

CEO AND BOARD OF DIRECTORS MANAGEMENT REPORT



Medellín, March 29th, 2016.

Dear shareholders:

It is tough having to report negative financial results without having even completed a year at the helm of the Company! All the more so when it feels so paradoxical, as we should be celebrating a highly successful year. We are going to tell you, concisely, about the reasons for this paradox, and why we went through something like a perfect storm.

Our Company was organized to generate 50% of its power using hydroelectric sources and 50% using thermal sources. In short, we were diversified, and could expect to get good results in any climate scenario. So what happened?

Let's begin with the El Niño phenomenon and its effect on our hydroelectric generation assets. The first thing to be said is that it arrived on the heels of two very dry years and with an intensity that has affected us all. This gave rise to a highly complex situation regarding water contributions in the southwest of the country, where our biggest power plants are based. Many learned in the media about the levels of the Cauca River, which affected our Salvajina Power Plant, the critical situation in Calima, and the low rainfall in the Colombian Pacific, which affected the Alto and Bajo Anchicayá plants. We ended up having months when rainfall was at 33% of the historical average – simply incredible, as we could never have imagined reaching those levels. In conclusion: we didn't have any water, which is our "fuel" for generating, and there were times when we had to go out and buy energy at high prices to meet our obligations.

Secondly, and herein lies the paradox, it is during an El Niño phenomenon that our thermal generation assets run at full capacity to offset the downturn in the hydraulic plants. It is a time when we would expect to enjoy optimum results. But, as we have said, that didn't happen. Why? To answer that question, we will have to explain a little about the complex regulatory world and, in particular, about how the thermal assets are remunerated in Colombia, where we are paid the sum of two factors: the reliability charge and the shortage price.

The generation EBITDA in Colombia is COP 205,000 MILLION

The generation EBITDA in Central America is COP 194,000 MILLION

The distribution EBITDA is COP 312,000 MILLION

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Let's begin with the well-known and debated reliability charge, which allows for investment in maintenance and equipment, fuel contracts, supply logistics and paying the financial and capital costs of work required when the plants are not required in the grid. However, when we buy energy delivery obligations, we are paid with what is known as the shortage price, which must also reflect the operating cost of the most costly thermal plant in the Colombian grid. The idea here is that all plants can generate and earn, or, in the worst case scenario, can maintain the balance at times of drought or the El Niño phenomenon, just like now. Unfortunately the formula for calculating this value became completely detached from its philosophy. This is what brought about the poor results we had in 2015. To go into more detail, it is a formula that utilizes a fuel that is no longer in use in Colombia — fuel oil #6, when today almost everyone uses diesel #2. Another problem with this formula is that it doesn't account for the taxes and logistics paid in Colombia for fuel importation. To provide a clearer understanding of this situation, let's look at this combined effect: Two years ago, we bought our raw material, gas at COP 8 thousand per million BTU, but today we are paying COP 30 thousand. The price we were remunerated at per KWh was COP 500, while today the price recognized is COP 300. However, if we were to use a formula that genuinely reflected a shortage value, we should be receiving figures in the region of COP 600/kWh; it is this combination of costs multiplied fourfold, as well as the price of sale falling by almost half, that triggered the well-documented and regrettable thermal crisis, which has necessitated interventions in companies, capitalizations, financial restructuring and sales of assets, as in our case, with the sale of the Grupo Sura stock.

Today, the thermal sector remains in a delicate condition, not only for the reasons set out above but also because natural gas is no longer a competitive option for plants in a sector that was developed on the basis of this fuel. To mitigate the crisis, the government took measures that were exceptional but not decisive, such as Resolution 178, which allocated different, rather than sufficient, remuneration, for when liquid fuels are used in generation. This served to diminish the risk of rationing, but did not solve the structural financial aspect for thermal power plants. At Celsia, we took several measures: one of those that generated the most efficiency was our transformation into direct fuel importers, which eliminated substantial costs in the operation. The effect of all of the above is that our current operation has begun to stabilize in financial terms, but is still a long way from achieving results that will sufficiently remunerate the capital invested in our thermal assets, particularly at Zona Franca Celsia. These contextual factors, simultaneous and difficult to predict, explain in large part the EBITDA generation in Colombia of COP 205 billion, a reduction of 68%, and the COP 166 billion in net income recorded by the holding company at the close of the year.

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The formula for calculating the shortage price became detached from its philosophy. This is the main cause of the 2015 results.

We achieved historic generation highs at the Colón thermal complex, the Dos Mares hydroelectric power plant, and the Guanacaste wind power plant.

This whole situation reflected problems in the configuration of our assets, which confirmed that we had to change our strategy to face the future. At Celsia, we want our results to depend not on the weather or on regulation; on the contrary, we want to be a Company that grows in new markets where it is our clients that judge our business model, and their purchasing decisions that determine our financial results.

Now, we want to inform you about the good things that 2015 brought, and in particular, tell you about the plans and ideas that we have been implementing in parallel with our management of the thermal crisis. At Celsia, we have a great future ahead of us and all of our teams are working to make that a reality.

Let's begin with the results of our investments in Panama and Costa Rica, where we have had a year of consolidation and adjustment, attaining important improvements in the operation and administration of our assets with the help of the valuable human resources we have in place there. Proof of this can be seen in the highest electricity generation records we set at the Colón thermal complex, the Dos Mares hydroelectric power plant, and the Guanacaste wind power plant. An interesting fact is that the El Niño phenomenon generated higher winds in Central America, and there were days when we had a power plant factor of 99% in Guanacaste, which is a remarkable result. We continue to face enormous challenges, especially in Panama, given that the Bahía Las Minas asset, part of the Colón thermal complex, needs to be reconfigured. Meanwhile, we have announced new investments in natural gas and solar power and are weighing up others as well, which will affect the decision we make regarding the need to transform this asset. In conjunction with the government of Panama, our partner, we capitalized USD 99 million corresponding to part of the subordinated debts we had with the Company. It is worth pointing out the excellent relationship we have with that government and its representatives, who have been assisting us in the pursuit of options to improve the financial and operational situation. The EBITDA in Central America has almost doubled, having increased by 82% to COP 194 billion.

Additionally, after considering the different growth opportunities open to us in other countries, the Board of Directors decided that we should focus our efforts on strengthening our presence in the Central American region. This means, dear shareholders, that we expect Celsia to be running operations from Colombia to Mexico, which will help us diversify our activities even more. Through discipline and patience, we will find ideal opportunities for entering these new markets and complementing our presence in the

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current ones. In addition, this geographical objective will allow us to generate operating synergies with other firms belonging to Grupo Argos, our parent company, and to access markets with attractive growth prospects and great challenges in meeting its energy needs.

We also made significant advances in our energy distribution business in Valle del Cauca, where we cover the entire department with the exception of Cali, Yumbo and Cartago. In total, we supply 39 municipalities and 570 thousand clients there. This is where our strongest competitive advantages are situated. Our human resources in Valle del Cauca have achieved one of the best service quality indicators in the country; therefore, driven by the talent of our employees and on the understanding that we have a sound business model that we are improving and even reinventing in certain respects, we elected to expand our coverage in that department, and today we supply clients in Bogotá, Medellín, Barranquilla, Cartagena and Rionegro, among other cities. This business generated an EBITDA of COP 312 billion, which represents an increase of 13%.

In summary, last year left us with lessons learned and pending tasks. With respect to our assets, perhaps the most important thing we need to do is strengthen and diversify our current portfolio. To this end, we are now prepared with a series of projects that complement our generation capacity. In March, we started up our small Bajo Tuluá Hydroelectric Power Plant, in Valle del Cauca, with an installed capacity of 19.9 MW, while the start-up of the Cucuana Hydroelectric Power Plant, located in Roncesvalles, Tolima and with an installed capacity of 58 MW, took place in November. Among our projects, Porvenir II stands out, with an installed capacity of 352 MW, in the Tuluá River basin, Antioquia, which gives us geographical diversification and an increase in our firm hydroelectric energy. Because of its configuration, it stands as a project with considerable environmental and social benefits for an area that needs companies like ours. We are also soon to begin construction of the Small San Andrés Power Plant (19.9 MW), also in Antioquia, a project that stands out for its construction facilities and technical advantages, and which is due to begin operations in mid-2019.

WE WILL FOCUS ON STRENGTHENING OUR OPERATIONS IN THE CENTRAL AMERICAN REGION. WE EXPECT CELSIA TO HAVE OPERATIONS FROM COLOMBIA UP TO MEXICO

Wind and solar energy are here to stay and we will be leaders in this field.

In the short term, we seek to have 250 MW installed capacity of solar energy in Colombia and Panama, and to increase Panama's wind capacity by 50 MW.

In addition, at Celsia we are convinced that the time for non-conventional renewable energy has come. We are referring to solar and wind generation: Their costs are now competitive and there are many

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possibilities that complement our portfolio very well. We therefore leverage the knowledge that our research and development teams have acquired in the understanding and use of solar energy and the wind operation in Costa Rica, as part of our aspiration to become leaders in the use of these technologies. In the short term, we seek to have 250 MW installed capacity of solar energy in Colombia and Panama, and to increase Panama's wind capacity by 50 MW. We are also looking into, in conjunction with a developer, developing a wind project in the high potential area of La Guajira; unfortunately, wind generation in this region will be dependent on transmission lines that are not yet in place, but we are currently engaged in the bidding process and stand to begin construction soon. Thus, this partnership will prepare us for when the infrastructure is in operation, which we expect to happen within the time until 2019. Shareholders: We can see that wind and solar energy are here to stay, and we will be leaders in this field.

Our aim to diversify is not only technological but geographical as well, especially in the distribution business; with this in mind, we participated in the Mining and Energy Planning Unit's announcements as part of Plan5Caribe, which seeks to improve the Regional Transmission System along the Atlantic coast — a process in which we were successful throughout the year, having been awarded six projects: Cuestecitas-Riohacha-Maicao (La Guajira), Valledupar (Cesar), the construction of the new substations of Montería (Córdoba), Norte and Caracolí (Atlántico), and Manzaniillo (Bolívar). These projects are located in growth areas in the Caribbean region and are due to start up by the end of 2018, increasing income in the distribution business by 20%, with a stable flow for 25 years, as well as generating an annual EBITDA of around COP 70 billion, with an estimated investment of COP 470 billion. To put that into perspective, we typically allocate COP 75 billion per year for comparable, albeit less profitable, investments, so our success in these tenders will allow us to reach a goal that would otherwise have taken at least six years, while securing a significant presence in the Colombian Caribbean.

Our technological progress in the electricity sector continues apace, and the transformations that have been announced for years as future matters to be prepared for are now a reality. The costs of non-conventional renewable energy are coming increasingly close to those of traditional technologies; distributed generation, such as solar panels on roofs, are now the norm in many parts of the world. It will not be long before we do not have consumers so much as prosumers, a term that refers to the role of combining the production and consumption of energy: there will be energy efficiency models; home and office automation applications; electric vehicles that as well as transporting us, will serve as batteries for injecting and taking energy from the network based on the preferences and needs of prosumers; efficient lighting; new energy storage services for homes and as a complement to current networks; as well as more

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information and interaction with clients hour after hour, among many other aspects that are revolutionizing the industry and business models alike.

At Celsia, we have closely followed these developments, and have prepared ourselves to take advantage of the opportunities that arise out of them. We have therefore decided to include, as a fundamental part of our strategy, the development of new businesses geared toward meeting the needs of evermore active and well-informed clients. This last point is what has allowed us to change how we see the business, and we are concentrating on building a customer-facing company, managed not on the basis of assets like a traditional public utilities company, but as a modern company where plants, lines and substations are just one means of improving people's quality of life. We plan to implement this through three new business units:

CITIES-SUSTAINABILITY, through which we will play an active role in modern and friendly urban development, taking advantage of the trend of building cities within cities where we will provide services that go beyond the supply of energy to include thermal networks, co-generation, water, lighting, electric transportation, and so on.

COMPANIES-PRODUCTIVITY, through which we will provide comprehensive solutions to the energy needs of businesses, industries and property developers that will be able to concentrate resources in their primary activities, given that our objective is to venture far beyond the meter by making investments in electric assets, and combining these with operation, maintenance and energy-supply services.

HOMES-WELLBEING, through which we will reach residential clients, to deliver the best supply and management options for their electricity consumption.

Innovation, represented by new technologies and business models, is at the heart of this proposition. As part of this, distributed distribution, storage, mobility, automation and the remote control of devices based on ICT, as well as new proposals oriented toward saving, efficiency, and minimizing CO2 emissions, constitute the foundations on which we are building this new vision of our Company.

WE WANT TO GROW IN NEW MARKETS, SO THAT OUR RESULTS DO NOT DEPEND ON THE CLIMATE OR ON REGULATION BUT ON CLIENTS' PURCHASING DECISIONS.

We were awarded six projects for the Regional Transmission System on the Atlantic coast, increasing distribution income by 20% with a stable flow for 25 years.

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Our objective is to venture far beyond the meter by making investments in electricity assets, combining these with operation, maintenance and energy-supply services.

Strategy, values and a single structure

This change requires the development of new capacities and an alignment to this new stage of the business. To this end, we devised an organizational structure in which we integrate the talent, knowledge and management capacity of Celsia and EPSA. This allows us to quickly gain a foothold in new lines of business and to reach new geographical areas.

This integration is accompanied by a profound change in the culture of the Company and a redefinition of the values to attain the set objectives. We express this by giving our all to grow together, daring to be different, being flexible and reliable, and taking enjoyment from making lives easier.

My dear shareholders, this all reflects the fact that at Celsia we are enthusiastic about doing things in a different, flexible, uncomplicated and collaborative manner that allows us to keep up with market expectations. Through the internalization and ongoing application of these values, we are sure that we can take advantage of the imminent changes in the industry.

With a clear strategy, unified structure, and defined values, we have set a Big Hairy Audacious Goal (BHAG) that responds to these new realities: to serve one million clients by 2025, generating USD 5 billion dollars, with 50% from new business.

We are thankful for the trust and support that shareholders, clients, suppliers and communities have given us, which have spurred us on to overcome the present circumstances; moreover, we are especially grateful to the company's workforce, which has faced difficulties with an open mind in pursuit of the necessary transformations and in recognition that the achievements and events of 2015 stand as an opportunity to keep on constructing the prosperous and sustainable company that we all dream of.

The evolution of legal and corporate governance affairs can be found as an appendix to this report.

José Alberto Vélez

Gonzalo Alberto Pérez

Juan Benavides

María Luisa Mesa

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María Fernanda Mejía

David Yanovich

Board of Directors

Ricardo Andrés Sierra

CEO

In 2015, the Cucuana Hydroelectric Power Plant in Tolima, with an installed generation capacity of 58 MW, and the Bajo Tuluá Hydroelectric Power Plant with an installed capacity of 19.9 MW started up in the Valle del Cauca.

Appendix - Legal and corporate governance issues

Celsia duly addressed its legal affairs and did not receive any notification of lawsuits or sanctions that could affect its financial position.

In relation to the investigation initiated by the Superintendence of Residential Public Utilities to Zona Franca Celsia S.A. E.S.P. in January 2015, we report that the investigation was closed after it was found that the actions of that company were in accordance with existing laws and regulations.

The performance of the financial information disclosure and control systems was verified through different activities carried out by the Statutory Auditor, the Internal Auditor, and the Board of Directors through the Audit, Finance and Risk Committee, in which these systems were found to be satisfactory. Among these activities, those that stood out were the evaluation of internal control by the Statutory Auditor; the review of the appropriate design and functioning of the processes that support financial statement preparation by the Internal Audit Department; and quarterly monitoring of financial statements by the Audit, Finance and Risk Committee, which includes the analysis of relevant transactions alongside related parties.

The Company complied with applicable legislation related to intellectual property and copyright, and operations with administrators and shareholders were undertaken pursuant to the provisions of corresponding regulations and in response to market conditions. Notes 34 and 36 of the individual and consolidated financial statements, respectively, describe these transactions.

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Aspects related to Article 446 of the Commerce Code are included in the financial statements, the Statutory Auditor's report and this document. Meanwhile, the report of the Business Group to which Article 29, Law 222 / 1995 refers is located in the additional information distributed to shareholders, along with the corporate governance report.

Pursuant to the Code of Best Corporate Practices (Código País), in 2015, the General Meeting of Shareholders approved a bylaw reform for the adoption of the measures suggested by said Code; and in December, the Board of Directors modified the Corporate Governance Code to incorporate additional measures.