



CELSIA MANAGEMENT REPORT 2017

DEAR SHAREHOLDERS,

It is our pleasure to begin our 2017 Report by thanking all of you for the support we received during the share issue we carried out in the first two months of this year. This event is of great importance for our Organization, as well as a relevant subsequent event from the reporting date.

It is a transformational transaction for Celsia, because it injects fresh capital resources into the Company, which will be used to increase our shareholdings in Epsa and to rearrange our capital structure so as to maintain profitable growth.

It enables us to move forward on our strategic objective of reaching one million clients by 2025, with an innovative and differentiated portfolio, as required by the current energy business, with greater returns for you.

2017 is a year we will not forget: we took important steps that have enabled us to become pioneers in the solar energy market in Colombia; our distribution service was rated among the best in the country, and we were able to serve over 600,000 clients through a growing range of products and services for our city, company and household categories.

A CLIENT-FOCUSED CULTURE

The market demands that we differentiate ourselves, because we compete with large companies that have easy access to capital at very low cost, as well as to technology and information available throughout the world. Under these conditions, there is only one element that sets us apart: our people. Over the last two years, we have been undergoing a cultural transformation process based on four pillars that promote innovation and collaborative work, that enable us to be different, with the understanding that a service culture is the foundation for building a company that is a leader, innovative, and that creates value.

Our teams are oriented towards performance, our clients and the business. The initiatives based on cross-disciplinary work cells have speeded up our transformation through innovative solutions, and the people from the various areas are clear on how to help make the strategy a reality. We have teams that are continuously learning and constantly evolving.

As a reflection of this transformation, our indicators have improved, and this is recognized by our employees. The Great Place to Work[®] Institute confirmed that Celsia is one of the best companies to work for. This ranking service, which is present in 50 countries, reviewed quantitative and qualitative employee data at the 209 companies that applied in Colombia. Also, in the Merco

Talento ranking of the 100 best companies to work for, we moved up 32 positions ending up in 26th place.

BUSINESS PERFORMANCE

The following are the most relevant aspects of the asset management business:

Regarding transmission and distribution, the business is making significant progress. In Valle del Cauca we invested COP 65,300 million, which included the installation of reconnectors, replacement of power transformers and the start-up of the Juanchito and Pance substations, enhancing service reliability for over 10,000 clients.

What sets us apart from others in this business? Our teams are following new procedures to lay out and clean the networks, and we are developing tools to determine the conditions of our assets. The implementation of the Workforce Management (WFM) software has increased our response time in resolving our clients' problems: in the past we covered 66 cases per day, whereas now we resolve 80. This represents a 21% improvement in operations and customer service.

This has led us to achieve the best customer service indicators (SAIDI and SAIFI). Cetsa, for example, had only 3 hours of power intermittency in the year, compared to the national average of 15, according to the report published in 2017 by the Superintendence of Residential Public Utilities. This service quality sets us apart from the competition and encourages us to continue strengthening our customer service. The reliability of our transmission and distribution networks was above 99.6%, despite the effects of adverse weather conditions during much of the year. Energy losses in the distribution networks totaled 8.39%, a rate that is close to our proposed targets.

As you are well aware, we moved beyond the borders of Valle del Cauca and ventured into the Northern Coast with projects awarded as part of the Plan5Caribe. In 2017, we completed the projects of La Guajira in January, of Valledupar in March and of Montería in November. Last year, our investments in Plan5Caribe totaled COP 152 billion; the projects of Atlántico and Bolívar are expected to come on stream this year. In 2019, these projects will contribute an additional COP 80 billion to EBITDA.

Another relevant event that took place after the reporting date was the newly issued CREG Resolution 015 / 2018, which establishes a new remuneration methodology for the distribution business in Colombia over the next five years. The most relevant aspects of the new methodology include a system of economic incentives to improve service quality in the distribution system, which establishes an 8% annual improvement target during the five years, as well as the possibility of submitting investment plans for approval by the regulatory agency to improve quality, reduce power losses and upgrade the distribution systems. It also defines the manner in which the Asset Regulatory Base is to be remunerated, which is the amount on which payment is made for the assets used to provide these services.

Simultaneously, CREG Resolution 016 / 2018 was issued, which approved the weighted average cost of capital (WACC) for the electric power distribution business. We are currently reviewing the actual impacts of this new methodology.

Consolidated EBITDA for the transmission and distribution business totaled COP 304 billion. This business generates a stable flow of revenues with adequate returns for our shareholders.

Regarding the power generation business, even though last year the La Niña weather phenomenon was not officially declared, the water intake at our reservoirs and our systems in Colombia and Panama was well above historical averages. This enabled a high level of consolidated hydroelectric power generation, which grew by 36% compared to 2016 to 4,755 GWh in 2017. This weather phenomenon led to the reduction in generation by the thermoelectric power plants, in contrast to what had occurred in recent years, when the El Niño phenomenon forced our thermal plants to work at full capacity. Consolidated thermal power generation decreased by 60% compared to 2016, to a total of 1,393 GWh in 2017.

Regarding our hydroelectric operations, we wish to highlight the work performed at the Salvajina power plant, where with the same amount of water we are now able to generate an additional 30 MW at generation unit 1, and the work carried out to modernize the sediment handling system at the Bajo Anchicayá power plant, thanks to which we will recover close to 70 GWh per year in generation capacity. The Alto and Bajo Tuluá power plants received renewable energy certifications from *The International Rec Standard*. In Panama, the Dos Mares hydroelectric power plant achieved the overall generation target of 2,000 GWh in only five years of operation, thanks to the optimization of maintenance times.

Regarding our hydroelectric power generation projects, we began construction of the San Andrés Project, a small hydroelectric power plant with installed capacity of 19.9 MW, which will supply electric power to 25,000 households and will create close to 150 direct and indirect jobs during the construction stage. This project, in which we invested close to USD 60 million, will be built in 26 months and is expected to start up in 2020. At Porvenir II, with installed capacity of 352 MW and investment of over USD 800 million, we are currently evaluating the proposals received for contracting of civil works and for acquiring electro-mechanical equipment.

In November, jointly with Acolgen, other companies in the industry and the International Centre for Hydropower (ICH), we promoted the use of sustainable hydroelectric power in Colombia, based on our understanding of the importance of this form of generation for our country. In this regard, the comprehensive management and governance of water resources and their potential use are key priorities for the industry.

After only 3 years of having ventured into the Central American electricity market, we are now the second-largest power generation company in Panama, accounting for 14% of total installed capacity. Our hydroelectric power plants generated 480 GWh last year, which is the highest amount recorded in the history of these assets, thanks to the optimization of maintenance times and practices.

In Costa Rica we generated 164 GWh at the Guanacaste Wind Farm, a reduction of 17% compared to 2016 due to low wind conditions during the year. Major maintenance was performed for the first time on this plant's equipment, which will have a positive effect on performance in the near future.

ACTIONS TAKEN ON THE EL NIÑO WEATHER PHENOMENON

Positive results were recorded for our thermal power generation assets in Colombia. As we mentioned last year, in December 2016 the El Cayao Regasification Plant started operations, which assures a reliable source of natural gas supplies for the Zona Franca Celsia Power Plant, eliminating the risk of gas shortages when covering peak demand periods of the system, particularly during the El Niño weather season.

At the Meril trica Thermal Power Plant located in Santander, we negotiated Take or Pay (ToP) gas contracts to cover our Firm Energy Obligations until 2022, whose exercise price is indexed to the scarcity price. This provides cover for operating risks in the event a shortage is triggered.

Additionally, the Energy and Gas Regulatory Commission (CREG, for the Spanish original) published Resolution 140 /2017, which defines the Shortage Marginal Price. This new methodology, combined with access to gas at competitive prices, benefits our thermal assets, as it eliminates the risk of loss-producing generation and optimizes profitability, while maintaining the country's energy security.

In terms of operating results, our Colombian thermal power plants achieved a historical record in terms of availability, with an average of 97.12% for the Zona Franca and Meril trica plants, and a noteworthy 99.93% average for the Flores 4 unit.

At our thermal power plants in Panama, we continue to implement processes that optimize operations and are more environment-friendly. The Bah a Las Minas Coal Power Plant has a new ash management system that has had highly positive effects for the community. Our thermal power plants in Panama generated 447 GWh in 2017.

Consolidated EBITDA for the power generation business totaled COP 804 billion, equivalent to growth of 14%, which includes COP 543 billion in Colombia and USD 88 million in Central America.

Asset management is the core of the business and it drives the materialization of our strategy.

A NEW ERA FOR ENERGY

During 2017 many of the projects of our new portfolio came on line, such as the start-up of our first cooling district, a system that cools the public areas and stores at the Nuestro Monter a shopping mall. The process takes advantage of the co-generation process, and uses natural gas to cool the water that is distributed throughout the shopping center and to the air conditioning systems, producing 30% in energy savings.

The Plan Luz was also launched through a partnership with Equitel, which offers backup generators to supply power to clients interested in securing uninterrupted, stable and high-quality power for their manufacturing processes.

Aware of the need to promote electric transit in Colombia, in view of air quality issues and the market's growing interest in electric vehicles, we have installed three charging stations in high-volume public areas in Medell n, such as the Oviedo shopping mall, Universidad EAFIT and Centro Comercial Del Este.

Our customer service process displayed progress and transformation following streamlining of several procedures to make life easier for our clients, achieving a 99.6% resolution rate for the inquiries received through the various relations channels we have in place for them.

Regarding such channels, in 2017 we renovated the customer service facilities in Tulu , Buga and Palmira; we continued to strengthen our toll-free, 24/7 hotline; we entered into partnerships to offer over 700 payment reception points; we have 11 self-service kiosks and a series of online channels including online chats and video-calls, through which our clients receive quick and

reliable response. As a result, of a total of 362,953 transactions at customer service facilities, we managed to transfer 19% to digital channels.

We should highlight that in the results of the Perceived Quality Satisfaction Index (ISCAL, for the Spanish original), we came in first place among Colombian energy companies with more than 500,000 clients, in terms of the customer service indicator, equivalent to 88.4% of satisfied customers.

LEADERS IN SOLAR ENERGY

Our enthusiasm for non-conventional renewable energy has made us pioneers in solar power generation in Colombia. In September the first large-scale photovoltaic power generation farm in the country was started up, Celsia Solar Yumbo, with installed capacity of 9.8 MW, and which will generate close to 16.5 GWh of electric power per year. This is the amount of power required to satisfy the demand of 8,000 households, which prevents emissions of 160,000 tons of CO₂ over 25 years.

Our teams are also working on developing photovoltaic projects in the department of Bolívar, Valledupar and Santander in Colombia, with combined installed capacity of 148 MW. Another two projects are planned in Central America, which will add 39 MW. We expect to begin construction work in 2018; and in coming years we will undertake many more such projects.

The experience we have gained enables us to provide our clients sustainable and highly efficient solutions. In 2017 solar roofs began operations with installed capacity equivalent to 3.6 MW. We are working on installing an additional 43 MW in Colombia, and 3.1 MW more in Central America. There are many attractive opportunities with excellent growth potential. Our sales teams offer this solution to customers in the main cities of Colombia, Panama and Costa Rica.

FAVORABLE IMPACT ON COMMUNITIES AND NATURE

Dear shareholders, our social and environmental commitments are permanent. The VerdeC environmental program planted over one million trees. In 19 municipalities of Valle del Cauca we protected 20 river basins, which are the main source of water and which help preserve the biodiversity of the natural ecosystems.

In Panama, for the third year in a row, we participated in the *Alianza por el Millón* (Alliance for a Million) Reforested Hectares. Over 80 employees and their families participated in 1,200 planting drives to plant trees of species that are endemic in Central America.

Through the Celsia and Epsa foundations, we invested over COP 9,600 million in education in the country, as the main driver for transformation of the territories and for building social capital. The foundation's management model covers four programs: Energy and Water, Going Green (Verde Vivo), Mathematics and Language, through which they covered over 350 schools to benefit close to 96,700 people, including students, teachers, parents, community leaders and the community in general, in 36 Colombian municipalities.

In Central America, over 10,000 people benefited from the education promotion projects: in Panama a classroom was built for children of the Kuna community with special disabilities, and another was built in Costa Rica at the school of Guayabo.

RECOGNITION FOR OUR ACTIVITIES



At Celsia we received important public recognition. For the second consecutive year we were included in the Sustainability Yearbook of RobecoSAM. This publication lists the companies with the best management and performance in terms of sustainability, taking into consideration good corporate practices on economic, social and environmental matters. Also for the fifth consecutive year our rating improved in the Dow Jones Sustainability Index (DJSI). The results reported from 2013 to 2017 display consistent progress.

We won the 2017 Portafolio Award in the innovation category. The jury took into consideration our leadership in the solar energy market with photovoltaic farms and roofs, the installation of electric vehicle charging stations, our promotion of sustainable hydropower, and our positioning as a player whose strategy defies conventions in order to benefit the client, all in the framework of high standards of corporate governance, ethics and transparency.

We once again received recognition as IR Issuers at the Colombian securities exchange for adopting best practices in terms of disclosure of information and investor relations.

THE YEAR IN FIGURES

Our businesses recorded outstanding performance and we achieved good operating and financial results. Consolidated revenue totaled COP 3.09 trillion, of which generation accounted for COP 1.84 trillion, 29% lower than in 2016, which is consistent with lower demand for thermal energy following the normalization of weather conditions in 2017. We should recall that thermal power generation decreased by 60%, which was offset by a substantial 36% increase in hydroelectric generation. The distribution business contributed consolidated revenue of COP 1.15 trillion, a 7% increase on the previous year.

In operating results we highlight EBITDA of COP 1.12 trillion, equivalent to 9% growth, which is the highest in the Company's history. Net income of COP 251 billion was reported, and net income attributable to the controlling shareholders was COP 149 billion, a substantial recovery compared to COP 33 billion in 2016.

In terms of our individual financial statements, revenues totaled COP 190 billion, with EBITDA adjusted for dividends of COP 146 billion, a 13% increase, and net income of COP 184 billion, equivalent to a 457% increase.

It is important to mention the corporate bond issue of Alternegy, our affiliate in Panama, in the amount of USD 320 million, which improved the debt profile and conditions of our business in Central America. With these resources, plus USD 25 million available in cash, we substituted USD 345 million of short-term liabilities for long-term liabilities. This was the largest transaction in the Panamanian market in 2017 for a corporate issuer, which demonstrates the investors' confidence in our Company.

Our operating results enabled us to pay down debt during 2017, thanks to which our net debt/EBITDA ratio fell to 3.2 times, compared to 3.4 times in 2016. The same ratio at Celsia individually decreased from 7.0 times to 6.8 times.

Our credit rating remained unchanged at AA+. Our financial results and our discipline in managing our resources enable us to maintain adequate financial costs and to finance the growth of our operations at competitive rates. On its part, the risk rating of Epsa remained unchanged at AAA, a rating it has held over the past 17 years.

Another figure worth highlighting is the 18.3% increase in our stock price during 2017, which made it the stock of greatest valuation during the year, even though in 2016 an outstanding return of 44% had been recorded. The 2017 price increase was higher than the 12% increase of the index of the 25 most liquid stocks in Colombia (Colcap), which is largely a product of the good results achieved in the execution of our strategy.

INNOVATION WITHOUT BORDERS

The Company's major innovation efforts led Colciencias to recognize one of our teams as a Research, Development and Innovation Unit for a three-year period. By granting such status, the team is considered to be part of the National Science, Technology and Innovation System, and is entitled to certain tax benefits.

At the Yumbo facility we began to operate the most modern monitoring center in Latin America, called the Advanced Vision Operations Core (NOVA, for the original in Spanish). It will provide us information in real time, 24 hours a day and 365 days a year, on the performance of each generation plant, substation and transmission network.

NOVA is the spearhead of a general digitalization project that enhances our business efficiency. It also creates opportunities to support the new portfolio of products and services for our clients and third parties, and to face the challenges of the electricity market.

I share these achievements with you with great pride, as they have been made possible thanks to the valuable work of our teams. We are relevant players in the changing energy business, and we put into practice our talent and knowledge to deliver disruptive products and services to our clients. In this new era for energy, together we will carry out more activities for you, for the country and for the planet.

Below you will find the evolution of legal affairs and corporate governance as an appendix to this report.

Jorge Mario Velásquez
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María Luisa Mesa
María Fernanda Mejía
David Yanovich
Board of Directors

Ricardo Sierra
CEO

Medellín, February 16, 2018

Appendix - Legal and Corporate Governance Issues

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

Regarding an investigation opened by the Superintendence of Residential Public Utilities on Zona Franca Celsia S.A. E.S.P. for an event that took place at the Flores 4 Generation Plant on February 4, 2016, we report that the case was closed after finding that the damages to the plant occurred in a sudden and unforeseeable manner, and that the Company responded diligently and in abidance with the Law 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 Audit Department, and the Board of Directors through the Audit, Finance and Risk Committee, which concluded that these systems operate satisfactorily. Among these activities, those that stood out were the review of the financial statements by the Statutory Auditor; the assessment of the adequate design and operation of the Internal Control System by the Internal Audit Department; and quarterly monitoring of financial statements by the Audit, Finance and Risk Committee, which includes the analysis of transactions with 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. Also, the Company did not hinder the free circulation of invoices issued by suppliers that entered into factoring arrangements with financial institutions in the amount of COP 26,729 million.

Aspects related to Article 446 of the Code of Commerce 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 can be found in the additional information distributed to shareholders, along with the Corporate Governance Report.

Finally, on the website www.celsia.com, you can find the report on the implementation of the *Código País* Survey recommendations.