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# Operational and Financial Results Report
# Emgesa S.A. E.S.P.
# As of September 2017[1]

**October 30, 2017**

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## Executive Summary

- ***Emgesa's EBITDA was COP$1.5 billion during the first nine months of 2017, decreasing with respect to the same period of PY, mainly as a result of lower spot prices. Nevertheless, the company's EBITDA margin remains above 60%.***
- ***Emgesa's net income for the period was COP$ 682 billion, an increase of 8.2% over the same period in 2016, mainly as a result of a 24.9% reduction in financial expenses.***
- ***During the first nine months of 2017, Emgesa contributed with 22.9% of the SIN's[2] total generation, being the second largest generator of the system.***

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## Emgesa's generation between January and September of 2017 reached 11.366 GWh

Between January and September of 2017, Emgesa generated 11.366 GWh, presenting a slight (0.1%) decrease compared to the same period in 2016. Hydro generation contributed with 98.7% of the company's total generation, while thermal generation supplied 1.3%. This represents an increase of hydro generation participation compared to 2016, due to above average hydrology observed in 2017, in contrast with 2016's strong El Niño Phenomenon (draught).

Particularly, in the third quarter of 2017, there was a decrease in the company's generation level compared to the 3Q of 2016 due to a lower hydrology in the basins where Emgesa's hydroelectric power plants are located, especially in El Guavio, compared to the average from the country. To September 2017, Emgesa's generation accounted for 22.9% of the total generation of the SIN, being the second largest generator of the system.

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[1] Financial Statement figures used in this presentation as of and for the nine-month period ended, September 30th, 2017 were prepared in Colombian pesos under IFRS officially applied in Colombia.

[2] Sistema Interconectado Nacional – SIN: National Interconnected System

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During the first nine months of 2017, SIN generation totaled 49.703 GWh, increasing by 0.7% over the same period in 2016, with a generation mix of 81.1% hydro, 11.5% thermal, 6.5% mini-hydro and 0.9% cogeneration[3].

SIN's hydric inflows for the period were mostly above the historical average throughout the country (103% of the Historical Average). Consistently, the contributions of all of Emgesa's reservoirs, except for Guavio (88%), surpassed the historical average, as follows: Betania 109%, Quimbo 116%, and Rio Bogota basin with 119%.

Emgesa's gross installed capacity at the end of September 2017 was 3,509 MW, remaining unchanged with respect to the end of 2016 and representing 21.0% of the SIN's gross installed capacity.

The availability factor of Emgesa's generation plants was 92.2% during the first nine months of 2017, where hydroelectric plants had a 92.0% availability, lower than the 94.6% obtained in the same period of 2016, due to the execution of scheduled maintenance in the company's largest plants. On the other hand, the availability of Emgesa's thermal plants was 93.9%, 19% higher than during the same period of 2016, due to maintenance activities executed during the second half of 2016 once El Niño Phenomenon was concluded.

**Emgesa sold 13.635 GWh from January through September 2017**

During the first nine months of 2017, Emgesa sold 13.635 GWh, 1.4% less that the volume sold during the same period in 2016. 84.2% of sales were made through contracts, out of which 74.0% were made to wholesale customers and 26.0% to non-regulated customers, and the remaining 15.8% corresponded to sales in the spot market and through the AGC mechanism[4]. As a strategy to face the high hydrology and low spot prices environment observed throughout 2017, the Company decreased sales in the spot market by 40.5% YoY, increased sales in contracts by 12.5%, and reduced energy purchases by 6.3% compared to the same period of 2016, increasing the contribution of the company's own generation to supply sales, considering the high levels of the reservoirs.

[3] Source: Informes de Oferta y Generación mensuales (enero – Septiembre 2017). XM Compañía de Expertos en Mercados S.A. E.S.P.- XM. www.xm.com.co.

[4] The AGC (Automatic Generation Control) refers to the secondary frequency regulation defined by the Colombian energy system to maintain quality in the power supply avoiding large frequency variations in the National Transmission System.

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The following table summarizes Emgesa's main operating results for the nine month period ended September 2017:

| | January – September 2017 | January – September 2016 | Change (%) |
|---|---|---|---|
| **Emgesa Generation (GWh)** | **11.366** | **11.379** | **-0,1%** |
| Hydro | 11.218 | 10.487 | **+7,0%** |
| Thermal | 148 | 892 | **-83,4%** |
| **Emgesa Gross Installed Capacity (MW)** | **3.509 (1)** | **3.509 (2)** | **0.0%** |
| **Sales (GWh)** | **13.635** | **13.825** | **-1,4%** |
| Contracts | 11.476 | 10.197 | **+12,5%** |
| Spot Market | 2.159 | 3.628 | **-40,5%** |
| **Plants Availability** | **92,2%** | **92,7%** | **-0,5%** |
| **Energy Purchases (GWh)** | **2.434** | **2.599** | **-6,3%** |

(1) As of September 30, 2017
(2) As of December 31, 2016

## Emgesa's EBITDA reached COP $1.5 trillion

During the first nine months of 2017, Emgesa achieved an operating income of COP $2.5 trillion (USD 862 million), showing a reduction of 8.6% compared to a year earlier. This was mainly the result of lower spot prices, which impacted not only revenues from the spot market but also those from certain contracts with unregulated customers that have indexation to the spot price.

The costs of supplies and services, which represent Emgesa's cost of sales, reached COP $845 billion (USD 288 million) during the period, equivalent to a 20.4% reduction compared to the same period in 2016, mainly explained by: i) the lower use of thermal plants for generation, which implied an 80% decrease in fuel consumption, from COP$157 billion in 9M 2016 to COP$31 billion in 9M 2017, and ii) a reduction in the cost of energy purchases of 34.5%, from COP $506 billion in 9M 2016 to COP$ 331 billion in 9M 2017, due to the reduction in both purchase volumes and spot prices.

Operating margin was COP $1.7 trillion (USD 575 million), 1.3% less than recorded for the same period in 2016.

Fixed costs decreased by 9.8%, mainly due to the reduction in the rate of wealth tax and a lower cost of insurance policies, which were partially offset by a higher cost of personnel.

As a result of all of the above, EBITDA decreased by 1.2% as of September 2017 totaling COP $1.5 trillion (USD 522 million), representing a 60.6% margin on operating revenues.

Depreciation and amortization increased by 12.5% with respect to the previous year, mainly due to the activation of certain investment projects carried out in previous periods, and as a result EBIT reached COP $1.4 trillion, showing a reduction of 2.3% YoY.

**Net financial expenses were COP $258 billion (USD 88 million)**

Net financial expenses during 9M 2017 decreased by 24.9% compared to the same period of 2016, reaching a total of COP $258 billion (USD 88 million).

On the one hand, gross financial expenses decreased by 26.2%, reaching COP $282 billion (USD 96 million). This reduction was explained by the combination of: i) a lower CPI index at which the coupons of a large portion of the Company's debt was indexed to, ii) a lower average debt balance during 9M 2017 compared to the same period in 2016, and iii) a significant reduction in the Withholding Tax applicable to the company's International Bond. On the other hand, financial income also decreased by 39.0% due to lower average cash balances observed and lower average interest rates.

Earnings before taxes (EBT) reached COP $1.1 trillion (USD 380 million) during 9M, increasing by 6.0% compared to the same period of the previous year.

Finally, net income increased by 8.2% compared to 2016, reaching COP $682 billion (USD 232 million), as a result of all of the above explanations and a lower effective tax rate which contributed positively to the net result.

**Emgesa made investments by COP $115 billion during 9M 2017**

During the first nine months of 2017, Emgesa invested COP $115 billion (USD 39 million), a 2.3% reduction compared to the same period of 2016, mainly explained by lower needs in the maintenance Capex generation plants.

The investments were concentrated in maintenance (COP $75 billion) and less extent in expansion (COP 40 billion pesos).

**Balance Sheet Structure**

As of September 30th, 2017, the Company's assets totaled COP $8.9 trillion (USD 3.0 billion), a decrease of 1.6% compared to the end of 2016, mainly explained by the use of the cash balances for the payment of obligations with third parties, and the reduction of deferred tax mainly due to the change in useful lives for tax purposes.

Net Property, plant and equipment represented 88.6% of total assets, valued at COP $7.9 trillion, and presented a reduction of 0.5% compared to December 31st 2016, due to a higher level of recorded depreciation with respect to the new assets included during 2017. This trend is evident after the entry into operation of El Quimbo, which is already considered a depreciable asset since its entry into operation in November 2015.

Emgesa's total liabilities as of September 2017 amounted to COP $5.2 trillion (USD 1.8 billion), a decrease of 5.3% compared to the end of 2016, mainly as a result of the amortization without refinancing of debt maturities.

The Company's total equity was COP $3.6 trillion (USD 1.2 billion), a 4.3% increase compared to December 31st, 2016 as a result of the accrual of the net income of the current period, which was partially offset by the declaration of dividends equivalent to 70% of 2016's net income.

Regarding Emgesa's financial structure, liabilities and equity accounted for 59.0% and 41.0% of total assets respectively. Financial debt represented 47.1% of total assets at the end of September 2017.

During 2017, Emgesa paid dividends to its shareholders for a total of COP $402 billion (USD 138 million), as follows:

- In January, COP $200 billion (USD 69 million) corresponding to the last installment of the dividends decreed on 2015 net income.
- In May, $ 202 billion (USD 69 million) corresponding to the first installment of the dividends decreed on 2016 net income.

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## Financial Debt

At the end of September 2017, Emgesa's financial debt including interest expenses accrued and payable, amounted to COP $4,2 trillion (USD 1.4 billion), showing a decrease of 5.8% compared to the balance as of December 31, 2016.

During the first nine months of 2017, COP $320 billion were amortized corresponding to maturities of local bonds (COP $170 billion), international loans (COP 130 billion) and local loans (COP $20 billion), out of which only COP$100 billion were refinanced through a one-year synthetic loan with the Banco de Crédito del Peru.

Financial debt as of September 30, 2017 was represented by local bonds (73.1%), COP-denominated international bonds (18.0%) and bank loans (8.9%). Coupons of 65.9% from total financial debt were indexed to CPI, 27.7% were fixed and 6.4% were indexed to IBR. All of the company's debt was in Colombian pesos, either directly or through cross currency swaps. As of the 30th of September of 2017, all of Emgesa's local bond issuances were rated AAA (local scale rating) by Fitch Ratings and Emgesa's international bond issuance was rated BBB (stable) by both Fitch Ratings and Standard & Poors.

The financial debt's average life at the end of September 2017 was 4.5 years.

The following table summarizes the terms and conditions of Emgesa's financial debt[5] as of September 30, 2017:

| Instrument | Coupon/Interest | Maturity | Amount (MM COP) | Average Life (years) | Credit Rating |
|---|---|---|---|---|---|
| **Local Bonds** | | | | | |
| Fifth Bond Issuance (Second tranche under program) | B10 series : CPI + 5,78% | February 11, 2019 | $ 160.060 | 1,37 | AAA (local) |
| | B15 Series : CPI + 6,09% | February 11, 2024 | $ 55.500 | 6,37 | AAA (local) |
| Sixth Bond Issuance (Third tranche under program) | B-9 Series : CPI + 5,90% | July 2, 2018 | $ 218.200 | 0,75 | AAA (local) |
| | B-12 Series : CPI + 6,10% | July 2, 2021 | $ 89.580 | 3,76 | AAA (local) |
| Seventh Bond Issuance (Fourth tranche under program) | B-10 Series : CPI + 3,52% | December 13, 2022 | $ 300.000 | 5,21 | AAA (local) |
| | B-15 Series : CPI + 3,64% | December.13, 2027 | $ 200.000 | 10,21 | AAA (local) |
| Eighth Bond Issuance (Fifth tranche under program) | B-6 Series : CPI + 4,25% | September 11, 2019 | $ 201.970 | 1,95 | AAA (local) |
| | B-12 Series : CPI + 5,00% | September 11, 2025 | $ 363.030 | 7,95 | AAA (local) |

[5] Excluding leasing operations

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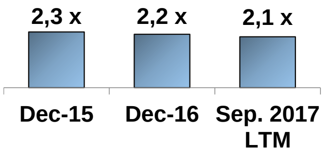
| Instrument | Coupon/Interest | Maturity | Amount (MM COP) | Average Life (years) | Credit Rating |
|---|---|---|---|---|---|
| Ninth Bond Issuance (Sixth tranche under program) | B-6 Series : CPI + 3.42% | May 16, 2020 | $ 241.070 | 2,63 | AAA (local) |
| | B-10 Series : CPI + 3.83% | May 16, 2024 | $ 186.430 | 6,63 | AAA (local) |
| | B-16 Series : CPI + 4.15% | May 16, 2030 | $ 162.500 | 12,63 | AAA (local) |
| Tenth Bond Issuance (Seventh tranche under program) | B-3 Series : CPI + 3.49% | February 11, 2019 | $ 234.870 | 1,37 | AAA (local) |
| | B-7 Series : CPI + 4.69% | February 11, 2023 | $ 290.130 | 5,37 | AAA (local) |
| Eleventh Bond Issuance (Eighth tranche under program) | E-6 Series : 7.59% E.A. | September 27, 2019 | $ 300.000 | 4,99 | AAA (local) |
| | | | **$3.003.340** | **5,08** | |
| **International Bonds** | | | | | |
| 144 A /Reg S | 8,75% E.A.[6] | January 25, 2021 | $ 736.760 | 3,32 | BBB / BBB (Intl.) |
| | | | **$ 736.760** | **3.32** | |
| **Bank Loans** | | | | | |
| BBVA Colombia | IBR + 2,19% E.A | December 19, 2023 | $ 195.000 | 3,22 | N/A |
| Banco de Bogotá | IBR + 2,22% E.A | December 19, 2023 | $ 69.333 | 3,22 | N/A |
| Banco de Crédito de Perú | 7,85%[7] N.A | February 22, 2018 | $ 100.000 | 0,40 | N/A |
| | | | **$364.333** | **2,45** | |
| | | | **$4.104.433** | **4,53** | |

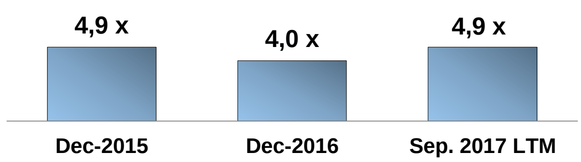
## Key Credit Metrics

Main credit metrics as of September 30, 2017 are as follows:

### Financial Debt /EBITDA



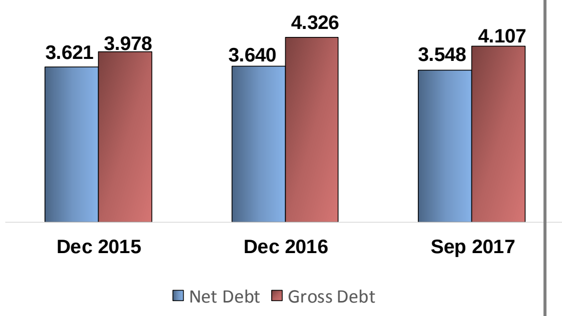

### EBITDA/ Financial Expenses



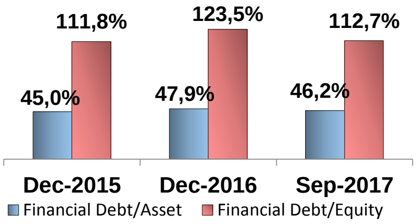

[6] Coupon rate before Withholding Tax

[7] All-in rate after hedge operation

## Gross and Net Financial Debt[8]




## Leverage




For additional information, please contact our Investor Relations Team (IR):


**Emgesa's Investor Relations Office**
e-mail: IR.Emgesa@enel.com
Website: www.emgesa.com.co

Leonardo López Vergara
e-mail: leonardo.lopez@enel.com
Tel. 6015641

Carolina Bermúdez Rueda
e-mail: carolina.bermudez@enel.com
Tel. 6015751

Daniel Correa Londoño
e-mail: daniel.correa@enel.com
Tel. 60160606 ext: 3502

Alejandra Méndez Chaves
e-mail: alejandra.mendez@enel.com
Tel. 6015564

Cristina Garavito
e-mail: ana.garavito@enel.com
Tel. 6016060 ext. 3637

Cristian Mauricio Gacha Vera
e-mail cristian.gacha@enel.com
Tel. 6016000 ext: 3517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[8] Net financial debt = Debt – Cash and Investments.
Financial Debt = Total outstanding debt (not including accrued interest)