

SEPARATE FINANCIAL STATEMENTS

**Codensa S.A. E.S.P.**

For the years ended 31 December 2016 and 2015, and Statutory Auditor's Report

## **Statutory Auditor's Report**

### **Codensa S.A. E.S.P.**

To the Shareholders of  
Codensa S.A. E.S.P.

### **Report on the Financial Statements**

I have audited the accompanying separate financial statements of Codensa S.A. ESP, which comprise the statement of financial position as of December 31, 2016, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the Financial Reporting Standards accepted in Colombia (CFRS); for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; for selecting and implementing the appropriate accounting policies; and for establishing accounting estimates reasonable in the circumstances.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Colombia. Those standards require me to comply with ethical principles, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by Management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Opinion**

In my opinion, the financial statements referred to above, taken from books of accounts, present fairly, in all material respects, the financial position of the Company as of December 31, 2016, the results of its operations and cash flows for the year then ended in accordance with the Financial Reporting Standards accepted in Colombia.

## **Other Matters**

The separate financial statements under accounting and financial reporting standards accepted in Colombia of Codensa S.A. ESP as of December 31, 2015, which are part of the comparative information of the accompanying separate financial statements, were audited by me, in accordance with auditing standards generally accepted in Colombia, on which I expressed my unqualified opinion on 24 February 2016.

## **Other Legal and Regulatory Requirements**

Based on the scope of my audit, I am not aware of any circumstance indicating failure to comply with the following Company obligations: 1) keeping Minutes, Shareholders and accounting books, according to legal norms and the accounting technique; 2) performing its activities according to the bylaws and decisions of the Shareholders' Meeting and the Board of Directors, as well as the norms relative to integral social security; 3) keeping correspondence and account vouchers; and 4) take internal control, conservation, and safekeeping measures with respect to the Company's assets or third party assets that the Company may have in its possession. Additionally, there is consistency between the financial statements hereto and the accounting information included in the management report prepared by the Company's Management, which includes the Management's certification regarding the free circulation of endorsed invoices issued by vendors or suppliers.

My recommendations on internal control and other matters have been informed to Management in a separate report.

Camilo Ernesto Martínez Rivas  
Statutory Auditor  
Professional Card 167009-T  
Appointed by Ernst & Young Audit S.A.S. TR-530

Bogota, Colombia  
24 February 2017

**Codensa S.A. E.S.P.**  
**Statement of Financial Position – Separate**  
(In thousands of pesos)

	Note	As of 31 December 2016	As of 31 December 2015
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	4	\$ 619,647,372	\$ 402,473,307
Other financial assets	5	4,729	-
Other non-financial assets	6	5,997,900	11,493,920
Commercial accounts and other receivables, net	7	517,537,433	439,041,362
Accounts receivable from related entities	9	13,620,148	14,217,943
Inventories, net	10	81,187,893	61,069,129
<b>Total current assets</b>		<b>1,237,995,475</b>	<b>928,295,661</b>
Non-current assets:			
Other financial assets	5	43,101	16,192
Other non-financial assets	6	12,318,795	10,331,577
Commercial accounts and other receivables, net	7	70,085,462	35,221,534
Investments in subsidiaries, joint ventures and associates	8	2,370	104,252,500
Intangible assets other than goodwill, net	11	118,955,312	73,392,804
Property, plant and equipment, net	12	4,280,943,213	3,507,866,276
Deferred tax assets, net	13	14,055,340	32,968,992
<b>Total non-current assets</b>		<b>4,496,403,593</b>	<b>3,764,049,875</b>
<b>Total assets</b>		<b>5,734,399,068</b>	<b>4,692,345,536</b>
<b>Liabilities and equity</b>			
Current liabilities:			
Other financial liabilities	14	454,403,098	156,516,917
Commercial accounts payable and other payables	15	885,903,343	680,605,627
Accounts payable to related entities	9	138,792,891	112,679,569
Provisions	16	27,057,664	23,373,270
Taxes payable	18	94,684,519	95,842,430
Provisions for employee benefits	17	80,820,798	70,363,490
Other non-financial liabilities	19	9,800,513	1,937,500
<b>Total current liabilities</b>		<b>1,691,462,826</b>	<b>1,141,318,803</b>
Non-current liabilities:			
Other financial liabilities	14	1,167,729,581	1,032,500,742
Provisions	16	26,828,095	14,097,656
Provisions for employee benefits	17	272,323,501	181,159,628
Other non-financial liabilities	19	29,877,512	-
<b>Total non-current liabilities</b>		<b>\$ 1,496,758,689</b>	<b>\$ 1,227,758,026</b>
<b>Total liabilities</b>		<b>\$ 3,188,221,515</b>	<b>\$ 2,369,076,829</b>

**Codensa S.A. E.S.P.**  
**Statement of Financial Position – Separate (Continued)**  
(In thousands of pesos)

	Note	As of 31 December 2016	As of 31 December 2015
<b>Equity</b>			
Issued capital	20	\$ 13,487,545	\$ 13,209,327
Issue premiums		190,553,196	13,333,540
Other reserves	20	197,441,861	134,562,808
Other comprehensive income		(63,822,077)	(28,938,844)
<i>Net income</i>		542,879,556	516,934,616
<i>Net income of absorbed companies</i>		8,976,342	-
<i>Retained earnings</i>		137,478,826	-
<i>Retained losses</i>		(37,859,236)	-
<i>Retained earnings due to transition to CFRS</i>		31,681,781	33,264,251
<i>Retained earnings due to conversion to CFRS</i>		1,789,210,510	1,640,903,009
<i>Equity effect business combination</i>		(263,850,751)	-
Retained earnings		2,208,517,028	2,191,101,876
<b>Total equity</b>		<b>2,546,177,553</b>	<b>2,323,268,707</b>
<b>Total liabilities and equity</b>		<b>\$ 5,734,399,068</b>	<b>\$ 4,692,345,536</b>

See accompanying notes.

The undersigned Legal Representative and Accountant certify that we have previously verified the affirmations contained in these financial statements and that they have been accurately taken from the Company's accounting books.

David Felipe Acosta Correa  
Legal Representative

Luz Dary Sarmiento Quintero  
Public Accountant  
Professional Card 65450–T

Camilo Ernesto Martínez Rivas  
Statutory Auditor  
Professional Card 167009–T  
Appointed by Ernst & Young Audit S.A.S. TR–530  
(See my report dated 24 February 2017)

**Codensa S.A. E.S.P.**  
**Income Statement, by Nature – Separate**  
(In thousands of pesos, except earnings per share)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Income from ordinary activities	21	\$ 4,150,152,829	\$ 3,688,070,591
Other operating income	22	39,543,094	23,795,495
<b>Total income from ordinary activities and other operating income</b>		<b>4,189,695,923</b>	<b>3,711,866,086</b>
<b>Provisioning and services</b>	23	<b>(2,401,953,990)</b>	<b>(2,100,757,734)</b>
<b>Contribution margin</b>		<b>1,787,741,933</b>	<b>1,611,108,352</b>
Works for fixed assets		36,471,315	18,667,723
Personnel expenses	24	(161,132,541)	(154,189,207)
Other operating expenses	25	(253,601,377)	(236,950,951)
<b>Gross operating profit</b>		<b>1,409,479,330</b>	<b>1,238,635,917</b>
Depreciations and amortisations	26	(264,056,382)	(249,600,971)
Impairment losses (Reversal)	26	(6,075,377)	(338,759)
<b>Operating profit</b>		<b>1,139,347,571</b>	<b>988,696,187</b>
Financial revenues		29,030,066	28,310,346
Financial expenses		(186,337,032)	(145,555,553)
Exchange difference		(903,072)	2,383,199
<b>Financial earnings</b>	27	<b>(158,210,038)</b>	<b>(114,862,008)</b>
Earnings from other investments	28	(16,834,293)	-
Earnings from sale and disposal of assets	29	(10,835,474)	(539,223)
<b>Earnings before taxes</b>		<b>953,467,766</b>	<b>873,294,956</b>
Income tax expense	30	(410,588,210)	(356,360,340)
<b>Net income</b>		<b>542,879,556</b>	<b>\$ 516,934,616</b>

**Codensa S.A. E.S.P.**  
**Income Statement, by Nature – Separate (Continued)**  
(In thousands of pesos, except earnings per share)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
<b>Basic and diluted earnings per share</b>			
Basic and diluted earnings per share in on-going operations (*)	31	\$ 3,980.52	\$ 3,865.69
Weighted average number of outstanding common shares		<b>134,875,450</b>	<b>132,093,274</b>

(\*) Expressed in Colombian pesos

*See accompanying notes.*

The undersigned Legal Representative and Accountant certify that we have previously verified the affirmations contained in these financial statements and that they have been accurately taken from the Company's accounting books.

David Felipe Acosta Correa  
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**Codensa S.A. E.S.P.**  
**Statement of Comprehensive Income – Separate**  
(In thousands of pesos)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
<b>Net income</b>		<b>\$ 542,879,556</b>	<b>\$ 516,934,616</b>
<b>Components of other comprehensive income not reclassified to earnings before taxes</b>			
Gain (loss) on new measurements of defined benefit plans		(34,284,141)	1,064,806
Losses in new measurements of financial instruments measured at fair value through OCI		18,080	(10,039)
Losses on cash flow hedges		29,247	(89,088)
Other comprehensive income not reclassified to earnings before taxes		<b>(34,236,814)</b>	<b>965,679</b>
<b>Components of other comprehensive income reclassified to earnings before taxes</b>			
Gain (loss) due to cash flow hedges		64,570	-
Other comprehensive income reclassified to earnings before taxes		<b>64,570</b>	-
<b>Income tax relative to components of other comprehensive income not reclassified to net income</b>			
Effect of taxes on new measurements of defined benefit plans		10,646,567	(428,028)
Effect of taxes on cash flow hedges		(11,699)	35,635
Total income tax relative to components of other comprehensive income not reclassified to net income		<b>10,634,868</b>	<b>(392,393)</b>
<b>Income tax relative to components of other comprehensive income reclassified to net income</b>			
Effect of taxes on cash flow hedges		(25,828)	-
Total income tax relative to components of other comprehensive income reclassified to net income		<b>(25,828)</b>	-
Total other comprehensive income	32	<b>(23,563,204)</b>	<b>573,286</b>
<b>Total comprehensive income</b>		<b>\$ 519,316,352</b>	<b>\$ 517,507,902</b>

*See accompanying notes.*

The undersigned Legal Representative and Accountant certify that we have previously verified the affirmations contained in these financial statements and that they have been accurately taken from the Company's accounting books.

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**Codensa S.A. E.S.P.**  
**Statement of Changes in Equity – Separate**  
(In thousands of pesos)

	Reserves				Other comprehensive income					Total equity
	Issued capital	Issue premium	Legal reserve	Occasional reserve	Total reserves	Cash flow hedges	Gains and losses on new measurements of financial instruments	Gains and losses due to defined benefit plans	Retained earnings	
<b>Initial equity as of 01-01-2015</b>	\$ 13,209,327	\$ 13,333,540	\$ 6,604,664	\$ 50,962,398	\$ 57,567,062	\$ -	\$ -	\$ (29,512,130)	\$ 1,829,251,445	\$ 1,883,849,244
<b>Changes in equity</b>										
Comprehensive income										
<i>Net income</i>	-	-	-	-	-	-	-	-	516,934,616	516,934,616
<i>Other comprehensive income (Note 32)</i>	-	-	-	-	-	(53,453)	(10,039)	636,778	-	573,286
Comprehensive income	-	-	-	-	-	(53,453)	(10,039)	636,778	516,934,616	517,507,902
Declared dividends	-	-	-	-	-	-	-	-	(78,088,439)	(78,088,439)
Increases (decreases) due to other changes, equity	-	-	-	76,995,746	76,995,746	-	-	-	(76,995,746)	-
<b>Total increase (decrease) in equity</b>	-	-	-	76,995,746	76,995,746	(53,453)	(10,039)	636,778	361,850,431	439,419,463
<b>Final equity as of 31-12-2015</b>	<b>13,209,327</b>	<b>13,333,540</b>	<b>6,604,664</b>	<b>127,958,144</b>	<b>134,562,808</b>	<b>(53,453)</b>	<b>(10,039)</b>	<b>(28,875,352)</b>	<b>2,191,101,876</b>	<b>2,323,268,707</b>
<b>Changes in equity</b>										
Comprehensive income										
<i>Net income</i>	-	-	-	-	-	-	-	-	542,879,556	542,879,556
<i>Other comprehensive income (Note 32)</i>	-	-	-	-	-	56,290	18,080	(23,637,574)	-	(23,563,204)
Comprehensive income	-	-	-	-	-	56,290	18,080	(23,637,574)	542,879,556	519,316,352
Declared dividends	-	-	-	-	-	-	-	-	(473,905,380)	(473,905,380)
Increases (decreases) due to business combination (See Notes 1.5.1 and 1.5.6)	166,838	105,365,631	19,849,817	-	19,849,817	-	-	(11,320,029)	(8,529,788)	105,532,469
Increases due to other shareholder contributions	111,380	71,854,025	-	-	-	-	-	-	-	71,965,405
Increases (decreases) due to other changes, equity	-	-	-	43,029,236	43,029,236	-	-	-	(43,029,236)	-
<b>Total increase (decrease) in equity</b>	<b>278,218</b>	<b>177,219,656</b>	<b>19,849,817</b>	<b>43,029,236</b>	<b>62,879,053</b>	<b>56,290</b>	<b>18,080</b>	<b>(34,957,603)</b>	<b>17,415,152</b>	<b>222,908,846</b>
<b>Final equity as of 31-12-2016</b>	<b>\$ 13,487,545</b>	<b>\$ 190,553,196</b>	<b>\$ 26,454,481</b>	<b>\$ 170,987,380</b>	<b>\$ 197,441,861</b>	<b>\$ 2,837</b>	<b>\$ 8,041</b>	<b>\$ (63,832,955)</b>	<b>\$ 2,208,517,028</b>	<b>\$ 2,546,177,553</b>

See accompanying notes.

The undersigned Legal Representative and Accountant certify that we have previously verified the affirmations contained in these financial statements and that they have been accurately taken from the Company's accounting books.

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(See my report dated 24 February 2017)

**Codensa S.A. E.S.P.**  
**Statement of Cash Flows, Direct Method - Separate**  
(In thousands of pesos)

	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from (used in) operating activities:		
Types of collections by operating activity		
<i>Collections from sales of goods and services</i>	\$ 3,868,586,348	\$ 3,412,085,051
<i>Collections from royalties, fees, commissions and other revenues from ordinary activities</i>	134,681,600	159,594,834
<i>Collections from bonuses and compensations, annuities and other benefits of subscribed policies</i>	2,551,000	11,088,797
<i>Other collections from operating activities</i>	1,735,528,093	1,741,293,608
Types of cash payments from operating activities		
<i>Payments to vendors for supply of goods and services</i>	(2,566,959,346)	(2,250,658,784)
<i>Payments to and on behalf of employees</i>	(153,728,344)	(148,295,576)
<i>Payments of bonuses and compensations, annuities and other benefits of subscribed policies</i>	(6,412,376)	(4,601,552)
<i>Other payments for operating activities</i>	(1,499,949,051)	(1,611,315,294)
Reimbursed income tax (paid)	(370,561,692)	(229,063,119)
Other cash inflows (outflows)	(69,293,616)	(65,010,325)
<b>Net cash flows from operating activities</b>	<b>1,074,442,616</b>	<b>1,015,117,640</b>
Cash flows from (used in) investment activities:		
Cash flows from absorbed companies in the business combination	27,638,878	-
Other collections for the sale of equity or debt instruments of other entities	47,200,000	337,292,735
Other payments to acquire equity or debt instruments from other entities	(47,200,000)	(268,229,885)
Loans to related entities	-	(34,653,849)
Purchase of property, plant and equipment	(681,008,817)	(554,547,554)
Payments from futures, forwards, option and swap contracts	(34,735)	-
Collections from futures, forwards, option and swap contracts	-	308,749
Collections from related entities	-	34,653,848
Dividends received	1,129,958	-
Interests received	12,021,947	13,840,759
<b>Net cash flows used in investment activities</b>	<b>(640,252,769)</b>	<b>(471,335,197)</b>
Cash flows from (used in) financing activities:		
Amount from issue of shares	71,965,405	-
Amount from long-term loans	452,000,000	-
Loans from related entities	55,000,000	-
Dividends paid	(435,048,975)	(552,744,004)
Interests paid	(147,032,371)	(109,586,656)
Bank loan payments	(9,945,652)	-
Bond loan payments	(145,000,000)	-
Payments of finance lease liabilities	(2,750,562)	(1,436,519)
Loan payments to related entities	(55,000,000)	-
Other cash inflows (outflows)	(1,203,627)	-
<b>Net cash flows used in financing activities</b>	<b>(217,015,782)</b>	<b>(663,767,179)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>217,174,065</b>	<b>(119,984,736)</b>
Cash and cash equivalents initial balance	402,473,307	522,458,043
Cash and cash equivalents final balance	<b>\$ 619,647,372</b>	<b>\$ 402,473,307</b>

See accompanying notes.

The undersigned Legal Representative and Accountant certify that we have previously verified the affirmations contained in these financial statements and that they have been accurately taken from the Company's accounting books.

David Felipe Acosta Correa  
Legal Representative

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## Codensa S.A. E.S.P.

### Financial Statements – Separate

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## **Codensa S.A. E.S.P.**

### **Financial Statements – Separate**

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## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate**

(In thousands of pesos)

#### **1. Overview**

##### **1.1 Economic Entity**

Codensa S.A. E.S.P. is a household utilities company in accordance with the provisions of Act 142/1994. The Company has an indefinite duration.

The Company was organised on 23 October 1997 and registered with the Chamber of Commerce on the same date with No. 00607668, with contributions from the distribution and marketing assets of Empresa de Energía de Bogotá S.A. E.S.P., holding 51.52% of shares, and cash contributions of other investors holding 48.48% of shares.

The Company is of Colombian origin, with domicile and main headquarters located at Carrera 13A No. 93-66, Bogotá D.C.

Codensa S.A. E.S.P. is a subsidiary of Enersis S.A., which, in turn, is a subsidiary of Enel Iberoamérica S.R.L., an entity controlled by Enel, S.P.A. (hereinafter Enel).

The Company's corporate purpose is the distribution and marketing of electric energy, as well as the execution of all activities related, connected, supplementary and associated to the distribution and marketing of electric energy, the execution of works, designs and consulting in electrical engineering and the marketing of products for the benefit of its customers. The Company may also carry out other activities related to the provision of utilities in general, manage and operate other public utilities, enter into and execute special management agreements with other public utilities, and sell or lend goods or services relative to utilities to other economic agents within the country and abroad.

Additionally, the Company's corporate purpose also includes, among others, offering financing services for goods and services to residential, urban, and rural customers, including the "Crédito Fácil Codensa" credit line, and offering subscriptions and insurance policies, part of which were transferred to Banco Colpatria Red Multibanca Colpatria S.A. as of 27 November 2009.

##### **1.2 Corporate Cooperation Agreements**

Included in the credit portfolio sale process of the Codensa Crédito Fácil business and the transfer of the going concern, a Corporate Corporation agreement was entered into with Banco Colpatria Red Multibanca Colpatria S.A., whose main purpose is regulating the terms and conditions between the parties for the promotion, origination, administration, invoicing, and collection of financial services exclusive to the Codensa users of the "Crédito Fácil Codensa" business, and, in general, managing the "Crédito Fácil Codensa" going concern during its 10-year term of operation plus 4 years of dismantling. The basis for remuneration is directly associated with invoicing and collection. The agreement includes certain indemnity clauses, mainly regarding regulatory changes with the transferred deal, which involves economic sanctions as defined in the agreement.

##### **1.3 Correspondent Bank**

The ordinary General Shareholders' Meeting held on 27 March 2014, according to Minutes No. 56, approved the inclusion of the correspondent bank activity in the Company's corporate purpose, which was made official through public deed 619 of 27 February 2015, registered with the Chamber of Commerce on 13 March 2015.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

Currently, the Company has not started operations as correspondent bank, considering that it is awaiting authorisation from the Colombian Financial Superintendence.

#### **1.4 Mapfre Seguros Agreement**

In August 2010, an agreement was entered into with Mapfre Colombia Vida Seguros to provide the Company's energy customers access to the market channel in order to allow Mapfre the sale of insurance policies for an eight-year term. The agreement sets out a single \$6,000,000 payment, registered as prepaid revenues, and amortised during the term of the agreement.

#### **1.5 Business Combination**

##### **Codensa S.A. E.S.P., Empresa de Energía de Cundinamarca S.A. E.S.P. and Distribuidora Eléctrica de Cundinamarca S.A. E.S.P.**

On 8 October 2015, Shareholders' Meeting No. 62 approved the merger commitment between Codensa S.A. E.S.P., Distribuidora Eléctrica de Cundinamarca S.A. E.S.P. (DECSA) and Empresa de Energía de Cundinamarca S.A. E.S.P. (EEC), which stated the need to determine the best corporate and management form for EEC, increase profitability, capture all synergies and efficiencies between the companies and generate greater value for its shareholders and users. Based on the above considerations, the following agreements were reached in the merger commitment:

- It was agreed that the best corporate form should “preserve the same shareholding structure of CODENSA, in order to ensure that current shareholders and their interest in CODENSA remain unchanged.”
- Due to the cash flow limitations of EEC, it was agreed that after performing merger, Codensa should distribute the retained earnings of EEC, taking into account the shareholding structure of the merged company.
- As a result of the merger, the absorbed companies are dissolved without liquidation and therefore their legal life will be considered extinct.
- Once the merger has taken place, the employer substitution of the employment contracts executed by the absorbed companies in force at the time of the merger will operate.
- For tax purposes, the merger is not considered a disposal between the Companies or their shareholders and therefore will be considered as non-taxed.

On 30 September 2016, by Public Deed No. 4063 of the First Notary Public of the Bogota Circle, registered with the Bogota Chamber of Commerce on the same date, was executed the merger through absorption between Codensa S.A. ESP (absorbing company), Empresa de Energía de Cundinamarca S.A. ESP (hereinafter EEC) and Distribuidora Eléctrica de Cundinamarca S.A. ESP (hereinafter DECSA) (absorbed companies).

Such operation was performed after meeting all legally established requirements, including: i) the approval by the shareholders' meetings of the companies involved in the process and the general bondholders' meeting of Codensa, ii) the statement of no objection by the Superintendence of

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Industry and Trade, as stated in Resolution 16027 of 4 April 4 2016, and iii) authorisation of the merger by the Superintendence of Corporations through Resolution No. 300-002988 of 18 August 2016.

With respect to the absorbed companies, it is worth mentioning that EEC was a commercial company by shares, constituted as a joint-stock company, organised as a household utilities company under Colombian law. The Company was created by public deed No. 972 of 21 March 1958 of the Third Notary Public of Bogota, registered with the Chamber of Commerce of this city under number 26813, with indefinite duration. The Company's main corporate purpose included the performance of marketing, distribution and generation of electricity. As of 30 September 2016, it served 13 customers in the unregulated market and 297,716 in the regulated market.

Revenues from ordinary activities and earnings of the acquired company obtained between the acquisition date and 31 December 2016 correspond to \$74,974,933. In addition, the revenues recorded by the merged Company as of the closing of these financial statements correspond to \$3,440,663,178.

From March 2009 and until the date of merger, Distribuidora Eléctrica de Cundinamarca S.A. ESP acted as the majority shareholder of EEC, with 82.34% of the outstanding shares, as a result of a process conducted by the Nation – Ministry of Mines and Energy, where the entity disposed of its shares in EEC in favour of the Department of Cundinamarca and DECSA. It should be noted that DECSA was a company in which Codensa held a shareholding interest of 48.99%, with which Codensa had an indirect interest of 40.34% in EEC.

#### 1.5.1 Transferred Consideration

The merger commitment established an exchange ratio of 0.000691636463474128 Codensa shares for each EEC share, and 0.0000109067464256447 Codensa shares for each DECSA share, equal to the issue of 1,668,377 Codensa shares.

As a result of the merger, the new subscribed and paid-in capital of Codensa S.A. E.S.P. increased from \$13,209,327 to \$13,376,165, which will be divided into 133,761,651 shares with a par value of \$100 pesos each.

The fair value defined for the consideration is as follows:

Codensa value	Number of issued shares	Interest new shares	Value of transferred consideration
8,461 Billion	1,668,377	1.247%	\$ 105,532,469

#### 1.5.2 Adjustment at Fair Value of Previous Interest

In its financial statements Codensa reflected the investment in DECSA for its cost, which amounted to \$104,247,500. The value of the previous interest was adjusted at fair value as follows:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Item	As of 30 September 2016
DECSA assets and liabilities (fair value)	\$ 3,506,181
Previous interest in DECSA (%)	48.99999%
<b>Fair value previous interest in DECSA</b>	<b>1,718,029</b>
EEC assets and liabilities (fair value)	209,556,454
Previous interest in EEC (%)	40.35564%
<b>Fair value previous interest in EEC</b>	<b>84,567,849</b>
<b>Fair value previous interest in DECSA and EEC</b>	<b>86,285,878</b>
Book value previous interest	104,247,500
<b>Profit/(Loss) previous interest in DECSA and EEC (*)</b>	<b>\$ (17,961,622)</b>

(\*) The loss of previous participation is reflected in the income statement of the absorbing company as a result of other investments. (See Note 28)

#### 1.5.3 Transaction Costs

The Company incurred costs for \$1,075,597 related to the business combination of consultancies. These costs were recognised under other fixed operating expenses of the statement of comprehensive income by nature.

#### 1.5.4 Assets Acquired and Liabilities Assumed

The amounts recognised for the assets acquired and the liabilities assumed in the business combination with EEC and DECSA are summarised below.

Statement of Financial Position	Detail	Book value EEC and DECSA as of September 2016	Adjustment at fair value	Fair value as of September 2016
Cash and cash equivalents		\$ 27,647,706	\$ -	\$ 27,647,706
Commercial accounts receivable and other receivables current and non-current	a	59,792,387	(2,263,169)	57,529,218
Accounts receivable from related entities current and non-current		6,777,651	-	6,777,651
Inventories		7,256,858	-	7,256,858
Property, plant and equipment	b	544,336,579	(122,438,839)	421,897,740
Intangible assets other than goodwill	b	2,444,882	(587,022)	1,857,860
Other current and non-current non-financial assets		2,993,275	-	2,993,275
Income tax assets		15,824,943	-	15,824,943
Deferred tax assets	f	26,139,026	53,551,077	79,690,103
<b>Assets</b>		<b>693,213,307</b>	<b>(71,737,953)</b>	<b>621,475,354</b>
Other current and non-current financial liabilities	c	139,188,732	(10,677,679)	128,511,053



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Statement of Financial Position	Detail	Book value EEC and DECSA as of September 2016	Adjustment at fair value	Fair value as of September 2016
Commercial accounts and other payables current and non-current		58,378,405	-	58,378,405
Accounts payable to related entities current and non-current		4,795,190	-	4,795,190
Provisions for employee benefits current and non-current	d	94,233,728	(1,496,247)	92,737,481
Other current and non-current provisions	e	7,172,755	29,482,974	36,655,729
Current tax liabilities		13,485,655	-	13,485,655
Deferred tax liabilities	f	68,891,449	4,957,757	73,849,206
<b>Liabilities</b>		<b>386,145,914</b>	<b>22,266,805</b>	<b>408,412,719</b>
Equity		307,067,393	(94,004,758)	213,062,635
<b>Equity</b>		<b>\$ 307,067,393</b>	<b>\$ (94,004,758)</b>	<b>\$ 213,062,635</b>

#### a) Commercial accounts receivable and other receivables current and non-current

The following adjustments are made to this item:

- *Impairment:* A recalculation of the provision of accounts receivable was made by performing a detailed analysis of each account receivable and applying the Codensa policy to calculate the impairment of the portfolio. The value of the adjustment is (\$1,311,912).
- *Agreements:* EEC has short- and long-term payment agreements mainly related to institutional customers, to which the Company can not legally suspend the supply of electric power services (hospitals, city halls, public lighting, among others). The calculation was adjusted to a market rate in accordance with the methodology used in Codensa. The value of the adjustment is (\$741,871).
- *Employee loans:* EEC was adjusting its employee loans under CFRS at TES rates. For purposes of the business combination, the calculation methodology was aligned with Codensa's methodology using market rates for similar loans. The value of the adjustment is (\$209,386).

#### b) Property, Plant and Equipment and Intangibles

The following adjustments are made to this item:

- *Property, Plant and Equipment and Intangibles:* To determine the fair value of property, plant and equipment and intangibles, the value of operating free cash flow of EEC and the valuation carried out by Consultores Unidos S.A. as of 30 September 2016 were taken as bases, considering the market value for lands and buildings. The adjustment for PP&E is (\$122,438,839) and for intangibles (\$587,022).

#### c) Other current and non-current financial liabilities

The valuation of each of EEC's financial obligations as of 30 September 2016, such as the loans subsidised by Finagro, identified that the effective interest rates were lower than market rates, for which reason their fair value was adjusted. The value of the adjustment is (\$10,677,679).

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- d) Provisions for employee benefits current and non-current

The value of this liability was adjusted according to the actuarial calculation of pension liabilities provided by Aon Hewitt México. The value of the adjustment is (\$1,496,247).

- e) Other current and non-current provisions

The following adjustments are made to this item:

- *Contingencies*: EEC had recognised in its financial statements the labour and civil contingencies for proceedings that have been classified as likely (high probability) to receive an adverse judgment; contingencies classified as possible (low probability) are included in a business combination in accordance with IFRS 3 guidelines, in addition 100% of tax contingencies were recognised given their nature.

The value of these contingencies has been updated considering (i) a period of 5 years with the projected inflation for Colombia, taking into account that this period is moderate within the context of the Colombian judicial system's operation, (ii) future flows were deducted to present value with interest rates of government bonds (TES) that have maturities similar to those of the obligation equivalent to 3.377% E.A. The value of the adjustment is \$18,028,670.

- *Dismantling PCH Río Negro*: In the business combination Codensa receives an electricity generation plant that cannot be operated by Codensa due to the provisions of Act 143/1994 regarding the electricity distribution and marketing sector. Therefore, the Company has entered into a usufruct agreement with Emgesa S.A., the term of which starts in 2017, and provides that the asset will be delivered for the usufructuary to carry out the operation and maintenance of the plant. This situation does not affect the determination of fair values associated with the asset.

However, officials from the legal and environmental units of Codensa and EEC evidenced a probable requirement of the environmental authorities to carry out the dismantling in the long-term of these facilities, even though they were built before 1993 and, in this regard, legally the obligation was not established in an environmental license.

In this sense, the value was calculated by projecting it to 20 years and deducted it at present value with a TES rate of 5.617% E.A. The value of the adjustment is \$12,453,350.

- *Dismantling of transformers contaminated with PCB (polychlorinated biphenyls)*: Pursuant to Colombian environmental legislation, EEC had recognised a provision for the withdrawal of assets related to transformers contaminated with PCB. This obligation was updated. The Company updated the provision deducting future cash flows at net present value at a TES rate of 6.99% E.A. The value of the adjustment is \$1,559,517.

- The provision for the dismantling of the EEC offices was recalculated according to the market price to date. The value of the adjustment is (\$ 2,558,563).

- f) Deferred tax assets and liabilities

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

From the adjustments made, deferred tax assets and liabilities are updated as a result of the differences between the book value and the fair value of the assets acquired and the liabilities assumed in the merger process.

#### 1.5.5 Negative Goodwill

The business combination generated a negative goodwill because the fair value of the assets acquired and liabilities assumed exceeded the total fair value of the transferred consideration and the fair value of the previous interest in DECSA and EEC.

Item	As of 30 September 2016
Fair value of the previous interest in DECSA and EEC	\$ 86,285,878
Value transferred consideration	105,532,469
Fair value of acquired assets and liabilities assumed	(213,062,635)
<b>Negative Goodwill (See note 22)</b>	<b>\$ (21,244,288)</b>

The revenues were recognised as “Other Operating Revenues” in the income statement, by nature.

#### 1.5.6 Equity Effect Business Combination

The capital structure of the companies absorbed as a result of the business combination is as follows:

Item	Before the business combination				Elimination	Capital structure integrated in Codensa
	EEC	Note	DECSA	Note		
Subscribed and paid-in capital	\$ 39,699,633	(a)	\$ 212,750,000	(a)	\$ (252,449,633)	\$ -
Legal reserve	19,849,817	(e)	15,507,417	(f)	(15,507,417)	19,849,817
Other comprehensive income	(11,320,029)	(g)	(9,323,002)	(f)	9,323,002	(11,320,029)
Retained earnings	137,478,826	(c)	-		-	137,478,826
Retained losses	(37,859,236)	(d)	-		-	(37,859,236)
Net profit	8,987,217	(b)	7,390,859	(b)	(7,401,734)	8,976,342
Occasional reserves	-		106,853,838	(f)	(106,853,838)	-
Retained earnings due to the conversion and transition to CFRS	146,725,031	(g)	(79,664,574)	(f)	79,664,574	146,725,031
<b>Equity effect business combination</b>	<b>303,561,259</b>		<b>253,514,538</b>		<b>(293,225,046)</b>	<b>263,850,751</b>

The following was considered for the recognition of each equity item:

- (a) The elimination of the subscribed and paid-in capital of DECSA and EEC, taking into account the terms of trade set out and the issue of shares mentioned in subsection 1.5.1 transferred consideration.

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (b) The transfer to the Company's equity of the net profit of EEC and DECSA after the elimination of the equity method for the period from 1 January to 30 September 2016.
- (c) The transfer to the Company's equity of the retained earnings of EEC pending distribution under the merger commitment set out.
- (d) The transfer to the Company's equity of the retained loss of EEC for the period from 1 January to 28 February 2009.
- (e) The transfer of EEC's legal reserve to the Company's equity. The transfer mentioned generates excess in the Company's legal reserve.
- (f) The elimination of the occasional and legal reserves, the retained earnings due to the conversion to CFRS and the other comprehensive income of DECSA, taking into account that these items originated from the profits and other comprehensive income of EEC, which arose mainly from the implementation of the equity method.
- (g) The transfer to the Company's equity of the retained earnings generated by the conversion and transition to CFRS and the other comprehensive income of EEC.

Taking into account that the recognition of these equity items corresponds to the preservation of the equity structure of the absorbed companies and not to the valuation process mentioned above, the effects will be debited from the item called "*Equity Effect Business Combination*" considered as an integral part of the retained earnings.

In this sense, the effect on retained earnings as a result of the preservation of the equity structure corresponds (\$8,529,788), which is presented below:

Item	As of 30 September 2016
Equity effect from the merger	\$ (263,850,751)
Net profit of the absorbed companies	8,976,342
Retained earnings	137,478,826
Retained losses	(37,859,236)
Retained earnings due to the conversion and transition to CFRS	146,725,031
<b>Equity effect of business combination on retained earnings</b>	<b>\$ (8,529,788)</b>

#### 1.6 Legal and Regulatory Framework

For the implementation of the new framework stipulated by the Constitution, the Household Public Utilities Act (Act 142/1994) and the Electric Act (Act 143/1994) were issued, which defined the criteria and policies that are to govern the provision of household utilities in the country, as well as the procedures and mechanisms for their regulation, control and monitoring.

The Electric Act makes the constitutional approach viable, regulates power generation, transmission, distribution and marketing activities, creates the market and competition environment, and strengthens the sector and the State's intervention. Taking into account the characteristics of each activity or

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

business, as general guidelines for the development of such regulatory framework, it established the creation and implementation of rules that provide for free competition of power generation and marketing activities; while the guidelines for transmission and distribution focused on treating these activities as monopolies, seeking in any event competition conditions wherever possible.

The main institution in the electric energy sector is the Ministry of Mines and Energy, which, through the Mining and Energy Planning Unit (UPME), prepares the National Energy Plan and the Generation-Transmission Expansion Plan. The Commission for the Regulation of Energy and Gas (CREG) and the Superintendence of Household Public Utilities (SSPD) are responsible respectively for regulating and auditing the companies in the sector; furthermore, the Superintendence of Industry and Trade is the national authority that governs competition protection issues.

The electric sector is based on the fact that trading companies and large consumers can negotiate electric energy by means of bilateral agreements. In addition, the sector agents can negotiate energy through a short-term market known as the spot market, which operates freely depending on conditions of supply and demand.

On 13 July 2016, the Company and EEC filed a request for market integration (rate unification). On 5 January 2017, the Company was notified of CREG Resolution 199/2016, which defines the unified distribution and marketing costs and charges for the Regional Transmission System (STR) and the Local Distribution System (SDL) resulting from the integration of Codensa and EEC.

The approved charges include the points requested by the Company, such as the update of level 4 inventories, the weighting of quality indicators, the percentage of AOM (*Administration, operation and maintenance*) costs and the observation made regarding subsidies and contributions, indicating that this is not a new trading market. The integrated market rates Codensa plus EEC were calculated and published on 20 January 2017. Under current regulations, the implementation of this new rate on the invoice starts on 7 February 2017.

## **2. Bases for Presentation**

The Company presents its general-purpose financial statements in Colombian pesos and the values have been rounded up to the nearest thousand (COP \$000), except as otherwise indicated.

The accounting principles used in its preparation are those described herein below:

### **2.1 Accounting Principles**

The Company's general-purpose financial statements as of 31 December 2016, have been prepared in accordance with the Colombian Financial Reporting Standards (CFRS), which take into account all International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), the SIC Interpretations, the IFRIC interpretations and the conceptual framework for financial information, as applicable, issued and approved by the International Accounting Standards Board (IASB) as of 31 December 2012, and which were published in Spanish by such organisation in August 2013, and incorporated into the Colombian technical accounting framework by Act 1314 of 13 July 2009, regulated by Single Regulatory Decree 2420/2015, as amended by Decree 2496/2015 and Decree 2131/2016.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

These decrees contained the following guidelines, which are exceptions to the IFRS as compared with those issued by the IASB:

Article 2.1.2, Part 1, Book 2 of Decree 2420/2015, as complemented by Decree 2496/2015, provides for the implementation of Article 35 of Act 222, which states that the interest in subsidiaries must be recognised in the separate financial statements using the equity method, instead of recognising it as provided by IAS 27, i.e., at cost or fair value. As of January 2017, the amendment to this IAS will be effective, allowing the recognition of the equity method in the separate financial statements.

Furthermore, article 4 of Decree 2131/2016 amended Part 2 of Book 2 of Decree 2420/2015, as complemented by Decree 2496/2015, allowing the determination of post-employment benefits for future retirement or disability pensions as of 31 December 2016, under the requirements of IAS 19; however, it requires the disclosure of the calculation of pension liabilities in accordance with the parameters provided in Decree 1625/2016, articles 1.2.1.18.46 onwards, and, for partial pension changes in accordance with the provisions of section 5 of article 2.2.8.8.31 of Decree 1833/2016, informing the variables used and the differences with the calculation made under the terms of the Technical Framework of the CFRS.

The Company belongs to Group 1 for adoption according to the definitions of Decrees 2784 of 28 December 2012 and 3024 of 27 December 2013, according to which the Company issued the first comparative financial statements under CFRS as of 31 December 2015.

The general-purpose financial statements have been prepared following the going concern principle through the application of the cost method, with the exception, according to the CFRS, of such assets and liabilities registered at fair value.

The preparation of the financial statements in accordance with the CFRS requires the use of certain critical accounting estimates. It also requires Management to apply its judgment in the process of applying the accounting policies.

#### **2.2 Accrual Basis of Accounting**

The Company prepares its Financial Statements using the accrual basis of accounting, except for cash flow information.

#### **2.3 Colombian Financial Reporting Standards Issued but not yet in Force**

##### **New standards, amendments and interpretations incorporated into the accounting framework accepted in Colombia whose effective application is from 1 January 2017 onwards**

Decrees 2496 of 24 December 2015 and 2131 of 22 December 2016 introduced new standards, modifications or amendments issued or made by the IASB to the International Financial Reporting Standards between 2014 and 2015 to assess their implementation in financial years beginning on or after 1 January 2017, with earlier application being permitted.

##### **Amendment to IFRS 11: Acquisition of an Interest in a Joint Operation**

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

This amendment to IFRS 11 “Joint Arrangements” requires that the relevant accounting principles of business combinations contained in IFRS 3 and other standards, should be applied in accounting for the acquisition of an interest in a joint operation when the operation constitutes a business. The implementation of this amendment is from 1 January 2017.

#### IFRS Annual Improvements Cycle 2012-2014

Standard	Object of the modification
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal.
IFRS 7 – Financial instruments: Disclosures	Applicability of the amendments to IFRS 7 to condensed interim financial statements.
IFRS 19 – Employee Benefits	Discount rate: regional market issue.

#### Amendment to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”

IAS 16 and IAS 38 establish the principle of the depreciation and amortisation basis being the expected pattern of the consumption of an asset’s future economic benefits. In its amendments to IAS 16 and IAS 38 published in May 2014, the IASB clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenues generated by an activity that includes the use of an assets generally reflect factors other than the consumption of the economic benefits inherent to the asset. The IASB also clarified that revenues generally present an inappropriate basis for measuring the consumption of the economic benefits inherent to an intangible asset. However, this assumption may be rebutted in certain limited circumstances. The amendments will apply from January 1, 2017.

#### Amendment to IAS 27: Equity Method in Separate Financial Statements

This amendment to IAS 27 “Separate Financial Statements” allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The purpose of this amendment is to minimise the costs of complying with the IFRS, especially for first-time application of IFRS, without reducing the information available to investors. This amendment applies as of January 1, 2017.

#### Amendment to IAS 1: Disclosure Initiatives

The IASB issued amendments to IAS 1 “Presentation of Financial Statements” as part of its main initiative to improve the presentation and disclosure of information in the financial statements. These modifications are designed to encourage companies to apply professional judgment to determine what information to disclose in their financial statements.

#### Amendment to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

These narrow scope modifications to IFRS 10 “Con-sol-i-dated Financial State-ments”, IFRS 12 “Dis-clo-sure of Interests in Other Entities” and IAS 28 “In-vest-ments in As-so-ci-ates and Joint Ventures” clarify the application of the consolidation exception for investment entities and their subsidiaries. The modifications also reduce the requirements in particular circumstances, thereby lowering the costs of the Standards’ application.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

#### **IFRS 9 “Financial Instruments”**

It addresses the classification, measurement and recognition of financial assets and financial liabilities. The full version of this IFRS was published in July 2014. It supersedes the guidelines in IAS 39 on the classification and measurement of financial instruments. IFRS 9 maintains the varied measurement model and simplifies classification as it establishes three main measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis for classification depends on the entity’s business model and the characteristics of the contractual cash flows of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the beginning of the presentation of changes in fair value in a non-recyclable other comprehensive income. There is now a new model of expected credit losses that replaces the model of impairment losses incurred provided in IAS 39. For financial liabilities there were no changes in the classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness. Under IAS 39, a hedge must be highly effective both prospectively and retrospectively. IFRS 9 replaces this line by requiring an economic relationship between the hedged item and the hedging instrument and that the hedged ratio be the same as the one actually used by the entity for its risk management. Contemporary documentation is still necessary but is different from the one being prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is currently evaluating the impacts that said standard may generate.

#### **IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 – Revenue from Contracts with Customers, issued in May 2015, is a new standard applicable to all contracts with customers, except leases, financial instruments and insurance contracts. This is a joint project with the FASB to eliminate differences in revenue recognition between IFRS and US GAAP. This new standard aims to improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparability of companies from different industries and regions. It provides a new model for revenue recognition and more detailed requirements for multiple-item contracts. It also requires more detailed disclosures. Its application is effective as of 1 January 2018 and early application is permitted. The Company is currently assessing the impacts at group level that said standard might generate.

#### **IFRS 16 Leases**

IFRS 16 – Leases was issued in January 2016. It establishes the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires lessees to recognise assets and liabilities for all leases with a maturity of more than 12 months, unless the underlying asset has a low value. A lessee is required to recognise a right-of-use asset that represents his right to use the underlying leased asset and a lease liability representing his obligation to make payments for the lease. IFRS 16 substantially maintains the accounting requirements of the lessor of IAS 17 – Leases. Therefore, a lessor will continue to classify its leases as operating leases or finance leases, and will account for these two types of leases differently. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. Early application is permitted for entities applying IFRS 15 – Revenue from Contracts with Customers prior to the initial application date of IFRS 16. IFRS 16 replaces IAS 17 – Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.



## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

#### **IFRIC 22: Foreign Currency Transactions and Advance Consideration**

This interpretation refers to the exchange rate to be used in foreign currency transactions, when the consideration is paid or received before recognising the related income, expense or asset. Its application will be effective as of 1 January 2018.

#### **Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses**

The purpose of the amendments to IAS 12 “Income Tax” is to clarify the accounting of deferred tax assets from unrealised losses related to debt instruments measured at fair value. Its application will be effective as of 1 January 2017.

#### **Amendment to IAS 7: Disclosure Initiative**

The amendments to IAS 7 “Statement of Cash Flows” are part of the IASB’s initiative to improve the presentation and disclosure of information in the financial statements. These modifications introduce additional disclosure requirements to the statement of cash flow. Its application will be effective as of 1 January 2017.

#### **IFRS Annual Improvements Cycle 2012-2014**

It corresponds to a series of minor amendments that clarify, correct or eliminate redundancy in the following standards: IFRS 1 “First-time Adoption of IFRS”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures.” The application is distributed as follows: IFRS 12: 1 January 2017; IFRS 1: 1 January 2018; IAS 28: 1 January 2018.

#### **Amendment to IFRS 10 and IAS 28: Sale or Contribution of Assets**

The amendment corrects an inconsistency between IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” with respect to the accounting treatment of the sale and contributions between an investor and its associate or joint venture.

The IASB decided to indefinitely defer the date of effective implementation of this amendment, pending the outcome of its research project on the equity method. The date of application of this amendment has yet to be determined.

The Company is evaluating the impact of IFRS 9, IFRS 15 and IFRS 16 on the date of their effective implementation. In addition, Management estimates that the remaining rules and amendments pending application will not have a significant impact on the Company’s financial statements.

#### **2.4 Relevant Estimates and Accounting Criteria**

In the preparation of the Financial Statements, specific estimates have been used by the Company’s Management, the business units, and the supporting areas to quantify some assets, liabilities, revenues, expenses and commitments registered therein.

The estimates basically refer to:

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### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

- Hypotheses used in actuarial calculation of liabilities and obligations with the employees, such as discount rates, mortality rates, salary increases, etc.
- The useful life of property, plant and equipment and intangibles. (See Notes 3.7 and 3.8).
- The hypotheses used for the calculation of the fair value of the financial instruments. (See Notes 3.1.2 and 3.1.3).
- Electric energy supplied to customers pending meter reading.
- Specific magnitudes of the electric system, including those corresponding to other companies, such as production, customer billing, power consumed, etc., which allow to estimate the global liquidation of the electric system that will be materialised in the respective final liquidations, pending billing on the issue date of the Financial Statements and that could affect the balances of assets, liabilities, revenues and costs registered therein.
- Probability of occurrence and amount or uncertain or contingent liabilities. (See Note 3.11).
- Future disbursements for restorations and dismantling, as well as the discount rates to be used. (See Note 3.8).
- Tax results, which will be declared to the respective tax authorities in the future, which have served as basis for recording the various balances related to income taxes in the current Financial Statements. (See Notes 3.9.1 and 3.9.2).

Although these judgments and estimates have been made relying on the best information available on the issue date of these Financial Statements, it is possible that future events will force their change, either upwards or downwards, in future periods, which would be done prospectively, recognising the effects of changes in the judgment or estimates in the respective future Financial Statements.

### **3. Accounting Policies**

The main accounting policies applied when preparing the accompanying general-purpose Financial Statements are the following:

#### **3.1. Financial Instruments**

##### **3.1.1 Cash and Cash Equivalents**

This item in the Financial Statement includes cash, bank balances, term deposits and other short-term investments (less than or equal to 90 days after the date of investment), with high liquidity rapidly realised in cash and which have a low risk of change in value.

##### **3.1.2 Financial Assets**

The Company classifies its financial assets in the following measurement categories: measured at fair value and measured at amortised cost. The classification depends on whether the financial asset is a

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

debt or equity instrument.

#### **3.1.2.1 Debt Instrument**

##### **(a) Financial Assets at Amortised Cost**

A debt instrument is classified as measured at “amortised cost” only if it meets the following criteria: the purpose of the business model of the Company is to keep the asset to obtain contractual cash flows, and the contractual terms give rise, on specified dates, to receiving cash flows that are only principal and interest payments on the unpaid balance.

The nature of the derivatives implicit in a debt investment is taken into account to determine whether the cash flows of the investment are only principal and interest payments on the unpaid balance and, in such event, these are not accounted for separately.

##### **(b) Financial Assets at Fair Value**

If none of the two criteria for financial assets at amortised cost are met, the debt instrument is classified as measured at “fair value through profit or loss.”

#### **3.1.2.2 Equity Instrument**

All equity instruments are measured at fair value. Equity instruments held to negotiate are measured at fair value through profit or loss. For other equity instruments, the Company can make an irrevocable election in the initial recognition to recognise changes in fair value through other comprehensive income in equity, rather than profit or loss.

#### **3.1.2.3 Derivative Financial Instruments and Hedging Activities**

Derivatives are recognised initially at their fair value on the date the contract is executed and are constantly revised at fair value.

If derivative financial instruments are not qualified for recognition through the hedging accounting treatment, they are registered at fair value through profit or loss. Any change in the fair value of the derivatives is immediately recognised in profit or loss as “other gains/losses, net”. If they are designated for hedging, the method to recognise the gain or loss resulting from the changes in fair value of the derivatives depends on the nature of the risk and the item being hedged.

The Company designates certain derivatives as:

(a) fair value hedging of recognised assets or liabilities (fair value hedges);

(b) hedging of a particular risk associated with a recognised asset or liability or a highly likely expected transaction (cash flow hedges); or

(c) hedging of net investments in an overseas operation (net investment hedges).

The Company documents, at the beginning of the hedging, the relationship of the hedging instruments and the hedged items, as well as their objectives and risk management strategy supporting the hedging

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

transactions. The company also documents its assessment, both at the beginning of the hedging and periodically, on whether the derivatives used in the hedging transactions are highly effective to compensate the changes in fair values or cash flows of the hedged items.

The total fair value of the derivatives used as hedging is classified as non-current asset or liability when the maturity of the remaining hedged item is greater than 12 months, and classified as current asset or liability when the maturity of the remaining hedged item is less than 12 months. The derivatives that are not used for hedging or that are held for negotiation are classified as current assets or liabilities.

#### (a) Fair value hedging

Changes in fair value of derivatives designated and qualified as fair value hedges are registered in the income statement, and the gain or loss of the hedged item attributable to the hedged risk adjust the book value of the hedged item and is recognised in profit or loss. The gain or loss related to the cash portion of the derivatives is recognised in the income statement as “financial expenses”, as well as the non-cash portion, which is also recognised in the income statement but as “other gains/(losses), net”.

If the hedging no longer meets the criteria to be recognised through the hedging accounting criteria, the adjustment of the book value of the hedged item is amortised in profit or less using the effective interest method in the remaining period until its maturity.

As of the date of these financial statements the company has no fair value hedges.

#### (b) Cash flow hedges

The cash portion of the changes in fair value of the derivatives designated and qualified as cash flow hedges are recognised in equity. The gain or loss relative to the non-cash portion is recognised immediately in the income statement as “other gains/ (losses), net”.

The amounts accrued in net equity are registered in the income statement for the periods on which the hedged item affects them. However, when the foreseen hedged transaction results in the recognition of a non-financial asset, the gains or losses previously recognised in equity are transferred from equity and included as part of the initial cost of the asset. The capitalised amounts are finally recognised in the cost of sales when the products are sold, if dealing with inventory, or in the depreciation, if dealing with property, plant and equipment.

When a hedging instrument expires or is sold, or when it no longer meets the criteria to be recognised through the hedging accounting treatment, any gain or loss accrued in equity on that date is kept in equity and recognised when the projected transaction affects the income statement. When no projected transaction is expected, the accrued gain or loss in equity is transferred immediately to the income statement as “other gains/(losses), net.”

#### (c) Net investment hedges abroad

Net investment hedges of operations abroad are accounted for in a similar manner as the cash flow hedges. Any gain or loss of the hedging instrument related to the cash portion of the hedging is recognised in equity. The gain or loss related to the non-cash portion of the hedging is immediately recognised in the income statement as “other gains/(losses), net”.

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### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

Accrued gains and losses in equity are transferred to the income statement when the operation abroad is sold or partially written-off.

#### **3.1.3 Debts (Financial Obligations)**

Debts are initially recognised at fair value, net of costs incurred in the transaction. Debts are subsequently registered at their amortised cost; any difference between the funds received (net of the costs of the transaction) and the redemption value is recognised in the income statement during the loan period using the effective interest method.

The costs incurred to obtain the debts are recognised as transaction costs to the extent that it is likely that the debt will be received in whole or in part. In such case, the fees are deferred until the loan is received. If there is no evidence of the likelihood that part or all of the debt will be received, the fees are capitalised as prepaid costs paid for services to obtain liquidity and are amortised in the respective loan period.

Loans are classified in current liabilities, unless the company has the unconditional right of deferring the payment of the obligation at least 12 months from the date of the balance sheet. On the presentation date of these financial statements, the Company has debt in bonds and loans; and because they are immaterial, the costs of the transactions have been carried to profit or loss at the time of the issue of securities.

The costs of general and specific debts directly attributable to the acquisition, construction or production of suitable assets, which are those requiring a substantial time to be prepared for the expected use or sale, are added to the cost of said assets until the assets are substantially prepared for their use or sale. Revenues from investments obtained in the temporary investment of resources obtained from specific debts that have not yet been invested on qualified assets are deducted from the costs of interest susceptible of capitalisation. All other debt costs are recognised in the income statement in the period in which they are incurred.

#### **3.1.4 Financial Assets and Financial Liabilities with Related Parties**

Loans and debts with related parties are initially recognised at the fair value of the transaction plus the directly attributable transaction costs. After the initial recognition, these loans and debts are measured at their amortised cost, using the effective interest method. The amortisation of the interest rate is recognised in the income statement as revenues or financial costs or as other operating revenues or expenses, depending on the nature of the asset or liability that generates it.

#### **3.1.5 Commercial Accounts Payable**

Commercial accounts payable are payment obligations for goods or services that have been acquired from vendors in the ordinary course of business. Accounts payable are classified as current liabilities if the payment is to be made within a one-year term or less. If the payment is to be made over a period greater than one year, these are then presented as non-current liabilities.

Commercial accounts payable are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

#### **3.1.6 Recognition and Measurement**

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

Conventional purchases and sales of financial assets are recognised on the date of negotiation, which is the date when the company undertakes to purchase or sell the asset. Financial assets are written-off when the right to receive cash flows have expired or have been transferred and the company has substantially transferred all risks and benefits inherent to the property.

In the initial recognition, the Company measures financial assets at fair value plus, in the case of a financial asset that is not measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset. The financial asset transaction costs that are measured at their fair value through profit or loss are directly accounted for in the profit and loss account.

The gain or loss in a debt instrument that is subsequently measured at its fair value and which is not part of a hedging operation is recognised in profit or loss and presented in the income statement as “other (losses)/gains - net” in the period in which they are accrued.

The gain or loss in a debt instrument that is subsequently measured at its amortised cost and which is not part of a hedging operation is recognised in profit or loss of the period when the financial asset is written-off or impaired through the amortisation process using the effective interest method.

Subsequently, the Company measures all equity instruments at fair value. When Management has opted for presenting unrealised and realised fair value gains or losses, and losses in equity instruments in other comprehensive income, such fair value gains and losses cannot be registered in profit or loss. Dividends from equity instruments are recognised in profit or loss, provided they represent a return on investment.

The Company must reclassify all affected debt instruments if, and only if, its business model for management of financial assets changes.

#### **3.1.7 Offsetting of Financial Instruments**

Financial assets and liabilities are offset and their net value is presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and Management has the intention of liquidating the net amount or realise the asset and pay for liabilities simultaneously.

#### **3.1.8 Fair Values**

The fair values of investments with stock prices are based on their current listed price. If the market for a financial instrument is not active or the instrument is not listed in the stock exchange, the Company establishes its fair value using appropriate valuation techniques depending on the situation. These techniques include the use of values observed in recent transactions performed under the terms of free competition, reference to other instruments that are substantially similar, and analysis of discounted cash flows and models of options making the best possible use of market information and relying as reasonably possible on in-house specific data.

#### **3.2 Inventories**

The stock in inventories includes materials on which the risks and benefits of the property have been acquired; these classifications include materials such as those handled in the warehouses of the Company's logistic operator.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

The inventories are shown in the current asset of the financial statements, even if accounted for after 12 months, insofar as it is considered that they belonged to the ordinary operating cycle.

The cost of inventories consists of the purchase cost and all costs that are directly or indirectly attributable to the inventory, for example: transport, customs duties, insurance, non-recoverable indirect taxes, etc. and net of discounts, bonuses and premiums of a commercial nature.

The cost is measured in accordance with the weighted average method, which considers the units of an article purchased on different dates and with different costs as part of a set in which individual purchases are no longer identifiable but all of them are equally available.

The weighted average cost must include additional charges, for example: sea freight cost, customs duties, insurance etc., chargeable and acquired during the period.

The cost of inventories may not be recoverable if inventories are damaged, partially or totally obsolete, or in some cases due to low turnover.

Obsolete materials are understood as those not expected to be sold or used during the Company's ordinary operating cycle, such as scrap and technologically out-dated materials. Surplus at a stock level that can be considered reasonable, in accordance with the regular use expected in the ordinary operating cycle, are considered of slow movement. Obsolete and slow movement inventories have the possibility of being used or realised, which in some cases represent their cost as scrap sales.

Inventory items that are used in maintenance affect the Company's results.

As of the presentation date of the financial statements, the amount of inventories does not exceed its recoverable amount.

### **3.3 Non-current Assets Held for Sale and Discontinued Activities**

The Company classifies as non-current assets those held for sale of property, plant and equipment, intangibles, investments in associates, joined ventures and groups subject to disposal (group of assets that will be sold together with their associated liabilities), relative to which on the closing date of the statement of financial position active processes for their sale have started and it is estimated that such sale is highly likely.

These assets or groups subject to disposal are accounted for at the lowest value of either the book value or the fair value, less costs until the sale, and are no longer amortised from the moment they are classified as non-current assets held for sale.

Non-current assets held for sale and the components of groups subject to disposal classified as held for sale are presented in the statement of financial position as follows: Assets on a single line item that reads "Non-current assets or group of assets for disposal, classified as held for sale" and liabilities also on a single line item that reads "Liabilities included in groups of assets for disposal, classified as held for sale."

In turn, the Company considers discontinued activities the significant and separable business lines that have been sold or have been disposed of by different means, or that meet the conditions to be classified as held for sale, including, in each case, other assets that together with the business line are part of the same sales plan. In addition, discontinued activities are also those entities acquired exclusively for resale

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

purposes.

Gains or losses after taxes of discontinued activities are presented on a single line item of other comprehensive income called “gain (loss) of discontinued operations”.

As of the presentation date of the financial statements, the company does not have any non-current assets held for sale or discontinued activities.

#### **3.4 Investments in Subsidiaries**

A subsidiary is an entity controlled by the Company. Control exists when there is enough power to direct the relevant activities of the subsidiary, which are generally operating and financing activities, for the purpose of obtaining benefits from its activities, and is exposed, or has the right, to the variable yields of the subsidiary.

Investments in subsidiaries are initially recorded at cost and thereafter the equity method is applied in the separate financial statements of the Company, as established in Decree 2420/2015, as complemented by Decree 2496/2015.

Dividends received from these companies are recorded by reducing the value of the investment and the results obtained by them, which correspond to the Company according to their interest, under the item “Gain (loss) of associates accounted for using the equity method.” The measurement of the equity method is assessed according to the materiality of the figures and taking into account the interest in each subsidiary.

#### **3.5 Investments in Associates and Joint Ventures**

An associate is an entity over which the Company has significant influence on financial and operating policy decisions, without having control or joint control.

A joint venture is an entity that the Company controls jointly with other participants, where they maintain a contractual agreement that establishes joint control over the relevant activities of the entity. As of the date of acquisition, the excess of the acquisition cost over the net fair value of identifiable assets, liabilities and contingent liabilities assumed by the associate or joint venture is recognised as goodwill. Goodwill is included in the book value of the investment, is not amortised and is individually tested for impairment.

Joint operation: arrangement whereby the parties exercising joint control are entitled to the assets and liabilities with respect to the liabilities related to the arrangement.

Joint control: the distribution of the contractually determined control of an agreement, which exists only when decisions on the relevant activities require the unanimous consent of the parties sharing control.

A joint operator will recognise in relation to its interest in a joint operation: (a) its assets, including its interest in jointly held assets; (b) its liabilities, including its share of the liabilities incurred jointly; (c) its ordinary revenues from the sale of its interest in the proceeds of the joint operation; (d) its share of revenues from ordinary activities arising from the sale of the product of the joint operation; and (e) its expenses, including its share of expenses incurred jointly.



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### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

As of the issue date of the financial statements, the Company has not registered any goodwill generated on investments in associates and joint ventures or joint arrangements.

Investments in associates or joint ventures are measured in the separate financial statements at cost.

#### **3.6 Business Combination**

In a business combination, the Company records at fair value the assets acquired and liabilities assumed by the subsidiary at the date of control, except for certain assets and liabilities that are recorded in accordance with the measurement principles established in other IFRS. If the fair value of the transferred consideration plus the fair value of any non-controlling interest exceeds the fair value of the subsidiary's net assets acquired, this difference is recorded as goodwill. In the event of a low-priced purchase, the resulting gain is recorded with a credit to profit or loss, after reassessing whether all assets acquired and liabilities assumed have been correctly identified and reviewing procedures used to measure the fair value of these amounts.

For each business combination, the Company chooses whether to measure the non-controlling interests of the acquired company at fair value or at the proportional part of the identifiable net assets of the acquired company. If it is impossible to determine the fair value of all assets acquired and liabilities assumed on the date of acquisition, the company will report the provisional values recorded. During the measurement period, which will not exceed one year from the date of acquisition, the recognised provisional values will be adjusted retrospectively and additional assets or liabilities will also be recognised to reflect new information obtained on facts and circumstances that existed at such date but were not known to Management at that time. In the case of business combinations conducted in stages, at the date of acquisition, a fair value is measured of the interest previously held in the equity of the acquired company and the resulting gain or loss, if any, is recognised in profit or loss.

The acquisition costs incurred are charged to expenses and presented as administrative expenses in the income statement.

#### **3.7 Intangible Assets**

Intangible assets are recognised initially for their cost of acquisition or production and, subsequently, are valued at net cost of the respective cumulative amortisation and impairment losses that, in each case, have been caused.

Intangible assets are amortised linearly throughout their life, from the moment when they are in usable condition.

The criteria for recognising impairment losses of these assets and, in each case, the recovery of impairment losses registered in previous years are explained in the asset value impairment policy.

##### **(a) Research and Development Expenses**

The Company applies the policy of recording as intangible assets in the statement of financial position the cost of projects in their development phase, provided that their technical viability and economic profitability are reasonably assured.

Research costs are recognised directly in profit or loss.

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### (b) Other Intangible Assets

These assets correspond mainly to IT software, right of way and easements. Their accounting recognition is done initially at the cost of acquisition or production and are subsequently measured at net cost of the respective cumulative amortisation and impairment losses that, in each case, have been caused.

Useful life for amortisation:

Item	As of 31 December 2016 in years	As of 31 December 2015 in years
Studies and Projects	2	2
Licenses	3	3
Easements	50	50
Software	4	4

### 3.8 Property, Plant and Equipment

Property, plant and equipment are measured at acquisition cost, net of accumulated depreciation and impairment losses. In addition to the price paid for the acquisition of each item, the cost also includes, if applicable, the following items:

- The costs of general and specific interests directly attributable to the acquisition, construction or production of suitable assets, which are those necessarily requiring a given substantial time before they are ready for the expected use or sale, are added to the cost of said assets until the time the assets are substantially ready for their intended use or sale. The Company defines substantial period as a term exceeding 12 months. The interest rate used corresponds to the specific financing or, if unavailable, the average financing rate of the company making the investment.
- Personnel expenses related directly to constructions in progress.
- Future disbursements that the Company will have to make with respect to the closing of its facilities are incorporated into the asset value for the updated value, recognising from an accounting standpoint the respective provision for dismantling or restoration. The Company annually reviews its estimates on the aforementioned future disbursements, increasing or decreasing the asset value based on the results of said estimation. (See Note 16).
- Components of property, plant and equipment are the spare parts that meet the recognition characteristics; these spare parts are not part of that material inventory.

Constructions in progress are transferred to assets in operation once the trial period ends, i.e., when they are available for use, after which their depreciation begins.

The costs for expansion, modernising or improvement representing an increase in productivity, capability, efficiency or extension of useful life are capitalised as greater cost of the respective goods.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

The substitutions or renovations of complete items that increase the useful life of a good, or its economic capacity, are registered as the greater value of the respective goods, taking the substituted or renewed items out of the accounting.

Periodical maintenance, conservation and repair costs are registered directly in the income statement as costs in the corresponding period.

Based on the process of the impairment testing, the Company considers that the book value of the assets does not exceed their recoverable value thereof.

Property, plant and equipment, in this case net of its residual value, is depreciated distributing linearly the cost of the variable components during their estimated useful life, which constitutes the time during which the Company expects to use them. The estimated useful life and residual value are revised periodically and, if applicable, adjusted prospectively. On the presentation date of these financial statements, the Company did not consider significant the residual value of its fixed assets.

Below are the main types of property, plant and equipment, together with their respective useful life.

<b>Types of property, plant and equipment</b>	<b>As of 31 December 2016 in years</b>	<b>As of 31 December 2015 in years</b>
Constructions and buildings	46	45
Plant and ducts	18	17
Networks, lines and cables	15	15
Hydraulic power stations	39	-
Machinery and equipment	18	17
Office equipment	10	10
Freight and transport equipment	5	5
Communication equipment	7	7

In 2014, the opening of electrical assets such as substations, lines and networks in the accounting system was made, and the remaining average useful life was modified, and was applied as of 1 January 2015.

The change in useful life corresponds to the average of each category, which may vary from one year to the next due to the effect of fully depreciated assets.

Lands are not depreciated as their useful life is undefined.

The excess of the tax depreciation over the accounting depreciation generates a tax effect that is registered as a deferred tax liability. The Company has also established a reserve in equity equivalent to 70% of the higher depreciation value fiscally requested, in accordance with article 130 of the Tax Code.

The gains or losses arising from sales or withdrawals of goods under property, plant and equipment are recognised as other gains (losses) in the comprehensive income, and are calculated by deducting from the sum received from the sale, the net accounting value of the asset and the respective sale costs.

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### Notes to the Financial Statements – Separate (continued)

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#### 3.9 Asset Impairment

##### (a) Non-financial Assets (Except Inventories and Deferred Tax Assets).

Throughout the period, and essentially on the closing date, an assessment is performed to determine whether there is any indication that an asset could have been subject to impairment loss. Should there be any sign, an estimate is made of the recoverable value of said asset to determine, where applicable, the value of the impairment. If dealing with identifiable assets not generating cash flows independently, the recoverability is estimated for the Cash-Generating Unit (CGU) to which the asset belongs, understanding as such the smaller group of identifiable assets generating independent cash inflows.

In Codensa S.A. ESP, two Cash-Generating Units (CGUs) are currently identified: the Distribution assets made up of transmission lines, substations, distribution networks and equipment that jointly provide the service of distributing electricity to final consumers, located in an explicitly limited geographical area; and the Generation assets represented by the small hydroelectric power plant HPP that was received from the Empresa de Energía de Cundinamarca S.A. E.S.P. in the merger process carried out on 1 October 2016.

The recoverable value is the greater of the fair value less the cost required for its sale and the value in use, the latter being the current value of estimated future cash flows. To calculate the recovery value of property, plant and equipment, capital gain, and intangible assets, the value in use is the criterion used by the Company in nearly every case.

To estimate the value in use, the Company prepares the projections of cash flows before taxes based on the most recent budget available. These budgets incorporate the best estimates of the Management regarding revenues and costs of the Cash-Generating Units, using sector projections, past experience and future expectations.

These projections generally cover the next 10 years, estimating cash flows for coming years by applying reasonable growth rates, which are neither growing nor exceeding the average long-term growth rates for the respective sector. These flows are deducted to calculate its current value at a rate before taxes, which reflects the business capital costs. This calculation takes into account the current cost of money and risk premiums generally used among business analysts.

In the event the recoverable value of the CGU is less than the net book value of the asset, the respective provision for the impairment loss is registered for the difference, debited to the item "Impairment loss (Reversal)" in the income statement. Said provision is allocated, first, to the added value of the CGU, if any, and then to the other assets that make it up, by prorating on the basis of the accounting value of each of them, with a cap of their fair value less the sales cost, or its use value, with no possibility of a negative value.

Impairment losses recognised in an asset in previous years are reversed when there is a change in the estimates of the recoverable amount, increasing the value of the asset, crediting profit or loss with the cap of the book value that the asset would have had should the accounting adjustment not be made. With respect to capital gain, accounting adjustments that could have been made are not reversible.

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### Notes to the Financial Statements – Separate (continued)

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#### (b) Financial Assets

The Company assesses at the end of each period whether there is objective evidence of impairment on value of a financial asset or group of financial assets measured at amortised cost. A financial asset or a group of financial assets is impaired and the impairment losses have been incurred if there is objective evidence of impairment resulting from one or more events that have occurred after the initial recognition of the asset (a “loss event”), and the loss event (or events) has an impact on future estimated cash flows of the financial asset or group of financial assets that can be reliably calculated.

To determine the need of making an adjustment for impairment on financial assets, the procedure is as follows:

- 1) For assets with commercial origin, the Company has defined a policy for registering impairment provisions depending on the seniority of the balance due, which is generally applicable, except in cases where there is a special characteristic that makes the specific analysis of collectability advisable.

The Company performed an analysis based on the nature, impairment and payment behaviour by type of portfolio and nature of customers, having established the following impairment percentages:

#### Energy Portfolio

Type of portfolio	Age	Residential	Commercial	Industrial	Official	Street lighting municipalities
<b>Energy portfolio</b>	1 to 180 days	2.7%	3.4%	4.3%	2.8%	4.5%
	181 to 360 days	32.3%	20.7%	17.7%	38.5%	11.9%
	Over 360 days	100%	100%	100%	77.1%	100%
<b>Agreed portfolio</b>	With 3 or fewer late fees	24.6%	24.3%	42.0%	0.3%	17.9%
	With more than 3 late fees	100%	100%	100%	77.1%	100%
<b>Frozen portfolio</b>	Creditor agreement	100%	100%	100%	100%	100%
	Less than 360 days	77.7%	77.2%	76.9%	96.9%	96.9%
	Over 360 days	100%	100%	100%	100%	100%

The percentage of impairment that will be applied to the portfolio of tolls, distribution areas and unregulated customers is 100% on the portfolio with delinquencies greater than 360 days, and in special cases an analysis will be performed individually as mentioned above.

The analysis of impairment percentages is reviewed every two years.

#### Other businesses

The following provision percentages will be applied to Codensa’s portfolio of services, electrical work, and work for private parties, infrastructure and electricity companies.

Provision	Age
1.42%	Current portfolio - 1 to 30 days
2.96%	Portfolio 31 to 90 days past due

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### Notes to the Financial Statements – Separate (continued)

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8.15%	Portfolio 91 to 180 days past due
20.48%	Portfolio 181 to 360 days past due
100%	Portfolio over 360 days

The write-off of the portfolio is recognised once there is legal or material certainty of the debt loss. For this write-off to be applicable, the insolvency of the debtors, the lack of real guarantees or any other cause that proves the impossibility to recover the debt with certainty must be demonstrated.

2) In the case of balances receivable with financial origin, the need for impairment is determined through a specific analysis in each case; without there being on the issue date of these financial statements any financial assets overdue for a significant amount without commercial origin.

#### 3.10 Leases

To determine whether a contract is, or contains, a lease, the Company analyses the economic background of the agreement, evaluating if the performance of the contract depends on the use of a specific asset and if the agreement transfers the right of use of the asset. If both conditions are met, at the beginning of the contract, based on their fair values, payments and considerations related to the lease are separated from those corresponding to other items incorporated in the agreement.

Leases where all risks and benefits inherent to the property are substantially transferred are classified as financial. The rest of the leases are classified as operating.

Financial leases under which the company acts as lessee, are recognised at the beginning of the contract, registering assets according to its nature and liabilities for the same amount and equal to the fair value of the leased good, or at present value of the minimum payments for the lease, should it be less. Subsequently, the minimum payments for the lease are divided between financial expense and debt reduction. The financial cost is recognised as expense and is distributed among the periods that constitute the term of the lease, thus obtaining a constant interest rate in each period on the balance of the debt pending amortisation. The asset is depreciated with the same terms as the rest of similar depreciable assets, should there be reasonable certainty that the lessee will acquire the property at the end of the lease. If there is no such certainty, the asset is depreciated in the shortest of either the useful life of the asset or the lease term.

In the case of operating leases, the instalments are recognised as expense if lessee and as revenues if lessor, linearly during the term of the lease, except if there is another systematic distribution basis that is more representative.

#### 3.11 Provisions, Contingent Liabilities and Contingent Assets

The obligations existing on the date of the financial statements, resulting from past events or that may generate equity damage of likely materialisation for the Company, whose amount and type of payment are uncertain, are registered in the statement of financial position as provisions for the real value that is estimated as most likely for the company to cancel the obligation.

The provisions are quantified taking into account the best information available on the issue date of the financial statements, related to the consequences of the event, including their cost to be re-evaluated at the subsequent accounting closing.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

As part of the provisions, the Company includes the best estimates on risk of civil and labour lawsuits; therefore, it is not expected that additional liabilities will be derived therefrom other than those registered. Given the characteristics of the risks covered by these provisions, it is not possible to determine a certain payment date for of the estimated obligation. When assessing the loss probability, the available evidence should be considered, as well as case law and juridical evaluation.

The risks of civil and labour lawsuits that are considered contingent are disclosed in the Notes to the Financial Statements.

Contingent liabilities are obligations arising from past events, the existence of which is subject to the occurrence or non-occurrence of future events that are not wholly under the Company's control, or present obligations arising from past events, the amount of which cannot be reliably estimated or it is not likely that an outflow of resources will occur for its cancellation. Contingent liabilities are not recorded in the financial statements but are disclosed in notes thereto, except those that are individually included in the purchase price report, made in a business combination, the fair value of which can be reliably determined.

A contingent asset is caused by the occurrence, or non-occurrence, of one or more uncertain events in the future, which are not fully controlled by the company. The likely occurrence of benefits is disclosed and, if the realisation of revenues is almost certain, recognised in the financial statements. The Company will refrain from recognising any contingent asset.

#### **3.12 Taxes**

Includes the cost of generally mandatory taxes in favour of the State and payable by the Company on account of private calculations that are determined on the taxable basis of the fiscal year, in accordance with tax regulations of national and territorial order governing the locations where the Company operates.

##### **3.12.1 Income and Supplementary Tax, Income Tax for Equality (CREE) and Deferred Tax**

The income tax expense for the period includes income tax, income tax for equality (CREE), CREE surtax and deferred tax, resulting from the application of the type of levy on the period's taxable base, after applying the deductions that are fiscally permitted, plus the variation of assets and liabilities for deferred taxes and tax credits. Differences between the book value of assets and liabilities and their tax base generate the balance of deferred tax assets or liabilities, which are estimated using the tax rates expected to be valid when assets and liabilities are realised, considering for such purpose the rates that at the end of the reporting period have been approved or for which the approval process is close to an end.

The provision for income tax is calculated at the official rate as of 31 December 2016 of 40%. This rate includes the 25% income tax, the income tax for equality CREE, and the 15% surtax, using the accrual method, determining it based on the commercial profit in order to properly connect the revenues of the period with their respective costs and expenses, registering the amount of the estimated liabilities.

According to Act 1739/2014, the rate of the income tax for equality (CREE) in the taxable year 2016 is 9%, which is levied on the taxable income obtained during each year; additionally, the same Act established the CREE surtax of 6% for 2016. Furthermore, Act 1819/2016, made changes in the income tax and repealed the Income Tax for Equality (CREE) as of 1 January 2017.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Deferred tax assets are recognised as a result of all deductible temporary differences, losses and tax credits not used, to the extent that it is likely that there will be future tax gains sufficient to recover deductions for temporary differences and to make tax credits effective, except if the deferred tax relative to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination, and

(b) at the time it was realised, it did not affect either the accounting guarantee or the tax gain (loss).

With respect to deductible temporary differences related to investment in subsidiaries, associates and joint ventures, deferred tax assets are recognised only if it is likely that the temporary differences will revert in the foreseeable future and if there are tax gains against which the temporary differences can be used.

Deferred tax liabilities are recognised for all temporary differences, except for those derived from the initial recognition of capital gain and those whose origin stems from the valuation of investment in subsidiaries, associates and joint ventures, where the company can control their reversion and it is likely that there will be no reversions in a foreseeable future.

The effects of temporary differences that imply payment of a lower or higher income tax in the current year are accounted for as deferred tax credit or debit respectively at the current tax rate when the differences are reversed, based on the rates established in the tax reform Act 1819/2016 (40% for 2017, 37% for 2018 and 33% for the following years), provided there is a reasonable expectation that such differences will be reversed in the future and, also for assets, that at that moment sufficient taxable income will be generated.

The income tax expense is accounted for pursuant to IAS 12 “Income Taxes”.

The current tax and the variations in deferred tax assets or liabilities are registered in profit or loss or in Total Equity lines in the statement of financial position, according to where the gains or losses that give rise to them have been registered.

The discounts that can be applied to the amount determined as current tax liability are charged to profit or loss as a “Income tax expense”, except if there are doubts about tax realisation, in which case they are not recognised until their effective materialisation, or if they correspond to specific tax incentives, which will then be registered as grants.

For each accounting close, the registered deferred tax assets and liabilities are reviewed in order to prove that they are in force, making timely corrections thereon in accordance with the results of the aforementioned analysis.

Income tax is presented net, after deducting early payments made and withholdings in favour.

Deferred tax assets and liabilities are presented net in the statement of financial position if there is a legal right to offset current tax assets against current tax liabilities, and only if such deferred taxes are related to income taxes corresponding to the same tax authority.



## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

#### **3.12.2 Wealth Tax**

Act 1739 of December 2014 created the wealth tax for the years 2015 to 2017 for legal entities. The tax is determined at the rate of 1.15%, 1% and 0.4% for the years 2015, 2016 and 2017, respectively, for assets in excess of \$5,000,000; and is calculated annually on net equity on 1 January of each taxable year minus \$5,000,000.

The legal obligation of the wealth tax is caused for taxpayers who are legal entities as of 1 January 2015, 2016 and 2017.

Codensa S.A. E.S.P. recognises the tax liability annually with effect on the income statement.

#### **3.12.3 Sales Tax**

The generation of electric energy is not taxed with the sales tax (VAT). The treatment of the sales tax (VAT) in the purchase of goods and services are recorded as the higher value of cost or expense. Additionally, Tax Reform Act 1819/2016 amended the rate of this tax from 16% to 19% as of 1 January 2017.

### **3.13 Employee Benefits**

#### **(a) Pensions**

The Company has commitments related to pensions, both for defined provision and defined contribution, which are managed basically through pension plans. For the defined provision plans, the company registers the expenses corresponding to these commitments based on the accrual criterion throughout the employees' working life; as of the presentation date of the financial statements, there are actuarial studies calculated with the projected unit credit method; costs for past services corresponding to variations in benefits are recognised immediately and the commitments for defined provision plans represent the current value of obligations accrued. The company does not have assets affected by these plans.

#### **(b) Other Obligations Subsequent to the Workplace Relationship**

The Company grants to its employees retired with pension, educational, electric energy and health benefits. The right to these benefits depends usually on the employee having worked until the age of retirement. The costs expected for such benefits are accrued during the employment term, using a methodology similar to that of the defined benefits plans. Actuarial losses and gains arise from adjustments based on experience and changes in actuarial assumptions, and are debited or credited to other comprehensive income in the period they occur. These obligations are measured annually or as required by the parent company, by qualified independent actuaries.

The retroactivity of severance pay, considered as post employment benefits, is paid to employees belonging to the labour regime previous to Act 50/1990 and who decided not to benefit from the regime change, calculating this social benefit for the whole time worked, based on the last earned salary. In the latter case, only a reduced number of employees and actuarial gains and losses derived

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

from adjustments from experience and changes in actuarial assumptions are debited or credited to other comprehensive income.

The Company has implemented voluntary retirement plans that contemplates within the benefits a temporary income for employees who decided to benefit from it and who will qualify for the old-age pension in less than ten years. The obligation for the defined benefits is calculated by independent actuaries using the projected unit credit method.

#### **(c) Long-term Benefits**

The Company recognises its active employees with benefits associated to their time of service, such as five-year periods. The costs expected for such benefits are accrued during employment, using a methodology similar to that used for the defined benefit plans.

The actuarial gains or losses arising from adjustments for experience and changes in actuarial assumptions are debited to or credited to profit or loss of the period in which they occur. These obligations are measured annually or as required by the parent company, by qualified independent actuaries.

#### **(d) Benefits of Employee Loans**

The Company grants its employees loans at below-market rates, and therefore their present value is calculated discounting future flows at market rates, recognising as early paid benefit the difference between the market rate and the rate granted, through accounts receivable. The benefit is amortised during the term of the loan as the higher value of personnel expenses, and the accounts receivable are updated at the amortised cost, reflecting its financial effect on the income statement.

### **3.14 Fair Value Estimate**

The fair value of an asset or liability is defined as the price that would be received for selling an asset or paid for transferring a liability in an arranged transaction among market participants on the date of measurement.

The measurement at fair value supposes that the transaction for selling an asset or transferring a liability takes place in the main market, i.e., the market with the greatest volume and level of activity for the asset or liability. In absence of a main market, the transaction is supposed to take place in the most beneficial market to which the entity has access, i.e., the market that maximises the price that would be received for selling the asset or that minimises the price that would be paid for transferring the liability.

To determine the fair value, the Company uses the measurement techniques that are appropriate for the situation and on which there is sufficient data to make the measurement, maximising the use of relevant observable input data and minimising the use of non-observable input data.

Considering the hierarchy of input data used in the measurement techniques, the assets and liabilities measured at fair value can be classified into the following levels:

**Level 1:** Quoted price (not adjusted) in an active market for identical assets and liabilities.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

**Level 2:** Input data other than quoted prices that are included in level 1 and which are evident for assets or liabilities, whether directly (i.e., as price) or indirectly (i.e., derived from price). The methods and hypotheses used to determine level 2 of fair values, by type of financial assets or financial liabilities, take into account the estimated future cash flows, deducted with the zero-coupon curves of the type of interest of each currency. All the described measurements are carried out through external tools such as “Bloomberg”.

**Level 3:** Input data for assets or liabilities that are not based on observable market information (non-observable inputs).

When measuring fair value, the Company takes into account the characteristics of the asset or liability, particularly:

- For non-financial assets, a measurement of the fair value takes into account the capacity of the market participant to generate economic benefits by using the asset at its highest and best use, or through its sale to other market participants who want to use the asset at its highest and best use.
- For liabilities and equity instruments, the fair value supposes that the liability will not be liquidated and that the equity instrument will not be cancelled or otherwise extinguished on the measurement date. The fair value of the liability reflects the effect of the default risk, i.e., the risk of an entity failing to meet an obligation, which includes, but is not limited to, the Company’s own credit risk.
- With respect to financial assets and financial liabilities with offset positions in market risk or credit risk of the counterpart, fair value is measured on a net base, consistent with the way in which market participants could set the price of net risk exposure on the measurement date.

#### 3.15 Foreign Currency Conversion

##### (a) Functional Currency and Presentation Currency

The line items included in the financial statements are valued using the currency of the main economic environment where the entity operates (Colombian pesos).

The financial statements are presented in “Colombian pesos”, which, in turn, is the Company’s functional currency and presentation currency. Its figures are expressed in thousands of Colombian pesos, except for the net profit per share and the representative exchange rate, which are expressed in Colombian pesos, while the foreign currency (for example dollars, euros, sterling pounds, etc.) are expressed in units.

##### (b) Transactions and Balances in Foreign Currency

Company operations in any currency other than its functional currency are registered at the type of exchange rates in force at the time of the transaction. Throughout the year, the differences arising between the type of exchange booked and that in force on the date of collection or payment are registered as exchange differences in the statement of comprehensive income.

In addition, at each year-end closing, the conversion of balances receivable or payable in a currency other than the functional currency for each company is performed at the type of exchange in force on

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

the closing date. The valuation differences produced are registered as exchange differences in the statement of comprehensive income.

Balances denominated in foreign currency are expressed in Colombian pesos at the representative exchange rates on 31 December 2016 and 2015 of \$3,000.71 and \$3,149.47 for US \$1 and \$3,165.44 and \$3.437.64 for 1 Euro.

#### **3.16 Classification of Balance as Current and Non-current**

The Company presents in its financial statements the assets and liabilities as current and non-current, after excluding the assets and liabilities available for sale; cash and cash equivalents are classified as current, as the intent is to realise, sell or use them during the Company's ordinary operating cycle or within the 12 months following the reporting period, all other assets are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities in all events.

#### **3.17 Recognition of Revenues**

Revenues are booked according to the accrual criterion.

Ordinary revenues are recognised whenever there is gross inflow of economic benefits generated during the Company's ordinary course of business during the period, provided that such inflow generates an increment in the total equity that is not related to the contributions made by the owners of such equity and those benefits can be valued reliably. Ordinary revenues are measured at fair value of the consideration received or to be received, derived therefrom and booked based on the accrual criterion.

The following criteria are followed for recognition of ordinary revenues:

Distribution and trade of electric energy: revenues are registered in accordance with the amounts of electric energy supplied to the customers during the period, at prices established in the respective contracts or stipulated by the electricity market under the current regulations, as the case may be. These revenues include an estimate of energy supplied but not yet read in the customer's meter.

Ordinary revenues derived from the provision of services are recognised only when they can be estimated reliably and according to the degree of realisation of the service provision on the date of the statement of financial position.

The Company excludes from ordinary revenues the gross inflows of economic benefits received when acting as agent or broker on account of third parties, registering as ordinary revenues only those corresponding to its own activity.

Exchanges or swaps of goods or services for other goods or services of similar nature and price are not considered transactions that generate ordinary revenues.

The Company registers the net amount of purchase or sale agreements of non-financial items that are calculated by the net cash or other financial instrument. Agreements that have been executed and maintained for the purpose of receiving or delivering said non-financial items are registered in accordance with the contractual terms of purchase, sale or use requirements expected by the entity.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

Gains or losses derived from changes in the fair value of the category financial assets at fair value through profit or loss are presented in the profit and loss account under Other (losses)/gains- net in the period in which they arise.

Revenues from dividends of financial assets at fair value through profit or loss are recognised in the profit and loss account as part of other revenues upon establishing the Company's right to receive payments. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Revenues (expenses) for interests are accounted for considering the effective interest rate applicable to the principal pending amortisation during the respective accrual period.

#### **3.18 Recognition of Costs and Expenses**

The Company recognises its costs and expenses insofar as the economic events occur so that they are registered systematically in the corresponding accounting period, regardless of the monetary or financial resource flow. Expenses are made up of payments not qualified to be registered as cost or investment.

Costs include electric energy purchases, personnel costs or third party costs related directly to the sale or service provision, depreciation, amortisation, etc.

Expenses include maintenance of assets, costs of the transmission system, taxes, utilities, etc., all of which are incurred by processes for sale or service provision.

Investment includes costs directly related to the creation or acquisition of an asset that requires a substantial period to get it into use or sale condition. Costs of personnel directly related to the construction of projects, interest costs on debt destined to finance projects, and major maintenance costs that extend the useful life of the existing assets, among others, are capitalised as construction in progress.

#### **3.19 Capital Stock**

Common shares, with or without preferred dividend, are classified under equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction of the amount received net of taxes.

#### **3.20 Reserves**

Registered as reserves are the appropriations authorised by the General Shareholders' Meeting, through profit or loss, to comply with legal provisions or to cover expansion plans or financing needs.

Legal provisions that contemplate the establishment of reserves applicable to the Company are the following:

- Article 130 of the Tax Code, which sets out the appropriation of net profits at 70% of the higher value of tax depreciation over accounting depreciation, calculated pursuant to local accounting standards. This reserve can be released insofar as the accounting depreciations subsequently exceed those requested annually for tax purposes, or the assets that generated the higher deducted value are sold.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

- The Code of Commerce requires the Company to appropriate 10% of its annual net profits determined as legal reserve pursuant to local accounting standards until the balance of such reserve is equivalent to 50% of the subscribed capital. The mandatory legal reserve cannot be distributed before the Company's liquidation, but it can be used to absorb or reduce annual net losses. The balance of the reserve exceeding 50% of the subscribed capital are freely available for shareholders.

#### **3.21 Earnings per Share**

The basic earning per share is calculated as the quotient between the net gain of the period attributable to Company shareholders and the average weighted number of ordinary outstanding shares in said period, after making the appropriation for preferred dividends corresponding to 20,010,799 shares as of 31 December 2016 and 2015 of Empresa de Energía de Bogotá S.A. E.S.P. Preferred dividends have a value of US \$0.10 per share.

#### **3.22 Distribution of Dividends**

Commercial laws in Colombia stipulate that, once making the appropriations for legal reserve, statutory reserve or other reserves and tax payments, the remainder will be distributed among the shareholders, in accordance with the share distribution project presented by the Company Management and approved by the General Shareholders' Meeting. The dividend payment will be made in cash on the dates set out by the General Shareholders' Meeting to those qualifying as shareholders at the time the payments are payable.

When it is necessary to absorb losses, these will be covered with reserves specially designated for such purpose or otherwise with the legal reserve. Reserves whose purpose is to absorb specific losses cannot be used to cover others, except if so decided by the General Shareholders' Meeting.

As of the year-end closing, the amount of the obligation with the shareholders is determined net of the provisional dividends approved in the course of the period, and it is accounted for under the line item "commercial accounts payable and other payables" and under "accounts payable to related entities", as applicable, through total equity. Provisional and definitive dividends are registered as the lower "total equity" at the time of its approval by the competent body, which in first instance is the Company's Board of Directors, while in the second instance is the General Shareholders' Meeting's responsibility.

#### **3.23 Operating Segments**

An operating segment is a component of an entity:

- (a) that develops business activities from which it may derive ordinary activity revenues and incur in expenses (including revenues from ordinary activities and expense for transactions with other components of the same entity);
- (b) whose operating results are reviewed regularly by the maximum operations decision making authority, to decide on resources that are to be allocated to the segment and to evaluate their performance; and
- (c) over which there is differentiated financial information.

The Company, for all purposes, in accordance with the guidelines of IFRS 8, only has one operating

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

segment associated with the electric energy business.

#### 4 Cash and Cash Equivalents

	<u>As of 31 December 2016</u>	<u>As of 31 December 2015</u>
Bank balance	\$ 580,231,679	\$ 338,463,899
Term deposits (1)	30,000,000	60,000,000
Other cash and cash equivalents (2)	9,384,484	3,987,839
Cash	31,209	21,569
	<u>\$ 619,647,372</u>	<u>\$ 402,473,307</u>

The equivalent detail in pesos by type of currency of cash and cash equivalents above is as follows:

	<u>As of 31 December 2016</u>	<u>As of 31 December 2015</u>
Colombian Pesos	\$ 617,481,907	\$ 402,091,146
U.S. Dollars	2,147,286	373,277
Euros	18,179	8,884
	<u>\$ 619,647,372</u>	<u>\$ 402,473,307</u>

- (1) Term deposits correspond to a certificates of deposit expiring in a term less than or equal to three months from the date of acquisition and accruing market interests for this type of short-term investments, which are listed below:

As of 31 December 2016:

Entity	Value	Purchase Date	Maturity Date	Term (Days)	E.A. Rate
Corpbanca	\$ 30,000,000	14/12/2016	14/03/2017	90	8.23%
<b>Total</b>	<u><u>\$ 30,000,000</u></u>				

As of 31 December 2015:

Entity	Value	Purchase Date	Maturity Date	Term (Days)	E.A. Rate
GNB Sudameris	\$ 30,000,000	23/12/2015	23/03/2016	89	6.60%
Banco de Bogotá	30,000,000	23/12/2015	23/03/2016	90	6.50%
<b>Total</b>	<u><u>\$ 60,000,000</u></u>				

- (2) Trust and collective portfolios correspond to regular operations of additions and decreases made on a daily basis by treasury to these entities, in order to channel the resources from collection, corresponding mainly to:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	As of 31 December 2016	E.A. Rate	As of 31 December 2015	E.A. Rate
Fondo Abierto Alianza	\$ 12,798	6.64%	\$ 3,464,077	2.72%
Fiduciaria Bogotá	94,268	6.35%	198,341	4.22%
Credicorp	8,243,138	7.45%	172,296	4.69%
Corredores Asociados	47,373	7.52%	83,463	4.91%
Valores Bancolombia	24,997	7.77%	36,803	5.07%
Fiduciaria Corficolombiana	4,848	7.86%	26,846	4.49%
BBVA Fiduciaria	52,481	8.04%	6,013	5.21%
Alianza Valores	87,774	7.43%	-	-
Fiduciaria Occidente	816,807	7.17%	-	-
<b>Total</b>	<b>\$ 9,384,484</b>		<b>\$ 3,987,839</b>	

As of 31 December 2016, the Company had \$3,815,693 in unused authorised credit lines, jointly with Emgesa S.A. E.S.P. that can be reallocated between the two Companies, with respect to which, if required, the financial entities will make an update of the conditions for approval and disbursement.

Additionally, there is a general purposes intercompany approved credit line with Emgesa S.A. E.S.P. for USD \$100 million.

As of 31 December 2016, there are no cash restrictions or limitations as shown in the financial statements.

#### 5 Other Financial Assets

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Financial investment- not listed companies or with Little liquidity (1)	\$ -	\$ 43,101	\$ -	\$ 16,192
Forwards (2)	4,729	-	-	-
	<b>\$ 4,729</b>	<b>\$ 43,101</b>	<b>\$ -</b>	<b>\$ 16,192</b>

(1) Corresponds mainly to financial investments in non-listed companies as follows:

Equity securities	Economic Activity	Common shares	Interest %	As of 31 December 2016	As of 31 December 2015
Electricadora del Caribe S.A. E.S.P. (a)	Energy	714,443	0,0014%	\$ 36.782	\$ 16.192
Transelca S.A. E.S.P.	Energy	12,026	0,0665%	4.781	-

(a) As of 31 December 2016 and 2015, gains (losses) derived from the investment in Electricaribe S.A. E.S.P. resulting from the measurement by the multiples method were registered in other comprehensive income at \$18,080 and (\$10,039), respectively. The value of the losses are transferred directly to accrued earnings and will not be reclassified to the results of the



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

equivalent period.

- (2) As of 31 December 2016, the Company has a forward contract with BBVA of active valuation for the obligations contracted with Seguros Mapfre, covering all risk corporate insurance policies for material damages between 1 November 2016 and 1 November 2017. Below are the main features of the forward:

Underlying	Risk factor	Active Notional	Currency	Fixed rate	MTM
Insurance coverage	Exchange rate	\$ 1,040	USD	\$ 2,988.60	\$ 4,729

#### 6 Other Non-Financial Assets

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Prepayments on purchases of goods and services (1)	\$ 4,504,479	\$ -	\$ 3,954,102	\$ -
Employee benefit for loans (2)	1,432,404	12,240,129	788,071	10,252,911
Travel prepayments	33,618	-	80,007	-
Others (3)	20,453	78,666	1,715,573	78,666
Expenses paid in advance (4)	6,946	-	4,956,167	-
	<b>\$ 5,997,900</b>	<b>\$ 12,318,795</b>	<b>\$ 11,493,920</b>	<b>\$ 10,331,577</b>

- (1) As of 31 December 2016 and 2015, the composition of this line item corresponds to prepayments for exchange transactions and international energy transactions to XM for \$1,535,801 and \$2,411,747, and for the purchase of goods and services from local creditors for \$2,968,678 and \$1,542,354, respectively.
- (2) Corresponds to the recognition of the benefit paid in advance of employee loans agreed on at a rate of zero or below market rates, for which reason the Company discounts future flows at the market rate, recognising as benefit paid in advance the difference between the market rate and the granted rate, and amortising them over the term of the loan.
- (3) As of 31 December 2015, the Fourth Section of the Contentious-Administrative Court issued a final decision in favour of the Company on the 2009 special contribution of the Superintendence of Household Public Utilities (“SSPD”), ordering this entity to return of \$ 1,708,038. The judgment was notified by edict dated 13 July 2015 and filed on 10 August 2015 in the Company. Payment by the SSPD was received in the first two months of 2016.
- (4) As of 31 December 2016 and 2015, the composition of this line item corresponds mostly to all risk and compliance civil liability insurance policies for \$6,946 and \$4,956,167, respectively.

#### 7 Commercial Accounts Receivable and Other Receivables, Net

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Commercial accounts, gross (1)	\$ 597,325,959	\$ 57,856,378	\$ 489,939,676	\$ 15,312,641
Other accounts receivable, gross (2)	12,809,236	24,679,852	12,884,418	22,053,761

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Total commercial accounts and other accounts receivable, gross	610,135,195	82,536,230	502,824,094	37,366,402
Impairment provision commercial accounts	(92,311,609)	(12,450,768)	(63,453,953)	(2,144,868)
Impairment provision other accounts receivable	(286,153)	-	(328,779)	-
<b>Total commercial accounts and other accounts receivable, net</b>	<b>\$ 517,537,433</b>	<b>\$ 70,085,462</b>	<b>\$ 439,041,362</b>	<b>\$ 35,221,534</b>

(1) As of 31 December 2016, the composition of commercial accounts is as follows:

	Overdue portfolio				Total current portfolio	Non-current portfolio (c)
	Current portfolio	1-180	181-360	>360		
<b>Energy portfolio (a, f)</b>						
<b>Not- agreed portfolio</b>	<b>\$ 419,791,990</b>	<b>\$ 23,017,710</b>	<b>\$ 5,958,912</b>	<b>\$ 72,166,146</b>	<b>\$ 520,934,758</b>	<b>\$ 33,002,363</b>
Mass customers	164,015,471	8,012,150	1,231,387	6,562,586	179,821,594	-
Large customers	218,141,191	10,587,857	4,205,458	21,218,878	254,153,384	-
Institutional customers (b)	37,635,328	4,417,703	522,067	44,384,682	86,959,780	33,002,363
<b>Agreed portfolio (c)</b>	<b>7,250,026</b>	<b>5,976,009</b>	<b>509,417</b>	<b>59,117</b>	<b>13,794,569</b>	<b>14,263,020</b>
Mass customers	2,822,133	801,228	173,895	30,214	3,827,470	723,223
Large customers	1,647,363	3,643,112	335,522	28,903	5,654,900	3,808,391
Institutional customers	2,780,530	1,531,669	-	-	4,312,199	9,731,406
<b>Energy portfolio, gross</b>	<b>427,042,016</b>	<b>28,993,719</b>	<b>6,468,329</b>	<b>72,225,263</b>	<b>534,729,327</b>	<b>47,265,383</b>
Energy portfolio impairment	(5,954,061)	(2,165,482)	(1,893,010)	(71,777,161)	(81,789,714)	(12,298,431)
<b>Energy portfolio, net</b>	<b>\$ 421,087,955</b>	<b>\$ 26,828,237</b>	<b>\$ 4,575,319</b>	<b>\$ 448,102</b>	<b>\$ 452,939,613</b>	<b>\$ 34,966,952</b>

	Overdue portfolio				Total current portfolio	Non-current portfolio (e)
	Current portfolio	1-180	181-360	>360		
<b>Supplementary business portfolio and others (d)</b>						
Mass customers	\$ 24,366,945	\$ 13,420	\$ 41,952	\$ 2,501,505	\$ 26,923,822	\$ 4,236,398
Large customers	21,323,033	4,299,185	813,028	7,006,243	33,441,489	6,354,597
Institutional customers	2,231,321	-	-	-	2,231,321	-
<b>Supplementary business portfolio, gross</b>	<b>47,921,299</b>	<b>4,312,605</b>	<b>854,980</b>	<b>9,507,748</b>	<b>62,596,632</b>	<b>10,590,995</b>
Supplementary business portfolio impairment	(716,092)	(174,243)	(175,100)	(9,456,460)	(10,521,895)	(152,337)
<b>Supplementary business portfolio, net</b>	<b>47,205,207</b>	<b>4,138,362</b>	<b>679,880</b>	<b>51,288</b>	<b>52,074,737</b>	<b>10,438,658</b>
<b>Total commercial accounts, gross</b>	<b>474,963,315</b>	<b>33,306,324</b>	<b>7,323,309</b>	<b>81,733,011</b>	<b>597,325,959</b>	<b>57,856,378</b>
Commercial accounts impairment	(6,670,153)	(2,339,725)	(2,068,110)	(81,233,621)	(92,311,609)	(12,450,768)
<b>Total commercial accounts, net</b>	<b>\$ 468,293,162</b>	<b>\$ 30,966,599</b>	<b>\$ 5,255,199</b>	<b>\$ 499,390</b>	<b>\$ 505,014,350</b>	<b>\$ 45,405,610</b>

As of 31 December 2015, the composition of commercial accounts is as follows:

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Overdue portfolio				Total current portfolio	Non-current portfolio (c)
	Current portfolio	1-180	181-360	>360		
<b>Energy portfolio (a)</b>						
<b>Not- agreed portfolio</b>	<b>\$ 304,333,591</b>	<b>\$ 47,130,403</b>	<b>\$ 6,027,518</b>	<b>\$ 71,131,256</b>	<b>\$ 428,622,768</b>	<b>\$ -</b>
Mass customers	139,177,033	4,808,882	177,053	5,537,482	149,700,450	-
Large customers	132,076,701	8,980,525	1,050,276	10,277,760	152,385,262	-
Institutional customers (b)	33,079,857	33,340,996	4,800,189	55,316,014	126,537,056	-
<b>Agreed portfolio (c)</b>	<b>6,643,641</b>	<b>645,896</b>	<b>-</b>	<b>-</b>	<b>7,289,537</b>	<b>4,892,580</b>
Mass customers	1,285,460	111,091	-	-	1,396,551	1,153,389
Large customers	2,704,480	534,805	-	-	3,239,285	2,087,040
Institutional customers	2,653,701	-	-	-	2,653,701	1,652,151
<b>Energy portfolio, gross</b>	<b>310,977,232</b>	<b>47,776,299</b>	<b>6,027,518</b>	<b>71,131,256</b>	<b>435,912,305</b>	<b>4,892,580</b>
Energy portfolio impairment	(5,450,415)	(1,735,747)	(399,097)	(49,649,228)	(57,234,487)	(2,008,038)
<b>Energy portfolio, net</b>	<b>\$ 305,526,817</b>	<b>\$ 46,040,552</b>	<b>\$ 5,628,421</b>	<b>\$ 21,482,028</b>	<b>\$ 378,677,818</b>	<b>\$ 2,884,542</b>

	Overdue portfolio				Total current portfolio	Non-current portfolio (e)
	Current portfolio	1-180	181-360	>360		
<b>Supplementary business portfolio and others (d)</b>						
Mass customers	\$ 18,821,643	\$ 247,816	\$ 24,743	\$ 537,146	\$ 19,631,348	\$ 3,294,434
Large customers	23,185,043	4,300,833	43,479	5,383,257	32,912,612	7,069,454
Institutional customers	1,481,004	20	-	2,387	1,483,411	56,173
<b>Supplementary business portfolio, gross</b>	<b>43,487,690</b>	<b>4,548,669</b>	<b>68,222</b>	<b>5,922,790</b>	<b>54,027,371</b>	<b>10,420,061</b>
Supplementary business portfolio impairment	(1,091,999)	(246,402)	-	(4,881,065)	(6,219,466)	(136,830)
<b>Supplementary business portfolio, net</b>	<b>42,395,691</b>	<b>4,302,267</b>	<b>68,222</b>	<b>1,041,725</b>	<b>47,807,905</b>	<b>10,283,231</b>
<b>Total commercial accounts, gross</b>	<b>354,464,922</b>	<b>52,324,968</b>	<b>6,095,740</b>	<b>77,054,046</b>	<b>489,939,676</b>	<b>15,312,641</b>
Commercial accounts impairment	(6,542,414)	(1,982,149)	(399,097)	(54,530,293)	(63,453,953)	(2,144,868)
<b>Total commercial accounts, net</b>	<b>\$ 347,922,508</b>	<b>\$ 50,342,819</b>	<b>\$ 5,696,643</b>	<b>\$ 22,523,753</b>	<b>\$ 426,485,723</b>	<b>\$ 13,167,773</b>

- (a) As of 31 December 2016 and 2015, corresponding mainly to portfolio of regulated market customers for \$352,965,113 and \$284,831,698, tolls portfolio \$28,075,323 and \$18,731,301, and public lighting portfolio for \$96,359,955 and \$106,834,293, respectively.

Within the portfolio listed above, as of 31 December 2016 and 2015, \$107,668,691 and \$75,026,655, respectively, are subject to customer claim process particularly by the Public Utility Special Administrative Unit (hereinafter UAESP).

As of 31 December 2016, there is an increase with respect to the immediately preceding year due to the integration of the customers of Empresa de Energía de Cundinamarca, which as of 30 September 2016 served 13 customers in the unregulated market and 297,716 customers in the regulated market, as described in the business combination note (See Note 1.5).

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (b) The Company's main institutional customer is the UAESP. As of 31 December 2016 and 2015, the main items subject to claim by the UAESP without impairment are described below:

#### *VAT portfolio of public lighting infrastructure*

On 14 November 2013, the Company filed a query with the DIAN (the Colombian tax authority) regarding the applicability of Article 19 of Decree 570/1984, to determine the special taxable base for movable property. The DIAN issued a response without solving the request made by the Company. Subsequently, on 4 November 2014, the DIAN issued a new opinion, but failed to define the Company's query and therefore on 16 December 2014, a new query was filed requesting clarification of the opinion.

At the same time, in order to clarify whether the lease of public lighting infrastructure gives rise to VAT, on 5 December 2014 the Company filed a query with the DIAN.

On 6 June 2015, the Company submitted a settlement request with the UAESP to the Attorney General's Office, which was rejected initially arguing that it was not relevant; nonetheless, the corresponding appeal was filed, which was resolved favourably on 1 July 2015, scheduling the settlement hearing for 5 August 2015. The settlement hearing was held on such date, but the parties decided to not settle.

Simultaneously, on 17 June 2015, the claim against the UAESP was filed in order to prevent the Entity from arguing the expiry of the term for filing the claim, were it submitted after the settlement hearing. On 2 October 2015, the Company applied for an injunction aimed at getting the UAESP to pay in advance the outstanding balance, which was rejected by the Third Section of the Cundinamarca Administrative Court, considering that this was resolved in the judgment.

The DIAN, through opinion No. 100202208-0808 of 1 September 2015, decided on the treatment of the VAT on the lease of the public lighting service infrastructure, making it clear that the public lighting service is a household public utility and, hence, it gives rise to VAT. This opinion supports the charge that the Company has been applying to the UAESP.

In compliance with the opinion above and pursuant to the communications issued by the Company to the UAESP, on 5 November 2015 began the billing of current and default interests, calculated on the outstanding balance of this Entity. As of 31 December 2015, current interests amount to \$5,059,734 and default interests amount to \$1,148,266.

As of February 2016, the Company froze the billing of interests as a result of the working groups established jointly with the UAESP.

On 6 October 2016, the Company was notified of the first instance decision issued by the Administrative Court of Cundinamarca, which denied the claim filed by the Company with respect to the UAESP's obligation to pay VAT on the lease of the infrastructure for the provision of the public lighting service. The judgment states mainly that: (i) the Company is providing the public lighting service in the District of Bogota and, in as service provider, is responsible for the tax; (ii) in Annex 1 to the agreement of 25 January 2002, the VAT was not included in the liquidation components (a) energy supply, (b) infrastructure lease, (c) administration, operation and maintenance, which means

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

that VAT is included in the service provision cost; and (iii) the denaturalisation of the lease agreement, taking into account that covenant No. 766/1997 does not meet the requirements thereof.

On 21 October 2016, the Company filed with the Court of Cundinamarca the appeal against the judgment issued by said judicial corporation. Subsequently a request for preference of judgment was filed with the Council of State, in order to expedite the appeal, taking into account the importance and impact of the process.

To date, the UAESP has not paid the VAT for the lease service corresponding to 2015 and earlier, except November and December 2015, which were paid in March 2016 for \$1,987,355. The UAESP also paid the period between January and July 2016 for \$7,104,425; however, as a result of the aforementioned judgment, the UAESP refrained from making payments as of the service billing of August 2016.

As of 31 December 2016 and 2015, the account receivable in default from the UAESP on account of VAT for the lease of the lighting infrastructure invoiced but not collected since July 2013, not including the aforementioned interests, amounts to \$31,064,850 and \$26,741,306, respectively.

Based on the concept of the Company's external counsel on the response time for the appeal and the request for preference of judgment for approximately 18 months, the Company reclassified the UAESP's VAT portfolio from short- to long-term and discounted the portfolio plus interest at present value reflecting a final balance as of 31 December 2016 of \$33,002,363.

Management, based on the interpretation of its external counsel, considers the amount of this portfolio as recoverable.

#### *Portfolio of public lighting electric energy service*

During 2015, the UAESP made requests for clarification on the settlement of energy supply on service bills rendered between March and November 2015, accumulating an unpaid amount of \$17,226,438. In light of the observations submitted by the UAESP, the Company made the respective clarifications. In reply to the responses, on 17 July 2015, the UAESP made a \$8,690,946 transfer as a credit to this item, remaining \$8,535,492 as of 31 December 2015, and \$652,264 as default interest.

On 19 December 2016, the UAESP paid the amount of the energy glosses for \$8,535,492.

As of 31 December 2016, the UAESP owes \$835,052 in default interests associated with these items.

- (c) The agreed portfolio corresponds to agreements between the Company and the customers on payment of a given sum, with a deadline and a pre-established interest rate. These agreements are applicable to customers requesting financing on account of electric energy consumption that are in arrears or at risk of not being paid. The detail on maturity terms of the non-current portfolio as follows:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Year	As of 31 December 2016	As of 31 December 2015
Between one and two years	\$ 4,419,151	\$ 1,766,623
Between two and three years	2,301,022	653,219
Over three years	7,542,847	2,472,738
	<b>\$ 14,263,020</b>	<b>\$ 4,892,580</b>

(d) As of 31 December 2016 and 2015, corresponds mostly to works for private parties \$17,144,370 and \$20,875,294, electrical works \$22,479,404 and \$21,230,132, infrastructure \$7,209,280 and \$8,986,261, Codensa Services \$8,725,477 and \$7,346,058, and collection orders \$5,751,814 and \$3,941,518, respectively.

(e) The supplementary business portfolio corresponds to agreements between the Company and the customers on payment of a given sum, with a deadline and a pre-established interest rate, applicable to customers requesting financing on account of installations, adjustments, fines for losses and other services provided by the Company. The detail on maturity dates of non-current portfolio is as follows:

Year	As of 31 December 2016	As of 31 December 2015
Between one and two years	\$ 7,401,797	\$ 7,343,088
Between two and three years	2,894,473	2,692,926
Over three years	294,725	384,047
	<b>\$ 10,590,995</b>	<b>\$ 10,420,061</b>

f) Energy saving scheme:

By decision of the National Government, came into force Resolution 029/2016 of the Commission for the Regulation of Energy and Gas (as complemented by Resolution 039 and 049 of 2016), which established a scheme of differential rates to promote the decrease in the consumption of energy by regulated users in order to mitigate the El Niño phenomenon effects, which reflected an incentive for saving and a disincentive for excess energy consumption.

The differential rates defined by the resolution began to be applied in the invoices that were delivered at the end of April 2016. Through Resolution No. 051 of 23 April 2016, the regulatory commission resolved the "termination of the application of the differential rate scheme adopted by CREG Resolution 029/2016", scheme that was operationally reflected until July as a result of the scheduling of billing cycles.

According to article 4 of Resolution CREG 051 of 2016, traders must report to the Administrator of the Trade Exchanges System (hereinafter ASIC) the final balance in accordance with CREG Resolution 029 of 2016, once the Information of this balance has been certified and subscribed by

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

fiscal reviewer in accordance with article 3 of this resolution.

According to Article 4 of CREG Resolution 051/2016, traders must report to the Commercial Exchange System Manager (hereinafter ASIC) the final balance in accordance with CREG Resolution 029/2016, after the information of said balance is certified and subscribed by the statutory auditor in accordance with article 3 of this resolution.

On 12 and 29 September 2016, the audit report issued by SER Servicios Públicos SAS and the certification issued by the statutory auditor of the electric power differential rate scheme were filed with the ASIC. As of 31 December 2016, the final balance reflects an account receivable from XM for \$20,001,714 and \$4,593,833 corresponding to the Company and the former, EEC integrated to the Company, respectively.

As reported by XM, the receivable will be recognised in the first quarter of 2017 as an adjustment to the sales turnover in the stock market.

#### Portfolio Impairment

Movements of the provision for impairment of commercial current accounts are as follows:

Debtors from expired and unpaid sales, with impairment	Value
<b>Balance as of 1 January 2015</b>	<b>\$ 66,456,334</b>
Period increases (decreases)	313,898
Written-off amounts	(1,171,411)
<b>Balance as of 31 December 2015</b>	<b>65,598,821</b>
Period increases (decreases) (i)	6,001,927
Written-off amounts (ii)	(7,106,159)
Business combination increases (iii)	40,267,788
<b>Balance as of 31 December 2016</b>	<b>\$ 104,762,377</b>

- i. The Company during 2016 carried out an analysis based on the nature, impairment and payment behaviour by type of portfolio and nature of customers. As a result of such analysis, new provision percentages were determined, which were applied as of December 2016. Due to this change, the provision for energy portfolio decrease by (\$942,203).

Additionally, during 2016, there was an increase of \$5,059,724 mainly due to: (a) aging of the public lighting portfolio for \$ 2,279,370; (b) individual analysis of the Puerto Salgar Municipality portfolio for \$1,014,864; (c) recognition of the adjustment for effects of the merger on the provision of the portfolio for \$1,311,912 as a result of the application of the Company's impairment policy on the EEC portfolio as of 30 September 2016.

- ii. The write-off of delinquent debtors is carried out once all collection procedures, judicial procedures and demonstration of debtors' insolvency, such as financial difficulties, infractions and contractual breaches, and financial reorganisations, have been exhausted.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

As of 31 December 2016, once the aforementioned process had been carried out, the main write-offs made by the Company correspond to Supercable Telecomunicaciones S.A. for \$ 2,658,919, Puerto Salgar Municipality for \$1,217,821, Enermont for \$ 1,149,186 and write-offs for the mass energy portfolio.

- iii. Corresponds mainly to the credit of balances of the provision for the mass energy portfolio.
- (2) As of 31 December 2016 and 2015, corresponds primarily to accounts receivable from employees of a present value of \$30,074,803 and \$27,847,245, accounts receivable from retired personnel for a present value of \$3,574,273 and \$3,380,453, on account of housing loans, home appliances, education, among others, respectively. Loans granted to employees are awarded at rates between 0% and 4.75% and for retired personnel between 0% and 7%, which is why the Company discounts future flows at market rate, recognising as prepaid benefit the difference between the market rate and the rate awarded, and amortising them during the term of the loan.

#### Guarantees granted by Debtors:

For customers subscribing to payment agreements for financing products other than electric energy, the Company supports these debts with blank promissory notes. In addition, for employee debts of, personal guarantees (promissory notes and instruction letters) and collaterals (mortgages and pledges) are established.

## 8 Investments in Subsidiaries, Joint Ventures and Associates

The Company's interests in other associates and subsidiaries are registered using the cost method and the equity method, in accordance with the defined policy (*See Note 3.4 and 3.5*). The detail of investments is as follows:

Share Certificates	Economic activity	Relationship	Common shares	Interest %	As of 31 December 2016	As of 31 December 2015
Distribuidora de Energia de Cundinamarca (1)	Investment	Associate	104,247,499,548	48.99%	\$ -	\$ 104,247,500
Inversora Codensa (2)	Investment	Subsidiary	5,000	100.00%	2,370	5,000
					<u>\$ 2,370</u>	<u>\$ 104,252,500</u>

- (1) As of 30 September 2016, the merger between the Company, DECSA and EEC was executed. See *note 1. 5 on business combination*.
- (2) Article 2.1.2. of Part 1 of Book 2 of Decree 2420/2015, as complemented by Decree 2496/2015, sets out the application of Article 35 of Act 222, which indicates that the interests in subsidiaries should be recognised in the separate financial statements using the equity method, rather than recognition in accordance with IAS 27, i.e., at cost or fair value. The application of the equity method was carried out as of 2016.



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 9 Balances and Transactions with Related parties

##### Accounts receivable from Related Entities

Company	Type of related entity	Country of origin	Type of transaction	As of 31 December 2016	As of 31 December 2015
Emgesa (1)	Subsidiary	Colombia	Energy sale	\$ 10,801,226	\$ 9,133,841
	Subsidiary	Colombia	Other services	-	93,249
Enel SpA (2)	Subsidiary	Italia	Expatriates	989,775	523,020
EOSC (3)	Subsidiary	Spain	Other services	280,431	513,260
Energía Nueva (2)	Subsidiary	Mexico	Expatriates	87,428	68,459
Enel Iberoamérica (2)	Subsidiary	Spain	Expatriates	65,620	14,652
Endesa Energía (3)	Subsidiary	Spain	Other services	58,701	133,642
EEC (4)	Associate	Colombia	Energy sale	-	1,078,221
			Other services	-	969,123
Endesa Spain (2)	Subsidiary	Spain	Expatriates	-	128,039
EEB	(*)	Colombia	Energy sale	43,863	62,437
		Colombia	Christmas lighting	1,293,104	1,500,000
				<b>\$ 13,620,148</b>	<b>\$ 14,217,943</b>

(\*) EEB is shareholder of Codensa (See Note 20)

- (1) As of December 2016 and 2015, the balance is made up of toll estimates, Regional Transmission System (STR), and billing for distribution areas (ADD) for \$10,424,758 and \$8,510,457; use of lines and networks for \$163,714 and \$266,971 and electric energy billing for \$212,754 and \$356,413, respectively.
- (2) Corresponds to the provision for costs of expatriate personnel in Spain, Italy and Mexico.
- (3) Corresponds to services provided by the CAT(Call Centre).
- (4) As of 31 December 2015, corresponds to toll estimates, STR, for \$322,165, use of lines and networks for \$714,327 and electric energy billing for \$41,729, respectively. The notion of other services corresponds to commercial offer for technical assistance services and lease of Christmas items. As of 30 September 2016, the merger between the Company, DECSA and EEC was executed, extinguishing the rights between these related companies..

##### Accounts Payable to Related Entities

Company	Type of related entity	Country of origin	Type of transaction	As of 31 December 2016	As of 31 December 2015
Emgesa (1)	Subsidiary	Colombia	Energy Purchase	\$ -	\$ 26,663,641
	Subsidiary	Colombia	Other services	202,479	184,624
EEC (2)	Associate	Colombia	Energy Purchase	-	4,393,281
Enel Distribución Chile (5)	Subsidiary	Chile	Expatriates	123,915	58,052
Enel Distribuzione (8)	Subsidiary	Italia	Other services	3,267,737	-

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Company	Type of related entity	Country of origin	Type of transaction	As of 31 December 2016	As of 31 December 2015
	Subsidiary	Italia	Expatriates	285,854	
Enel Iberoamérica (4)	Subsidiary	Spain	Other services	629,072	1,138,925
	Subsidiary	Spain	Expatriates	192,245	
Enel Américas(3)	Subsidiary	Chile	Dividends	56,694,364	37,035,700
Enel Chile S.A. (5)	Subsidiary	Chile	Expatriates	-	18,687
Enel Spa (5)	Subsidiary	Italia	Expatriates	959,229	264,963
	Subsidiary	Italia	Other services	578,046	-
Enel Gren Power (5)	Subsidiary	Italia	Expatriates	874,427	288,678
Enel Italia Servizi (7)	Subsidiary	Italia	Other services	14,728,237	
Siei Ltda (6)	Subsidiary	Chile	Other services	-	1,593,000
EEB	(*)	Colombia	Dividends	60,237,760	41,040,018
		Colombia	Other services	19,526	
				<b>\$ 138,792,891</b>	<b>\$ 112,679,569</b>

(\*) EEB is shareholder of Codensa (See note 20)

- (1) As of 31 December 2016, Emgesa invoiced energy purchases of December and carried out a factoring transaction by transferring the collection right to Banco AV Villas. As of 31 December 2015, it corresponds to the estimate of energy purchases.
- (2) As of 31 December 2015, corresponds to billing for distribution areas (ADD) for \$4,198,533, energy purchase estimate for \$194,046, and other services for \$702. As of 30 September 2016, the merger between Codensa S.A. E.S.P., DECSA and EEC was executed, extinguishing the obligations between these related companies.
- (3) As of 31 December 2015, there were balances of declared dividends payable to Enersis S.A. for \$29,893,101 and Chilectra S.A. for \$7,142,599. As a result of the reorganisation of Enersis S.A. and Chilectra S.A. (Chilean Companies Shareholders of Codensa), on 8 July 2016, the entry was made in Codensa's Book of Shareholders managed by Deceval S.A. of the companies resulting from the spin-off carried out in Chile (Enersis Américas S.A. and Chilectra Americas S.A.). Subsequently, on 1 December, the reorganisation of Enersis Américas S.A. and Chilectra Américas S.A. (Chilean companies shareholders of Codensa) was executed, where Enersis Américas absorbed Chilectra Américas S.A. and later changed its name to Enel Américas S.A.
- (4) Corresponds to provision for IT expenses related to support and maintenance of Oracle and SAP software licenses.
- (5) Corresponds to provision of expatriate personnel costs from Spain, Italy and Chile in Colombia. As of December 2015, there was the account payable with Chilectra for \$58,052, currently Enel Distribución Chile S.A., and with Enersis for \$18,687, currently Enel Chile S.A.
- (6) Corresponds to the provision for sales force licenses.
- (7) Corresponds to the E4E project for the implementation of the convergence of the SAP systems that support the Company's accounting, asset management and operating models and other information infrastructure and technology infrastructure services.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

(8) Corresponds to the acquisition of meters through the Smart Metering project.

Most significant transactions and the respective effect on profit or loss:

Company	Concept of transaction	As of 31 December 2016	As of 31 December 2015
<b>Revenues</b>			
	Tolls and use of lines and networks	\$ 119,914,972	\$ 106,635,352
Emgesa S.A. E.S.P.	Energy and other services	627,894	1,070,807
	Other revenues	391,185	58,408
	Energy and other services	72,887	98,280
EEC(1)	Use of lines and networks	9,405,739	11,293,356
	Commission and lease of equipment	675,553	1,099,388
	Other services	198,065	204,719
Endesa Energía	Exchange difference	24,700	27,058
Endesa Spain	Other services	-	128,039
Endesa Operaciones y Servicios	Other services	706,228	724,890
	Exchange difference	132,058	123,546
Enel Ingeniería E Ricerca S.P.A	Exchange difference	-	13,128
Enel Distribuzione Spa	Exchange difference	31,712	86,861
Enel Chile S.A. (2)	Exchange difference	2,699	1,178
Enel Iberoamérica	Exchange difference	72,411	30,915
	Other services	12,384	14,652
	Exchange difference	-	8,597
Enel Spa	Other services	466,755	523,020
Energía Nueva Energía Limpia	Other services	15,664	68,459
	Exchange difference	7,236	-
DECSA (1)	Dividends	1,129,958	-
	Christmas lighting	1,293,104	1,500,000
Empresa de Energía de Bogotá	Substation operation, others	(27,084)	27,083
	Leases	(9,717)	9,717
		<b>\$ 135,144,403</b>	<b>\$ 123,747,453</b>
<b>Costs and expenses</b>			
	Energy	\$ 643,194,763	\$ 291,454,219
Emgesa S.A. E.S.P.	Other services	681,745	456,357
	Interests (loans)	195,109	-
EEC. (1)	Use of lines and networks	2,054,945	2,730,636
	Other services	20,185	-
Endesa Energía	Exchange difference	28,213	29,364
Endesa Operaciones y Servicios	Exchange difference	174,912	90,737
	Other services	285,854	-
Enel Distribuzione Spa	Exchange difference	77,855	25,952
	Computer service	989,766	821,748
Enel Iberoamérica	Other services	471,747	486,878
	Exchange difference	214	-
	Studies and projects	578,045	-
Enel Spa	Exchange difference	-	6,285
	Other services	694,266	264,962
Enel Distribución Chile S.A. (2)	Other services	188,407	58,052
Enel Chile S.A. (2)	Other services	-	19,779
	Exchange difference	1,716	87
Enel Ingeniería E Ricerca S.P.A	Studies and projects	-	130,266
	Exchange difference	-	1,809

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Company	Concept of transaction	As of 31 December 2016	As of 31 December 2015
Enel Green Power Italia	Other services	585,749	288,678
Enel Italia Servizi (3)	Other services	3,158,712	-
Energía Nueva Energía Limpia Mx	Exchange difference	3,931	-
		<u>\$ 653,386,134</u>	<u>\$ 296,865,809</u>

- (1) Corresponds to the recognition of operations and transactions up to 30 September 2016, date on which the merger between the Company, DECSA and EEC was executed.
- (2) Revenues and expenses related to expatriate personnel services as of December 2015 with Chilectra and Enersis S.A., which in 2016 changed their names to Enel Distribución Chile S.A. and Enel Chile S.A., respectively.
- (3) Corresponds to services of technological infrastructure and management of information systems.

### Board of Directors and Key Management Personnel

#### Board of Directors

The Company has a Board of Directors made up of seven (7) principal members, each of whom has a personal alternate, elected by the General Shareholders' Meeting by the electoral quotient system. In accordance with the corporate bylaws, while the company has the quality of issuer of securities, 25% of the board members will be independent as provided for by the law. The appointment of board members will be for two (2) years, and they can be re-elected indefinitely and without prejudice to the power of the Shareholders' Meeting to remove them freely at any time.

The Board of Directors current as of 31 December 2016 was elected by the General Shareholders' Meeting in ordinary session held on 28 March 2016. The Company appoints a Chairman, who is elected by the Board of Directors among its members for a given period, and may be re-elected indefinitely or removed freely before the expiry of the period. In addition, the Board of Directors has a Secretary, who may or may not be a member of the Board. The appointment of the Chairman was approved by the Board of Directors in a meeting held on 26 May 2015. The Secretary of the Board of Directors was appointed on 11 November 2008.

In accordance with the provisions in Article 55 of the corporate bylaws, the General Shareholders' Meeting must set the remuneration of the Board members. The current remuneration as of 31 December amounts to USD \$1,000, after taxes, for attendance to each session of the Board of Directors, approved by the General Shareholders' Meeting in ordinary session held on 28 March 2016.

Below is the list of fees paid to members of the Board of Directors:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Name	As of December 31 2016	As of December 31 2015
Rubio Díaz Lucio	\$ 45,331	\$ 40,472
Vargas Lleras José Antonio	45,104	40,836
Acosta David Felipe	41,746	35,100
Cabrales Martínez Orlando	38,379	35,234
Angulo Gonzalez Maria Victoria	34,835	-
Álvarez Hernandez Gloria Astrid	34,622	-
Castillo Aguilar Maria Carolina	31,545	-
Moreno Restrepo Ernesto	10,225	-
Noero Arango Vicente Enrique	6,914	5,708
Bonilla González Ricardo	3,814	32,055
Herrera Lozano José Alejandro	3,814	18,720
Name	As of December 31 2016	As of December 31 2015
Pardo Juan Manuel	3,585	3,141
Lopez Vergara Leonardo	3,557	3,034
Gomez Castañeda Ivan Dario	3,368	-
Eduardo Aguirre	3,368	-
Restrepo Molina Carlos Mario	3,329	-
Roa Barragán Ricardo	-	43,831
Maldonado Copello María Mercedes	-	14,535
Gómez Cerón Gustavo Adolfo	-	8,513
González Borrero Jorge Iván	-	2,952
Rivas Ardila Helga Maria	-	10,576
	<b>\$ 313,536</b>	<b>\$ 294,707</b>

#### Key Management Personnel

Below is a list of key Management personnel:

Name	Position
Lucio Rubio Díaz	Country CEO
David Felipe Acosta Correa	General Manager Codensa
Aurelio Bustilho de Oliveira (a)	Administration and Finance Manager
Daniele Caprini (a)	Administration and Finance Manager

(a) On June 2016 Daniele Caprini was appointed as new Administration and Finance Manager.

The fees received by key Management personnel include salaries and short-term benefits, out of which the most representative corresponds to the annual bonus for meeting objectives. The detailed fees are listed below:

	Year ended 31 December 2016	Year ended 31 December 2015
Fees	\$ 1,625,537	\$ 1,893,498
Short-term benefits	595,785	420,207
	<b>\$ 2,221,322</b>	<b>\$ 2,313,705</b>

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### Incentives Plans for Key Management Personnel

The Company has established for its executives an annual bonus for meeting objectives and level of individual contribution to the Company. These bonuses correspond to a specific number of gross monthly remunerations.

As of 31 December 2016 and 2015, the Company does not have payment benefits based on actions of key management personnel, nor has it established warranties in their favour.

#### 10 Inventories, Net

	As of December 2016	As of December 2015
Electric material, net (1)	\$ 71,070,103	\$ 55,089,099
Transformers	7,008,882	4,940,108
Added value (2)	680,243	227,788
Non-electrical material	2,428,665	812,134
	<b>\$ 81,187,893</b>	<b>\$ 61,069,129</b>

- (1) In 2016, the Company increased material procurement required for projects such as smart metering control and smart networks, the maintenance and optimisation plan of lines and networks and public lighting infrastructure, reinforcement of tele-control network and equipment, under-grounding small and medium voltage networks for land-use planning (POT), expansion of high voltage capacity and other projects intended to improve quality indices and service capacity.

Below is the detailed movement of the provision for impairment associated with electrical material::

<b>Balance as of 1 January 2015</b>	<b>\$ (608,083)</b>
Use of provision	592,903
Recovery	15,180
Endowment provision	(414,718)
<b>Balance as of December 2015</b>	<b>\$ (414,718)</b>
Use of provision	509,380
Endowment of provision	(1,066,399)
<b>Balance as of December 2016</b>	<b>\$ (971,737)</b>

- (2) Corresponds primarily to the inventory of induction stoves available for sale since November 2014; to date there are no signs of impairment of said inventory.

There are not inventories pledged as guarantee of debt compliance.

#### 11 Intangible Assets Other than Goodwill, Net

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	As of 31 December 2016	As of 31 December 2015
Development costs	\$ 1,996,444	\$ 2,168,003
Easement (1)	25,328,069	24,975,750
Licences (2)	44,829,358	6,240,569
Software (3)	46,801,441	40,008,482
<b>Intangible assets, net</b>	<b>118,955,312</b>	<b>73,392,804</b>
<i>Cost</i>		
Development costs	29,510,717	29,476,288
Easement	33,596,165	32,100,437
Licences	82,407,580	39,111,019
Software	149,184,009	125,327,348
<b>Intangible assets, gross</b>	<b>294,698,471</b>	<b>226,015,092</b>
<i>Amortisation</i>		
Development costs	(27,514,273)	(27,308,285)
Easement	(8,268,096)	(7,124,687)
Licenses	(37,578,222)	(32,870,450)
Software	(102,382,568)	(85,318,866)
<b>Intangible assets cumulative amortisation</b>	<b>\$ (175,743,159)</b>	<b>\$ (152,622,288)</b>

- (1) As of 31 December 2016 and 2015 correspond to 33 and 28 easements, respectively. The easements are presented below:

	As of 31 December 2016	As of 31 December 2015
Bacata AT/AT and AT/MT Substation	\$ 14,619,286	\$ 14,915,585
Noroeste AT/AT AT/MT Substation	3,358,387	3,484,041
Nueva Esperanza	2,873,184	56,755
Legalising easements for AT/MT substations	1,752,500	1,692,592
Other minor easements	2,724,712	4,826,777
	<b>\$ 25,328,069</b>	<b>\$ 24,975,750</b>

\* AT (high-voltage), MT (Medium voltage) and BT (Low voltage)

- (2) Corresponds primarily to the E4E license (Evolution for Energy), standardisation of SAP systems that support the company's accounting models, asset management and operation for \$29,080,326.
- (3) Corresponds to the following software:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Net cost as of 31 December 2016	Remaining term (years)	Net cost as of 31 December 2015	Remaining term (years)
<b>Administrative management systems</b>	<b>\$ 5,270,070</b>		<b>\$ 5,005,076</b>	
SAP Software	3,365,069	2	4,424,363	3
Latam Institutional Portal Project	633,216	3	171,697	3
ABC Flow Charter	453,713	3	-	-
Archibus System	432,252	3	148,298	3
Mercurio	317,779	3	4,044	1
Oracle Licensing	68,041	1	256,674	2
<b>Commercial management systems</b>	<b>26,147,617</b>		<b>25,480,450</b>	
Project Synergia 4J	7,409,560	4	9,302,526	5
E - Order field work management	6,935,799	3	5,003,528	3
Epica Evolution	4,099,396	3	2,035,125	3
Online services portal ICT	3,290,378	2	4,305,276	3
Business intelligence software	1,736,484	2	1,954,076	3
Billing on-site	1,180,077	3	221,285	3
Vehicle recharge automation system	738,646	2	1,110,903	3
Commercial system large customers IS-U	499,146	1	910,713	2
Business partner operation system	162,952	2	288,634	3
Constructors management software	95,179	2	246,602	3
Web promotion and development	-	-	101,782	2
<b>Distribution management system</b>	<b>13,687,485</b>		<b>9,330,206</b>	
Sir regulation information system	3,538,407	4	1,486,023	4
Scada STM Software	2,376,901	3	429,171	3
DMS / EMS Software	2,196,396	2	3,556,116	2
Scada Software - Fronten Comunicación	2,140,948	3	1,230,401	3
Oracle Licensing	970,876	3	512,445	3
IBM transformation project	753,627	3	-	-
Scada Software	390,148	1	1,269,494	2
Cas of Projects 2015	383,369	2	460,043	3
Effective Power Monitoring	297,040	3	251,867	3
Linux license	285,625	3	1,753	1
Service Now Project	243,404	3	-	-
Novel IDM Licenses	110,744	2	132,893	3
<b>Other minor software</b>	<b>1,696,269</b>		<b>192,750</b>	
	<b>46,801,441</b>		<b>40,008,482</b>	

The composition and movements of intangible assets is as follows:

	Development costs	Easement	Licenses	Software	Intangible assets
Final balance 01/01/2015	1,656,178	25,645,528	2,715,059	39,149,545	69,166,310
<b>Movements</b>					
Additions	502,648	456,613	4,173,984	10,773,263	15,906,508
Transfers	161,733	-	402,268	(564,001)	-
Amortisation (see note 26)	(152,556)	(1,126,391)	(1,050,742)	(9,350,325)	(11,680,014)
	<b>511,825</b>	<b>(669,778)</b>	<b>3,525,510</b>	<b>858,937</b>	<b>4,226,494</b>
Final balance 31/12/2015	<b>\$ 2,168,003</b>	<b>\$ 24,975,750</b>	<b>\$ 6,240,569</b>	<b>\$ 40,008,482</b>	<b>\$ 73,392,804</b>
<b>Movements</b>					
Additions	369,596	3,194,974	37,178,586	17,932,738	58,675,894
Additions from business combination	-	486,567	1,088,816	282,479	1,857,862
Transfers	(325,367)	(2,323,402)	1,838,674	810,095	-
Amortisation (see note 26)	(215,788)	(1,143,409)	(1,517,287)	(12,232,353)	(15,108,837)
Other increases (decreases)	-	137,589	-	-	137,589



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Development costs	Easement	Licenses	Software	Intangible assets
	( 171,559)	352,319	38,588,789	6,792,959	45,562,508
Final balance 31/12/2016	\$ 1,996,444	\$ 25,328,069	\$ 44,829,358	\$ 46,801,441	\$ 118,955,312

As of 31 December 2015, the Company has no intangible assets of an indefinite useful life.

## 12 Property, Plant and Equipment, Net

	As of 31 December 2016	As of 31 December 2015
Construction in progress (1)	\$ 768,482,031	\$ 522,807,723
Lands	95,130,567	77,511,545
Buildings	118,197,959	83,096,079
Improvements in other property	9,122,269	4,793,648
<b>Plant and equipment</b>	<b>3,214,529,025</b>	<b>2,756,019,497</b>
<i>Substations and high voltage lines</i>	708,742,115	499,799,691
<i>Installations and electric distribution networks</i>	2,475,571,542	2,256,219,806
<i>Hydraulic power station plant</i>	30,215,368	-
<b>Fixed installations and others</b>	<b>70,225,916</b>	<b>61,127,638</b>
<i>Fixed installations and fittings</i>	25,044,304	21,292,139
<i>Other installations</i>	45,181,612	39,835,499
Finance leases	5,255,446	2,510,146
<b>Property, plant and equipment, net</b>	<b>4,280,943,213</b>	<b>3,507,866,276</b>
Construction in progress	768,482,031	522,807,723
Lands	95,130,567	77,511,545
Buildings	168,922,643	123,835,657
Improvements in other property	10,128,371	9,865,025
<b>Plant and equipment</b>	<b>7,086,532,384</b>	<b>6,271,042,019</b>
<i>Substations and high voltage lines</i>	1,671,556,045	1,444,175,265
<i>Installations and electric distribution networks</i>	5,379,400,807	4,826,866,754
<i>Hydraulic power station plant</i>	35,575,532	-
<b>Fixed installations and others</b>	<b>199,048,696</b>	<b>170,666,035</b>
<i>Fixed installations and fittings</i>	64,899,450	56,905,190
<i>Other installations</i>	134,149,246	113,760,845
Finance leases	14,573,574	6,787,276
<b>Property, plant and equipment, gross</b>	<b>8,342,818,266</b>	<b>7,182,515,280</b>
Buildings	(50,724,684)	(40,739,578)
Improvements in other property	(1,006,102)	(5,071,377)
<b>Plant and equipment</b>	<b>(3,872,003,359)</b>	<b>(3,515,022,522)</b>
<i>Substations and high voltage lines</i>	(962,813,930)	(944,375,574)
<i>Installations and electric distribution networks</i>	(2,903,829,265)	(2,570,646,948)
<i>Hydraulic power station plant</i>	(5,360,164)	-
<b>Fixed installations and others</b>	<b>(128,822,780)</b>	<b>(109,538,397)</b>
<i>Fixed installations and fittings</i>	(39,855,146)	(35,613,051)
<i>Other installations</i>	(88,967,634)	(73,925,346)

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	As of 31 December 2016	As of 31 December 2015
Finance leases	(9,318,128)	(4,277,130)
<b>Cumulative depreciation of property, plant and equipment</b>	<b>\$ (4,061,875,053)</b>	<b>\$ (3,674,649,004)</b>

(1) Assets undergoing construction correspond to the following projects:

Project	As of 31 December 2016	As of 31 December 2015
Telecontrol Latam – Codensa Project	\$ 133,425,582	\$ 50,343,141
Replacement of rural and urban infrastructure Level 2	75,562,427	24,591,033
Construction of Nueva Esperanza Substation 500-115Kva	73,413,211	56,792,496
Replacement of rural infrastructure Level 1	65,796,277	10,195,473
Conditioning of loss control metering equipment	55,613,158	29,158,023
Connection of mass urban lines and networks	53,415,100	54,799,892
Expansion of public lighting	30,858,670	25,524,991
Standardisation and service quality high voltage	27,540,487	16,775,924
Standardisation and service quality medium voltage	27,476,208	18,566,297
Replacement of rural and urban transformers and equipment	27,457,757	41,946,730
Construction Substation Norte STN-115Kva	26,803,219	11,327,206
Modernisation of public lighting Bogota	21,998,368	29,456,261
IDU Land-use planning – Municipalities	18,041,244	18,169,432
Smart Metering	17,053,266	-
Medium voltage lines quality plan	15,300,973	12,444,400
Medium voltage line concessions	13,764,792	14,325,467
Expansion of medium voltage capacity	12,957,090	11,487,975
Mobile substation	9,121,236	-
Rural public lighting	6,054,487	3,629,848
Modernisation hydraulic power station Rionegro	5,215,734	-
Conditioning commercial sites	4,948,490	6,324,732
Expansion of output in Gorgonzola substation	4,644,508	8,021,736
Construction substation Compartir 115-11.4Kva	4,213,510	1,304,439
Evolution of channels infrastructure	-	10,097,180
Compensation Ubatè substation	-	2,059,234
Dismantling of transformers with PCBS	-	1,901,061
Other minor projects	37,806,237	63,564,752

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Project	As of 31 December	As of 31 December
	2016	2015
	\$ 768,482,031	\$ 522,807,723

The composition and movements of the line item Properties, plant and equipment are detailed below:

	Plant and equipment									
	Construction in progress	Lands	Buildings	Improvements other property	Substations and high voltage lines	Installations and electric distribution networks	Hydraulic power station plant	Other installations	Finance leases	Property, plant and equipment
<b>Final balance 01/01/2015</b>	\$ 338,304,789	\$ 73,955,513	\$ 68,408,807	\$ 6,464,147	\$ 497,773,629	\$ 2,263,845,795	\$ -	\$ 54,706,410	\$ 3,942,848	\$ 3,307,401,938
Movements in property, plant and Equipment										
Additions (a)	435,803,260	1,074,722	-	-	-	-	-	943,692	-	437,821,674
Transfers	(251,874,774)	2,488,799	17,765,162	-	49,053,591	162,381,868	-	20,185,354	-	-
Withdrawals	(2,052)	(7,489)	-	-	-	-	-	(3,337)	-	(12,878)
Depreciation expenses (see note 26)	-	-	(3,077,890)	(1,670,499)	(47,027,529)	(170,007,857)	-	(14,704,481)	(1,432,702)	(237,920,958)
Other increases (decreases)	576,500	-	-	-	-	-	-	-	-	576,500
<b>Period movements</b>	<b>184,502,934</b>	<b>3,556,032</b>	<b>14,687,272</b>	<b>(1,670,499)</b>	<b>2,026,062</b>	<b>(7,625,989)</b>	<b>-</b>	<b>6,421,228</b>	<b>(1,432,702)</b>	<b>200,464,338</b>
<b>Final balance 31/12/2015</b>	<b>\$ 522,807,723</b>	<b>\$ 77,511,545</b>	<b>\$ 83,096,079</b>	<b>4,793,648</b>	<b>\$ 499,799,691</b>	<b>\$ 2,256,219,806</b>	<b>\$ -</b>	<b>\$ 61,127,638</b>	<b>\$ 2,510,146</b>	<b>\$ 3,507,866,276</b>
Movements in property, plant and equipment										
Additions	602,311,504	88,862	-	-	-	-	-	-	4,503,208	606,903,574
Additions from business combination	15,543,448	12,770,086	24,078,827	-	59,753,045	272,437,563	30,376,011	6,283,340	996,120	422,238,440
Transfers	(371,871,331)	4,917,278	14,332,672	5,334,725	194,403,561	135,810,161	-	17,073,021	(87)	-
Withdrawals	(309,313)	(19,615)	(11,685)	-	(1,823,463)	(4,690,406)	-	(1,280)	(124,181)	(6,979,943)
Depreciation expenses (see note 26)	-	-	(3,297,934)	(1,006,104)	(43,390,719)	(184,205,582)	(160,643)	(14,256,803)	(2,629,760)	(248,947,545)
Other increases (decreases)	-	(137,589)	-	-	-	-	-	-	-	(137,589)
<b>Period movements</b>	<b>245,674,308</b>	<b>17,619,022</b>	<b>35,101,880</b>	<b>4,328,621</b>	<b>208,942,424</b>	<b>219,351,736</b>	<b>30,215,368</b>	<b>9,098,278</b>	<b>2,745,300</b>	<b>773,076,937</b>
<b>Final balance 31/12/2016</b>	<b>\$ 768,482,031</b>	<b>\$ 95,130,567</b>	<b>\$ 118,197,959</b>	<b>9,122,269</b>	<b>\$ 708,742,115</b>	<b>\$ 2,475,571,542</b>	<b>\$ 30,215,368</b>	<b>\$ 70,225,916</b>	<b>\$ 5,255,446</b>	<b>\$ 4,280,943,213</b>

- (a) In 2016, \$11,927,334 of financial expenses were capitalised in eligible assets for projects such as replacement and redesign of quality in rural medium voltage, Nueva Esperanza substation and Norte substation.

#### Additional information on property, plant and equipment, net

##### Main investments

As of 31 December 2016 and 2015, additions to property, plant and equipment correspond to investments in conditioning, modernisation, expansion and construction of substations, lines and networks in high, medium and low voltage and distribution transformers in order to enhance efficiency and levels of quality of service. The main additions to property, plant and equipment correspond to:

Additions by projects	Type	As of 31 December 2016	As of 31 December 2015
Expansion of lines and networks AT, MT and BT*	Lines and networks	\$ 267,102,161	\$ 148,601,808
Conditioning and modernisation on lines and networks AT, MT and LT	Lines and networks	111,443,607	109,532,594
Conditioning, modernisation and expansion AT/MT and MT/MT* substations	Substations	74,667,303	42,580,039
Expansion and modernisation of rural and urban public lighting	Lines and networks	61,369,210	39,319,643
Expansion substation Norte STN/115 Kva	Substations	20,822,455	11,379,803
Expansion substation Nueva Esperanza 550/115 Kva	Substations	15,861,414	16,213,162
Expansion and conditioning distribution Transformers MT y BT*	Lines and networks	11,808,467	18,663,166

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Procurements metering devices for loss control MT y BT*	Lines and networks	9,642,844	12,522,900
Expansion substation second transformer Bacatá 550/115 Kva	Substations	9,111	11,819,536

\* AT (High Voltage), MT (Medium Voltage) and BT (Low Voltage)

### Main transfers to operation

As of 31 December 2016, the main constructions in progress that started operations correspond to:

Project	Bogotá Urban	Cundinamarca	Total Activation
		\$	
Modernisation, conditioning and expansion medium voltage lines and networks	\$ 73,006,619	88,367,142	\$ 161,373,761
Modernisation, conditioning and expansion public lighting	3,344,979	57,431,896	60,776,875
Modernisation, conditioning and expansion high and medium voltage substations	4,583,893	36,962,420	41,546,313
Modernisation, conditioning and expansion distribution transformers	12,483,997	26,344,485	38,828,482
Modernisation, conditioning and expansion low tension lines and networks	13,186,070	22,690,299	35,876,369
Modernisation, conditioning and expansion high tension lines and networks	2,034,899	8,189,935	10,224,834

As of 31 December 2015, the main constructions in progress that started operations correspond to:

Project	Bogotá Urban	Cundinamarca	Total Activation
Modernisation, conditioning and expansion medium voltage lines and networks	\$ 58,319,963	\$ 48,957,561	\$ 107,277,524
Modernisation, conditioning and expansion high and medium voltage substations *	44,034,221	19,980,385	64,014,606
Modernisation, conditioning and expansion low tension lines and networks	18,231,299	18,670,185	36,901,484
Modernisation, conditioning and expansion distribution transformers	10,162,706	1,797,412	11,960,118
Modernisation, conditioning and expansion public lighting	3,193,828	752,659	3,946,487
Modernisation and conditioning loss control metering devices	1,123,762	1,135,977	2,259,739
Modernisation, conditioning and expansion high tension lines and networks	550,001	1,258,428	1,808,429

\* Corresponds primarily to the installation of the second 500 mva transformer at the Bacatá substation for \$25,165,114, which doubles the transforming capacity of the substation, reaching 900MVA. The Bacatá substation contributes to improve the levels of reliability and stability of the energy system in the central zone of the country, improve service quality for 2.8 million clients and expand the service capacity as per the new demand.

### Fully depreciated assets in use

As of 2016 and 2015, the main fully depreciated assets in use correspond to:

Fully depreciated	Type	As of 31 December 2016	As of 31 December 2015
Medium voltage lines, networks and equipment	Lines and networks	\$ 25,991,755	\$ -
High voltage lines and support	Lines and networks	8,894,162	-
Lines, support and luminaires public lighting	Lines and networks	4,172,341	-
Civil works substations	Substations	15,119,493	14,827,325
Substation equipment	Substations	11,471,281	-

### Finance lease

As of 31 December 2016 and 2015, property, plant and equipment includes \$5,255,446 and \$2,510,146, corresponding to the accounting net present value of assets that are the object of finance lease

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

agreements.

Finance lease agreements correspond to lease agreements for vehicles entered into mostly with Unión Temporal Rentacol, Consorcio Empresarial and Transportes Especializados JR S.A.S., destined to support Company operations; Mareauto Colombia S.A.S. and Banco Corpbanca, destined to transport of company executives.

The term of the agreements, on average, ranges between 36 and 60 months, period in which the recognised assets are amortised.

70% of the vehicle fleet was contracted with Consorcio Empresarial and Unión Temporal Rentacol, which will be finally amortised in a maximum period of 24 instalments.

The present value of future payments derived from said agreements are as follows:

Minimum Payments for leases, obligations for finance leases	As of 31 December 2016			As of 31 December 2015		
	Gross	Interest	Present value	Gross	Interest	Present value
Less than one year	\$ 3,789,325	\$ 355,841	\$ 3,433,484	\$ 1,674,790	\$ 225,259	\$ 1,449,531
Over one year but less than five years (see note 14)	2,161,448	173,878	1,987,570	1,516,137	79,109	1,437,028
<b>Total</b>	<b>\$ 5,950,773</b>	<b>\$ 529,719</b>	<b>\$ 5,421,054</b>	<b>\$ 3,190,927</b>	<b>\$ 304,368</b>	<b>\$ 2,886,559</b>

### Operating Lease

The income statement as of 31 December 2016 and 2015, includes \$7,799,468 and \$7,053,193, respectively, corresponding to the accrual of operating lease agreements, mainly real estate, including:

	Initial date	Final date	Purchase option
<b>Administrative offices</b>			
North Point	Jan -10	Jan-18	No
Q93 Office	Jun-14	May-19	No
Calle 82 Piso 5y6	Jan -10	Dec -20	No
Calle 82 Piso 7	Apr-13	Mar-18	No
Calle 82 Of. 801	Aug-11	Dec -20	No
Corporate tower 93	Oct -09	Sept-18	No
<b>Customer service offices</b>			
Calle 80	Jan -04	Dec-22	No
Chapinero	Sept -11	Sept -21	Yes
Suba 91	Oct -14	Oct-24	No
San Diego	Oct -10	Sept -20	No
Kennedy	Aug-13	Jul-23	Yes
Soacha	Oct -11	Oct-21	Yes

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

As of 31 December 2016, related contracts are adjusted annually in accordance with the Consumer Price Index (CPI) and points contractually defined; and on agreements that establish a purchase option, the Company has no expectations of exercising said option.

As of 31 December 2015, future payments derived from said contracts are as follows:

Minimum future payments for non-payable leases, Lessees	As of 31 December 2016	As of 31 December de 2015
Less than one year	\$ 9,042,788	\$ 5,475,668
Over one year but less than five years	16,391,482	10,749,756
Over five years	2,060,749	2,729,749
	<b>\$ 27,495,019</b>	<b>\$ 18,955,173</b>

The above information does not include VAT

### Insurance policies

Below are the policies for the protection of Company property:

Insured property	Risks covered	Insured value (In thousands)	Maturity	Insurance company
Company equity (*)	Non-contractual civil liability	USD \$20,000	1/11/2017	Generali Colombia
	Non-contractual civil liability (tier of USD 200 million in excess of USD 20 million)	USD \$200,000	1/11/2017	Mapfre Seguros Colombia
Civil works, equipment contents, stores and profit loss (*)	All risk material damage, earthquake, seaquake HMACC – AMIT, profit loss and machinery breakdown	USD \$50,000	1/11/2017	Mapfre Seguros Colombia
Vehicles	Non-contractual civil liability	Limit \$800,000 per vehicle, \$ 900,000 per vehicle (2017)	31/12/2017	Seguros Mundial

(\*) The Company's policy agreements are executed in dollars.

As of 9 December 2015, the Company accepted the indemnification of Mapfre Seguros on account of casualty at the Usme Substation for USD \$757,875 (\$2,551,780), which were paid on 15 February 2016.

### 13 Deferred Taxes, Net

The recovery of asset balances for deferred taxes depends on obtaining sufficient tax profit in the future. Management considers that future tax profit are sufficient for asset recovery.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued) (In thousands of pesos)

Below is the detail of the deferred tax asset net as of 31 December 2016:

	Initial balance 31-12-2015	Increases (decreases) for deferred tax in profit or loss (i)	Increases (decreases) for deferred tax in other comprehensive income (See number 1, note 32) (iii)	Business combination effect	Increases for deferred tax in profit or loss due to rate change (ii)	Final balance 31- 12-2016
<b>Deferred tax assets</b>						
Depreciation and adjustments for inflation of property, plant and equipment	\$ 90,780,856	\$ (139,341,155)	\$ -	\$ 48,560,299	\$ -	\$ -
Provisions and other (1)	49,645,729	(3,367,781)	-	24,996,752	(828,201)	70,446,499
Defined contribution obligations	2,148,565	(3,719,455)	14,459,139	5,146,805	(140,638)	17,894,416
Hedging instruments	35,635	(35,635)	-	-	-	-
<b>Total deferred tax assets</b>	<b>142,610,785</b>	<b>(146,464,026)</b>	<b>14,459,139</b>	<b>78,703,856</b>	<b>(968,839)</b>	<b>88,340,915</b>
<b>Deferred tax liabilities</b>						
Excess tax depreciation on book value (2)	107,974,694	(104,935,464)	-	68,891,449	(2,616,133)	69,314,546
Others (3)	1,667,099	(1,256,971)	37,527	4,449,033	74,341	4,971,029
<b>Total deferred tax liabilities</b>	<b>109,641,793</b>	<b>\$ (106,192,435)</b>	<b>\$ 37,527</b>	<b>\$ 73,340,482</b>	<b>\$ (2,541,792)</b>	<b>74,285,575</b>
<b>Deferred tax assets, net</b>	<b>\$ 32,968,992</b>	<b>\$ (40,271,591)</b>	<b>\$ 14,421,612</b>	<b>\$ 5,363,374</b>	<b>\$ 1,572,953</b>	<b>\$ 14,055,340</b>

(i) As of 31 December 2016, the decrease in results for deferred tax includes: (i) deferred tax for the period (\$41,005,119) (ii) prior years' deferred tax of \$733,528.

(ii) The increase (decrease) for deferred tax in profit or loss includes the impact of the tax reform in accordance with Act 1819/2016, which eliminated the income tax for equality - CREE together with its surtax, and increased Income tax and supplementary rates from 25% to 33% from 2017, and also created the income surtax of 7% and 4% for 2017 and 2018, respectively.

(iii) Corresponds to the difference in the actuarial calculation of pensions of Decree 2496/2015 for tax purposes and the result under the IFRS.

(1) As of 31 December 2016, the detail of deferred tax assets on account of other provisions corresponds to:

	Initial balance 31-12-2015	Increases (decreases) for deferred tax in profit or loss	Business combination effect	Increases for deferred tax in profit or loss due to rate change (*)	Final balance 31-12-2016
Provision for bad debt accounts	\$ 12,957,315	\$ (8,925,393)	\$13,170,798	\$ (20,538)	\$ 17,182,182
Provision for labour obligations	10,139,814	(1,892,935)	2,095,322	(307,924)	10,034,277
Provision for industry and trade	5,226,991	697,387	1,563,616	-	7,487,994
Provisions for Works and services	12,544,770	8,013,510	6,909,258	(379,821)	27,087,717
Provision for quality compensation	1,183,964	(1,183,964)	-	-	-
Provision – Claims with third parties	6,000,000	-	-	-	6,000,000
Others	1,592,875	(76,386)	1,257,758	(119,918)	2,654,329
	<b>\$ 49,645,729</b>	<b>\$ (3,367,781)</b>	<b>\$24,996,752</b>	<b>\$ (828,201)</b>	<b>\$ 70,446,499</b>

(2) As of 31 December 2016, corresponds to the difference in accounting and tax depreciation due to: i) depreciation requested in excess of additional shifts in 1998; ii) depreciation due to reduction of balances as of 2014; iii) difference in the cost of assets by technical re-valuation; iv) other minor

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

changes.

- (3) As of 31 December 2016, corresponds mainly to the deferred tax for the difference in the measurement of financial obligations.

The deferred tax as of 31 December 2016 by rate is the following:

	Income	2017 Income and surtax	2018 Income and surtax
Provisions and estimated liabilities	\$ 89,329,777	\$ 98,412,472	\$ (670,083)
Property, plant and equipment	(184,189,648)	(15,903,535)	(7,602,755)
Portfolio	2,053,783	41,261,082	-
Science and Technology	(12,082,364)	3,874,798	78,596
	<b>(104,888,452)</b>	<b>127,644,817</b>	<b>(8,194,242)</b>
Rate	33%	40%	37%
	\$ (34,613,189)	\$ 51,057,927	\$ (3,031,870)
Occasional gains	6,424,717		
Rate	10%		
Tax	642,472		
Total deferred tax debit	<b>\$ 14,055,340</b>		

Below is the detail of net deferred tax assets as of 31 December 2015:

	Initial balance 01-01-2015	Increases (decreases) for deferred tax in profit or loss (i)	Increases (decreases) for deferred tax in other comprehensive income (See number 1 note 32)	Final balance 31-12-2015
Depreciation and adjustments for inflation of property, plant and equipment	\$ 98,951,759	\$ (8,170,903)	\$ -	\$ 90,780,856
Provisions and others (1)	39,285,826	10,359,903	-	49,645,729
Defined contribution obligations	1,155,664	906,174	86,727	2,148,565
Hedging instruments	-	-	35,635	35,635
Investments	567,148	(567,148)	-	-
	<b>139,960,397</b>	<b>2,528,026</b>	<b>122,362</b>	<b>142,610,785</b>
<b>Deferred tax liabilities</b>				
Excess tax depreciation on accounting value (2)	42,220,787	65,753,907	-	107,974,694
Other	880,780	786,319	-	1,667,099
<b>Total deferred tax liabilities</b>	<b>43,101,567</b>	<b>\$ 66,540,226</b>	<b>\$ -</b>	<b>109,641,793</b>
<b>Net deferred tax assets</b>	<b>\$ 96,858,830</b>	<b>\$ (64,012,200)</b>	<b>\$ 122,362</b>	<b>\$ 32,968,992</b>

(i) As of 31 December 2016, the decrease in deferred tax results includes: (i) deferred tax for the period of (\$19,060,018); (ii) deferred tax of prior years (\$44,952,180) primarily for the implementation of depreciation through reduction of balances.

- (1) As of 31 December 2015, the breakdown of the deferred tax assets on account of Other provisions corresponds to:



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Initial balance 01-01-2015	Increases (decreases) for deferred tax in profit or loss	Final balance 31-12-2015
Provision for bad debts	\$ 9,354,984	\$ 3,602,331	\$ 12,957,315
Provision for labour obligations	8,065,073	2,074,741	10,139,814
Provision for industry and trade	4,389,716	837,275	5,226,991
	Initial balance 01-01-2015	Increases (decreases) for deferred tax in profit or loss	Final balance 31-12-2015
Provision for works and services	7,404,629	5,140,141	12,544,770
Provision for quality compensation	2,613,210	(1,429,246)	1,183,964
Provision – Claims with third parties	5,850,000	150,000	6,000,000
Others	1,608,214	(15,339)	1,592,875
<b>\$</b>	<b>39,285,826</b>	<b>\$ 10,359,903</b>	<b>\$ 49,645,729</b>

Deferred tax as of 31 December 2015 by rate is shown below:

	Income	2015 CREE and surtax	2016 CREE and surtax	2017 CREE and surtax	2018 CREE and surtax	Onwards CREE and surtax
Provisions and estimated liabilities	\$ 98,715,291	\$ 15,907,102	\$ 61,441,902	\$ 5,821,037	\$ 1,936,463	\$ 13,608,786
Property, plant and equipment	(50,433,157)	-	19,327,983	(40,343,442)	17,400,360	(46,818,058)
Portfolio	32,393,284	-	32,393,284	-	-	-
Science and Technology	(6,668,390)	-	-	-	-	-
	<b>74,007,028</b>	<b>15,907,102</b>	<b>113,163,169</b>	<b>(34,522,405)</b>	<b>19,336,823</b>	<b>(33,209,272)</b>
Rate	25%	14%	15%	17%	18%	9%
	\$ 18,501,757	\$ 2,226,994	\$ 16,974,475	\$ (5,868,809)	\$ 3,480,628	\$ (2,988,834)
Occasional gains	6,427,806					
Rate	10%					
Tax	642,781					
Total deferred tax debit	<b>\$ 32,968,992</b>					

- (2) As of 31 December 2015, it corresponds to the difference in accounting and tax depreciation due to: i) depreciation requested in excess of additional shifts in 1998; ii) depreciation due to reduction of balances as of 2014; iii) difference in the cost of assets by technical revaluation; iv) other minor changes.

#### 14 Other Financial Liabilities

	As of 31 December 2016			As of 31 December 2015		
	Current		Non-current	Current		Non-current
	Principal	Interests		Principal	Interests	
Issued bonds (1)	\$ 391,427,451	\$ 8,161,747	\$ 730,000,000	\$ 145,000,000	\$ 9,978,298	\$ 1,031,063,714
Bank obligations (2)	44,745,428	6,634,988	435,742,011	-	-	-
Lease obligations (3)	3,433,484	-	1,987,570	1,449,531	-	1,437,028
Forwards	-	-	-	89,088	-	-
	<b>\$ 439,606,363</b>	<b>\$ 14,796,735</b>	<b>\$ 1,167,729,581</b>	<b>\$ 146,538,619</b>	<b>\$ 9,978,298</b>	<b>\$ 1,032,500,742</b>

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (1) The movement of bonds from January to December 2016 is summarised as follows: (i) payments for \$145,000,000 of Subseries B6 on 17 February 2016; (ii) classification in March 2016 from long- to short-term of Subseries A10 bonds for \$391,500,000, whose maturity is on 14 May 2017; (iii) issue of E4 bonds on 15 September 2016 for \$90,000,000, 4-year term, E.A. fixe rate 7.10%, resources destined to finance the company's investment plan.

The total Company financial debt is represented in five (5) current bond issues in the local market. Below are the main debt financial features of bonds issued since 2004 and current as of 31 December 2016.

#### Second Bond Issue

On 14 February 2007, the Colombian Financial Superintendence through Resolution No. 0208/2007 ordered the registration in the National Register of Securities and Issuers (RNVE) of the second issue of Codensa Ordinary Bonds for an amount of \$650,000,000 and authorised its public offering.

This emission was placed in three lots, as described below:

Total place value:	\$650,000,000 as follows: 1st Lot: 14 March 2007 for \$225,800,000 2nd Lot: 20 June 2007 for \$305,500,000 3rd Lot: December 2007 for \$118,700,000 The total amount was placed in 4 sub-series, as follows: Subseries A3: \$139,800,000 Subseries A10: \$391,500,000 Subseries B3: \$84,980,000 Subseries B5: \$33,720,000
Current balance as of 31 December 2016	\$391,500,000 (Subseries A10)
Par value per bond:	\$10,000
Issue terms:	Subseries A3: 3 years Subseries A10: 10 years Subseries B3: 3 years Subseries B5: 5 years
Date of issue:	14 March 2007, for all subseries
Maturity:	Subseries A3: 14 March 2010 Subseries A10: 14 March 2017 Subseries B3: 14 March 2010 Subseries B5: 14 March 2012
Issue Manager:	Deceval S.A.
Coupon Rate:	Subseries A3: CPI + 4,60% E.A. Subseries A10: CPI + 5,30% E.A. Subseries B3: DTF + 2,09% E.A. Subseries B5: DTF + 2,40% E.A.
Rating:	AAA (Triple A) Granted by Duff & Phelps de Colombia S.A. S.C.V. (currently FitchRatings Colombia S.A. S.C.V.)

The current balance for \$391,500,000 is split in two lots of \$147,000,000 and \$244,500,000; the latter had a premium in bond placement that corresponds to the higher value received for the placement of ordinary

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

bonds as a result of the rate differential existing between the coupon rate of the bonds and the yield rate for bond placement. Consequently, the Company received \$3,533,025 in 2007 of which as of 31 December 2016, a total of \$3.460.476 have been amortised; the pending balance to be amortised is \$72.549, which is being amortised over 118 months, equivalent to the validity term of the bonds from their placement to their maturity date.

#### Third Bond Issue

The Colombian Financial Superintendence, through Resolution No. 0332 of 10 March 2008, ordered the registration in the National Register of Securities and Issuers (RNVE in Spanish) of the third issue of Codensa ordinary bonds amounting to \$350,000,000 and authorised its public offer.

This issue was placed in two lots as described below:

Total placed value	\$350,000.000, as follows: 1st lot: 11 December 2008 for \$270.000.000 2nd lot: 27 March 2009, for \$80,000.000 The total amount was placed in 4 subseries, as follows: Subseries A5: \$75,500,000 Subseries A10: \$80,000,000 Subseries B2: \$109,000,000 Subseries B5: \$85,500,000
Current balance as of 31 December 2016	\$80,000,000 (Subseries A10)
Par value per bond:	\$10,000
Issue terms:	Subseries A5: 5 years Subseries A10: 10 years Subseries B2: 2 years Subseries B5: 5 years
Date of issue:	11 December 2008 for all subseries
Maturity	Subseries A5 and B5: 11 December 2013 Subseries A10: 11 December 2018 Subseries B2: 11 December 2010
Issue Manager:	Deceval S.A.
Coupon Rate:	Subseries A5: CPI + 5.99 % E.A. Subseries A10: CPI + 5.55% E.A. Subseries B2: DTF Annual Rate + 2.11% Subseries B5: DTF Annual Rate + 2.58%
Rate:	AAA (Triple A ) Granted by Duff & Phelps de Colombia S.A. S.C.V. (currently FitchRatings Colombia S.A. S.C.V.)

#### Bond Issue and Placement Programme

Through Resolution No. 194 of 29 January 2010, the Colombian Financial Superintendence ordered the registration in the National Register of Securities and Issuers (RNVE in Spanish) of the Codensa Ordinary Bond Issue and Placement Programme for an amount of up to \$600,000,000, and its public offer.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Through Resolution No. 0624 of 3 April 2013, the Colombian Financial Superintendence authorised the renewal of the validity term of the authorisation for the public offer of the Codensa Ordinary Bond Issue and Placement Programme for a three-year term counted as of the signing of the aforementioned Resolution, i.e., until 30 April 2016. Subsequently, having met the requirements established for such purpose, the Limit for the Issue and Placement Programme was extended on 13 March 2014 through Resolution No. 0407/2014 of the Colombian Financial Superintendence to \$185,000,000, increasing the Programme's Global Limit to \$785,000,000. The Limit of the Issue and Placement Programme was extended once again on 7 October 2014 through Resolution No. 1780/2014 of the Financial Superintendence to \$165,000,000, increasing the Programme's Global Limit to \$950,000,000. Finally, Resolution No. 0623 of 23 May 2016 approved the extension of the Global Programme Limit to an additional amount of \$560,000,000, bringing the Global Limit to \$1,510,000,000, while the renewal of the term for the authorisation of the public offer of the bonds in the Programme was approved for three additional years as of the execution of said Resolution, i.e., until 3 June 2019.

As of 31 December 2016, four (4) issues have taken place under the Programme. The first Tranche was issued on 17 February 2010, the second Tranche on 15 November 2013, the third Tranche on 25 September 2014 and the fourth Tranche on 15 September 2016. Below is the detail of current issues:

#### Second Tranche under the Programme

Total placed value	\$375,000,000, as follows: Subseries B5: \$181,660,000 Subseries B12: \$193,340,000
Current balance as of 31 December 2016	\$375,000,000
Par value per bond	\$10,000
Issue terms	Subseries B5: 5 years Subseries B12: 12 years
Date of issue	15 November 2013 for all series
Maturity	Subseries B5: 15 November 2018 Subseries B12: 15 November 2025
Issue Manager	Deceval S.A.
Coupon Rate:	Subseries B5: CPI + 3.92% E.A. Subseries B12: CPI + 4.80% E.A.
Rating	AAA (Triple A ) Granted by Duff & Phelps de Colombia S.A. S.C.V. (currently FitchRatings Colombia S.A. S.C.V.).

#### Third Tranche under the Programme

Total placed value	\$185,000,000, as follows: Subseries B7: \$185,000,000
Current balance as of 31 December 2016	\$185,000,000
Par value per bond	\$10,000
Issue Terms	Subseries B7: 7 years
Date of Issue	25 September 2014

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Maturity	Subseries B7: 25 September 2021
Issue Manager	Deceval S.A.
Coupon Rate:	Subseries B7: CPI + 3.53% E.A.
Rating	AAA (Triple A ) Granted by Duff & Phelps de Colombia S.A. S.C.V. (currently FitchRatings Colombia S.A. S.C.V.).

#### Fourth Tranche under the Programme

Total placed value	\$90,000,000, as follows: Subseries E4: \$90,000,000
Current balance as of 31 December 2016	\$90,000,000
Par value per bond	\$10,000
Issue Terms	Subseries E4: 4 years
Date of Issue	15 September 2016
Maturity	Subseries E4: 15 September 2020
Issue Manager	Deceval S.A.
Coupon Rate:	Subseries E4: 7.70% E.A.
Rating	AAA (Triple A ) Assigned by FitchRatings Colombia S.A. S.C.V.

On 17 February 2016, payment by maturity was made of Subseries B6 of the Second Tranche of bonds under Codensa's Issue and Placement Programme issued in 2010 for an amount of \$145,000,000. With this payment all subseries issued under this tranche were expired, so to date there is no current balance.

The detail of obligations for debt bonds as of 31 December 2016 is as follows:

Series	EA Rate (*)	Current		Non-current			Total Non-current
		Less than 90 days	Total Current	1 to 2 years	3 to 5 years	5 to 10 years	
Bonds B102 Tranche 1	11,58%	\$ 147,732,129	\$ 147,732,129	\$ -	\$ -	\$ -	\$ -
Bonds B102 Tranche 2	11,58%	245,764,039	245,764,039	-	-	-	-
Bonds B103	11,84%	522,405	522,405	80,000,000	-	-	80,000,000
Bonds B5-13	10,11%	2,280,672	2,280,672	181,660,000	-	-	181,660,000
Bonds B12-13	11,05%	2,643,916	2,643,916	-	-	193,340,000	193,340,000
Bonds B7-14	9,70%	332,081	332,081	-	185,000,000	-	185,000,000
Bonds E4-16	7,70%	313,956	313,956	-	90,000,000	-	90,000,000
<b>Total Bonds</b>		<b>\$ 399,589,198</b>	<b>\$ 399,589,198</b>	<b>\$ 261,660,000</b>	<b>\$ 275,000,000</b>	<b>\$ 193,340,000</b>	<b>\$ 730,000,000</b>

(\*) Type of rate: variable

The payment of interests is quarterly and the amortisation of the principal is done on the date of maturity of the issue.

The detail of Obligations for debt bonds as of 31 December 2015 is as follows:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Series	EA Rate (%)	Current			Non-current		
		Less than 90 days	Total current	1 to 2 years	2 to 3 years	5 to 10 years	Total Non-current
Bonds B102 Tranche 1	12.03%	\$ 835,118	\$ 835,118	\$ 147,000,000	\$ -	\$ -	\$ 147,000,000
Bonds B102 Tranche 2	12.03%	1,311,855	1,311,855	244,063,714	-	-	244,063,714
Bonds B103	12.29%	541,274	541,274	-	80,000,000	-	80,000,000
Bonds B604	10.56%	146,818,064	146,818,064	-	-	-	-
Series	EA Rate (%)	Current			Non-current		
		Less than 90 days	Total current	1 to 2 years	2 to 3 years	5 to 10 years	Total current
Bonds B5-13	10.56%	2,378,952	2,378,952	-	181,660,000	-	181,660,000
Bonds B12-13	11.50%	2,746,046	2,746,046	-	-	193,340,000	193,340,000
Bonds B7-14	10.15%	346,989	346,989	-	-	185,000,000	185,000,000
<b>Total Bonds</b>		<b>\$ 154,978,298</b>	<b>\$ 154,978,298</b>	<b>\$ 391,063,714</b>	<b>\$ 261,660,000</b>	<b>\$ 378,340,000</b>	<b>\$ 1,031,063,714</b>

- (2) On 17 March 2016, the Company acquired a loan with The Bank of Tokyo Mitsubishi UFJ for \$200,000,000, EA rate 8.4931% maturing on 17 March 2019, and on 10 June 2016 another one was acquired with the same bank for \$162,000,000, EA rate 8.8150% maturing on June 10, 2020. These resources were intended for general purposes of the Company.

In addition, as a result of the business combination process, the Company recognised fourteen treasury credits for \$138,098,600 with the banks Banco de Bogota, Banco AV Villas, Banco Popular and Banco Agrario, on which an assessment of each financial obligation was made with applicable market rates in accordance with the nature of the loans (13.08% EA), reflecting a fair value of \$128,511,053. Between 1 October and 31 December 2016, capital amortisations were made for \$9,945,652.

The detail of bank loans as of 31 December 2016 is as follows:

Description	EA Rate	Current			Non-current				Total Non-current
		Less than 90 days	Over 90 days	Total current	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	
The Bank of Tokyo Mitsubishi UFJ	8.49%	\$ 4,807,111	\$ -	\$ 4,807,111	\$ -	\$ 200,000,000	\$ -	\$ -	\$ 200,000,000
The Bank of Tokyo Mitsubishi UFJ	9.01%	793,350	-	793,350	-	-	162,000,000	-	162,000,000
Banco de Bogotá	9.46%	2,555,421	8,073,669	10,629,090	8,121,328	2,449,811	-	-	10,571,139
Banco AV Villas	9.24%	1,302,642	4,102,172	5,404,814	4,135,829	1,250,000	-	-	5,385,829
Banco Popular	9.13%	748,902	2,105,995	2,854,897	1,925,620	1,875,000	-	-	3,800,620
Banco Popular	9.20%	1,360,414	4,359,829	5,720,243	3,511,162	5,000,000	-	-	8,511,162
Banco BBVA	7.73%	289,455	825,154	1,114,609	633,967	973,960	243,490	-	1,851,417
Banco BBVA	7.85%	232,996	723,886	956,882	531,876	844,168	211,042	-	1,587,086
Banco BBVA	7.66%	117,796	401,281	519,077	166,946	463,749	231,875	-	862,570
Banco BBVA	7.73%	486,950	1,392,860	1,879,810	967,103	1,618,720	809,360	-	3,395,183
Banco BBVA	7.85%	298,308	929,492	1,227,800	614,667	1,067,360	533,680	-	2,215,707
Banco BBVA	7.74%	264,763	908,609	1,173,372	314,100	1,032,043	774,033	-	2,120,176
Banco BBVA	8.49%	658,779	2,362,313	3,021,092	993,351	1,875,000	2,500,000	1,250,000	6,618,351
Banco BBVA	8.39%	375,319	1,090,673	1,465,992	454,200	1,170,280	1,170,280	585,140	3,379,900
Banco BBVA	8.51%	523,837	1,727,167	2,251,004	647,562	1,813,077	1,813,077	906,538	5,180,254
Banco Agrario	8.91%	1,764,599	5,796,674	7,561,273	1,762,617	6,000,000	6,000,000	4,500,000	18,262,617
<b>Total bank loans</b>		<b>\$ 16,580,642</b>	<b>\$ 34,799,774</b>	<b>\$ 51,380,416</b>	<b>\$ 24,780,328</b>	<b>\$ 227,433,168</b>	<b>\$ 176,286,837</b>	<b>\$ 7,241,678</b>	<b>\$ 435,742,011</b>

As of 31 December 2015, the Company had no current bank loans.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

(3) The detail of the obligations for commercial lease as of 31 December 2016 is as follows:

Description	Rate	Type of rate	Current			Non-current			Total Non-current
			Less than 90 days	Over 90 days	Total current	1 to 2 years	2 to 3 years	3 to 4 years	
Banco Corpobanca (Helm)	7.36%	Fixed	\$ 51,314	\$ 105,524	\$ 156,838	\$ 61,949	\$ -	\$ -	\$ 61,949
Consortio Empresarial	7.08%	Fixed	275,927	849,775	1,125,702	902,075	-	-	902,075
Equirent S.A.	9.54%	Fixed	26,832	84,411	111,243	114,534	133,370	108,548	356,452
Mareauto Colombia SAS	10.98%	Fixed	52,783	167,672	220,455	205,408	209,558	153,921	568,887
Transportes Especializados JR S.A.S.	9.48%	Fixed	11,732	36,903	48,635	50,063	48,144	-	98,207
Unión Temporal Rentacol	10.80%	Fixed	548,203	1,222,408	1,770,611	-	-	-	-
<b>Total lease obligations</b>			<b>\$ 966,791</b>	<b>\$ 2,466,693</b>	<b>\$ 3,433,484</b>	<b>\$ 1,334,029</b>	<b>\$ 391,072</b>	<b>\$ 262,469</b>	<b>\$ 1,987,570</b>

(3) The detail of the obligations for commercial lease as of 31 December 2015 is as follows:

Entity	Rate	Type of rate	Current			Non-current		Total Non-current
			Less than 90 days	Over 90 days	Total current	1 to 2 years	2 to 3 years	
Unión Temporal Rentacol	10.80%	Fixed	\$ 281,622	\$ 891,742	\$ 1,173,364	\$ 1,192,228	\$ -	\$ 1,192,228
Mareauto Colombia SAS	10.08%	Fixed	11,621	36,665	48,286	53,384	28,770	82,154
Banco Corpobanca	7.27%	Fixed	88,697	139,184	227,881	102,213	60,433	162,646
<b>Total lease obligations</b>			<b>\$ 381,940</b>	<b>\$ 1,067,591</b>	<b>\$ 1,449,531</b>	<b>\$ 1,347,825</b>	<b>\$ 89,203</b>	<b>\$ 1,437,028</b>

## 15 Commercial Accounts and Other Accounts Payable

	As of 31 December 2016	As of 31 December 2015
Commercial accounts payable	\$ 195,679,684	\$ 195,492,992
Other accounts payable	690,223,659	485,112,635
	<b>\$ 885,903,343</b>	<b>\$ 680,605,627</b>

The detail of commercial accounts payable and other accounts payable as of 31 December 2015, is as follows:

	As of 31 December 2016	As of 31 December 2015
Accounts payable goods and services (1)	\$ 550,292,958	\$ 348,940,310
Suppliers for energy purchase (2)	195,679,684	195,492,992
Taxes other than income tax (3)	46,868,306	35,814,500
Collection for third parties (4)	40,834,696	52,724,183
Other accounts payable (5)	35,841,489	35,627,034
Balances in favour of customers (6)	13,579,233	8,905,336
Fees	2,806,977	3,101,272
	<b>\$ 885,903,343</b>	<b>\$ 680,605,627</b>

(1) As of 31 December 2015 and 2016, it corresponds primarily to the account payable to Banco Colpatria Red Multibanca Colpatria S.A. for the collection of the “Crédito Fácil Codensa” business portfolio, which was reconciled and outstanding for \$236,425,940 and \$107,777,336, respectively. This balance was paid on January 2, 2017.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

(2) The main suppliers for purchase of electric energy correspond to:

	As of 31 December 2016	As of 31 December 2015
Isagen SA E.S.P.	\$ 74,815,308	\$ 30,980,005
XM SA E.S.P. (Purchases energy market)	46,353,807	54,607,973
Electrificadora del Meta S.A. E.S.P.	24,859,517	377,093
Empresas Públicas de Medellín S.A. E.S.P.	13,364,512	64,358,156
Termotasajero S.A. E.S.P.	8,430,567	-
AES Chivor y Cía. SCA E.S.P.	6,550,149	17,679,551
EBSA S.A.	5,949,737	5,923,702
Empresa URRRA S.A. E.S.P.	5,446,401	4,713,110
EPSA S.A. E.S.P.	2,451,380	3,280,286
Generarco S.A. E.S.P.	-	6,034,665

(3) As of 31 December 2016 and 2015, non-income taxes correspond to:

	As of 31 December 2016	As of 31 December 2015
Provision for payment of taxes (a)	\$ 24,609,391	\$ 18,372,735
Territorial taxes, municipal contributions and similar (b)	22,258,915	17,441,765
	<b>\$ 46,868,306</b>	<b>\$ 35,814,500</b>

(a) As of 31 December 2016 and 2015, corresponds to withholding tax for \$18,363,935 and \$12,998,085 and self-withholding CREE tax for \$6,245,455 and \$5,374,650, respectively.

(b) As of 31 December 2016 and 2015, corresponds mostly to industry and trade taxes for \$16,213,596 and \$11,467,594, respectively. The Company is subject to the industry and trade tax in Bogotá at the rates of 0.966% on operating revenues, 1.104% on other non-operating revenues and at a 15% rate for signs and boards. In other municipalities where the Company is subject to the industry and trade tax, such tax is paid in accordance with the rates set out for each municipality.

(4) As of 31 December 2016 and 2015, corresponds mostly to liabilities for mandate contracts of subscription to periodicals, magazines and insurance policies for \$21,208,810 and \$18,670,611; Banco Colpatría Red Multibanca Colpatría S.A. for \$10,175,046 and \$20,451,932 for the collection made by the Company of the loan portfolio of the business “Crédito Fácil Codensa” sold to the Bank, in accordance with the business cooperation contract, respectively. The collection made by the Company is reconciled periodically by the parties and transferred subsequently.

(5) As of 31 December 2016 and 2015, corresponds mostly to liabilities on account of energy distribution areas (ADD) for \$18,168,022 and \$23,861,328, respectively. ADD correspond to the distribution charge of other network operators that, by regulatory order, must be invoiced and collected by the Company from its final users under the distribution areas scheme. The distribution areas is a regulatory mechanism implemented in Colombia under CREG Resolution



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

058-068 and 070 of 2008, which is intended for the distribution of costs that are to be assumed by final users, in an equitable manner, in the different regions among all users nationwide.

- (6) Corresponds to balances in favour of customers generated mainly by the higher value paid by customers and by invoicing adjustments. During 2016, the variation corresponds mainly to the adjustments in favour generated by the effects of CREG Resolution 029/2016 (See Note 7, section f).

#### 16 Provisions

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Provision for legal claims	\$ -	\$ 14,388,531	\$ -	\$ 4,627,055
Labour (1)	-	6,402,834	-	1,717,000
Civil (1)	-	7,985,697	-	2,910,055
Dismantling, restoration and remodelling costs (2)	10,635,026	11,064,507	3,355,971	7,587,001
<b>Other provisions</b>	<b>16,422,638</b>	<b>1,375,057</b>	<b>20,017,299</b>	<b>1,883,600</b>
Public lighting (3)	15,000,000	-	15,000,000	-
Nueva Esperanza environmental compensation (4)	1,422,638	812,173	4,719,323	1,334,159
Archaeological rescue Nueva Esperanza substation	-	-	297,976	-
Other provisions	-	562,884	-	549,441
<b>Total Provisions</b>	<b>\$ 27,057,664</b>	<b>\$ 26,828,095</b>	<b>\$ 23,373,270</b>	<b>\$ 14,097,656</b>

- (1) As of 31 December 2016, the value of the claims against the Company administrative, civil, labour and constitutional actions amount to \$1,167,545,228; based on the assessment of success probability in the defence of these cases, \$14,388,351 have been provisioned to cover probable losses for these contingencies. Management estimates that the result of the lawsuits corresponding to the non-provisioned portion will be favourable to the Company's interests, and would not cause significant liabilities to be accounted for or, if they do, they would not materially affect the Company's financial position.

Given the characteristics of the risks covered by these provisions, it is not possible to determine a reasonable calendar with payment dates.

The Value of claims for administrative, civil, labour and contractor processes is detailed as follows:

Processes	Qualification	No. of processes	No of processes (undetermined amount)	Value of contingency (a)	Value of provision
Civil	Probable	35	4	\$ 11,018,576	\$ 7,985,697
	Possible	146	61	436,100,336	-
	Remote	36	25	1,650,000	-
<b>Total civil</b>		<b>217</b>	<b>90</b>	<b>448,768,912</b>	<b>7,985,697</b>
labour	Probable	38	-	7,491,721	6,402,834
	Possible	97	31	8,196,722	-
	Remote	12	-	620,000	-
<b>Total labour</b>		<b>147</b>	<b>31</b>	<b>16,308,443</b>	<b>6,402,834</b>
<b>Total processes</b>		<b>364</b>	<b>121</b>	<b>\$ 465,077,355</b>	<b>\$ 14,388,531</b>

- (a) The value of the contingency corresponds to the amount which, according to the experience of the lawyers, is the best estimate of payment in case of a decision unfavourable to the Company. The provision is determined by the lawyers as the amount of loss in the event that the decision is probable. Processes qualified as probable are provisioned one hundred per cent on the value of the real contingency.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued) (In thousands of pesos)

Below are the details of the main legal proceedings considered probable that the Company has as of 31 December 2016:

#### a. Process Rita Saboya Cabrera

Start date: 2010

Claim: \$2,156,963

Provisioned: \$500,000

Object of Claim: Electrocutation. Extra-contractual civil liability for electrocution injuries.

Payment of patrimonial and non-patrimonial damages for the death of her spouse and father of her children, Mr José Del Carmen Umbarila, upon contact with the distribution network.

Current status of process: The process, which was filed on 29 September 2010, is since 27 May 2015 under consideration of the Supreme Court of Justice to decide whether or not to overturn the judgement pronounced by the Superior Court of Bogota against the Company.

#### b. Process Gloria Amparo Betancourth

Start date: 2010

Claim: \$925,000

Provisioned: \$300,000

Object of Claim: Electrocutation. Extra-contractual civil liability for electrocution injuries.

Payment of patrimonial and non-patrimonial damages for the death of her spouse and father of her children, Mr Sebastián Cárdenas Solórzano, upon contact with the distribution network.

Current status of process: The process, which was filed on 25 January 2010, is since 15 January 2015 under consideration of the Supreme Court of Justice to decide whether or not to overturn the judgement pronounced by the Superior Court of Bogota against Codensa.

#### c. Process Betty del Carmen Ramirez Corredor

Start date: 2012

Claim: \$ 267,800

Provisioned: \$ 250,271

Object of claim: Electrocutation

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Payment of patrimonial and non-patrimonial damages for the death of Pedro Agustín Plata Ortiz upon contact with the distribution network.

Current status of process: In process of appeal

#### **d. Process Lisandro Burgos Mayorga**

Start date: 2009

Claim: \$500,025

Provisioned: \$500,025

Object of claim: Electrocution

Payment of patrimonial and non-patrimonial damages for the death of Henry Burgos Mayorga upon contact with the distribution network.

Current status of process: Second Court Judgment: In process, under consideration.

#### **e. Process Building Calle 100 P.H.**

Start date: 2005

Claim: \$160,000

Provisioned: \$360,000

Object of claim: Nullity and Restoration of the right, on the liquidation by contribution of the common areas of the Building Calle 100 P.H.

Current status of process: Under consideration to resolve the settlement of the payment of the judgment.

#### **f. Process José Serrato Malaver**

Start date: 2013

Claim: \$300,000

Provisioned: \$300,000

Object of claim: Non-contractual liability action seeking compensation for moral and material damages derived from the electrocution of a minor.

Current status of process: The process is in the evidence stage. The latest evidence produced was an expert opinion of estimation of damages, which adopted an inadequate methodology for calculating them, which is why it was subject to the terms of law by the Company; currently in evidence production of the objection proposed by the Company.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### g. Process Jhon Fredy Reina Villar and Others

Start date: 2016

Claim: \$1,200,000

Provisioned: \$1,200,000

Object of claim: Compensation for electrocution injuries.

Current status of process: The process was settled for \$ 300,000, however, the Court requested the Company to provide the transaction agreement so that the residing judge could verify that there is no violation of the plaintiffs' rights in the transaction. The Company provided it. Once the court orders the file of the process, it be terminated for the Company.

#### h. Process Luz Angela Álvarez Berrio

Start date: 2010

Claim: \$356,786

Provisioned: \$356,786

Object of claim: Compensation for death upon making contact with the distribution network.

Current status of process: Favourable judgment in the first court. It is currently on the Council of State to resolve the appeal.

#### i. Process Maria Cecilia Guerrero and Others

Start date: 2011

Claim: \$700,000

Provisioned: \$500,000

Object of claim: Compensation for contractor worker who made contact with the distribution network.

Current status of process: Evidence stage.

#### j. Process Maria de Jesus Segura

Start date: 2012

Claim: \$1,067,000

Provisioned: \$400,000

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Object of claim: Compensation for loss of arms due to contact with the network.

Current status of process: Evidence stage

#### **k. Process Maria Janeth Pasives Rincon**

Start date: 2012

Claim: \$238,745

Provisioned: \$238,745

Object of claim: Compensation for death of child.

Current status of process: First instance judgement favourable. In second instance the Superior Court of Bogota revoked the judgement and sentenced the Company, all the legal deposits and titles have not yet been removed from court and the filing of the process has not been ordered.

#### **l. Process Narda Ruth Botero**

Start date: 2014

Claim: \$444,000

Provisioned: \$444,000

Object of claim: Compensation for death.

Current status of process: Evidence stage

#### **m. Process Olga Josefina Nieto Avendaño**

Start date: 2011

Claim: \$3,825,824

Provisioned: \$1,000,000

Object of claim: Compensation for the death of worker upon contact with electric wire in a crop of peas.

Current status of process: Filed for first instance judgement.

#### **n. Process Omar Elias Rivero**

Start date: 2013

Claim: \$250,000

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Provisioned: \$250,000

Object of claim: Compensation for damages caused by suspension of the energy service.

Current status of process: Evidence stage.

#### **o. Process Arnol Arnulfo Rincon**

Start date: 2009

Claim: \$500,000

Provisioned: \$500,000

Object of claim: Worker demands acknowledgement of conventional pension.

Current status of process: Present appeal filed with reporting judge, after notification and execution of the previous order, informing that judgement is pending.

#### **p. Process Clara Ines Porras de Forero**

Start date: 2009

Claim: \$500,000

Provisioned: \$500,000

Object of claim: Worker demands acknowledgement of conventional pension.

Current status of process: Filed for judgement.

#### **q. Process Elcy Marlen Ayala Anzola**

Start date: 2009

Claim: \$500,000

Provisioned: \$500,000

Object of claim: Worker demands acknowledgement of conventional pension.

Current status of process: Filed for judgement.

#### **r. Process Gilberto Garcia López**

Start date: 2013

Claim: \$500,000

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Provisioned: \$500,000

Object of claim: Contractor company worker claims payments for salaries and social benefits from the Company for solidarity (Work accident).

Current status of process: Solidarity for Cenercol worker's work accident. AESCA was granted power to process the request for appeal.

#### **s. Process Guillermo Mejia Rodriguez**

Start date: 2008

Claim: \$300,000

Provisioned: \$300,000

Object of claim: A full-time employee was dismissed on reasonable grounds and as claim requests reinstatement and as an allowance the conventional compensation from the Company.

Current status of process: Issued copies and/or certified simple copies in Court's clerk office at the disposal of Mrs Irma Milena Alfonso Moreno

#### **t. Process Henry Alonso Velasquez**

Start date: 2008

Claim: \$300,000

Provisioned: \$300,000

Object of claim: A full-time employee was dismissed on reasonable grounds and as claim requests reinstatement and as an allowance the conventional compensation from the Company.

Current status of process: Change of Judge - Action of Change made on 12 April 2016 awaits ruling by the Supreme Court of Justice in an instance of appeal.

#### **u. Process Jose Gustavo Veloza Zea**

Start date: 2009

Claim: \$500,000

Provisioned: \$500,000

Object of claim: Full-time active worker claiming the conventional pension.

Current status of process: Jose Gustavo Veloza's attorney resigned. Filed for judgement and process ends.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### v. Process Sandra Liliana Lancheros

Start date: 2003

Claim: \$400,000

Provisioned: \$240,000

Object of claim: Full compensation for damages under employer's liability.

Current status of process: The court accepted demand for appeal filed by Codensa. Currently filed pending final judgement.

#### w. Process Adriana Pereira Carrillo and Others

Start date: 2010

Claim: \$1,000,000

Provisioned: \$650,000

Object of claim: The claim seeks to establish that between the plaintiffs and the company CBR Construcciones Ltda., there was an employment contract, which terminated due to the death of the workers, on account of work accidents; demands responsibility of said company severally with the Company. Therefore, they request the recognition and payment of compensation for damages and consequential patrimonial and non-patrimonial damages caused by the death of the workers.

Current status of process: On 29 June 2012, a first instance judgement was issued against which an appeal was filed, which was granted and the file sent to the Honourable Superior Court of Cundinamarca - Labour Chamber, which on 13 June 2013 issued second instance judgement revoking section two of the first instance judgement and instead determined as proven the non-coverage exception of the triggering event of the defendant for the insurance policy issued by the third-party defendant Liberty Seguros and therefore partially revoking sections 6, 7 and 8 in order to acquit Liberty Seguros of the sentences imposed and confirm otherwise. Against such judgment an extraordinary demand of appeal was filed, which was granted and the file sent to the Honourable Supreme Court of Justice - Labour Chamber, before which on 27 November 2013 a demand for appeal was filed, and said court on 26 March 2014 accepted the appeal and ordered a transfer to the opposing parties, on 30 April 2014, the opposing plaintiff Omar Cubillos filed an objection, on 6 June 2014 the plaintiff Adriana Pereira filed an objection, on 19 August 2014 the defendant Liberty Seguros filed an objection. Currently, the file is transferred to the defendant CBR Construcciones Ltda as opposing party to file the respective objection within the term of 4-21 September 2014, however the file entered court for final judgement without objection.

#### x. Process Esteban Ramírez Triana

Start date: 2007

Claim: \$300,000



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Provisioned: \$300,000

Object of claim: Acknowledgement of disability pension, full compensation for damages, compensation for dismissal without reasonable grounds, moratorium compensation, penalty for non-assignment of severance pay.

Current status of process: On 30 June 2016, the demand for appeal was filed with the Honourable Supreme Court of Justice - Labour Chamber, which was accepted by the court on 10 August 2016, and on 25 August 2016, the Honourable Supreme Court Of Justice - Labour Chamber ordered the return of the file to the Superior Court of Bogotá - Labour Chamber; which on 1 September 2016 issued an order to obey and comply with what was resolved by the Superior Court and on 20 September 2016 ordered the return of the file to the court of origin, which on 13 October 2016 settled and approved costs under the Company's responsibility for \$8,868 thus ordering filing the record. However, on 19 October 2016, the company filed an appeal for reconsideration with a supplementary appeal against which writ that settled, approved and ordered the record to be filed, since the court failed to transfer the costs imposed on the Company. Such appeal is pending.

#### y. Process Fredy Zapata Cubides

Start date: 2006

Claim: \$1,086,121

Provisioned: \$72,373

Object of claim: Reinstatement of the plaintiff to the position he was performing, together with the payment of salaries and other legal and extra-legal benefits applicable.

Current status of process: On 28 November 2008, a first instance ruling was issued, against which the plaintiff filed an appeal, which was granted and the file was forwarded to the Honourable Superior Court of Bogotá – Labour Chamber, which on 29 October 2010 issued a second instance judgement resolving to revoke the judgement issued in first instance in its entirety and instead imposes a sentences on the defendants, against which an extraordinary demand of appeal was filed, which was granted and the file was forwarded to the Honourable Supreme Court of Justice - Labour Chamber, which on 7 July 2017 issued judgement through edict resolving not to accept the judgment and sentenced the company Codensa with costs amounting to \$6,500,000. Currently, the file is in court pending vote clarification from Reporting Judge Fernando Castillo Cadena.

#### z. Process Luis Eduardo Sarmiento

Start date: 2010

Claim: \$400,000

Provisioned: \$400,000

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Object of claim: The retirement pension established in the collective bargaining agreement is requested. He is a full-time employee.

Current status of process: On 10 May 2016, within the term granted, the corresponding objection was filed by the Company. Currently, the file is in court of reporting Judge Fernando Castillo pending final judgment.

#### aa. Process Sonia Gualteros

Start date: 2010

Claim: \$300,000

Provisioned: \$300,000

Object of claim: The claim includes the request of the retirement pension established in the collective bargaining agreement. She is a full-time employee.

Current status of process: On 11 September 2013, a demand for appeal was filed with the Honourable Supreme Court of Justice - Labour Chamber, which was accepted by the court by means of an order dated 26 November 2013. On 13 January 2014, the plaintiff filed an objection to the extraordinary appeal filed by the Company. Currently, the file is in court pending final judgment.

- (2) Taking into account that Colombia, through Act 1196/2008, embraced the Stockholm Convention, inasmuch as this event is regulated by Ministry of Environment Resolution No. 222 of 15 December 2011, the Company acknowledged the provision for transformers contaminated with PCB (polychlorinated biphenyls) as of 2012 and has subsequently made the updates of the obligation taking into account changes in financial variables and main assumptions..

#### Export of contaminated transformers

On 11 November 2014, an agreement was entered into with Lito S.A.S., which intended to carry out the disposal process of PCB-contaminated transformers, upon authorisation of the border transit permit issued by the ANLA (National Authority of Environmental Licenses). However, in 2015 the MAERSK shipping company was limited during the period of authorisation to carry out the agreed transport, taking into account the existence of the period of exclusive transport restrictions for food destined to Europe.

In order to generate costs and export efficiency of the contaminated transformers, the Company implemented ultrasonic cleaning technology for the treatment of equipment contaminated with PCB, which was endorsed by the Ministry of Environment and Sustainable Development as a result of the pilot project implemented by the Company together with its partner company LITO S.A.S. In August 2016, the addendum to the agreement with LITO S.A.S. was executed, which included the handling, packaging, loading, transport, treatment and final disposal of electrical equipment contaminated with PCB without oil using the ultrasound cleaning technique.

On 9 September 2016, the National Authority of Environmental Licenses (ANLA) issued the permit for the transboundary movement of waste, which was the reason for the decontamination of 164 equipment contaminated with PCB with a weight equivalent to 65 tons during the last quarter using

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

the new technology, representing savings of 31% of the cost of the traditional export alternative. In addition, the traditional export of 23 tons was made which due to their characteristics cannot be cleaned. The total export cost during 2015 amounted to \$461,066.

#### Inventory Marking and Sampling

On 21 December 2015, agreement 5600014180 was entered into with Empresa Colombia Multiservicios S.A. (hereinafter CAM), whose objective is to carry out an inventory of equipment with PCB in the Company. On 2 February 2016 began the marking and sampling of medium voltage equipment.

In early 2016, the real rates were updated after the award of this agreement, generating an approximate impact of \$4,419 million pesos.

On 26 April 2016, the EEC signed the agreement for the inventory of the Cundinamarca area. On 5 September 2016 began the marking and sampling of medium voltage equipment in the area in question.

Expenditures associated with sampling and marking in 2016 amounted to \$3,080,574.

#### Regulatory Changes

The Ministry of Environment issued Resolutions 1618 and 1741 of October 2016, modifying articles 4, 5, 6, 7, 8, 9, 14, 26, 29 and 34 of Resolution 222/2011 with respect to the identification, marking, and other aspects associated with the collection of information on equipment owned by third parties. The impact was measured and included by the Company in the provision for \$962,238.

#### Changes in Other Assumptions

In addition, during 2016 the provision presented changes associated with the following assumptions: (i) Savings for the implementation of the stratification in the assets of the Cundinamarca area; (ii) inclusion of costs associated with non-performance visits within the marking activities; (iii) inclusion of quality control activities included in the integrated audit framework; (iv) incorporation of the workforce required for the project; (v) update of prices due to the change of value added tax from 16% to 19%, among others.

As of 31 December 2016 and 2015, the value of the projected flows, not discounted, are as follows:

<u>Year</u>	<u>As of 31 December 2016</u>	<u>As of 31 December 2015</u>
2016	-	3,355,971
2017	10,372,306	3,039,269
2018	6,357,168	2,325,731
2019 onwards	5,234,803	4,143,559
	<u>\$ 21,964,277</u>	<u>\$ 12,864,530</u>

As of 31 December 2016 and 2015, the Company updated the provision discounting future cash flows at net present value at a rate of 7.25% and 8.82% E.A., generating a financial effect of

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

\$195,698 and (\$355,161), the most appropriate discount rate, considering the interest rates of government bonds (TES) that have maturities similar to those of the obligation.

- (3) As of 31 December 2015, corresponds to the provision for the public lighting lawsuit for \$15,000,000. Below is a brief description of the main facts on which the litigation is based.

On 20 April 1997, an inter-administrative agreement was entered into by the District and the EEB (Electric Energy of Bogota), which ensures the supply of electric energy to the city for public lighting purposes. The agreement was assigned to the Company on 23 October 1997; the same year, the CREG, through Resolution No 99/97, modified the household electric energy service rate, expressly excluding public lighting, and the Company submitted to the District some invoices where it made its own, unilateral calculation of the value of electric energy it supplied. The District questioned the Company's rate, but paid what it considered was the fair cost.

On 25 January 2002, the parties established a methodology that would be applicable in the future and decided to prepare a georeferenced inventory, the result of which would be compared with the existing census so that, in the event of differences, the costs and remunerations would be recalculated with respect to given periods as applicable. The georeferenced inventory (prepared between the years 2000 and 2003) resulted in a difference of 8,661 luminaries less than those invoiced by the Company to the District, so the Company is required to recalculate, and to include default interest for the excess values paid between 1998 and 2004.

A first instance judgement was issued on 09 November 2009 compelling the UAESP and the Company to take all necessary measures, within two months as of the issue of the ruling, to finally settle the balance, in favour or against, duly updated with the DTF (values updating formula), plus interest. Should no agreement be reached, the UAESP must prepare within two months a liquidation for consideration of the company, which can resort to pertinent government channels and in case of no payment, it can proceed to execute the judgement. The second instance judgement confirms what was declared and currently is in force, without other appeals being applicable.

To comply with the above, the Company and the UAESP met and reached an agreement under which the former committed to pay to the Bogota District an amount close to 5.4 million euros. This agreement, in addition, had to be authorised by the director of the UAESP and ratified by Administrative Judge No. 10 of Bogota (who was aware of the process in first instance).

Subsequently, the Comptroller's office issued an opinion favourable to the Company and recommended the UAESP to send it to the Court in order to settle the controversy with the Company.

To date the Company is waiting for the judge to decide on the settlement process carried out between the District and the Company. However, in January 2017 the Company and the UAESP held private meetings for the purpose of making a joint approach to Administrative Judge No. 10 of Bogota requesting the decision on the agreement between the parties.

Management and its lawyers, taking into account the time of the request and the unanimous agreement with the UAESP, considers that the Court will decide during 2017.

- (4) Corresponds to compensations included in Resolution 1061 and Agreement 017 of 2013 between the Ministry of Environment and the Cundinamarca Regional Autonomous Corporation, respectively,

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

which approves the substitution of the forest reserve protecting and producing the high watershed of the Bogota River, committing the Company to implement a compensation and reforestation plan in the construction area of the Nueva Esperanza substation.

#### Environmental License

On 31 July 2014, through Resolution No. 1679, the Cundinamarca Regional Autonomous Corporation – CAR, granted the Environmental License for development of the project “Construction of the Nueva Esperanza 500/115 kV substation, its 115 kV lines and the connection modules”. Nevertheless, on 8 August 2014, the company filed an appeal for reconsideration against said ruling, based on article 55 of the aforementioned Resolution, which requests including and clarifying issues associated with the geographical zone, the compensations, the census, etc.

On 30 December 2014, the Company was notified about Resolution 3788 of 24 December 2014, whereby the appeal for reconsideration is resolved, granting the Environmental License for the construction and operation of the “Nueva Esperanza” project. The appeal corrects the essential aspects and compensates favourably all of the issues presented by the Company in the appeal for reconsideration. This is a fundamental factor for the project and enables us to continue with the application for the construction license.

#### Ban Release and Reforestation

On 20 February 2015, the partial promise of sale was executed between the Company and Álvaro Eduardo Convers for \$1,350,000 for the acquisition of property No. 5 El Pireo, which is intended for the compliance with the environmental compensation obligation associated with the construction of the Nueva Esperanza Substation. 50% of the payment for this property was made in 2015 and the remaining 50% in 2016, following the procedures of the relevant authorities to obtain the segregation license and the removal of marginal notes 2 and 3 on the property registration page, and the milestones associated with the deed and registration in favour of the Company. The legalisation of the Pireo property was made on 4 October 2016 by public deed No. 3333 of the 11<sup>th</sup> Notary Public of the Bogota Circle.

Ban Release: Resolution No. 1702 of 17 July 2015 “Whereby a partial release of the ban is ordered and other decisions are made”, issued by the Ministry of Environment and Sustainable Development. The ban is partially released through the aforementioned resolution for the taxonomic groups Bromelias, Orchids, Moss, Lichen and Hepaticas and for five (5) individuals of the species *Cyathea caracasana*, reported in the area of intervention of the Nueva Esperanza project, according to the relevant coordinates.

The Company was notified of Resolution 2128 of 30 September 2015, whereby the appeal for reconsideration, associated with the Ban Release of the “Nueva Esperanza” project is resolved. The appeal corrects essential aspects and replaces favourably all the points presented by the Company in its appeal for reconsideration. This fact is essential for the project and allows to continue with the construction of the 115kV transmission lines.

On 1 December 2015, the environmental compensation agreement was executed between the Company and the Geosintesis Consortium, which is intended for forest use of 3,600 tree individuals; the establishment, isolation and maintenance of protective forest plants; the ecological reclaiming of 0.5 hectares; the forest management plan of El Pireo property; and the design, creation and

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

maintenance of a living barrier for the Nueva Esperanza substation, among other direct influence activities of the project. The remaining contract term is 24 months and disbursements incurred to date amount to \$2,352,003.

On 23 December 2016, the promise of sale was executed between the Company and Anselmo Ibañez León for \$433,000 for the acquisition of the San Gregorio property located in the municipality of Sibaté, where the reforestation requested under the environmental license must be continued. To date, the first payment milestone was made for 50% with the execution of a promise of sale. This property will be delivered to the Company in the first two months of 2017 to begin reforestation activities.

#### Protection of species

As part of the commitments set out in the Environmental License, the Company undertakes to protect the species *Choloepus Hoffmanni* (Sloth) during the construction activity of the high-voltage lines. On 18 December 2015, the Company and ANTEA Colombia S.A.S. executed a 12-month term agreement for the implementation of the protection plan for this species between. As of 31 December, 2016, the Company complied with the necessary activities to protect this species and the amount of the payments amounted to \$1,056,729, which was provisioned in 2015.

The value of projected cash flows without discount is presented below:

Year	As of 31 December 2016	As of 31 December 2015
2016	-	4,719,322
2017	1,422,638	752,936
2018 onwards	914,346	747,427
	<b>\$ 2,336,984</b>	<b>\$ 6,219,685</b>

As of 31 December 2016 and 2015, the Nueva Esperanza provision was updated to net present value at a rate of 11.65% EA (IBR + 4.25%) and 7.84% EA (DTF + 2.25%) generating a financial effect for (\$521.987) and \$222.057. The discount rate applied by the Company are the interest rates with due dates similar to those of the obligation

The movement of provisions between 1 January 2015 and 31 December 2016 is the following:

	Provision for legal claims (a)	Dismantling, restoration and recovery costs	Archaeological rescue (c)	Nueva Esperanza	Public lighting and Others	Total
<b>Balance as of 1 January 2015</b>	<b>\$ 4,660,055</b>	<b>\$ 10,752,166</b>	<b>\$ 2,485,066</b>	<b>\$ 9,897,765</b>	<b>\$ 15,407,613</b>	<b>\$ 43,202,665</b>
Increase (decrease) in provisions	760,000	576,500	-	-	100,068	1,436,568
Used provision	(270,062)	(30,533)	(1,923,479)	(1,815,141)	-	(4,039,215)
Financial effect update	-	(355,161)	-	222,058	-	(133,103)
Recovery	(522,938)	-	-	-	-	(522,938)
Other increases (decreases) (b)	-	-	(263,611)	(2,251,200)	41,760	(2,473,051)
<b>Total movement of provisions</b>	<b>(33,000)</b>	<b>190,806</b>	<b>(2,187,090)</b>	<b>(3,844,283)</b>	<b>141,828</b>	<b>(5,731,739)</b>
<b>Final balance as of 31 December 2015</b>	<b>4,627,055</b>	<b>10,942,972</b>	<b>297,976</b>	<b>6,053,482</b>	<b>15,549,441</b>	<b>37,470,926</b>
Increase (decrease) in provisions	10,388,006	6,986,326	-	1,415,862	13,443	18,803,637

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Provision for legal claims (a)	Dismantling, restoration and recovery costs	Archaeologic al rescue (c)	Nueva Esperanza	Public lighting and Others	Total
Increase (decrease) in provisions for business combination	1,812,937	7,320,818	-	-	-	9,133,755
Used provision	(1,781,168)	(3,772,826)	(292,413)	(4,712,546)	-	(10,558,953)
Financial effect update	-	222,243	-	(521,987)	-	(299,744)
Recovery	(658,299)	-	(5,563)	-	-	(663,862)
<b>Total movement of provisions</b>	<b>9,761,476</b>	<b>10,756,561</b>	<b>(297,976)</b>	<b>(3,818,671)</b>	<b>13,443</b>	<b>16,414,833</b>
<b>Final balance as of 31 December 2016</b>	<b>\$ 14,388,531</b>	<b>\$ 21,699,533</b>	<b>\$ -</b>	<b>\$ 2,234,811</b>	<b>\$ 15,562,884</b>	<b>\$ 53,885,759</b>

(a) The movement of provisions for legal claims corresponds primarily to:

Type of proceeding	Plaintiff	Object of claim	Value
<b>Movement 2016</b>			
Adm. direct repair	Omar Elias Ribero Jimenez	Billing compensation	250,000
Adm. direct repair	Hermencia Holguin Alvarez	Death by electrocution	145,000
Civil ordinary	Maria de Jesus Segura	Electrocution injuries	400,000
Civil ordinary	Maria Cecilia Guerrero Rodriguez and Others	Electrocution injuries	500,000
Civil ordinary	Narda Ruth Botero	Death by electrocution	444,000
Civil ordinary	Jhon Fredy Reina Villar and Others	Death by electrocution	1,200,000
Labour	Esteban Ramirez Triana	Salaries and social benefits severally	300,000
Labour	Freddy Zapata Cubides	Salaries and social benefits severally	996,121
Labour	Luis Eduardo Sarmiento	Acknowledgement and payment of conventional pension	400,000
Labour	Sonia Gualteros	Acknowledgement and payment of conventional pension	300,000
Labour	Gilberto Garcia Lopez	Salaries and social benefits severally	500,000
Labour	Arnol Arnulfo Rincon	Acknowledgement and payment of conventional pension	500,000
Labour	Clara Ines Porras de Forero	Acknowledgement and payment of conventional pension	500,000
Labour	Elcy Marlen Ayala Anzola	Acknowledgement and payment of conventional pension	500,000
Labour	Guillermo Mejia Rodriguez	Reinstatement / Compensation dismissal without reasonable grounds	300,000
Labour	Henry Alonso Velasquez	Reinstatement / Compensation dismissal without reasonable grounds	300,000
Labour	Jose Gustavo Veloza Zea	Acknowledgement and payment of conventional pension	500,000
Labour	Oscar Antonio Caicedo Suescun	Pension Act 33	130,000
Civil ordinary	Ignacio Matamala Señor	Death of livestock	350,000
Civil ordinary	Lisandro Burgos Mayorga	Death by electrocution	500,025
<b>Movements 2015</b>			
Civil	Honorio Vargas Alvarado	Death by electrocution	350,000
Labour	Hernando Rivera Espinosa	Compensation dismissal without reasonable grounds	192,000
Civil	Maria Cristina Romero de Herrera	Death by electrocution	(270,062)
Civil	Edificio Santa Catalina	Easement	(200,000)

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (b) Corresponds to recovery of the provision as a result of the execution of the promise of sale of the property El Pireo.
- (c) As of 31 December 2016, the Company completed the archaeological rescue activities of the vestiges found on the site where the Nueva Esperanza substation is built. The main activities in question include archaeological monitoring, execution of the public archaeology programme and the tenure plan in the project location area.

#### 17 Provisions for Employee Benefits

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Obligations for post-employment and long-term defined benefits. (1)	\$ 39,432,712	\$ 272,323,501	\$ 33,240,820	\$ 177,690,982
Social benefits and contributions to social security (2)	40,866,571	-	36,358,658	-
Retirement plan benefits (3)	521,515	-	764,012	3,468,646
	<b>\$ 80,820,798</b>	<b>\$ 272,323,501</b>	<b>\$ 70,363,490</b>	<b>\$ 181,159,628</b>

- (1) The Company grants different defined benefits plans; post-employment obligations and long-term benefits to its active or pensioned employees; all these in accordance with the fulfilment of previously defined requirements, which refer to:

##### *Retirement Pensions*

The Company has a defined benefit pension plan on which it does not present specific assets, except for all resources derived from the performance of its operating activity. The pension benefit plans establish a pension benefit amount that an employee will receive upon retirement, which usually depends on one or more factors such as age of employee, years of service and compensation.

The recognised liability in the statement of financial position, with respect to defined benefit pension plans, is that present value of the obligation of the defined benefit on the date of the statement of financial position, together with adjustments for unrecognised actuarial gains or losses. The obligation for the defined benefit is calculated by independent actuaries using the projected unit credit method. The present value is the defined benefit obligation and is determined by deducting the estimated cash outflows, using interest rates based on the yield curve of the Public Debt Bonds of the Colombian Government (TES), expressed in real value units (UVR), whose terms are close to those of that pension obligation until maturity.

Actuarial losses and gains derived from adjustments based on experience and changes in actuarial hypothesis are debited or credited to the net equity in other comprehensive income, in the period of occurrence.

The pensioner base for the recognition of this benefit corresponds to:

Item	As of 31 December 2016	As of 31 December 2015
Pensioner	1,167	850
Average age	65.6	62.5



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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### *Other post – employment benefits*

##### *Pensioner benefits*

The company provides the following aids to pension-retired employees: (i) education aid, (ii) electric energy aid, and (iii) health aid in accordance with the provisions of the collective bargaining agreement.

The right to the aforementioned benefits is generally granted to employees, regardless of whether or not they have worked until the retirement age. The costs expected from these benefits are acquired during the time of employment using a methodology similar to that of the defined benefits plans. The actuarial gains and losses derived from the adjustments for experience and changes in the actuarial assumptions are debited or credited to other comprehensive income in the period of occurrence. These obligations are measured annually by qualified independent actuaries.

The pensioner base for the recognition of this benefit corresponds to:

	As of 31 December 2016	As of 31 December 2015
<b>Education aid</b>		
Pensioner	237	274
Average age	18.4	17.9
<b>Energy aid</b>		
Pensioner	998	796
Average age	64.8	62.4
<b>Health aid</b>		
Pensioner	1,679	1,027
Average age	54.3	52.3

#### *Retroactive severance pay*

Retroactive severance pay, which is considered a post-employment benefit, is liquidated for employees belonging to the labour regime that was in force prior to Act 50/1990 and who decided not to benefit from this regime change. The social benefit is liquidated for the whole time worked based on the last salary earned and is paid regardless of the employee being dismissed or retiring voluntarily. The actuarial gains and losses of the adjustments for experience and changes in actuarial assumptions are debited or credited to other comprehensive income.

The employee base for the recognition of this benefit corresponds to:

Item	As of 31 December 2016	As of 31 December 2015
Employees	70	51
Average age	51.9	50.8
Seniority	25.6	24.2

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### Long-term benefits

The Company recognises to its active employees benefits associated to seniority, such as five-year periods, consisting in making an additional payment for every 5 years of uninterrupted service to employees whose hiring date was before 21 September 2005 and employees working in the EEC, and accrues as of the second year in accordance with the provisions of the collective bargaining agreement.

The costs expected from these benefits are accrued during the employment period, using a methodology similar to that used for the defined benefits plan. The actuarial gains and losses derived from adjustments for experience and changes in the actuarial assumptions are debited or credited to profit or loss of the period of occurrence. These obligations are measured by qualified independent actuaries.

The employee base for the recognition of this benefit corresponds to:

Item	As of 31 December 2016	As of 31 December 2015
Employees	180	141
Average age	49.2	48.5
Seniority	21.9	20.95

As of 31 December 2016 and 2015, the actuarial calculation of post-employment benefits was performed by the firm Aon Hewitt Mexico, which used the following set of hypotheses:

#### Financial Hypotheses:

Type of Rate	As of 31 December 2016	As of 31 December 2015
Discount rate	6.54%	7.44%
Salary increase rate (active personnel)	4.50%	4.20%
Pension increment rate	3.50%	3.20%
Estimated inflation	3.50%	3.20%
Health service inflation	9.00%	8.00%

#### Demographic Hypotheses:

	Biometric base
Mortality rate	2008 Colombian mortality rate (valid annuitant)
Disabled mortality rate	Enel internal table
Total and permanent disability	EISS
Turnover	Enel internal table
Retirement	Men: 62 Women: 57

The movement of obligations for benefits defined as of 31 December 2016 is the following:

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### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Retired personnel		Active personnel		Defined benefits plan
	Pensions (a)	Benefits	Retroactive severance pay	Five-year term	
<b>Initial balance as of 31 December 2015</b>	<b>\$ 152,204,641</b>	<b>\$ 53,178,270</b>	<b>\$ 1,720,959</b>	<b>\$ 3,827,932</b>	<b>\$ 210,931,802</b>
Cost of current service	-	-	111,126	1,660,346	1,771,472
Cost for interests	11,577,404	3,935,203	190,655	273,712	15,976,974
Contributions paid	(18,093,876)	(3,239,103)	(677,497)	(304,014)	(22,314,490)
Increase from business combination	57,582,379	17,152,499	1,133,537	527,614	76,396,029
Actuarial (Gains) losses from changes in financial assumptions	25,639,285	12,222,305	298,072	264,783	38,424,445
Actuarial (Gains) losses from changes in adjustments for experience	1,486,028	(9,990,365)	(78,713)	(846,968)	(9,430,018)
<b>Final balance as of 31 December 2016</b>	<b>\$ 230,395,861</b>	<b>\$ 73,258,809</b>	<b>\$ 2,698,139</b>	<b>\$ 5,403,405</b>	<b>\$ 311,756,214</b>

(a) As of 31 December 2016 and 2015, the post-employment benefit liabilities for future retirement pensions measured using the parameters established in Decree 2783/2001 amount to \$190,988,274 and \$ 145,357,996, respectively. The sensitivity in question was performed by the firm Aon Hewitt Mexico, which used the following set of hypotheses:

Type of Rate	As of 31 December 2016	As of 31 December 2015
Discount rate	9.96%	7.82%
Technical interest	4.80%	4.80%
Estimated inflation	4.93%	2.88%

The movement of obligations for benefits defined as of 31 December 2015 is the following:

	Retired personnel		Active personnel		Defined benefits plan
	Pensions	Benefits	Retroactive severance pay	Five-year term	
<b>Initial balance as of 31 December 2014</b>	<b>\$157,258,439</b>	<b>\$ 55,268,503</b>	<b>\$ 1,572,721</b>	<b>\$ 3,724,802</b>	<b>\$ 217,824,465</b>
Cost of current service	-	-	75,886	200,675	276,561
Cost for interests	10,557,412	3,751,669	107,639	247,864	14,664,584
Contributions paid	(13,826,287)	(6,306,941)	(290,366)	(665,682)	(21,089,276)
Actuarial (Gains) losses from changes in financial assumptions	(2,747,983)	(1,917,424)	(13,648)	(34,061)	(4,713,116)
Actuarial (Gains) losses from changes in adjustments for experience	963,060	2,382,463	268,727	354,334	3,968,584
<b>Final balance as of 31 December 2015</b>	<b>\$ 152,204,641</b>	<b>\$ 53,178,270</b>	<b>\$ 1,720,959</b>	<b>\$ 3,827,932</b>	<b>\$ 210,931,802</b>

The following chart shows the behaviour in the present value of the obligation for each of the defined benefits, related to the per cent variation in 100 basic points above or below the Discount Rate used for the current calculation.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

As of 31 December 2016:

Changes in discount rate	Retired personnel		Active personnel		Defined benefits plan
	Pensions	Benefits	Retroactive severance pay	Five-year term	
- 100 basic points	\$ 256,671,661	\$ 82,625,529	\$ 2,945,754	\$ 5,718,548	\$ 347,961,492
+ 100 basic points	\$ 208,189,707	\$ 65,571,237	\$ 2,476,898	\$ 5,182,110	\$ 281,419,952

As of 31 December 2015:

Changes in discount rate	Retired personnel		Active personnel		Defined benefits plan
	Pensions	Benefits	Retroactive severance pay	Five-year term	
- 100 basic points	\$ 168,113,832	\$ 58,747,899	\$ 1,890,956	\$ 4,009,759	\$ 232,762,446
+ 100 basic points	\$ 138,833,897	\$ 48,459,499	\$ 1,569,969	\$ 3,661,277	\$ 192,524,643

(2) As of 31 December 2016 and 2015 corresponds primarily to bonuses \$ 24,016,639 and \$24,367,937, and vacation and vacation bonus \$9,290,545 and \$7,276,206. In addition, the Company makes periodical contributions established by Law for severance pay and integrated social security: health, professional risks and pension, to the respective private funds and Colpensiones, which manage these obligations entirely. As of 31 December 2016 and 2015 the social security and payroll taxes amount to \$4,167,482 and \$2,725,047, and severance pay and interests thereon \$3,261,774 and \$1,875,572, respectively.

(3) Voluntary Retirement Plans:

(a) *San José Retirement Plan*

On November 2015, the Company began the notification and implementation of the voluntary retirement plan “San José”. During the implementation of the voluntary retirement plan, the plan was presented to 159 employees hired through indefinite term employment contracts who met the characteristics described in the following Groups:

*Group 1:* Unionised employees who: (i) joined the Company before 1 January 1992; (ii) did not meet the conventional pension requirements as of 31 July 2010 (Legislative Act 01/2015); (iii) as at the date of the San Jose Plan have 0 and 10 years to reach the retirement age pursuant to the Law.

*Group 2:* Full-time and unionised employees who currently have 0 to 2 years to reach the retirement age pursuant to the Law.

*Group 3:* Full-time and conventional employees selected in accordance with the new Company structure.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Between November 2015 and May 2016 66 employees accepted the offer presented under the San Jose Plan, who commenced their retirement between 15 December 2015 and 31 May 2016, with prior settlement before the Labour Judge.

The benefits granted through the San Jose Plan are described below:

*Temporary Income:* Consists of monthly payments ranging between 70% and 90% of economic provision salary from the time of the employment contract termination by mutual agreement and up to four (4) months after the employee meets the age requirement provided by Law to access the old age pension (62 years for men, 57 years for women).

The full payment of this benefit was made to each participant through the pension fund, Protection S.A., without it being considered a Company asset.

This benefit was offered to employees meeting the characteristics described in Group 1 and Group 2. As of 31 December 2015, the proposal was accepted by 13 employees and the Company made a provision in accordance with the probability of acceptance in the first quarter of 2016. As of 31 March 2016, 3 employees accepted the proposal.

For employees who accepted the liabilities recognised in the statement of financial position, with respect to temporary income, it is the present value of the defined benefit obligation on the date of the statement of financial position, less payments made to the pension fund. The obligation for the defined benefit is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by deducting the estimated cash outflow, using the interest rates calculated as of the yield curve of the Public Debt Bonds of the Colombian Government (TES) denominated in real value units (UVR), which have terms close to the terms of the obligation.

As of 31 December 2016 and 2015, the actuarial calculation of temporary income was prepared by the firm Aon Hewitt Mexico, which used the hypotheses described in the post-employment benefit plans.

*Retirement Bonus:* Consists of a one-time payment to the employee at the time of signing the respective settlement act, whereby the employment contract is terminated upon mutual agreement and will be liquidated based on the salary of the employees and their seniority. This benefit was offered to employees meeting the characteristics of Group 3. As of 31 December 2015, the proposal was accepted by 45 employees and the Company made a provision in accordance with the probability of acceptance in the first quarter of 2016. As of 31 March 2016, 5 employees accepted the proposal.

For employees who accepted, the Company recognised effects on the income statement in accordance with the liquidation and payment of the retirement bond.

*Other Benefits:* In addition to the above-described benefits, the Company offered benefits to unionised and full-time employees following the termination of the employment contract by mutual agreement and until 31 December 2016, including prepaid healthcare and insurance benefits, among others.

(b) *EEC Voluntary Retirement Plan*

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

On 10 August 2016, the EEC began the notification and implementation of the voluntary retirement plan intended for 96 employees hired through indefinite term employment contracts who met the characteristics described in the following Groups:

*Group 1:* Unionised employees who at the time the retirement plan was launched had between 0 and 10 years to reach the retirement age pursuant to the Law (62 years for men, 57 years for women), at the date of the offer, with over 10 years seniority.

*Group 2:* Full-time and unionised employees, having as variables the basic salary and seniority of each employee.

The Company granted a reasonable acceptance term in order to provide a prudent period for employees to analyse and consult their decision individually and with their social environment.

On 5 November 2016, 72 employees accepted the offer (70 of which accepted before the 30 September deadline), who began their retirement between 30 August 2016 and 31 March 2017, with prior settlement before the Labour Judge.

The benefits granted through Voluntary Retirement Plan are described below:

*Temporary Income:* Consists of monthly payments ranging between 90% and 100% of the average salary from the time of the employment contract termination by mutual agreement and up to six (6) months after the employee meets the age requirement provided by Law to access the old age pension (62 years for men, 57 years for women).

The full payment of this benefit was made to each participant through the pension fund, Protection S.A., without it being considered a Company asset.

This benefit was offered to employees meeting the characteristics described in Group 1. As of 5 November 2016, the proposal was accepted by 40 employees (38 of which accepted before the 30 September deadline) from 51 offers.

*Retirement Bonus:* Consists of a one-time payment to the employee at the time of signing the respective settlement act, whereby the employment contract is terminated upon mutual agreement and will be liquidated based on the salary of the employees and their seniority. This benefit was offered to employees meeting the characteristics of Group 2. As of 5 November 2016, the proposal was accepted by 32 employees from 45 offers.

*Other Benefits:* In addition to the above described benefits, the Company offered benefits to unionised and full-time employees following the termination of the employment contract by mutual agreement and until 31 December 2017, including health and life insurance benefits, among others.

As of 31 December 2016 and 2015, the actuarial calculation of temporary income was prepared by the firm Aon Hewitt Mexico, which used the hypotheses described in the post-employment benefit plans.

The movement for purposes of the retirement plans as of 1 January 2015 and 31 December 2016 is the following

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Temporary income	Retirement bonus	Other benefits	Total voluntary retirement plan benefits
Period cost for accepted offers	\$ 3,973,297	\$ 6,108,187	\$ 72,327	\$ 10,153,811
Employer contributions	(2,273,437)	(6,108,187)	-	(8,381,624)
Provision cost for expected acceptance	1,768,786	691,685	-	2,460,471
<b>Final balance 31 December 2015</b>	<b>3,468,646</b>	<b>691,685</b>	<b>72,327</b>	<b>4,232,658</b>
Period cost (recovery) for accepted offers	(2,325,915)	(1,133,397)	(174,816)	(3,634,128)
Period financial cost	222,079	-	-	222,079
Employer contributions	(8,347,848)	(6,513,909)	(136,207)	(14,997,964)
Increase for business combination	2,855,359	6,487,154	648,826	9,991,339
Actuarial (gains) losses	4,707,531	-	-	4,707,531
Other movements	(579,852)	579,852	-	-
<b>Final balance 31 December 2016</b>	<b>\$ -</b>	<b>\$ 111,385</b>	<b>\$ 410,130</b>	<b>\$ 521,515</b>

#### Collective Bargaining Agreements

##### *Collective Bargaining Agreement 2015 – 2018*

On 24 July 2015, the direct settlement stage between the Company and the Colombian Energy Workers' Union (hereinafter Sintraelec) was closed with a total agreement between the parties. The Collective Bargaining Agreement was signed on 5 August 2015 and filed with the Ministry of Labour on the same date, being enforceable thereupon. Among the main agreed aspects is a 3-year term for the Collective Agreement (2015-2018), maintaining the same scope of application of the current agreement (beneficiary workers), increasing the value of current conventional benefits and recognition of prerogatives in terms of savings, free investment and health.

##### *Collective Agreement SINTRAELECOL - EEC 2016- 2018.*

The Company committed to ensuring compliance with the labour rights of all its employees, worked during 2016 to promote access to different collective bargaining spaces, competitive wages and labour benefits of this group, in order to improve their quality of life.

The negotiation process with Sintraelec took place in the period between March and September 2016 (with periods of suspension for different legal and non-legal reasons), ending with the signing of the Collective Bargaining Agreement on 30 September 2016.

The negotiation of the new Agreement is effective from 1 January 2016 to 30 June 2018 (2016-2018), and governs the relationships with the unionised employees that come from the EEC, in compliance with international and internal standards. The main objective of the negotiation was the extended homogenisation of the conventional benefits that the Company had. Also, the seventh and eighth five-year terms were added to this population of employees.

##### *Collective Agreement Codensa - ASIEB*

On 1 May 2016, the Collective Bargaining Agreement with the ASIEB Trade Union Organisation was signed. This Collective Agreement applies to all the Company's employee engineers affiliates of the trade union of engineers to the services of energy companies - ASIEB. The term of the Agreement is from 1 May 2016 to 31 December 2019.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 18 Taxes payable

##### Income Tax

Tax returns for taxable years 2014 and 2015 are open for revision by the tax authorities, as well as the income tax for equality CREE of 2014 and 2015. However, according to Management, in the event of revision, no significant differences are expected.

The income tax is presented below:

	As of 31 December 2015	
	As of 31 December 2016	
Current income tax (1)	\$ 388,462,916	\$ 334,318,553
Income prepayment	(100,997,515)	(76,286,232)
Withholdings and self-withholdings	(119,431,345)	(99,336,283)
Tax discount (2)	(762,595)	(3,089,137)
Balance in favour	(812,288)	-
CREE self-withholdings	(71,774,654)	(59,764,471)
	<b>\$ 94,684,519</b>	<b>\$ 95,842,430</b>

(1) Liabilities for current income tax payable consist of:

	As of 31 December 2016	As of 31 December 2015
Income tax relative to the results of the period (See note 30)	\$ 371,164,690	\$ 333,803,798
Income tax for business combination	13,485,655	-
Income tax relative to components of other comprehensive income (See section 1 Note 32)	3,812,571	514,755
	<b>\$ 388,462,916</b>	<b>\$ 334,318,553</b>

(2) Corresponds to the sales tax discount for the import or acquisition of fixed assets and heavy-duty equipment for the basic industry, pursuant to Articles 258-1 and 258-2 of the Tax Code.

The main reconciliation items between earnings before taxes and the taxable net income that explain the difference between the 25% rate for companies corresponding to income tax and the 15% rate of the income tax for equality CREE, and the CREE surtax are:

Item	As of 31 December 2016	As of 31 December 2015
<b>Accounting earnings before income tax</b>	<b>\$ 953,467,766</b>	<b>\$ 873,294,956</b>
Accounting earnings before income tax registered in equity due to business combination	27,026,577	-
<b>Line items increasing net income</b>		
Wealth tax	21,305,136	22,100,606
Tax on equity	-	-
Non-deductible expenses (1)	4,581,549	2,280,722
Non-deductible provisions	40,170,167	41,878,549



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Item	As of 31 December 2016	As of 31 December 2015
Contribution to financial transactions	11,253,350	8,585,799
Other line items that increase net income	671,202	317,728
Non-deductible taxes	115,909	54,345
Deferred amortisation	-	2,867,961
Assumed interests	26,509	12,871
<b>Total line items that increase net income</b>	<b>78,123,822</b>	<b>78,098,581</b>
<b>Line items that decrease net income</b>		
Tax depreciation and amortisation	(64,897,219)	(78,560,971)
Losses for new measurement of defined benefits plans and other adjustments for the implementation of the CFRS	(5,716,617)	(10,061,870)
Business combination (2)	(3,282,666)	-
Special deduction science and technology investment	(4,794,676)	(6,482,175)
Write-off of fixed assets	-	-
Difference payroll tax and pension contributions	-	-
Tax profit in sale of fixed assets	(44,293)	(62,825)
Deductions for hiring the disabled	(174,328)	(46,077)
Other line items that decrease net income	(1,130,522)	-
Non-taxable income (3)	(8,526,672)	(402,308)
<b>Total line items that decrease net income</b>	<b>(88,566,993)</b>	<b>(95,616,226)</b>
<b>Taxable Net income</b>	<b>970,051,172</b>	<b>855,777,311</b>
Income tax rate	25%	25%
<b>Income tax</b>	<b>242,512,793</b>	<b>213,944,328</b>
Occasional earnings	44,293	62,825
Tax rate of occasional earnings	10%	10%
<b>Tax on occasional earnings</b>	<b>4,429</b>	<b>6,283</b>
<b>Total income tax and supplementary taxes</b>	<b>\$ 242,517,222</b>	<b>\$ 213,950,611</b>

- (1) As of 31 December 2016, it corresponds to non-causal expenses such as attentions to employees, sports, recreation, welfare expenses for \$2,276,672, loan forgiveness for \$525,189, obsolete items write-off for \$448,122, subscriptions and affiliations for \$34,167, and others for \$1,297,399. As of 31 December 2015 corresponds to non-causal expenses such as attentions to employees, sports expenses, recreation, welfare expenses for \$1,249,122, loan forgings for \$308,598, obsolete items write-off for \$212,993, subscriptions and affiliations for \$72,133, and others for \$437,876.
- (2) Corresponds to negative goodwill for (\$ 21,244,288) and the loss of the valuation of previous interest of the EEC investment by \$17,961,622. See Note 1.5 on business combination.
- (3) In 2016 correspond primarily to the equity method of accounting of DECSA on EEC before the business combination for \$7,503,095, recovery of costs and non-taxed expenses of \$ 672,072, and other minor elements for \$261,505.

#### Income Tax for Equality - CREE

Item	As of 31 December de 2016	As of 31 December de 2015
Ordinary taxable net income	\$ 970,051,172	\$ 855,777,311

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Item	As of 31 December de 2016	As of 31 December de 2015
<b>Plus special deductions</b>		
Donations	632,000	632,000
Hiring the disabled	174,328	46,077
Special deduction science and technology investment	4,794,675	6,482,175
<b>Less non-taxable income and deductible expenses</b>		
Amortisation science and technology investment	(2,334,364)	(2,867,961)
Assumed interests	(26,509)	(12,871)
<b>CREE net taxable income</b>	<b>973,291,302</b>	<b>860,056,731</b>
CREE tax rate	9%	9%
<b>CREE income tax</b>	<b>87,596,217</b>	<b>77,405,106</b>
<b>CREE net taxable income</b>	<b>973,291,302</b>	<b>860,056,731</b>
Exemption CREE surtax	(800,000)	(800,000)
<b>CREE surtax net taxable income</b>	<b>972,491,302</b>	<b>859,256,731</b>
CREE tax rate	6%	5%
<b>CREE Income tax surtax</b>	<b>58,349,477</b>	<b>42,962,836</b>
<b>CREE Income tax and surtax</b>	<b>145,945,694</b>	<b>120,367,942</b>
<b>Total income tax and CREE payable</b>	<b>\$ 388,462,916</b>	<b>\$ 334,318,553</b>

### Equity Reconciliation

	As of 31 December 2016	As of 31 December 2015
<b>Accounting equity</b>	<b>\$ 2,546,177,553</b>	<b>\$ 2,323,268,707</b>
Estimated liabilities and provisions	245,645,727	111,706,126
Tax adjustment to assets	(201,271,224)	260,234,421
Provision for debtors	14,517,512	32,602,209
Provision of assets	2,016,253	1,459,234
Expenses capitalised in investments	21,721	1,721,472
Others	9,568,211	183,357
Monetary correction	(1,503,597)	(1,578,777)
Investment in science and technology	(2,739,814)	(6,668,392)
Debit deferred tax	(14,055,339)	(32,968,991)
Deferred depreciation	-	(297,630,571)
<b>Tax equity</b>	<b>\$ 2,598,377,003</b>	<b>\$ 2,392,328,795</b>

### Transfer Pricing

Taxpayers of income tax who execute operations with economic associates or related parties abroad are bound to determine, for income tax purposes, their ordinary and extraordinary revenues, costs and deductions, assets and liabilities, considering for these operations the prices and profit margins that would have been used in comparable operations with independent entities. For 2015, the external advisors performed the update of the transfer pricing and supporting documentation study, as required by tax provisions, in order to prove that operations with economic associates abroad were carried out at

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

market prices in 2015, and therefore adjustments in tax returns for the same year are not necessary. The information statement and supporting documentation were presented on 13 July 2016. For 2016, the external advisors validated the operations to be performed with each economic associate. The study and supporting documentation will begin in 2017, and expire in July of the same year.

#### 19 Other Non-financial Liabilities

	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Deferred income (1)	\$ 1,187,500	\$ -	\$ 1,937,500	\$ -
Contingent Liabilities (2)	-	29,877,512	-	-
Prepayments from customers for use of networks (3)	8,613,013	-	-	-
	<u>\$ 9,800,513</u>	<u>\$ 29,877,512</u>	<u>\$ 1,937,500</u>	<u>\$ -</u>

- (1) Corresponds primarily to the agreement entered into in August 2010 with Mapfre Colombia Vida Seguros, for access to the market channel for the Company's electric energy customers, aimed at enabling Mapfre to market insurance agreements among the Company's customers. This agreement has a term of eight (8) years, having agreed a one-time payment of \$6,000,000, which is amortised over the term of the agreement.
- (2) The EEC recognised labour and civil contingencies for those processes classified as likely (high probability) to receive an unfavourable judgment; contingencies classified as possible (low probability) are included in a business combination in accordance with IFRS 3 guidelines, in addition 100% of tax contingencies were recognised given their nature. Below are the main processes considered under such criteria in IFRS 3:

##### a. Process Engineering Cooperative ISECOOP

Start date: 2013

Claim: \$2,916,000

Provisioned: \$2,916,000

Object of claim: Nullity is ordered for section 5 of clause two of service provision agreement No. 037 of 2 October 2006 entered into with EEC.

Current status of process: The lawsuit was responded in terms; to the court for first instance judgment (scriptural system).

##### b. Process Associated Labour Cooperative SERVICOMTREC

Start date: 2013

Claim: \$1,740,380

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Provisioned: \$1,740,380

Object of claim: There was a mathematical error in the Agreement for the Provision of Transport Services CPS-019-06, as well as in its amendment, clarification and correction and in the addition and extension, entered into between SERVICOMTREC and the Company. Therefore, the value of the agreement for the Provision of Transport Services CPS-019-06 is adjusted to the sum of \$944,341, and other amounts are adjusted.

Current status of process: The lawsuit was responded in terms; currently on the evidence stage (scriptural system).

#### **c. Process Dalia Mercedes Lasso and Others**

Start date: 2016

Claim: \$1,037,000

Provisioned: \$1,037,000

Object of claim: Electrocution injuries to Mr Carlos Arturo Cortes Sanchez.

Current status of process: The lawsuit was responded in terms; currently on the evidence stage (scriptural system).

#### **d. Process Diana Patricia Quintero Osorio**

Start date: 2016

Claim: \$850,000

Provisioned: \$850,000

Object of claim: Death by electrocution of Mr Nelson de Jesus.

Current status of process: The lawsuit was responded in terms; waiting for the Court to set the date and time of the initial proceedings (oral) in the course of the process.

#### **e. Process Empresa de Servicios Públicos de Puerto Salgar ESP**

Start date: 2016

Claim: \$3,795,119

Provisioned: \$3,795,119

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Object of claim: To declare the nullity of the payment agreement signed with the company on 4 March 2013; Compensation to Empresa de Servicios Públicos de Puerto Salgar ESP for damages caused by the non-commissioning of the gravity aqueduct in the Municipality of Puerto Salgar.

Current status of process: The lawsuit was responded in terms; waiting for the Court to set the date and time of the initial proceedings (oral) in the course of the process.

#### f. Process Luis Humberto Hernandez and Others

Start date: 2016

Claim: \$500,000

Provisioned: \$500,000

Object of claim: On 29 and 30 August 2015, a fire broke out in the rural area of Nocaima Cundinamarca, due to a short circuit of the low voltage power line located in the towns of Loma Larga, Cuñaral, El Cajón, La Florida, Tobia alta, Conchue and Baquero. This electrical infrastructure is owned by the Company. Fifty (50) people are affected.

Current status of process: The lawsuit was responded in terms; waiting for the Court to resolve the financing request “poverty protection” issued by the plaintiff to continue with the process.

#### g. Tax Processes Municipality of Agua de Dios

The Company's main tax litigations as of 31 December 2016, classified as likely, correspond to four processes originated between the Municipality of Agua de Dios and the EEC for the public lighting tax

Object of claim: The Municipality considers that the Company is liable to the public lighting tax for having a substation in its jurisdiction, however, the tax liability is disproportionate in relation to the cost incurred by the Municipality for the provision of the service. The fee charged according to the installed capacity of the substation corresponds to COP \$12M that has been updated every year. Therefore, the process seeks the nullity of bills for public lighting tax issued by the Municipality.

Claim: \$1,622,745.

Provisioned: \$1,622,745.

Current status of process:

- i. For two of the processes established in 2015, the objection papers to the exceptions proposed by the Municipality were submitted and are waiting for the date of the initial hearing to be set.
- ii. For one process established in 2015, on 28 November 2016, an initial hearing was held and the evidence hearing date was set for 30 March 2017.

## **Codensa S.A. E.S.P.**

### **Notes to the Financial Statements – Separate (continued)**

(In thousands of pesos)

- iii. For the process established in 2016, the transfer of the request for provisional suspension of the defendants' acts was processed. Waiting for the Municipality to respond.

- (3) Corresponds to the prepayments made by the traders in accordance with Resolution 159/2011 issued by the CREG, which regulates the coverage mechanisms for the payment of charges for use of the regional transmission system and the local distribution system. The resolution was implemented in July 2016 and aims to: (i) mitigate the risk of non-compliance in the payment of charges for use associated with energy transported by regional transmission and local distribution systems; and (ii) ensure continuity of service to end users.

## **20 Equity**

### **Capital**

The authorised capital is represented in 28,378,952,140 shares with a par value of \$100 each. As of 31 December 2016 and 2015, there are 132,093.274 subscribed and paid-in shares, respectively.

During 2016, the main milestones that modified the Company's shareholding structure are presented below:

#### ***Reorganisation Enersis S.A. and Chilectra S.A.***

- (9) As a result of the reorganisation of Enersis S.A. and Chilectra S.A. (Chilean companies shareholders of Codensa), on 8 July 2016, the entry was made in Codensa's Book of Shareholders managed by Deceval S.A. of the companies resulting from the spin-off carried out in Chile (Enersis Américas S.A. and Chilectra Americas S.A.). Subsequently, on 1 December, the reorganisation of Enersis Américas S.A. and Chilectra Américas S.A. (Chilean companies shareholders of Codensa) was executed, where Enersis Américas absorbed Chilectra Américas S.A. and later changed its name to Enel Américas S.A. The registration in Codensa's book of shareholders of Enel Americas S.A. was performed on 16 January 2017.

#### ***Business Combination***

The merger process between the Company, EEC and DECSA established an exchange ratio of 0.000691636463474128 Codensa shares for each EEC share, and 0.0000109067464256447 Codensa shares for each DECSA share, equal to the issue of 1,668,377 Codensa shares, which was executed on 30 September 2016 by Public Deed No. 4063 of the First Notary Public of the Bogota Circle, registered with the Bogota Chamber of Commerce on the same date

As a result of the merger, the new subscribed and paid-in capital of Codensa S.A. E.S.P. increased from \$13,209,327 to \$13,376,165, which will be divided into 133,761,651 shares with a par value of \$100 pesos each.

In addition, share placement premiums of \$105,365,631 were recognised as a result of the value of the consideration received after deduction of the shares issued.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### Capitalisation

On 11 November, the Company's General Shareholders' Meeting, in extraordinary session, ordered the issue of 2,326,747 common shares with a par value of \$100, each taken from the reserve to be placed exclusively among shareholders, pursuant to the Rules of Subscription and Placement of Shares approved by the Company's Board of Directors.

The shares were offered for subscription in a single round at \$64,612.56 each, \$100 of which correspond to the par value of the common share and \$64,512.56 to the share placement premium. The publication of the share issue was made on 15 November with effect until 5 December 2016.

As a result of the share issue process described above, the subscribed and paid-in capital was increased by 1,113,799 shares, as follows:

Shareholders	Shares	Subscribed and paid-in capital	Are placement premium
Chilectra Américas S.A. (a)	214,804	21,480	13,857,556
Enersis Américas S.A. (a)	898,995	89,900	57,996,469
	<u>1,113,799</u>	<u>111,380</u>	<u>71,854,025</u>

(a) Currently, Enel Americas S.A., in accordance with the reorganisation process described above.

The shareholding structure as of 31 December 2016 is detailed below:

Shareholders	Common shares with voting rights		Preferred shares without voting rights		Shareholding structure	
	Interest (%)	Number of shares	Interest (%)	Number of shares	Interest (%)	Number of shares
Empresa de Energía de Bogotá S. A. E.S.P.	42.84%	49,209,331	100%	20,010,799	51.32%	69,220,130
Enel Américas S.A.	56.72%	65,148,360			48.30%	65,148,360
Other minority shareholders	0.44%	506,960			0.38%	506,960
	<u>100%</u>	<u>114,864,651</u>	<u>100%</u>	<u>20,010,799</u>	<u>100%</u>	<u>134,875,450</u>

The shareholding structure as of 31 December 2015 is detailed below:

Shareholders	Common shares with voting rights		Preferred shares without voting rights		Shareholding structure	
	Interest (%)	Number of shares	Interest (%)	Number of shares	Interest (%)	Number of shares
Empresa de Energía de Bogotá S. A. E.S.P.	42.85%	48,025,920	100%	20,010,799	51.5%	68,036,719
Enersis S.A. (a)	46.11%	51,685,039			39.13%	51,685,039
Chilectra S.A. (a)	11.02%	12,349,522			9.35%	12,349,522
Other minority shareholders	0.02%	21,994			0.02%	21,994
	<u>100%</u>	<u>112,082,475</u>	<u>100%</u>	<u>20,010,799</u>	<u>100%</u>	<u>132,093,274</u>

(a) Currently, Enel Americas S.A., in accordance with the reorganisation process described above.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Of the total shares of Empresa de Energía de Bogotá S.A. ESP, 20,010,799 shares correspond to non-voting shares with a preferred dividend of US \$0.10 per share.

#### Distribution of Dividends

The General Shareholders' Meeting held on 20 March 2016, as per Minutes No. 64, ordered the distribution of dividends for \$473,905,380 against net income as of 31 December 2015.

The dividends on net income of 2015 for \$ 473,905,380 (3,541.49 (\*) per common share) were paid as follows: 100% of preferred dividend and 40.78% of ordinary dividend on 28 June 2016, 34.54% paid on 26 October 2016 and 24.68% paid on 27 January 2017.

The General Shareholders' Meeting, for the period ended 31 December 2014, ordered the distribution of profits chargeable to net income generated according to previous generally accepted accounting principles (Decree 2649/1993), in force under said closing date. Accordingly, the General Shareholders' Meeting held on 26 March 2015, as per Minutes No. 60, ordered the distribution of dividends for \$78,088,439 chargeable to net income as of 31 December 2014.

The dividends on profit for the period between 1 September and 31 December 2014 for \$78,088,439 (578.37 (\*) per common share) were paid as follows: 100% of the dividends paid on 28 March 2016.

(\*) Figures in Colombian pesos.

#### Other Reserves

	As of 31 December 2016	As of 31 December de 2015
Reserve for deferred depreciation (Art. 130 Tax Code)	\$ 170,987,380	\$ 127,958,144
Legal reserve	26,454,481	6,604,664
	<b>\$ 197,441,861</b>	<b>\$ 134,562,808</b>

#### Legal Reserve

In accordance with Colombian law, the Company must transfer at least 10% of the year profit to a legal reserve, until it is equal to 50% of the subscribed capital. This reserve is not distributable before the Company's liquidation; however, it may be used to absorb or reduce annual net losses.

The balances of the reserve in excess of 50% of the subscribed capital are freely available to shareholders.

#### Reserve for Deferred Depreciation (Article 130 of the Tax Code)

The General Shareholders' Meeting held on 29 March 2016, as per Minutes No. 64, ordered the establishment of the reserve on account of accelerated depreciation pursuant to article 130 of the Tax Code for \$43,029,236 chargeable to net income of 2015.

The General Shareholders' Meeting held on 26 March 2015, as per Minutes No. 60, ordered the establishment of the reserve on account of accelerated depreciation pursuant to article 130 of the Tax



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Code for \$ 76,995,746 chargeable to net income of the period from 1 September and 31 December 2014. It is worth noting that for tax purposes the reducing balance depreciation method will be used as of 2014, and for accounting purposes the straight-line system will continue being used. Additionally, in previous periods, a reserve of 70% of the depreciation requested in excess was established since 1998 for tax purposes, amounting to \$50,962,398.

#### 21 Revenues from Ordinary Activities

	Year ended 31 December 2016	Year ended 31 December 2015
Regulated market (1)	\$ 3,342,985,947	\$ 2,950,622,856
Public lighting (2)	93,884,765	81,395,834
Spot market (3)	1,248,831	2,603,497
Unregulated market (4)	2,543,635	-
<b>Electric energy sales</b>	<b>3,440,663,178</b>	<b>3,034,622,187</b>
Tolls and transmission	404,153,702	377,598,001
Public lighting infrastructure lease	89,176,910	79,733,197
Provision of goods and services to individuals (5)	72,800,406	66,244,080
Mutual support (6)	71,726,394	65,513,056
Commissions (7)	34,212,393	28,759,418
Sales of metering equipment	10,979,530	9,413,746
Maintenance of public lighting infrastructure	10,616,575	9,604,722
Reconnections	6,450,856	7,671,537
Connection service	6,675,150	5,961,857
Equipment hire	1,238,859	1,158,937
Others	1,458,876	1,789,853
<b>Other service provisions</b>	<b>709,489,651</b>	<b>653,448,404</b>
	<b>\$ 4,150,152,829</b>	<b>\$ 3,688,070,591</b>

- (1) As of 31 December 2016 and 2015, energy sales in the regulated market amounted to 8,097 and 8,202 Gwh, 4,569 and 4,664 Gwh of which residential customers, 2,258 and 2,280 commercial customers Gwh, 1,038 and 1,011 Gwh industrial customers and 231 and 247 Gwh official customers, respectively. The variation corresponds mainly to the increases in rates received during 2016 and to the integration of the customers of Empresa de Energía de Cundinamarca, which served 297,716 customers of the regulated market as described in the note on business combination (See note 1.5).
- (2) As of 31 December 2016 and 2015, electric energy sales on account of public lighting amount to 252.5 and 260.7 Gwh, mostly from consumption in the Capital District 213.3 and 212,8 Gwh and Other municipalities for 49.2 and 47.9 Gwh, respectively.
- (3) As of 31 December 2016 and 2015, electric energy sales in the spot market amount to 4.2 and 12.2 Gwh, respectively.
- (4) As of 31 December 2016, corresponds to the consumption of 6.3 Gwh by the thirteen (13) customers of the unregulated market of the portfolio managed by the EEC.
- (5) The provision of goods and services to private parties corresponds mostly to:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Year ended 31 December 2016	Year ended 31 December 2015
Agreement for cooperation and financing of goods and services (a)	\$ 37,771,405	\$ 37,561,872
Electrical Works	10,039,155	8,483,954
Christmas lighting (b)	7,574,441	7,204,898
Technical reviews	7,498,901	5,178,133
Installation of equipment	2,331,583	1,926,926
Calibration and installation of seals	1,882,452	2,071,838
Induction stoves	494,514	913,015
Electric mobility and energy efficiency services	360,842	332,982
Other value added services (c)	4,847,113	2,570,462
	<u>\$ 72,800,406</u>	<u>\$ 66,244,080</u>

- (a) As of 31 December 2016 and 2015, corresponds to a revenues generated by the billing and collection of the business called “Crédito Fácil Codensa” according to the business cooperation agreement entered into with Banco Colpatría Red Multibanca Colpatría S.A. for \$32,387,917 and \$32,540,990, respectively. Additionally, it includes revenues from financing services and electrical work provided by the Company to third parties for \$5,383,488 and \$5,020,881, respectively.
- (b) On 9 November 2015, the Company and Villa Hernandez and Cía. S.A.S. established a Temporary Union intended for providing Christmas lighting rental, installation, mounting and maintenance services for 2015 in the Municipality of Chía. As of 31 December 2016 and 2015, as a result of services provided, the Company recognised revenues for \$825,431 and \$859,915.
- (c) As of 31 December 2016 y 2015, corresponds primarily to charges for advertising of products offered to company customers, distributed with billing (Product in your hands) for \$2,202,097 and \$1,856,533, respectively. In addition, it comprises the recognition of substitution service in order to ensure the availability of the service for \$ 2,310,230 and \$ 519,729, respectively.
- (6) Corresponds to revenues from the rental of electrical infrastructure such as poles and inspection chambers, mainly to telecommunications companies in order to allow the laying of networks for the provision of their services. The variation presented is due to an increase in the number of rented poles and an increase in the rental rate caused mainly by the rise in the Producer Price Index (PPI).
- (7) Corresponds primarily to commissions recognised within the framework of the mandate contracts that the Company has entered into with business partners of subscriptions, insurance, etc.

## 22 Other Operating Income

Below is the detail of other income:

	Year ended 31 December 2016	Year ended 31 December 2015
Negative goodwill (see nota 1.5.5)	\$ 21,244,288	\$ -
Recovery of energy losses	4,897,894	2,968,536

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Sale of obsolete material	2,565,861	1,967,387
Fines and penalties (1)	2,198,952	2,960,787
Casualty indemnities (2)	844,920	13,092,467
Other (3)	7,791,179	2,806,318
	<b>\$ 39,543,094</b>	<b>\$ 23,795,495</b>

- (1) As of 31 December 2016 and 2015, corresponds primarily to the collection of fines and sanctions to contractors for default or delays in contract performance for \$2,216,903 and \$2,434,164,
- (2) Corresponds primarily to the recognition by insurance companies of the following casualties::

As of 31 December 2016

Casualty	Casualty date	Insurer	Type of casualty	Amount in pesos
Guacheta Substation	June/2014	Mapfre	Construction	\$ 150,160
Concordia Substation	November/2013	Seguros Bolivar	Fire	170,421
Inmel Goods	June /2015	Mapfre	Theft	472,095

As of 31 December 2015

Casualty	Casualty date	Insurer	Type of casualty	Amount in pesos
Usme Substation	May/2014	Mapfre	Fire	\$ 4,036,123
Concordia Substation	November /2013	Mapfre	Fire	6,668,097
Concordia Substation (a)	November /2013	Seguros Bolivar	Fire	1,144,561
Chíchala Substation	September/2013	Generalli	Fire	1,243,686

- (3) Corresponds mainly to the recognition by the contractors of the missing materials in the operation.

### 23 Provisioning and Services

	Year ended 31 December 2016	Year ended 31 December 2015
Electric energy purchase (1)	\$ 1,792,225,688	\$ 1,577,746,003
Transport costs ( <i>tolls and transmission</i> )	405,884,761	347,640,222
Other variable provisioning and services (2)	203,843,541	175,371,509
	<b>\$ 2,401,953,990</b>	<b>\$ 2,100,757,734</b>

- (1) As of December 2016 and 2015, electric energy purchases amount to 9,597 and 9,536 Gwh; purchases intended for the regulated market are attributed a 97,4% share derived in contracts with 8,073 and 8,178 Gwh and spot market purchases of 1,279 and 1,121 Gwh, with the remaining 2.6% corresponding to purchases intended for the unregulated market for 245 and 238 Gwh, respectively.

- (2) Below is the detail of other variable provisioning and services:

	Year ended 31 December 2016	Year ended 31 December 2015
Industry and trade tax	\$ 51,200,554	\$ 44,278,195
Maintenance of public lighting and others (a)	39,070,570	36,550,864
Costs of goods and service provision to private parties (b)	48,026,849	37,433,331
Costs associated with metering equipment	31,817,871	24,790,077

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Year ended 31 December 2016	Year ended 31 December 2015
Compensation quality of service	16,755,027	16,374,124
Cuts and reconnection services	11,086,000	10,151,398
Contributions regulating entities	4,061,803	4,023,237
Other local sales taxes	1,824,867	1,770,283
	<b>\$ 203,843,541</b>	<b>\$ 175,371,509</b>

- (a) The variation corresponds to an increase in preventive activities, as required by the UAESP and the implementation of the maintenance plan aimed at improving service quality and maintenance on critical circuits remunerated under the distribution rate differential.
- (b) Corresponds primarily to business-associated costs of value added services such as electrical works, Christmas lighting, and subscriptions to magazines, insurance and other products.

## 24 Personnel Expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries (1)	\$ 127,563,574	\$ 112,600,638
Social security service and other social charges	30,420,399	26,586,932
Expenses (revenues) for post-employment benefits obligation (2)	924,504	630,894
Expenses (revenues) for retirement plans obligation (3)	(3,634,128)	12,614,282
Other personnel expenses (4)	5,858,192	1,756,461
	<b>\$ 161,132,541</b>	<b>\$ 154,189,207</b>

- (1) As of 31 December 2016 and 2015, corresponds to wages and salaries for \$95,706,541 and \$82,542,052, bonuses \$13,126,550 and \$16,501,329, vacation and vacation bonus \$8,711,938 and \$6,734,271, service bonus \$3,669,541 and \$2,484,421, severance pay and interests thereon \$3,007,591 and \$2,105,057 and amortisation of employee benefits for \$3,341,411 and \$2,233,507, respectively.
- (2) As of 31 December 2016 and 2015, corresponds to current service cost for active personnel associated to the benefit of retroactive severance pay for \$111,126 and \$75,886, five-year terms \$1,660,346 and \$200,675, respectively. As of 31 December 2016 and 2015, as a result of the actuarial calculation made by the firm Aon Hewitt Mexico, it includes the effect of actuarial losses in five-year terms derived from changes due to modification of variables for \$(846,968) and \$354,334, respectively.
- (3) Corresponds to expenses (revenues) associated with voluntary retirement plans (see Note 17).
- (4) As of 31 December 2016, corresponds primarily to the provision of labour litigation that were subject to changes in the rating, according to the analysis carried out by the attorneys-in-fact for \$5,093,121 (See Note 16).

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 25 Other Fixed Operating Expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Independent professional services, outsourced and others (1)	\$ 130,779,813	\$ 117,255,270
Repairs and maintenance (2)	57,170,651	59,446,288
Taxes and fees (3)	21,703,952	23,961,105
Other supplies and services (4)	21,506,981	18,185,981
Leases and fees	8,167,119	7,053,193
Insurance premiums	6,405,766	4,846,627
Advertising, marketing and public relations	5,503,098	4,097,212
Transport and travel expenses	2,363,997	2,105,275
	<b>\$ 253,601,377</b>	<b>\$ 236,950,951</b>

(1) Below is the detail of independent professional services, outsourced and others:

	Year ended 31 December 2016	Year ended 31 December 2015
Reading	\$ 17,649,701	\$ 14,724,030
General administration expenses	17,566,351	12,746,094
Market recovery contracts	16,442,015	15,399,784
Collection contracts	11,927,471	12,672,631
Customer service contracts	9,543,969	9,367,262
Other management and operating contracts	8,370,956	11,087,494
Diagnosis, inspection and maintenance of substations, networks and electrical installations	8,278,681	5,243,039
Maintenance computer equipment	7,316,371	6,940,198
Civil and administrative litigations	5,921,806	792,231
Software and computer applications development services	5,300,509	2,411,183
Fees	4,960,745	4,886,097
Billing	3,823,728	4,637,145
Logistics operation contract for materials and inventories	3,167,613	3,614,545
Administration of transport services	2,959,279	3,526,563
Industrial safety	2,118,773	2,104,271
Non-payment management contracts	1,248,266	1,162,418
Casualty losses	1,042,611	1,358,244
Telecommunications services	952,695	1,909,598
Office supplies and equipment	858,285	471,639
Temporary personnel service	846,584	1,581,861
Cafeteria	483,404	618,943
	<b>\$ 130,779,813</b>	<b>\$ 117,255,270</b>

(2) Corresponds mainly to the maintenance of networks, lines and pipelines.

(3) As of 31 December 2016 and 2015, corresponds primarily to recognition of the wealth tax of 2015 for \$19,539,631 and \$22,100,606, respectively, in accordance with Act 1739 of December 2014, which created the wealth tax for the years 2015 to 2017 for juridical persons.

(4) As of December 2016 and 2015, corresponds primarily to electrical material for \$4,451,780 and \$3,324,811, security and surveillance services \$7,166,226 and \$6,529,136, studies and projects \$919,797 and \$1,085,306, respectively.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 26 Expense for Depreciation, Amortisation and Impairment Losses

	Year ended 31 December 2016	Year ended 31 December 2015
Depreciations (Note 12)	\$ 248,947,545	\$ 237,920,957
Amortisations (Note 11)	15,108,837	11,680,014
<b>Depreciations and amortisations</b>	<b>264,056,382</b>	<b>249,600,971</b>
Reversal for impairment of financial assets (1)	6,075,377	338,759
	<b>\$ 270,131,759</b>	<b>\$ 249,939,730</b>

- (1) As of 31 December 2016 and 2015, corresponds to energy portfolio endowment for \$5,692,793 and \$593,242, increase mainly due to the Municipality of Puerto Salgar \$1,014,864, aging of the public lighting portfolio for \$2,279,370, endowment (recovery) supplementary business portfolio for \$309,135 and (\$278,109), endowment (recovery) employee portfolio for \$73,450 and \$24,861 and other recoveries for \$0 and (\$1,235), respectively

#### 27 Net Financial Income

	Year ended 31 December 2016	Year ended 31 December 2015
Revenues from cash and cash equivalents (1)	\$ 11,952,666	\$ 11,455,680
Other financial revenues (2)	3,238,345	599,176
Interests on customer financing (3)	1,565,675	6,813,291
Default interests	8,058,690	6,409,193
Interests on loans to employees (4)	4,214,690	3,033,006
<b>Financial revenues</b>	<b>29,030,066</b>	<b>28,310,346</b>
Financial obligations (5)	(141,942,003)	(112,432,765)
Obligation for post-employment benefits	(16,463,837)	(14,630,523)
Tax on movement of funds	(21,288,534)	(17,171,650)
Finance leases	(572,335)	(374,271)
Other financial costs (6)	(6,070,323)	(946,344)
<b>Financial expenses</b>	<b>(186,337,032)</b>	<b>(145,555,553)</b>
Revenues from exchange difference	7,135,966	6,540,036
Expenses from exchange difference	(8,039,038)	(4,156,837)
<b>Net exchange difference (7)</b>	<b>(903,072)</b>	<b>2,383,199</b>
<b>Total financial income, net</b>	<b>\$ (158,210,038)</b>	<b>\$ (114,862,008)</b>

- (1) Corresponds primarily to financial yield in local currency from deposits and investments in various entities such as Alianza Fiduciaria, AvVillas, BBVA, Banco Bogotá, Caja Social, Citibank, Colpatria, Corficolombiana, Corpbanca, Corredores, Pichincha and Valores Bancolombia.

- (2) As of 31 December 2016, corresponds primarily to the update of the contingent liability of the Hydroelectric Power Plant of Rio Negro for \$1,525,536 and the financial update of the environmental compensation of Nueva Esperanza Substation for \$521,986.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (3) As of 31 December 2015, the Company recognised current interests corresponding to the balance owed by the UAESP of the public lighting VAT for \$5,059,734 (See Note 7).
- (4) As of 31 December 2016 and 2015, corresponds to the financial interest of housing credits for \$804,084 and \$799,499, and the financial effect of loans to employees agreed at the differential market rate for \$3,410,605 and \$2,233,507, respectively.
- (5) Corresponds to the interests on bonds issued generated under the Company's Bond Issue and Placement Programme, as follows:

Issue	Year ended 31 December 2016	Year ended 31 December 2015
Bonds interest B102	\$ 59,289,763	\$ 48,637,893
Bonds interest B12-13	23,665,543	18,825,157
Loans Bank of Tokyo (a)	21,536,282	-
Bonds interest B5-13	20,657,828	16,116,540
Bonds interest B7-14	19,985,257	15,647,513
Bonds interest B604	2,271,661	12,842,918
Bonds interest E-416	1,976,616	-
Other commercial loans (b)	4,122,648	-
	<b>153,505,598</b>	<b>112,070,021</b>
Capitalisation of Interests	(11,927,334)	-
Amortisation bond issue premium B102	363,739	362,744
	<b>\$ 141,942,003</b>	<b>\$ 112,432,765</b>

- (a) Corresponds to the interests of the loans acquired with The Bank of Tokyo Mitsubishi UFJ on 17 March 2016 for \$200,000,000 with an agreed rate of 8.4931% EA, and 10 June 2016 for \$162,000,000, at a rate of 8.8150% EA.
- (b) Corresponds to the interests of bank loans acquired as a result of the business combination (See Note 14).
- (6) As of 31 December 2016, corresponds to the update to the present value of the Public Lighting VAT portfolio for \$3,943,093 as a result of the reclassification of the short-term to the long-term portfolio (see Note 7).
- (7) The origins of the effects on exchange difference results correspond to:

	Year ended 31 December 2016	
	Revenues from exchange difference	Expenses from exchange difference
Cash	\$ 8,114	\$ (36,313)
Bank balance	832,135	(90,408)
Cash and cash equivalents	<b>840,249</b>	<b>(126,721)</b>
Current accounts receivable	265,876	(114,492)
<b>Total Assets</b>	<b>1,106,125</b>	<b>(241,213)</b>
Accounts payable for goods and services	5,929,359	(7,652,825)

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

<i>Prepayment to customers</i>	100,482	(145,000)
<b>Total liabilities</b>	<b>6,029,841</b>	<b>(7,797,825)</b>
<b>Net results</b>	<b>\$ 7,135,966</b>	<b>\$ (8,039,038)</b>

	Year ended 31 December 2015	
	Revenues from exchange difference	Expenses from exchange difference
<i>Cash</i>	\$ 259,718	\$ (3,905)
<i>Bank balance</i>	33,795	(1,649,717)
Cash and cash equivalents	293,513	(1,653,622)
Current accounts receivable	104,212	(60,632)
<b>Total Assets</b>	<b>397,725</b>	<b>(1,714,254)</b>
<i>Accounts payable for goods and services</i>	6,026,374	(2,415,386)
<i>Prepayment to customers</i>	115,937	(27,197)
<b>Total liabilities</b>	<b>6,142,311</b>	<b>(2,442,583)</b>
<b>Total exchange difference</b>	<b>\$ 6,540,036</b>	<b>\$ (4,156,837)</b>

#### 28 Income from Other Investments

	Year ended 31 December 2016	Year ended 31 December 2015
Loss in prior interest (1)	\$ (17,961,622)	\$ -
Dividends of associated investments (2)	1,129,958	-
Equity method (3)	(2,629)	-
	<b>\$ (16,834,293)</b>	<b>\$ -</b>

- (1) See Note 1.5.2 “Adjustment to Fair Value of Prior Interest” under the note to Business Combination.
- (2) Corresponds to the dividends declared in March 2016 by DECSA S.A. E.S.P. in favour of the Company.
- (3) Corresponds to the equity method applied on Inversora Codensa S.A.S.

#### 29 Income from the Sale and Disposal of Assets

	Year ended 31 December 2016	Year ended 31 December 2015
Materials (1)	\$ 4,186,291	\$ 544,975
Property, plant and equipment (2)	6,635,740	(105,821)
Other	13,443	100,069
	<b>\$ 10,835,474</b>	<b>\$ 539,223</b>

- (1) Corresponds primarily to the billing of materials to the cooperating companies as a result of the physical taking of inventories.
- (2) Corresponds primarily to the write-off of substation equipment, lines and networks, distribution transformers and public lighting luminaires due to obsolescence, damage and replacement.



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 30 Income Tax Expenses

The provision charged to profit or loss, for income tax and CREE (income tax for equality) is broken down as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	\$ 231,673,758	\$ 213,620,639
Current CREE income tax	139,490,932	120,183,159
	<b>371,164,690</b>	<b>333,803,798</b>
Income tax previous years (1)	724,882	(41,455,656)
Deferred tax movement (2) (See note 13)	39,432,166	19,060,018
Deferred tax movement previous years (2) (See note 13)	(733,528)	44,952,180
	<b>\$ 410,588,210</b>	<b>\$ 356,360,340</b>

(1) The General Shareholders' Meeting held on 26 March 2016, as per Minutes No. 60, ordered the establishment of the reserve on account of accelerated depreciation pursuant to article 130 of the Tax Code for \$78,088,439 chargeable to net income of 31 December 2014, taking into account that for tax purposes the reducing balance depreciation method will be used as of 2014, and for accounting purposes the straight-line system will continue being used. As a result of the implementation of the reducing balance depreciation, a registration of (\$39,021,233) was recorded in the current tax and \$40,016,135 in the deferred tax as of 31 December 2014.

(2) As of 31 December 2016, corresponds to the reduction of the net deferred tax of (\$38,698,638), which includes (i) deferred tax for the period of \$41,005,119; (ii) deferred tax for prior years (\$733,528); and (iii) effect for rate changes as a result of the tax reform for (\$1,572,953).

Below is the reconciliation of the income tax that would result from applying the current general tax type to "earnings before taxes" and the expense registered equivalent to an effective rate on profits as of 31 December 2016 and 2015 of 43.06% and 40.81%, respectively:

Reconciliation effective tax rate	Year ended 31 December 2016	Rate	Year ended 31 December 2015	Rate
Net income	\$ 542,879,556		\$ 516,934,616	
Income tax expense	410,588,210		356,360,340	
Earnings before taxes	<b>953,467,766</b>		<b>873,294,956</b>	
Legal tax rate in force	40%		39%	
Tax according to legal rate in force	<b>(381,387,106)</b>	(40%)	<b>(340,585,033)</b>	(39%)
<b>Permanent differences:</b>				
Non-deductible taxes (1)	(4,547,704)	(0.48%)	(3,369,656)	(0.39%)
Non-deductible wealth tax	(8,522,055)	(0.89%)	(8,619,236)	(0.99%)
Non-deductible property tax	-	-	-	-
Non-causal and other non-deductible expenses (2)	(1,524,709)	(0.16%)	(794,394)	(0.09%)
Expenses from previous years	(307,910)	(0.03%)	(95,088)	(0.01%)

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Reconciliation effective tax rate	Year ended 31 December 2016	Rate	Year ended 31 December 2015	Rate
Net effect of movement of estimated liabilities and permanent provisions	(4,818,749)	(0.51%)	(280,866)	(0.03%)
Assumed interests	(6,627)	0%	(3,218)	0%
Additional deduction disabled	43,582	0%	11,519	0%
Non-taxable dividends	452,209	0.05%	-	-
Income from previous years	-	-	10,801	0%
Non-tax income and higher tax deduction science and technology	3,937,239	0.41%	9,424	0%
Business combination (3)	1,313,067	(0.14%)	-	0%
Other permanent differences (4)	(16,841,045)	(1.77%)	(63,097)	0.01%
Rate difference adjustment – deferred adjustments previous years	1,572,952	0.16%	875,027	(0.10%)
Income adjustment 2014 income tax return	8,646	0%	(3,496,523)	0.40%
Effect of CREE surtax adjustment	40,000	0%	40,000	0%
<b>Total permanent differences</b>	<b>(29,201,104)</b>	<b>(3.06%)</b>	<b>(15,775,307)</b>	<b>(1.81%)</b>
<b>Income tax expense</b>	<b>\$ (410,588,210)</b>	<b>(43.06%)</b>	<b>\$ (356,360,340)</b>	<b>(40.81%)</b>

- (1) As of 31 December 2016 and 2015, corresponds to the effect on income tax and CREE of the levy on financial movements for \$34,499,967 and \$3,348,462, and taxes on vehicles for \$47,737 and \$21,194, respectively.
- (2) As of 31 December 2016, corresponds mainly to the effect on income tax and CREE, for non-causal expenses, such as attention to employees, sports, recreation, welfare, loan forgiveness.
- (3) Correspond to the tax associated with the line items of business combination, negative Goodwill for \$8,497,716 and loss of valuation previous interests of EEC investment (\$7,184,649). See Note 1.5 on business combination.
- (4) As of 31 December 2016 corresponds to not offset deferred tax for (\$18,451,535), adjustment of other permanent line items recorded in equity for the business combination for \$1,055,546, recalculated of deferred taxes for \$554,944.

### 31 Earnings per Share

The earnings per basic share are calculated dividing profit attributable to the Company shareholders adjusted to preferred dividends after taxes between the weighted averages of common outstanding shares over the year. As of 31 December 2016 and 2015, there are no common shares acquired by the Company.

	Year ended 31 December 2016	Year ended 31 December 2015
Profit attributable to owners	\$ 542,879,556	\$ 516,934,616
Preferred dividends (1)	6,004,661	6,302,341

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Profit attributable to owners adjusted to preferred dividends		536,874,895		510,632,275
Weighted average of outstanding shares		134,875,450		132,093,274
<b>Basic and diluted earnings per share (*)</b>	<b>\$</b>	<b>3,980,52</b>	<b>\$</b>	<b>3,865,69</b>

(\*) Figures in Colombian pesos.

- (1) Out of total shares of Empresa de Energía de Bogotá S.A. ESP, 20,010,799 shares correspond to shares without voting rights with an annual preferred dividend of US \$0.10 per share.

### 32 Other Comprehensive Income

The breakdown of other comprehensive income is shown below:

	Year ended 31 December 2016	Year ended 31 December 2015
<b>Components of other comprehensive income that will not be reclassified to net income</b>		
Losses for new measurements of defined benefits plans (1)	\$ (34,284,141)	\$ 1,064,806
Losses on new measurements of financial instruments measured at fair value rough OCI (2)	18,080	(10,039)
Gains (losses) on cash flow hedges	29,247	(89,088)
<b>Other comprehensive income that will not be reclassified to earnings before taxes</b>	<b>(34,236,814)</b>	<b>965,679</b>
<b>Other comprehensive income that will be reclassified to earnings before taxes</b>		
Gains (losses) on cash flow hedges	64,570	-
<b>Other comprehensive income that will be reclassified to earnings before taxes</b>	<b>64,570</b>	<b>-</b>
<b>Income and deferred taxes relative to components of other comprehensive income that will not be reclassified to net income</b>		
Tax effect for losses on new measures of defined benefits plans (1)	10,646,567	(428,028)
Effect of taxes on cash flow hedges	(11,699)	35,635
<b>Total income taxes relative to components of other comprehensive income that will not be reclassified to net income</b>	<b>10,634,868</b>	<b>(392,393)</b>
<b>Total income taxes relative to components of other comprehensive income that will be reclassified to net income</b>		
Effect of taxes on cash flow hedges	(25,828)	-
<b>Total income taxes relating to components of other comprehensive income will be reclassified to net income</b>	<b>(25,828)</b>	<b>-</b>
<b>Total other comprehensive income</b>	<b>\$ (23,563,204)</b>	<b>\$ 573,286</b>

- (1) Corresponds to the effect of actuarial losses valued by Aon Hewitt México. As of 31 December 2016 and 2015, actuarial losses with effect on equity are presented below:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

	Year ended 31 December 2016			Year ended 31 December 2015	
	Pension and benefits	Retroactive severance pay	Temporary income	Pension and benefits	Retroactive severance pay
Initial balance	\$ (27,917,885)	\$ (957,467)	\$ -	\$ (28,723,014)	\$ (789,115)
Increases (decreases) for business combination (See Note 1.5.6)	(12,727,861)	1,407,832			
Actuarial gain (loss)	(29,357,251)	(219,359)	(4,707,531)	1,319,884	(255,079)
Current tax	(5,695,584)	-	1,883,013	(514,755)	-
Deferred tax	14,386,750	72,388	-	-	86,727
Final balance	\$ (61,311,831)	\$ 303,394	\$ (2,824,518)	\$ (27,917,885)	\$ (957,467)

The value of the losses is transferred directly to retained earnings and will not be reclassified to profit or loss.

- (2) As of 31 December 2016 and 2015, gains (losses) on the investment in Electricaribe S.A. E.S.P. as a result of the measurement using the multiples method were recorded in other comprehensive income for \$18,080 and \$10,039, respectively. The value of the losses is transferred directly to the retained earnings and will not be reclassified to profit or loss.

### 33 Assets and Liabilities in Foreign Currency

The standards existing in Colombia allow for the free negotiation of foreign currency through banks and financial institutions at free exchange rates. Nonetheless, most of the transactions in foreign currency require compliance with certain legal requisites.

Summary of assets and liabilities expressed in foreign currency:

	As of 31 December 2016		
	(in EUR)	(in US Dollars)	(in thousands of pesos)
Cash and cash equivalents	€ 5,743	US\$ 715,592	\$ 2,165,465
Debtors	110,714	27,285	432,334
Accounts payable	(4,280,631)	(3,816,649)	(25,002,738)
<b>Net position (liability)</b>	<b>€ (4,164,174)</b>	<b>US\$ (3,073,772)</b>	<b>\$ (22,404,939)</b>

  

	As of 31 December 2015		
	(in EUR)	(in US Dollars)	(in thousands of pesos)
Cash and cash equivalents	€ 2,584	US\$ 118,521	\$ 382,161
Debtors	257,917	736,495	3,138,876
Accounts payable	(4,134,065)	(2,231,093)	(22,309,712)
<b>Net position (liability)</b>	<b>€ (3,873,564)</b>	<b>US\$ (1,376,077)</b>	<b>\$ (18,788,675)</b>

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

#### 34 Penalties

As of 31 December 2015, the Company was notified of the Resolution with the following sanctions:

- On 8 June 2016, the Superintendence of Industry and Trade resolved to impose a penalty of \$11,031 on the Company, as a result of the late delivery of information required by said administrative entity. Current status: appeal for review was filed.
- On 2 December 2016, by resolution No. 20162400064595, the Superintendence of Household Public Utilities confirmed the penalty of \$20,619, issued on 17 November 2015 in Resolution No. 20152400051515, considering the inadequate application of the rate to the gym “Hard Body”; taking into account that the Company as a network operator, since the connection of the service had to have the information of the ownership of the assets.

#### 35 Other Insurance

In addition to policies relative to properties, plant, and equipment (see note 12), the company has the following policies:

Property/person insured	Risks covered	Insured amount (figures in thousands)	Expiry	Insurance Company
Transport of goods	Loss or damage to the transported goods	\$5,000 limit	31/07/2017	Generali Colombia
Employees having a direct contract	Death, total and permanent disability	\$1,800 maximum individual insured sum	31/12/2017	Generali Colombia
Counsellors or directors	Civil responsibility of directors and managers	USD \$ 5,000	10/11/2017	AIG

#### 36 Commitments and Contingencies

##### I. Purchase Commitments:

The Company as of 31 December 2016 has commitments to purchase electric energy as follows:

Year	Commitments with third parties	Commitments with Emgesa S.A. E.S.P.	Total
2017	\$ 616,339,523	\$ 789,559,596	\$ 1,405,899,119
2018	603,703,484	521,904,574	1,125,608,058
2019	392,148,230	1,004,058,633	1,396,206,863
2020	224,601,935	906,595,676	1,131,197,611
2021	177,251,599	1,094,178,016	1,271,429,615
	<b>\$ 2,014,044,771</b>	<b>\$ 4,316,296,495</b>	<b>\$ 6,330,341,266</b>

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Commitments for the purchase of material supplies as of 31 December 2016 are as follows:

<u>Period</u>	<u>Value</u>
2017	\$ 228,065,228
2018 to 2019	40,859,915
2020 to 2021	89,528
	<u>\$ 269,014,671</u>

Below is the summary of commitment of service procurement:

<u>Year</u>	<u>Commitments with third parties</u>
2017	\$ 341,687,697
2018 to 2019	272,431,195
2020 to 2021	5,066,000
2022 to 2023	475,306
	<u>\$ 619,660,198</u>

#### II. Litigations and Arbitrations:

The company faces litigations classified as possible or contingent, with respect to which Management, with the support of its external and internal legal advisors, estimates that the outcomes corresponding to the part not provisioned will be favourable to the Company and will not cause significant liabilities which must be accounted for or which, if they do, will not significantly affect their financial position.

#### Litigations Classified as Contingent

The main litigations that the Company has as of 31 December 31 2016 classified as contingent are:

##### a. Process Sabana Medical Center PH and Others

Start date: 2014

Claim: \$337,000,000

Object of claim: The plaintiffs seek that the Company return what it has allegedly charged in excess for not applying the rate benefit to said group of users belonging to Voltage Level One, who are also owners of the distribution assets.

The claim and the main event of the claim are based on the fact that the Company is illicitly enriching because it does not apply any rate benefit to the users that belong to this voltage level and who own the infrastructure, as established in Resolution 082/2002, as amended by Resolution 097/2008. The plaintiff determines the amount of this process based on the fact that this situation is replicated in approximately 550 thousand users and that each one is entitled to compensation.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Current status of process: A settlement hearing was held, which was declared unsuccessful. The decree of evidence is expected.

#### **b. Process Owners Association of the Urban Centre Antonio Nariño**

Start date: 2009

Claim: \$15,000,000

Object of claim: The Association claims a property located within its facilities where an energy substation of Codensa operated. Codensa counterclaims the prescription of the property or easement.

Current status of process: Codensa summoned specific persons whose address is unknown and unspecified persons to extend the effects of a possible judgement on anyone who could claim respect for the real rights in dispute.

#### **c. Process Owners Association of the Urban Centre Antonio Nariño.**

Start date: 2011.

Claim: \$43,500,000

Object of claim: The association claims the nullity of the permit granted by the Ministry of Culture to Codensa to intervene a declared property of cultural interest on the basis that Codensa was not the owner of the property.

Current status of process: The listing pending for the Council of State to contesting the claim.

#### **Litigations as Plaintiff:**

As of 31 December 2016, the Company acts as a plaintiff in six lawsuits that, in the event of being decided favourably, could generate an asset. These lawsuits correspond to actions for nullity and reinstatement of right filed against the resolutions through which the Superintendence of Household Public Utilities settled the special provided in article 85 of Act 142/1994 for taxable years 2012, 2013, 2014 and 2015 on a taxable base higher than that set out in the Act. If a favourable ruling is obtained, the Superintendence of Household Public Utilities shall return what the judge determines as an excess paid value. The values under discussion are as follows: for 2012 \$2,956,882; for 2013 \$3,237,619; for 2014 \$3,556,684 and for 2015 \$5,102,330.

### **37 Reclassification in the Financial Statements**

The following reclassifications were made in the statement of cash flows for comparison purposes as of 31 December 2015:

- (a) \$8,974,250, corresponding to withholding tax for wages, were reclassified from the item other cash inflows (outflows) to the item payment to and on account of employees. Such information does not modify the net cash flows from operating activities.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (b) \$79,505,001, corresponding to taxes associated with the operation other than income tax, were reclassified from the item other cash inflows (outflows) to other payments for operating income. Such information does not modify the net cash flows from operating activities.
- (c) \$17,204,280, corresponding to personnel expenses directly related to the constructions in progress, were reclassified from the item payments to and on account of employees to the item purchase of property, plant and equipment. This modifies the presentation of net cash flows from operating activities and net cash flows used in investing activities.

### 38 Risk Management

The Company is exposed to certain risks it manages through the implementation of identification, measurement, concentration limitation, and supervision systems.

The basic principles defined by the Company to implement its risk management policy include the following:

- Comply with good corporate governance standards.
- Comply strictly with the entire corporate regulatory system.
- Each management and corporate area defines:
  - a. Markets in which it can operate on the basis of sufficient knowledge and skills to ensure effective risk management.
  - b. Criteria about counterparties.
  - c. Authorised operators.
- Management and corporate areas establish for each market where they operate their risk exposure consistent with the defined strategy.
- All management and business operations are performed within the limits approved in each case.
- Managements, corporate areas and business lines establish risk management controls as necessary to ensure that market transactions are carried out in accordance with the Company's policies, standards and procedures.

### Interest Rate Risk

The variations of interest rates change the fair value of such assets and liabilities earning a fixed interest rate, as well as the flow of assets and liabilities referenced at variable interest rate.

The purpose of risk management relative to interest rates is to reduce the volatility of the financial cost reflected in the income statement.

Depending on the estimates by the Company and the objectives of debt structure, hedging operations were undertaken through the contracting of derivatives that mitigate such risks. Instruments that can be used correspond to rate swaps, setting from variable to fixed rates. Currently the Company has not contracted interest rate hedging.

The following chart shows the sensitivity analysis of the financial cost associated with issued debt, relative to the per cent variation of interest rates as follows:



## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Interest rate	As of 31 December 2016		As of 31 December 2015	
	Variation (basic points)*	Sensitivity in COP	Variation (basic points)*	Sensitivity in COP
CPI	+/- 2.69 %	(+/-)\$ 29,041,815	+/- 2.67 %	(+/-)\$ 32,849,154
DTF	+/- 2.19 %	(+/-)\$ 2,858,859	+/- 1.53 %	(+/-)\$ -

(\*) Changes or movements in interest rates were calculated based on their historical volatility over a three-year period (2013-2016 and 2012-2015 for the 2016 and 2015 calculations respectively), taking twice the standard variation of the series.

#### Exchange Rate Risk

The type of exchange risks can be presented essentially with the following transactions:

- Debt contracted by the Company in a currency other than that at which its flows are indexed to.
- Payments to be made for the acquisition of materials associated with projects in a currency other than that at which its flows are indexed to.
- Revenues directly related to the evolution of currencies other than that of its flows.

Taking into account that the functional currency of the Company is the Colombian peso, it is necessary to mitigate the exchange rate risk by minimising the exposure of the flows to the risk of changes in the exchange rate.

The instruments that can be used correspond to derivatives (forwards and swaps) of exchange rate. The Company currently contracts exchange rate hedges to cover the payment of invoices in dollars for the purchase of assets in foreign currency and to cover the debt taken in foreign currency.

#### Commodity Risks

The Company is exposed to the risk of price variation of commodities, mainly through energy purchase and sale operations carried out in local markets.

The Company performs most of its energy purchase transactions through contracts where a price has been previously agreed upon, thus mitigating this risk.

#### Liquidity Risk

The Company has in place a consistent liquidity policy for contracting long-term credit facilities, cash and temporary financial investments, for amounts that are sufficient to support the needs projected for a period depending on the situation and expectations of debt and capital markets.

The resources available must cover the needs of net financial debt service (principal plus interest), i.e., after financial derivatives.

Included below are the contractual cash flows of financial liabilities with third parties, undiscounted:

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

Item	Current			Non-current			
	Less than 90 days	Over 90 days	Total current	1 to 3 years	3 to 5 years	5 to 10 years	Total Non-current
Issued bonds (principal + interest)	\$ 419,082,692	\$ 49,200,774	\$ 468,283,466	\$ 362,384,487	\$ 336,587,028	\$ 231,400,529	\$ 930,372,044
Bank loans (principal + interest)	22,112,972	62,556,917	84,669,889	314,723,528	183,454,500	-	498,178,028
Financial lease obligations (principal + interest)	1,091,819	2,697,504	3,789,323	1,887,688	273,761	-	2,161,449
Commercial accounts payable and other payables	885,903,343	-	885,903,343	-	-	-	-
<b>Total</b>	<b>\$ 1,328,190,826</b>	<b>\$ 114,455,195</b>	<b>\$ 1,442,646,021</b>	<b>\$ 678,995,703</b>	<b>\$ 520,315,289</b>	<b>\$ 231,400,529</b>	<b>\$ 1,430,711,521</b>

#### Credit Risk

The Company performs a detailed follow-up of credit risk.

##### Commercial Accounts Receivable

With respect to credit risk corresponding to accounts receivable from the commercial activity, this risk is historically limited, given that the short-term collection from clients prevents individual accumulation of significant amounts.

With respect to the default in payment, the supply is suspended and in almost every contract, payment default is considered grounds for termination. Hence, the credit risk is monitored, measuring the maximum amounts exposed to payment risk, which, as already mentioned, are limited.

##### Financial Assets

Investment of the Company's available resources (treasury investments), originated in the operation and in other non-operating revenues and the operation of financial derivatives will be carried out with national and foreign first line entities that meet the minimum risk rating required by the Company.

The minimum risk rating of their financial counterparties must be long-term international investment level, or its equivalent at local scale, taking into account the minimum international rating in foreign currency for the Republic of Colombia. The investment can be made only in counterparties with lower ratings, within the limits established for counterparty's risks, level of investment or prior approval through a valid "Waiver" granted on risks. The local risk ratings must be issued by a risk-rating agency that is well recognised and legally established in Colombia. For international risk rating, those granted by Moody's, S&P and Fitch are acceptable. When a Financial Counterparty has more than one rating, the lowest one shall be considered for the purposes set in this section.

The liquidity surplus operations must meet the following general criteria:

- **Safety:** In order to preserve the value of the investment portfolio, the available resources for placement must meet the credit rating requirements set forth herein.
- **Liquidity:** The instruments that are part of the investments must have high liquidity in the market.
- **Profitability:** Within the risk limits allowed for, the highest possible return on investment must be sought.

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- **Diversification:** Risk concentration must be avoided in a given type of issuer or counterparty.
- **Transparency:** All operations and commitments undertaken for management of available resources must be explicitly registered and supported, and shall be governed by the norms and procedures in force.

#### Risk Measurement

Regarding the exchange rate risk, the Company calculates the effectiveness of currency forwards that replicate on 100% of underlying flows, contracted to cover risk of variation of the Colombian peso with respect to the dollar for hedging of payments.

Therefore, the effectiveness calculation is made through the retrospective and prospective tests. The prospective test is defined as the quotient between the quarterly difference of the fair value (MTM) of the real forward and the quarterly difference of the fair value of the hypothetic forward.

The hypothetic derivative is defined as the forward that on the date of contracting reduces the whole type of exchange risk and replicates on 100% of the underlying flows for the period covered. On each evaluation date, which will be quarterly, the quotient must be in the range of 80-125% for the forward to be considered effective and, hence, rated as accounting hedging.

The prospective effectiveness test shall be made by comparing changes in fair value between the actual derivative that has been contracted and a hypothetical derivative for various Exchange type cases. This simulation analysis consists in setting the type of forward exchange type on two hypothetical scenarios: +20% and -20%. The results of variations in fair value of both instruments will be compared having to find a range between 80% - 125% to be able to apply hedging accounting. Thus, it is proved that changes in type of exchange affect also the fair value of the hypothetical derivative and the actual derivative.

#### 39 Information on Fair Value

The fair value of financial assets and liabilities is presented for the value at which the instrument could be swapped in a current transaction between the parties, by mutual consent rather than in a forced transaction or liquidation, in accordance with the defined policy.

Below are the financial assets and liabilities with variations between the book value and the fair value as of 31 December 2016:

Financial assets (1)	Book value	Fair value
Net commercial accounts and other receivables	\$ 587,622,895	\$ 587,451,263

Financial liabilities (2)	Book value	Fair value
	As of December 2016	
	(In thousands of pesos)	
Issued bonds	\$ 1,129,589,198	\$ 1,156,459,159
Bank loans	487,122,426	503,858,712
Lease obligations	5,421,054	5,909,014
<b>Total liabilities</b>	<b>\$ 1,622,132,678</b>	<b>\$ 1,666,226,885</b>

## Codensa S.A. E.S.P.

### Notes to the Financial Statements – Separate (continued)

(In thousands of pesos)

- (1) The Company evaluates accounts receivable and other long-term receivables based on parameters such as interest rates, risk factors in each country, customer solvency and risk characteristics of the financed portfolio. Based on this evaluation, provisions are registered to account for expected losses on these accounts receivable.
- (2) The financial obligations and financial leases are estimated by discounting future cash flows using available rates for debts with conditions, credit risk and similar maturities. The Company uses discount rates of the zero coupon curve in accordance with maturities of each issue.

The fair value of cash and cash equivalents and commercial accounts payable are rounded up to their book value, due to the short-term maturities of these instruments.

As of 31 December 2016, the Company keeps in its Financial Statement the following financial assets and liabilities, measured at their fair value, classified by levels, in accordance with the defined policy (See *note 3.14*):

Financial assets	<u>Level 2</u>
Financial Investments – companies not listed or with limited liquidity	\$ 43,101
Derivative instruments (See Note 5)	<u>\$ 4,729</u>

#### 40 Approval of Financial Statements

The general purpose Financial Statements of the Company as of 31 December 2016 were approved by the Board of Directors as per Minutes No. 255 of 24 February 2017 for presentation to the General Shareholders' Meeting, pursuant to the Code of Commerce.