

# 2021 MANAGEMENT REPORT

## CELSIA

### GENERAL MEETING OF SHAREHOLDERS

Dear shareholders:

For Celsia, 2021 will be remembered as the year of transition and reactivation after the pandemic. For our company in particular, these were twelve months in which we intensified the strategy of the past five years aimed at being an active player in the regional energy transformation process, with an increasingly cleaner generation matrix and an innovative portfolio of services and products focused on enriching the lives of our customers.

At Celsia, as part of Grupo Empresarial Argos, we maintain a shared vision of a business practice that seeks to deliver above market returns for shareholders and, at the same time, create social value for communities, customers, employees, suppliers and other stakeholders. In the last year, the company invested more than COP 1.6 trillion to grow and guarantee electric power service, thereby supporting economic recovery, competitiveness and employment preservation.

During 2021 we faced disruptions in international supply chains, as well as road blockades in Colombia for a couple of months that impacted our operations, in addition to the presence of several COVID-19 variants and contagion peaks. In this context, we focused all our efforts on maintaining operational continuity and service provision: we were able to ensure that operational and financial results were not only sustained, but exceeded budgeted levels, demonstrating Celsia's resilience in overcoming difficulties.

#### **Solid financial results**

The company achieved consolidated revenues of COP 4.11 trillion, an increase of 16.3% over the previous year. Achievements in operational efficiency resulted in a 10.7% increase in EBITDA, reaching up to COP 1.37 trillion.

The solar and transmission investment platforms totaled revenues of COP 147,000 million in 2021, becoming a very important asset for Celsia in the creation of value, as it accelerates the organization's growth capacity.

This year we were able to close the BLM coal-fired thermal complex in Panama, which avoids volatile situations and allows us to continue on the path towards clean energy generation. We also received the ruling on the class action lawsuit filed by some of the Anchicayá River communities, which we had been waiting on for years. Both situations generated fluctuations in non-operating accounts that together represented an extraordinary income of COP 168,569 million for the year.

The virtuous combination of a good operating performance with extraordinary earnings from non-recurring operations allowed consolidated net income to reach COP 544,566 million, an increase of 60.7%, and net income attributable to owners of the controlling company totaled COP 334,547 million, an increase of 34.2%.

At year end, consolidated debt was COP 4.47 trillion, with a net leverage indicator to EBITDA ratio of 3.1 times. Balance sheet structure remains strong. Operating and financial results are positive, and this is reflected in our credit ratings, which remain at investment grade AA+ for Celsia and AAA for Celsia Colombia.

In terms of separate financial performance, revenues totaled COP 637,792 million and net profit was COP 341,851 million. Assets amounted to COP 6.2 trillion and equity reached COP 5.3 trillion, with a positive variation of 5.9%.

### Value Creation

Over the past five years, we have developed a sustained transformation process that is reflected in the positive perception, loyalty and satisfaction of our customers, and in the company's financial strength, profitable growth rate and resilience. We consolidated operations in Colombia; we have been pioneers in promoting non-conventional renewable energies; we added distribution assets; we are offering a disruptive portfolio of energy efficiency products to our customers; we divested non-renewable energy generation assets; and we created investment platforms to continue growing in the different businesses. All these accomplishments are aimed at maximizing the return and repaying all the support you have given us.

This transformation process began in 2015, when we had five operating vehicles and our growth project bank consisted of 372 MW of hydroelectric power generation and investments in distribution network growth, for COP 200,000 million annually.

Since then, the strategy has been to offer a differentiated portfolio of products and services, focused on enriching the lives of our customers and leveraged on a transformation of the organizational culture. In addition, we continued to simplify operations to maximize efficiencies, rotated assets whose profitability is below growth options, and drove renewable energies in our markets with a sustainable and competitive capital structure.

As part of this strategy, we transferred Celsia's assets and projects to Celsia Colombia; increased our stake in this company to 65%; divested Zona Franca Celsia; acquired the distribution assets and the energy sales business in Tolima; doubled our customer base to 1.2 million; developed the investment platform model; and initiated the orderly closing of the BLM coal-fired plant in Panama.

In this regard, we enjoyed the support and enthusiasm of shareholders and financial entities, and we carried out two share issuance and placement processes to strengthen our equity position: the first in Celsia S. A. in 2018, for COP 1.47 trillion, and the second in Celsia Colombia in 2019, for COP 460,000 million. We also made

3 bond issuances in Celsia Colombia, including the issuance of the first real sector green bond in Colombia, and the first bond from our operations in Panama.

The financial results recorded in 2021 reflect an upward trend compared to 2016. Compared to that year, total assets amounted to COP 12.6 trillion, with a 30% growth; consolidated EBITDA grew 33% and reached COP 1.37 trillion; debt amounted to COP 4.4 trillion and increased 8%; net income was COP 544,000 million, an increase of 318%, and the controlling company's income amounted to COP 334,000 million, 10 times more than the base year for comparison. The company currently enjoys a 300 basis point value creation differential when comparing return on capital employed (ROCE) to the weighted average cost of capital (WACC).

In the last five years, and thanks to the results obtained, the company has delivered COP 1.06 trillion in dividends which, added to this year's proposed COP 330,000 million, would total close to COP 1.47 trillion, an amount close to the value of the 2018 capitalization.

By analyzing the transformation and using the market valuation multiple that the company had in 2016 of 8.5 times EBITDA, we have created COP 2.9 trillion of value for shareholders, which, added to the dividends paid out in these years, would reflect a total shareholder profitability of 10.87% per year, exceeding the 3.72% of the Colcap by 2.9 times. Our business results have a solid foundation, and the numbers show it. However, we are aware that the share price does not reflect this value creation due to multiple reasons.

And take a look at the contrast: while in 2021 the company's fundamentals had a positive trend, in that same year the share price presented a devaluation of 11.7%, while the Colcap index fell 3.30%. The dividend profitability was above 6.0% and remained above the market average. The total profitability between appreciation and dividends was minus 5.4%.

### **Operational update**

#### **Home and Business Clients**

Among the challenges we faced last year in customer service, we must mention that there were delays in servicing damages, as well as delays in the reading, delivery and invoicing processes, in addition to the impact on customer service channels due to the strike and blockades that occurred from May to July.

Meanwhile, in the second half of the year we implemented the new sales system in Valle del Cauca, which allows us to offer substantial changes in customer invoicing. This is a technological change effort that puts us at the forefront; however, it had an impact on some customer-facing processes that we saw reflected in a congestion of customer service channels, especially in the months of September, October and November.

Despite the aforementioned situations, as a result of improvements in the quality of service and the simplification of customer service processes, total complaints decreased 2% in Valle del Cauca with respect to the previous year and 26% in Tolima.

Our energy sales business delivered 3,638 GWh in 2021, an annual growth of 8.4%, of which 2,180 GWh went to the household market, up 1.7%, 1,391 GWh in the business market, up 18.1%, and 67 GWh in solar energy, up 103.3%.

We remodeled 2 Celsia stores in Valle del Cauca (Jamundí and Buenaventura) and 6 in Tolima (Purificación, Lérída, Líbano, Guamo, Chaparral and Ibagué Calle 14), completing 11 in the latter department. Our customers find a convenient and pleasant space where they can satisfy their needs and concerns with our customer service team, as well as a full range of energy efficiency products. In 2021, more than 18,000 customers purchased a product from a Celsia Store, 82.7% of whom did so with our financing.

We continue to develop energy efficiency and renewable energy solutions to provide our customers with options for managing and taking advantage of their energy resources in industrial processes and real estate projects. By the end of 2021, we generated more than COP 23,600 million in annual savings for our customers.

Today our energy connects more than 1,240,000 customers with a firm commitment to continue modernizing the networks to offer them services. To this end, we invested COP 365,000 million in substations, new circuits and control systems to improve reliability and make them safer. Of the total invested, COP 154,000 million went to the operation in Tolima and COP 211,000 million to Valle del Cauca. Network availability stood at 99.88%.

These investments are remunerated and generate stable cash flows that ensure the profitability of the operations. At the same time, we are making significant progress in service quality indicators in all the regions in which we operate.

The execution of the operation and maintenance plans led to energy losses in Valle del Cauca of 9.7%, while those in Tolima reached 13.4%. The latter is expected to continue decreasing to reach the levels of Valle del Cauca.

The home Internet business is advancing in different municipalities in Valle del Cauca, and in 2022 we will reach Tolima. Already more than 16,000 customers rely on a service that is flexible, user-friendly, highly specified and affordable. More than 660 km have already been covered with fiber optics.

### **Generation**

Today we have 1,787 MW of electric power generation capacity, 80% of which comes from renewable sources, including hydroelectricity. Availability was 88% and we reported investments totaling COP 62,000 million. In Colombia, hydroelectric

power generation reached 5231 GWh/year, with an increase of 28.0%, due to the 32% increase in water inputs at our hydroelectric power plants. Solar farms, floors and roofs generated 153.3 GWh/year, an increase of 47.8%, mainly due to the addition of 53 MW of installed capacity in the last year.

Our water assets in Panama generated 502 GWh/year, an increase of 1.6% over 2020. Thermal power plants generated 71.8 GWh, a 62.6% decrease due to the reduced dispatch of thermal energy. The Guanacaste Wind Farm in Costa Rica generated 189 GWh with a 11.9 % increase due to stronger winds.

In Panama, we started operations with Celsia Solar Prudencia, the first solar farm we built in that country, with a capacity of 9.69 MW. This plant is connected to the substation of our Prudencia hydroelectric power plant in Chiriquí, as it is located on land adjacent to the power plant, thus achieving operational synergy.

In Honduras, we are making positive progress with our solar generation business for customers. Currently, we have an installed capacity of 21.6 MWp and projects under construction for 11.0 MWp between farms and solar roofs, which in a long-term contracting model provides energy to different companies with the purpose of improving their productivity and efficiency.

On the other hand, wind power generation will be one of the main drivers of clean energy in the country, and at Celsia we are making progress in working to materialize the 330 MW that we have in the advanced feasibility and pre-construction stages. Located in La Guajira, the 80 MW Acacia wind farms and the 250 MW Camelias 1, 2 and 3 wind farms are in the process of negotiating contracts for the construction of civil works and equipment supply, and for the modification of environmental licenses, taking into account the detailed designs of the project. For the connection lines associated with the project (Cuestecitas 500 kV and 110 kV), we are making progress in the corresponding prior consultations.

To achieve cleaner power generation, we are committed to reduce our CO<sub>2</sub> emissions intensity compared to 2015. Results achieved showed a decrease of 89% during 2021.

### **Investment platform**

Since 2019, the company has been deploying a successful asset management model in conjunction with national and international partners. For example, with Cubico Sustainable Investments, an investor with extensive experience in the renewable energy sector, we have been able to combine Celsia's talent, operational and development capabilities with its interest in investing in Colombia. In less than three years, we've launched two investment platforms: C2 Energía and Caoba Inversiones, which specialize in large-scale solar energy and transmission, respectively. Also, with other investors such as Canacol and Proeléctrica, we are building the El Tesorito gas-fired thermoelectric plant in Sahagún, Córdoba.

### **Solar investment platform**

C2 Energía develops large-scale solar energy projects in Colombia. Thanks to the sum of capacities, Celsia has managed to build and commission 60 MWp in solar farms, and we have 1 GW in the project bank, of which 306 MWp will be under construction in 2022. This joint venture recorded COP 16,800 million in revenues, with a 65% growth, thanks to the platform's increased generation capacity year after year. C2 Energía's EBITDA reached COP 13,300 million, almost 3 times the figure recorded a year earlier.

Last year we inaugurated Celsia Solar El Carmelo in Candelaria, Valle del Cauca, with 12.5 MWp of capacity. This is a dedicated solar farm that provides energy to the Pollos Bucanero plant, the second largest poultry producer in the country. The energy produced meets 39% of its demand and processes more than 55 million kilos of poultry per year. Another start-up solar farm was Celsia Solar La Paila, in Zarzal, Valle del Cauca, with a capacity of 13.3 MWp, which will supply 34% of Colombina candy factory's electricity consumption.

Both solar farms required a total investment of COP 73,000 million, making a great contribution to economic reactivation, since they provided jobs for more than 230 people, most of them local workforce and about 20% of them women.

On the other hand, in the renewable energy auction held by the Ministry of Mines and Energy, the company was awarded 225 GWh/year, which will be generated from Ibagué by Celsia Solar Escobal 6, a solar farm that will have a capacity of 131 MWp and will begin operating in December 2024.

### **Transmission investment platform**

At Caoba we integrated the operational assets related to Plan 5 Caribe, the Toluviejo Power Plant under construction and the assets with voltage levels 3 and 4 of the National Transmission System (STN, for the Spanish original) acquired in Tolima. It has good operating leverage and a flexible capital structure.

This platform has assets of COP1.55 trillion; its operating income for the year totaled COP 181,000 million, up 21% due to the incorporation of assets and improved demand behavior; EBITDA was COP 155,000 million, up 22%, and net income was COP 6,600 million.

In 2021, we were awarded the Pacifico national transmission tender, which will allow us to build the 230 kV substation and associated lines, which should be operational by May 2025. This project will generate additional revenue for Caoba in the order of USD 6.8 million.

### **Thermal investment platform**

El Tesorito is a thermal power generation platform that takes on the very important role of supporting our renewable generation portfolio to always offer competitive and reliable energy to the system. With an expected 200 MW of capacity, at the end of December we had a progress of 70% through the project. The normalized annual

EBITDA that we expect to obtain for 20 years from the reliability charge business alone is USD 18 million and the investment that will have been used for the construction of the plant will amount to USD 190 million.

El Tesorito project is moving forward with the construction of the generation plant, the substation and the operation buildings. We already have the power plant's 11 generators and engines in Colombia.

The teams are working to bring this project, which is of great importance for the country's energy reliability, into operation in the coming months. During the construction phase of the project, more than 950 jobs have been generated for people from Sahagún and other municipalities in the area of influence, boosting the region's economy. We maintain all social and environmental efforts with the community and there we will offset all emissions with a native tree planting program and the use of our Renewable Energy Certificates (RECs), making El Tesorito a carbon neutral thermal plant.

### **Other lines of action**

#### **Bahía Las Minas**

As mentioned last year regarding the orderly closing of the BLM coal-fired thermal plant in Panama, this company transferred and sold all of its assets and settled all of its financial obligations, so only working capital is reflected in its balance sheet. Both the government of Panama and the company fulfilled their negotiated commitments. The orderly and conciliated process allowed BLM to honor its debts without any major impact on suppliers, employees and the financial system, and the Panamanian electricity market maintained its reliability. Celsia acquired some assets that will be used in our operation in Panama, such as the BLM substation, diesel generation turbines and power sales contracts.

#### **Bajo Anchicayá**

The Celsia Colombia affiliate was notified the Council of State's ruling on the class-action lawsuit regarding the compensation to the community Bajo Anchicayá by Celsia Colombia, the Regional Autonomous Corporation of Valle del Cauca (CVC) and the Ministry of the Environment, in the proceeding related to the impact caused on the river due to disposal of sediments from the power plant during the operation carried out 20 years ago, between July and August 2001, when the hydroelectric power plant did not yet belong to Celsia.

The total value of the fixed sentence establishes a full indemnity of COP 204,000 million. Celsia Colombia must pay 70% of this amount, and the CVC and the Ministry of the Environment 15% each. Once the sentence is final, as established by law, these resources will be transferred to the Ombudsman's Office so that it can pay the compensation to the beneficiaries of the ruling. It is important to mention that the value associated with this process was duly provisioned.

This is a significant point in the history of the Bajo Anchicayá hydroelectric power plant, which allows us to properly close this chapter and open a new one, in which the company will continue to fulfill its commitment of being a partner in the region's development, with social and environmental work plans that are coordinated with the community.

## **Porvenir II**

The environmental license for the Porvenir II hydroelectric power plant project continues to be suspended by the Council of State. We are maintaining all the legal mechanisms to secure the license and we are awaiting the outcome of the legal process in order to continue the search for a third party to take the lead and develop the project.

## **The culture that sets us apart**

At Celsia, we firmly believe in the power of culture to transform people and move an entire organization forward. Although culture as a concept is intangible, it is materialized in the way people act. It is a powerful factor in attracting the best talent, and leverages the fulfillment of the corporate strategy, because motivated and flexible teams go the extra mile with more enthusiasm, have the criteria to overcome uncertainty and live the pillars of culture to enrich the lives of customers.

## **Environment and Social Management**

At Celsia, sustainability is an integral part of our strategy and a unique opportunity to integrate with our customers and other stakeholders with profitable, respectful and responsible growth opportunities.

The effects of climate change generate vulnerabilities in the company's operations and in society as a whole. For this reason, and thanks to the collaborative work we are undertaking with Grupo Argos, we can tell you that our Climate Change strategy focuses on mitigating and offsetting CO<sub>2</sub> emissions and on adapting our operations and businesses to reduce the risks of this global phenomenon as much as possible.

Likewise, our strong commitment to offsetting is the ReverdeC program, which was born in 2016 in Valle del Cauca, in alliance with the CVC. We have planted more than 8 million trees of our initial goal of planting 10 million. With this initiative we seek to protect and restore water basins with native trees, working hand in hand with the communities, having positive impacts on the care of water and our biodiversity in several areas of the country. Just last year we recovered 1000 hectares and created over 1200 local jobs with an investment of COP 4,800 million.

One of the programs with a high impact on our neighboring communities "is *Obras por Impuestos (Works for Taxes)*", a mechanism that ensures the tax produced in a territory stays in the territory. As of 2021 we had made investments of COP 101,000 million that benefited more than 116,000 people in the departments of Cauca, Tolima and Antioquia with different projects that included the provision of furnishings and computer equipment for schools and road construction and improvement. Last year

we designed projects worth COP 64,000 million, focused on roads and education in the departments of Tolima, Sucre and Valle del Cauca.

Mandatory transfers for electricity generation contributed by the company to 50 municipalities, 5 autonomous corporations and a natural park in the areas where we operate increased from COP 24,500 million in 2020 to COP 35,000 million in 2021. These funds will be invested in various initiatives, including drinking water, basic sanitation, and environmental improvement projects.

As part of our social and environmental management in Colombia and Central America, we invested more than COP 47,000 million in social programs that benefited more than 389,000 people in areas such as improving community infrastructure, developing community strengthening processes, productive projects, actions to strengthen energy efficiency, and promoting education through the improvement and/or construction of educational infrastructure and teacher training processes.

The results of Environmental, Social and Governance (ESG) issues are fully described in our 2021 Integrated Report, which is aligned with GRI, SASB and TCFD standards and is available on Celsia's website.

### **Legal affairs and corporate governance**

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

Moreover, Celsia has an internal control system to ensure adequate preparation and presentation of its financial information. Management, as well as the Risk Department, Internal Audit, the Statutory Auditor and the Board of Directors, through its Audit, Finance and Risk Committee, conducted an evaluation of the internal control system during 2021 and concluded that it is functioning adequately.

The Company complied with the applicable legislation on intellectual property and copyrights, and transactions with managers and shareholders were undertaken pursuant to the provisions of the relevant regulations and in response to market conditions. Notes 31 and 34 of the separate and consolidated financial statements, respectively, describe these transactions. Additionally, in compliance with Law 1231 / 2008, amended by Law 1676 / 2013, the Company did not obstruct the free circulation of invoices issued by suppliers.

Aspects related to Article 446 of the Code of Commerce are included in the financial statements, the Statutory Auditor's Report and this document, which are posted on the Company's website. In turn, the Business Group report referred to in Article 29 of Law 222 / 1995, the corporate governance report and the report on the implementation of the recommendations of the Country Code are included in the information of the General Meeting available to shareholders on the website [www.celsia.com](http://www.celsia.com).

Dear shareholders, as you can see, last year's results were certainly positive. We hope that when presented in a multi-year perspective, such as the one illustrated in this report, it will have helped you measure the value of your investment. At Celsia, we will continue to operate in an environment of transformation, which drives us to enrich the lives of our customers and promote energy transformation. Furthermore, we remain committed to creating social value and consolidating a sustainable project, with the objective of maximizing value for shareholders and all our stakeholders.

Jorge Mario Velásquez  
Alejandro Piedrahíta  
Rafael Olivella  
Eduardo Pizano  
María Luisa Mesa  
María Fernanda Mejía  
David Yanovich  
**Board of Directors**

Ricardo Sierra Fernández  
**CEO**

Medellín, February 24, 2022