

Mayor's Office of Medellín

Framework relations agreement between the Municipality of Medellín and Empresas Públicas de Medellín E.S.P.

Introduction

Public entities are aware that good corporate governance is of interest for the companies in which they participate.¹ The Municipality of Medellín, in particular, is aware that this is a critical issue for the sustainability and competitiveness of Empresas Públicas de Medellín E.S.P. ("EPM E.S.P.") in its role as a company that provides household public utilities and operates in an increasingly competitive market, and that should be at the forefront in terms of coverage, technology and quality of service, without neglecting its condition as a decentralized entity from which the territorial entity expects efficient management and a return on the investment that it made more than fifty years ago that it will benefit its various stakeholders and the community at large.

The issue of Corporate Governance has become quite relevant in international and local stock markets and is considered a key factor for business competitiveness, which includes advantages that go beyond financial aspects. In international markets, and increasingly in the local market, the companies that have adopted good governance practices have achieved benefits that go beyond access to capital markets: increased operational efficiency, easier access to operating licenses, reduction and adequate risk control, better grounds for decision-making, loyalty from customers and the community at large, increased brand value, and increased employee motivation, among other benefits.

From a global perspective, there is clear evidence of the close relation that lies between corporate governance and the decrease in base points for the debt, and an increase in the company's value.

The growth strategy established for EPM E.S.P., through which it seeks to expand its operations to other national and international markets, imposes the need to access financing alternatives that are increasingly more demanding and focused, in general, on the degree of development of corporate governance within the companies, which is the way they are managed and controlled, and the proper balance between its ownership and its management. Reaching an acceptable degree of development in corporate governance is not merely an option for EPM E.S.P.; it is necessity if it wants to achieve international standards and obtain the advantages derived thereby to be able to properly develop its strategy.

How can the Municipality's interest as the owning territorial entity be aligned with the growth, profitability and efficiency imperatives that should drive the management of EPM E.S.P., whatever its strategy may be? The answer lies in the definition of the role of each of these entities, respect for the autonomy that administrative decentralization provides, and in the clarity of the commitments made to one another. In short, creating the conditions to be able to have adequate corporate governance.

¹ *As indicated in CONPES document 3384 of October 2005, the National Development Plan 2002-2006 "Towards a Community State" set forth as a policy the adoption of measures that foster the governability of companies, incorporating modern management concepts and practices for the management of public entities, and included as one of its political objectives fostering the fight against corruption.*

This document, which reflects the will of the Municipality of Medellin and EPM E.S.P. through its representatives, constitutes the Relationship Framework Agreement or "Governance Agreement," which defines the coordinates within which the relationship between owner and company must be inserted, the principles that should govern it, and the specific obligations derived from it, aiming at achieving a better understanding of each entity's role in this relationship, seeking the fundamental goal for which they were created.

This joint effort is true to the intentions expressed by the Municipal Administration through the Board of Directors of EPM E.S.P. that the latter should have the corporate governance mechanisms that are appropriate to its special nature, that allow for appropriate management, obtaining the necessary resources to pursue the strategic imperatives envisioned, a high level of national and international competitiveness, and the confidence of its investors. To this effect, the Board of Directors approved, through decree 204 issued on January 25, 2005, the Code of Good Governance for EPM E.S.P. and adopted, within the Activities Plan for 2007, as it had for 2006, a series of practices and measures appropriate to the company's nature which have been well received by the Risk Evaluators and the suppliers of the entity's financial resources.

In any event, it should be noted that the relationship between the Municipality of Medellin and EPM E.S.P. is not limited to what has been defined as *owner-company*. The Municipality is and simultaneously acts as a territorial authority and the party responsible for the obligations inherent to that condition; as a customer for the services provided by the company; as a participant in some activities that are carried out jointly; and as representative of the community established in EPM E.S.P.'s main area of influence. These other relationships are fairly unique and have a special degree of complexity and, for that reason, they will be the subject of inter-institutional agreements or conventions to regulate and limit them.

The goals that drive the wishes set forth in this document, and the principles that guide them, must represent by themselves a reason for their endurance over time, beyond any individual or political consideration.

Chapter 1 -- General Considerations

1.1 Purpose of the agreement

The purpose of this agreement is to set forth the general conditions for the framework for the "owner - company" relations between the Municipality of Medellin, a public entity that owns 100% of the capital, and EPM E.S.P., a state-owned industrial and commercial enterprise at the municipal level, and an official public utility company, defining the principles that must govern them and the specific obligations that represent their proper balance.

1.2 Guiding principles of the agreement

The provisions contained in this agreement are framed by the principles and criteria stated below and, therefore, are aimed at their fulfillment.

a. Sustainability and growth

Given that the needs of the Municipality of Medellin as a territorial entity are growing, its sources of revenue must also grow. EPM E.S.P. is one of the main sources of revenue for the Municipality of Medellin, and therefore its management as a Municipally-owned company must focus primarily on the integrity, profitability and soundness of its equity so that, without abandoning its business activity as a public utility provider, it can ensure a permanent and growing source of revenue for the present and future of this community by transferring to the Municipality the financial surplus that has been legally established.

b. Transparency

Relations between the Municipal Administration and the management of EPM E.S.P. must always be clear, transparent, and carried out to the formal mechanisms established for that purpose. In addition to management that is objective, efficient, transparent and open to the public at large, it is necessary to ensure the existence of communication mechanisms that allow the various interest groups to be aware of major decisions and the results obtained through the management of EPM E.S.P., maintaining the confidentiality that the competitive environment imposes on these matters.

c. Responsible autonomy in management

According to the norms applicable to the organization and operation of administrative decentralization, and in compliance with the provisions of Article 27 of Act 142 of 1994, the Municipality of Medellin, as a territorial entity that participates in the capital of EPM E.S.P., must guarantee and demand professional management, free from partisan interests, that takes into consideration the need for service development in the intermediate and the long term. At the same time, it must guarantee the exercise of its administrative autonomy and the continuity in the management actions that demonstrate efficiency and effectiveness.

d. Adherence to the business objective

Every activity performed by EPM E.S.P. must fit within its social objective, as defined in its bylaws. Neither community benefits, nor the Municipality's program or project needs will be, by themselves, sufficient reason to force EPM E.S.P. to carry out activities not covered by its objective.

e. Efficiency, productivity, and return on investment

The administration of EPM E.S.P. will focus on efficiency, productivity and return on the capital that the Municipality has invested in the company. These criteria will be measured through the company's present and future economic and financial results, maintaining efficient provision of public utilities and staying within the company's own policies of corporate social responsibility.

f. Technical, legal, financial and administrative rigor

The search for productivity and efficiency in management and optimal economic and financial results of EPM E.S.P.'s businesses will be governed by strict and rigorous technical, legal, financial and administrative standards.

Chapter 2 -- Governance agreement between the Municipality of Medellin and EPM E.S.P.

2.1 Obligations of the Municipality

2.1.1 Respect for EPM E.S.P.'s administrative autonomy

The Mayor of Medellin, as head of the municipal administration, agrees to respect and ensure respect by the members of the Cabinet and other Municipal officials, and by the directors and managers of decentralized entities, EPM E.S.P.'s autonomy as a state-owned industrial and commercial enterprise, and to ensure that relations with the company are aligned with the organizational and operational norms that apply to administrative decentralization.

Specifically, and to comply with the above, the Mayor agrees:

- As the owner's representative, to interact with EPM E.S.P. only through its Board of Directors, in his role as Chairman of the Board, and bearing in mind that it is the entity's highest administrative body.
- Not to influence or participate, directly or indirectly, in the process of selection and appointment of EPM E.S.P.'s employees, except for those appointments in whose approval or rejection he participates as Chairman of the Board of Directors.
- Not to influence or participate, directly or indirectly, in EPM E.S.P.'s contracting processes.
- In his role as nominator for the General Manager of EPM E.S.P. as a state owned enterprise, the Mayor must take into consideration the criteria of experience, capacity, professionalism, honesty, and moral standing.
- The change of the General Manager must be for objective reasons, according to the results of his performance, and after an evaluation based on objective models.
- As Chairman of the Board of Directors, he must actively participate in the adoption and communication of corporate governance standards and practices for EPM E.S.P.
- Without limiting the competence of the Board of Directors in each affiliate, the mayor must ensure that the directives issued regarding issues of corporate governance by the parent company's Board of Directors are followed in every company of the EPM E.S.P. business group.

2.1.2 Obligations related to the Board of Directors of EPM E.S.P.

As the person in charge of appointing the Board members of the state-owned residential public utilities enterprise EPM E.S.P., and exercising the powers conferred in article 27.6 of Law 142 of 1994, the Mayor shall keep in mind the following elements in selecting the Board of Directors:

- Without affecting the rules that establish the free removal of its members, when the Board is appointed, it shall manage to maintain at least five (5) of its independent members whose work has been rated, in accordance with the periodic evaluation

mechanisms defined by the body itself, as highly responsible, effective of high strategic value-added and efficient.

The purpose of the foregoing is to ensure that the strategic medium and long-term planning, as well as the policies and guidelines set by the Board, will have continuity within the Company and no negative effects will arise regarding the operation of the Company as a result of changes of administration.

- In selecting its members, the Board shall keep the following criteria in mind to appoint the persons with the highest academic, professional and personal qualities:
 1. Minimal academic background, at the professional level and in matters that can be considered related to the corporate purpose of Empresas Públicas de Medellín E.S.P. and with the duties and responsibilities of a member of the Board of Directors.
 2. Corporate and/or work experience in companies whose activities are related to the public utilities sector and/or the Company's operations, for instance, in the commercial (marketing and sales), financial, auditing, human resources areas, etc.
 3. For the election of control members, they should demonstrate their time in the Development and Social Control Committee that chose them, their relationship to this committee and the actions they have carried out in fulfilling their duties, etc.
 4. To carry out, if possible and following the procedures established in the selection process of Empresas Públicas de Medellín E.S.P., a study of their academic, professional and personal background, ending with the full compliance of the requirements listed, as well as their honesty and moral standing.
 5. Independent Board members. The Board of Directors shall appoint no less than five (5) independent members with respect to EPM E.S.P. and the Municipal Administration. To be considered as an independent Board member, all of the applicable requirements set forth in Paragraph 2 of Article 44 of Act 964 of 2005 should be met.
- To create total transparency in appointments, as well as to guarantee the inclusion of social forces representative of the region and to obtain directors with the best personal and professional qualities, selection mechanisms shall be implemented based on the lists of candidates prepared by different stakeholders, such as universities, citizen oversight committees, special interest associations and chambers of commerce. These mechanisms seek to legitimize the appointment of Board members to society and to guarantee total independence of the members of the Board of Directors.
- The Mayor of Medellín, as the Chairman of the Board of Directors, shall guarantee implementation and operation of a periodic evaluation process of the General Management made by the Board members, and the implementation of an individual and group-based evaluation method for members of the Board of Directors.

This scheme shall serve as the basis for making all decisions regarding the removal of its members.

- As Chairman of the Board, the Mayor shall oversee the implementation of an internal rule that will establish specific Corporate Governance measures, such as the specific duties of the members, the frequency of the Board meetings, the commitment to attend meetings, the minimum time to send the information that will be discussed in the sessions, among others.

2.1.3 Independence to handle financial resources.

The Municipality of Medellin and EPM E.S.P. shall maintain independence for the operational management of their financial resources, based on the parameters set forth by each entity regarding credit risk, service levels, coverage, soundness and solvency, since it is clear that the management of the portfolio and position of EPM E.S.P. responds to criteria of financial profitability, safeguarding the levels of risk and liquidity appropriate for its nature. The Municipal Administration shall not exert influence over financial management decisions of the Company's resources other than in its actions in the Board of Directors.

2.1.4 Approval of EPM E.S.P.'s budget

Pursuant to legal provisions, the EPM E.S.P. budget shall be approved by the COMFIS. In the spirit of respect for EPM E.S.P.'s autonomy and to add flexibility to the approval process, the Municipal Administration commits to presenting the Board of Directors' approval of the budget to COMFIS annually.

2.1.5 EPM E.S.P.'s Participation in the development and execution of the Municipal Development Plan

With the goal of obtaining consistency between the Municipal Development Plan and the EPM E.S.P.'s long-term plans, the Municipality shall encourage the entity's participation in the process of formulating the Plan. In any case, the requirements of financial transfers made by EPM E.S.P. to the Municipality should correspond with the entity's financial projections so that the owner's requirements can be met without damaging EPM E.S.P.'s viability, solvency and financial soundness, or the Company's projections. EPM E.S.P.'s participation in defining the Municipal Development Plan shall be determined based on corporate, technical, financial, economic and market-related criteria, considering the viability of each of the projects and compliance with its social objective.

In this sense, the commitments that EPM E.S.P. may make under the Municipal Development Plan shall be consistent with its own Strategic and Development Plans, which are approved and adopted by the Board after following the internal process for their study and approval.

To guarantee consistency between the Municipal Development Plans and EPM E.S.P.'s Strategic Plan, the formal communication channels established and approved by the Board of the Company and the Municipal Council shall be used.

2.2 EPM E.S.P.'s Obligations

2.2.1 Compliance with financial management indicators

EPM E.S.P. enters into a commitment with the Municipality of Medellin to perform efficient and productive management of its assets, based on technical criteria that shall be reflected, annually, in the minimum results expected for EBITDA, Return on Equity, and other financial indicators.

The specific indicators and their annual amounts shall be defined by the EPM E.S.P. Board of Directors, based on the Strategic Plans and budgets approved by the Board and for the periods of time agreed to by the Board.

2.2.2 Transfers to the Municipality

If Article 13 of the Municipal Agreement No. 69 of 1997 of the Council of Medellín establishes that the percentage of Empresas Públicas de Medellín E.S.P.'s financial surpluses that may be transferred to the Municipality cannot exceed 30%, this Agreement establishes that additional transfers, defined and agreed to by both entities, may be made considering, on one hand, the Municipality's financial requirements for specific investment programs and, on the other hand, EPM E.S.P.'s financial needs for its own operations, in such a way that the Company's corporate viability or orderly expansion is not put at risk. In any case, additional transfers shall be authorized through an agreement with the Municipal Council, with the proper support of the Mayor expressly stating the effects said special transfers would have on the finances of EPM E.S.P.

2.2.3 Payment of Transfers

The payment of financial surpluses that are transferred to the Municipality of Medellín shall be made in accordance with the terms of Article 5 of the Company's by-laws. The plan to carry out the transfers, whether they are ordinary or special, shall be defined and agreed by both parties, in a way that they consult, on the one hand, the cash the Municipality needs for the time period and, on the other hand, EPM E.S.P.'s availability of liquid assets, in such a way that the cash flow of both entities can be properly managed.

2.2.4 Proper communication mechanisms

The communication that is required or arises between the Municipality and EPM E.S.P. in terms of the decentralized owner-entity arrangement shall be handled in accordance with the legally defined channels, that is, through the Mayor, the Board of Directors and the companies' management.

Nonetheless, keeping in mind that the relationship between both entities goes beyond that originating in the Company's property, the other aspects that are the subject of interactions between the Municipality and EPM E.S.P. shall be channeled through the Private Secretariat of the Municipality and EPM E.S.P.'s Office of External Relations and the Environment, respectively, according to the procedures established for this purpose in a way that eliminates multiple channels of communication, optimizes the management of actions undertaken jointly by doing so in a coordinated, uniform manner, and meets the requirements of both parties in a timely fashion.

2.2.5 Commitment to transparency for the community

Empresas Públicas de Medellín E.S.P. shall always act with the greatest transparency, impartiality and objectivity, principles that shall be made especially evident in its contracting and employee selection processes, as indicated below:

- In terms of its contractual activity, selection shall be made in an environment of free competition, using criteria of efficient administration, also focused on the principles of

good faith, morality, transparency, economy, fair treatment, responsibility, equality, impartiality and promptness.

Indeed, EPM E.S.P.'s employees shall strictly comply with the entity's contractual rules, which were established to guarantee these contracting principles. In addition, every contract the Company enters into to acquire goods and services shall apply the rules for ineligibilities and incompatibilities set forth in Articles 8, 9 and 10 of Act 80 of 1993.

To guarantee greater transparency and equality of opportunities to all possible goods and services providers, every contracting process shall involve an invitation to submit offers through the Corporate Information System TE CUENTO.NET, at www.eppm.com. The foregoing is stated in accordance with the terms established in the internal rules that regulate this matter, except in those occasions indicated therein.

As a demonstration of its commitment to transparency with respect to the contracting process, EPM E.S.P. shall actively participate in the Transparency Contracting Fair held every year in Medellín so that citizens can directly learn with what budget, under what conditions, and what goods and services the Company contracts for.

- To hire employees who will be part of its personnel, profiles and competencies shall be defined, which shall be strictly verified in the selection processes that are carried out. Those who enter the Company must comply with the level of competencies expected for the position that will be assumed.
- Also, in compliance with the transparency commitment, EPM E.S.P. shall have communication and disclosure mechanisms that allow citizens to have timely access to the information pertaining to the Company's activities and processes. The foregoing is without prejudice to the information it should share, based on performing activities as a residential public utilities enterprise, to its users and the community at large.

2.2.6 Permanent External Audit

EPM E.S.P. shall permanently have an external auditor hired in accordance with the contractual rules established in the entity, and following the selection criteria set by the Board of Directors. The purpose of the external audit is to examine the overall accounting information and Financial Statements, as well as providing an independent opinion regarding how reasonably this information indicates the Company's financial situation at the end of each fiscal period.

If, with regards to the external audit, there found to be are conditions in force agreed to with the multilateral or commercial banking system or prospects for placing public debt securities, the auditors hired should also meet the particular conditions of said agreements. The hiring process for the external auditor shall follow the guidelines set by the auditing committee of the Board of Directors of EPM E.S.P. The firm that is hired for these purposes may not provide other services within the Company, and its contract shall have a maximum duration of three years, including extensions, if any. The Company shall ensure that the same external auditor be used for all of the enterprises that are part of the Corporate Group of Empresas Públicas de Medellín.

2.2.7 Corporate Social Responsibility

Within the framework of the owner-company relationship, and considering that the Municipality is the representative of the community in which EPM E.S.P. carries out its activities, the Company enters into a commitment with the Municipality to formulate and develop Corporate Social Responsibility policies aimed at improving relations with the various stakeholders, and particularly with actions aimed at the most vulnerable population groups.

The policies to be adopted shall, in any case, keep in mind the following criteria:

- Every activity targeted at interest groups should be within the framework of EPM E.S.P.'s corporate purpose and aligned with its strategic objectives.
- With respect to tariff and subsidy issues, EPM E.S.P. should follow the regulations and laws that define them, and may not carry out actions other than those allowed by the law.
- The actions targeted at interest groups may not compromise the entity's corporate viability.

Empresas Públicas de Medellín E.S.P. shall have a Corporate Social Responsibility model incorporated in its strategic framework, such as mandatory or voluntary commitments assumed in its relationships with stakeholders, maintaining the Company's sustainability as its core objective, and keeping in mind the commitments assumed when signing the Global Agreement, which are listed below, with respect to each of the aspects considered.

- Human Rights

1. Supporting and respecting the protection of the Human Rights declared at the international level;
2. Avoiding involvement in Human Rights abuses;

- Labor Regulations

3. Respecting freedom of association and recognizing the right to collective bargaining;
4. Eliminating all forms of forced and mandatory work;
5. Abolishing child labor;
6. Eliminating employment and occupational discrimination;

- Environment

7. Supporting the application of preventive criteria with respect to environmental problems;
8. Adopting initiatives to promote increased environmental responsibility; and
9. Encouraging the development and dissemination of innocuous technologies for the environment;

- Anticorruption

10. Acting against all types of corruption, including extortion and bribery.

Within the framework of the model that is adopted, the Company shall define guidelines to define the means of compliance with these commitments and any others set forth for different stakeholders: Customers, suppliers, employees, environment, partners, competitors, the State and

of course, the owner. With respect to the last point, the commitments that EPM E.S.P. assumes are those contained in this Agreement.

2.2.8 Providing support to the Municipality with EPM E.S.P.'s human resources

EPM E.S.P. may provide support through its personnel to the Municipality under special circumstances. To formalize this support, agreements shall be entered in to that clearly express the resource needed, the time required, and the consideration that the Municipality shall give EPM E.S.P. in exchange for this service.

Chapter III. Final Provisions

3.1 Compulsory Character and Compliance with the Agreement

This Agreement is entered into by and between the parties and its performance shall be subject to the parties' conviction with respect to the principles that inspire it and the appropriateness of the provisions contained herein as effective Corporate Governance practices.

3.2 Disclosure

The importance that Empresas Públicas de Medellín E.S.P. be impeccably managed, relying on the growth and sustainability of its equity and responding properly to the community's needs while carrying out its corporate purpose, makes Agreement an instrument for controlling the relationship that it regulates, that is, the relationship between the Municipality of Medellín (the owner) and the decentralized entity. The citizens, associations, unions, control bodies and other social actors are legitimized to oversee the compliance with the provisions and commitments established herein.

Therefore, once this Agreement is signed, it shall be disclosed to the public opinion so that the entities interested in overseeing the community's welfare and public resources invested in EPM E.S.P., can monitor the fitness of those who sign it to the principles incorporated herein and the execution of the commitments established, as well as exercising the social and administrative and/or political actions that may be pertinent in the event of non-compliance.

3.3 Modifications to the Agreement

This Agreement can only be modified by the will of the parties, reflected in writing. With attention to the principle of transparency, the proposed modifications shall be disclosed to the community and especially to those entities that are interested in overseeing its compliance, in accordance with the terms of the previous subsection.

3.4 Term of the Agreement

This Agreement shall be effective indefinitely and any modification made to its text shall be widely disclosed to all of the interested groups and especially to the community.

As witness thereof, this Agreement is signed in Medellin on April 23, 2007.

Sergio Fajardo Valderrama
Mayor
Municipality of Medellin

Juan Felipe Gaviria Gutiérrez
President
Empresas Públicas de Medellín E.S.P.