipment supply and service contracts of the El Quimbo plant are required to obtain bonds, guaranties and insurance policies that are customary for these types of projects. In addition, we have obtained insurance coverage for loss of profits with a U.S.\$220 million limit to cover the gross margin expected to be generated from the plant during the 24-month period following construction.

In the event any of the aforementioned contractors fails to comply with the obligations provided under their respective agreements, we will be entitled to terminate such agreement and request the reimbursement of any advances paid to the respective contractor along with interest at a market rate.

In addition, if we or any of the aforementioned contractors fail to comply with the obligations provided under the agreements described above, the respective agreement will be terminated and the breaching party will pay a termination fee equal to 10% of the total consideration contemplated by the respective agreement. Such termination fee will be without prejudice to any other amounts the indemnified party may be entitled to claim as a result of damages or fees.

We expect that the completion of the El Quimbo project will position us to compete effectively in future Firm Energy auctions, which will enable us to increase our revenues from payments on account of Reliability Payments. We also expect that upon completion of the El Quimbo project, payments on account of Reliability Payments will constitute a larger portion of our revenues, thereby making our future revenues more stable and predictable. See "*Risk Factors—Risk Factors Relating to Emgesa's Business and Operations—The completion of Emgesa's strategic projects is subject to several factors, some of which may be beyond our control and could lead to loss of revenues or increased expenses*" and "*—Adverse conditions may create delays in or the suspension of the construction of our El Quimbo project and/or significantly increase the amount of our expected investments.*"

On December 20, 2010, we entered into a "legal stability" (*estabilidad juridica*) contract with the Colombian government that maintains in effect for a period of 20 years from the date of the agreement the most relevant tax regulations in effect at the time of signing the contract applicable to our investment in the El Quimbo project, including, among others,

the income tax rate of 33% and tax deductions equal to 30% of the value of capital expenditures made on certain assets that qualify as “real and productive fixed assets” (*activos fijos reales productivos*). For these purposes, “real and productive fixed assets” are tangible assets that: (i) are acquired to form a part of the net worth of the tax payer; (ii) contribute directly and permanently to the income producing activities of the tax payer; and (iii) may be depreciated or amortized for tax purposes.

We are also evaluating other potential projects to expand our installed capacity in the future. No bidding deadlines or other timelines have been established for these potential projects.

Fuel

Our Termozipa thermoelectric power plant has a total installed capacity of 236 MW, and is comprised of four coal-fired units and a storage facility. The storage facility has a capacity of 200,000 tons of coal, which is capable of maintaining the operation of the plant in full capacity for approximately 70 days. We purchase coal for our Termozipa power plant from several suppliers in the Cundinamarca and Boyaca departments under contracts at prices that are negotiated and not necessarily directly linked to international coal prices.

Our Cartagena thermoelectric power plant has a total installed capacity of 208 MW, and is operated with natural gas and diesel oil. Existing natural gas reserves in Colombia are projected to be sufficient to meet internal demand until 2018. Depending on actual market conditions, natural gas is mostly sold through take-or-pay contracts. Since thermoelectric plants do not operate on an ongoing basis but only at intervals when electricity generated by hydroelectric plants is insufficient to satisfy the demand, these contracts are not suitable to operate these plants. Therefore, the price that thermoelectric plant operators have to pay for natural gas is higher than the price paid by gas distributors, who can afford to enter into take or pay agreements. A general increase in the price of gas can increase the price of thermoelectric-generated electricity, if required. We acquire diesel oil for our Cartagena power plant from Ecopetrol. Diesel oil prices are regulated by the MME.

Principal Competitors

Electricity generation companies in Colombia compete largely on the basis of the competitiveness of their power generation mix, technical experience, reliability and ability to obtain electricity supply contracts with customers. Our principal competitors are Empresas Públicas de Medellín S.A. E.S.P., Isagen S.A. E.S.P., AES Chivor & Cía S.C.A. E.S.P. and EPSA S.A. E.S.P. In 2009, we were ranked first with respect to total electricity generation, installed capacity, and Firm Energy relative to our competitors. See “—*Market Share*” above to see where we rank as measured by Firm Energy for the period from December 1, 2009 through November 30, 2010.

Seasonality

Rainfall seasonality can affect electricity generation capacity of all generation companies in Colombia, including Emgesa, and the spot price of electricity in the MEM. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting our Results of Operations—Hydrological Conditions.*” Our physical sales are typically lower during adverse hydrological conditions as a result of decreases in hydroelectric generation capacity. Our spot market sales are also typically lower during adverse hydrological conditions because the excess of our production over our contracted sales decreases and we are no longer able to sell that excess generation in the spot market. Emgesa believes adverse effects deriving from seasonality of rainfall are mitigated due to (i) the Firm Energy program set forth by the Colombian government in 2007; (ii) Emgesa’s reservoir reserve policies and its ability to generate thermoelectric electricity through its thermoelectric plants; (iii) the fact that the El Guavio reservoir, Emgesa’s largest source of generation, has a different hydrologic pattern than the rest of Colombia, which normally allows it to retain more of its volume in dry hydrological conditions than other reservoirs in Colombia; and (iv) Emgesa’s strategy pursuant to which it sells and purchases electricity primarily through medium-term contracts and only to a certain extent in the spot market, which strategy mitigates the risk derived from spot price fluctuation.

Environment and Sustainability

Emgesa endeavors to comply with applicable Colombian national and local environmental standards, rules and regulations and believes that its current operations are substantially in compliance with such standards, rules and regulations as they have historically been interpreted and enforced. Notwithstanding the fact that environmental laws in Colombia are currently less strict than those applied in many other countries, we believe that our operations eventually will be required to meet stricter standards that are comparable in many respects to those in effect in the United States and in Europe.

Emgesa develops and operates its facilities, and conducts its operations, in accordance with internationally accepted good management practices on environmental and social issues. We adhere to the United Nations Global Compact, and our environmental management control system has been certified by Bureau Veritas under the 14,001/2004 standard of the International Standards Organization.

Muña Reservoir

Emgesa, EEB and Empresa de Acueducto y Alcantarillado de Bogota E.S.P. (“EAAB”) have jointly established various programs pursuant to Resolution CAR 506 of 2005 to mitigate and monitor environmental damage caused to the neighboring communities by the Muña reservoir. Emgesa is also involved in an ongoing legal proceeding regarding the environmental impacts of the Muña dam. See “—*Legal Proceedings.*”

Employees and Pension Plan

As of September 30, 2010, the Company had 426 employees, of which 291 are covered by the Convención Colectiva de Trabajo, or the Collective Bargaining Pact. The Collective Bargaining Pact is negotiated by the Electricity Employee Union (*Sindicato de Trabajadores de la Electricidad de Colombia*—SINTRAELECOL), on behalf of Emgesa’s employees. The Collective Bargaining Pact expired on December 31, 2007, but pursuant to Colombian law, because a renewed proposal was not made, the Collective Bargaining Pact automatically extends for consecutive six-month periods until terminated. The current six-month period ends on June 30, 2011. We are currently negotiating a new collective bargaining agreement that, if implemented, would replace the Collective Bargaining Pact. The remaining 135 employees have individual labor agreements with Emgesa. There are two other union associations at Emgesa, but we have not entered into collective bargaining agreements with these unions. We believe that we have a good relationship with our employees.

For employees covered by the new social security system established by Law 100 of 1993, Emgesa fulfils its pension obligations by means of making contributions to the Social Security Institute (*Instituto de Seguros Sociales*), or the Private Pension Funds (*Fondos Privados de Pensiones*) on the terms and conditions established in such law. In addition, Emgesa maintains complementary employee benefit programs, in which retired employees are permitted to participate. Contributions required to be made by Emgesa for these programs are determined by an independent actuarial company.

We record the liability for non-pension post-retirement benefits, such as education, recreation and electricity, to which retirees are entitled, based on actuarial calculations performed by an independent actuary (*Asesorías Actuariales*). As a result, the present value of the liability which covers the estimated obligation for these benefits has been fully provisioned and charged to results as of September 30, 2010, which amount was equal to Col\$83,218 million as of such date, but no reserves have been established to cover for our future pension obligations. See Note 18 to the Annual Financial Statements and Note 17 to the Interim Financial Statements found elsewhere in this offering memorandum. At the end of each fiscal year, the independent actuary conducts an actuarial appraisal and redefines surpluses or deficits related to our future pension obligations, which amount is then added to or subtracted from the reserve amount in our balance sheet.

Insurance

We maintain full-risk coverage for substantially all of our physical assets. This insurance, which we negotiate jointly with Endesa Spain and its subsidiaries in order to obtain better coverage at more competitive premiums, provides coverage for malfunctions and material damages arising from stoppages and earthquakes for all of our electric power plants and substations. We also maintain civil liability coverage for damages caused to third parties and civil liability coverage for our board members and our top management. We maintain full-risk coverage for our buildings, personal property and electronic equipment. We are beneficiaries of insurance policies obtained by construction contractors of our investment projects that provide full-risk coverage for construction risks, including risks from transportation, civil liability and start-up delays affecting investment projects under execution. We also maintain insurance policies for loss of profits.

Under Colombian insurance regulations only locally licensed insurance companies are authorized to write policies for a Colombian or local company. Such insurers are subject to strict minimum capital requirements. Typically, these local insurers retain a very small share of the risk themselves or do the fronting, reinsuring most of the risk in the international reinsurance market with leading players with strong credit ratings.

We believe that the level of insurance coverage and backing that we maintain is reasonably appropriate for the risks that our businesses face and are comparable to the level of insurance and reinsurance coverage maintained by other companies of comparable size operating in the businesses in which we are engaged.

Legal Proceedings

We are a party to several civil, tax, commercial, environmental and labor proceedings and claims that have arisen in the ordinary course of our business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of our management team based upon the information available at this time and consultation with external legal counsel handling the proceedings that the expected outcome of these claims and legal actions, individually or in the aggregate, will not have a material adverse effect on Emgesa's financial position, cash flows or results of operations. As of September 30, 2010, Emgesa had provisioned Col\$1,526 million (U.S.\$847,830) to cover the eventual probable losses for these claims. However, the actual outcome of these claims could differ from the estimated recorded amounts. See Note 16 to the Interim Financial Statements found elsewhere in this offering memorandum.

Following is a summary of the most significant claims and legal actions:

Muña Reservoir. In 2001, a class action lawsuit (*acción de grupo*) was filed by the inhabitants of Sibaté, in the Department of Cundinamarca, against Emgesa, EEB and the Regional Department of Environmental Matters (*Corporación Autónoma Regional* or "CAR") seeking damages for, among other things, health hazards resulting from pollution of the Muña reservoir allegedly caused by Emgesa pumping polluted water from the Bogotá River. Emgesa has denied liability and asserted various defenses, including the fact that the alleged pollution pre-dated Emgesa's involvement. This lawsuit was joined with a subsequent class action lawsuit based on the same facts as a result of a request presented by the CAR. The aggregate amount of the initial claim for damages was Col\$3,000 billion (U.S.\$1.7 billion). The Company's management, based on the opinion of its external legal advisors, considers that this contingency is remote. Given our management's assessment of the remote nature of this contingency, we are not required under Colombian GAAP to establish a reserve for potential losses from this lawsuit. The case is currently pending appeals, as various public and private entities that were sought to be joined as defendants in the case have appealed their joinder as defendants.

In 1992, a collective action (*acción popular*) lawsuit relating to pollution of the Muña reservoir was filed against several governmental entities and companies, including Emgesa. In that case, Emgesa was found to be not responsible for the claimed damages in the lower court. The decision was appealed and is pending confirmation by the "Consejo de Estado" (the highest administrative court). Emgesa, EEB and Empresa de Acueducto y Alcantarillado de Bogotá E.S.P. ("EAAB") jointly established various programs pursuant to Resolution CAR 506 of 2005 to mitigate and monitor environmental damage caused to the neighboring communities by the Muña reservoir.

Industry and Commerce Tax Claims. The Municipalities of Yaguará, Ubalá, Caloto and Puerto Tejada have initiated separate administrative proceedings against Emgesa for failure to file industry and commerce tax returns in accordance with Law 14 of 1983, which Emgesa believes is not applicable to electricity generation companies. Emgesa believes that Law 56 of 1981 applies to it and that there are more than 10 years of decisions of the "Consejo de Estado" in support of its position. The amount of these claims in the aggregate is Col\$216,554 million (U.S.\$120 million). Emgesa has initiated legal proceedings (*nulidad y restablecimiento del derecho*) against the respective municipalities to invalidate these tax adjustment claims. The Company's management, based on the opinion of its external legal advisors, considers that this contingency is remote.

2003 Income Tax Claim. The Colombian tax authority has initiated a proceeding against Emgesa for underpayment of income tax for the year 2003. Emgesa believes that it properly utilized the tax benefits available (exempt revenue) to it under the Páez Law. The amount of the claim is Col\$62,435 million (U.S.\$35 million). The case is currently pending.

Other Proceedings. As of September 30, 2010, the aggregate amount of the claims of Emgesa's other pending administrative and civil legal proceedings was Col\$264,084 million (U.S.\$147 million) and the aggregate amount of Emgesa's pending labor claims was Col\$24,003 million (U.S.\$13 million).

MANAGEMENT

The Board of Directors

We are managed by a Board of Directors.

Our Board of Directors is responsible for establishing our general business policies and guidelines, as well as our long-term strategy. Pursuant to our charter and by-laws, the Board of Directors consists of seven members and seven alternates. All directors are elected for terms of office of two years and may be reelected at the general meeting of shareholders or removed at any time. According to Law 964 of 2005 (Colombian securities law), 25% of the members of the Board of Directors must be independent.

The members of our Board of Directors are elected at the general shareholders' meetings. The compensation of the directors is determined at our general shareholders' meeting.

Our Board of Directors meets at least once every month. The Board of Directors' meeting may be called by the Board of Directors itself, our Chief Executive Officer or the Statutory Auditor (*Revisor Fiscal*). The address for each of the members of the Board of Directors is: c/o Emgesa S.A. E.S.P., Carrera 11 No. 82-76 Piso 4, Bogotá D.C., Colombia.

As of the date of this offering memorandum, our Board of Directors is comprised of the following members and alternates:

<u>Name</u>	<u>Position</u>	<u>Current position held since</u>
José Antonio Vargas L.	Director and Chairman of the Board	August 24, 2007 (Director) and May 14, 2008 (Chairman of the Board)
Joaquín Galindo V.	Director	March 24, 2010
Lucio Rubio D.	Director	September 11, 2001
Luisa Fernanda Lafourie R. (Independent)	Director	February 28, 2006
Mónica de Greiff L.	Director	March 26, 2009
Beatriz Elena Arbeláez M. (Independent)	Director	October 29, 2010
José Iván Velásquez D.	Director	March 27, 2008
Sebastián Fernández C.	Alternate	March 27, 2008
Fernando Gutiérrez M.	Alternate	March 27, 2008
Gustavo Gómez C.	Alternate	March 27, 2008
Andrés López V. (Independent)	Alternate	March 26, 2009
Henry Navarro S.	Alternate	November 19, 1997
María Camila Uribe S. (Independent)	Alternate	September 29, 2009
Manuel Jiménez C.	Alternate	March 7, 2005

Board of Directors - Biographical Information

José Antonio Vargas L. Mr. Vargas received a degree in Law from the *Universidad del Rosario* in Colombia, and is specialized in corporate law and public services law. He is the Chairman of the Board of Directors. He has served as an officer of EEB in various capacities during the past seven years. He has also served as Chairman of the National Association of Domiciliary Public Services and Supplementary and Inherent Activities, Chairman of the Colombian Committee of the Energy World Council, Chairman of the Commission for the Regional Energy and on the Colombian Committee of CIER. Mr. Vargas was the Colombian ambassador for the European Union and the General Secretary of the Presidency of Colombia.

Joaquin Galindo V. Mr. Galindo received a degree in Electrical Industrial Engineering from *Universidad de Sevilla* and an M.B.A. degree from *Universidad Comercial de Deusto*, Spain. From 1983 to 1996, he held several positions in *Sevillana de Electricidad*, an Endesa Spain subsidiary, where he was Director of the Thermoelectric Plant of Bahía de Algeciras. In 1998, he became Director of Systems Production and Generation Planning for Endesa Generación outside of the Iberian Peninsula. Between 2001 and 2004 he was the Director of Production and Engineering for Endesa Italia S.p.A. and Counselor of the *Centro Sperimentale Elettrotecnico Italiano S.p.A.*. From 2004 to 2006, he was Counselor-General Director of the *Société Nationale d'Électricité et de Thermique S.A.*, in Paris and Counselor of the Thermoelectric Production Society of Bialystok (Poland). Between 2006 and 2008, he served as Counselor-General Director of *Endesa Italia S.A.* He was also a member of the board of Endesa Europe between 2004 and 2008. Since November 2009, he is the CEO of Endesa Chile.

Lucio Rubio D. Mr. Rubio received a degree in Economic and Managerial Sciences from the *Universidad de Santiago de Compostela* in Spain. He received a graduate degree in Management Development from the *Instituto de Estudios Superiores de la Empresa (IESE)* in Spain. He also received an M.B.A. degree from the *Instituto Católico de Administración de Empresas (ICADE)* in Spain in 2001. From 1992 to 1997 he worked for the Endesa Group as Exploitation Operations Control Officer in Madrid. In 1997 he moved to Colombia where he worked as Planning and Control Officer for Emgesa (1997-1999) and Planning and Control Officer for Codensa (1999-2001). Since July 2001, he has been the CEO of Emgesa. He has been a member of the board of directors of Betania, EEB, Consorcio Energético de Punta Cana-Macao (CEPM) and Elecar.

Luisa Fernanda Lafourie R. Ms. Lafourie received a degree in Economics from *Pontificia Universidad Javeriana* in Colombia and received an M.B.A. degree and graduate degrees in finance and management from *Universidad de Los Andes* in Colombia. She is currently the Chairman of the board of directors of *Ocensa*. She served as the Minister of Mines and Energy and the founder of the company *Sumatoria* where she worked on business and corporate strategy matters. She was also the Vice Minister of Mines and Hydrocarbons, a Financial and Business Advisor of Scudder Kemper Invs.-Termotasajero and Director of Marketing and Sales of *Carbocol*.

Mónica de Greiff L. Ms. de Greiff received a degree in Law from the *Universidad del Rosario* in Colombia, and is specialized in public law. She is currently the Chairman of EEB. She was the Minister of Justice, a member of the Television National Commission, the Vice-chairman of Legal and Public affairs at Shell and the Secretary of Economic Development.

Beatriz Elena Arbeláez M. Mrs. Arbeláez holds a masters degree in Economic Policy Management from Columbia University in the United States, a graduate degree in Finance from Strathclyde University in Scotland and a specialization from the *Universidad de Los Andes*, in Colombia, in Management and Regional Development Planning. Mrs. Arbeláez received an undergraduate degree in Economics from the *Universidad Externado de Colombia*. Mrs. Arbeláez has extensive experience in the private and public sector working as Financial Control Vice President at ABN AMRO/RBS, Financial Vice President at Bancafe, Financial Deputy Director at FOGAFIN, General Director of Economic Regulation at the Ministry of Finance and Public Credit, country analyst for the World Bank and Head of Budget Planning and Control at the Colombian National Planning Department. She has also been a member of various Boards of Directors of companies in the financial and electric sector in Colombia.

José Iván Velásquez D. Mr. Velásquez joined EEB in 1983 and Emgesa after its incorporation. He has acted as chief of all of the Bogotá River generation power plants of the company. He is currently the Head of the Electric Division of the Technical Unit. Mr. Velásquez is an Electrical Engineer from *Universidad Nacional de Colombia* (1982) and has conducted studies in the design and construction of hydrogenerators.

Board of Directors - Alternates

Sebastián Fernández C. Mr. Fernández received a degree in Commercial Engineering from the *Pontificia Universidad de Los Andes* in Chile and attended the YMP program at *Insead*, in Fontainebleau, France. Since January 2008, he has served as the Energy Planning Officer at Endesa Chile. He has served as Project Manager of Endesa Europe, Deputy Manager of Planning and Investments in Endesa Italy, and Deputy Manager of Generation Projects in Endesa Chile.

Fernando Gutiérrez M. Mr. Gutiérrez received a degree in Electric Engineering and an M.B.A. degree from *Universidad del Norte* in Colombia. He has worked on the marketing during the development of companies such as Corelca and Termoflores. He is currently the Commercialization Officer of Emgesa. See “—Executive Officers.”

Gustavo Gómez C. Mr. Gómez received a degree in Electrical Engineering from *Universidad de Los Andes* in Colombia and a degree in Planning of Energy Transmission and Distribution of Energy from the same University. He is currently the Production Officer of Emgesa. See “—Executive Officers.”

Andrés López V. Mr. López is a lawyer with a degree from the *Universidad del Rosario* in Colombia, specializing with honors in Financial Law, and holds an M.B.A. from the *Universidad de Los Andes* in Colombia. He is currently Executive President of the International Business and Exposition Center, with an experience of over 10 years focused on finance and administration.

Henry Navarro S. Mr. Navarro received a degree in Electrical Engineering from the *Universidad Nacional de Colombia*. He received a Master’s degree in Electric Power from the same university. Mr. Navarro also received a Master’s degree in Electrical Engineering from the University of Manchester, United Kingdom. His professional career began in 1977 in the Colombian Institute of Electrical Energy (*Instituto Colombiano de Energía Eléctrica—ICEL*) as a Technical Regulations Engineer. From 1987 until now, he has worked in the *Universidad Nacional de Colombia* as a Professor of Electric Engineering and, from 2002, at the *Universidad Externado de Colombia* as a Professor of Energy. In addition, Mr. Navarro has worked at EEB since 1983, where he has held several positions including Chief Operating Officer (1983 to 1992), Director of Planning (1992 to 1997) and Manager of Transmission and Development (1997 to 1999). Since 1999, Mr. Navarro has been EEB’s Manager of Cooperative Businesses.

María Camila Uribe S. Ms. Uribe serves as the District Secretary of Planning (*Secretaría Distrital de Planeación*). She received a masters degree in Economics at the *Universidad de Los Andes* in Colombia and a Master of Public Administration from Harvard University in the U.S.A. Ms. Uribe has worked with the DNP, with the Administration of the District of Bogotá, the Housing Ministry of Colombia, and the World Bank.

Manuel Jiménez C. Mr. Jiménez currently serves as the Operator of the Center of Dispatch for Emgesa. He is a systems engineer from the *Universidad Abierta y a Distancia UNAD* in Colombia, and he specializes in industrial safety, hygiene and environmental issues at the *Universidad Agraria de Colombia*. Over the past 25 years, his experience has been centered around electrical maintenance and safety.

Independent Directors

Pursuant to Colombian law, at least 25% of the members of the Board of Directors must be independent directors (i.e., not affiliated with the controlling shareholders or members of our management or have any substantial relationship with Emgesa). As of the date of this offering memorandum, Emgesa’s Board of Directors complies with such requirement. The current independent directors are Ms. Lafourie, Ms. Arbeláez, Mr. López and Ms. Uribe.

Executive Officers

Our executive officers are appointed by the Board of Directors. The executive officers are responsible for all matters concerning our day-to-day management and operations. As of the date of this offering memorandum, none of our executive officers holds any interest in our capital. The address for each of the executive officers is: c/o Emgesa S.A. E.S.P., Carrera 11 No. 82-76 Piso 4, Bogotá D.C., Colombia. The table below lists our executive officers as of the date of this offering memorandum, their positions and the dates on which they were appointed:

<u>Name</u>	<u>Position</u>	<u>Year of Appointment</u>	<u>Age</u>
Lucio Rubio D.	Chief Executive Officer	2001	45
Andrés Caldas R.	General Counsel	2006	45
Gustavo Gómez C.	Production Officer	2007	44
Fernando Gutiérrez M.	Commercialization Officer	2001	43
Juan Manuel Pardo G.	Chief Financial Officer	2007	40
Rafael Carbonell B.	Human Resources Officer	2008	48
Leonardo López V.	Planning and Control Officer	2010	46
María Celina R.	Communications Officer	2007	43
Omar Serrano R.	Regulation Officer	2002	50
Soledad Pizarro M.	Auditing Officer	2010	38

Biographical Information

Lucio Rubio D. Mr. Rubio, the Chief Executive Officer, received a degree in Economic and Managerial Sciences from the *Universidad de Santiago de Compostela* in Spain. He received a graduate degree in Management Development from

the *Instituto de Estudios Superiores de la Empresa* (IESE) in Spain. He also received an M.B.A. degree from the *Instituto Católico de Administración de Empresas* (ICADE) in Spain in 2001. From 1992 to 1997 he worked for the Endesa Group as Exploitation Operations Control Officer in Madrid. In 1997 he moved to Colombia where he worked as Planning and Control Officer for Emgesa (1997-1999) and Planning and Control Officer for Codensa (1999-2001). Since July 2001, he has been the CEO of Emgesa. He has been member of the board of directors of Betania, EEB, Consorcio Energético de Punta Cana-Macao (CEPM) and Elecar.

Andrés Caldas R. Mr. Caldas, General Counsel since 1998, received a degree in Law from the *Universidad del Rosario* in Colombia, and has a specialization in commercial law from *Universidad de Los Andes* in Colombia. He also received a Master's Degree in Science Management from *Universidad del Rosario* in Colombia in 1998. Prior to joining Emgesa, Mr. Caldas held several different positions as a lawyer in the public and private sector, including the Ministry of Finance and more recently, *Impsa Andina S.A.*

Gustavo Gómez C. Mr. Gómez, Production Officer since 2007, received a degree in Electric Engineering from *Universidad de Los Andes* in Colombia in 1998 and a degree in Planning of Energy Transmission and Distribution from the same University in 1991. Mr. Gomez has worked in the energy sector since 1993 and joined the Group in 1997. Prior to that, he worked for EEB between 1989 and 1997.

Fernando Gutiérrez M. Mr. Gutiérrez, Commercialization Officer since 2001, received a degree in Electric Engineering in 1989 and an M.B.A. from *Universidad del Norte* in Colombia in 1996. He worked on the development and marketing of *Corelca* and *Termoflores* between 1989 and 2001.

Juan Manuel Pardo G. Mr. Pardo, Chief Financial Officer since 2007, earned a title in Business Administration from Ohio State University in 1993, and obtained a finance specialization in 1997 from *Universidad de Los Andes* in Colombia and in 2005 obtained an M.B.A. from *Inalde (Universidad de la Sabana)* in Colombia. Mr. Pardo joined the Group in 1997, and has served in several finance and treasury capacities at Betania and Codensa.

Rafael Carbonell B. Mr. Carbonell, Human Resources Officer since 2004, received a degree in Law from *Pontificia Universidad Javeriana* in Colombia in 1985 and specialized in Labor Law. He received an M.B.A. from *Universidad de los Andes*, in Colombia, in 2003. Prior to joining the Group, he worked in labor relations and human resources in the public and private sectors since 1991, including the United Nations, the Ministry of Social Security and *Banco de la República*.

Leonardo López V. Mr. López, Planning and Control Officer, earned a degree as a public accountant from *Universidad Jorge Tadeo Lozano*, in Colombia, in 1988, and a specialization from the Executive Development Program at *IESE* in 2009. Mr. López joined the Endesa Group in 1997 and since then has served in several capacities at Codensa, Endesa Spain and Emgesa.

Maria Celina Restrepo S. Ms. Restrepo, Communications Officer since 2005, received degrees in journalism and social communication from *Universidad Pontificia Bolivariana* in Colombia in 1991 and an M.B.A. from Harvard University in the U.S.A. in 1994. She has served as Manager of Communications and Corporate Image in companies such as *Valorem S.A.*, *BBVA*, *Acerías Paz del Río* and *Industrias Noel*.

Omar Serrano R. Mr. Serrano, the Regulation Officer of Endesa Colombia, was Codensa's Regulation Officer since 2002 and was also appointed Emgesa's Regulation Officer in 2008. He received a degree in Electric Engineering from *Universidad Industrial de Santander*, in Colombia, in 1983 and a specialization in Transmission and Distribution Systems from *Universidad de Los Andes* in 1992. He received a master's degree in Economics from *Pontificia Universidad Javeriana* in Colombia, and an M.B.A.-Advanced Program in Business Management from *Inalde*. Prior to joining the Group, he served as Technical Intendent of the Superintendency of Public Services and General Subdirector of the Nuclear Affairs Institute, among others.

Soledad Pizarro M. Ms. Pizarro, the Auditing Officer, received a degree in Auditing Accounting from the *Instituto de Auditores Internos* in Chile in 1996, Business Administration from *Universidad Mariano Egaña* in Chile in 2000 and an M.B.A. from *IEDE* in 2002. Ms. Pizarro joined the Group in 1996 and has since worked in various related companies, including Enersis and Endesa Spain.

Statutory Auditor (*Revisor Fiscal*)

Our by-laws provide that we shall have a Statutory Auditor and an alternate Statutory Auditor. The primary responsibilities of the Statutory Auditor are to monitor our management as to compliance with Colombian law, our by-laws

and the shareholders' resolutions, and, without prejudice to the role of external auditors, to present a report to the shareholders at the annual ordinary shareholders' meeting regarding our financial situation and the accuracy of the financial information presented at such meeting by the Board of Directors.

Our by-laws provide that the Statutory Auditor be elected by our shareholders to serve for a period of up to two years but can be reelected or be removed at any time.

Corporate Governance

Internal Controls

Our internal control system was implemented to help us achieve our strategic and business objectives, improve our corporate governance and promote ethical business practices, ensure transparency and completeness of the financial statements, protect our assets, promote efficiency in our operations, comply with applicable laws and regulations and achieve new levels of corporate excellence. In 2009, we modified our internal control system in order to make it consistent with the requirements of, and to comply with, the Sarbanes-Oxley Act of 2002.

Corporate Governance and Evaluation Committee (Comite de Buen Gobierno y Evaluación)

We have a corporate governance and evaluation committee that is responsible for monitoring the access of shareholders, investors and the market in general to the information of Emgesa, to review and evaluate the fulfillment by the Board of Directors of its obligations during the relevant period and to supervise the fulfillment of the compensation policy of the members of the Board of Directors, among other responsibilities. The committee is composed of three members of the Board of Directors. Under Colombian law, this committee is not mandatory, although we created it to follow good governance practices. The members of this committee are:

Principal	Alternate
Mónica de Greiff L.	Henry Navarro S.
José Antonio Vargas L.	Gustavo Gómez C.
Joaquín Galindo V.	Sebastián Fernández C.

Audit Committee

We have an audit committee that is responsible for monitoring and maintaining adequate corporate practices in connection with the preparation, presentation and disclosure of financial information, supervising the fulfillment of the internal audit program and issuing a written report with respect to potential related party transactions (having previously verified that such transactions are carried out on an arm's length basis), among other responsibilities. The committee is composed of four members, including all the independent members of the Board of Directors and their respective alternates. The members of this committee are:

Principal	Alternate
Luisa Fernanda Lafourie R.	Andrés López V.
José A. Vargas L.	Gustavo Gómez C.
Beatriz Elena Arbeláez M.	María Camila Uribe S.
Mónica de Greiff L.	Henry Navarro S.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of the date of this offering memorandum, we had an outstanding share capital of 148,914,162 shares.

Our current shareholders and their respective shareholdings are set forth in the following table:

Shareholders	Shares		Percentage of Common Stock	Percentage of Total
	Common (Class C)	Non-Voting Preferred (Class D)	(%)	(%)
EEB	55,758,250	20,952,601	43.6%	51.5%
Endesa Chile ⁽¹⁾	40,019,173	-	31.3%	26.9%
Endesa Latinoamérica ⁽¹⁾	32,176,823	-	25.1%	21.6%
Others	7,315	-	*	*
Total	127,961,561	20,952,601	100.0%	100.0%

*Less than 0.1%

⁽¹⁾ Endesa Chile and Endesa Latinoamerica are indirect and direct subsidiaries of Endesa Spain. Pursuant to an agreement between them, Endesa Chile has the right to appoint a majority of the directors of Emgesa, one of which is required to satisfy the independence requirements set forth under Colombian law.

Shareholders' Agreement

In 1997, as part of the restructuring process that resulted in the formation of Emgesa, EEB entered into a shareholders agreement (*Acuerdo Marco de Inversión*), as amended, with Capital Energía S.A. (whose successors are Endesa Chile and Endesa Latinoamerica), or the "Emgesa Shareholders' Agreement." The Emgesa Shareholders' Agreement sets forth the basic conditions for the incorporation of Emgesa and the parties' rights and obligations with respect to certain governance matters relating to Emgesa and the relationship of the shareholders to each other.

Pursuant to an agreement between Endesa Chile and Endesa Latinoamerica, Endesa Chile has the right to appoint a majority of our directors, one of which is required to satisfy the independence requirements under Colombian law. EEB has veto rights over key decisions by us. Pursuant to the Emgesa Shareholders' Agreement, the following corporate decisions of Emgesa require a favorable vote of at least 75% of the outstanding voting shares of Emgesa:

- a) merger or spin-off;
- b) issuance of treasury shares (*acciones en reserva*);
- c) carrying out any business other than the generation or commercialization of electricity and other strictly related businesses;
- d) amending our by-laws, other than an amendment to change the number of Directors of the Board;
- e) reduction of the amount of profits to be distributed, in a proportion of less than 50% (this decision requires at least a 78% approval by the represented shares); and
- f) payment of dividends through bonus shares (this decision requires at least an 80% approval by the represented voting shares).

EEB is entitled to appoint three of our Directors (one of which is required to satisfy the independence requirements under Colombian law) pursuant to the terms of the Emgesa Shareholders' Agreement. The Emgesa Shareholders' Agreement states that the following corporate decisions of Emgesa require approval by five of the seven Directors that constitute our Board of Directors:

- a) incurring debt or making investments that exceed U.S.\$10 million if we have not distributed more than 50% of our profits for the previous fiscal year;
- b) sale, liquidation, transfer or any other disposition of all or most of our assets;
- c) issuing any guaranty involving an amount that exceeds U.S.\$5 million;
- d) granting liens to guarantee obligations that exceed U.S.\$10 million; and
- e) transaction or series of transactions with affiliated companies in an aggregate amount in excess of U.S.\$5 million in any given 12-month period.

The corporate decisions under a), c) and d) above are not subject to these voting requirements if they are mandated by law or necessary in order to comply with contractual obligations.

The Emgesa Shareholders' Agreement will remain in effect until EEB ceases to hold, directly or indirectly, at least 25% of our shares.

Emgesa's Dividends

Pursuant to Section 3.8 of the Emgesa Shareholders' Agreement, the parties agreed to vote in favor of any resolution allowing us to distribute profits we may be permitted to distribute in each period pursuant to applicable laws, prior funding of any legal reserves or any restrictions on dividend distributions arising under our credit agreements.

For the years ended December 31, 2007, 2008 and 2009, and during the first nine months of 2010 Emgesa paid Col\$388,248 million (U.S.\$193 million), Col\$476,477 million (U.S.\$212 million), Col\$408,879 million (U.S.\$200 million) and Col\$484,582 million (U.S.\$269 million), respectively, in dividends to its shareholders, which represented 100% of the distributable net income of Emgesa for the previous fiscal year, equivalent to 90% of total net profits of such prior fiscal year.

On October 29, 2010, at our general shareholders meeting, we declared dividends with respect to our net income for the period from January 1 to September 30, 2010 of Col\$416,653 million, plus dividends of Col\$22,752 million from our capital surplus for a total dividend payment of Col\$439,405 million, which is payable as follows: Col\$210,746 million to Endesa Latinoamérica S.A., Empresa Nacional de Electricidad S.A., and the minority shareholders in December 2010, and the remaining Col\$227,397 million to EEB in January 2011.

Capital Reduction

On May 6, 2010, Emgesa effected a capital reduction approved by the shareholders' in 2009 pursuant to which it distributed to its shareholders Col\$444,778 million (U.S.\$222 million based on an exchange rate of Col\$2,003.37 per U.S.\$1.00 published by the SFC on such date). This capital reduction was implemented as a decrease in the par value of each share of Emgesa's common stock from Col\$7,386 to Col\$4,400 per share. The main objectives of this capital reduction were to reduce excess liquidity, improve the return on equity for our shareholders and improve Emgesa's weighted average cost of capital, allowing us to be more competitive to evaluate investment alternatives *vis-à-vis* other competitors. See Note 1 to our Interim Financial Statements.

Through Resolution No. 341-007603, dated November 26, 2009, the Superintendence of Corporations authorized us to reduce our capital pursuant to Article 145 of the Commerce Code. Subsequently, the Ministry of Social Protection granted us authorization through Resolution 0095, dated April 23, 2010. This capital reduction was duly registered before the Chamber of Commerce of Bogotá on May 5, 2010.

RELATED PARTY TRANSACTIONS

We carry out transactions and operations with related parties, including Codensa, on an arm's-length basis and in accordance with usual market practices. However, the Emgesa Shareholders Agreement provides that transactions with affiliates that exceed in the aggregate U.S.\$5 million in a twelve-month period shall require a favorable vote of five of the seven directors that constitute our Board of Directors.

Our sales to Codensa, one of our affiliates in which EEB has a 51.5% interest, accounted for 27.4% of our operating revenues in 2009. See "*Business—Electricity Sales*" and Note 6 of our Financial Statements for information regarding our transactions with Codensa and other related parties.

In 2008, our Boards of Directors and Codensa's Board of Directors approved an intercompany loan facility pursuant to which we obtained a line of credit of up to U.S.\$100 million at an interest rate comparable to those prevailing in the market for creditors having ratings similar to ours. In September 2010, the Boards of Directors of both companies authorized an increase of the intercompany loan facility to U.S.\$300 million for disbursements related to the El Quimbo project. On November 10, 2010 we drew Col\$160 billion from this facility. The proceeds were used to repay the first principal installment of Col\$160 billion under Betania's 2004 Bonds. See "*Description of Other Indebtedness—Bond Issuances in the Colombian Market—Betania's First and Second Bond Issuances.*" Of the amounts drawn under this intercompany loan, i) Col\$70 billion, bearing an annual interest rate of 3.60%, was prepaid on November 19, 2010 using proceeds from the issuance of Col\$70 billion in commercial paper by us due on November 7, 2011 at a rate of 4.20%, and ii) Col\$90 billion, which bears an annual interest rate of 3.72%, is expected to be repaid with the proceeds from the issuance of the Notes offered hereby.

We and Codensa are parties to a shared services agreement pursuant to which we and Codensa have combined our financial, administrative, legal, regulatory, communications, control and planning and human resources functions. We and Codensa have created a shared services committee charged with supervising the execution of the shared services agreement and assessing its effectiveness. The agreement establishes a procedure for the reimbursement of expenses for common activities, by which the parties assign the percentage and value that each party should pay on a monthly basis. The agreement expires in May 2012, subject to automatic extension for an additional two-year term unless either party notifies the other of its decision to terminate the agreement at least 30 days prior to the termination date.

On January 20, 2011, we entered into a foreign currency exchange transaction with EEB pursuant to which we purchased Colombian pesos from EEB at the TRM published by the SFC on January 20, 2011 with the proceeds from the \$175 million U.S. dollar bridge loan we entered into with a Colombian bank. See footnote 5 to the table under "Capitalization." We expect to enter into a similar transaction with EEB on the settlement date of the Notes pursuant to which we will purchase Colombian pesos from EEB at the TRM published by the SFC on January 20, 2011 at Col\$1,841.90 for each U.S.\$1.00 with U.S.\$125 million of the proceeds from the sale of the Notes.

As of the date of this offering memorandum, we have not recorded any transactions with our directors, officers or shareholders or any of our respective relatives.

DESCRIPTION OF THE NOTES

The notes described in this offering memorandum (the “Notes”) will be issued under an indenture (the “Indenture”) to be dated as of January 25, 2011, between Emgesa S.A. E.S.P. (the “Issuer”) and The Bank of New York Mellon, as trustee (the “Trustee”), registrar, paying agent, transfer agent and calculation agent and The Bank of New York Mellon (Luxembourg) S.A., as paying agent, listing agent and registrar in Luxembourg. The Indenture does not limit the aggregate principal amount of Notes that may be issued thereunder, and the Indenture provides that Notes may be issued thereunder from time to time.

The following summary of the material provisions of the Indenture and the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture and the Notes, including the definitions of certain terms therein. The definitions of certain terms used in the following summary are set forth below under “—Certain definitions.” Capitalized terms used in the following summary and not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

General

The Indenture does not limit the amount of indebtedness or other obligations that may be incurred by the Issuer. Under the Indenture, we are permitted to issue additional notes (which may have a different issue price, original issue date, initial interest date and initial interest payment date but otherwise have the same terms, including interest rate, maturity and redemption provisions as the notes, and will be treated as a single class with the Notes; *provided, however*, that any additional notes must be fungible with the Notes for U.S. federal income tax purposes in order for them to be issued under the same CUSIP, ISIN or Common Code as the Notes).

The Notes will be general unsecured and unconditional obligations of the Issuer. The Notes will, other than with respect to certain obligations granted preferential treatment pursuant to the laws of the Republic of Colombia, at all times rank *pari passu* in right of payment among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

As of September 30, 2010, on an as-adjusted basis after giving effect to this offering and the application of the net proceeds therefrom, our outstanding senior indebtedness would have been U.S.\$1,376.68 million, including the Notes, of which U.S.\$967.34 million ranks *pari passu* to the Notes. As of September 30, 2010, we had no secured debt outstanding.

The aggregate principal amount of the Notes will be Col\$736,760,000,000. The Notes will mature on January 25, 2021. The principal on the Notes will be payable in a single installment on the maturity date. The Notes will bear interest at the rate per annum shown on the front cover of this offering memorandum from the date of issuance or from the most recent interest payment date to which interest has been paid or provided for. Interest on the Notes will be payable annually on January 25 of each year, commencing on January 25, 2012, to the Person in whose name a Note is registered at the close of business on the preceding January 10 (each, a “Record Date”). Interest on the Notes will be computed on the basis of the actual number of days during the period in respect of which interest is being paid, not to exceed 365, divided by 365. Holders must surrender the Notes to the paying agent for the Notes to collect principal payments. Except as described in “—*Book-entry; delivery and form*,” the Issuer will pay principal and interest by check and may mail interest checks to a Holder’s registered address.

The Notes will be issued in Colombian pesos as specified below. The principal of and interest on the Notes and the redemption price of the Notes will be payable in U.S. dollars or in such other coin or currency of the United States of America as is legal tender for the payment of public and private debts at the time of payment, as calculated by the calculation agent by converting the Colombian peso amount into U.S. dollars at the Representative Market Rate on the applicable Rate Calculation Date. The calculation agent will give notice to the Issuer and the Holders of the Notes of the applicable Representative Market Rate one Business Day following the applicable Rate Calculation Date.

- “*Business day*” means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in The City of New York; *provided, however*, that solely for the purposes of determining the Representative Market Rate, “*Business Day*” means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in Colombia.

- “*EMTA COP Indicative Survey Rate*” or “*COP03*” means the Colombian Peso/U.S. Dollar fixing rate for U.S. Dollars, expressed as the amount of Colombian Pesos per one U.S. Dollar, for settlement on the same day, as published on the Emerging Markets Traders Association’s (“EMTA”) web site (www.emta.org) at approximately 11:30 a.m., Bogotá time, or as soon thereafter as practicable, on such Rate Calculation Date. This spot rate shall be calculated by EMTA (or a service provider EMTA may select in its sole discretion) pursuant to the EMTA COP Indicative Survey Methodology (which means a methodology, dated as of August 1, 2006, as amended from time to time, for a centralized industry-wide survey of financial institutions that are active participants in the Colombian Peso/U.S. Dollar markets for the purpose of determining the EMTA COP Indicative Survey Rate).
- “*Rate Calculation Date*” means the third Business Day preceding each scheduled interest or principal payment date, any other date on which principal, interest or Additional Amounts, if any, shall become payable as a result of an acceleration of the maturity of the Notes or any date on which the Notes will be redeemed.
- “*Representative Market Rate*” means the weighted average of the buy and sell foreign exchange rates for transactions completed on the previous Business Day by certain commercial banks and financial corporations and other financial institutions in Bogotá, Cali, Barranquilla and Medellín, as calculated and published by the Colombian Financial Superintendence (*Superintendencia Financiera de Colombia*), and which is available on Bloomberg by typing “TRM<INDEX>HP<GO>”, at the Colombian Financial Superintendency’s website at <http://www.superfinanciera.gov.co> or at the Colombian Central Bank’s (*Banco de la República de Colombia*) website at <http://www.banrep.gov.co>; *provided, however*, that in case of any discrepancy between the *Representative Market Rate* published by the Colombian Central Bank and the Colombian Financial Superintendence and the rate appearing on Bloomberg page TRM, the *Representative Market Rate* published by the Colombian Central Bank and the Colombian Financial Superintendence shall prevail. If such exchange rate is not published by the Colombian Financial Superintendence for any Business Day, then the “*Representative Market Rate*” shall mean the “EMTA COP Indicative Survey Rate” or “COP03.”

The Notes will be issued only in fully registered form, without coupons, with a minimum denomination of Col\$5,000,000 and in multiples of Col\$1,000,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Initially the Trustee will act as paying agent, transfer agent, registrar and calculation agent for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the registrar for the Notes.

Book-entry; Delivery and Form

The Notes are being offered and sold in connection with the initial offering thereof solely to “qualified institutional buyers,” as defined under Rule 144A under the Securities Act, pursuant to Rule 144A, and in offshore transactions to persons other than “U.S. persons,” as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following the initial offering of the Notes, the Notes may be resold to qualified institutional buyers pursuant to Rule 144A, and to non-U.S. persons in reliance on Regulation S and pursuant to Rule 144 under the Securities Act, as described under “*Transfer Restrictions*.”

The Global Notes

Rule 144A Global Note

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Rule 144A Global Note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the Trustee. Interests in the Rule 144A Global Note will be available for purchase only by qualified institutional buyers.

Regulation S Global Note

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Regulation S Global Note will be deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers, or to such other accounts as they may direct, at Euroclear Bank S.A./N.V., as operator of the Euroclear System or Clearstream Banking, société anonyme.

Investors may hold their interests in the Rule 144A Global Note and the Regulation S Global Note, collectively referred to in this section as the “Global Notes,” directly through DTC, Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Clearstream will hold such interests in the Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. Such depositories, in turn, will hold such interests in the Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in physical, certificated form (referred to as “Certificated Notes”) except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under “*Transfer Restrictions.*”

All interests in the Global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Exchanges Among the Global Notes

Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the closing of the sale of the Notes (through and including the 40th day, the “restricted period”), transfers by an owner of a beneficial interest in the Regulation S Global Note to a transferee who takes delivery of this interest through the Rule 144A Global Note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the restricted period.

Transfers by an owner of a beneficial interest in the Rule 144A Global Note to a transferee who takes delivery of such interest through the Regulation S Global Note, whether before or after the expiration of the restricted period, will be made only upon receipt by the Trustee of a certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Certain Book-entry Procedures for the Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither we nor the Initial Purchasers take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a “banking organization” within the meaning of the New York State Banking Law, (iii) a member of the Federal Reserve System, (iv) a “clearing corporation” within the meaning of the Uniform Commercial Code, as amended, and (v) a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and

facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the Initial Purchasers), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

We expect that pursuant to procedures established by DTC (i) upon deposit of each Global Note, DTC will credit the accounts of participants designated by the Initial Purchasers with an interest in the Global Note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a Global Note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a Global Note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of the Notes represented by the Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note will not be entitled to have Notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Certificated Notes, and will not be considered the owners or Holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each Holder owning a beneficial interest in a Global Note must rely on the procedures of DTC and, if such Holder is not a participant or an indirect participant, on the procedures of the participant through which such Holder owns its interest, to exercise any rights of a Holder of Notes under the Indenture or such Global Note. We understand that under existing industry practice, in the event that we request any action of Holders of Notes, or a Holder that is an owner of a beneficial interest in a Global Note desires to take any action that DTC, as the Holder of such Global Note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize Holders owning through such participants to take such action or would otherwise act upon the instruction of such Holders. Neither we nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, interest and Additional Amounts, if any, on any Notes represented by a Global Note registered in the name of DTC or its nominee on the applicable Record Date will be payable by the paying agent to or at the direction of DTC or its nominee in its capacity as the registered Holder of the Global Note representing such Notes under the Indenture. The Issuer shall make principal, premium, interest and Additional Amount payments, if any, in respect of the Notes, represented by the Global Notes, by wire transfer of immediately available funds to the paying agent one Business Day prior to the relevant payment date. Under the terms of the Indenture, we and the Trustee may treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither we nor the Trustee has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in a Global Note (including principal, premium, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels

time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a global security by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If DTC or any successor depository is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Issuer within 90 days, the Issuer will issue, or cause to be issued, authenticate and deliver Certificated Notes in registered form in exchange for the Global Notes that, in the case of Notes issued in exchange for the Rule 144A Global Notes, will bear the legend referred to under the heading "*Transfer Restrictions.*"

Covenants

Limitation on Liens

The Issuer will not, nor will it permit any Subsidiary to, issue, assume or guarantee any Indebtedness, if such Indebtedness is secured by a Lien upon any Specified Property, unless, concurrently with the issuance, assumption or guarantee of such Indebtedness, the Notes shall be secured equally and ratably with (or prior to) such Indebtedness; *provided, however,* that the foregoing restriction shall not apply to:

- (1) any Lien on (A) any Specified Property acquired, constructed, developed, extended or improved by the Issuer or any Subsidiary (singly or together with other Persons) after the date of the Indenture or any property reasonably incidental to the use or operation of such Specified Property (including any real property on which such Specified Property is located), or (B) any shares or other ownership interest in, or any Indebtedness of, any Person which holds, owns or is entitled to such property, products, revenue or profits, in each of cases (A) and (B), to the extent such Lien is created, incurred or assumed contemporaneously with, or within 360 days after, such acquisition or the completion of such construction, development, extension or improvement in order to secure or provide for the payment of any part of the purchase price or other consideration of such Specified Property or the other costs of such acquisition, construction, development, extension or improvement (including costs such as escalation, interest during construction and financing and refinancing costs);
- (2) any Lien on any Specified Property existing at the time of acquisition thereof and that is not created as a result of or in connection with or in anticipation of such acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such Specified Property);
- (3) any Lien on any Specified Property acquired from a Person that is merged with or into the Issuer or any Subsidiary or any Lien existing on Specified Property of any Person at the time such Person becomes a Subsidiary, in either such case that is not created as a result of or in connection with or in anticipation of any such transaction (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such Person);

- (4) any Lien that secures Indebtedness owing by a Subsidiary to the Issuer or any other Subsidiary;
- (5) any Lien existing on the date of the Indenture; and
- (6) any extension, renewal or replacement (or successive extensions, renewals, or replacements) in whole or in part, of any Lien referred to in the foregoing clauses (1) through (5) inclusive; *provided* that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property that secured the Lien so extended, renewed or replaced (plus improvements on such property).

The Issuer or any Subsidiary, however, may issue, assume or guarantee Indebtedness secured by a Lien that would otherwise be prohibited under the provisions of the Indenture described in this section or enter into Sale and Leaseback Transactions that would otherwise be prohibited by the provisions of the Indenture described below under “—Limitations on Sale and Leaseback Transactions”; *provided* that the aggregate amount of such Indebtedness of the Issuer and its Subsidiaries together with the aggregate Attributable Value of all such Sale and Leaseback Transactions of the Issuer and its Subsidiaries at any time outstanding shall not exceed 15% of Consolidated Net Tangible Assets at the time any such Indebtedness is issued, assumed or guaranteed by the Issuer or any Subsidiary or at the time any such Sale and Leaseback Transaction is entered into.

Limitations on Sale and Leaseback Transactions

For so long as any of the Notes are outstanding, neither the Issuer nor any Subsidiary may enter into any Sale and Leaseback Transaction with respect to any Specified Property, unless either

- (x) the Issuer or such Subsidiary would be entitled pursuant to the provisions of the Indenture described above under “—Limitation on Liens” to issue, assume or guarantee Indebtedness secured by a Lien on such Specified Property without equally and ratably securing the Notes or
- (y) the Issuer or such Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the Specified Property so leased, (A) to the retirement, within 360 days after the effective date of such Sale and Leaseback Transaction, of Indebtedness of the Issuer ranking at least on a parity with the Notes or Indebtedness of any Subsidiary, in each case owing to a Person other than the Issuer or any Affiliate of the Issuer, or (B) to the acquisition, purchase, construction, development, extension or improvement of any property or assets of the Issuer or any Subsidiary used or to be used by or for the benefit of the Issuer or any Subsidiary in the ordinary course of business.

Financial Statements

The Issuer shall furnish or cause to be furnished to the Trustee (i) annual reports in English, which will include annual audited financial statements of the Issuer prepared in conformity with Colombian GAAP, SSPD Standards and SF Reporting Requirements not later than 120 days after the end of the Issuer’s most recently completed fiscal year and (ii) quarterly reports in English, which will include unaudited interim financial statements prepared in conformity with Colombian GAAP, SSPD Standards and SF Reporting Requirements not later than 45 days after the end of the Issuer’s most recently completed fiscal quarter. The Issuer also shall furnish or cause to be furnished to the Trustee in Spanish all reports and communications that are required to be publicly filed by the Issuer with the Colombian Superintendence of Finance (*Superintendencia Financiera de Colombia*). For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so require, the above information will also be made available in Luxembourg through the offices of the listing agent.

Consolidation, Merger, Sale or Conveyance

For so long as the Notes are outstanding, the Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor corporation shall be a corporation organized and existing under the laws of Colombia, and shall expressly assume, by a supplemental indenture, the due and punctual payment of the principal of, premium, if any, and interest on all the outstanding Notes and the performance of every covenant in the Indenture to be performed or observed on the part of the Issuer, (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would

become an Event of Default, shall have happened and be continuing and (iii) the Issuer shall have delivered to the Trustee an Officer's Certificate and Opinion of Counsel each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the foregoing provisions and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer as obligor on the Notes with the same effect as if it had been named in the Indenture as such obligor.

Certain Definitions

The following terms have the following definitions in the Indenture:

"Affiliate" means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Attributable Value" means, as to any particular lease under which the Issuer or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) discounted from the respective due dates thereof to such date at a rate per annum equivalent to the interest rate inherent in such lease (as determined in good faith by the Issuer in accordance with generally accepted financial practice).

"Capital Stock" means, with respect to any Person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such Person's equity, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such Person.

"Change of Control" means the Permitted Holders cease to be the "beneficial owners" (as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act) of at least 50% of the total voting power of the Voting Stock of the Issuer.

"Change of Control Repurchase Event" means the occurrence of both a Change of Control and a Rating Downgrade Event.

"Colombian GAAP" means the accounting principles generally accepted in Colombia. At any time after the Issue Date, the Issuer may elect to apply International Financial Reporting Standards ("*IFRS*") accounting principles in lieu of Colombian GAAP and, upon any such election, references herein to Colombian GAAP shall thereafter be construed to mean IFRS (except as otherwise provided in this Indenture); provided that any such election, once made, shall be irrevocable; provided, further, that any calculation or determination in this Indenture that requires the application of Colombian GAAP for periods that include fiscal quarters ended prior to the Issuer's election to apply IFRS shall remain as previously calculated or determined in accordance with GAAP. The Issuer shall give notice of any such election made in accordance with this definition to the Trustee and the Holders of Notes.

"Consolidated Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price-level restatement or otherwise) appearing on a consolidated balance sheet of the Issuer and its Subsidiaries, net of all applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the current liabilities of the Issuer and its Subsidiaries appearing on such balance sheet.

"Exchange Act" shall mean the United States Securities and Exchange Act of 1934, as amended.

"Fitch" means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"Holder" means the Person in whose name a Note is registered in the register for the Notes.

"Indebtedness" means, with respect to any Person (without duplication), (a) any obligation of such Person (1) for borrowed money or under any reimbursement obligation relating to a letter of credit (other than letters of credit payable to suppliers in the ordinary course of business), financial bond, or similar instrument or agreement, (2) evidenced by a bond, note, debenture or similar instrument or agreement (including a purchase money obligation) given in connection with the

acquisition of any business, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business), (3) for the payment of money relating to any obligations under any capital lease of real or personal property or (4) for purposes of the Limitation on Liens and Limitations on Sale and Leaseback Transactions sections, under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction; (b) any liability of others described in the preceding clause (a) that the Person has guaranteed or that is otherwise its legal liability; and (c) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (a) and (b) above. For the purpose of determining any particular amount of Indebtedness under this definition, guarantees of (or obligations with respect to letters of credit or financial bonds supporting) Indebtedness otherwise included in the determination of such amount shall also not be included.

“*Investment Grade*” means a rating of Baa3 or better by Moody’s (or its equivalent under any successor rating category of Moody’s); a rating of BBB- or better by S&P (or its equivalent under any successor rating category of S&P); a rating of BBB- or better by Fitch (or its equivalent under any successor rating category of Fitch) and a rating equal to or higher than the equivalent investment grade credit rating from any replacement Rating Agency selected by the Issuer.

“*Issue Date*” shall mean January 25, 2011.

“*Lien*” means any mortgage, pledge, lien, security interest, charge or similar encumbrance (including any conditional sale or other title retention agreement not in connection with the purchase of goods in the ordinary course of business which is outstanding for more than 360 days).

“*Moody’s*” means Moody’s Investors Services Inc., a subsidiary of Moody’s Corporation, and its successors.

“*Permitted Holders*” means any or all of the following:

- (1) Enel S.p.A, ENDESA, S.A., Empresa Nacional de Electricidad S.A. and Enersis S.A.; and
- (2) any Subsidiary of Enel S.p.A., ENDESA, S.A., Empresa Nacional de Electricidad S.A. or Enersis S.A.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity, including a government or political subdivision or an agency or instrumentality thereof.

“*Rating Agency*” means (1) each of Fitch, Moody’s and S&P; and (2) if any of Fitch, Moody’s or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of our control, a “nationally recognized statistical rating organization” within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by us as a replacement agency for Fitch, Moody’s or S&P, as the case may be.

“*Rating Downgrade Event*” means the rating on the Notes is lowered by any Rating Agency then rating the Notes (whether or not the rating then in effect is Investment Grade) as a result of any event or circumstance comprised of or arising as a result of, or in respect of, a Change of Control (or pending Change of Control) and following such downgrade the Notes are rated below Investment Grade by at least two of the Rating Agencies then rating the Notes on any date during the period (the “Trigger Period”) from the date of the public announcement by the Issuer of a Change of Control (or pending Change of Control) until the end of the 60-day period following public announcement by the Issuer of the consummation of a Change of Control (which Trigger Period shall be extended following the consummation of the Change of Control so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies). In the event that less than two Rating Agencies are providing a rating for the Notes at the commencement of any Trigger Period and there is a Change of Control on any date during the Trigger Period, then a “Rating Downgrade Event” shall be deemed to have occurred during that Trigger Period. Notwithstanding the foregoing, no Rating Downgrade Event will be deemed to have occurred as a result of any event or circumstance comprised of or arising as a result of, or in respect of, a Change of Control unless and until such Change of Control has actually been consummated.

“*Sale and Leaseback Transaction*” means any transaction or series of related transactions pursuant to which the Issuer or any Subsidiary sells or transfers any property to any Person with the intention of taking back a lease of such property pursuant to which the rental payments are calculated to amortize the purchase price of such property substantially over the useful life thereof and such property is in fact so leased.

“*SF Reporting Requirements*” means the standards set forth in Article 5.2.4.1.1, 5.2.4.1.2, 5.2.4.1.3 and 5.2.4.1.4 of Decree 2555.

“*Significant Subsidiary*” means a Subsidiary of the Issuer that would be a “significant subsidiary” within the meaning of Rule 1-02 under Regulation S-X promulgated by the Securities and Exchange Commission (the “Commission”) as in effect on the date of the Indenture, assuming the Issuer is the registrant referred to in such definition.

“*S&P*” means Standard & Poor’s Ratings Services, a division of McGraw-Hill, Inc.

“*Specified Property*” means any electricity generation, transformation, transmission, distribution or commercialization facility of the Issuer or any Subsidiary, whether at the date of the Indenture owned or thereafter acquired, including any land, buildings, structures or machinery and other fixtures that constitute such facility or portion thereof.

“*SSDP Standards*” means the standards set forth in the Accounting Manual for Domiciliary Public Utilities Providers (*Plan de Contabilidad para Entes Prestadores de Servicios Públicos Domiciliarios*) published by the Colombian Superintendence of Domiciliary Public Services (*Superintendencia de Servicios Públicos Domiciliarios*).

“*Subsidiary*” means with respect to any Person, any corporation, association or other business entity of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by, or, in the case of a partnership, the sole general partner or the managing partner or the only general partners of which are, such Person and one or more Subsidiaries of such Person (or a combination thereof). Unless otherwise specified, “Subsidiary” means a Subsidiary of the Issuer.

“*Voting Stock*” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Highly leveraged transactions

The Indenture does not include any debt covenants or other provisions that afford debt holders protection in the event of a highly leveraged transaction.

Repurchase of Notes upon a Change of Control

Not later than 30 days following a Change of Control Repurchase Event, the Issuer will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest (if any) to the date of purchase (subject to the right of the Holders of record on the relevant Record Date to receive interest and Additional Amounts, if any, on the relevant interest payment date).

An “Offer to Purchase” must be made by written notice, sent by first-class mail to each Holder of the Notes, with a copy to the Trustee, which will specify the principal amount of Notes subject to the offer and the purchase price. The offer must specify an expiration date (the “expiration date”) not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase (the “purchase date”) not more than five Business Days after the expiration date. The notice, if mailed prior to the date of consummation of the Change of Control, will state that the Change of Control Offer is conditioned on the Change of Control being consummated on or prior to the Change of Control Payment Date. The notice must include information concerning the business of the Issuer and its Subsidiaries which the Issuer in good faith believes will enable the Holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable Holders to tender Notes pursuant to the offer.

A Holder may tender all or any portion of its Notes pursuant to an Offer to Purchase, subject to the requirement that any portion of a note tendered must be in a multiple of Col\$1,000,000 principal amount.

Holders are entitled to withdraw Notes tendered up to the close of business on the expiration date. On the purchase date the purchase price will become due and payable on each note accepted for purchase pursuant to the Offer to Purchase, and interest on Notes purchased will cease to accrue on and after the purchase date.

Holders of Notes electing to have Notes purchased pursuant to an Offer to Purchase will be required to surrender their Notes, with the form entitled “Option of Holder to Elect Purchase” on the reverse of the Note completed, to the paying agent at the address specified in the notice, or transfer their Notes to the paying agent by book-entry transfer pursuant to the applicable procedures of the paying agent, prior to the close of business on the third Business Day prior to the purchase date.

The Issuer will not be required to make an Offer to Purchase if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for such an offer made by the Issuer and such third party purchases all Notes properly tendered and not withdrawn under its offer.

The Issuer will comply with Rule 14e-1 under the Exchange Act and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

The Issuer has agreed in the Indenture that it will timely repay Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit an Offer to Purchase required to be made pursuant to the Indenture.

Except as described above with respect to a Change of Control, the Indenture does not contain any provisions that permit the Holder of the Notes to require that the Issuer purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or amended as described in "—Modification of the Indenture."

Periodic Reports

The Indenture provides that, at any time during which Notes are outstanding and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer will furnish, upon request, to any Holder, any owner of a beneficial interest in any Note or any prospective purchaser designated by a Holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default

An "Event of Default" with respect to the Notes is defined in the Indenture as: (i) a default in the payment of any principal of the Notes, when due and payable, whether at maturity, upon redemption or otherwise; (ii) a default in the payment of any interest or any Additional Amounts (as defined below) when due and payable on any Notes, and the continuance of such default for a period of 30 days; (iii) a failure by the Issuer to make an Offer to Purchase and thereafter accept and pay for Notes tendered when and as required pursuant to "Repurchase of Notes Upon a Change of Control", (iv) a default in the performance or observance of any other term, covenant, warranty or obligation of the Issuer in the Notes or the Indenture, not otherwise expressly included as an Event of Default in (i), (ii) or (iii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to the Issuer by the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default"; (v) a default in the payment of the principal of, or interest on, any individual note, bond or other instrument or agreement evidencing or pursuant to which there is outstanding Indebtedness of the Issuer or any Subsidiary, whether such Indebtedness now exists or shall hereafter be created, having a principal amount exceeding U.S.\$30 million (or its equivalent in any other currency or currencies) when due, if such default shall continue for more than the period of grace, if any, originally applicable thereto and such Indebtedness shall have been declared due and payable; or (vi) certain events of bankruptcy or insolvency with respect to the Issuer or a Significant Subsidiary.

The Indenture provides that (i) if an Event of Default (other than an Event of Default described in clause (vi) above) shall have occurred and be continuing with respect to the Notes, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare the principal of all such outstanding Notes and the interest accrued thereon, if any, to be due and payable immediately, and (ii) if an Event of Default described in clause (vi) above shall have occurred, the principal of all such outstanding Notes and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder of such Notes. The Indenture provides that the Notes owned by the Issuer or any Affiliate of the Issuer shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Upon certain conditions, including, but not limited to, the deposit with the Trustee of a sum sufficient to pay the Trustee for its fees and expenses in connection with such defaults, such declarations may be annulled and past defaults (except for defaults in the payment of principal of or any interest on the Notes and compliance with certain covenants) may be waived by the Holders of a majority in aggregate principal amount of Notes then outstanding.

The Trustee must give to the Holders of the Notes notice of all uncured defaults known to it with respect to the Notes within 90 days after a responsible officer of the Trustee becomes aware of such a default (the term default to include

the events specified above without notice or grace periods); *provided, however*, that, except in the case of default in the payment of principal of or any interest or Additional Amounts on, any of the Notes, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the Holders of the Notes.

No Holder of any Notes may institute any action under the Indenture unless (a) such Holder shall have given the Trustee written notice of a continuing Event of Default with respect to the Notes, (b) the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default, (c) such Holder or Holders shall have offered the Trustee indemnity satisfactory to it as the Trustee may require, (d) the Trustee shall have failed to institute an action for 60 days thereafter and (e) no inconsistent direction shall have been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Notes. Such limitations, however, do not apply to any suit instituted by a Holder of a Note for enforcement of payment of the principal of and any interest on the Note on or after the respective due dates expressed in the Note.

The Indenture provides that, subject to the duty of the Trustee during an Event of Default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any Holders of the Notes, unless such Holders have offered an indemnity satisfactory to the Trustee.

The Issuer is required to furnish to the Trustee annually a statement as to the performance by it of certain of its obligations under the Indenture and as to any default in such performance.

Notices

All notices regarding the Notes will be deemed to have been duly given to the Holders of such Notes (i) upon the mailing of such notices in writing, by first class mail, postage prepaid, to each Holder at the address of such Holder as it appears in the note register, not earlier than the earliest date and not later than the latest date prescribed for the giving of such notice and, if additionally notified, in the manner and within the terms established in the applicable Colombian regulations; and (ii) for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, upon publication in a daily newspaper of general circulation in Luxembourg, which the Issuer expects to be the *Luxemburger Wort*, or alternatively, via the website of the Luxembourg Stock Exchange at www.bourse.lu, such notices being deemed given on the date of such publication. Subject to publication on the website of the Luxembourg Stock Exchange, if publication in Luxembourg is impracticable, the Issuer will make the publication elsewhere in Western Europe. By “daily newspaper” the Issuer means a newspaper that is published on each day, other than Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. In the case of Global Notes, notices shall be sent to DTC or its nominees (or any successors), as the Holders thereof, and DTC will communicate such notices to the DTC Participants in accordance with its standard procedures. Any requirement of notice hereunder may be waived by the Person entitled to such notice before or after such notice is required to be given, and such waivers shall be filed with the Trustee.

Payment of Additional Amounts

The Issuer is required to pay such additional amounts (“Additional Amounts”) as may be necessary to ensure that the net amounts received by the Holders of Notes (including Additional Amounts) after withholding or deduction for, or on account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatever nature (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges of whatever nature), imposed, levied, collected, withheld or assessed by, within or on behalf of the Republic of Colombia or any other jurisdiction in which the Issuer is organized or engaged in business for tax purposes or, any other jurisdiction through which payments are made in respect of the Notes or, in each case, any political subdivision or governmental authority of either thereof or therein having power to tax, shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable (and the preceding sentence shall not apply) in respect of a Note (i) in the case of payments for which presentation of a Note is required, if such Note is presented for payment more than 30 days after the later of (a) the date on which such payment first became due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Holder by the Trustee, except to the extent that such Holder would have been entitled to such Additional Amounts on presenting such Notes for payment on the last day of such period of 30 days; (ii) for any taxes, duties, fines, penalties, assessments or other governmental charges that would not have been imposed if the Holder had presented such Note for payment (where presentation is required) to another paying agent; (iii) for any taxes, duties, fines, penalties, assessments or other governmental charges that would not have been imposed but for the failure of the Holder or beneficial owner of such payment to comply with any certification, identification, information,

documentation or other reporting to the extent (a) such compliance is required by applicable law or an applicable treaty as a precondition to exemption from, or reduction in the rate of deduction or withholding of, such taxes, duties, fines, penalties, assessments or other governmental charges and (b) unless the relevant taxing jurisdiction is the United States or a political subdivision thereof or therein, at least 30 days (or such shorter period of time as may be reasonably practicable where the relevant change to tax law (or the interpretation thereof) giving rise to the application of this clause (iii) has been in effect for less than 30 days prior to the first applicable payment date) before the first payment date with respect to which the Issuer with respect to a payment shall apply this clause (iii), the Issuer shall have notified such Holder in writing that such Holder will be required to comply with such requirement (it being understood and agreed that no notification given by or on behalf of the Issuer pursuant to this clause (iii) shall be construed as constituting tax advice); (iv) for any taxes, duties, fines, penalties, assessments or other governmental charges imposed on a payment on the Notes required to be made pursuant to Council Directive 2003/48/EC of the Council of the European Union on the taxation of savings income in the form of interest payments (or any European Union Directive otherwise implementing the conclusions of the ECOFIN Council Meeting of 26 and 27 of November 2000) or any law implementing or complying with, or introduced in order to conform to, any such Directive; (v) for any taxes, duties, fines, penalties, assessments or other governmental charges payable other than by withholding or deduction from payments of principal or of interest on the Note; (vi) for any estate, inheritance, gift, sales, use, excise, value-added, turnover, transfer, personal property or similar tax, duty, fine, assessment or other governmental charge; (vii) if such Note is held by or on behalf of a Holder or beneficial owner who is liable for taxes, duties, fines, penalties, assessments or other governmental charges in respect of such Note by reason of having some present or former, direct or indirect, connection with the Republic of Colombia or any other jurisdiction in which the Issuer is organized or engaged in business for tax purposes or any other jurisdiction through which payments are made in respect of the Notes (or any political subdivision or governmental authority either thereof or therein), as the case may be, other than the mere holding of such Note or the receipt of payments in respect thereof; or (viii) any combination of (i) through (vii). In addition, no Additional Amounts shall be paid, and the second preceding sentence shall not apply, with respect to any payment to any Holder of Notes who is a fiduciary, limited liability company or a partnership or other than the sole beneficial owner of such Notes to the extent that the beneficiary or settlor with respect to such fiduciary, the member of such limited liability company or partnership or the beneficial owner of such Notes would not have been entitled to Additional Amounts had such beneficiary, settlor, member or beneficial owner held such Notes directly.

References to interest, premium or other amounts payable in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), if the Issuer will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the Trustee an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the Trustee to pay such Additional Amounts to the Holders of such Notes on the payment date.

The Issuer will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Issuer will furnish to the Trustee, upon its request, within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Issuer, or, if such receipts are not obtainable, other evidence of such payments by the Issuer reasonably satisfactory to the Trustee. Copies of such documentation will be made available to the Holders upon written request to the Trustee.

The Issuer will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of the Notes or any other document or instrument relating to the issuance thereof, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside the Republic of Colombia.

Redemption for Taxation Reasons

The Issuer may redeem the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days' written notice to the Holders of the Notes at their principal amount, together with interest accrued to the date fixed for redemption, if the Issuer certifies to the Trustee immediately prior to the giving of such notice that the Issuer has or will become obligated to pay any Additional Amounts with respect to the Notes in excess of the Additional Amounts that would be payable if payments of interest on the Notes were subject to withholding or deduction at a rate of 14.0% (the "Minimum Withholding Level"), as a result of any change in or amendment to the laws or regulations of the Republic of Colombia, any other jurisdiction in which the Issuer is organized or engaged in business for tax purposes, or, in each case, any political

subdivision or governmental authority thereof or therein having the power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of the Notes and such obligations cannot be avoided by the Issuer taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts above the Minimum Withholding Level if payment in respect of the Notes were then due.

Prior to the effective date of any notice of redemption described in this paragraph, the Issuer shall deliver to the Trustee an Officer's Certificate stating that the Issuer is entitled to effect such redemption in accordance with the terms set forth in the Indenture and setting forth in reasonable detail a statement of the facts relating thereto (together with a written Opinion of Counsel to the effect that the Issuer has become obligated to pay Additional Amounts in excess of those that would have been payable if the Notes were subject to withholding or deduction at the Minimum Withholding Level as a result of a change or amendment described above and that the Issuer cannot avoid payment of such Additional Amounts by taking reasonable measures available to the Issuer and that all governmental approvals necessary for the Issuer to effect such redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained).

Modification of the Indenture

From time to time the Issuer and the Trustee may, without the consent of the Holders of Notes, amend or supplement the Indenture or the Notes for certain specified purposes, including, among other things, (i) curing ambiguities, defects or inconsistencies, or (ii) making any other provisions with respect to matters or questions arising under the Indenture or the Notes or making any other change therein as shall not adversely affect the interests of any Holder of the Notes in any material respect.

In addition, with certain exceptions, the Indenture and the Notes may be modified by the Issuer and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, but no such modification may be made without the consent of the Holder of each outstanding Note which would (i) change the maturity of any payment of principal of, or any installment of interest on, any such Note, or reduce the principal amount thereof or the rate of interest (or Additional Amounts, if any) payable thereon, or change the method of computing the amount of principal thereof or interest (or Additional Amounts, if any) payable thereon on any date, or change any place of payment where, or the coin or currency in which, any such Note or interest thereon is payable, or impair the right of Holders to institute suit for the enforcement of any such payment on or after the date when due; (ii) reduce the percentage in aggregate principal amount of the outstanding Notes, the consent of whose Holders is required for any such modification or the consent of whose Holders is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the Indenture; (iii) change the prices at which the Notes may be redeemed by the Issuer or change the time at which any Note may be redeemed; (iv) after the time an Offer to Purchase is required to have been made, reduce the purchase amount or purchase price, or extend the latest expiration date or purchase date thereunder; or (v) modify any of the provisions of certain sections of the Indenture, including the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note. The Indenture provides that the Notes owned by the Issuer or any affiliate of the Issuer shall be deemed not to be outstanding for, among other purposes, consent to any such modification.

Defeasance and Covenant Defeasance

The Issuer may, at its option, at any time upon the satisfaction of certain conditions described below, elect to be discharged from its obligations with respect to the Notes ("Defeasance"). In general, upon a Defeasance, the Issuer shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and to have satisfied all of its obligations under the Notes and the Indenture, except for (i) the rights of Holders of the Notes to receive, solely from the trust fund established for such purposes as described below, payments in respect of the principal of, and interest and Additional Amounts on, the Notes when such payments are due, (ii) certain provisions relating to ownership, registration, and transfer of the Notes, (iii) the covenant relating to the maintenance of an office or agency in New York City and (iv) certain provisions relating to the rights, powers, trusts, duties and immunities of the Trustee.

In addition, the Issuer may, at its option, at any time, upon the satisfaction of certain conditions described below, elect to be released with respect to the Notes from the covenants of the Indenture described above under the captions "Covenants" (a "Covenant Defeasance"). Following such Covenant Defeasance, the occurrence of a breach or violation of any such covenant with respect to the Notes will not constitute an Event of Default under the Indenture, and certain other events (not including, among other things, nonpayment of other obligations or bankruptcy and insolvency events) described under "— Events of Default" also will not constitute Events of Default.

In order to cause a Defeasance or Covenant Defeasance with respect to the Notes, the Issuer will be required to satisfy, among other conditions, the following: (i) the Issuer shall have irrevocably deposited with the Trustee in cash or U.S. Government Obligations, or a combination thereof, sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, Additional Amounts, if any, and each installment of interest on, the Notes on the stated maturity of such principal or installment of interest in accordance with the terms of the Notes; (ii) in the case of an election to fully defease the Notes, the Issuer shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of the Indenture there has been a change in the applicable United States federal income tax statutes or regulations, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; (iii) in the case of a Covenant Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit and Covenant Defeasance and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and Covenant Defeasance had not occurred; and (iv) no Event of Default, or event that with notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing with respect to the Notes, including with respect to certain events of bankruptcy or insolvency, at any time during the period ending on the 121st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange and the Issuer will use its reasonable best efforts to obtain and maintain listing of the Notes on the Official List of the Luxembourg Stock Exchange.

Luxembourg Listing Agent and Transfer Agent

Until the Notes are repaid, the Issuer will maintain a paying agent and calculation agent in The City of New York. The Bank of New York Mellon (Luxembourg) S.A. is the Luxembourg Listing Agent and the Luxembourg Transfer Agent in respect of the Notes. The Issuer will maintain such agencies so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange. The address of the Luxembourg Listing Agent and the Luxembourg Transfer Agent are set forth on the inside back cover of this offering memorandum.

Trustee, Paying Agent and Calculation Agent

The Bank of New York Mellon is the Trustee under the Indenture and has been appointed by the Issuer as registrar, principal paying agent and calculation agent with respect to the Notes. The address of the Trustee is 101 Barclay Street, Floor 4E, New York, New York 10286. The Issuer may appoint other paying agents or calculation agents instead of, or in addition to The Bank of New York Mellon. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, the Issuer will maintain a paying agent in Luxembourg. The Bank of New York Mellon (Luxembourg) S.A. will initially act as paying agent in Luxembourg. Upon any change in a paying agent, the Issuer will publish a notice on the website of the Luxembourg Stock Exchange at www.bourse.lu (or if the rules so require, in a leading daily newspaper of general circulation in Luxembourg which the Issuer expects to be the *Luxemburger Wort*).

Governing law; Consent to Jurisdiction and Service of Process

The Indenture provides that it and the Notes will be governed by, and be construed in accordance with, the laws of the State of New York.

The Issuer has irrevocably consented to the nonexclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, New York, United States (the "New York Courts") and any appellate court from any thereof, and has waived any immunity from the jurisdiction of the New York Courts over any suit, action or proceeding that may be brought in connection with the Indenture or the Notes. The Issuer expects to appoint National Corporate Research, Ltd. as its initial authorized agent upon which all writs, process and summonses may be served in any suit, action or proceeding brought in connection with the Indenture or the Notes against the Issuer in any such court and has agreed that such appointment shall be irrevocable so long as any of the Notes remain outstanding or until the irrevocable appointment by the Issuer of a successor in the City of New York as its authorized agent for such purpose and the acceptance of such appointment by such successor.

CERTAIN COLOMBIAN TAX CONSIDERATIONS

The following summary contains a description of the principal Colombian income tax considerations in connection with the purchase, ownership and sale of the Notes, but does not purport to be a comprehensive description of all Colombian tax considerations that may be relevant to a decision to purchase the Notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than those of Colombia.

This summary is based on the tax laws of Colombia as in effect on the date of this offering memorandum, as well as regulations, rulings and decisions in Colombia available on or before such date and now in effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Prospective purchasers of the Notes should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws, including but not limited to their ability to use any withholding to be made by Emgesa as a tax credit in their respective jurisdictions and whether such withholding may be treated as a voluntary tax.

On December 29, 2010, the Colombian government enacted Law 1430 of 2010, which among other things reduced the withholding tax rate on interest payments on foreign indebtedness of Colombian companies. Under one interpretation of Law 1430 of 2010, the withholding tax rate applicable to the interest payments made to foreign holders of the Notes could be determined to be 14%, and under another interpretation such withholding tax rate could be determined to be 0%. Absent further clarification of the withholding tax issue, Emgesa intends to withhold at the 14% withholding tax rate.

In addition, pursuant to article 266 of the Colombian tax code, as amended by article 56 of Law 1430 of 2010, the Notes are not deemed to be a loan possessed in Colombia and, therefore, gains realized on the sale or other disposition of the Notes outside Colombia are not subject to Colombian income tax.

The holders of Notes who are resident in Spain or Chile shall be subject to rules on interest and gains provided for in the double taxation treaties entered into by Colombia with Spain and Chile.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO HOLDERS

CIRCULAR 230 NOTICE: ANY DISCUSSIONS OF U.S. FEDERAL TAX MATTERS SET FORTH HEREIN WERE WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING (WITHIN THE MEANING OF TREASURY DEPARTMENT CIRCULAR 230) BY EMGESA AND THE INITIAL PURCHASERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. SUCH DISCUSSIONS WERE NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WERE NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH POTENTIAL HOLDER AND/OR BENEFICIAL OWNER OF THE NOTES SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following summary of certain U.S. federal income tax consequences to Holders (as defined below) of the purchase, ownership and disposition of the Notes issued in this offering is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change (possibly with retroactive effect) or possible differing interpretations. This summary is limited to Holders who hold the Notes as capital assets and does not purport to address all aspects of U.S. federal income taxation that may be applicable to Holders in light of their particular circumstances nor does it purport to address persons in special tax situations, such as banks, financial institutions, insurance companies, retirement plans, regulated investment companies, real estate investment trusts, tax-exempt entities or persons holding the Notes in a tax-deferred or tax-advantaged account, dealers in securities or currencies, traders in securities that elect to use mark to market accounting, certain expatriates, persons subject to the alternative minimum tax, entities that are treated as partnerships or other pass-through entities for U.S. federal income tax purposes, persons holding Notes as a hedge against currency risks, as a position in a "straddle" or as part of a "hedging transaction," persons deemed to sell the Notes under the constructive sales provisions of the Code, persons holding the Notes as part of a "conversion" or "integrated" transaction for tax purposes, persons owning or deemed to own 10% or more by vote or value of the equity of the issuer, or persons whose functional currency is not the U.S. dollar. This summary also does not address Holders other than original purchasers who purchase the Notes at the Issue Price. This summary does not apply to additional notes issued under a different CUSIP, ISIN or Common Code as the Notes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Thus, persons who are partners in a partnership holding the Notes and such partnerships should consult their tax advisors.

THIS SUMMARY DOES NOT ADDRESS ANY U.S. FEDERAL GIFT OR ESTATE TAX CONSEQUENCES OR ANY STATE, LOCAL OR FOREIGN TAX CONSEQUENCES. PERSONS CONSIDERING THE PURCHASE OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE APPLICATION OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER THE LAWS OF ANY FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

As used in this offering memorandum, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- (1) an individual that is a citizen or resident of the United States,
- (2) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia,
- (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or if the trust was in existence on August 20, 1996 and made a valid election to be treated as a United States person.

The term “non-U.S. Holder” means, for purposes of this discussion, a beneficial owner of a Note that is, for U.S. federal income tax purposes, an individual who is classified as a non-resident for U.S. federal income tax purposes, a foreign corporation or a foreign estate or trust.

Prospective investors should note that no rulings have been, or will be, sought from the Internal Revenue Service with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the Internal Revenue Service will not take contrary positions.

U.S. Holders

Payments of Interest. Payments of interest on a Note (including any withheld taxes or Additional Amounts in respect thereto) generally will be taxable to a U.S. Holder as ordinary income at the time such payments are accrued or are received (in accordance with the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes). As a result of the inclusion of any amounts attributable to withheld taxes and Additional Amounts, the amount included in a U.S. Holder’s gross income for U.S. federal income tax purposes with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by such U.S. Holder.

Since the amount of interest (including Additional Amounts) payable in U.S. dollars under the Notes is determined by reference to the U.S. dollar value of Colombian pesos at periodic intervals over the term of the Notes, U.S. Holders should consult their tax advisors regarding the application of the foreign currency exchange rules under applicable Treasury Regulations.

In general, under the Treasury Regulations, a U.S. Holder that uses the cash method of accounting for U.S. federal income tax purposes will be required to include in income the U.S. dollar value of the interest payment (including Additional Amounts).

In general, under the Treasury Regulations, a U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes may determine the amount of income recognized with respect to the interest payments (including payments of Additional Amounts) determined by reference to the U.S. dollar value of Colombian pesos by using either of two methods, in either case regardless of whether the payments are in fact converted into U.S. dollars on the date of receipt. Under the first method, the U.S. dollar value of accrued interest is translated at the average exchange rate for the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year). The “average exchange rate” for an interest accrual period (or partial period) is the simple average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by the holder. Under the second method, the U.S. Holder can elect to accrue interest at the spot rate of exchange on the last day of an interest accrual period (or, in the case of an accrual period that spans two taxable years, at the exchange rate in effect on the last day of the partial period within the taxable year) or, if the last day of an interest accrual period is within five business days of the receipt of such interest, the U.S. dollar value of the interest on the date of receipt. Such election to accrue interest at the spot rate generally will apply to all foreign currency denominated debt instruments held by the U.S. Holder, and is irrevocable without the consent of the Internal Revenue Service.

A U.S. Holder that uses the accrual method of accounting will recognize exchange gain or loss, which will be treated as ordinary income or loss, with respect to accrued interest income equal to the difference, if any, between the U.S. dollar value of the interest on the date such interest payment (or payment of Additional Amounts) is received and the U.S. dollar value that such U.S. Holder used to accrue the interest income. Any exchange gain or loss recognized will be treated as U.S. source income or loss, and generally will not be treated as interest income.

Subject to applicable limitations (including certain minimum holding period requirements), a U.S. Holder may be entitled to a credit against such U.S. Holder’s U.S. federal income tax liability (or a deduction in computing such U.S. Holder’s U.S. taxable income) for any foreign income taxes withheld. Interest paid on the Notes will be treated as income from sources outside the United States for purposes of computing the U.S. Holder’s foreign tax credit and will be treated as either “passive category income” or “general category income” for U.S. foreign tax credit limitation purposes. The rules relating to U.S. foreign tax credits are extremely complex. U.S. Holders should consult their tax advisors regarding the availability of U.S. foreign tax credits in their particular circumstances.

Sale, Exchange, Redemption or Other Taxable Disposition. A U.S. Holder generally will recognize gain or loss on the sale, exchange, redemption or other taxable disposition of a Note equal to the difference (if any) between the amount realized on the sale, exchange, redemption or other taxable disposition, except to the extent such amount is attributable to accrued but unpaid interest (which will be taxable as interest, as described above), and such U.S. Holder’s tax basis in the

Note. The amount realized on the sale, exchange, redemption or other taxable disposition of a Note will be the U.S. dollar value of the amount received on the date of disposition, and a U.S. Holder's tax basis in a Note will be U.S. dollar amount of the purchase price on the date the Note was purchased. If, however, the Notes are traded on an established securities market, for a cash basis U.S. Holder or electing accrual basis U.S. Holder, the amount realized will be the U.S. dollar value of the amount received on the settlement date for the disposition, and the tax basis will be the U.S. dollar amount of the purchase price on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder will be subject to the rules regarding currency translation elections described above, and cannot be changed without the consent of the Internal Revenue Service. The amount of foreign currency gain or loss realized with respect to accrued but unpaid interest will equal the difference between the U.S. dollar value of the interest on the date the Notes are disposed of and the U.S. dollar value at which the interest was previously accrued.

Foreign currency gain or loss recognized by a U.S. Holder on the sale, exchange or other disposition of a Note (including repayment at maturity) generally will be treated as U.S. source ordinary income or loss. Foreign currency gain or loss on a sale, exchange, redemption or other taxable disposition of a Note will be recognized only to the extent of total gain or loss on the transaction. Gain or loss in excess of foreign currency gain or loss on a Note generally will be treated as capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Any gain or loss realized by a U.S. Holder on a sale, exchange, redemption or other taxable disposition of the Notes generally will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes irrespective of whether such income is treated as Colombian source income for purposes of any applicable Colombian taxes. See "*Certain Colombian Tax Considerations.*"

Under certain Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the applicable Treasury Regulations, in addition to certain other transactions, any transaction resulting in the taxpayer claiming a loss under section 165 of the Code in an amount equal to or in excess of certain threshold amounts is a "reportable transaction." The Treasury Regulations specifically provide that a loss resulting from a "Section 988 transaction" (as defined in Section 988(c)(1) of the Code relating to foreign currency transactions), such as any exchange loss realized with respect to the Notes, will constitute a section 165 loss. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction.

Non-U.S. Holders

Subject to the discussion below under "*Information Reporting and Backup Withholding*," payments, including interest on a Note to a non-U.S. Holder and gain realized on the sale, exchange, redemption or other taxable disposition of a Note by a non-U.S. Holder, will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such non-U.S. Holder in the United States; or (ii) in the case of federal income tax imposed on gain, such non-U.S. Holder is a nonresident alien individual present in the United States for 183 days or more in the taxable year of sale and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Payments of interest, principal and proceeds from the sale, exchange, redemption or other disposition of a Note that are made within the United States or through certain U.S.-related financial intermediaries may be subject to U.S. information reporting and backup withholding unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number, certifies that such U.S. Holder is not subject to backup withholding and otherwise complies with the backup withholding rules. Similarly, non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a Holder will be allowed as a credit against such Holder's U.S. federal income tax liability and may entitle such Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement, the initial purchasers named below have severally agreed to purchase from us the following respective principal amounts of notes listed opposite their names below at the initial offering price set forth on the cover page of this offering memorandum less discounts and commissions:

Initial Purchaser	Principal Amount of Notes
Citigroup Global Markets Inc.	Col\$368,380,000,000
Deutsche Bank Securities Inc.	Col\$368,380,000,000
Total	Col\$736,760,000,000

The purchase agreement provides that the obligations of the several initial purchasers to purchase the notes offered hereby are subject to certain conditions precedent and that the initial purchasers will purchase all of the notes offered by this offering memorandum if any of these notes are purchased.

After the initial offering, the initial purchasers may change the offering price and other selling terms.

We have agreed to indemnify the initial purchasers against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the initial purchasers may be required to make in respect of any of these liabilities.

The notes have not been registered under the Securities Act. Each initial purchaser has agreed that it will offer or sell the notes only (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act or (ii) in offshore transactions in reliance on Regulation S under the Securities Act. The notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act. See “*Transfer Restrictions.*”

Until the expiration of forty (40) days after the commencement of the offering, any offer or sale of notes within the United States by a broker-dealer may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to Rule 144A under the Securities Act or another available exemption from the registration requirements thereof.

The notes are a new issue of securities with no established trading market. We intend to have the notes listed on the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market. The initial purchasers may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. We cannot assure you as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers may close out any short position by purchasing notes in the open market. A short position is more likely to be created if initial purchasers are concerned that there may be downward pressure on the price of the notes in the open market prior to the completion of the offering. Stabilizing transactions consist of various bids for or purchases of the notes made by the initial purchasers in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the notes. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the

price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

The initial purchasers have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. Affiliates of Citigroup Global Markets Inc. have, from time to time, acted as underwriter and placement agent of Emgesa's bond program in the Colombian local market and as financial advisors in connection with derivative and foreign exchange transactions.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of notes described in this offering memorandum may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the notes that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of notes described in this offering memorandum located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the notes have not authorized and do not authorize the making of any offer of notes through any financial intermediary on their behalf, other than offers made by the initial purchasers with a view to the final placement of the notes as contemplated in this offering memorandum. Accordingly, no purchaser of the notes, other than the initial purchasers, is authorized to make any further offer of the notes on behalf of the sellers or the initial purchasers.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in Colombia

The notes will not be registered in Colombia on the National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) maintained by the SFC (the Colombian Superintendence of Finance) pursuant to Article 6.12.1.1.1 of Decree 2555 of July 15, 2010, as amended, and, accordingly, they may not be offered to persons in Colombia except pursuant to a public offering or an exemption therefrom under Colombian law.

Notice to Prospective Investors in Switzerland

Our securities may not and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland only on the basis of a non-public offering, and neither this offering memorandum nor any other solicitation for investments in our securities may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of articles 652a or 1156 of the Swiss Federal Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of our securities on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The Notes have not been and will not be approved by any Swiss regulatory authority. The Notes have not been and will not be registered with or supervised by the Swiss Federal Banking Commission, and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on investment Funds of March 18, 1994 does not extend to acquirers of our securities.

TRANSFER RESTRICTIONS

The Notes have not been registered under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes (other than the initial purchasers in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- (2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) it understands and agrees that Notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that Notes offered outside the United States pursuant to Regulation S will also be represented by a global note;
- (4) it will not resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- (6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- (7) it acknowledges that the trustee, registrar or transfer agent for the Notes will not be required to accept for registration transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with;
- (8) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the initial purchasers; and
- (9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF EMGESA S.A. E.S.P. (THE “COMPANY”) THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AFFORDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN.”

The following is the form of restrictive legend which will appear on the face of the Regulation S Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER APPLICABLE JURISDICTION.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DATE ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THE NOTES.”

Other Jurisdictions

The distribution of this offering memorandum and the offer and sale or resale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

LEGAL MATTERS

The validity of the Notes being offered hereby is being passed upon for Emgesa by Chadbourne & Parke LLP, New York, New York. Certain legal matters relating to the issuance of the Notes will be passed upon for the initial purchasers by Davis Polk & Wardwell LLP.

Matters of Colombian law will be passed upon for Emgesa by Gómez-Pinzón Zuleta Abogados, S.A., Emgesa's Colombian counsel, and for the Initial Purchasers by Prieto y Carrizosa S.A., Colombian counsel to the Initial Purchasers.

INDEPENDENT ACCOUNTANTS

Emgesa's financial statements as of December 31, 2008, 2009 and for the years ended December 31, 2007, 2008 and 2009, included elsewhere in this offering memorandum, have been audited by our independent accountants, Deloitte & Touche Ltda., as stated in their reports appearing herein.

Emgesa's audited interim financial statements as of and for the nine months ended September 30, 2010, included in this offering memorandum, have been audited by our independent accountants Deloitte & Touche Ltda., as stated in their reports appearing herein. With respect to the financial information of Emgesa as of September 30, 2009, and for the nine months then ended, included elsewhere in this offering memorandum, Deloitte & Touche Ltda. reported that they have applied limited procedures in accordance with professional standards (Colombian GAAS) for a review of such information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

LISTING AND GENERAL INFORMATION

Listing

Emgesa has applied to list the Notes on the Official List of the Luxembourg Stock Exchange in accordance with the rules of that exchange and to trade the Notes on the Euro MTF Market of such exchange. Emgesa will publish a notice of any redemption, change of control or any change in the rate of interest payable on the Notes on the website of the Luxembourg Stock Exchange at www.bourse.lu (or if the rules so require in a leading daily newspaper of general circulation in Luxembourg which Emgesa expects to be the *Luxemburger Wort*).

For as long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of that exchange require, you may inspect and obtain copies of the following documents at the specified office of the listing agent in Luxembourg during normal business hours on any business day:

1. Emgesa's organizational documents (including their by-laws);
2. Emgesa's current and future annual financial statements, and any quarterly financial statements published by Emgesa;
3. any annual reports published by Emgesa in the future;
4. the purchase agreement relating to the Notes; and
5. the Indenture relating to the Notes (which includes the forms of the Notes).

Emgesa, in the event the Notes are issued, will maintain a paying agent and transfer agent in Luxembourg for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange. Emgesa has appointed The Bank of New York Mellon (Luxembourg) S.A. as its Paying Agent in Luxembourg and transfer agent. The Paying Agent in Luxembourg will act as intermediary between the holders of Notes and Emgesa. Emgesa reserves the right to vary such appointment and it will publish a notice on the website of the Luxembourg Stock Exchange and at the office of our Paying Agent in Luxembourg (or if the rules so require in a leading daily newspaper of general circulation in Luxembourg which Emgesa expects to be the *Luxemburger Wort*).

Emgesa's fiscal year ends on December 31. Emgesa's financial statements for the fiscal years ending December 31, 2008 and December 31, 2009 will be available free of charge at the office of Paying Agent in Luxembourg.

Emgesa may apply to remove the Notes from listing on the Official List of the Luxembourg Stock Exchange, particularly if necessary to avoid any new withholding tax.

Where You Can Find Other Information

While any Notes remain outstanding, any requests for information and requests for agreements summarized in this offering memorandum should be directed to Emgesa.

Emgesa will provide a copy of this offering memorandum and any related amendments or supplements to this offering memorandum to each purchaser of the Notes from the Initial Purchasers. Each person receiving this offering memorandum and any related amendments or supplements to this offering memorandum acknowledges that:

- (1) such person has been afforded an opportunity to request from Emgesa, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- (2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

- (3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by Emgesa or the Initial Purchasers.

Clearing Information

The Notes sold pursuant to Rule 144A under the Securities Act and the Notes sold pursuant to Regulation S have been accepted for clearance through the facilities of DTC, including for the account of Euroclear and Clearstream Luxembourg. The securities codes are:

	<u>144A Global Note</u>	<u>Regulation S Global Note</u>
CUSIP	291208AA4	P3703C AA8
ISIN	US291208AA45	USP3703CAA82

Consents and Authorizations

The issuance of the Notes has been authorized by our shareholders at a meeting held on October 29, 2010.

No Significant or Material Change

Except as disclosed in this offering memorandum:

1. there has been no material adverse change in Emgesa’s financial position since September 30, 2010; and
2. Emgesa has not been involved in any litigation, administrative proceeding or arbitration relating to claims or amounts which are material in the context of the issuance of the Notes, and so far as Emgesa is aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

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Emgesa S.A. E.S.P.

***Financial Statements as of December 31,
2008 and 2009 and for each of the three years
ended December 31, 2009 and Independent
Auditors' Report***

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Emgesa S.A. E.S.P.

We have audited the accompanying balance sheets of EMGESA S.A. E.S.P. (the "Company") as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity, changes in financial position and cash flows for each of the three years ended December 31, 2009 (all expressed in million of Colombian pesos). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Colombia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emgesa S.A. E.S.P. as of December 31, 2009 and 2008, and the results of its operations, the changes in its financial position and its cash flows for each of the three years ended December 31, 2009, in conformity with accounting principles generally accepted in Colombia.

Our audits also comprehended the translation of the Colombian peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. As further explained in Note 1, the translation of the financial statements amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of English language readers.

Deloitte & Touche Ltda.
Bogotá, Colombia
February 12, 2010

EMGESA S.A. E.S.P.
Balance sheets as of December 31, 2009 and 2008
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) –
see Note 1)

	Note	As of December 31,		
		2008 (Col\$ in million)	2009 (Col\$ in million)	2009 (U.S.\$ in thousands)
ASSETS				
CURRENT ASSETS:				
Cash.....	3	102,812	625,186	305,830
Temporary investments	4	369,302	23,598	11,544
Accounts receivable, net.....	5	394,857	358,014	175,134
Inventories.....	7	23,124	25,960	12,699
Prepaid expenses		4,330	6,267	3,065
TOTAL CURRENT ASSETS		894,425	1,039,025	508,272
Long-term investments.....	4	8,326	8,331	4,075
Long-term accounts receivable, net.	5	9,431	10,494	5,134
Long-term inventories	7	19,491	20,637	10,095
Deferred charges, net.....	8	94,177	99,925	48,882
Intangibles, net	9	58,120	56,454	27,616
Other assets	12	873	3,771	1,845
Property, plant and equipment, net..	10	5,009,273	4,933,888	2,413,568
Revaluation of assets.....	11	1,954,560	2,010,693	983,594
TOTAL ASSETS.....		8,048,676	8,183,218	4,003,081
MEMORANDUM ACCOUNTS ..	21	4,346,758	5,258,132	2,572,182
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Financial obligations	13	509,615	230,335	112,676
Accounts payable	14	315,482	111,418	54,504
Labor obligations.....	15	7,142	8,412	4,115
Retirement and pension obligations	18	12,440	12,420	6,075
Provisions.....	16	212,499	153,796	75,234
Unamortized premium of notes issuance		4,274	4,274	2,091
Other liabilities.....		12,130	12,049	5,894
TOTAL CURRENT LIABILITIES		1,073,582	532,704	260,589
LONG-TERM LIABILITIES:				
Financial obligations	13	1,125,009	1,630,009	797,371
Retirement and pensions obligations	18	67,848	69,594	34,044
Provisions.....	16	2,107	1,845	902
Unamortized premium of notes issuance		10,361	6,087	2,978
TOTAL LONG-TERM LIABILITIES		1,205,325	1,707,535	835,295
TOTAL LIABILITIES		2,278,907	2,240,239	1,095,884
SHAREHOLDERS' EQUITY:.....	20			
Capital stock.....		1,100,000	1,100,000	538,100
Premium on stock issuance		113,256	113,256	55,403
Equity revaluation		1,896,375	1,883,907	921,573
Reserves		251,268	296,699	145,140
Surplus from revaluation of assets		1,954,560	2,010,693	983,594
Net income for the current year		454,310	538,424	263,387
TOTAL SHAREHOLDERS' EQUITY		5,769,769	5,942,979	2,907,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		8,048,676	8,183,218	4,003,081
MEMORANDUM ACCOUNTS ..	21	4,346,758	5,258,132	2,572,182

The accompanying notes are an integral part of these financial statements.

EMGESA S.A. E.S.P.
Income statements for the years ended December 31, 2007, 2008 and 2009
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$),
except for preferred dividend per share and net income per share – see Note 1)

	Note	Year ended December 31,			
		2007 (Col\$ in million)	2008 (Col\$ in million)	2009 (Col\$ in million)	2009 (U.S.\$ in thousands)
OPERATING REVENUES:					
Contract sales		665,592	810,094	1,067,243	522,076
Spot sales		277,743	274,502	387,079	189,352
Sales to unregulated customers		381,606	424,016	472,323	231,052
Other services.....		1,620	2,100	2,489	1,217
		<u>1,326,561</u>	<u>1,510,712</u>	<u>1,929,134</u>	<u>943,697</u>
COST OF SALES:					
Purchase of electricity and related costs.....		(357,015)	(376,409)	(557,065)	(272,506)
Depreciation		(130,749)	(133,727)	(148,693)	(72,738)
Other generation cost		(108,395)	(133,143)	(190,381)	(93,131)
Transfers Law No.99 and other.		(48,918)	(55,755)	(58,008)	(28,376)
		<u>(645,077)</u>	<u>(699,034)</u>	<u>(954,147)</u>	<u>(466,751)</u>
GROSS MARGIN		<u>681,484</u>	<u>811,678</u>	<u>974,987</u>	<u>476,946</u>
Administrative expenses	22	(29,944)	(21,760)	(22,988)	(11,245)
OPERATING INCOME.....		<u>651,540</u>	<u>789,918</u>	<u>951,999</u>	<u>465,701</u>
Non operating income	23	37,225	41,375	51,468	25,177
Non operating expenses	24	(194,708)	(191,024)	(204,315)	(99,947)
INCOME BEFORE INCOME TAX		<u>494,057</u>	<u>640,269</u>	<u>799,152</u>	<u>390,931</u>
Income tax.....	19	(88,750)	(185,959)	(260,728)	(127,544)
NET INCOME.....		<u>405,307</u>	<u>454,310</u>	<u>538,424</u>	<u>263,387</u>
Preferred dividends per share		223.03	248.37	226.30	0,11
Net income per share.....	1	<u>2,690.37</u>	<u>3,015.87</u>	<u>3,583.83</u>	<u>1,75</u>

The accompanying notes are an integral part of these financial statements.

EMGESA S.A. E.S.P.
Statements of changes in shareholders' equity for the years ended
December 31, 2007, 2008 and 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Capital Stock		Premium on stock issuance		Equity revaluation		Reserves		Surplus from revaluation of assets		Net income for the current year		Total shareholders' equity	
	Col\$		Col\$		Col\$		Col\$		Col\$		Col\$		Col\$	
BALANCE AS OF JANUARY 1, 2007	213,875		105,494		949,720		307,720		423,979		(3,595)		1,997,193	
Dividends	-		-		-		-		-		(501,701)		(501,701)	
Merger effect (Emgesa S.A E.S.P. – Central Hidroeléctrica Betania S.A. E.S.P.)	886,125		7,762		971,591		158,194		1,433,912		250,119		3,707,703	
Transfers.....	-		-		-		(38,708)		-		38,708		-	
Equity tax payment	-		-		(12,468)		-		-		-		(12,468)	
Net income	-		-		-		-		-		405,307		405,307	
Changes to valuation surplus	-		-		-		-		49,783		-		49,783	
BALANCE AS OF DECEMBER 31, 2007	1,100,000		113,256		1,908,843		427,206		1,907,674		188,838		5,645,817	
Dividends	-		-		-		-		-		(364,776)		(364,776)	
Transfers.....	-		-		-		(175,938)		-		175,938		-	
Equity tax payment.....	-		-		(12,468)		-		-		-		(12,468)	
Net income	-		-		-		-		-		454,310		454,310	
Changes to valuation surplus.....	-		-		-		-		46,886		-		46,886	
BALANCE AS OF DECEMBER 31, 2008	1,100,000		113,256		1,896,375		251,268		1,954,560		454,310		5,769,769	
Dividends	-		-		-		-		-		(408,879)		(408,879)	
Transfers.....	-		-		-		45,431		-		(45,431)		-	
Equity tax payment.....	-		-		(12,468)		-		-		-		(12,468)	
Net income	-		-		-		-		-		538,424		538,424	
Changes to valuation surplus.....	-		-		-		-		56,133		-		56,133	
BALANCE AS OF DECEMBER 31, 2009	1,100,000		113,256		1,883,907		296,699		2,010,693		538,424		5,942,979	
BALANCE AS OF DECEMBER 31, 2009	U.S.\$ 538,100		U.S.\$ 55,403		U.S.\$ 921,573		U.S.\$ 145,140		U.S.\$ 983,594		U.S.\$ 263,387		U.S.\$ 2,907,197	

The accompanying notes are integral part of these financial statements.

EMGESA S.A. E.S.P.
Statements of changes in financial position for the years ended
December 31, 2007, 2008 and 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Year Ended December 31,			
	2007 (Col\$ in million)	2008 (Col\$ in million)	2009 (Col\$ in million)	2009 (U.S.\$ in thousands)
WORKING CAPITAL PROVIDED				
Net income.....	405,307	454,310	538,424	263,387
Provision for investments.....	375	(4,999)	-	-
Depreciation.....	131,576	134,716	150,317	73,532
Amortization.....	13,436	4,790	3,735	1,827
(Recovery) Provision for retirement and pension obligations.....	-	(680)	1,746	854
Recovery other provisions.....	-	-	(89)	(44)
Write-off of permanent investments.....	-	151	-	-
Loss (gain) on sales of fixed assets.....	48	(35)	(54)	(25)
Deferred taxes.....	-	(17,960)	(1,061)	(519)
WORKING CAPITAL PROVIDED BY OPERATIONS.....				
	550,742	570,293	693,018	339,012
Inventories.....	5,954	-	-	-
Financial obligations.....	171,427	-	505,000	247,037
Merger effect - financial obligations.....	754,087	-	-	-
Merger effect – premium of notes issuance.....	1,230	-	-	-
Merger effect – retirement and pension obligations.....	67,482	-	-	-
Merger effect – equity.....	2,078,815	-	-	-
Accounts receivable.....	-	1,595	-	-
Intangibles.....	-	-	130	63
Other assets.....	-	1,223	-	-
Long term investments.....	1,146,319	893	-	-
Provisions.....	423	-	-	-
Total working capital provided.....	4,776,479	574,004	1,198,148	586,112
WORKING CAPITAL USED				
Long term accounts receivable.....	11,026	-	1,063	520
Long term investments.....	-	-	5	3
Merger effect – long term investments.....	686	-	-	-
Inventories.....	-	3,386	1,147	561
Merger effect – inventories.....	16,105	-	-	-
Deferred charges.....	6,672	7,774	6,885	3,368
Merger effect – deferred charges.....	68,876	-	-	-
Intangibles.....	2,192	1,550	-	-
Merger effect – intangibles.....	58,543	-	-	-
Property, plant and equipment.....	109,270	68,518	74,879	36,629
Merger effect – property, plant and equipment.....	3,811,730	-	-	-
Other assets.....	-	-	2,898	1,418
Merger effect – other assets.....	31	-	-	-
Dividends paid.....	388,248	364,776	408,879	200,016
Dividends payable.....	113,453	-	-	-
Financial obligations.....	188,041	317,473	-	-
Provisions.....	-	173	172	84
Premium of notes issuance, reclassification in the short term.....	-	4,274	4,274	2,091
Equity tax.....	12,468	12,468	12,468	6,099
TOTAL WORKING CAPITAL USED.....	4,787,341	780,392	512,670	250,789
(DECREASE) INCREASE IN WORKING CAPITAL.....	(10,862)	(206,388)	685,478	335,323

EMGESA S.A. E.S.P.
Statements of changes in financial position for the years ended
December 31, 2007, 2008 and 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Year Ended December 31,			
	2007	2008	2009	2009
	(Col\$ in million)	(Col\$ in million)	(Col\$ in million)	(U.S.\$ in thousands)
CHANGES IN COMPONENTS OF WORKING CAPITAL				
Cash	33,376	66,042	522,374	255,536
Temporary investments	(1,749)	323,322	(345,704)	(169,112)
Accounts receivable, net	327,715	(12,281)	(36,843)	(18,023)
Inventories	16,736	6,388	2,836	1,387
Prepaid expenses	2,762	1,090	1,937	947
Financial obligations	(50,849)	(377,052)	279,280	136,619
Accounts payable	(192,036)	(118,773)	204,064	99,824
Labor obligations	(5,803)	(660)	(1,270)	(621)
Retirement and pension obligations	(11,962)	(302)	20	10
Provisions	(118,615)	(92,803)	58,703	28,716
Unamortized premium of notes issuance	(777)	-	-	-
Other liabilities	(9,660)	(1,359)	81	40
(DECREASE) INCREASE IN WORKING CAPITAL	(10,862)	(206,388)	685,478	335,323

The accompanying notes are an integral part of these financial statements.

EMGESA S.A. E.S.P.

Statements of cash flows for the years ended December 31, 2007, 2008 and 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Year Ended December 31,			
	2007 (Col\$ in million)	2008 (Col\$ in million)	2009 (Col\$ in million)	2009 (U.S.\$ in thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:				
NET INCOME	405,307	454,310	538,424	263,387
RECONCILIATION BETWEEN NET INCOME AND NET CASH PROVIDED BY OPERATING ACTIVITIES				
Provision for bad debts.....	87	1,086	205	100
Provision for investments.....	375	(4,999)	-	-
Write-off of permanent investments.....	-	151	-	-
Loss (gain) on sales of fixed assets.....	48	(35)	(54)	(25)
Depreciation.....	131,576	134,716	150,317	73,532
Deferred taxes.....	-	(17,960)	(1,061)	(519)
Amortization.....	9,161	517	(538)	(263)
(Recovery) Provision for retirement and pension obligations.....	(2,561)	(377)	1,726	844
	<u>543,993</u>	<u>567,409</u>	<u>689,019</u>	<u>337,056</u>
ASSET AND LIABILITY CHANGES, NET:				
Accounts receivable.....	(12,846)	12,790	35,575	17,403
Merger effect – accounts receivable.....	(325,981)	-	-	-
Inventories.....	(1,981)	(9,775)	(3,983)	(1,948)
Merger effect – inventories.....	(24,904)	-	-	-
Prepaid expenses.....	-	(1,090)	(1,937)	(948)
Deferred charges.....	(9,433)	1,223	(2,898)	(1,418)
Merger effect – deferred charges.....	(68,876)	-	-	-
Intangibles.....	(2,192)	(1,550)	130	64
Merger effect – intangibles.....	(58,543)	-	-	-
Accounts payable.....	18,306	15,548	10,863	5,314
Merger effect – accounts payable.....	60,277	-	-	-
Labor obligations.....	746	660	1,270	621
Merger effect – labor obligations.....	5,056	-	-	-
Merger effect – retirement and pension obligations.....	82,005	-	-	-
Other liabilities.....	1,979	1,359	(81)	(40)
Merger effect – other liabilities.....	7,680	-	-	-
Provisions.....	7,989	92,630	(58,966)	(28,845)
Merger effect – provisions.....	111,050	-	-	-
	<u>334,325</u>	<u>679,204</u>	<u>668,992</u>	<u>327,259</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Permanent investments.....	1,146,318	893	(6)	(3)
Merger effect – permanent investments.....	(686)	-	-	-
Property, plant and equipment.....	(109,270)	(68,518)	(74,879)	(36,629)
Merger effect – property, plant and equipment.....	(3,811,730)	-	-	-
Merger effect – other assets.....	(31)	-	-	-
Merger effect – equity.....	2,078,815	-	-	-
Deferred charges.....	-	(7,774)	(6,885)	(3,368)
	<u>(696,584)</u>	<u>(75,399)</u>	<u>(81,770)</u>	<u>(40,000)</u>

EMGESA S.A. E.S.P.

Statements of cash flows for the years ended December 31, 2007, 2008 and 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Year Ended December 31,			
	2007 (Col\$ in million)	2008 (Col\$ in million)	2009 (Col\$ in million)	2009 (U.S.\$ in thousands)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from financial obligations.....	347,022	456,231	1,179,223	576,854
Merger effect – financial obligations	756,897	-	-	-
Merger effect – premium of notes issuance.....	6,280	-	-	-
Proceeds from related parties.....	-	214,926	(214,926)	(105,138)
Dividends paid.....	(388,248)	(476,477)	(408,879)	(200,016)
Payment of financial obligations.....	(315,598)	(396,653)	(953,502)	(466,436)
Equity tax.....	(12,468)	(12,468)	(12,468)	(6,099)
NET CASH FROM FINANCING ACTIVITIES	393,885	(214,441)	(410,552)	(200,835)
Net Increase in Cash and Cash Equivalents	31,626	389,364	176,670	86,424
Beginning balance of Cash and Cash Equivalents .	51,124	82,750	472,114	230,950
ENDING BALANCE OF CASH AND CASH EQUIVALENTS	82,750	472,114	648,784	317,374

The accompanying notes are an integral part of these financial statements.

EMGESA S.A. E.S.P.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 AND 2009 AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2009

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$), except as otherwise noted)

NOTE 1—OPERATIONS AND SUMMARY OF MAIN ACCOUNTING POLICIES AND PRACTICES

Operations

Emgesa S.A. E.S.P. (the “Company” or Emgesa) was incorporated on October 23, 1997, as a utility company in accordance with the provisions of Law 142, or the Public Utilities Statute, issued in 1994. The term of duration for the Company is indefinite. The Company is engaged in the generation and sale of electricity in Colombia. In 1996, the Company was established with the contribution of a dam – based hydroelectric plant, several thermoelectrical plants and all rights required for operations thereof from Empresa de Energía de Bogotá S.A. E.S.P. under a privatization and investment plan.

The Company is governed mainly by Law 142 and Law 143, also issued in 1994, which establishes the provisions that govern activities related with the commercialization and distribution of electricity, its by-laws, and other provisions contained in the Colombian Commercial Code. Laws 142 and 143 establish the competition structure, rates and subsidy regimes for the sale of electricity and other aspects for the operation and regulation of the sector. The rates for the sale of electricity are regulated by the Electricity and Gas Regulatory Commission (CREG), which is a technical organization reporting to the Ministry of Mines and Energy.

Merger of Central Hidroeléctrica de Betania S.A. E.S.P. and Emgesa S.A. E.S.P. – On December 14, 2006 the Endesa Group and Empresa de Energía de Bogotá S.A. E.S.P. (EEB), shareholders of Emgesa S.A. E.S.P. and of Central Hidroeléctrica de Betania S.A. E.S.P., agreed to merge the companies, for which they obtained in 2007 authorization for merger from the corresponding Shareholders’ Meetings and the competent authorities. The companies, based on the Merger agreement (between Central Hidroeléctrica de Betania S.A. E.S.P. and Emgesa S.A. E.S.P.), defined that: (a) Central Hidroeléctrica de Betania S.A. E.S.P. would be the absorbing company and Emgesa S.A. E.S.P. the absorbed company, and (b) the corporate name of the merged entity would be Emgesa S.A. E.S.P. According to the foregoing, the Superintendence of Corporations authorized the merger, which was recorded by public deed on September 1, 2007. Consequently, the Company merged the assets and liabilities and increased its capital to Col\$886,125.

As of December 31, 2007, the Company (new merged entity) presents its financial statements including the integration of the operations of Emgesa S.A. E.S.P. (absorbed company) by virtue of the mentioned merger.

Capital reduction – The Shareholders’ Meeting in an extraordinary meeting held on July 29, 2009, authorized the capital reduction of Col\$444,778 and requested the administration to carry out the legal proceedings with the competent authorities in order to obtain the required approval. As of December 31, 2009 the approval was in process.

“El Quimbo” Project – On June 20, 2008, the Company was awarded the construction of the Hydroelectric Project El Quimbo. The main objective of this project is the formation of a reservoir in the Magdalena River in the canyon sector called “El Quimbo”, which will allow the Company to generate energy in a hydroelectric plant of 400 Megawatts (MW) of installed capacity.

Summary of Main Accounting Policies and Practices

These financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with accounting principles generally accepted in Colombia, or Colombian GAAP. The effects of the differences between Colombian GAAP and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations, shareholders’ equity or cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements, other than Colombia. For the convenience of English language readers outside Colombia, certain reclassifications have been made and certain clarifying account descriptions have been included.

The Company’s financial statements are prepared pursuant to standards set forth in the Accounting Manual for Domiciliary Public Utilities Providers (“*Plan de Contabilidad para Entes Prestadores de Servicios Públicos Domiciliarios*”), established by the Office of the Superintendency of Domiciliary Public Services (SSPD), which conform to Colombian GAAP. The main accounting policies and practices followed by the Company are summarized below:

- a. *Accounting period* – The Company has defined by its by-laws to make a closing of its accounts, prepare and disclose general purpose financial statements once a year, as of December 31.
- b. *Functional currency* - According to legal provisions, the functional currency used by the Company is the Colombian peso.
- c. *Foreign currency transactions* – Foreign currency transactions and assets and liabilities denominated in a currency other than the Colombian peso are translated into Colombian pesos at the official exchange rate (*Tasa Representativa del Mercado*) as certified by the Superintendency of Finance of Colombia. The exchange gain (loss) resulting from accounts payable and liabilities denominated in foreign currency that resulted from the acquisition of inventories and property, plant and equipment is capitalized until the asset is in condition to be used or sold. All other exchange gains and losses are included in

operations. The official exchange rates (per U.S. \$ 1.00) used to adjust the foreign currency assets and liabilities were:

December 31, 2007	Col\$	2,014.76
December 31, 2008		2,243.59
December 31, 2009		2,044.23

- d. *Temporary investments* – These correspond to investments in fixed income instruments, easily liquidated in the short term, which are made up by: (a) Treasury Securities, (b) Time Deposit Certificates, and (c) Public and Private Debt Bonds, which are reported at their market value and the effect of the valuation of these prices is recorded in the income statement. Additionally, other investments are accounted for at acquisition cost plus interest and adjustments earned, not exceeding their market value.
- e. *Equity investments by the cost method*: Equity investments recognized by the cost method are recorded at cost adjusted for CPI (variation adjustments recorded up to December 31, 2005) and are valued at their equity book value, recording as a higher or lower value of revaluations the difference between the adjusted cost and the equity book value of the investment.
- f. *Allowance for doubtful accounts* – The Company determines the allowance on the basis of the aging and individual analyses of the creditworthiness of its customers.
- g. *Inventories* – Inventories are recorded at the lower between the average cost and its net realization value. A provision is recorded to reduce obsolete and slow-moving inventories to their net realization value.
- h. *Property, plant and equipment, net* – Property, plant and equipment are valued at cost, adjusted for CPI variation through December 31, 2005.

Depreciation is computed applying the straight-line method, according to the following depreciation rates:

<i>Asset</i>	2007	2008	2009
Constructions and buildings (1)	2.27%	1.34%	1.34%
Civil works, plants, ducts and tunnels	1.39%	1.39%	1.39%
Distribution network, lines and cables	6.67%	6.67%	6.67%
Machinery and equipment (1)	3.23%	4.78%	4.78%
Office equipment	9.10%	9.69%	9.69%
Communication equipment	5.97%	6.17%	6.17%
Computer equipment	20.00%	20.00%	20.00%
Transportation equipment	20.00%	20.00%	20.00%

(1) During the last quarter of 2008, the Company, based on a technical study contracted with an outside firm of specialist engineers, established a new prospective remaining useful life for each of the assets included on these groups.

For accounting purposes Emgesa does not estimate any salvage value for its assets since it deems such value to be relatively insignificant; consequently, assets are fully depreciated.

- i. *Deferred charges, net* - The Company records as deferred charges: (a) costs incurred in making arrangements for obtaining its financial obligations, which are amortized straight line over the life of the financial facility, (b) costs incurred for the merger of Betania and Emgesa, which are amortized straight line over a period of five years (c) deferred tax assets and (d) pre-feasibility studies on plant projects which are straight line amortized over the life of the project once the project enters its production stage.
- j. *Intangibles, net* – The Company recorded the following as intangibles: a) water rights from the Chingaza and Río Blanco projects, which are amortized with the straight line method over a 50-year period; and b) the expenses incurred in software and licenses, which are amortized over three years with the straight line method.
- k. *Revaluation of assets* – Corresponds to the differences between the net book value of property, plant and equipment and their value determined by independent technical valuation. Such revaluation of assets is recorded in the non-current assets account “Revaluation of Assets” with the offsetting entry recorded in the shareholders’ equity account “Surplus from revaluation of assets”. Assets are revalued every three years based on technical appraisals. Revaluations are performed on specific asset groups. If the revaluation results in a decrease in the book value of the assets, the charge is first recorded against any surplus associated with the individual assets or class of assets, and any decrease in excess of the existing surplus is charged against income.

Also it includes differences between the cost of the investments and their equity book value.

- l. *Labor obligations* – Correspond to the Company’s obligations for mandatory and voluntary employee benefits under applicable labor agreements, as well as employee severance, interest on severance, seniority bonus, vacation accruals and contributions for social security.

The retirement pension obligation represents the present value of all future obligations that the Company must pay to those employees that have fulfilled or that will fulfill certain legal requirements regarding age, time of service and others, determined on the basis of independent actuarial studies that the Company obtains every year, in accordance with regulations issued by the Superintendency of Corporations, without the specific disbursement of funds.

For employees covered by the social security regime (Law 100 issued in 1993), the Company covers its pension obligation through the payment of contributions to the

Social Security Institute and/or to the Private Pension Funds, under the terms and conditions provided for in the aforementioned law.

The Company records the liability for post-retirement benefits other than pensions, such as education, recreation and electricity to which the retirees are entitled, based on actuarial calculations performed by an independent actuary. As a result, the liability which, at present value, covers the estimated obligation for these benefits is being provisioned as of the closing of the period and charged to results.

- m. *Income tax provision* – The Company determines the current provision for income taxes based upon the taxable income estimated pursuant to the Colombian Tax Law. The effect of temporary differences that imply the payment of a lower or greater tax in the current year, calculated at the corresponding current rates, is recorded as deferred tax asset or liability, as applicable, provided that there is reasonable expectation that those differences will reverse in the foreseeable future.
- n. *Equity tax* – During years 2007, 2008 and 2009 the Company recorded \$12,468 each year, with charge to the equity revaluation, as permitted by Law 1111 of 2006.
- o. *Recognition of revenues, costs and expenses* – Revenues from sales are recognized in the period when the services are provided. Costs and expenses are recorded on an accrual basis.
- p. *Premium of notes issuance* – It corresponds to the higher value received for the placement of the notes issued by the Company, as a consequence of the positive difference between the coupon rate of notes and the offered rate at the date of the placement. This balance is amortized in the same term of the notes.
- q. *Use of estimates* – The preparation of financial statements in conformity with Colombian GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Though, actual results could differ from those estimates, management considers that these estimates were adequate under the circumstances.
- r. *Net income per share* – Determined based on the subscribed and fully paid up shares at the end of the year. Net profit per share is computed after deduction of preferred dividends corresponding to 20,952,601 shares of EEB for the years 2007, 2008 and 2009.
- s. *Memorandum accounts* – The contingent rights and responsibilities are booked in memorandum accounts, mainly the differences between accounting and fiscal figures.
- t. *Statements of cash flows* – The statements of cash flows were prepared using the indirect method, which includes the reconciliation of net income or loss to net cash provided by operating activities.

- u. *Cash equivalents* – For purposes of presentation in the statement of cash flows, the Company classifies temporary investments within the cash equivalents.
- v. *Convenience translation to U.S. dollars* – The U.S. dollar amounts presented in the accompanying financial statements have been translated from the Colombian peso figures solely for the convenience of the readers at the exchange rate of Col\$2,044.23 per U.S. dollar as of December 31, 2009. Such translations should not be construed as representations that the Colombian peso amounts represent or have been or could be converted into U.S. dollars at that rate or any other rate.
- w. *Reclassifications* – Certain 2007 and 2008 amounts have been reclassified to conform to the 2009 presentation.

NOTE 2—FOREIGN CURRENCY ASSETS AND LIABILITIES

	As of December 31,			
	2008		2009	
Assets	US\$ -	Col\$ -	US\$ 550	Col\$ 1,124
Liabilities	2,031,899	4,558,749	1,008,798	2,062,215
Net position	US\$ (2,031,899)	Col\$ (4,558,749)	US\$ (1,008,248)	Col\$ (2,061,091)

NOTE 3—CASH

	As of December 31,	
	2008	2009
Cash	Col\$ 5	Col\$ 20
Banks	102,807	625,166
	Col\$ 102,812	Col\$ 625,186

NOTE 4— INVESTMENTS

Following is a description of temporary investments:

	As of December 31,			
	2008		2009	
	Interest rate	Amount	Interest rate	Amount
Time deposit certificates	10.49%	Col\$ 349,328	5.80%	Col\$ 7
Deposits in Colombian pesos – CDT	6.50%	7,500	-	-
Fiduciary trusts	11.22%	7,726	1.59%	20,088

	As of December 31,			
	2008		2009	
	Funding operations in Colombian Pesos	9.20%	<u>4,748</u>	2.80%
		<u>Col\$ 369,302</u>		<u>Col\$ 23,598</u>

The balance of long term investments recorded at cost is broken down as follows:

	As of December 31,			
	2008		2009	
Fundación Emgesa	Col\$	1	Col\$	1
Electrificadora del Caribe S.A. E.S.P.		8,325		8,325
Sociedad Portuaria Central Cartagena S.A.		<u>-</u>		<u>5</u>
	<u>Col\$</u>	<u>8,326</u>	<u>Col\$</u>	<u>8,331</u>

NOTE 5—ACCOUNTS RECEIVABLE, NET

	As of December 31,			
	2008		2009	
Customers	Col\$	203,814	Col\$	197,656
Advances		14,718		5,174
Recoverable taxes		76,976		5,737
Related Parties (See Note 6)		93,321		131,498
Deposits		19		4
Loans to employees		11,485		12,928
Other		<u>10,721</u>		<u>22,482</u>
	<u>Col\$</u>	<u>411,054</u>	<u>Col\$</u>	<u>375,479</u>
Less – Allowance for doubtful accounts		<u>(6,766)</u>		<u>(6,971)</u>
		404,288		368,508
Less- Long term portion		<u>(9,431)</u>		<u>(10,494)</u>
	<u>Col\$</u>	<u>394,857</u>	<u>Col\$</u>	<u>358,014</u>

The following table details movements in the allowance for doubtful accounts:

	Year Ended December 31,					
	2007		2008		2009	
Beginning balance	Col\$	2,825	Col\$	6,116	Col\$	6,766
Write- off		(301)		(436)		-
Recoveries		(416)		(139)		(145)
Provisions		<u>4,008</u>		<u>1,225</u>		<u>350</u>
Ending balance	<u>Col\$</u>	<u>6,116</u>	<u>Col\$</u>	<u>6,766</u>	<u>Col\$</u>	<u>6,971</u>

NOTE 6—RELATED PARTIES

The outstanding balances of accounts receivable/payable with related parties are as follows:

	As of December 31,	
	2008	2009
Accounts receivable (See Note 5):		
Empresa de Energía de Bogotá S.A. E.S.P.	Col\$ 10	Col\$ -
Codensa S.A. E.S.P.	93,245	131,039
Compañía Americana de Multiservicios Ltda.	66	40
Empresa de Energía de Cundinamarca S.A. E.S.P.	-	419
	<u>Col\$ 93,321</u>	<u>Col\$ 131,498</u>
Accounts payable (See Note 14):		
Empresa de Energía de Bogotá S.A. E.S.P.	Col\$ 38	Col\$ 214
Codensa S.A. E.S.P.	228,657	7,268
Compañía Americana de Multiservicios Ltda.	1,621	1,556
Synapsis de Colombia Ltda.	868	720
Empresa de Energía de Cundinamarca S.A. E.S.P.	-	171
Synapsis Chile	-	105
Ingendesa S.A.	-	167
	<u>Col\$ 231,184</u>	<u>Col\$ 10,201</u>

Following is the effect on the 2007 results of the transactions with related parties, Shareholders and the Board of Directors:

Company	Description of transaction	Effect on results
Codensa S.A. E.S.P.	Sale of energy	249,925
Codensa S.A. E.S.P.	Technical services	304
Codensa S.A. E.S.P.	Other	110
Compañía Americana de Multiservicios Ltda.	Other	251
Total Revenues		<u>Col\$ 250,590</u>
Codensa S.A. E.S.P.	Energy transportation	(66,964)
Synapsis de Colombia Ltda.	Technical services	(739)
Synapsis de Colombia Ltda.	Communications services	(2,349)
Compañía Americana de Multiservicios Ltda.	Programming of meters and telemetric	(1,756)
Compañía Americana de Multiservicios Ltda.	Other	(954)
Codensa S.A. E.S.P.	Other	(2,142)
Board of directors	Fees	(262)
Total Expenses		<u>Col\$ (75,166)</u>
Net effect on results		<u>Col\$ 175,424</u>

Following is the effect on the 2008 results of the transactions with related parties, Shareholders and the Board of Directors:

Company	Description of transaction	Effect on results
Codensa S.A. E.S.P.	Sale of energy	350,752
Codensa S.A. E.S.P.	Technical services	319
Codensa S.A. E.S.P.	Financial revenues	1,578
Compañía Americana de Multiservicios Ltda.	Programming of meters and telemetric	234
Total Revenues		<u>Col\$ 352,883</u>
Codensa S.A. E.S.P.	Energy transportation	(69,277)
Codensa S.A. E.S.P.	Equipment renting services	(145)
Codensa S.A. E.S.P.	Technical services	(16)
Codensa S.A. E.S.P.	Financial expenses	(2,372)
Codensa S.A. E.S.P.	Reimbursable Expenses	(295)
Codensa S.A. E.S.P.	Other	(1,096)
Synapsis de Colombia Ltda.	Communications services	(344)
Synapsis de Colombia Ltda.	Technical services	(341)
Synapsis de Colombia Ltda.	Other	(1,737)
Compañía Americana de Multiservicios Ltda.	Equipment renting services	(391)
Compañía Americana de Multiservicios Ltda.	Technical services	(1,309)
Compañía Americana de Multiservicios Ltda.	Other	(843)
Board of directors	Fees	(206)
Total Expenses		<u>Col\$ (78,372)</u>
Net effect on results		<u>Col\$ 274,511</u>

Following is the effect on the 2009 results of the transactions with related parties, Shareholders and the Board of Directors:

Company	Description of transaction	Effect on results
Codensa S.A. E.S.P.	Sale of energy	528,698
Codensa S.A. E.S.P.	Technical services	346
Empresa de Energia de Cundinamarca S.A. E.S.P.	Sale of energy	375
Compañía Americana de Multiservicios Ltda.	Programming of meters and telemetric	200
Total Revenues		<u>Col\$ 529,619</u>
Codensa S.A. E.S.P.	Energy transportation	(79,054)
Codensa S.A. E.S.P.	Equipment renting services	(20)
Codensa S.A. E.S.P.	Financial expenses	(6,930)
Codensa S.A. E.S.P.	Agreement use	(55)
Codensa S.A. E.S.P.	Other	(690)
Synapsis de Colombia Ltda.	Communications services	(363)
Synapsis de Colombia Ltda.	Technical services	(463)
Synapsis de Colombia Ltda.	Other	(1,894)
Synapsis Chile	Maintenance	(76)

Company	Description of transaction	Effect on results
Compañía Americana de Multiservicios Ltda.	Equipment renting services	(189)
Compañía Americana de Multiservicios Ltda.	Technical services	(1,655)
Compañía Americana de Multiservicios Ltda.	Other	(194)
Empresa de Energía de Cundinamarca S.A. E.S.P.	Regional transmission services	(1,215)
Board of directors	Fees	(221)
Total Expenses		<u>Col\$ (93,019)</u>
Net effect on results		<u>Col\$ 436,600</u>

NOTE 7—INVENTORIES

	As of December 31,	
	2008	2009
Spare parts	Col\$ 19,491	Col\$ 19,901
Fuels	10,253	15,104
Coal	<u>12,871</u>	<u>11,592</u>
	Col\$ 42,615	Col\$ 46,597
Less- Long term inventories	<u>(19,491)</u>	<u>(20,637)</u>
	<u>Col\$ 23,124</u>	<u>Col\$ 25,960</u>

NOTE 8—DEFERRED CHARGES, NET

	As of December 31,	
	2008	2009
Financial expenses and fees	Col\$ 1,665	Col\$ 1,517
Research and development projects	11,249	17,401
Deferred taxes	73,821	74,152
Other deferred charges	<u>7,442</u>	<u>6,855</u>
	<u>Col\$ 94,177</u>	<u>Col\$ 99,925</u>

NOTE 9—INTANGIBLES, NET

	As of December 31,	
	2008	2009
Water rights – Chingaza	Col\$ 65,365	Col\$ 65,365
Licenses	704	973
Software	6,888	7,796
Other intangibles assets	<u>661</u>	<u>661</u>
	Col\$ 73,618	Col\$ 74,795
Less - Accumulated amortization	<u>(15,498)</u>	<u>(18,341)</u>
	<u>Col\$ 58,120</u>	<u>Col\$ 56,454</u>

NOTE 10—PROPERTY, PLANT AND EQUIPMENT – NET

	As of December 31,	
	2008	2009
Land	Col\$ 56,296	Col\$ 56,417
Construction in progress	33,769	54,052
Machinery, plant and equipment used in projects	862	1,727
Constructions and buildings	71,417	70,946
Civil works, plants, ducts and tunnels	6,861,963	6,895,823
Distribution network, lines and cables	545	545
Machinery and equipment	28,659	16,719
Office equipment	4,925	3,071
Communication and computer equipment	22,703	16,898
Transportation equipment	5,861	2,966
	<u>Col\$ 7,087,000</u>	<u>Col\$ 7,119,164</u>
Less - Accumulated depreciation	<u>(2,077,272)</u>	<u>(2,185,276)</u>
	<u>Col\$ 5,009,273</u>	<u>Col\$ 4,933,888</u>

NOTE 11—REVALUATION OF ASSETS

	As of December 31,	
	2008	2009
Land	Col\$ 3,712	Col\$ 4,078
Constructions and buildings	869	3,484
Civil works, plants, ducts and tunnels	1,950,398	2,002,864
Distribution network, lines and cables	360	362
Machinery and equipment	864	925
Office equipment	157	336
Communication and computer equipment	553	635
Transportation equipment	1,849	1,929
	<u>Col\$ 1,958,762</u>	<u>Col\$ 2,014,613</u>
Permanent investments	<u>(4,202)</u>	<u>(3,920)</u>
	<u>Col\$ 1,954,560</u>	<u>Col\$ 2,010,693</u>

NOTE 12—OTHER ASSETS

	As of December 31,	
	2008	2009
Muña Administration Trust	Col\$ 506	Col\$ 1,047
Tominé Administration Trust	367	1,907
Works and improvements in property not-owned	-	817
	<u>Col\$ 873</u>	<u>Col\$ 3,771</u>

NOTE 13—FINANCIAL OBLIGATIONS

	As of December 31,	
	2008	2009
Bank loans in local currency	Col\$ 417,164	Col\$ 305,009
Notes payable	1,139,365	1,485,000
Interest payable	<u>78,095</u>	<u>70,335</u>
	1,634,624	1,860,344
Less – Short-term portion	<u>(509,615)</u>	<u>(230,335)</u>
	<u>Col\$ 1,125,009</u>	<u>Col\$ 1,630,009</u>

Emgesa S.A. E.S.P. has five Notes programs in effect, as follows:

- The Superintendency of Finance of Colombia, by means of Resolution No. 0650 of July 30, 2004, authorized the registration of the RNVE (National Register of Securities and Issuers) and the public offer of Notes issued by Emgesa for a total amount of Col\$250,000. The placement of these notes to finance working capital, was made under the following conditions:

Type of security:	Notes
Approval by Financial Superintendence:	Resolution 0650 of July 30, 2004
Total Value Authorized of Issue:	Col\$ 250,000
Use of funds:	Financing of Company's working capital
Face value:	Series A Col\$1 each note
Term:	10 years
First Block – Feb/05	Series A Col\$ 210,000
Second Block – Feb/06	Series A Col\$ 40,000
Premium on Placement of Notes second block	Col\$6,927
Trustee:	Deceval S.A.
Yield:	Sub-series A- 10 CPI + 5.04 %
Rating:	AAA (TripleA) Assigned by Duff & Phelps de Colombia (Now Fitch Ratings Colombia).

- First Notes Issuance of Central Hidroeléctrica de Betania S.A. E.S.P. (absorbing entity)

Type of security:	Notes
Approval by Financial Superintendence:	Resolution 885 of 2004
Total Value Authorized of Issue:	Col\$400,000
Use of funds:	Refinancing of Financial Liabilities
Face value:	Series B: Col\$1 each note

Term:	7 years, with amortization of 40% in year 5 and remaining 60% on expiration
First Block – Nov/04	Col\$300,000
Second Block – Feb/06	Col\$100,000
Premium on Placement of Notes-second block:	Col\$19,187
Trustee:	Deceval S.A.
Yield:	Sub-series B 07: CPI + 6.29 % quarterly in arrears
Rating:	AAA Assigned by Duff & Phelps de Colombia (now Fitch Ratings Colombia).

Issuance and Placement Program of Emgesa Notes - Emgesa has a Notes Issuance and Placement Program that allows it to make successive issuance of those securities under the global quota that is authorized and available during the effective period of same. The placement of these notes program to finance working capital, was made under the following conditions:

Type of security:	Notes
Approval by Financial Superintendence:	Resolution 1235 of July 18, 2006
Global Quota Initially Approved:	Col\$700,000
Approval of quota increase and extension of placement term:	Resolution 0833 of June 16, 2009
First Increase to Authorized Global Quota:	Col\$1,200,000
Balance issued as of December 31, 2009:	Col\$835,000
Expiration of program term:	June 2012
Trustee:	Deceval S.A.
Rating:	AAA (Triple A) Assigned by Fitch Ratings Colombia.

Emgesa made three issuances (“Tranches”) of notes under the mentioned program, as follows:

- Value of First Tranche of Program: Col\$170,000 (February 2007)
Face Value: Series B: Col\$10 each note
Term: 10 years
Yield: Sub-series: B-10 CPI + 5.15%
Use of funds: Refinancing of financial liabilities
- Value of First Tranche of Program: Col\$265,000 (February 2009)

Face Value: Series A: Col\$10 each note
Series B: Col\$10 each note
Term: 5, 10 and 15 years
Yield: Sub-series A- 5: DTF Q.A. + 1.47%
Sub-series B-10: CPI + 5.78%
Sub-series B-15: CPI + 6.09%
Use of funds: General purposes of the Company such as but not limited to refinancing of short term financial obligations

5. Value of First Tranche of Program: Col\$400,000 (July 2009)
Face Value: Series B: Col\$10 each note
Series E: Col\$10 each note
Term: 5, 9 and 12 years
Yield: Sub-series B-9: CPI + 5.90%
Sub-series B-12: CPI + 6.10%
Sub-series E-5: Fixed Rate 9.27%

Use of funds: Col\$250,000 to prepay long term debt expirations and Col\$150,000 for working capital.

Following is a description of the notes issued to finance working capital as of December 31, 2008.

Description	Series	Interest rate	Date of final term	As of December 31, 2008	Placed in:
1st Issue. Betania Notes. 1st Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	Col\$ 180,000	Colombia
1st Issue. Betania Notes. 2nd Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	60,000	Colombia
1st Issue. Betania Notes. 1st block	Sub-serie B 7	IPC+6.29%	November 10, 2010	120,000	Colombia
1st Issue. Betania Notes. 2nd block	Sub-serie B 7	IPC+6.29%	November 10, 2010	40,000	Colombia
3rd Issue.1st Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	210,000	Colombia
3rd Issue.2nd Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	40,000	Colombia
4st Issue.1st Tranche	Sub-serie B 10	IPC+5.15%	February 20, 2017	<u>170,000</u>	Colombia
Total Long-term notes				<u>Col\$ 820,000</u>	
1st Issue.1st Tranche	Sub-serie B 10	DTF+3.00%	October 8, 2009	229,825	Colombia
1st Issue.1st Tranche	Sub-serie C 10	IPC+10.25%	October 8, 2009	11,158	Colombia

Description	Series	Interest rate	Date of final term	As of December 31, 2008	Placed in:
1st Issue.1st Tranche	Sub-serie C 10	IPC+10.25%	October 8, 2009	18,382	Colombia
1st Issue.2nd Tranche	Sub-serie B 10	DTF+3.00%	November 10, 2009	<u>60,000</u>	Colombia
Total Short-term notes				<u>Col\$ 319,365</u>	
<i>Total notes</i>				<u>Col\$ 1,139,365</u>	

Following is a description of the notes issued to finance working capital as of December 31, 2009.

Description	Series	Interest rate	Date of final term	As of December 31, 2009	Placed in:
1st Issue. Betania Notes. 1st Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	Col\$ 180,000	Colombia
1st Issue. Betania Notes. 2nd Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	60,000	Colombia
3rd Issue.1st Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	210,000	Colombia
3rd Issue.2nd Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	40,000	Colombia
4st Issue.1st Tranche	Sub-serie B 10	IPC+5.15%	February 20, 2017	170,000	Colombia
5st Issue.2nd Tranche	Sub-serie A 5	DTF+1.47%	February 11, 2014	49,440	Colombia
5st Issue.2nd Tranche	Sub-serie B 10	IPC+5.79%	February 11, 2019	160,060	Colombia
5st Issue.2nd Tranche	Sub-serie B 15	IPC+6.09%	February 11, 2024	55,500	Colombia
6nd Issue.3rd Tranche	Sub-serie E 5	9.27%	July 2, 2014	92,220	Colombia
6nd Issue.3rd Tranche	Sub-serie B 9	IPC+5.79%	July 2, 2018	218,200	Colombia
6nd Issue.3rd Tranche	Sub-serie B 12	IPC+6.09%	July 2, 2021	<u>89,580</u>	Colombia
Total Long-term notes				<u>Col\$ 1,325,000</u>	
<i>Short term:</i>					
1st Issue. Betania Bonds.1st Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	120,000	Colombia
1st Issue. Betania Bonds.2nd Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	<u>40,000</u>	Colombia
Total Short-term notes				<u>Col\$ 160,000</u>	
Total				<u>Col\$ 1,485,000</u>	

The installments of the long term notes payable in the upcoming years, are as follows as of December 31, 2009:

Year	Amount
2010	Col\$ 160,000
2011	240,000
2014	141,660
2015	250,000
2017	170,000
2018	218,200
2019	160,060
2021	89,580
2024	<u>55,500</u>
	<u>Col\$ 1,485,000</u>

Following is the detail of short-term loans as of December 31, 2009:

Description	Date of final term	As of December 31, 2009	
Short-term:			
Interest on notes	In 2010	Col \$	31,664
Interest on bank credits	In 2010		<u>38,671</u>
		Col \$	70,335
Plus total short-term bonds			<u>160,000</u>
Total short-term debt		<u>Col\$</u>	<u>230,335</u>

NOTE 14—ACCOUNTS PAYABLE

	As of December 31,	
	2008	2009
Suppliers	Col\$ 67,500	Col\$ 88,623
Contractors (foreign currency)	4,559	2,062
Creditors	12,239	10,532
Related parties (see Note 6)	<u>231,184</u>	<u>10,201</u>
	<u>Col\$ 315,482</u>	<u>Col\$ 111,418</u>

NOTE 15—LABOR OBLIGATIONS

	As of December 31,	
	2008	2009
Severance	Col\$ 1,403	Col\$ 1,316
Severance interest	167	154
Vacations	1,549	1,970
Statutory bonuses	1,623	1,739
Other bonuses	2,400	3,233
	<u>Col\$ 7,142</u>	<u>Col\$ 8,412</u>

NOTE 16—PROVISIONS

	As of December 31,	
	2008	2009
Provision for contingencies (See Note 17)	Col\$ 2,107	Col\$ 1,845
Provision for income taxes	203,920	144,047
Provision for costs and expenses	8,297	9,450
Other provisions	282	299
	<u>214,606</u>	<u>155,641</u>
Less - Short-term portion	<u>(212,499)</u>	<u>(153,796)</u>
Long-term portion	<u>Col\$ 2,107</u>	<u>Col\$ 1,845</u>

NOTE 17—CONTINGENCIES

As of December 31, 2009 and 2008, the following are the main contingencies the Company has, for which management based on the opinion of its external legal advisors, estimates that the results of the lawsuits corresponding to the portion that is not provisioned will be favorable to the Company's interest and will not result in significant liabilities that will be required to be recorded or, if they were to materialize, these shall not significantly affect the financial position of the Company.

Environmental contingency – Collective action against Emgesa S.A. E.S.P, la Empresa de Energía de Bogotá S.A. E.S.P. and the CAR (Autonomous Regional Corporation of Cundinamarca) for the alleged material and moral damages caused to the inhabitants of the municipality of Sibate as a consequence of the environmental problems of the Muña reservoir. The initial claim of the plaintiffs was of Col\$3 billion.

This legal action was accumulated with another one existing for the same subject at the Administrative Law Court of Cundinamarca, and in which there is another large number of plaintiffs.

The Company's management based on the opinion of its external legal advisors considers that this contingency is remote, and in the case of an eventual judgment

against the Company, the most significant liability of the Company for this litigation would be Col\$130 million.

Industry and commerce tax – Power generation companies in Colombia have been required by municipalities that are not aware about the application of the special regime contained in Law 56 of 1981 to assess the Industry and Commerce tax based on the plant installed capacity and attempt to tax their income based on Law 14 of 1983. The municipalities of Yaguará, Ubalá, Caloto, Puerto Tejada and Yumbo, have issued settlements for the industry and commerce tax of years 1997 to 2005 of those municipalities for an accumulated value in the settlements of Col\$37,883. Currently proceedings are underway arising from the Nullity and Reestablishment of the Right against the respective municipalities. The Company’s management based on the opinion of its external legal advisors and reiterated case law criteria, concluded that the contingent events related to the industry and commerce tax are remote.

Income tax, taxable year 2003 – The ground for the proceeding is the unawareness by the administration of the benefit derived from the application of the Paez Law. Accordingly, the tax authority considers that the Company was not the subject of application of the benefits arising from that law on its total income. The action was filed and admitted. The amount claimed under these proceeding is Col\$62,435. The Company’s management based on the opinion of its external legal advisors concluded that the contingent event related to the 2003 income tax is remote.

Other contingencies – As of December 31, 2009 the amount claimed in respect of others claims for administrative and civil litigations amounts to Col\$420,505. Based on the evaluation of the probability of effective loss according to the information provided by the external legal advisor, the management has provisioned Col\$1,845 and Col\$2,107 as of December 30, 2009 and 2008, respectively, to cover the eventual probable losses for these contingencies.

NOTE 18—RETIREMENT AND PENSION OBLIGATIONS

Retirement pensions consist of the following:

	As of December 31,	
	2008	2009
Actuarial calculation for retirement pensions and other post-retirement benefits	Col\$ 80,288	Col\$ 82,014
Less - Current portion	(12,440)	(12,420)
Long-term portion	<u>Col\$ 67,848</u>	<u>Col\$ 69,594</u>

Expenses for retirement pensions and other post-retirement benefits are as follows:

	Year Ended December 31,					
	2007		2008		2009	
Recovery for retirement pensions or for employees entitled to the right to pension that are excluded from Law 100 (Recovery) provision for other post-retirement benefits	Col\$	(1,988)	Col\$	(626)	Col\$	(1,532)
Pension payments and contributions to pension funds		(573)		249		3,258
		10,364		9,579		9,427
	Col\$	7,803	Col\$	9,202	Col\$	11,153

The actuarial calculation as of December 31, 2007, 2008 and 2009 was determined for 296, 296 and 307 retirees respectively and 8, 9 and 19 active workers respectively, which took into consideration the amounts corresponding to future obligations and was calculated by taking into account the DANE rate of 4.77% in 2007, 5.15% in 2008 and 6.48% in 2009.

NOTE 19—TAXES

For the taxable years 2008 and 2009, the Company is subject to income tax at a rate of 33% on the net income. Likewise, for the taxable year 2007, the applicable rate was 34%.

According to Law 633 of 2000, power generation companies are not subject to the presumptive income system. Taxable years open for tax audit as of December 31, 2009 are: 2003, 2007 and 2008.

Income tax –

The provision for income tax is broken down as follows:

	Year Ended December 31,					
	2007		2008		2009	
Current	Col\$	87,238	Col\$	203,920	Col\$	261,789
Deferred tax		1,512		(17,961)		(1,061)
	Col\$	88,750	Col\$	185,959	Col\$	260,728

Reconciliation from book to taxable income:

	Year Ended December 31,		
	2007	2008	2009
Income before income tax	Col\$ 494,057	Col\$ 640,269	Col\$ 799,152
Use of deductible provisions	2,965	2,163	9,281
Non-deductible expenses	41,743	4,404	8,487
Depreciation – inflation adjustment	(4,886)	(5,557)	(6,066)
Non taxable revenue	-	(10,086)	(8,683)
Financial yield of non-taxable notes	(61)	(12)	-
Non taxable dividends distributed by FEN	(59)	-	-
Adjustment fiscal portfolio	(127)	(1,411)	-
Fiscal benefits for the purchase of productive fixed assets	(8,549)	(11,832)	(8,872)
Fiscal losses amortization	(268,501)	-	-
Taxable income	256,582	617,938	793,299
Tax rate	34%	33%	33%
Income Tax	Col\$ 87,238	Col\$ 203,920	Col\$ 261,789

Reconciliation from book to tax equity:

	As of December 31,	
	2008	2009
Shareholders' equity	Col\$ 5,769,769	Col\$ 5,942,979
Estimated liabilities and provisions	7,639	14,964
Fiscal adjustments	(5,557)	211,659
Deferred taxes	(73,821)	(74,153)
Surplus from revaluation of fixed assets	(1,954,560)	(2,010,693)
Tax equity	Col\$ 3,743,470	Col\$ 4,084,756

Industry and commerce tax – The industry and commerce tax in the municipalities next to the electricity generation plants is liquidated in accordance with Law 56 issued in 1981.

Contribution for the environment – In accordance with Law 99 issued in 1993, the Company is under the obligation to transfer to the municipalities and regional autonomous corporations for basic sanitation and environmental improvement projects, the equivalent to 6 % of the gross sales of electricity generated by itself in hydraulic plants, and 4 % in thermal plants, in accordance with the rate that is indicated for sales block by the Energy and Gas Regulatory Commission. The contributions for the environment for the years 2007, 2008 and 2009 amounted to Col\$37,215 million, Col\$41,885 million, Col\$42,631 million, respectively.

Equity tax – Law 1111 of December 27, 2006 established that the equity tax base and rate is of 1.2% for four years as of 2007 over the fiscal net equity owned as of January 1,

2007. For taxable years 2007, 2008 and 2009 an equity tax of Col\$12,468 was accrued, which was recorded as a lower value of the equity revaluation, adopting the provisions of the mentioned law.

Tax reform – Law 1370 of December 30, 2009– Below is a summary of the most significant modifications to the Colombian Tax regime for 2010 and thereafter:

- It establishes that for the year 2011 the equity tax will be calculated based on the value of the net fiscal equity held as of January 1, 2011. The applicable rate will be of 2.4% for equities which taxable base is between Col\$3,000 million and Col\$5,000 million and of 4.8% for equities which taxable base is equal to or exceeds Col\$5,000 million. This tax would be assessed once and payable in eight installments between 2011 and 2014. The option to record this tax against the equity revaluation account is maintained. The net equity value of the investment in shares of domestic corporations does not form part of the taxable base.
- As of tax period 2010, the tax deduction for acquisition of real productive fixed assets is reduced from 40% to 30%.
- Liabilities with related parties abroad are no longer accepted for tax purposes.

NOTE 20—SHAREHOLDERS' EQUITY

Capital stock– As of December 31, 2009, authorized capital comprises 286,762,927 shares with a nominal value of Col\$7,386.81. Subscribed and paid-in capital is represented by 127,961,561 shares with a nominal value of Col\$7,386.81 (seven thousand three hundred eighty six pesos and 81/100 centavos) each.

Of the total shares held by the EEB, 20,952,601 shares correspond to shares without voting rights, with a preferred dividend of US\$0.1107 per share.

Mandatory reserves

Legal reserve – The Colombian Code of Commerce requires companies to appropriate at least 10% of the net income of each year to the legal reserve until such reserve is equal to at least 50% of paid-in capital. The legal reserve is not distributable as dividends before the liquidation of the Company, but it may be used to absorb net losses.

Shareholders' equity revaluation – Shareholders' equity revaluation reflects equity inflation adjustments. This amount may not be distributed as profit to the shareholders until the Company is liquidated or such value is legally capitalized.

NOTE 21—MEMORANDUM ACCOUNTS

	As of December 31,	
	2008	2009
Debits:		
Contingent rights	Col\$ 201,660	Col\$ 3,192,994
Fiscal	1,954,560	-
Control	<u>39,820</u>	<u>45,056</u>
	<u>2,196,040</u>	<u>3,238,050</u>
Credits:		
Fiscal	Col\$ 2,150,184	Col\$ 2,019,548
Contingent liabilities	<u>534</u>	<u>534</u>
	<u>2,150,718</u>	<u>2,020,082</u>
	<u>Col\$ 4,346,758</u>	<u>Col\$ 5,258,132</u>

NOTE 22—ADMINISTRATIVE EXPENSES

	Year Ended December 31,		
	2007	2008	2009
Wages and salaries	Col\$ 7,745	Col\$ 8,701	Col\$ 9,396
Social security contributions	1,002	1,130	1,299
Other personnel expenses	250	208	409
Commissions, fees and services	2,120	2,558	2,792
Rentals and leases	470	761	997
Other general services	6,900	5,729	4,429
Other expenses	10,378	1,408	1,380
Depreciations and amortizations	<u>1,079</u>	<u>1,265</u>	<u>2,286</u>
	<u>Col\$ 29,944</u>	<u>Col\$ 21,760</u>	<u>Col\$ 22,988</u>

NOTE 23 – NON OPERATING INCOME

	Year Ended December 31,		
	2007	2008	2009
Financial income	Col\$ 27,681	Col\$ 19,410	Col\$ 45,286
Exchange gains	1,044	483	1,016
Other	<u>8,500</u>	<u>21,482</u>	<u>5,166</u>
	<u>Col\$ 37,225</u>	<u>Col\$ 41,375</u>	<u>Col\$ 51,468</u>

NOTE 24 – NON OPERATING EXPENSES

	Year Ended December 31,		
	2007	2008	2009
Financial expenses	Col\$ 158,086	Col\$ 174,473	Col\$ 193,159
Exchange losses	1,756	1,265	381
Other	<u>34,866</u>	<u>15,286</u>	<u>10,775</u>
	<u>Col\$ 194,708</u>	<u>Col\$ 191,024</u>	<u>Col\$ 204,315</u>

Emgesa S.A. E.S.P.

***Financial Statements as of September 30,
2009 and 2010 and for the nine months then
ended and Independent Auditors' Report***

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Emgesa S.A. E.S.P.

We have audited the interim financial statements of Emgesa S.A. E.S.P. as of September 30, 2010 and for the nine-month period then ended (the "2010 interim financial statements"), which comprises the balance sheets of Emgesa S.A. E.S.P. (the "Company") as of September 30, 2010, and the related statements of income, changes in shareholders' equity, changes in financial position and cash flows for the nine-month period then ended. These 2010 financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 2010 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Colombia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Emgesa S.A. E.S.P. as of September 30, 2010, and the results of its operations, the changes in its financial position and its cash flows for the nine-month period then ended, in conformity with accounting principles generally accepted in Colombia.

We have also reviewed the interim financial statements of Emgesa S.A. E.S.P. as of September 30, 2009 and for the nine-month period then ended (the "2009 interim financial statements"), which comprises the interim balance sheets as of September 30, 2009, and the related interim statements of income, changes in shareholders' equity, changes in financial position and cash flows for the nine month period then ended. These 2009 interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards generally accepted in Colombia. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements, taken as a whole. Accordingly, we do not express such an opinion on the 2009 interim financial statements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2009 interim financial statements for them to be in conformity with accounting principles generally accepted in Colombia.

Our audit also comprehended the translation of the Colombian peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. As further explained in Note 1, the translation of the financial statements amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of English language readers.

Deloitte & Touche Ltda.

Bogotá, Colombia

October 5, 2010

EMGESA S.A. E.S.P.
Balance sheets as of September 30, 2010 and 2009
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) –
see Note 1)

	Note	As of September 30,		
		2009 (Unaudited) (Col\$ in million)	2010 (Col\$ in million)	2010 (U.S.\$ in thousands)
ASSETS				
CURRENT ASSETS:				
Cash	2	439,910	90,227	50,129
Temporary investments.....	3	522,317	15,569	8,650
Accounts receivable, net	4	379,249	389,799	216,568
Inventories	6	29,417	26,566	14,760
Prepaid expenses.....		9,886	8,341	4,634
TOTAL CURRENT ASSETS		1,380,779	530,502	294,741
Long-term investments	3	8,326	8,330	4,629
Long-term accounts receivable, net.....	4	9,484	10,154	5,641
Inventories	6	22,575	20,609	11,450
Deferred charges, net	7	98,257	98,406	54,673
Intangibles, net.....	8	55,755	54,812	30,453
Other Assets.....	11	3,518	1,438	799
Property, plant and equipment, net.....	9	4,939,951	4,846,898	2,692,886
Revaluation of assets.....	10	1,954,768	2,009,723	1,116,581
TOTAL ASSETS.....		8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS	20	7,135,941	2,126,616	1,181,526
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Financial obligations.....	12	384,827	201,097	111,727
Accounts payable	13	283,666	167,559	93,094
Labor obligations	14	7,745	8,351	4,640
Retirement and pension obligations	17	12,252	12,655	7,031
Provisions	15	113,923	53,209	29,562
Unamortized premium of notes issuance.....		4,274	4,274	2,375
Other liabilities		12,528	11,913	6,619
TOTAL CURRENT LIABILITIES		819,215	459,058	255,048
LONG-TERM LIABILITIES:				
Financial obligations.....	12	1,790,009	1,630,009	905,616
Retirement pensions.....	17	70,205	70,563	39,204
Provisions	15	1,594	1,526	848
Unamortized premium of notes issuance.....		7,155	2,881	1,600
TOTAL LONG-TERM LIABILITIES		1,868,963	1,704,979	947,268
TOTAL LIABILITIES		2,688,178	2,164,037	1,202,316
SHAREHOLDERS' EQUITY:				
Capital stock	19	1,100,000	655,222	364,034
Premium on stock issuance		113,256	113,256	62,924
Equity revaluation.....		1,883,907	1,871,439	1,039,752
Reserves.....		296,699	350,542	194,758
Surplus from revaluation of assets		1,954,768	2,009,723	1,116,581
Net income for the current period		436,605	416,653	231,488
TOTAL SHAREHOLDERS' EQUITY		5,785,235	5,416,835	3,009,537
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....		8,473,413	7,580,872	4,211,853
MEMORANDUM ACCOUNTS	20	7,135,941	2,126,616	1,181,526

The accompanying notes are an integral part of these financial statements.

EMGESA S.A. E.S.P.
Income statements for the nine- months ended September 30, 2009 and 2010
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$),
except for preferred dividend per share and net income per share – see Note 1)

For the nine months ended September 30,			
	2009 (Unaudited)	2010	2010
Note	(Col\$ in million)	(Col\$ in million)	(U.S.\$ in thousands)
OPERATING REVENUES:			
Contract sales	791,292	778,006	432,252
Spot sales.....	313,511	271,104	150,623
Sales to unregulated customers.....	347,634	381,271	211,830
Other services.....	1,942	1,197	665
	1,454,379	1,431,578	795,370
COST OF SALES:			
Purchase of electricity and related costs	(388,963)	(381,849)	(212,151)
Depreciation	(111,087)	(114,370)	(63,543)
Other generation cost.....	(126,508)	(174,699)	(97,061)
Transfers Law No.99 and other	(44,421)	(38,371)	(21,319)
	(670,979)	(709,289)	(394,074)
GROSS MARGIN	783,400	722,289	401,296
Administrative expenses.....	21 (16,753)	(14,113)	(7,841)
OPERATING INCOME	766,647	708,176	393,455
Non operating income	22 41,782	20,024	11,125
Non operating expenses.....	23 (163,367)	(111,355)	(61,867)
INCOME BEFORE INCOME TAX	645,062	616,845	342,713
Income tax	18 (208,457)	(200,192)	(111,225)
NET INCOME.....	436,605	416,653	231,488
Preferred dividend per share.....	159.57	149.44	0.08
Net income per share	1 2,909.47	2,776.91	1.54

EMGESA S.A. E.S.P.
Statements of changes in shareholders' equity for the nine months ended
September 30, 2009 and 2010

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) – see Note 1)

	Capital Stock	Premium on stock issuance	Equity revaluation	Reserves	Surplus from revaluation of assets	Net income for the current period	Total shareholders' equity
BALANCE AS OF JANUARY 1, 2009	Col\$ 1,100,000	Col\$ 113,256	Col\$ 1,896,375	Col\$ 251,268	Col\$ 1,954,560	Col\$ 454,310	Col\$ 5,769,769
Dividends (Unaudited)	-	-	-	-	-	(408,879)	(408,879)
Transfers (Unaudited).....	-	-	-	45,431	-	(45,431)	-
Equity tax payment (Unaudited).....	-	-	(12,468)	-	-	-	(12,468)
Net income (Unaudited)	-	-	-	-	-	436,605	436,605
Changes to valuation surplus (Unaudited)	-	-	-	-	208	-	208
BALANCE AS OF SEPTEMBER 30, 2009 (Unaudited)..	Col\$ 1,100,000	Col\$ 113,256	Col\$ 1,883,907	Col\$ 296,699	Col\$ 1,954,768	Col\$ 436,605	Col\$ 5,785,235
BALANCE AS OF JANUARY 1, 2010	Col\$ 1,100,000	Col\$ 113,256	Col\$ 1,883,907	Col\$ 296,699	Col\$ 2,010,693	Col\$ 538,424	Col\$ 5,942,979
Capital Decrease	(444,778)	-	-	-	-	-	(444,778)
Dividends	-	-	-	-	-	(484,581)	(484,581)
Transfers	-	-	-	53,843	-	(53,843)	-
Equity tax payment	-	-	(12,468)	-	-	-	(12,468)
Net income	-	-	-	-	-	416,653	416,653
Changes to valuation surplus	-	-	-	-	(970)	-	(970)
BALANCE AS OF SEPTEMBER 30, 2010	Col\$ 655,222	Col\$ 113,256	Col\$ 1,871,439	Col\$ 350,542	Col\$ 2,009,723	Col\$ 416,653	Col\$ 5,416,835
BALANCE AS OF SEPTEMBER 30, 2010	U.S.\$ 364,034	U.S.\$ 62,924	U.S.\$ 1,039,752	U.S.\$ 194,758	U.S.\$ 1,116,581	U.S.\$ 231,488	U.S.\$ 3,009,537

The accompanying notes are integral part of these financial statements

EMGESA S.A. E.S.P.
Statements of changes in financial position for the nine-months ended
September 30, 2009 and 2010
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) –
see Note 1)

	For the nine months ended September 30,		
	2009 (Unaudited) (Col\$ in million)	2010 (Col\$ in million)	2010 (U.S.\$ in thousands)
WORKING CAPITAL PROVIDED			
Net income.....	436,605	416,653	231,488
Depreciation.....	112,309	115,507	64,174
Amortization.....	2,834	3,930	2,183
Provision retirement and pension obligations.....	2,356	969	538
Recovery of other provisions.....	(89)	(89)	(49)
Loss (gain) on sales of fixed assets.....	(54)	2,320	1,289
Deferred taxes.....	(2,027)	(867)	(482)
WORKING CAPITAL PROVIDED BY			
OPERATIONS.....	551,934	538,423	299,141
Accounts receivable.....	(53)	340	189
Long term investments.....	-	1	1
Financial obligations.....	665,000	-	-
Other assets.....	(2,646)	2,333	1,296
Total working capital provided.....	1,1214,235	541,097	300,627
WORKING CAPITAL USED			
Inventories.....	3,084	(28)	(16)
Deferred charges.....	3,712	(482)	(268)
Intangibles.....	(1,191)	384	213
Property, plant and equipment.....	42,933	30,835	17,132
Capital decrease.....	-	444,778	247,114
Dividends paid.....	253,308	484,582	269,229
Provisions.....	424	230	127
Dividends payable, reclassification in the short term.....	155,571	-	-
Premium of notes issuance, reclassification in the short term.....	3,206	3,206	1,781
Equity tax.....	12,468	12,468	6,927
TOTAL WORKING CAPITAL USED.....	473,515	975,973	542,239
INCREASE (DECREASE) IN WORKING CAPITAL.....	740,720	(434,876)	(241,612)
CHANGES IN COMPONENTS OF WORKING CAPITAL.....			
Cash.....	337,097	(534,959)	(297,218)
Temporary investments.....	153,015	(8,030)	(4,461)
Accounts receivable, net.....	(15,609)	31,786	17,660
Inventories.....	6,293	606	337
Prepaid expenses.....	5,556	2,075	1,153
Financial obligations.....	124,788	29,238	16,244
Accounts payable.....	31,816	(56,141)	(31,191)
Labor obligations.....	(603)	61	34
Retirement and pensions obligations.....	188	(235)	(131)
Provisions.....	98,577	100,587	55,885
Other liabilities.....	(398)	136	76
INCREASE (DECREASE) IN WORKING CAPITAL.....	740,720	(434,876)	(241,612)

EMGESA S.A. E.S.P.

**Statements of cash flows for the nine-months ended September 30, 2009 and 2010
(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$) –
see Note 1)**

	For the nine months ended September 30,		
	2009 (Unaudited) (Col\$ in million)	2010 (Col\$ in million)	2010 (U.S.\$ in thousands)
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	436,605	416,653	231,488
RECONCILIATION BETWEEN NET INCOME AND NET CASH PROVIDED BY OPERATING ACTIVITIES			
Provision for bad debts.....	389	1,140	633
Loss (gain) on sales of fixed assets	(54)	2,320	1,289
Depreciation	112,309	115,507	64,174
Provision for income tax	(2,027)	-	-
Deferred taxes	-	(867)	(482)
Amortization	(371)	725	404
Provision for retirement and pension obligations ...	2,356	1,204	669
	<u>549,207</u>	<u>536,682</u>	<u>298,175</u>
ASSET AND LIABILITY CHANGES, NET:			
Accounts receivable	15,166	(32,585)	(18,104)
Inventories.....	(9,377)	(578)	(321)
Prepaid expenses	-	(2,075)	(1,153)
Deferred charges	(5,556)	2,333	1,296
Intangibles	1,191	(384)	(213)
Other assets	(2,646)	-	-
Accounts payable	(12,461)	(5,141)	(2,856)
Labor obligations.....	414	(61)	(34)
Other liabilities.....	398	(136)	(76)
Provisions.....	(99,089)	(100,906)	(56,062)
	<u>437,247</u>	<u>397,149</u>	<u>220,652</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>437,247</u>	<u>397,149</u>	<u>220,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Long- term investments.....	-	1	1
Property, plant and equipment	(42,933)	(30,836)	(17,132)
Deferred charges	(3,712)	482	267
	<u>(46,645)</u>	<u>(30,353)</u>	<u>(16,864)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(46,645)</u>	<u>(30,353)</u>	<u>(16,864)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from financial obligations	1,174,690	35,859	19,923
Related parties	(174,926)	61,282	34,048
Dividends paid	(253,308)	(484,582)	(269,229)
Capital decrease.....	-	(444,778)	(247,114)
Payment of financial obligations	(634,478)	(65,097)	(36,167)
Equity tax	(12,468)	(12,468)	(6,927)
	<u>99,510</u>	<u>(909,784)</u>	<u>(505,466)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>99,510</u>	<u>(909,784)</u>	<u>(505,466)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	490,112	(542,988)	(301,678)
Beginning balance of Cash and Cash Equivalents ...	472,115	648,784	360,457
	<u>962,227</u>	<u>105,796</u>	<u>58,779</u>
ENDING BALANCE OF CASH AND CASH EQUIVALENTS	<u>962,227</u>	<u>105,796</u>	<u>58,779</u>

EMGESA S.A. E.S.P.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2009 AND 2010

(Expressed in million of Colombian pesos (Col\$) and thousands of U.S. dollars (U.S.\$), except as otherwise noted)

NOTE 1—OPERATIONS AND SUMMARY OF MAIN ACCOUNTING POLICIES AND PRACTICES

Operations

Emgesa S.A. E.S.P.(the “Company” or Emgesa) was incorporated on October 23, 1997, as a utility company in accordance with the provisions of Law 142, or the Public Utilities Statute, issued in 1994. The term of duration for the Company is indefinite. The Company is engaged in the generation and sale of electricity in Colombia. In 1996, the Company was established with the contribution of a dam-based hydroelectric plant, several thermoelectrical plants and all rights required for operations thereof from Empresa de Energía de Bogotá S.A. E.S.P. under a privatization and investment plan.

The Company is governed mainly by Law 142 and Law 143, also issued in 1994, which establishes the provisions that govern activities related with the commercialization and distribution of electricity, its by-laws, and other provisions contained in the Colombian Commercial Code. Laws 142 and 143 establish the competition structure, rates and subsidy regimes for the sale of electricity and other aspects for the operation and regulation of the sector. The rates for the sale of electricity are regulated by the Electricity and Gas Regulatory Commission (CREG), which is a technical organization reporting to the Ministry of Mines and Energy.

“El Quimbo” Project – On June 20, 2008, the Company was awarded the construction of the Hydroelectric Project El Quimbo. The main objective of this project is the formation of a reservoir in the Magdalena River in the canyon sector called “El Quimbo”, which will allow the Company to generate energy in a hydroelectric plant of 400 Megawatts (MW) of installed capacity.

Capital reduction – The Extraordinary Shareholders’ Meeting held on July 29, 2009, authorized the capital reduction of Col\$444,778 and ordered the administration to carry out the legal procedures with the competent authorities in order to obtain the required approval. By means of Resolution No. 341-007603 of November 26, 2009, the Superintendency of Corporations authorized the Company to reduce its capital stock in the terms of article 145 of the Commercial Code, and the Ministry of Social Protection by Resolution No. 0095 of April 23, 2010 approved said reduction, which was registered at the Chamber of Commerce of Bogotá on May 5, 2010, with effective reimbursement of contributions to shareholders in the month of May 2010.

Summary of Main Accounting Policies and Practices

These financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with accounting principles generally accepted in Colombia, or Colombian GAAP. The effects of the differences between Colombian GAAP and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations, shareholders' equity or cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements, other than Colombia. For the convenience of English language readers outside Colombia, certain reclassifications have been made and certain clarifying account descriptions have been included.

The Company's financial statements are prepared pursuant to standards set forth in the Accounting Manual for Domiciliary Public Utilities Providers ("*Plan de Contabilidad para Entes Prestadores de Servicios Públicos Domiciliarios*"), established by the Office of the Superintendency of Domiciliary Public Services (SSPD), which conform to Colombian GAAP. The main accounting policies and practices followed by the Company are summarized below:

- a. *Accounting period* – The Company has defined by its by-laws to make a closing of its accounts, prepare and disclose general purpose financial statements once a year, as of December 31. By decision of the Ordinary General Shareholders' Meeting and by a By-law Amendment duly authorized and recorded, the Board of Directors was authorized to approve other closings of the financial statements in order to distribute profits.

The enclosed financial statements for the periods ended on September 30, 2009 and 2010 correspond to periods of nine months, respectively.

- b. *Functional currency* - According to legal provisions, the functional currency used by the Company is the Colombian peso.
- c. *Foreign currency transactions* – Foreign currency transactions and assets and liabilities denominated in a currency other than the Colombian peso are translated into Colombian pesos at the official exchange rate (*Tasa Representativa del Mercado*) as certified by the Superintendency of Finance of Colombia. The exchange gain (loss) resulting from accounts payable and liabilities denominated in foreign currency that resulted from the acquisition of inventories and property, plant and equipment is capitalized until the asset is in condition to be used or sold. All other exchange gains and losses are included in operations. The official exchange rates (per U.S. \$ 1.00) used to adjust the foreign currency assets and liabilities were:

September 30, 2009	Col\$	1,922.00
September 30, 2010		1,799.89

- d. *Temporary investments* – These correspond to investments in fixed income instruments, easily liquidated in the short term, which are made up by: (a) Treasury Securities, (b) Time Deposit Certificates, and (c) Public and Private Debt Bonds, which are reported at their market value and the effect of the valuation of these prices is recorded in the income statement. Additionally, other investments are accounted for at acquisition cost plus interest and adjustments earned, not exceeding their market value.
- e. *Equity investments by the cost method* – Equity investments recognized by the cost method are recorded at cost adjusted for CPI (variation adjustments recorded up to December 31, 2005) and are valued at their equity book value, recording as a higher or lower value of revaluations the difference between the adjusted cost and the equity book value of the investment.
- f. *Financial derivatives* – The Company carries out operations with derivative financial instruments in order to reduce its exposure to exchange rate fluctuations. These agreements are adjusted monthly at their market value and the resulting adjustment is carried to the profit and loss accounts.
- g. *Allowance for doubtful accounts* – The Company determines the allowance on the basis of the aging and individual analyses of the creditworthiness of its customers.
- h. *Inventories* – Inventories are recorded at the lower between the average cost and its net realization value. A provision is recorded to reduce obsolete and slow-moving inventories to their net realization value.
- i. *Property, plant and equipment, net* – Property, plant and equipment are valued at cost, adjusted for CPI variation through December 31, 2005.

Depreciation is computed applying the straight-line method, according to the following depreciation rates:

<i>Asset</i>	<i>%</i>
Constructions and buildings	1.34%
Civil works, plants, ducts and tunnels	1.39%
Distribution network, lines and cables	6.67%
Machinery and equipment	4.78%
Office equipment	9.69%
Communication equipment	6.17%
Computer equipment	20.00%
Transportation equipment	20.00%

For accounting purposes Emgesa does not estimate any salvage value for its assets since it deems such value to be relatively insignificant; consequently, assets are fully depreciated.

- j. *Deferred charges, net* - The Company records as deferred charges: (a) costs incurred in making arrangements for obtaining its financial obligations, which are amortized straight line over the life of the financial facility, (b) costs incurred for the merger of Betania and Emgesa, which are amortized straight line over a period of five years (c) deferred tax assets and (d) pre-feasibility studies on plant projects which are straight line amortized over the life of the project once the project enters its production stage.
- k. *Intangibles, net* – The Company recorded the following as intangibles: a) water rights from the Chingaza and Río Blanco projects, which are amortized with the straight line method over a 50-year period; and b) the expenses incurred in software and licenses, which are amortized over three years with the straight line method.
- l. *Revaluation of assets* – Corresponds to the differences between the net book value of property, plant and equipment and their value determined by independent technical valuation. Such revaluation of assets is recorded in the non-current assets account “Revaluation of Assets” with the offsetting entry recorded in the shareholders’ equity account “Surplus from revaluation of assets”. Assets are revalued every three years based on technical appraisals. Revaluations are performed on specific asset groups. If the revaluation results in a decrease in the book value of the assets, the charge is first recorded against any surplus associated with the individual assets or class of assets, and any decrease in excess of the existing surplus is charged against income.

Also it includes differences between the cost of the investments and their equity book value.

- m. *Labor obligations* – Correspond to the Company’s obligations for mandatory and voluntary employee benefits under applicable labor agreements, as well as employee severance, interest on severance, seniority bonus, vacation accruals and contributions for social security.

The retirement pension obligation represents the present value of all future obligations that the Company must pay to those employees that have fulfilled or that will fulfill certain legal requirements regarding age, time of service and others, determined on the basis of independent actuarial studies that the Company obtains every year, in accordance with regulations issued by the Superintendency of Corporations, without the specific disbursement of funds.

For employees covered by the social security regime (Law 100 issued in 1993), the Company covers its pension obligation through the payment of contributions to the Social Security Institute and/or to the Private Pension Funds, under the terms and conditions provided for in the aforementioned law.

The Company records the liability for post-retirement benefits other than pensions, such as education, recreation and electricity to which the retirees are entitled, based on actuarial calculations performed by an independent actuary. As a result, the liability

which, at present value, covers the estimated obligation for these benefits is being provisioned as of the closing of the period and charged to results.

- n. *Income tax provision* – The Company determines the current provision for income taxes based upon the taxable income estimated pursuant to the Colombian Tax Law. The effect of temporary differences that imply the payment of a lower or greater tax in the current year, calculated at the corresponding current rates, is recorded as deferred tax asset or liability, as applicable, provided that there is reasonable expectation that those differences will reverse in the foreseeable future.
- o. *Equity tax* – During the nine months period 2009 and 2010, the Company recorded \$12,468 each year, with charge to the equity revaluation, as permitted by Law 1111 of 2006.
- p. *Recognition of revenues, costs and expenses* – Revenues from sales are recognized in the period when the services are provided. Costs and expenses are recorded on an accrual basis.
- q. *Premium of notes issuance* – It corresponds to the higher value received for the placement of the notes issued by the Company, as a consequence of the positive difference between the coupon rate of bonds and the offered rate at the date of the placement. This balance is amortized in the same term of the notes.
- r. *Use of estimates* – The preparation of financial statements in conformity with Colombian GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Though, actual results could differ from those estimates, management considers that these estimates were adequate under the circumstances.
- q. *Net income per share* – Determined based on the subscribed and fully paid up shares at the end of the period. Net profit per share is computed after deduction of preferred dividends corresponding to 20,952,601 shares of EEB for the periods ended as of September 30, 2009 and 2010.
- r. *Memorandum accounts* – The contingent rights and responsibilities are booked in memorandum accounts, as well as the differences between accounting and fiscal figures, mainly.
- s. *Statements of cash flows* – The statements of cash flows were prepared using the indirect method, which includes the reconciliation of net income or loss to net cash provided by operating activities.
- t. *Cash equivalents* – For purposes of presentation in the Statement of Cash Flows, the Company classifies temporary investments within the cash equivalents.

- u. *Convenience translation to U.S. dollars* – The U.S. dollar amounts presented in the financial statements and accompanying notes have been translated from the Colombian peso figures solely for the convenience of the readers at the exchange rate of Col\$1,799.89 per U.S. dollar as of September 30, 2010. Such translations should not be construed as representations that the Colombian peso amounts represent or have been or could be converted into U.S. dollars at that rate or any other rate.
- v. *Reclassifications* – Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

NOTE 2—CASH

	As of September 30,	
	2009 (Unaudited)	2010
Cash	Col\$ 24	Col\$ 12
Banks	439,886	90,215
	<u>Col\$ 439,910</u>	<u>Col\$ 90,227</u>

NOTE 3—INVESTMENTS

Following is a description of temporary investments:

	As of September 30,			
	2009 (Unaudited)		2010	
	Interest rate	Amount	Interest rate	Amount
Time deposit certificates	10.49%	Col\$ 517,348	5.80%	Col\$ 13,007
Fiduciary trusts	11.22%	4,969	1.59%	2,551
Forwards		-		11
		<u>Col\$ 522,317</u>		<u>Col\$ 15,569</u>

The balance of long term investments recorded at cost is broken down as follows:

	As of September 30,	
	2009 (Unaudited)	2010
Fundación Emgesa	Col\$ 1	Col\$ -
Electrificadora del Caribe S.A. E.S.P.	8,325	8,324
	<u>-</u>	<u>-</u>
Sociedad Portuaria Central Cartagena S.A.		6
	<u>Col\$ 8,326</u>	<u>Col\$ 8,330</u>

NOTE 4—ACCOUNTS RECEIVABLE, NET

	As of September 30,			
	2009 (Unaudited)		2010	
Customers	Col\$	201,932	Col\$	231,308
Advances		14,274		5,319
Recoverable taxes		5,737		5,745
Related Parties (See Note 5)		150,008		136,807
Deposits		42		3
Loans to employees		11,731		12,658
Other		<u>12,145</u>		<u>16,224</u>
	Col\$	395,869	Col\$	408,064
Less – Allowance for doubtful accounts		<u>(7,136)</u>		<u>(8,111)</u>
		388,733		399,953
Less- Long term portion		<u>(9,484)</u>		<u>(10,154)</u>
	Col\$	<u>379,249</u>	Col\$	<u>389,799</u>

The following table details movements in the allowance for doubtful accounts:

	Nine- months ended September 30, 2009 (Unaudited)		Nine- months ended September 30, 2010	
	Beginning balance	Col\$	6,766	Col\$
Provisions		512		1,329
Write-off		-		-
Recoveries		<u>(142)</u>		<u>(189)</u>
Ending balance	Col\$	<u>7,136</u>	Col\$	<u>8,111</u>

NOTE 5—RELATED PARTIES

The outstanding balances of accounts receivable/payable with related parties are as follows:

	As of September 30,			
	2009 (Unaudited)		2010	
Accounts receivable (See Note 4):				
Empresa de Energía de Bogotá S.A. E.S.P.	Col\$	220	Col\$	29
Codensa S.A. E.S.P.		149,782		135,648
Compañía Americana de Multiservicios Ltda.		6		1

	As of September 30,	
	2009 (Unaudited)	2010
Empresa de Energía de Cundinamarca S.A. E.S.P.	-	834
Endesa Latinoamérica	-	114
Sociedad Portuaria Central Cartagena S.A.	-	117
Enel	-	64
	<u>Col\$ 150,008</u>	<u>Col\$ 136,807</u>

Accounts payable (See Note 13):

Empresa de Energía de Bogotá S.A. E.S.P.	Col\$ -	Col\$ 31
Codensa S.A. E.S.P.	54,392	78,389
Compañía Americana de Multiservicios Ltda.	513	262
Synapsis de Colombia Ltda.	265	287
Empresa de Energía de Cundinamarca S.A. E.S.P.	180	267
		<u>7</u>
Ingendesa S.A.	-	-
	<u>Col\$ 55,350</u>	<u>Col\$ 79,243</u>

Following is the effect on the results of the nine months ended as of September 30, 2009 of the transactions with related parties, Shareholders and the Board of Directors:

Company	Description of transaction	Effect on results(Unaudited)
Codensa S.A. E.S.P.	Sale of energy	390,971
Codensa S.A. E.S.P.	Technical services	232
Compañía Americana de Multiservicios Ltda.	Programming of meters and telemetric	145
Total Revenues		<u>Col\$ 391,348</u>
Codensa S.A. E.S.P.	Energy transportation	(59,392)
Codensa S.A. E.S.P.	Equipment renting services	(16)
Codensa S.A. E.S.P.	Financial expenses	(6,685)
Codensa S.A. E.S.P.	Agreement use	(53)
Codensa S.A. E.S.P.	Public lighting service	(329)
Codensa S.A. E.S.P.	Other	(761)
Synapsis de Colombia Ltda.	Communications services	(576)
Synapsis de Colombia Ltda.	Technical services	(1,154)
Compañía Americana de Multiservicios Ltda.	Equipment renting services	(189)
Compañía Americana de Multiservicios Ltda.	Technical services	(1,391)
Empresa de Energía de Cundinamarca S.A. E.S.P.	Programming of meters and telemetric	(654)
Board of Directors	Fees	(171)
Total Expenses		<u>Col\$ (71,371)</u>
Net effect on results		<u>Col\$ 319,977</u>

Following is the effect on the results of the nine months ended as of September 30, 2010 of the transactions with related parties, Shareholders and the Board of Directors:

Company	Description of transaction	Effect on results
Codensa S.A. E.S.P.	Sale of energy	396,588
Codensa S.A. E.S.P.	Technical services	266
Empresa de Energía de Cundinamarca S.A E.S.P.	Sale of electricity	15,168
Compañía Americana de Multiservicios Ltda.	Programming of meters and telemetric	67
Total Revenues		<u>Col\$ 412,089</u>
Codensa S.A. E.S.P.	Energy transportation	(55,569)
Codensa S.A. E.S.P.	Equipment renting services	(64)
Codensa S.A. E.S.P.	Financial Expenses	(3,709)
Codensa S.A. E.S.P.	Agreement use	(7)
Codensa S.A. E.S.P.	Public lighting service	(402)
Codensa S.A. E.S.P.	Other	(909)
Synapsis de Colombia Ltda.	Communications services	(704)
Synapsis de Colombia Ltda.	Technical services	(1,406)
Compañía Americana de Multiservicios Ltda.	Equipment renting services	(1,428)
Empresa de Energía de Cundinamarca S.A. E.S.P.	Programming of meters and telemetric	(982)
Board of Directors	Fees	(161)
Total Expenses		<u>Col\$ (65,341)</u>
Net effect on results		<u>Col\$ 346,748</u>

NOTE 6—INVENTORIES

	<u>As of September 30,</u>	
	<u>2009</u> <u>(Unaudited)</u>	<u>2010</u>
Spare parts	Col\$ 22,519	Col\$ 20,609
Fuels	11,188	15,230
Coal	<u>18,285</u>	<u>11,336</u>
	Col\$ 51,992	Col\$ 47,175
Less- Long term inventories	<u>(22,575)</u>	<u>(20,609)</u>
	<u>Col\$ 29,417</u>	<u>Col\$ 26,566</u>

NOTE 7—DEFERRED CHARGES, NET

	As of September 30,	
	2009 (Unaudited)	2010
Financial expenses and fees	Col\$ 1,394	Col\$ 986
Research and development projects	16,720	18,131
Deferred income taxes	73,574	73,608
Other deferred charges	6,569	5,681
	<u>Col\$ 98,257</u>	<u>Col\$ 98,406</u>

NOTE 8—INTANGIBLES, NET

	As of September 30,	
	2009 (Unaudited)	2010
Water rights– Chingaza	Col\$ 65,615	Col\$ 65,365
Licenses	718	1,109
Software	6,664	8,042
Other intangible assets	411	663
	<u>Col\$ 73,408</u>	<u>Col\$ 75,179</u>
Less- accumulated amortization	<u>(17,653)</u>	<u>(20,367)</u>
	<u>Col\$ 55,755</u>	<u>Col\$ 54,812</u>

NOTE 9—PROPERTY, PLANT AND EQUIPMENT – NET

	As of September 30,	
	2009 (Unaudited)	2010
Land	Col\$ 57,215	Col\$ 57,952
Construction in progress	40,632	48,512
Machinery, plant and equipment used in projects	942	1,110
Constructions and buildings	71,574	71,622
Civil works, plants, ducts and tunnels	6,895,311	6,942,573
Distribution network, lines and cables	545	545

	As of September 30,	
	2009 (Unaudited)	2010
Machinery and equipment	29,152	30,060
Office equipment	5,034	6,771
Communication and computer equipment	23,526	24,198
Transportation equipment	5,834	5,921
	<u>Col\$ 7,129,765</u>	<u>Col\$ 7,189,264</u>
Less - Accumulated depreciation	<u>(2,189,814)</u>	<u>(2,342,366)</u>
	<u>Col\$ 4,939,951</u>	<u>Col\$ 4,846,898</u>

NOTE 10—REVALUATION OF ASSETS

	As of September 30,	
	2009 (Unaudited)	2010
Land	Col\$ -	Col\$ 4,077
Constructions and buildings	-	3,484
Civil works, plants, ducts and tunnels	1,958,761	2,001,755
Distribution network, lines and cables	-	362
Machinery and equipment	-	925
Office equipment	-	336
Communication and computer equipment	-	635
Transportation equipment	-	1,929
	<u>Col\$ 1,958,761</u>	<u>Col\$ 2,013,503</u>
Permanent investments	<u>(3,993)</u>	<u>(3,780)</u>
	<u>Col\$ 1,954,768</u>	<u>Col\$ 2,009,723</u>

NOTE 11—OTHER ASSETS

	As of September 30,	
	2009 (Unaudited)	2010
Muña Administration Trust	Col\$ 1,295	Col\$ 368
Tominé Administration Trust	2,223	454
Works and improvements in property not-owned	-	616
	<u>Col\$ 3,518</u>	<u>Col\$ 1,438</u>

NOTE 12—FINANCIAL OBLIGATIONS

	<u>As of September 30,</u>	
	<u>2009</u> <u>(Unaudited)</u>	<u>2010</u>
Bank loans in local currency	Col\$ 305,009	Col\$ 305,009
Notes payable	1,805,549	1,485,000
Interest payable	<u>64,278</u>	<u>41,097</u>
	Col\$ 2,174,836	Col\$ 1,831,106
Less- Short – term portion	<u>(384,827)</u>	<u>(201,097)</u>
	<u>Col\$ 1,790,009</u>	<u>Col\$ 1,630,009</u>

Emgesa S.A. E.S.P. has five Notes programs in effect, as follows:

1) The Superintendency of Finance of Colombia, by means of Resolution No. 0650 of July 30, 2004, authorized the registration of the RNVE (National Register of Securities and Issuers) and the public offer of the Notes issued by Emgesa for a total amount of Col\$250,000. The placement of these notes to finance working capital, was made under the following conditions:

Type of security	Notes
Approval by Financial Superintendence:	Resolution 0650 of July 30, 2004
Total Value Authorized of Issue:	Col\$ 250,000
Use of funds:	Financing of Company's working capital
Face value:	Series A Col\$1 each note
Term :	10 years
First Block – Feb/05:	Series A Col\$ 210,000
Second Block – Feb/06:	Series A Col\$ 40,000
Premium on Placement of Notes second block:	Col\$6,927
Trustee:	Deceval S.A.
Yield:	Sub-series A- 10 CPI + 5.04 %
Rating:	AAA (TripleA) Assigned by Duff & Phelps de Colombia (Now Fitch Ratings Colombia).

2) First Note Issuance of Central Hidroeléctrica de Betania S.A. E.S.P. (absorbing entity)

Type of security:	Notes
Approval by Financial Superintendence:	Resolution 885 of 2004
Total Value Authorized of Issue	Col\$400,000

Use of funds:	Refinancing of Financial Liabilities
Face value:	Series B: Col\$1 each note
Term:	7 years, with amortization of 40% in year 6 and remaining 60% on expiration
First Block – Nov/04:	Col\$300,000
Second Block – Feb/06:	Col\$100,000
Premium on Placement of Notes-second block:	Col\$19,187
Issue Administrator:	Deceval S.A.
Yield:	Sub-series B 07: CPI + 6.29 % quarterly in arrears
Rating:	AAA Assigned by Duff & Phelps de Colombia (now Fitch Ratings Colombia).

Issuance and Placement Program of Emgesa Notes - Emgesa has a Note Issuance and Placement Program that permits it to make successive issuance of those securities under the global quota that is authorized and available and during the effective period of same. The placement of these program notes to finance working capital, was made under the following conditions:

Type of security:	Notes
Approval by Financial Superintendence:	Resolution 1235 of July 18, 2006
Global Quota Initially Approved:	Col\$700,000
Approval of quota increase and extension of placement term:	Resolution 0833 of June 16, 2009
First Increase to Authorized Global Quota:	Col\$1,200,000
Balance issued as of December 31, 2009:	Col\$835,000
Expiration of program term:	June 2012
Trustee:	Deceval S.A.
Rating:	AAA (Triple A) Assigned by Fitch Ratings Colombia.

Emgesa made three issuances (“Tranches”) of notes under the mentioned program, as follows:

(3) Value of First Tranche of Program:	Col\$170,000 (February 2007)
Face Value	Series B: Col\$10 each note
Term:	10 years
Yield:	Sub-series: B-10 CPI + 5.15%
Use of funds:	Refinancing of financial liabilities

(4) Value of First Tranche of Program: Face Value	Col\$265,000 (February 2009) Series A: Col\$10 each note Series B: Col\$10 each note
Term:	5, 10 and 15 years
Yield:	Sub-series A- 5: DTF Q.A. + 1.47% Sub-series B-10: CPI + 5.78% Sub-series B-15: CPI + 6.09%
Use of funds:	General purposes of the Company such as but not limited to substitution of short term financial obligations
(5) Value of First Tranche of Program Face Value:	Col\$400,000 (July 2009) Series B: Col\$10 each note Series E: Col\$10 each note
Term:	5, 9 and 12 years
Yield:	Sub-series B-9: CPI + 5.90% Sub-series B-12: CPI + 6.10% Sub-series E-5: Fixed Rate 9.27%
Use of funds:	Col\$250,000 to pre-fund long term debt expirations & Col\$150,000 for working capital.

Following is a description of the notes issued as of September 30, 2009:

Description	Series	Interest rate	Date of final term	As of September 30, 2009 (Unaudited)	Placed in:
<i>Long term:</i>					
1st Issue. Betania Bonds.1st Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	Col\$ 120,000	Colombia
1st Issue. Betania Bonds.2nd Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	40,000	Colombia
1st Issue. Betania Note.1st Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	180,000	Colombia
1st Issue. Betania Notes. 2nd Tranche	Sub-serie B 7	IPC+6.29%	November 10, 2011	60,000	Colombia
3rd Issue.1st Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	210,000	Colombia
3rd Issue.2nd Tranche	Sub-serie A 10	IPC+5.04%	February 23, 2015	40,000	Colombia
4st Issue.1st Tranche	Sub-serie B 10	IPC+5.15%	February 20, 2017	170,000	Colombia
5st Issue.2nd Tranche	Sub-serie A 5	DTF+1.47%	February 11, 2014	49,440	Colombia
5st Issue.2nd Tranche	Sub-serie B 10	IPC+5.78%	February 11, 2019	160,060	Colombia
5st Issue.2nd Tranche	Sub-serie B 15	IPC+6.09%	February 11, 2024	55,500	Colombia
6nd Issue.3rd Tranche	Sub-serie E 5	Fixed rate 9.27%	July 2, 2014	92,220	Colombia
6nd Issue.3rd Tranche	Sub-serie B 9	IPC+5.90%	July 2, 2018	218,200	Colombia
6nd Issue.3rd Tranche	Sub-serie B 12	IPC+6.10%	July 2, 2021	<u>89,580</u>	Colombia

Description	Series	Interest rate	Date of final term	As of September 30, 2009	Placed in:
Total Long-term notes				<u>Col\$ 1,485,000</u>	
<i>Short term:</i>					
1st Issue.1st Block	Sub-serie C-10	IPC+10.25%	October 8, 2009	19,671	Colombia
1st Issue.1st Block	Sub-serie C-10	IPC+10.25%	October 8, 2009	11,053	Colombia
1st Issue.1st Block	Sub-serie B-10	DTF+3.00%	October 8, 2009	229,825	Colombia
1st Issue.2nd Block	Sub-serie B 10	DTF+2.90%	November 10, 2009	<u>60,000</u>	Colombia
Total short-term notes				<u>Col\$ 320,549</u>	
Total notes				<u>Col\$ 1,805,549</u>	

Following is a description of the notes issued as of September 30, 2010:

Description	Series	Interest rate	Date of final term	As of September 30, 2010	Placed in:
<i>long term:</i>					
1st Issue. Betania Bonds.1st Block	Sub-serie B 7	IPC+6.29%	November 10, 2011	Col\$ 180,000	Colombia
1st Issue. Betania Bonds.2nd Block	Sub-serie B 7	IPC+6.29%	November 10, 2011	60,000	Colombia
3rd Issue.1st Block	Sub-serie A 10	IPC+5.04%	February 23, 2015	210,000	Colombia
3rd Issue.2nd Block	Sub-serie A 10	IPC+5.04%	February 23, 2015	40,000	Colombia
4st Issue.1st Tranche	Sub-serie B 10	IPC+5.15%	February 20, 2017	170,000	Colombia
5st Issue.2nd Tranche	Sub-serie A 5	DTF+1.47%	February 11, 2014	49,440	Colombia
5st Issue.2nd Tranche	Sub-serie B 10	IPC+5.78%	February 11, 2019	160,060	Colombia
5st Issue.2nd Tranche	Sub-serie B 15	IPC+6.09%	February 11, 2024	55,500	Colombia
6nd Issue.3rd Tranche	Sub-serie E 5	Fixed Rate 9.27%	July 2, 2014	92,220	Colombia
6nd Issue.3rd Tranche	Sub-serie B 9	IPC+5.90%	July 2, 2018	218,200	Colombia
6nd Issue.3rd Tranche	Sub-serie B 15	IPC+6.10%	July 2, 2021	<u>89,580</u>	Colombia
Total Long-term notes				<u>Col\$ 1,325,000</u>	
<i>Short term:</i>					
1st Issue. Betania Bonds.1st Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	120,000	Colombia
1st Issue. Betania Bonds.2nd Block	Sub-serie B 7	IPC+6.29%	November 10, 2010	<u>40,000</u>	Colombia
Total short-term notes				<u>Col\$ 160,000</u>	
Total notes				<u>Col\$ 1,485,000</u>	

The installments of the long term bonds payable in the upcoming years, are as follows as of September 30, 2010:

Year	Amount
2011	Col\$ 240,000
2014	141,660
2015	250,000
2017	170,000
2018	218,200
2019	160,060
2021	89,580
2024	55,500
	<u>Col\$ 1,325,000</u>

NOTE 13—ACCOUNTS PAYABLE

	As of September 30,	
	2009 (Unaudited)	2010
Suppliers	Col\$ 50,908	Col\$ 78,140
Contractors (foreign currency)	4,479	914
Creditors	17,358	9,262
Dividends payable	155,571	-
Related parties (See Note 5)	55,350	79,243
	<u>Col\$ 283,666</u>	<u>Col\$ 167,559</u>

NOTE 14—LABOR OBLIGATIONS

	As of September 30,	
	2009 (Unaudited)	2010
Severance	Col\$ 1,189	Col\$ 1,186
Severance interest	103	107
Vacations	1,849	2,102
Statutory bonuses	2,156	2,374
Other bonuses	2,448	2,582
	<u>Col\$ 7,745</u>	<u>Col\$ 8,351</u>

NOTE 15—PROVISIONS

	As of September 30,	
	2009 (Unaudited)	2010
Provision for contingencies (See Note 16)	Col\$ 1,594	Col\$ 1,526
Provision for income taxes	101,796	38,826
Provision for costs and expenses	11,845	14,084
Other provisions	282	299
	115,517	54,735
Less - Short-term portion	(113,923)	(53,209)
Long-term portion	Col\$ 1,594	Col\$ 1,526

NOTE 16—CONTINGENCIES

As of September 30 2009 and 2010, the following are the main contingencies the Company has, for which management based on the opinion of its external legal advisors, estimates that the results of the lawsuits corresponding to the portion that is not provisioned will be favorable to the Company's interest and will not result in significant liabilities that will be required to be recorded or, if they were to materialize, these shall not significantly affect the financial position of the Company.

Environmental contingency – Collective action against Emgesa S.A. E.S.P, la Empresa de Energía de Bogotá S.A. E.S.P. and the CAR (Autonomous Regional Corporation of Cundinamarca) for the alleged material and moral damages caused to the inhabitants of the municipality of Sibate as a consequence of the environmental problems of the Muña reservoir. The initial claim of the plaintiffs was of Col\$3 billion.

This legal action was accumulated with another one existing for the same subject at the Administrative Law Court of Cundinamarca, and in which there is another large number of plaintiffs.

The Company's management based on the opinion of its external legal advisors considers that this contingency is remote, and in the case of an eventual judgment against the Company, the most significant liability of the Company for this litigation would be Col\$130 million.

Industry and commerce tax – Power generation companies in Colombia have been required by municipalities that are not aware about the application of the special regime contained in Law 56 of 1981 to assess the Industry and Commerce tax based on the plant installed power generation capacity and attempt to tax their income based on Law 14 of 1983. The municipalities of Yaguará, Ubalá, Caloto, Puerto Tejada and Yumbo, have issued assessments for the industry and commerce tax of years 1997 to 2005 of those municipalities for an

accumulated value in the assessments of Col\$216,554. Currently proceedings are underway arising from the Nullity and Reestablishment of the Right against the respective municipalities. The Company's management based on the opinion of its external legal advisors and reiterated case law criteria, concluded that the contingent events related to the industry and commerce tax are remote.

Income tax, taxable year 2003 – The ground for the process is the unawareness by the administration of the benefit derived from the application of the Paez Law. Accordingly, the tax authority considers that the Company was not the subject of application of the benefits arising from that law on its total income. The action was filed and admitted. The amount of the process is for Col\$62,435. The Company's management based on the opinion of its external legal advisors, concluded that the contingent event related to the 2003 income tax is remote.

Other contingencies – As of September 30, 2010 the amount claimed in respect of other claims for administrative and civil litigations amounts to Col\$264,084 and other labor claims that amount to Col\$24,003. Based on the evaluation of the probability of effective loss according to the information provided by the external legal advisors, the management has provisioned Col\$1,526 and Col\$1,845 as of September 30, 2010 and as of September 30, 2009, respectively, to cover the eventual probable losses for these contingencies.

NOTE 17—RETIREMENT AND PENSION OBLIGATIONS

Retirement pensions consist of the following:

	As of September 30,	
	2009 (Unaudited)	2010
Actuarial calculation for retirement pensions and other post-retirement benefits	Col\$ 82,457	Col\$ 83,218
Less - Current portion	(12,252)	(12,655)
Long-term portion	Col\$ 70,205	Col\$ 70,563

Expenses for retirement pensions and other post-retirement benefits are as follows:

	As of September 30,	
	2009 (Unaudited)	2010
Recovery for retirement pensions or for employees entitled to the right to pension that are excluded from Law 100	Col\$ (1,501)	Col\$ (2,571)

	As of September 30,	
	2009 (Unaudited)	2010
(Recovery) provision for other post-retirement benefits	3,670	3,775
Pension payments and contributions to pension funds	7,124	7,252
	<u>Col\$ 9,293</u>	<u>Col\$ 8,456</u>

The actuarial calculation as of September 30, 2010 and 2009 was determined for 313 and 302 retirees respectively and 2 and 13 active workers respectively, which took into consideration the amounts corresponding to future obligations and was calculated by taking into account the DANE rate of 4.51% and 6.48% respectively.

NOTE 18—TAXES

Income tax - As of September 30, 2010 and 2009, the Company is subject to income tax at an applicable rate of 33% on the net income.

According to Law 633 of 2000, power generating companies are not subject to the presumptive income system. The taxable years open for audit by the tax authorities are 2003, 2008 and 2009. The income tax return corresponding to tax year 2009 was filed on April 20, 2010. As of September 30th the payment of the last installment for Col\$23,194 is pending, which expires on October 15, 2010.

Income tax –

The provision for income tax is broken down as follows:

	Nine- months ended September 30, 2009 (Unaudited)	Nine- months ended September 30, 2010
Current	Col\$ 208,939	Col\$ 201,059
Deferred tax	(482)	(867)
	<u>Col\$ 208,457</u>	<u>Col\$ 200,192</u>

The liability for income tax in September 2009 and 2010, net of tax advances, is detailed below:

	As of September 30,	
	2009 (Unaudited)	2010
Income Tax	Col\$ 208,939	Col\$ 201,059
Advances of income tax	(30,096)	(29,585)
Recoverable taxes	(77,047)	(132,648)
	<u>Col\$ 101,796</u>	<u>Col\$ 38,826</u>

Reconciliation from book to taxable income:

	Nine- months ended September 30, 2009 (Unaudited)	Nine- months ended September 30, 2010
	Income before income tax	Col\$ 645,062
Use of deductible provisions	6,012	7,162
Non-deductible expenses	7,509	8,186
Depreciation – inflation adjustment	(4,551)	(4,534)
Non taxable revenue	(15,720)	(14,751)
Fiscal benefits for the purchase of productive fixed assets	<u>(5,163)</u>	<u>(3,638)</u>
Taxable income	<u>633,149</u>	<u>609,270</u>
Tax rate	<u>33%</u>	<u>33%</u>
Income Tax	<u>Col\$ 208,939</u>	<u>Col\$ 201,059</u>

Reconciliation from book to tax equity:

	As of September 30,	
	2009 (Unaudited)	2010
Shareholders' equity	Col\$ 5,785,235	Col\$ 5,416,835
Estimated liabilities and provisions	213,174	207,023
Fiscal Adjustments	11,860	181,784
Deferred taxes	(73,574)	(73,608)
Surplus from revaluation of fixed assets	<u>(1,954,768)</u>	<u>(2,009,723)</u>
Tax equity	<u>Col\$ 3,981,927</u>	<u>Col\$ 3,722,311</u>

Industry and commerce tax – The industry and commerce tax in the municipalities next to the electricity generation plants is liquidated in accordance with Law 56 issued in 1981.

Contribution for the environment –In accordance with Law 99 issued in 1993, the Company is under the obligation to transfer to the municipalities and regional autonomous corporations for basic sanitation and environmental improvement projects, the equivalent to 6 % of the gross sales of electricity generated by itself in hydraulic plants, and 4 % in thermal plants, in accordance with the rate that is indicated for sales block by the Energy and Gas Regulatory Commission. The contributions for the environment for September 30, 2009 and 2010 amounted to Col\$33,626 million and Col\$29,309 million, respectively.

Equity tax – Law 1111 of December 27, 2006 established that the equity tax base and rate is of 1.2% for four years as of 2007 on the net equity owned as of January 1, 2007. For taxable years 2010 and 2009 an equity tax for Col\$12,468 was accrued, which was recorded as a lower value of the equity appreciation, adopting the provisions of the mentioned law.

Tax reform – Following is a summary of the most important modification to the Colombian tax regime for years 2010 and following, introduced by law 1370 of December 30, 2009:

- It establishes that for the year 2011 the equity tax will be calculated based on the value of the net equity held as of January 1, 2011. The applicable rate will be of 2.4% for equities which taxable base is between Col\$3,000 million and Col\$5,000 million and of 4.8% for equities which taxable base is equal to or exceeds Col\$5,000 million. This tax would be assessed once and payable in 8 installments between 2011 and 2014. The option to record this tax against the equity appreciation account is maintained. The net equity value of the investment in shares of national corporations does not form a part of the taxable base.
- As of tax period 2010, the tax deduction of investments made in real productive fixed assets is reduced from 40% to 30%.
- Liabilities with related parties abroad are no longer accepted for tax purposes.

NOTE 19—SHAREHOLDERS' EQUITY

Capital as of September 2010 – The authorized capital consists of 286,762,927 shares, with a face value of Col\$4,400 each. The subscribed and paid capital is represented by 127,961,561 common shares and 20,952,601 shares with preferential dividend for a total number of shares of 148,914,162 with a face value of Col\$4,400.

Mandatory reserves

Legal reserve – The Colombian Code of Commerce requires companies to appropriate at least 10% of the net income of each year to the legal reserve until such reserve is equal to at least 50% of paid-in capital. The legal reserve is not distributable as dividends before the liquidation of the Company, but it may be used to absorb net losses.

Shareholders' equity revaluation – Shareholders' equity revaluation reflects equity inflation adjustments. This amount may not be distributed as profit to the shareholders until the Company is liquidated or such value is legally capitalized.

NOTE 20—MEMORANDUM ACCOUNTS

	As of September 30,	
	2009 (Unaudited)	2010
Debits:		
Contingent rights	Col\$ 4,963,659	Col\$ 141,076
Control	<u>43,850</u>	<u>45,977</u>
	<u>5,007,509</u>	<u>187,053</u>
Credits:		
Fiscal	Col\$ 2,127,897	Col\$ 1,807,520
Contingent liabilities	<u>535</u>	<u>132,043</u>
	<u>2,128,432</u>	<u>1,939,563</u>
	<u>Col\$ 7,135,941</u>	<u>Col\$ 2,126,616</u>

NOTE 21—ADMINISTRATIVE EXPENSES

	Nine- months ended September 30, 2009 (Unaudited)	Nine- months ended September 30, 2010
Wages and salaries	Col\$ 7,099	Col\$ 6,488
Social security contributions	986	923
Other personnel expenses	315	254
Commissions, fees and services	1,465	1,413
Rentals and leases	737	854
Other general services	3,407	2,116
Other expenses	1,022	425
Depreciations and amortizations	<u>1,722</u>	<u>1,640</u>
	<u>Col\$ 16,753</u>	<u>Col\$ 14,113</u>

NOTE 22— NON OPERATING INCOME

	Nine- months ended September 30, 2009 (Unaudited)	Nine- months ended September 30, 2010
Financial revenues	Col\$ 37,788	Col\$ 10,038
Exchange gains	555	727
Other	3,439	9,259
	<u>Col\$ 41,782</u>	<u>Col\$ 20,024</u>

NOTE 23— NON OPERATING EXPENSES

	Nine- months ended September 30, 2009 (Unaudited)	Nine- months ended September 30, 2010
Financial expenses	Col\$ 153,512	Col\$ 98,069
Exchange losses	266	455
Other	9,589	12,831
	<u>Col\$ 163,367</u>	<u>Col\$ 111,355</u>

ANNEX A

SUMMARY OF CERTAIN DIFFERENCES BETWEEN COLOMBIAN GAAP AND U.S. GAAP

Our financial statements are prepared pursuant to standards set forth in the Accounting Manual for Domiciliary Public Utilities Providers (*Plan de Contabilidad para Entes Prestadores de Servicios Públicos Domiciliarios*), established by the SSPD, which conform to accounting principles generally accepted in Colombia (“Colombian GAAP”). Colombian GAAP differs in certain material aspects from generally accepted accounting principles adopted in the United States (“U.S. GAAP”).

In the United States of America, entities are governmental or non-governmental for accounting and financial reporting purposes based solely on the application of certain criteria. If it is determined that an entity is a governmental entity for accounting purposes, it must follow the standards published by the Governmental Accounting Standards Board (GASB) rather than the standards issued by the Financial Accounting Standards Board (FASB). The GASB is currently the source of generally accepted accounting principles (GAAP) used by State and Local governments in the United States of America. The mission of the GASB is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. The GASB has issued Statements, Interpretations, Technical Bulletins, and Concept Statements defining GAAP for state and local governments since 1984. GAAP for the Federal government is defined by the Federal Accounting Standards Advisory Board. In contrast, non governmental entities for accounting and financial reporting purposes must follow the standards issued by FASB.

The discussion below is based on the differences between the standards we follow (Colombian GAAP) and the generally accepted accounting standards followed in the United States of America for non-governmental entities.

We have not prepared a complete reconciliation of our financial statements and related footnote disclosures between Colombian GAAP and U.S. GAAP and have not quantified such differences. Accordingly, no assurance is provided that the following description is complete. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Colombian GAAP and U.S. GAAP and how those differences might affect the financial information we have provided in this document. The following is a summary of certain differences between Colombia GAAP and U.S. GAAP. This description is not intended to provide a complete list of such differences:

Functional Currency

Under U.S. GAAP, a definition of the functional currency is required, which may differ from the reporting currency. Colombian GAAP presumes the use of the Colombian peso for companies operating in Colombia as the functional currency. Transactions denominated in foreign currencies are converted into Colombian pesos using the exchange rate applicable on the date they occur. Furthermore, charges (credits) are applied to the income statement for foreign exchange gains (losses), except for those assets in the process of installation or under construction before December 2007. The foreign exchange gains/losses associated with these assets are recognized in the income statement when the asset is ready to be used.

Under U.S. GAAP, should our functional currency be defined also as the Colombian peso, translation of our financial statements under ASC 830 – Foreign Currency Matters (FAS 52) is required. Accordingly, assets and liabilities would be translated at the balance sheet date (current) exchange rate. Equity accounts would be translated at their historical exchange rate and retained earnings are translated at the weighted average of the historical rate in effect when the income was earned. Revenues and expenses are translated on a monthly basis at the average rates of exchange in effect during the period. Cumulative translation adjustment gain or loss must be presented as part of the Other Comprehensive income.

Inflation Adjustments

Although Colombia was not a hyperinflationary economy, between January 1, 1992 and December 31, 2005, our financial statements were adjusted for the effects of inflation on the basis of changes in the PAAG Index, which is the middle-income consumer price index with a one-month lag, as established by the DANE. This index was applied to all non-monetary assets and liabilities and shareholders' equity accounts, except for the revaluation of property, plant and equipment and current year's net income accounts. The net gain (loss) from exposure to inflation was reflected as "Monetary Correction" in the net income. After 2005, the accrued "Monetary Correction" is reflected in the balance sheet as a higher value of the assets.

U.S. GAAP does not permit inflation adjustments unless the company is located in a hyperinflationary economy, as defined by U.S. GAAP.

Investments

Under Colombian GAAP, all investments are recorded at cost. Methodologies to update their value include: stock exchange quotes, net present value to determine market price or the internal rate of return, the equity method, and the cost method. Marketable investments with variable interest rates are initially recorded at cost and adjusted at its market value on a monthly basis. The results of this adjustment are applied to the Internal Rate of Return (IRR).

Marketable investments with fixed yield rates are determined using the present value of its future cash flows and interests discounted at an interest rate, according to the parameters set forth by current standards. Long-term investments in subsidiaries in which 50% or more of the capital are directly or indirectly held and control is exercised are recorded under the equity method. Under this method long-term investments are recorded at cost and subsequently adjusted. If after the adjustment the difference between the book value and the intrinsic value (equity value) of the investment is positive, a provision is charged to the results, otherwise a surplus in revaluation is recorded.

Under U.S. GAAP, marketable securities and investments are accounted for under ASC 320 – Investments – Debt and Equity Securities (FAS 115). U.S. GAAP requires that certain debt and equity securities with readily determinable fair value be classified into one of three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities and reported at fair value. Investments not classified as trading securities (nor held-to-maturity) are classified as available-for-sale. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Unrealized holding gains and losses of trading securities are included in earnings. Unrealized holding gains and losses, net of tax, of available for-sale securities are reported as a separate component of stockholders' equity. The two principal methods of accounting for the investments in common stock, which do not qualify to be accounted for under ASC 320 – Investments – Debt and Equity Securities (FAS 115), are the cost method and the equity method. Under the cost method, an investor records an investment in the stock of an investee at cost, and recognizes as income dividends received that are distributed from net accumulated earnings of the investee since the date of acquisition by the investor. Under the equity method, an investor initially records an investment in the stock of an investee at cost, and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition.

Capitalization of Foreign Exchange (Losses) Gains

Until December 2007, under Colombian GAAP, foreign currency exchange gains and losses related to foreign currency denominated liabilities incurred for the purchase of property, plant and equipment were capitalized as part of the cost of such asset. After such time, these gains and losses are applied to the results.

For U.S. GAAP, foreign exchange gains and losses are not capitalized but rather recorded as exchange gains or losses in the period incurred.

Capitalized Interest

Under Colombian GAAP, the Company capitalizes interest costs on projects under construction until the asset is ready to be used.

Under U.S. GAAP, ASC 835-20 – Capitalization of Interest (FAS 34) requires interest cost to be included as a component of the historical cost of (1) assets constructed for a company’s own use and (2) assets intended for sale or lease that are constructed as separate and discrete projects. The underlying concept of ASC 835-20 – Capitalization of Interest (FAS 34) is that interest cost is an element of the historical cost of acquiring an asset when a period of time is required to bring it to the condition and location necessary for its intended use. Capitalizable interest cost is the interest cost incurred that theoretically could have been avoided during the period described if expenditures for qualifying assets had not been made. The interest cost may not necessarily originate from borrowings specifically made to acquire the qualifying assets. The amount of interest cost to be capitalized may be determined by associating expenditures with specific borrowings, by a weighted average of borrowings, or by a combination of the two. Interest cost is included in the cost of assets only when expenditures have been made and activities necessary to bring the asset to its intended use are in progress. Capitalization ceases when the asset is substantially complete and ready for its intended use.

Other Capitalized and Deferred Costs

Colombian GAAP allows capitalization and subsequent amortization of certain pre-operating and operating expenses, including, among others, studies, research, software modernization, advertising and government security taxes for which there are potential future benefits or savings.

Under U.S. GAAP, there are strict guidelines regarding the deferral of costs and amortization over future periods. While under certain specific situations deferral treatment would be acceptable, this treatment is permitted only when there is a direct incremental cost resulting in a future benefit.

Employee Benefit Plans

Pension Plan

Before the issuance of Law 100 of 1993, employers had to pay retirement pensions to employees who fulfilled certain requirements in terms of age and time of service. Since 1993, pension funds (public and private) assumed the pension obligations for most employees. Law 100 of 1993 allows employees to freely choose their pension fund.

Colombian GAAP requires the disclosure of certain information regarding pension plans in the financial statements, including the net pension liability (total value of the pension liability less the amortized value), number of retirees and number of current employees.

Severance Obligation

Under current Colombian labor regulations, employees are entitled to receive one month’s salary for each year of service. This benefit is accruable and is paid to the severance fund previously selected by the employees. Employees are entitled to use their severances without any restriction upon the termination of their work contract from a company. However, employees may request the partial withdraw of accrued severances at any time for specific purposes such as financing of housing and paying for graduate studies. Law 50 of 1990 enabled workers to choose the severance fund of their preference. Severances must be transferred by the employers to the severance fund chosen by the employees no later than February 14 of each year.

Other Benefit Plans

Under labor unions companies have additional benefits for their employees, such as health-care, scholarships, vacation bonus, seniority bonus and other benefits, which are recorded by companies using basically the cash method.

Under U.S. GAAP, pension plans and severance indemnity plans are accounted for under ASC 715 – Compensation-Retirement Benefits (FAS 87, 88, 106, 112, 132(R), 158). The projected benefit obligation of the plans are determined based on actuarial calculations considering factors such as age of the participants, years of service, compensation, interest rates, mortality and other factors. The net periodic pension cost recognized for a period and charged to expense includes the following components: service cost, interest cost, actuarial gains/losses and amortization of any unrecognized obligation or intangible asset set up related to prior service costs upon adoption of ASC 715 – Compensation-Retirement Benefits (FAS 87, 88, 106, 112, 132(R), 158). The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service during that period. Plan asset to cover pension plan liabilities are disclosed as part of the pension plan.

The measurement of other benefits to its employees under U.S. GAAP are accounted for under ASC 715 – Compensation-Retirement Benefits (FAS 87, 88, 106, 112, 132(R), 158) requires calculation of the estimated liability using the actuarial methodology given by the law, the actuarial assumptions, based on nominal discount, salary and pension increase rates, and the method of computing the net periodic pension costs.

Deferred Income Taxes

Under Colombian GAAP, the corporate income tax is assessed on the net profit obtained by companies during the fiscal year. In general, taxable income is determined in accordance with the following calculation: gross income, minus non taxable income, returns, rebates and discounts, costs and expenses. The tax effects of revenue, cost and expense items that are reported for tax purposes in years other than those in which they are recorded for accounting purposes are accounted for as deferred income taxes in accordance with legislation in Colombia.

Under U.S. GAAP, the asset and liability method of accounting for income taxes in accordance with ASC 740 – Income Taxes (FAS 109 / FIN 48) is used. Under this method, the provision for income taxes includes amounts currently payable and amounts deferred as tax assets and liabilities, based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, and is measured using the enacted tax rates that are assumed will be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition

Under Colombian GAAP, revenues are recognized in the period when the services are rendered.

Under U.S. GAAP, revenues from connection fees are recorded on a deferred basis. Under this policy, connection fee income less direct installation costs and direct selling costs are deferred and amortized into income over the expected earnings period using the straight-line method.

Revaluation of Assets

In accordance with Colombian GAAP, revaluation of a company's property, plant and equipment is performed at least every three years based on specific asset groups that use technical appraisal that reflect changes in the assets in the balance sheet under the "revaluation of property, plant and equipment" account

which is off-set by the “Surplus from revaluation of assets” account in the shareholders’ equity. Revaluation of equipment is determined by experts on their net book value. Technical appraisals of equipment are performed using the “ongoing business” criteria. The application of such criteria assumes the following: the existence of a permanent financial activity to which the goods are incorporated, that a sudden interruption that might neutralize the ongoing criteria will not arise, and that the goods applied to the financial activity shall generate, in normal conditions, enough income for absorbing their depreciation and any other operational costs of the business. Investments quoted in the market are revalued quarterly comparing the inflation adjusted cost and the market value and investments without market quotes are compared to their book value. This revaluation process has historically resulted in a significant increase in total assets. If the revaluation results in impairment, a provision is charged against results.

Under U.S. GAAP, revaluation of assets is not permitted.

Impairment of Long-Lived Assets

Under Colombian GAAP, impairment of long-lived assets does not apply.

Under U.S. GAAP, in accordance with ASC 360 – Property, Plant and Equipment (FAS 144) the company evaluates the impairment of long-lived assets based on the projection of undiscounted cash flows when circumstances indicate that the carrying amount of such assets may not be recoverable. This event or circumstance may include the relative pricing at the lowest level for which there are identifiable cash flows. If the carrying amount is not recoverable, an impairment charge against earnings is recorded for the amount by which the carrying amount value of the long-lived assets exceeds its fair value.

The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value, if available. In the absence of quoted market prices for identical or similar assets markets, fair value is estimated using various internal and external valuation methods including cash flows projections or other indicators of fair value such as bids received, comparable sales or independent appraisals.

In connection with the periodic evaluation of long-lived assets in accordance with the requirements of ASC 360 – Property, Plant and Equipment (FAS 144), the fair value of the assets can vary if different estimates and assumptions would have been used in our applied valuations techniques.

Prior Year Adjustments

In accordance with Colombian GAAP, the financial statements are approved by the general assembly of shareholders on a specific date. Any adjustments not reflected in these financial statements are recorded as a separate component in the statement of income in the current year. The restatement of financial statements is not allowed. Additionally, the retroactive effect of certain changes in accounting estimates and principles are recorded in the year of change as a current year adjustment.

For U.S. GAAP, when comparative statements are presented, corresponding adjustments shall be made to net income and its components, retained earnings balances, and other affected balances for all of the periods presented to reflect the retroactive application of the prior period adjustments.

Comprehensive Income Statement

Colombian GAAP does not require a separate Statement of Comprehensive Income.

Under U.S. GAAP, ASC 220 – Comprehensive Income (FAS 130) requires the presentation of the Statement of Comprehensive Income which reflects the changes in Shareholders’ equity other than the changes

in equity produced by the company owners through capitalization or dividends distributions. This statement should be presented with the same prominence than the other financial information as part of the income statement or shareholders' equity or in a note.

Asset Retirement Obligation

Colombian GAAP does not require an accrual and disclosure for asset retirement obligation.

For purposes of U.S. GAAP reporting, companies follow the provisions of ASC 410 – Asset Retirement and Environmental Obligations (FAS 143). ASC 410 – Asset Retirement and Environmental Obligations (FAS 143) requires the company to recognize a liability for the present value of all legal obligations associated with the retirement of tangible, long-lived assets as of the date the related asset was placed into service, and capitalize an equal amount as an additional cost of the asset. Each period the liability is accreted using an effective interest rate method. The accretion is included as an operating expense. The cost associated with the abandonment obligation, along with any estimated salvage value, is included in the computation of depreciation, depletion and amortization.

Derivatives

Under Colombian GAAP, the difference between the amounts paid and received under these arrangements is recognized as financial income or expense. If the net payment will result in a payment to be received from the counterparty this is recorded as interest receivable. Both the interest payable and interest receivable resulting from net swap payments are recorded using current rates for the period.

U.S. GAAP requires all derivative instruments to be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated to be part of an effective cash-flow hedging transaction or all effective fair-value hedging transaction. Derivative instruments that do not meet the requirements of either a cash-flow or fair value hedge would be recorded at fair value on the balance sheet with the fair value gains and losses of the instrument recorded in the income statement.

Under U.S. GAAP, embedded derivative instruments shall be separated from the host contract, and accounted for using different measurement attributes, if certain conditions are met. In the case of some companies, some contracts to which they are counterparties include embedded foreign exchange derivatives. According to FASB DIG Issue B21, these contracts do not require separate accounting for the embedded derivative and the host contract because contract payments are made in the functional currency of a party to the contract or contract payments are made in a currency in which the price of the good or service delivered is routinely denominated in international commerce.

Provisions, Allowances and Contingencies

Subject to the basic accounting principle of prudence, contingencies resulting in potential losses must be recognized on the date on which information leading to consider such contingency as probable and reasonably estimable becomes available.

Prior to September 5, 2007, under Colombian GAAP, a provision had to be recorded for a contingent event at the time a judgment was issued against us, without reference to the evaluation of the probable final outcome. On September 5, 2007, the CAO issued Resolution 356 which provides that a provision was to be recorded for a contingent event if the evaluation of the outcome was evaluated to be probable. Such methodology evolved in 2008 to be based on the “credit system” of the Nation used by the Ministry of the Interior and Justice.

For U.S. GAAP, ASC 450 – Contingencies (FAS 5) provides the guidance for recording contingencies. Under ASC 450 – Contingencies (FAS 5), there are three levels of assessment of contingent events — probable, reasonably possible and remote. The term probable in ASC 450 – Contingencies (FAS 5) is defined as “the future event or events are likely to occur.” The term reasonably possible is defined as “the chance of the future event or events occurring is more than remote but less than likely.” And the term remote is defined as “the chance of the future event or events occurring is slight.”

Under ASC 450 – Contingencies (FAS 5), an estimated loss related to a contingent event is to be accrued by a charge to income if both of the following conditions are met:

- Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.
- The amount of loss can be reasonably estimated.

The amount recorded is an estimate of the amount of loss at the date of the financial statements. If the contingent event is evaluated to be reasonably possible, no provision for the contingent event may be made, but disclosure of the event is required.

Fiscal Incentives for Asset Acquisition

The Colombian GAAP does not envisage a special accounting treatment for the additional discount on investment in productive assets.

For U.S. GAAP purposes, a deferred income tax asset resulted from the application of the provisions of EITF 98-11, Accounting for Acquired Temporary Differences in Certain Purchase Transactions That are not Accounted for as Business Combinations. The tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset should not result in immediate income statement recognition. The tax basis of an asset is the amount used for tax purposes and is a question of fact under the tax law. An asset’s tax basis is not determined simply by the amount that is depreciable for tax purposes.

ANNEX B

CERTAIN DEFINED TERMS

General Terms

Colombia	Republic of Colombia
Colombian GAAP	Generally accepted accounting principles adopted in Colombia
DTC	Depository Trust Company
DTF	DTF is an annual effective interest rate calculated and published weekly by the Central Bank based on the weighted average of active effective interest rates for 90-day CDs offered by banks and other financial institutions in the Colombian market
EEA	European Economic Area
EEB	Empresa de Energía de Bogotá S.A. E.S.P., a shareholder of Emgesa that owns 51.5% of the capital stock of Emgesa and 43.6% of the voting shares
Endesa Chile	Empresa Nacional de Electricidad S.A., Chilean limited liability publicly held stock company, a direct subsidiary of Enersis. Endesa Chile, together with Endesa Latinoamerica, owns 48.5% of the capital stock of Emgesa, and 56.4% of the voting shares
Endesa Group	The group of companies controlled by Endesa Spain that includes, among others, Emgesa, Endesa Latinoamerica, Enersis and Endesa Chile
Endesa Latinoamerica	Endesa Latinoamerica S.A., constituted under the Kingdom of Spain, a direct subsidiary of Endesa Spain
Endesa Spain	ENDESA, S.A., a direct subsidiary of Enel, constituted under the Kingdom of Spain
Enel	Enel S.p.A., constituted under the Italian Republic, the controlling shareholder of Endesa Spain with a 92.1% beneficial interest, making Enel the ultimate controlling entity of Emgesa
Enel Group	The group of companies controlled by Enel that includes, among others, Emgesa, Endesa Spain, Endesa Latinoamerica, Enersis and Endesa Chile
Enersis	Enersis S.A., Chilean limited liability publicly held stock company, a direct subsidiary of Endesa Latinoamerica
E.S.P.	<i>Empresa de Servicios Públicos</i> , or public service utility company
GDP	Gross Domestic Product
Initial Purchasers	Collectively, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc.
ISA	Interconexión Eléctrica S.A. E.S.P.

Law 142 of 1994 or Law 142 or LSPD	The legal framework applicable to the rendering of domiciliary public utilities
Law 143 of 1994 or Law 143	The legal framework applicable to the rendering of electricity services
Paying Agent in Luxembourg	Bank of New York Mellon (Luxembourg) S.A.

Colombian Relevant Authorities

ASIC	Colombian Administrator of the Commercial Exchange System (<i>Administrador del Sistema de Intercambios Comerciales</i>)
CAO	Colombian General Accounting Office (<i>Contaduría General de la Nación</i>)
CAPT	Colombian Transmission Planning Advisory Committee (<i>Comité Asesor de Planeamiento de la Transmisión</i>)
Central Bank	Colombian Banco de la República
CND	National Dispatch Center (<i>Centro Nacional de Despacho</i>). The CND is responsible for the planning, supervision and control of electricity generation, interconnection and transmission in connection with the National Interconnected System. The CND is subject to the National Operation Council Accords (<i>Acuerdos del Consejo Nacional de Operación</i>)
CREG	Colombian Energy and Gas Regulatory Commission (<i>Comisión de Regulación de Energía y Gas</i>)
DANE	Colombian National Department of Statistics (<i>Departamento Administrativo Nacional de Estadística</i>)
DIAN	Colombian National Tax and Customs Office (<i>Dirección de Impuestos y Aduanas Nacionales</i>)
LAC	<i>Liquidación, administración y cobro de cargos por uso del sistema de transmisión</i>
MAVDT	Colombian Ministry of the Environment, Housing and Development (<i>Ministerio de Ambiente, Vivienda y Desarrollo Territorial</i>)
MHCP	Colombian Ministry of Finance and Public Credit (<i>Ministerio de Hacienda y Crédito Público</i>)
MME	Colombian Ministry of Mines and Energy (<i>Ministerio de Minas y Energía</i>)
SFC	Colombian Superintendency of Finance (<i>Superintendencia Financiera de Colombia</i>)
SSPD	Colombian Superintendency of Domiciliary Public Services (<i>Superintendencia de Servicios Públicos Domiciliarios</i>)
UPME	Colombian Mining and Energy Planning Unit (<i>Unidad de Planeación Minero Energética</i>)

XM Compañía de Expertos en Mercados S.A. E.S.P., in its capacity as ASIC and settler of charges for the use of the STN

Technical and Regulatory Terms

AGC	Automatic generation control (<i>control automático de generación</i>) means the secondary frequency regulation (<i>regulación secundaria de frecuencia</i>)
Capacity Payment	Capacity Payment refers to the former compensation mechanism for electricity generators which guaranteed companies fixed annual income per each MW of installed capacity at a fixed price established by the regulatory authorities
CF	Cubic feet
cogeneration	The sequential production of electricity and thermal energy in the form of heat or steam from the same fuel source
Firm Energy	According to CREG Resolution No. 060 of 2007, Firm Energy (<i>energía firme</i>) represents the maximum volume of electricity that may be continuously produced in a one-year period by a generation plant under low hydrologic conditions
GW	Gigawatt, which equals 1,000 MW
GWh	Gigawatt-hours, which represents one hour of electricity consumption at a constant rate of 1 GW
IHH	The Herfindahl Hirschman Index (<i>Índice Herfindahl Hirschman</i>) is a commonly accepted measure of market concentration which is calculated by squaring each company's market share and adding each result
In	Inches
Km	Kilometers
kV	Kilovolt; one of which equals one thousand volts; a unit of electric tension
kW	Kilowatt; which is a unit of power representing the rate at which electricity is produced
kWh	Kilowatt-hour; one kilowatt hour represents one hour of electricity consumption at a constant rate of 1 kW
MEM or Wholesale Market	Wholesale Energy Market (<i>Mercado de Energía Mayorista</i>)
MW	Megawatts
MWh	Megawatt-hour; one megawatt hour represents one hour of electricity consumption at a constant rate of 1 MW
NIS	National Interconnected System (<i>Sistema Interconectado Nacional</i>)
OEF	A commitment to keep a generation capacity during scarcity periods

Optimal Dispatch	The optimal dispatch is a system used by the XM to rank production by electricity generators which assumes unlimited transmission capacity through the NIS and disregards network restrictions
OR	Network Operator (<i>Operador de Red</i>)
physical sales	The amount of kWh sold in a given period of time
PPI	Colombian Producer's Price Index
Regulated Market	Market that includes Colombian consumers of electricity that have a peak demand lower than 0.10 MW or a minimum monthly consumption lower than 55.0 MWh
Regulated Users	Colombian consumers in the Regulated Market
Reliability Payment	The Firm Energy Reliability Payment (<i>Energía Firme del Cargo por Confiabilidad</i>) compensates electricity generators for making investments in order to guarantee the supply of electricity during scarce conditions
Restricted Generators	Electricity generators whose actual generation is higher than Optimal Dispatch
SDL	Local Distribution System (<i>Sistema de Distribución Local</i>)
spot market	The spot market is an hourly exchange market where generation companies and traders can sell their excess electricity resulting from the difference between their electricity available supply and market demand. Every day electricity generation companies offer the price required to generate electricity with each power plant, on an hourly basis, and inform each plant's availability for the next day
STN	National Transmission System (<i>Sistema de Transmisión Nacional</i>)
STR	Regional Transmission System (<i>Sistema de Transmisión Regional</i>). The STR is a network that operates at levels between 200 kV and 57.5 kV
Unregulated Customers	Colombian consumers of electricity in the Unregulated Market
Unregulated Market	Market that includes Colombian consumers of electricity that have a peak demand greater than 0.10 MW or a minimum monthly consumption greater than 55.0MWh
UVR	<i>Unidad de Valor Real</i>
Wholesale Customers	Colombian purchasers of electricity in the Wholesale Market

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