

EMGESA AND CODENSA'S 2019 FULL YEAR RESULTS CONFERENCE CALL

February 25, 2019

Operator: Welcome to Emgesa and Codensa's 2019 Full Year Results Conference Call. My name is Jessi and I will be your operator for today's call. At this time all participants are in a listen-only mode.

Later, we will have a question and answer section. During the question and answer session, if you have a question please press * and then 1 on your touch-tone phone. Please note that this conference is being recorded.

I will now direct the call to Michele di Murro. Mr. Di Murro, you may begin.

Michele Di Murro: My name is Michele Di Murro, CFO of Enel Emgesa and Codensa, and today I will present you the financial and operating results for 2019.

Please remember that, as always, we will have a Q&A session at the end of this presentation where will be possible to ask questions either in English or Spanish.

You will also be able to download this presentation from our websites.

I would like to start with the highlights of the year 2019:

During 2019, Emgesa and Codensa achieved an EBITDA of \$4,2 Trillion COP, growing a 14% compared to last year.

Net Income reached \$2,1 Trillion COP, achieving a total increase of about 26% compared to 2018, showing record results for both companies.

These results are explained mainly by a successful asset management strategy in the Generation business, as well as a positive growth of energy demand in Codensa's area of operation and the recognition, in financial statements, of the new distribution tariff.

Second, I'd like to remark that Emgesa became the largest generation company in Colombia not only by capacity, but also by net production in 2019. Our hydro plants, Guavio and El Quimbo, posted records of generation during the year and El Quimbo as well, reached a peak of annual generation since it began operations.

[Quimbo generated 2,231 Gwh in 2019, once it reached the max dam height of 720 meters]

Furthermore, the total Capex of the companies reached \$1,3 Trillion COP, with an increase of almost 8% in comparison to previous year. More than 70% of investments were executed in the distribution business, supporting the strategic plan that seeks to improve service quality, through modernization and automation of our assets.

Finally, the reliable operation of the companies and the strong cash flow generation allowed the companies to keep the highest possible “Triple AAA” credit rating in Colombia and also helped Emgesa to maintain its international rating one notch above the sovereign debt rating.

During 2019, the main regulatory updates were related to the approval of the new tariff in the distribution business, and the tenders aimed at granting energy supply from 2022 onwards in the generation business.

As for the Distribution business, last December was published the resolution that defines the variables to calculate Codensa's regulated revenues. The approved regulated tariff includes:

- 1) A full recognition of the investment plan in accordance with the company's proposal;
- 2) the approval of about 97% of the proposed regulatory asset base,
- 3) as for losses, it approved the loss reduction trend proposed by the company, and recognized the total costs associated with loss management,
- 4) additionally, it incorporates a lower recognition of AOM (Costs) in comparison with the presented case, and finally
- 5) As for the quality of service, it approved a starting point in SAIDI and SAIFI reference indicators, lower than Codensa's proposal.

Despite the open points mentioned above, the approved resolution implies an increase in gross margin vs current tariff of around 60 billion COP in 2019 and a similar improvement from 2020 onwards. In any case, Codensa filed an appeal due to differences of interpretation in the values recognized for the initial Asset Base, AOM costs and quality incentives, which we expect the Commission will resolve within the first half of the year. Worth mentioning that the impact in the average tariff to the client will be less than a 1% increase over the current tariff.

Also for the Dx Business, the CREG issued the Resolution 130 of 2019, which defines the minimum conditions that must be fulfilled by distributors and retailers in the execution of public offers, specially for energy contracts in the regulated market.

Regarding Generation, in February 2019, Emgesa participated in the auction for the assignment of the Reliability Charge Obligations for the period 2022-2023. The tender resulted in additional net capacity for the system for around 4000 MW, including more than 1000MW from Hidroituango. This represents an increase of 19% compared to the current system capacity. In this process, Emgesa acquired obligations for around 12 TWh-year with its existing plants, which are additional to the obligations previously acquired.

Also, Resolution CREG 060 defines the operational requirements and commercial aspects for the treatment of non conventional energy plants in the operating dispatch.

With regard to both businesses, in October 2019 was run the second auction of energy long-term contracts, dedicated to non-conventional renewable energy, closed with the awarding of long-term contracts to 7 generating companies and 22 retailers. CODENSA was awarded with approximately 20% of the total auction, which provides our customers with clean energy at competitive prices while mitigates the risks of price volatility.

Also, CREG issued the Resolution 080 of 2019 in order to define a framework of market behavior for public service providers, focusing on aspects such as free access to networks, free choice of service providers, the possibility of user migration and transparency, among others.

And finally, the CREG Resolution 098, established mechanisms to incorporate battery storage facilities in the system.

In the generation business, Emgesa maintained at the end of 2019 the first position in the country in terms of net installed capacity with a total of 3,5 GW, which represents a market share of more than 20%.

In 2019, the little capacity increase was related to projects in El Quimbo and Termozipa for a total capacity increase of 5MW.

As already said, Emgesa achieved to be also the largest generator during 2019, with a production record of 15,2 TWh, with an increase of 8% compared to the same period of 2018, and providing almost 22% of the energy supply for the country. These levels of generation were achieved despite a rainfall deficit in the country during 2019, which brought the spot price to an average value of 228 \$/Kwh. However, the main basins of Emgesa registered positive contributions, allowing a significant growth in production especially in Guavio and El Quimbo, that achieved a new record of annual generation since its entry into commercial operation by producing 2,2 TWh, thanks to the finalization of investments to reach the maximum dam level. Also, as a result of the lower hydrology and the higher spot price registered during the year, there was an increase in thermal generation, especially in the Termozipa plant, which reached a production of almost 600 Gwh in the year.

Such level of generation was leveraged to reduce energy purchases and mitigate impacts of higher spot prices in the system, due to the rainfall deficit scenario that was overseen. This strategy implied lower energy purchases for about 1.4 Twh vs 2018, with energy sales maintained rather stable in comparison with the previous year.

Turning to the distribution business, during 2019 the energy demand in Codensa reached 15.2 TWh, growing by 2.3% compared to 2018. This performance is mainly explained by a 6% increase in tolls, as a result of positive demand from unregulated industrial and commercial clients in Codensa's area of operation.

These results place Codensa as the second largest distributor in the country, supplying electricity to more than 3.5 million clients in Bogotá and Cundinamarca, reaching a growth of around 90 thousand new clients in the last year.

Emgesa reached a gross margin of \$2.6 trillion COP during 2019, a 11% increase vs the previous year. This is due to the mentioned increase in generation that allowed lower energy purchases, that, together with the benefits coming from higher spot prices, given that approximately 6% of our contracts are indexed to spot prices, allowed to achieve this record results in margins for the company.

Reported EBITDA increased 11.5% in annual terms, driven by positive results in gross margin, and a 8% increase in fixed costs, due to higher personnel costs associated to salary adjustments and performance bonuses.

Turning to net income, Emgesa reached a total of COP\$1.2 trillion pesos, with a growth of about 21% compared to 2018, achieving a new record in the history of the company.

This was due not only to the significant growth of EBITDA, but also to an important reduction in net financial expenses, as a result of the company's debt reduction, and lower taxes thanks to the reduction of tax rate coming from the budget law. This was only partially offset by the increase in D&A's due to the investments of the company.

Emgesa's net debt reached a level of 2.5 trillion COP at the end of 2019, presenting a 13% reduction compared to the previous year, this was due to a positive cash generation, which allowed not only to attend all operating costs and CAPEX but also to repay all debt maturities and pre-pay some other outstanding obligations.

In the distribution business, the financial results reflect a solid, stable and profitable business. Codensa gross margin rose 15% in comparison to 2018, reaching an extraordinary result of \$2,3 trillion COP in 2019. This performance is mainly explained by:

1. A growth in the distribution tariff as a consequence of higher energy demand and indexation to PPI, improving margin by about \$80 billion COP.
2. The approval of the new Dx tariff that, as already mentioned, will be retroactive since April 2019, and allowed us to recognize an additional gross margin for about \$60 billion COP, margin that will be collected in 12 months starting from the application of the new tariff.
3. An increase in Commercialization tariff mainly due to higher CPI implying a gross margin increase for about \$20 billion COP.
4. The recovery in margin due to the temporary pass-through components of the tariffs, that in 2018 represented a \$60 billion COP negative impact, and,
5. The increase in margin related to additional products, such as Crédito Fácil Codensa, Public Lightning projects and the billing of Waste Service in some areas of Bogota.

On the other hand, fixed costs increased 3,3%, mainly related to the CPI effect and the one-off recognition of benefits included in the new Codensa collective contract signed, which was partially offset by a higher level of personnel costs capitalization.

As a result, EBITDA reached a level of \$1.8 billion COP, with an increase of 18% over 2018.

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The EBITDA increase was partially compensated by higher D&As and financial expenses resulting from the significant level of investments executed during the last 2 years. Additional details on financial expenses will be given later on.

At bottom line level, as a result, Net income reached a remarkable 35% increase in the year also thanks to the already mentioned nominal tax rate reduction.

Net debt increased by about 29% due to the company's ambitious investment plan, that will be better detailed afterwards.

Here we have the overall P&L for Emgesa and Codensa, which is the result of explanations detailed before.

EBITDA overall increased a 14% due to a better performance of both the distribution and generation businesses. D&As were 7% higher than 2018, due to the executed investment plan.

As we will see later, aggregated financial expenses decreased by 4%.

Taxes increased 8% despite the reduction of the nominal tax rate in 2019, thanks to a 16% Ebit increase.

After all of this, net income in Colombia reached a total of around \$2.1 Trillion COP, growing almost 26% in comparison with the previous year.

Starting with Emgesa, the company maintains a very positive cash generation profile. The cash EBITDA reached \$2.4 trillion COP.

There was a negative variation of net working capital, due to a increase in receivables mainly because of higher revenues. Despite this, after financial expenses and tax payments, Emgesa reached \$1.4 trillion COP of Funds From Operations, which were more than enough to cover CAPEX and dividend payments.

It is worth to mention that the company had a CAPEX of \$330 billion COP, out of which around 50% have been focused to growth projects such as the extension of the useful life and environmental improvement of Termostipa, as well as the completion of works to reach the maximum dam level in El Quimbo.

In summary, net free cash flow for Emgesa was positive in almost \$400 billion pesos, explaining the reduction of net debt described before.

Also here we can see a solid cash flow performance, achieving a cash EBITDA of \$1,8 billion COP.

Net working capital variation is also negative by around \$300 billion COP, mainly explained by: i) A natural increase in receivables due to higher revenues but also by ii) a decrease in payables as a result of capex dynamics with a concentration in the last month of 2018 with a specific impact in cash in the first quarter of 2019. [Mayor actuación de Crédito Fácil Codensa en 2018 vs 2019]

Despite this, our funds from operations reached almost 1 trillion COP in the year, which was mainly used for the execution of the investment plan that reached a record level of 920 billion COP. It's worth highlighting how the new regulation sets clear incentives for quality and losses reduction investments, which is allowing us to increase investments for the benefit of the system and clients, with IRR returns above 13%.

This CAPEX increase is reflected in better quality indicators in 2019, with SAIDI improving about 6% vs last year, reaching an average of 820 minutes of interruption per client, and SAIFI reducing from 14 to less than 12 times of average interruptions per client.

As a result of this Capex plan and dividends payments, Codensa's net cash flow is negative by \$384 billion COP, explaining the net debt increase of 27%.

As of December 2019, Emgesa's gross debt amounted to \$ 2.9 billion pesos, down 21% compared to December 2018, due to:

- i) the solid cash flow generation mentioned, and
- ii) to the optimization of the minimum cash levels required for the management of the business, an initiative that was launched for both companies and allowed to obtain relevant benefits in financial expenses.

Thanks to this, Emgesa amortized maturities in 2019 for about \$750 billion COP, and also made a prepayment of \$130 billion COP of a financial obligation with initial maturity at 2023.

The average cost of debt in Emgesa increased from 7.2% to 7.9% in 2019, explained by higher average CPI levels observed during 2019, considering that 65% of the company's outstanding debt was indexed to CPI.

In the distribution business, our Gross debt reached \$2.3 billion COP at the end of 2019, with a 5% increase compared to 2018.

Codensa's new debt was taken in the local capital market and through subsidized credit lines, both at very competitive rates. In April the company issued bonds in two tranches: i) \$280 billion COP in a 4-year tenor at a fixed rate of 6.30% and ii) \$200 billion COP in a 10-year tenor at CPI + 3.56%. On the other hand, we also signed two loans under subsidized credit lines of Findeter and Finagro for a total amount of \$67 billion COP which were destined to specific projects to improve quality of service and extend coverage in rural areas.

This successful financing strategy achieved a decrease in average cost of debt from 7.4% in 2018 to 6.9% in 2019. As of December 2019, 42% of the debt was indexed to CPI, 4% to IBR and the remaining part is at Fixed Rate.

At the end of 2019, the companies had a total available liquidity of \$4.8 trillion COP, including unused credit lines in committed and uncommitted facilities with local and international banks.

I also like to highlight that we closed 2019 with Net Debt/EBITDA indicators of around 1,3times for Emgesa and 1,2times for Codensa, which is a proof of stability and financial strength of both companies.

As you have seen, the extraordinary results of the year were achieved thanks to the successful strategy implemented in both the Generation and Distribution businesses, affirming the commitment of the group in the development of the energy industry in Bogotá and Colombia.

This is supported not only by the leading position that Emgesa reached in 2019, being the number one company in total production and net installed capacity in the country, but also by Codensa's commitment to keep improving quality of service to over 3,5 millions of clients. In this sense, the company achieved a new record of investments in Codensa during 2019, and will continue investing during the next years focusing on quality of service, modernization, automation and maintenance of the distribution assets.

Finally, financial results and debt indicators show a solid and steady business in Colombia, and prove stability and financial strength that in a short, medium and long term will keep creating value to all of our investors.

Well, this ends our presentation for today, thank you very much for your attention, and do not hesitate to contact me or the Investor Relations team if you need any further information.

We will now open for the Q&A session. We have representatives from other areas of the company joining us for this session and I remind you that questions can also be asked in Spanish if you prefer. The transcript of the conference call will be available in our webpage in the following days.

Thank you.

Operator: Thank you. We will now begin the question and answer session. If you have any questions, please press * and then 1 on your touch-tone phone. If you are using a speaker phone, you may need to pick up the handset before pressing the numbers.

Again, if you have any questions, please press * and then 1 on your touch-tone phone.

We have no questions at this time.

Michele Di Murro: Thank you. Thank you for listening. For any questions in the next few days, the transcript of the conference call will be available on our website/investors for anything else.

Operator: Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may disconnect.