

## Operational and Financial Results Report – Emgesa S.A. E.S.P As of December 2013<sup>1</sup>

February 28<sup>th</sup> , 2014

### Executive Summary

- *Emgesa's EBITDA<sup>2</sup> grew by 7,2% in 2013 compared to 2012 due to the increase in the intermediation activity in the spot market taking advantage of higher prices resulting from the dry season.*
- *Emgesa's net income increased by 11,1% in 2013 with respect to 2012 as a result of better operational results and to a decrease in net financial expenditure.*
- *In 2013 Emgesa invested more than COP\$642,8 billion (USD\$334 million) mainly in the construction of El Quimbo Hydroelectrical Plant and the Salaco repowering, and generated about 20.5% of the energy in the country.*
- *Financial obligations, including accrued interests, reached COP\$3,3 trillion (USD\$1,7 billion), a 21% increase with respect to existing obligations in December 2012, mainly due to the issuance of the fifth tranche under the local bond program in September 2013 for COP\$ 565 billion (USD\$ 293 million) to finance investments for the construction of the El Quimbo hydroelectric power plant.*

### **Emgesa's net income reached COP\$870,1 billion (USD\$452 million) in 2013**

Emgesa recorded a net income of COP\$870,1 billion (USD\$452 million) during 2013, an 11.1% increase with respect to 2012. The main factors explaining this result include higher operational revenues obtained from the commercialization activity in the spot market at higher prices, the increase in sales through the secondary frequency regulation mechanism (AGC)<sup>3</sup> and a 29% decrease in the net financial expenditure due to a lower local interest rates than in 2012 and the refinancing of financial obligations at lower rates.

The result for the company was a net margin of 36.3% over total operational revenues.

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<sup>1</sup> Financial statements are prepared under Colombian GAAP in Colombian pesos. However, we present figures in USD for your convenience and analysis using the official COP/USD FX rate (TRM) applicable on the last day of the month (FX December 31, 2013 COP\$1,926.83).

<sup>2</sup> EBITDA is calculated adding back the depreciation and amortization (included in the cost of sales and administrative expenses) to the operating income.

<sup>3</sup> AGC or Automatic Generation Control, refers to the secondary frequency regulation represented in fees paid to electricity generators by XM (Colombian Administrator of the Commercial Exchange System) acting on behalf of electricity generators in the Wholesale energy market, for implementing technology that moderates the frequency of electricity in order to guarantee the quality of electricity along the National Transmission System.



## **Emgesa's EBITDA reached COP\$1,48 trillion (USD\$768 million) during 2013**

Operating revenues totaled COP\$2,39 trillion (USD\$1,24 billion), showing an 11.8% increase compared to 2012, due to higher average price of energy sales in the spot market, as a result of low hydrology during the year.

In 2013 Emgesa sold 16,090 GWh, out of which 73% corresponded to sales through contracts to clients in the wholesale and unregulated markets and the remaining 27% to sales in the spot market and through the AGC mechanism.

On the other hand, the cost of sales during 2013 totaled COP\$1,04 trillion (USD\$539 million) representing a 17.8% increase compared to the result of the past year. This was mainly due to an increase in fuel oil consumption, as a result of higher thermal generation during the year, higher energy purchases in the spot market at higher prices to maintain the intermediation in the spot market and to lower amounts of energy dispatched by the System's Administrator due to restrictions in the distribution or transmission infrastructure in the country which result in costs for Emgesa.

Administrative expenses had a 1,4% reduction compared to the results of 2012, reaching a total of COP\$28,9 billion (USD\$15 million).

Consequently, operational income increased by 7.8%, reaching a total of COP\$1,3 trillion (USD\$691 million) in 2013. As a result of better operational income, Emgesa's EBITDA had a 7.2% increase with respect to 2012, totaling COP\$1,48 trillion (USD\$768 million).

## **Net financial expenditure reached COP\$86,2 billion (USD\$45 million)**

Net financial expenditure in 2013 had a decrease of COP\$35,9 billion (USD\$45 million) compared to 2012, a 29.4% change in the period. Financial expenditure was reduced in 11.8% equivalent to COP\$117,1 billion (USD\$61 million), as a result of lower interest rates (DTF) and lower inflation (CPI) than in 2012, rates at which 64% of Emgesa's debt is indexed.

Moreover, financial revenues increased by COP\$20,3 billion (USD\$16 million) as a result of an increase of 6,6% in cash balances by the end of 2013 compared to December of 2012, due to the issuance of the Fourth and Fifth Tranches of the Local Bond Program in December

2012 and September 2013 to prefund investments in El Quimbo hydroelectric power plant and to serve 2014 bond maturities.

### **Emgesa's generation reached 12,748 GWh in 2013**

During 2013 Emgesa generated 12,748 GWh, through its 12 generation plants in the country. About 92% of the energy was generated from hydro plants and 8% from thermal plants, showing an increase in the share of thermal generation due to low hydrology during 2013 resulting in low levels of the reservoirs. The power generation mix of the country for 2013 was 67,2% hydro sources, 27.3% thermal sources, 5.1% from minor plants and 0.6% from cogeneration.

Emgesa's generation represented 20.5% of national generation during 2013, which totaled 62,225 GWh, a 3.7% above 2012.

Gross installed capacity for Emgesa as of December 2013 was 2,925 MW and net installed capacity was 2,895 MW, which represented 19.8% of the country's installed capacity.

In 2013, the company served a monthly average of 789 frontiers in the unregulated market, which represented 13.9% of this market in the country. Energy demand of the unregulated market served by Emgesa in the same period reached 3,139 GWh, equivalent to 15.5% of the national demand in this market.

The availability of Emgesa's generation plants in 2013 was 92.5%, up from a 90.4% availability level in 2012.

Average spot price for the market during 2013 was at COP\$177/KWh (approximately US\$92/MWh), increasing by 55% in comparison to the average of 2012. This is a result of below than average rain levels within the system during 2013 (90.8% of historical average). Rain levels for the Betania and Guavio reservoirs were at 887.7% and 90.7% of the historical average, respectively. The regulated rain levels of the Bogota River Basin were at 98.9% of the historical average.

In the following table we present a summary of the main operational results of the year:

	2013	2012	(%) change
<b>Emgesa's Generation (GWh)</b>	<b>12.748</b>	<b>13.294</b>	<b>-4,1%</b>
Hydro	11.784	12.692	-7,2%
Thermo	964	602	+60,1%
<b>Emgesa's gross installed capacity (MW)</b>	<b>2.925</b>	<b>2.914</b>	<b>0,4%</b>
<b>Sales (GWh)</b>	<b>16.090</b>	<b>16.304</b>	<b>-1,3%</b>
Contracts	11.567	11.719	-1,3%
Spot	4.523	4.585	-1,4%
<b>Availability of Plants</b>	<b>92,5%</b>	<b>90,4%</b>	<b>+2,1%</b>
<b>Energy Purchases (GWh)</b>	<b>3.461</b>	<b>3.153</b>	<b>+9,8%</b>

### Investments for COP\$642,8 billion (USD\$334 million) in 2013

Emgesa invested COP\$642,8 billion (USD\$334 million) in 2013 mainly in the construction of El Quimbo Hydroelectric Power Plant and the repowering of old minor plants in the Salaco chain. Likewise, Emgesa performed preventive maintenance to its hydro and thermal plants to guarantee their reliability and availability. Total investment in 2013 was slightly below 2012, as execution of investment in El Quimbo Project was lower than in 2012. During 2013 Emgesa invested COP\$536,8 billion (USD\$279 million) billion in El Quimbo project, COP\$38,5 billion (USD\$20 million) in the repowering of the Salaco Chain and COP\$67,5 billion (USD\$35 million) in preventive maintenance.

### Balance Sheet Structure

As of December 31, 2013, the Company's assets reached COP\$9,8 trillion (USD\$5,1 billion), out of which property, plant and equipments represented 61.5% totaling COP\$6,0 trillion (USD\$3,1 billion) and cash and temporary investments reached COP\$837 trillion (USD\$435 million), about 8.6% of total assets.

As of the end of the year 2013, Emgesa's total liabilities totaled COP\$3.9 trillion (USD\$2,1 billion) and the shareholders' equity reached COP\$5,8 trillion (USD\$3,0 billion). Regarding the financial structure of the Company, total liabilities represented 40.7% of total assets and the shareholders' equity was 59.3% of total assets. Total financial debt was equivalent to 33.8% of total assets.

On March 20, 2013, the ordinary Shareholder's Meeting approved the distribution of dividends corresponding to the net income of the period between January and December of 2012 for a total amount of COP\$783,5 billion (USD\$407 million). The decree of dividends was equivalent to COP\$5,233 per ordinary share and COP\$200.34 per preferential share. In January and February 2013, Emgesa paid the last installment of the dividends corresponding to the 2011 net

income for COP\$165,9 billion (USD\$86 million) and during the rest of the year the Company paid 75% of the dividends decreed of the net income of 2012, totaling COP\$587,6 billion (USD\$305 million).

According to the mentioned payments, the dividends pay out remains at 100% of the net income.

### **Financial Debt**

As of the close of 2013, Emgesa's financial debt reached COP\$3.3 trillion (USD\$1,7 billion) (including accrued interests), showing a 21.0% increase compared to the debt balance of December 2012, mainly as a result of the issuance of the Fifth Tranche under the local bond program for a total amount of COP\$565 billion (USD\$293 million).

The deal was priced on September 11, 2013. The transaction was 2.2 times oversubscribed and the bonds were placed in two series of 6 and 12 years with a yield at par of CPI + 4.25% and CPI +5.00%, respectively. The proceeds of the bond issuance were used to serve investments in El Quimbo in 2013 and 2014 and to prefund a bond maturity in February 2014. The bonds under the program as well as the rest of Emgesa's outstanding bond issuances are rated AAA by Fitch Ratings Colombia.

Taking advantage of the monetary policy easing started by the Central bank by mid 2012, Emgesa decided to refinance its outstanding 2022 Club Deal with local banks for COP\$305 billion (USD\$158 million) through two new 2023 loan agreements with BBVA Colombia and CorpBanca. The new loans have a 10 year tenor with equal semiannual principal amortizations starting December 2016 and an interest rate indexed to IBR plus average spread of 6.96% on an annual basis as of the closing of the transaction. This transaction allowed Emgesa to save about COP\$3,5 billion (USD\$1,8 million) per year and to extend the average life of the loan by 1.5 years.

As of December 31, 2013, Emgesa's total financial debt was denominated in pesos including local bonds (67%), international bonds (23%) and long-term loans with local Banks (10%). About 63% of financial debt was indexed to CPI, 26% was in fixed rate, 10% to IBR and 2% was indexed to DTF. Average life of Emgesa's debt was 6.88 years by the end of 2013.

The following table summarizes the conditions of Emgesa's financial debt as of December 31, 2013:

Instrument	Coupon / Interest Rate	Yield	Maturity	Amount (MM COP)	Av. Life (years)	Rating
<b>Local Bonds</b>						
Third Bond Issuance (First tranche)	A7 Series: IPC + 5.04%	IPC + 5.04% IPC + 2.40%	February 23, 2015	\$ 210,000 \$ 40,000	1,15	AAA (local)
Fourth Bond Issuance (First Tranche Under Program)	B10 Series: IPC + 5.15%	IPC + 5.15%	February 20, 2017	\$ 170,000	3,14	AAA (local)
Fifth Bond Issuance (Second Tranche under Program)	A5 Series: DTF TA + 1.47%	DTF TA + 1.47%	February 11, 2014	\$ 49,440	0,12	AAA (local)
	B10 Series: IPC + 5.78%	IPC + 5.78%	February 11, 2019	\$ 160,060	5,12	AAA (local)
	B15 Series: IPC + 6.09%	IPC + 6.09%	February 11, 2024	\$ 55,500	10,12	AAA (local)
Sixth Bond Issuance (Third Tranche under program)	E-5 Series: 9.27%	9.27%	July 2, 2014	\$ 92,220	0,50	AAA (local)
	B-9 Series: IPC + 5.90%	IPC + 5.90%	July 2, 2018	\$ 218,200	4,5	AAA (local)
	B-12 Series: IPC + 6.10%	IPC + 6.10%	July 2, 2021	\$ 89,580	7,5	AAA (local)
Seventh Bond Issuance (Fourth Tranche under Program)	B-10 Series: IPC + 3.52%	IPC + 3.52%	Dec.13, 2022	\$300,000	8,96	AAA (local)
	B-15 Series: IPC + 3.64%	IPC + 3.64%	Dec.13, 2027	\$200,000	13,9	AAA (local)
Eighth Bond Issuance (Fifth Tranche under Program)	B-6 Series: IPC + 4.25%	IPC + 4.25%	Sept. 11, 2019	\$201,907	5,7	AAA (local)
	B-12 Series: IPC + 5.00%	IPC + 5.00%	Sept.11, 2025	\$363,030	11,7	AAA (local)
<b>Local Bonds Total</b>				<b>\$ 2,150,000</b>	<b>6.88</b>	
<b>International Bond</b>						
144 A /Reg S	8.75%	8.75%	January 25, 2021	\$ 736,760	7.1	BBB (Intl.)
<b>International Bonds Total</b>				<b>\$ 736,760</b>		
<b>Local Banks</b>						
BBVA Colombia	IBR + 3,55% M.V.		Dic. 19, 2023	\$ 225.000	6,47	N/A
Corpbanca	IBR + 3,7% T. A.		Dic. 19, 2023	\$ 80.000	6,47	N/A
<b>Local Banks Total</b>				<b>\$305,000</b>	<b>6.47</b>	
<b>Emgesa Total</b>				<b>\$ 3,191,760</b>	<b>6.88</b>	

In May 2013, the rating agencies Fitch Ratings and Standard & Poor's raised EMGESA's international rating, as issuer of long-term corporate debt in local and foreign currency from BBB- to BBB, with a stable perspective. The two agencies highlighted the company's solid financial performance, its satisfactory profile regarding commercial and financial risks, and the significant progress achieved in the El Quimbo project's construction, including the positive cash flow generation associated to its entry into service in 2015.

Likewise, in May 2013 Fitch Ratings Colombia confirmed Emgesa's AAA (col) Local long-term issuer credit rating applicable to the Third Bond Issuance and the local Bond Program in AAA.

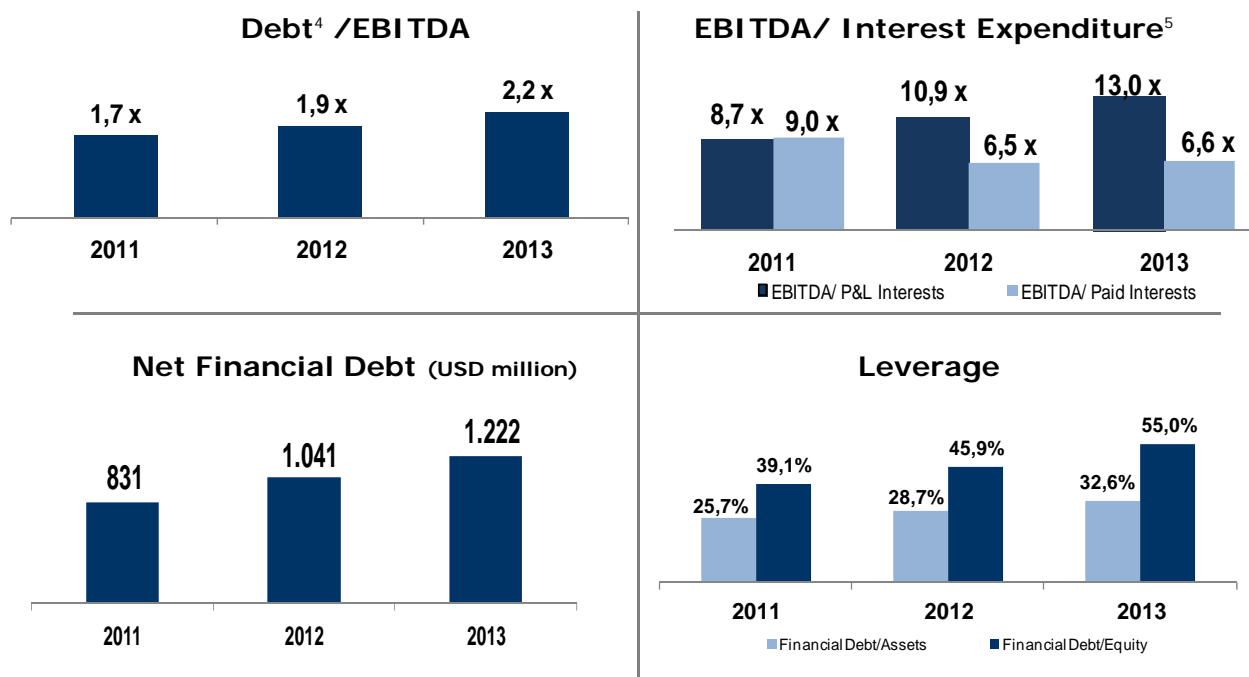
### **IR Committed Recognition by the Colombian Securities Exchange (BVC)**

In August 2013 Emgesa was awarded by the Colombian Securities Exchange (BVC) with the IR acknowledgement in recognition to the

company's commitment to voluntarily raise its information disclosure and investor relations management standards above those required by local regulation and making available to investors on its website the quarterly and annual information in both English and Spanish. Emgesa was one of the five fixed income issuers awarded with this distinction, among the total 29 issuers awarded.

### Financial Ratios

The following graphs present Emgesa's key credit metrics as of December 31, 2013:



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<sup>4</sup> Includes only the principal balance of the financial debt of the company.

<sup>5</sup> Financial expenditure associated to El Quimbo financing is being activated during the construction period of the project and will be reflected in the Company's P&L once the project starts its commercial operations. This is the reason for presenting two different calculations for the EBITDA/ Interest Expenditure.



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