



**Employees interact with Wayuú communities at the Colectora Project, in La Guajira**

# Our management drives progress

2018 was a year of good financial results, of new project launches and the development of social initiatives that brought progress to the communities.



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# Management and Financial Report

Dear Shareholders and Stakeholders,

It is a reality. *“Estamos convirtiendo energía en buenas acciones”* (We are turning energy into good deeds). It fills me with pride to present for the second consecutive year our Sustainability Report as a Business Group, a story of achievements, such as the great experience of bringing progress to communities that reward our great team’s efforts with a smile.

The year 2018 stood out for the new projects that came on stream, for our positioning in the countries in which we operate, for our excellent financial results and the successful progress made in the democratization process, which enabled new shareholders to join us.

It was also a year of transformation and the launch of a new architecture for our processes, which will make the Group more competitive and will enable it to become a leader, through its subsidiaries and affiliates, of the energy industry, one of the most dynamic sectors, with the greatest potential for growth, innovation and contribution to the country’s sustainable growth.

In this regard, we moved forward in the Change Management strategy, which will facilitate this transformation in a structured and efficient manner, highlighting the skills of all those who are part of Grupo Energía Bogotá.

In 2018, we continue to strengthen our corporate governance, a process we started in 2016 and through which we have achieved substantial progress. In 2018, we also complied with 92% of the OECD’s principles, which enhances the transparency of our decision-making in accordance with the highest international standards. We also drafted and approved Policies on managing Conflicts of interest; Transactions with Related Parties; and Appointment, Succession and Compensation of the Board of Directors.

Another milestone was the successful democratization of shareholdings we managed according to the mandate of the Capital District, the Group’s main shareholder. The transaction was valued at COP 1.96 trillion and became the most important operation in the Colombian securities market in the last four years. Through this democratization, the number of shareholders increased by 60% to 7,289, and a new Shareholder Agreement became effective that confirms the protection of minority shareholders and will enable us to include four independent members in the Board of Directors.

Another important development is that we put in motion a culture that privileges life. For the Group, **“Life comes first!”** for its employees, contractors and suppliers. The results were resounding: in our Transmission Business the severity index of work accidents decreased by 70%, while at TGI we exceeded our targets on accident rates among employees and contractors.

We are also proud that in the territories in which we have ongoing presence we

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**The democratization of shareholdings of Grupo Energía Bogotá increased the number of shareholders to 7,289, in what was the largest securities market operation in the last four years.**



217 employees of TGI are in the field operating the 4,000 km of gas infrastructure

continue to make positive transformations and bringing progress and well-being to the communities, which have benefited from educational, sports, environmental and entrepreneurial initiatives and programs, among others, because we are convinced of the importance of growing hand-in-hand with the communities.

I would like to share other achievements with you. We were included for the first time in the 2018 RobecoSAM *Sustainability Yearbook* and were recognized by this important publication as industry mover in the gas utilities sector. This was achieved because we managed to position ourselves among the top companies worldwide with best corporate sustainability performance according to the Dow Jones Sustainability Index, which has included us for the seventh consecutive year.

Additionally, for the fifth consecutive year we received recognition from the Colombian Securities Exchange Investor Relations program for our high information disclosure standards, and we received the Andesco Award in the “best corporate governance” category. We also became members of the Chartered Institute of Procurement

& Supply (CIPS) thanks to our best supply practices, and we were included among the 100 leading companies in the Colombian Corporate Reputation Monitor (Merco, for the Spanish original).

Lastly, we ratified our commitment to the principles of the United Nations Global Compact, to which we adhered in 2005, to give all our best to our management of labor practices, environmental protection, respect for human rights and the fight against corruption. We also took big strides in our commitment to promoting gender equality by adopting the women’s empowerment principles of the United Nations Global Compact and UN Women.

### **Macroeconomic Environment**

The year 2018 was very dynamic in the countries where we operate, due to elections in several of them and because of their economic trends. In Colombia, President Iván Duque took office, as did Jair Bolsonaro in Brazil and Martín Vizcarra in Peru.



City Gate at Lurín District, in Lima.  
The main station from which Cálida  
distributes natural gas to Lima and Callao

In Colombia, the economy continued to gradually recover, with growth in Gross Domestic Product (GDP) of 2.7%, higher than the 1.4% rate of 2017, according to DANE figures. The recovery was related to higher oil prices, which for several weeks reached USD 80 per barrel. Inflation remained under control, with a change of 3.18%, within the target range set by the Central Bank, while the dollar exchange rate increased to COP 3,250 per dollar. A topic that caused uncertainty was the discussion on the Financing Bill submitted by the government.

On its part, the energy sector was affected by delays in the start-up of Hidroituango, which led the Energy and Gas Regulatory Commission to call for energy auctions for 2019. During the year, energy demand grew by 3.3%, according to information by XM, the wholesale energy market operator.

In Brazil, the economy is slowly recovering, with GDP growth of around 1.4% at the close of 2018. The South American giant is climbing out of a recession it had been experiencing in recent years. Inflation continued to decrease and at year-end it totaled 3.75%, and the Brazilian Real suffered a depreciation of 16.94%. The energy market is undergoing full growth, with over 144,000 km of transmission lines in 2018, which will grow by an additional 52,000 km by 2026.

The Peruvian economy has been growing faster than in 2017 thanks to positive trends in private investment and consumption, and Gross Domestic Product (GDP) is expected to post growth of around 4.0% in 2018. Inflation is under control and remained within the target range of 2.19%, and the exchange rate closed at 3.32 Sols per dollar. Regarding the energy sector, total electric energy production grew by 3.2%.

In Guatemala, the Central Bank expects a GDP growth of around 3% in 2018, thanks to the good performance of the manufacturing, services, agriculture and electricity supply industries, among others. Inflation continued on a downward trend and closed at 2.31%. Guatemala is the largest energy center in Central America, which makes this industry one of the main drivers of economic growth in the country, attracting both local and foreign investment.

## Operating Results

The consolidated financial results of 2018 were positive thanks to good overall business performance, and particularly the strong revenues of the Transmission Business and the expansion of Cálidda in Peru.

We also made noteworthy progress in the financial area thanks to optimization of long-term dividends, the optimization of the capital structure and cost of debt, as well as greater operating efficiencies. This was reflected in the growth of our revenue to COP 4.0 trillion, up 12% compared to 2017, and a 13.5% increase in net income to over COP 1.7 trillion.

Assets totaled COP 25.2 trillion, liabilities COP 12.29 trillion, equity COP 12.6 trillion and EBITDA COP 2.6 trillion. Return on equity (ROE) was 15.7%.

This good performance will enable us to pay our shareholders COP 1.2 trillion, which represents dividends per share of COP 130. It should be noted that Grupo Energía Bogotá shares in 2018 were among the TOP 10 of the 25 shares listed on the Colombian Securities Exchange.

## Strategic Business Groups

Following the development and implementation of the Corporate Strategic Plan (CSP), in September 2016 three Strategic Business Groups were created: Interconnection for Market Development (IDM, for the Spanish original), Urban Energy Solutions (SEU, for the Spanish original), and Low Emission Generation (GBE, for the Spanish original), in order to grant them autonomy in their strategic focus, core capabilities and regional scope.

However, in order to make the strategy more understandable to our stakeholders (employees, investors and suppliers, among others), in October 2018 we approved changing their names as follows: Interconnection for Market Development will now be named **Transmission and Transportation Strategic Business Group**; Urban Energy Solutions is now the **Distribution Strategic Business Group**; and Low Emission Generation is now the **Generation Strategic Business Group**.



These Strategic Business Groups will maintain their focus as defined in the CSP, but they will further develop their current businesses and explore new opportunities in the country and abroad. The following are some of the main highlights.

### **Transmission and Transportation Strategic Business Group**

This group connects large energy sources to consumption centers through electric energy transmission lines and gas pipelines. It reported EBITDA of COP 1.51 trillion.

One of the most important events was the creation of the new Transmission Branch, which starting in 2019 will operate the Group's Electric Energy Transmission Business to fully develop its competitive potential, perform projects and define and implement its growth agenda.

This is a new development of our CSP through which we set ourselves ambitious goals and strengthen each of our companies. In this process we established that we needed to work on the development of a new organizational structure that would differentiate the processes of each of our companies. For this reason, we created a new structure for our Transmission Business, to differentiate it from the rest of Grupo Energía Bogotá.

In Colombia, the Transmission and Transportation Strategic Business Group reached several milestones, with the start-up of operations of new projects and the

**In our transmission projects,  
women are protagonists.  
La Loma Substation, Cesar**

award of the Colectora Project by the Mining and Energy Planning Unit (UPME, for the Spanish original). Colectora involves construction of a 500 kV transmission line that is 480 km-long, with two substations: Cuestecitas (La Guajira) and La Loma (Cesar), which will enable transportation of the power produced by renewable sources, such as the wind farms of La Guajira, to the National Interconnected System (SIN, for the Spanish original).

We also strengthened our presence in the Caribbean Coast, where we began commercial operations of the projects at Río Córdoba National Transmission System (NTS) and Río Córdoba Regional Transmission System (RTS). The former involved construction of a 220 kV-substation and associated transmission lines in the municipality of Ciénaga (Magdalena), and installation of two power transformers.

The Bolívar-Cartagena (UPME 05-2012) Project also came on stream, which consists of a second 220 kV 20 km transmission line from the Bolívar Substation to the Cartagena Substation, which will cover growth in demand for electric energy and will benefit over two million residents of the department of Bolívar.

The Transmission Business is currently working on 12 additional projects that will come on stream over the next few years and which represent challenges for maintaining our operational excellence in managing our assets. These include La Loma and Colectora, in the northern region; Sogamoso, Norte and San Fernando in the central region; Armenia and Refuerzo Suroccidental in the western region, and Tesalia- Alférez, Mocoa and Altamira in the south. These projects will double our transmission lines, increasing from 1,523 to over 3,800 km, and our presence will increase from 55 to 177 municipalities in the national territory.

Our natural gas businesses achieved outstanding results. Transportadora de Gas Internacional (TGI) increased our transport capacity by 40 million ft<sup>3</sup> and we started up operations at two compression stations: Cusiana-APIAY-Ocoa, in Villavicencio (Meta) and Paratebueno (Cundinamarca). The Zarzal-La Tebaida (Quindío) Loop came on stream, and during construction we found archaeological pieces of the Calima and Quimbaya cultures.

Another TGI achievement was the issue of international bonds in the fixed-rate market for USD 750 million, in an operation that was 3.5 times over-subscribed compared to the initial offer. We also promoted the use of natural gas for mass transport in Bogotá through the incorporation of 741 new gas-powered buses in the Transmilenio fleet, which will help improve air quality in the country's capital.

In Guatemala, Transportadora de Centroamérica (TRECOSA) made major strides in the construction of the Electric Energy Transportation Expansion Plan (PET, for the Spanish original), the most important infrastructure project in Central America, achieving a 74% completion rate: 526 km of transmission lines built. EEBIS completed construction of the Anillo Pacífico Sur Project, the first private electric energy transmission project to be 100% completed in Guatemala.



**Maintenance of the Guavio-La Reforma line, in Medina, Cundinamarca. Our crew of linemen works at a height of 50 m following all occupational safety and health standards.**



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## The new Transmission Branch is working on 12 projects that will increase the Group's presence from 55 to 177 municipalities.

In Brazil, Gebbras reduced costs through the optimization of the structure of our companies and we audited the operating and maintenance services with the assistance of a transmission expert.

### Distribution Strategic Business Group

This group develops the electric energy and natural gas distribution services required by large consumption centers and mega-cities, promotes cleaner mobility and more efficient energy use to improve environmental quality. Its efforts focused on the consolidation of businesses in Peru through our affiliates Cálidda, in Lima and Callao, Contugas in Ica, and Codensa and EMSA in Colombia.

This Strategic Business Group reported EBITDA of COP 0.81 trillion.

In 2018, Cálidda achieved a record of 184,000 residential gas connections, reaching over 750,000 customers and benefiting over 3 million Peruvians in Lima and the province of Callao. We also connected over 1,700 businesses and 50 industries, and sold and installed over 40,000 gas appliances through new non-bank financing alternatives. We were ranked in 42<sup>nd</sup> place among the companies with best reputation in Peru, in our first appearance in the top 100 of the Merco ranking, and our top rate organizational culture was highlighted.

On its part, Contugas started up La Calera, the first co-generation project in Peru for the agro-industrial sector, which introduced gas to offer solutions to industry and converted a fleet of 50 buses to natural gas for vehicles (NGV), which will prevent estimated emissions of 18,000 t of CO<sub>2</sub>. We also surpassed the target set in the BOOT con-

tract of 50,000 customers, which was not expected until 2020.

### Generation Strategic Business Group

It addresses needs and opportunities aligned with strategies for the protection of climate and natural resources. It focuses on non-conventional renewable energy solutions to facilitate a transition towards a diversified and sustainable energy mix.

In 2018, it reported EBITDA of COP 0.32 trillion.

In 2018, we defined the investment guidelines and worked on the pipeline methodology to search for business opportunities in target markets in countries in the region, which are the focus of analysis to turn them into businesses for the Group over the medium term.

### Vision of the Future

At Grupo Energía Bogotá, we aim to consolidate our growth agenda by venturing into new businesses and acquisitions in Colombia and Latin America. In 2018, we reformulated some approaches of our corporate strategy, which led us to adjust our overall goals to 2025, which we call our Mega Goals, and to rename our Strategic Business Groups.

The Mega Goals we have set out aim at positioning us among the five companies with best profitability in the Colombian market, with year-on-year growth of over 9% and EBITDA of more than COP 8 trillion.

To this end, we will further develop our sustainability approach in order to offer comprehensive solutions based on the principles of shared value and benefits, by evaluating opportunities across the energy value chain.

We will achieve this sustainability approach by further working on five strategic lines:

- An occupational safety and health culture at Grupo Energía Bogotá.
- Reinforcing our role as strategic connector in the countries where we operate, to position ourselves as active promoters of the regulatory agenda to drive the energy sector and facilitate the transition towards new energy paradigms.
- The promotion of efficient energies.



- The positive transformation of the territories in which we operate.
- The promotion of connections in areas where energy does not have coverage to enable progress.

Our history has endowed us with the experience of a public-private management model, which we will strengthen through the transformations in our corporate governance and operational excellence, in order to develop leading and profitable companies throughout the low-emissions energy chain in high-consuming regional centers. We will also continue to create closer and genuine bonds with the communities, improving the quality of life, empowering women, promoting the use of natural gas

**At Páramo de Bordoncillo, Putumayo, we built this wooden handrail to protect moss at water springs.**

and competitiveness, improving the efficiency of industrial processes and mobility.

Today, we can proudly say that we build Grupo Energía Bogotá by **Turning energy into good deeds!**

*Astrid Álvarez Hernández*

**Astrid Álvarez Hernández**  
President of Grupo Energía Bogotá