



Grupo·epm<sup>®</sup>



Corporate  
governance

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## Presentation

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In its role as parent company of Grupo EPM, EPM annually prepares a corporate governance report that is submitted, with the other year-end documents, to the Board of Directors of EPM, after review and favorable report from the Audit Committee. **Código País 33.1, GRI 102-32**

The corporate governance model implemented by EPM for the business group includes practices and measures to maintain the proper balance between ownership and management and to ensure the achievement of business objectives, sustainability, growth, transparency, disclosure of information, ethical management, balanced access of stakeholders to the information, and rights of the investors.

This report is based on the practices of *Código País* and the contents established in the standards of the *Global Reporting Initiative (GRI)*. It accounts for the compliance with the main corporate governance practices and the progress and changes that took place during 2018; it is also a sign of the commitment of EPM to transparency and disclosure of information to its stakeholders. **Código País 33.2, 33.3**

### Conceptual framework of corporate governance in Grupo EPM and Corporate Governance Plan

The corporate governance model of Grupo EPM responds to the challenges arising from the growth and consolidation of the business group and includes actions that increase the level of maturity of its corporate governance through the development, training, and dissemination of good practices in EPM and in the companies of the group.

Every year, the Board of Directors of EPM approves the Corporate Governance Plan included in this report. This plan consolidates the initiatives that will be developed on this matter in a long-term perspective. It is a voluntary practice that has been implemented since 2006.

This plan includes activities to be carried out by the different departments of EPM, whose common objective is to improve the relationship between the governance bodies of the company and the group (*Annex 1: Governance bodies and framework for action*), allowing the achievement of the unity of purpose and direction in a transparent manner and the accountability to the stakeholders.



# Ownership structure of EPM

EPM is an official residential public utilities entity established as a state-owned municipal industrial and commercial company subject to the legal system that regulates the provision of residential public utilities in Colombia, pursuant to Act 142 of 1994.

The municipality of Medellín possesses all the rights of ownership of EPM.



*La Alpujarra Administrative Center.*

The relationship with the municipality of Medellín, in its role as owner, is regulated by the Law, the autonomy provided by the administrative decentralization, and the internal regulations; it is contained in the Relations Framework Agreement signed in 2007 by the Medellín Mayor's Office and EPM. The powers of the Council of Medellín over EPM are defined in the bylaws of the company and in the Colombian laws.

The mayor of Medellín, as representative of the owner, exercises the exclusive ownership through the Board of Directors of EPM, as chairman of the same, by virtue of the established in the Relations Framework Agreement. In accordance with the Law and the bylaws of the company, the mayor of Medellín designates the CEO and appoints the members of the board of directors.

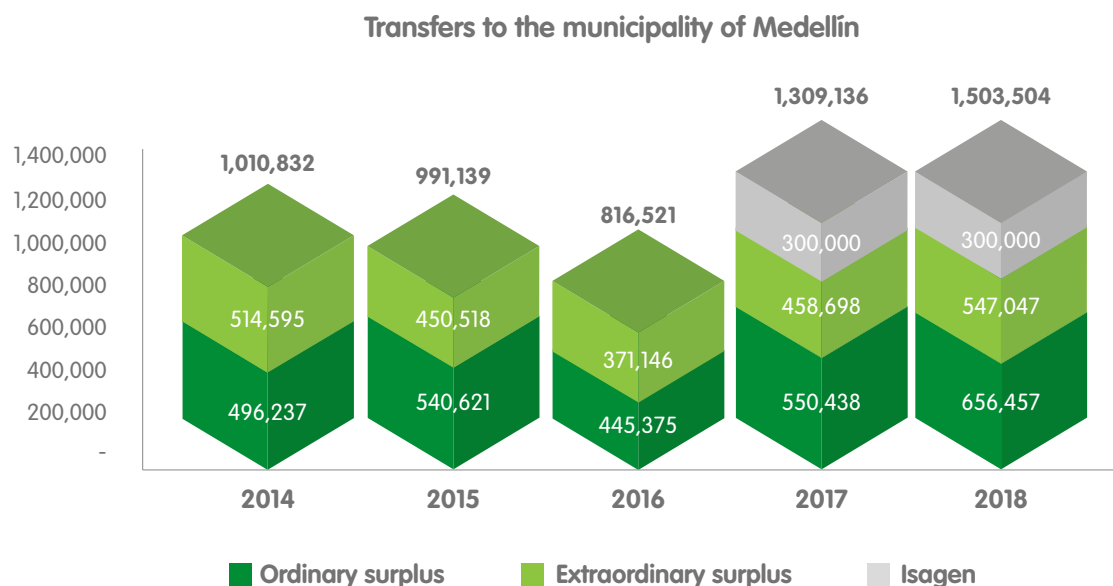
## Transfers to the municipality of Medellín

The Municipal Agreement 69 of 1997 of the Council of Medellín establishes that EPM shall ordinarily transfer up to 30% of its profits to the municipality every year. However, the Relations Framework Agreement allows additional transfers to be decreed, considering both the financial requirements of the municipality for specific investment programs and the financial sustainability of EPM. The additional transfers must be authorized by the Council of Medellín.



In 2018, EPM transferred COP 656,457 million, corresponding to 30% of the profits for 2017; the company also delivered extraordinary transfers amounting to COP 547,047 million, corresponding to 25% of the profits. Additionally, COP 300 billion was transferred as a result of the sale of the shares of Isagen S.A.

The following figure shows the transfers during the last five years.



*Ordinary and extraordinary transfers to the municipality of Medellín from 2014 to 2018 (figures expressed in million COP).*

## Relations Framework Agreement between EPM and the municipality of Medellín

The Relations Framework Agreement signed by EPM and the municipality of Medellín in 2007 serves to agree on the obligations of both parties through self-regulations that delimit the exercise of ownership and business management; it also reflects the common goal of the two entities to create conditions of business management in EPM that improve the creation of value for its stakeholders and that make the company viable as a growing and sustainable source of revenue for the city of Medellín.

This agreement determines the principles of the owner-company relationship. These principles go beyond the legal conditions that both entities must meet and become self-regulations that limit the exercise of ownership and business management. In this way, a system of counterbalances is created, which establishes responsibilities and self-limitations for each party.

This agreement clearly ratifies that corporate governance is a key factor in business competitiveness and sustainability, which contributes to the proper balance in the exercise of ownership, direction, and management.  
*(Annex 2: Context on the Relations Framework Agreement).*

## Monitoring of compliance with the framework agreement

During 2018, the municipality of Medellín and EPM fully complied with the obligations stipulated in the framework agreement.

Obligations of EPM		
	Key aspect	Compliance
Compliance with indicators of financial management.	Efficient and productive financial management based on technical criteria and reflected in minimum criteria of EBITDA, return on equity, and other financial indicators. The board of directors will annually define the indicators based on the strategic plans and budget for the time limits agreed by the board.	It is included in the annual planning cycle and is an indicator of the balanced scorecard of the company. See the Ownership structure of Grupo EPM chapter in this report.
Transfers to the municipality.	The transfers can only be higher than 30%, considering the municipal financial requirements for specific investment programs and financial needs of EPM so as not to jeopardize the business viability or its expansion. Additional transfers must be authorized by the council, prior justification by the mayor of their effects on the finances of EPM.	See the Ownership structure of EPM chapter in this report. <a href="#">See financial report.</a>
Settlement of transfers.	The plan to make transfers must refer to the cash requirements of the municipality and to the availability of liquid resources of EPM. In this way, an adequate cash management in both entities can be conducted.	See the Ownership structure of EPM chapter in this report. <a href="#">See financial report.</a>
Appropriate communication mechanisms.	For the decentralized owner-entity relationship, the channel is mayor - board of directors - management of EPM; for the other relationships, private secretariat of the municipality and External Relationships of EPM.	The mayor exercises his role of owner as chairman of the board of directors. The other relationships are exercised through the External Relationships Management of EPM.
Commitment to transparency with the community.	Contractual processes under the principles of transparency, impartiality, and objectivity, in an environment of free competition, applying the system of disqualifications and incompatibilities. Call for the submission of bids through the corporate information system.	<ol style="list-style-type: none"> <li>1. <a href="#">Decree 362 of 2014</a> by the board of directors through which the general contracting regulations are issued.</li> <li>2. Policy for the supply of goods and services, approved by the board of directors in December 2014.</li> <li>3. Application of the public servants' transparency statement. See the Compliance chapter in this report.</li> </ol>
	Public servants' profiles and competencies that will be strictly verified in the selection processes.	EPM has the manual of position descriptions defined. The manual is available on the intranet of the company and is the input for the selection processes which are strictly verified.
	Communication and dissemination mechanisms to inform citizens about contracting and selection processes.	EPM makes the contracting and selection processes public on its website, on the following links: <a href="#">Job offers</a> <a href="#">Te Cuento application</a>

Obligations of EPM		
	Key aspect	Compliance
Permanent external auditing.	Permanent external auditor hired according to guidelines of the Audit Committee. The auditor shall not provide other services within the company and his contract shall have a term of three years or less. There will be a conscious effort so that the external auditor be the same for all the companies that make up Grupo EPM.	See the <i>Accountability</i> chapter in this report.
Corporate social responsibility.	Formulation and development of corporate social responsibility (CSR) policies, especially with actions aimed at the most vulnerable population and considering the following criteria: <ul style="list-style-type: none"> <li>Activities delimited in the corporate purpose and aligned with its strategic objectives.</li> <li>Actions that do not compromise the financial viability.</li> <li>CSR model incorporated into the strategic framework, keeping the sustainability of the company as core objective and taking into account the Global Compact commitments.</li> </ul>	The CSR policy was approved by the Board of Directors of EPM on September 1, 2009.  The CSR in EPM is based on an ethical conviction and is materialized in facts that add value to the stakeholders and the company.
Provision of support services to the municipality with human resources of EPM.	Provision of support services to the municipality with public servants of EPM, formalized through agreements defining the resource, the time required, and the consideration.	In 2018, Ana Catalina Ochoa Yepes served the Medellín Mayor's Office as director of the Administrative Department of Planning, pursuant to Ruling 2017-RES-13100.

Obligations of the municipality of Medellín		
	Aspect	Compliance
Respect for the administrative autonomy of EPM.	Role of owner through the board of directors.	The mayor of Medellín is the chairman of the board of directors. The attendance details are included in the chapter on the board of directors of this report.
	Not to influence or participate, directly or indirectly, in the process of selection and appointment of public servants of EPM, except in those in which its participation is as chairman of the board.	EPM carries out its selection process based on the Colombian laws for public companies and, strictly, based on regulatory frameworks that are internally designed for that purpose (guidelines and business rules). These regulatory guidelines are mandatory and define the execution of the selection process in EPM.
	Not to influence or participate, directly or indirectly, in the contracting processes of EPM.	<u>Policy for the supply of goods and services</u> , approved by the board of directors in December 2014.
	Criteria of experience, suitability, professionalism, honesty, and moral solvency when appointing the CEO.	The CEO is assessed every year to ensure continuity of these criteria.
	Change of CEO based on objective reasons, considering results and assessment.	The CEO was assessed. There were no changes in the period.
	The chairman of the board of directors promotes corporate governance practices.	Complying with the provisions of the Bylaws of EPM, the Governance Code of EPM, the Regulations of the Board of Directors, and the Relations Framework Agreement between EPM and the municipality of Medellín.
	Ensure compliance with the corporate governance guidelines approved by the board of directors in the affiliated companies.	See the Corporate Governance Plan chapter in this report.



## Obligations of the municipality of Medellín

Aspect		Compliance
Obligations related to the board of directors (appointment).	Appoint and maintain at least five independent members. For continuity of medium- and long-term strategic planning, and policies and guidelines set by the board of directors.	See the Board of Directors of EPM chapter in this report. According to what is established in: 1. Bylaws of EPM. 2. Governance Code of EPM. 3. Guidelines for the composition of the board of directors. 4. Relations Framework Agreement between EPM and the municipality of Medellín.
	Establishment of training and experience requirements.	
	Requirements for control members.	
	Lists of candidates drawn up by the stakeholders to ensure transparency in the appointment.	
	Periodic assessment of the board of directors and CEO. Base element for considering removal.	Assessment of the management and directorate was performed. There were no changes in the period. See the Management structure of EPM chapter in this report.
	The chairman will strive for the implementation of the rules of procedure of the board of directors.	Rules of procedure of the board, adopted through Decree 376 of August 25, 2015.
Independence in managing financial resources.	Independence in the operational management of financial resources. Portfolio management and EPM's own position responds to financial profitability criteria. The municipality will not influence decisions on the financial management of resources of EPM.	As part of the cash flow management process, EPM manages its financial resources autonomously, with criteria of transparency, security, liquidity, and profitability, maintaining an adequate control of the associated financial risks; the above is based on the investment system provided in the internal and external regulations applicable to the company, including the business rules for the administration of excess liquidity contained in Decree 2059 of 2015.
Approval of budget of EPM.	The municipal administration is committed to annually manage the powers delegated by the Municipal Council of Tax Policy (abbreviated COMFIS in Spanish) at the board of directors for the budget approval.	Ruling 022 of March 22, 2017 through which COMFIS delegates powers so that the Board of Directors of EPM will approve the budget for 2018.
Participation of EPM in the design and execution of the Municipal Development Plan.	The municipality will encourage the participation of EPM in the design of the plan, in order to ensure its consistency with the long-term projects of EPM. Transfers must be harmonized with the financial projections to meet the requirements of the owner without jeopardizing the viability, solvency, and financial strength, or the financial projections of the company. The commitments of EPM in the plan will be consistent with its strategic plans, and its participation will be determined based on technical, financial, economic, and market criteria, taking into account the compliance with the corporate purpose.	EPM participated in the construction of the municipal agreement project for the 2016-2019 Medellín Cuenta con Vos Development Plan. The contribution of the company consisted mainly in the integration of the projects, services, and resources of EPM with the different strategic dimensions of the plan, so that there is consistency between the planning exercise of the municipal administration and that of EPM. Once the development plan has been approved, it becomes the route that determines the relationship between EPM and the municipality of Medellín regarding the execution of city projects and programs.

## Public accountability

By understanding that the citizens of Medellín are ultimately the owners of EPM and as a practice of transparency and in compliance with the constitutional and legal provisions, EPM carries out annually its public accountability in order to inform the main achievements and challenges of the corporate management and its alignment with stakeholders.



*Public accountability in 2017. Jorge Londoño De la Cuesta, CEO of EPM; Federico Gutiérrez Zuluaga, mayor of Medellín.*

Some of the management topics of EPM addressed in this space were the following:

- Financial results.
- Transfers to the municipality of Medellín.
- Administrative efficiency.
- Population benefited and improvement of the quality of life.
- Meaning and progress of the five management focuses (closeness, care for the environment, coverage, consolidation, and growth).

The public accountability corresponding to the 2017 term was held on April 7, 2018; likewise, the public accountability corresponding to the 2018 term will be held in April 2019.



## Management structure of EPM

### Ituango hydroelectric project contingency in the corporate governance framework

#### GRI 102-33 102-34

The Ituango hydroelectric project contingency put the corporate governance of EPM to the test, imposing huge challenges on its governing bodies to find ways that would allow the company to overcome the crisis in the best possible way, with all its social, environmental, technical, and financial implications, focusing on protecting the life of people at all times and, simultaneously, ensuring the normal operation of the company.

During the crisis, the chairman of the board of directors and the CEO have been at the forefront of the situation; likewise, the members of the board of directors and the senior management have been permanently available for everything that has been required. The flow of clear, timely, and transparent information between the management and the different stakeholders has been one of the main challenges.

#### Board of Directors of EPM

The board of directors is in charge of the direction of EPM pursuant to the provision of the bylaws of the company and the Law.



## Composition of the board of directors **Código País 33.3 – ii. a); GRI 102-22**



**Federico Gutiérrez Zuluaga**  
Chairman (non-independent)  
Profile: Mayor of Medellín  
Start: 01/01/2016  
Participation in other boards: 3



**Claudia Jiménez Jaramillo**  
Independent  
Profile: Public management  
Start: 01/26/2016\*\*  
Participation in other boards: 2



**Elena Rico Villegas**  
Control member (independent)  
Profile: Public utilities management  
Start: 01/26/2016  
Participation in other boards: 0



**Manuel Santiago Mejía Correa**  
Independent  
Profile: Business management  
Start: 04/30/2012  
Participation in other boards: 5



**Alberto Arroyave Lema**  
Control member (independent)  
Profile: Social participation and control  
Start: 02/25/2008  
Participation in other boards: 0



**Javier Genaro Gutiérrez Pemberthy**  
Independent  
Profile: Public utilities  
Start: 03/11/2016  
Participation in other boards: 1



**Gabriel Ricardo Maya Maya**  
Control member (independent)  
Profile: Legal  
Start: 09/01/2006\*  
Participation in other boards: 4



**Carlos Raúl Yepes Jiménez**  
Independent  
Profile: Financial and CSR  
Start: 07/08/2016  
Participation in other boards: 4



**Andrés Bernal Correa**  
Independent  
Profile: Business management and financial  
Start: 02/25/2008  
Participation in other boards: 2

\*Gabriel Ricardo Maya Maya was also a member of the board of directors from January 30, 2004, until January 16, 2006.

\*\*Claudia Jiménez Jaramillo was also a member of the board of directors from November 19, 2010, until December 7, 2011.

The structure of the Board of Directors of EPM, with its nine main members without alternates, meets what is stated in Act 142 of 1994, the bylaws, the Relations Framework Agreement, and the Corporate Governance Code of EPM:

- The mayor of the city of Medellín, who is the chairman of the board of directors.
- Five people freely appointed by the mayor of Medellín, all of them acting independently.
- Three people selected by the mayor of Medellín among the control members registered by the development and social control committees of residential public utilities (Article 27.6 of Act 142 of 1994).

**Código País 33.3 – ii. f); GRI 102-24**

Eight members (88% of the board) are independent, which exceeds the 25% required in Article 44 of Act 964 of 2005 for issuers of securities, and the 55.6% defined in the internal regulations.

The Corporate Governance Code of EPM points out the following criteria to be considered by the mayor to appoint the members of the board of directors: **GRI 102-24**

- Professional academic training in matters related to the corporate purpose of EPM and to the duties proper to the board of directors.
- Business or work experience in the public utilities industry.
- Control members are required to submit proof of their time in the Development and Social Control Committee that selected them, description of their relationship with it, and evidence of the activities carried out in the development of their role.

The relationship of the board of directors with the users of residential public utilities is fulfilled through the participation of the control members in the deliberative body. In this way, the constitutional provision of citizen participation in the management and oversight of the company as an entity providing residential public utilities is materialized.

**GRI 102-21 102-22 102-29**

The Board of Directors of EPM defined in 2015 the guidelines for its structure, including the requirements necessary for a seat on it: profiles of a multidisciplinary and independent nature, with a global vision and a high sense of responsibility for public service. (*Annex 3: Profiles of the board of directors*).

The details of the résumé of each member of the board of directors are available on the website of EPM. Click [here](#) to see them. **Código País 33.3 – ii. b); GRI 102-22**

In 2018, there were no changes in the structure of the board of directors. **Código País 33.3 – ii. c); GRI 102-28**

The average tenure of the current members in the board, as of December 31, 2018, was 5.7 years.

Independent members of the board are considered as such since the date they start their role as members of the board, except for Claudia Jiménez Jaramillo, who became an independent member on January 26, 2017. Independence is achieved by:

- Not holding an executive position at EPM or its affiliated companies. **Código País 33.3 – ii. d); GRI 102-22**
- Not having been employed by EPM for an executive position over the last five years.
- Not being related to any of the members of the senior management.
- Not having relationship with companies providing consultancy or advisory services to EPM.
- Not having signed contracts with EPM to provide personal services.

- Not being linked to a non-profit organization that receives significant contributions from EPM.
- Not having been a partner or an employee of the external audit firm of EPM over the past three years.

The members of the board of directors are subject to the system of disqualifications and incompatibilities established by the law.

The delegation of duties at EPM must be previously authorized through a decree by the board of directors. Regarding procurement, the board of directors is responsible for issuing the general rules and indicating the amounts within which the CEO can delegate the powers to award and enter into contracts.

**GRI 102-19**

## Quorum of the board of directors **Código País 33.3 – ii. i)**

The deliberative quorum for the meetings of the board of directors is formed with the majority of its members.

The decision-making quorum corresponds to the majority of those present at the respective session. For decision-making purposes, each member of the board has a vote.

## Management of the board of directors



*Board of Directors of EPM. Standing from left to right: Javier Genaro Gutiérrez Pemberthy, Andrés Bernal Correa, Federico Gutiérrez Zuluaga (mayor of Medellín, chairman of the board of directors), Gabriel Ricardo Maya Maya, and Carlos Raúl Yepes Jiménez. Sitting from left to right: Alberto Arroyave Lema, Claudia Jiménez Jaramillo, Elena Rico Villegas, and Manuel Santiago Mejía Correa.*



In accordance with the rules of procedure of the board of directors, the following are the main duties of the chairman:

**GRI 102-26**

- Freely appoint and remove members of the board.
- Make sure that the board of directors efficiently sets and implements the strategic planning of the company.
- Coordinate and plan its functioning by means of an annual work plan.
- Ensure the execution of agreements, the exercise of responsibilities, and the active participation of all the members of the board.
- Lead the process of assessment of the board and its committees.
- Promote active coordination between the company and the issues of interest for the city of Medellín, in compliance with the provisions of the relations framework agreement, and ensure compliance with the rules of the board of directors.

**Código País 33.3 – ii. k); GRI 102-23**

The secretary of the board, who, according to the bylaws of the company, is, in turn, the secretary-general of EPM, has the following duties:

- Call the meetings.
- Duly process the requests of the board.
- Prepare the minutes of the board of directors and sign them jointly with the chairman.
- Ensure preservation of the documents of the board and legality of their actions.
- Define the procedure to effectively develop the meetings of the board of directors.

**Código País 33.3 – ii. l)**

## Important actions of the board of directors in 2018

- Definition of a new strategic direction of the company and adjustment of the corporate risk map, within which five focuses were established: (i) recovery of the Ituango project, (ii) obtaining of sources of liquidity, (iii) profitability of the businesses, especially generation and distribution, (iv) growth with vision for 2025, and (v) transformation of the organizational culture.
- Follow-up and control to the development of the necessary actions to overcome the Ituango project contingency.
- Authorization to start the necessary procedures to sell the shares in Interconexión Eléctrica S.A. (10.17%) and some non-material minority shareholdings in Colombia. In addition, the acquisition of certain non-material minority shareholdings owned by affiliated companies of the group was authorized, as well as the necessary transfer procedures once these shares are acquired.
- Approval to transfer the indirect shareholdings in the Chilean companies Aguas de Antofagasta S.A. (100%), through its affiliates EPM Chile S.A. and Inversiones y Asesorías South Water Services SpA., and in Parque Eólico Los Cururos Ltda. (100%), share of the company through its affiliates EPM Chile S.A. and EPM Inversiones S.A.
- Monitoring and control to the development of the Aguas Claras Wastewater Treatment Plant.
- Approval of the security policy, whose purpose is to contribute to the protection and integrity of the people, infrastructure, and reputation of the company, respecting human rights.

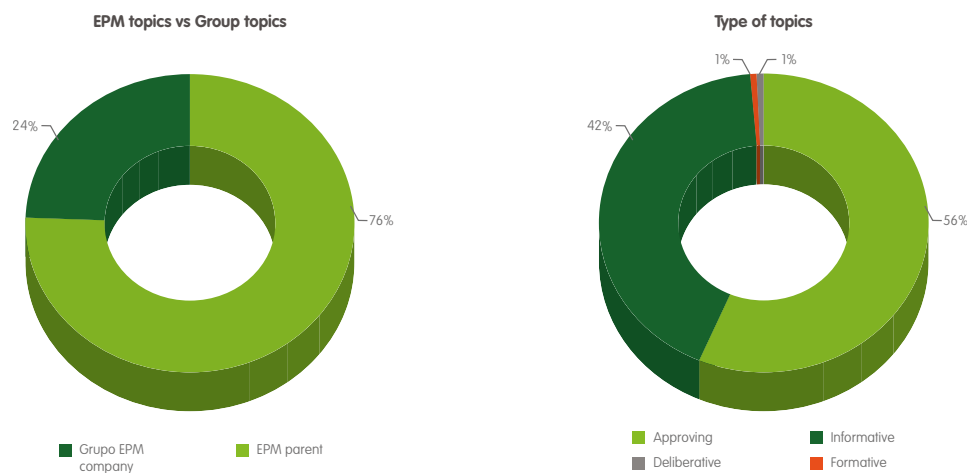
**Código País 33.3 – ii. e)**

- Support for the investment strategy in corporate entrepreneurship and innovation through private equity funds.
- Monitoring and support for the Unidos por el agua (United for water) program, and its structuring for it to continue after 2019.
- Approval to start the Unidos por el agua (United for water) program.
- Definition to work for the improvement of the provision of water services in the small towns of Medellín.
- The members of the board of directors attended training events on relevant topics such as cybersecurity, internal control system, and risk management in the public sector, among others.

Since August 2018, Mr. Luis Fernando Rico has provided his consultancy services to the board of directors for matters related to the Ituango project contingency.

**Código País 33.3 – ii. n); GRI 102-27**

The topics analyzed by the Board of Directors of EPM in 2018 were distributed according to the following graphs:



## Management of the board of directors information **Código País 33.3 – ii. o)**

The management of the information related to the board is subject to the information management policy approved by the board of directors on December 2, 2014, with the purpose of ensuring its integrity, reliability, availability, transparency, and dissemination, and thus favor an adequate decision-making process that promotes corporate growth and sustainability. Additionally, it adheres to the currently applicable regulations and best practices on corporate governance.

The online IT solution, known as ARCA, operates through workflows and favors the management of the information of the Board of Directors of EPM and its committees. This solution was improved in 2018.

## Attendance to the board of directors meetings **Código País 33.3 – ii. j)**

A total of 18 meetings of the board of directors were held during the year, with a total average attendance of 93%. The attendance by member of the board of directors is presented below.

Attendance at the board of directors in 2018	
Name	Percentage of attendance
Federico Gutiérrez Zuluaga	89%
Alberto Arroyave Lema	100%
Andrés Bernal Correa	89%
Claudia Jiménez Jaramillo	83%
Elena Rico Villegas	100%
Gabriel Ricardo Maya Maya	100%
Javier Genaro Gutiérrez Pemberthy	94%
Manuel Santiago Mejía Correa	83%
Carlos Raúl Yepes Jiménez	94%

## Management of the committees of the board of directors

The four committees of the Board of Directors of EPM analyzed the topics under their responsibility in line with the recommendations of Código País and with the legal and statutory functions which concern them. The committees are spaces designed with the purpose of ensuring efficiency in decision-making, through a detailed analysis of the topics before each meeting of the board of directors.

The external auditor of EPM is a permanent guest to the Audit Committee for his constant and periodic communication with the board of directors. **Código País 33.3 – ii. m)**

The committees are fully formed and chaired by the independent members of the board of directors, aligning the training and experience of its members with the definition and responsibility of each one of them.

**GRI 102-18 102-26 102-30**



Committee	Activities	Composition
Audit	Supervision: internal audit, disclosure of financial information, external audit, internal control system, comprehensive risk management system, compliance, credit proposals, internal and external control entities, operations between related parties, intellectual property, and annual report on corporate governance.	Alberto Arroyave Lema, Andrés Bernal Correa Javier, Genaro Gutiérrez Pemberthy
Management	Monitoring of business management, corporate reputation, intellectual capital, ethics, business image, administrative structure, business and commercial development projects, appointments and remuneration, conflicts of interest, assessment of the directorate and senior management, and corporate governance.	Claudia Jiménez Jaramillo, Gabriel Ricardo Maya Maya, Carlos Raúl Yepes Jiménez
Strategy and Investment	Strategy; unity of purpose and direction; business policies; investments and new businesses; research, development, and innovation projects; corporate social responsibility; sustainability; environmental management, and engagement plans with stakeholders.	Elena Rico Villegas, Claudia Jiménez Jaramillo, Javier Genaro Gutiérrez Pemberthy
Project Monitoring	Monitoring of the design, execution, and evaluation of the projects prioritized by the board of directors, as well as their corresponding risk maps, BSC, and other control instruments.	Manuel Santiago Mejía Correa, Elena Rico Villegas, Gabriel Ricardo Maya Maya

In August 2018, the board of directors made the decision to create, as part of the Project Monitoring Committee, the chapter to follow up on the Ituango project. **GRI 102-30**

The chapter to monitor the Ituango project has the specific objective of carrying out the follow-up and detailed analysis of the activities of recovery and continuity of the contingency. It is chaired by Javier Genaro Gutiérrez Pemberthy, has the external advice of Luis Fernando Rico Pinzón, and held 10 sessions during 2018.

**GRI 102-22 102-34**

Besides the members of the Project Monitoring Committee, those regularly attending at this committee include the representatives of the designers and the consultancy of the Ituango project (Integral), the constructors (CCC Consortium), the auditors (Ingetec), and Ana Catalina Ochoa Yepes, secretary of the Office of Planning of the Municipality of Medellín; the EPM Expert Board for the Ituango project also attends when required. **GRI 102-27**

## Attendance at the committees of the board of directors **Código País 33.3 – ii. j)**

Attendance at the committees of the board of directors is above 90% in average, as follows:

Member	Audit Committee	Strategy and Investment Committee	Project Monitoring Committee	Management Committee
Claudia Jiménez J.		92%		100%
Elena Rico V.		100%	100%	
Alberto Arroyave L.	100%			
Andrés Bernal C.	92%			
Carlos Raúl Yepes J.				100%
Gabriel Ricardo Maya M.			100%	100%
Javier Genaro Gutiérrez	100%	92%	100%	
Manuel Santiago Mejía			86%	
<b>Total number of sessions</b>	12	12	21	11
<b>Total attendance (%)</b>	<b>97%</b>	<b>94%</b>	<b>96%</b>	<b>100%</b>
<b>2017</b>	88%	93%	83%	87%

## Remuneration of the board of directors **Código País 33.3 – ii. h); GRI 102-36 102-37**

The remuneration paid to the members of the Board of Directors of EPM is defined through Decree 1165 of August 12, 2009 by the mayor of Medellín in three Colombian monthly minimum wages for the attendance at each session of the board of directors and the committees. **Código País 33.3 – ii. g); GRI 102-35**

At EPM, the members of the board of directors do not receive any kind of variable remuneration and the mayor of Medellín, as member of the board, receives no remuneration.

The amount paid for fees to members of the board of directors in 2018 is indicated below.

Item	Amount paid in 2018
Board of directors	COP 311,715,558.00
Committees of the board of directors	COP 320,992,887.00
<b>Total paid in 2018</b>	<b>COP 632,708,445.00</b>

## Assessment of the board of directors **Código País 33.3 – ii. q); GRI 102-28**

It refers to a comprehensive and periodic exercise of the board of directors to identify the quality and efficiency of this deliberative body's management and its opportunities for improvement. Based on the assessments carried out every period, a strengthening plan is designed with the purpose of improving the performance of the board and its committees, as well as the relationship with the management of EPM.

In accordance with the methodology established for the assessment of the board of directors, an internal assessment corresponded for the 2018 period; it was directed by the Corporate Governance Unit and included the self-assessment of the members of the board of directors and the assessment by the management.

The analysis focuses on six areas of assessment. (The maximum score is 5).

- Relationship of the board of directors with the company's management (4.23).
- Performance and effectiveness of the board of directors as a deliberative body (4.48).
- Dynamics and functioning of the board of directors (4.33).
- Role of the CEO (4.81).
- Role of the secretary of the board of directors (4.75).
- Self-assessment of the individual performance as a member of the board of directors (4.75).
- Management of the committees of the board of directors (4.70).

The results obtained from the assessment show that the board of directors has high levels of commitment to and responsibility for the organization and constitute the basis for the strengthening plan to be implemented in 2019.

## Senior Management

### **GRI 102-20**

The CEO is in charge of the management of EPM, its representation, and the management of its business; he has the powers to enter into or execute, without limitations other than those established in the bylaws, all the acts included in its purpose or that relate directly to its existence or functioning.

The CEO has a team of vice presidents who support him in his management. The high levels of experience, technical knowledge, and tenure in the exercise of the duties allowed the team to provide an efficient management to face the challenges of EPM in 2018, especially during the contingency of the Ituango hydroelectric project.

The Senior Management in EPM is composed of nine managers who report directly to the CEO of EPM; they perform functions that impact the entire group and are responsible for directing, planning, and verifying the fulfillment of the objectives, plans, and goals of EPM and the companies of the group.



*Senior Management team. From left to right: Ana María González Gómez, VP of Corporate Communications and Relationships (I); Óscar Alberto Cano Castrillón, VP of Corporate Auditing; Jorge Andrés Tabares Ángel, EVP of Corporate Finance, Risk Management, and Investment; John Alberto Maya Salazar, EVP of Projects and Engineering (I); Alejandra Vanegas Valencia, VP of Shared Services and Supplies (I); Jorge Londoño De la Cuesta, CEO of Grupo EPM; Maritza Alzate Buitrago, VP of Legal Affairs and general secretary; Ricardo José Arango Restrepo, VP of Human Resources and Technology; Gabriel Jaime Betancourt Mesa, EVP of Strategy and Growth; Carlos Arturo Díaz Romero, EVP of Business Management (I).*

The team of vice presidents supporting the management of Jorge Londoño De la Cuesta was modified twice during the year: from January 1, 2018, Óscar Alberto Cano Castrillón was appointed by the mayor of Medellín, pursuant to the provisions of Article 8 of Act 1474 of 2011, as vice president of Corporate Auditing; on December 4, 2018, Wilson Chinchilla Herrera submitted his resignation to the position of executive vice president of Projects and Engineering, a position held ad interim by John Alberto Maya Salazar, executive vice president of Business Management; and, in turn, Carlos Arturo Díaz Romero was appointed as executive vice president of Business Management in John Alberto Maya Salazar's replacement.

The managerial level positions that are vacant have been held ad interim by public servants of long career at the organization.

In the second semester of 2018, on the occasion of the Ituango hydroelectric project contingency, the company began a process of cultural transformation that constitutes a commitment to organizational innovation since it addresses the challenge from each individual's deep reflection, seeking to generate changes in their behavior that favor useful and constructive conversations in the organization, by enabling greater levels of openness, authenticity, communication, and collaboration. As part of the methodology, the company implemented "conversation circles" provided by an external consultant, with the participation of the CEO and his team.



## Performance of Senior Management **GRI 102-26**

By means of Decree 2198 of January 5, 2018, the EPM strategic committees were modified with the creation of the Corporate Core Committee, which is responsible for establishing the unity of purpose and direction of Grupo EPM, through the analysis, definition, and monitoring of the appropriate matters. This function was assumed by the Management Committee.

The separation of these two committees allows the Senior Management to independently manage the matters of the business group and the matters of EPM.

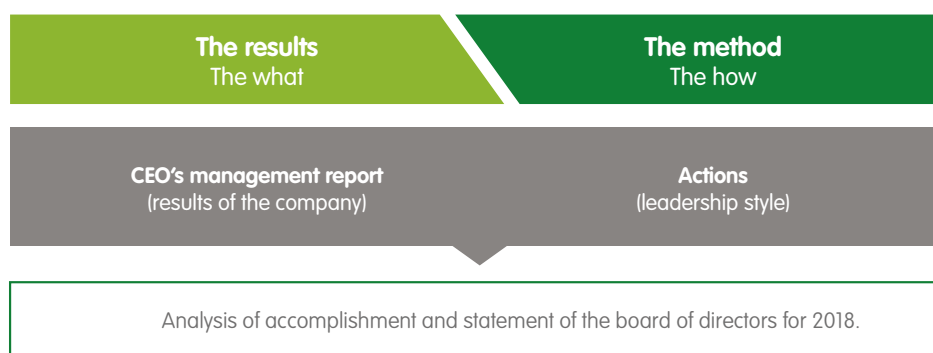
The following is the structure of the strategic committees and the number of sessions held during the year.





## Assessment of the CEO **Código País 33.3 – ii. q); GRI 102-28**

The Board of Directors of EPM performs a systemic process that shows the achievements and challenges of the CEO's performance in terms of results and methods for obtaining them (the what and the how).



The result of this assessment is reflected in the statement made by the board of directors in the public accountability *(Annex 4: Statement by the Board of Directors of EPM on the performance of the CEO)*.

## Remuneration of Senior Management **Código País 33.3 – ii. h); GRI 102-36**

As part of the human resources management policy, approved by the board of directors on December 7, 2010, the Vice Presidency of Human Resources and Technology issued on November 26, 2018, Guideline 36 that addresses three important issues related to the variable pay, the fixed pay, and the benefits for the employees of EPM.

The total remuneration of the Senior Management in 2018 was as follows:

Remuneration of the Management of EPM			
Level	Position	Total payments received in 2018	
		Minimum	Maximum
CEO's Office	CEO.	505 MMW	505 MMW
Executive vice presidencies	EVP of Strategy and Growth. EVP of Corporate Finance, Risk Management, and Investments. EVP of Business Management. EVP of Projects and Engineering.		
First level vice presidencies	VP of Corporate Auditing. VP of Legal Affairs and general secretary. VP of Corporate Communications and Relationships. VP of Shared Services and Supplies. VP of Human Resources and Technology.		

**Note:** Payments include vacation, bonuses, and benefits.

- Ratio of annual total compensation for the highest-paid individual of the organization to the median of annual total compensation for all employees, excluding the highest-paid individual: **8.64** **GRI 102-38**
- Ratio of percentage increase of the annual total compensation for the highest-paid individual of the organization to the median of percentage increase of the annual total compensation for all employees, excluding the highest-paid individual: **1** **GRI 102-39**

## Related party transactions

Since the implementation of the IFRS, in 2013, EPM adopted the definitions established by IAS 24 regarding related parties and established specific financial policies and guidelines in agreement with the applicable financial regulations.

The Governance Agreement and the relationships arising therefrom, as well as the annual statement of transfer prices, are articulated with the information published in the financial statements under IFRS as elements that delimit the operations with the related parties of Grupo EPM.

The transactions of EPM with its related parties are executed under conditions equivalent to those that exist in transactions between independent parties, in terms of their purpose and conditions. The description of the operations with the most relevant related parties, including the transactions between companies of the group, can be found in the financial report that is an integral part of the (annual) sustainability report of Grupo EPM.

During 2018, progress was made in the formulation of the project of Management and Disclosure of Transactions between Related Parties of Grupo EPM in accordance with the methodology established by the project bank, with the purpose of assessing the implementation of internal measures to strengthen the management of operations with related parties.

### Conflicts of interest

#### **Código País 33.3 - iii. c); GRI 102-25**

Annex 8 of the Corporate Governance Code, "Manual of conflicts of interest and treatment of decisions of interest for the group," issued through Decree 390 of November 24, 2015, defines the procedure to manage conflicts of interest among the members of the board of directors. Additionally, it is indicated that when in doubt about the existence of a conflict of interest, the member of the board or committee is not exempted from avoiding his participation in the decision. When the conflict is of a permanent nature and prevents exercising duties independently, the board member must resign.

#### **Código País 33.3 - iii. d); GRI 102-25**

This manual regulates the differences that may arise between the parent company of Grupo EPM and the subsidiary companies, regarding the interest of the business group. The procedure refers to the Governance Agreement concluded between the companies of Grupo EPM, the shareholders' agreements entered into, and the governance model defined for each of the subsidiary companies. Moreover, it points out the corresponding actions, in each case, of the board of directors of the subsidiary company, the Management Committee of the parent company, and the board of directors with its respective committees.

#### **Código País 33.3 - iii. a)**

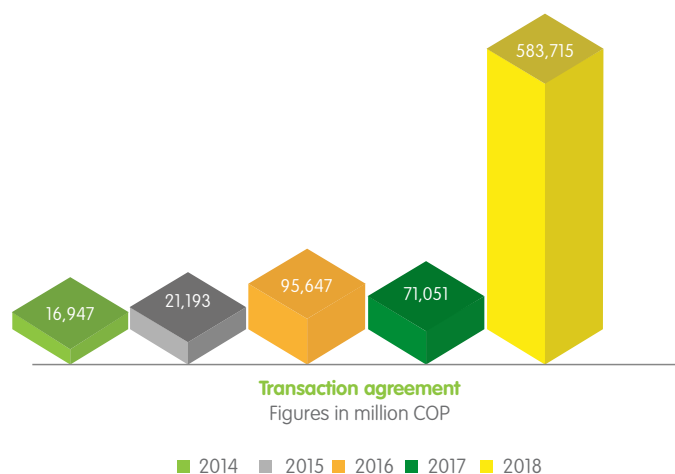
During 2018, the members of the board of directors had no conflicts of interest.

## Governance Agreement

The **Governance Agreement** is a document that formally defines and delimits the relationships between the companies that make up Grupo EPM; it has favored the signing of different agreements to achieve the corporate objectives and group synergies as part of the unity of purpose and direction.

In 2018, ENSA Servicios, company based in Panama, joined this agreement.

### General report of the agreements signed as part of the Governance Agreement

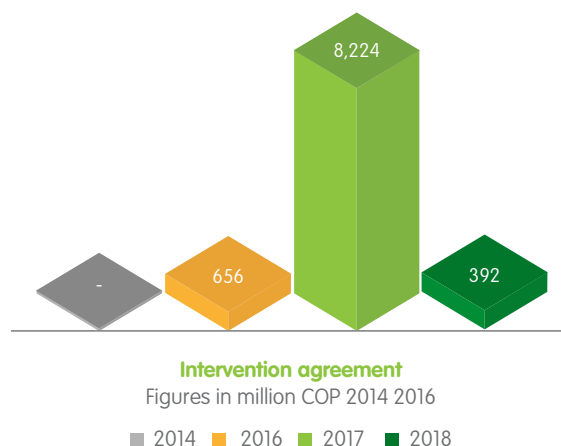


Compared with the information disclosed at the end of 2017, it is reported that the historical data presented the following variations:

- There is an increase of COP 375 million in 2015, corresponding to modifications in two agreements signed with EDEQ and Emvarias.
- There is a decrease of COP 754 million in 2016, corresponding to modifications in five agreements signed with Emvarias, Ticsa, Fundación EPM, and CHEC.
- There is an increase of COP 24,104 million in 2017, corresponding to modifications or agreements created in said term, which were formalized in December 2017 or during 2018.



In 2018, there was an increase in the figures, mainly due to the sewerage interconnection contract amounting to COP 458,786 million signed with Aguas Nacionales, and the services of construction of works and supply, installation, and commissioning of the systems for the expansion of the San Fernando wastewater treatment plant signed with Ticsa for COP 104,296 million.



Regarding the historical data, there was a modification of COP 72 million in 2017, associated with the provision of financial services to the national water affiliated companies. Likewise, in 2018, the Service Center renewed the agreement with the national water affiliated companies for COP 392 million.

# Ownership structure of Grupo EPM

Grupo EPM, whose parent company is EPM, provides public utilities in seven business lines: power generation, power transmission, power distribution, gas distribution, water supply, sanitation, and solid waste management. These services are provided in six countries of Latin America: Colombia, Chile, Panama, El Salvador, Guatemala, and Mexico.

At the end of 2018, the revenues of Grupo EPM amounted to COP 16.3 trillion.

## Ownership capital and structure of Grupo EPM

### Código País 33.3 – i. a); GRI 102-18

In 2018, there were no changes in the ownership structure of the group; however, the Board of Directors of EPM made a decision in relation to the transfer of the indirect shareholdings in the Chilean companies Aguas de Antofagasta S.A. and Parque Eólico Los Cururos Ltda.

The ownership structure of Grupo EPM is shown in Annex 5 of this report. (*Annex 5: Grupo EPM's shareholding structure*).

## Shareholders' agreements in Grupo EPM

### Código País 33.3 i. f)

The following table shows the shareholders' agreements signed by EPM, which are effective as of December 31, 2018.

Company	Parties involved	Signature date	Summary
UNE EPM Telecomunicaciones	<ul style="list-style-type: none"><li>EPM.</li><li>Millicom Spain S.L.</li><li>Instituto de Deportes y Recreación de Medellín (Institute of Sports and Recreation of Medellín, abbreviatedINDER in Spanish).</li></ul>	October 1, 2013.	Relationship and commitments between shareholders. It establishes the special majorities of the shareholders' meeting and the board of directors, gives EPM power to decide on issues of greater impact, and defines the right to leave.

Company	Parties involved	Signature date	Summary
Aguas Regionales EPM*	<ul style="list-style-type: none"> <li>EPM.</li> <li>Antioquia Governor's Office.</li> <li>Municipality of Apartadó.</li> <li>Municipality of Chigorodó.</li> <li>Municipality of Mutatá.</li> <li>Municipality of Turbo.</li> <li>Municipality of Carepa.</li> </ul>	December 1, 2006.	Conditions and framework for action for their participation as shareholders, taking into account the background and special considerations for the management and development of the regional water supply system which constitutes the corporate purpose of the company.
	<ul style="list-style-type: none"> <li>EPM.</li> <li>Antioquia Governor's Office.</li> <li>Municipality of Santa Fe de Antioquia.</li> <li>Municipality of Sopetrán.</li> <li>Municipality of San Jerónimo.</li> <li>Municipality of Olaya.</li> </ul>	December 19, 2007.	
	<ul style="list-style-type: none"> <li>EPM.</li> <li>Antioquia Governor's Office.</li> </ul>	December 2006 and December 27, 2007.	It ensures that decisions taken in the company represent the plural vote of EPM and the Antioquia Governor's Office.
Aguas de Malambo	<ul style="list-style-type: none"> <li>EPM.</li> <li>Municipality of Malambo.</li> <li>Community action boards of Malambo.</li> <li>Municipal Institute of Sports.</li> <li>Hospital of Malambo.</li> <li>Institute of Culture of Malambo.</li> </ul>	June 29, 2011.	Conditions and framework for action for their participation as shareholders, taking into account the background and special considerations for the management and development of the regional water supply system which constitutes the corporate purpose of each of these companies.
EV Alianza Energética **	<ul style="list-style-type: none"> <li>EPM Latam S.A.</li> <li>Proactiva Colombia S.A.</li> </ul>	February 16, 2016.	It establishes the number of members of each shareholder to vote in the highest governing body of shareholders and in the highest administration and management body of the company.

\* Following the merger of Aguas de Urabá S.A. E.S.P. and Regional Occidente S.A. E.S.P. in 2015, the shareholders' agreements of each merged company are maintained.

\*\* Company under liquidation.



## Shareholders' meeting and engagement with partners

During the first quarter of 2018, ordinary meetings of the shareholders' meetings of all the companies of Grupo EPM were held, at which the Board of Directors and CEO Management Report as well as the year-end financial results were presented, and the board of directors for the March 2019 - March 2020 period was appointed. These meetings are the meeting space par excellence with the different partners of Grupo EPM.

Furthermore, and in order to strengthen the partners' trust, a site was created on the website of each affiliated company for this stakeholder, and the website content of each company was updated, standardized, and adjusted. With these measures, transparency of and access to information, as well as communication channels, were strengthened. **Código País 33.3 – v. b) y c)**

# Management structure of Grupo EPM

The management of Grupo EPM is exercised through its governing bodies: General shareholders' meeting, board of directors, and general manager of each affiliated company. Such bodies must ensure the integration of each of the companies and the vision of the group.

## Boards of directors of Grupo EPM

The composition of the boards of directors of the affiliated companies is in line with the engagement model established in the business group. Strategic factors, the specific situation of each company, the level of involvement of the affiliated company with EPM, and the knowledge of the executives of the company about the area where the affiliated company operates are taken into account.

The objective is to have administrative bodies that favor a coordinated decision-making process with effective instruments to develop the principles of corporate governance that govern Grupo EPM, framed in the purpose of generating value.

In this way, the boards of directors have internal members who are part of the management of EPM and do not receive additional remuneration for this role; they also have representatives of the partners that correspond mostly to territorial entities (departments and municipalities) where each affiliated company is located.

## Attendance at the boards of directors of Grupo EPM

The average attendance of the main members belonging to the boards of Grupo EPM's companies is shown below by type of business:

### Water, sanitation, and solid waste companies

Water affiliates in Colombia	Average of attendance
Aguas Regionales	78%
Aguas Nacionales	86%
Aguas de Oriente	42%
Aguas de Malambo	77%
EPRio	60%
Emvarias	67%

Water affiliates in Latin America	Average of attendance
Ticsa	87%
Adasa	84%



Power generation, distribution, transmission, and commercialization companies.

Electrical energy affiliates in Colombia	Average of attendance
CENS	67%
CHEC	89%
EDEQ	90%
ESSA	100%

Electrical energy affiliates in Latin America	Average of attendance
ENSA	79%
HET	94%
DECA	85%
Eegsa	86%
Delsur	81%
EPM Chile	81%
EPM Transmisión Chile	72%

## Assessment of the boards of directors of Grupo EPM

A methodology of unified assessment of the boards of directors of Grupo EPM is implemented on an annual basis since 2014. This is in order to learn accurate information on the management of the boards, the degree of compliance with the commitments that each of the members has assumed, and the value that their performance adds to the company.

The items assessed include the following:

1. Relationship of the board of directors with the company's management.
2. Performance and effectiveness of the board of directors as a deliberative body.
3. Roles of both the chairman and secretary of the board.
4. Individual performance as a member of the board of directors.
5. Level of discussion and in-depth coverage of the topics addressed by the board of directors *\*New\**.
6. Interaction and parent-affiliates relationship *\*New\**.

Additionally and in order to strengthen the assessments of the boards of directors and to adopt best practices on this matter, since 2017, the assessment from the management perspective was implemented, with the purpose of assessing the degree of alignment and interaction between the directorate (board of directors) and the management (senior management).

The table below summarizes the results of the self-assessment by item and by group of companies.

## Water, sanitation, and solid waste companies

Items assessed	Oriente		Malambo		Regionales		Nacionales		Envarias		EPRio	Ticsa		Adasa	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2018	2017	2018	2017	2018
1 Relationship of the board of directors with the company's management.	87% ●	78% ●	83% ●	88% ●	83% ●	84% ●	87% ●	88% ●	77% ●	81% ●	83% ●	85% ●	91% ●	94% ●	90% ●
2 Performance and effectiveness of the board of directors as a deliberative body.	90% ●	86% ●	90% ●	94% ●	87% ●	88% ●	90% ●	93% ●	89% ●	88% ●	89% ●	83% ●	92% ●	98% ●	95% ●
3 Roles of both the chairman and secretary of the board.	88% ●	95% ●	91% ●	99% ●	92% ●	93% ●	88% ●	85% ●	91% ●	86% ●	95% ●	91% ●	97% ●	97% ●	99% ●
4 Individual performance as a member of the board of directors.	95% ●	94% ●	86% ●	93% ●	89% ●	95% ●	95% ●	93% ●	91% ●	95% ●	95% ●	82% ●	98% ●	97% ●	98% ●
<b>Total average</b>	<b>90%</b> ●	<b>88%</b> ●	<b>88%</b> ●	<b>93%</b> ●	<b>88%</b> ●	<b>90%</b> ●	<b>90%</b> ●	<b>90%</b> ●	<b>87%</b> ●	<b>88%</b> ●	<b>90%</b> ●	<b>85%</b> ●	<b>95%</b> ●	<b>96%</b> ●	<b>95%</b> ●

### Approval levels

● Averages higher than 91%    ● Averages between 84% and 91%    ● Averages equal to or lower than 83%

The results obtained from the self-assessment changed positively. Substantial improvement is evident regarding the "individual performance as a member of the board of directors" item, since most of the companies stand out for their compliance with legal duties, confidential information protection, independence and objectiveness in decision-making, and compliance with the rules of procedure of the board of directors and the Corporate Governance Code. A common comment by the boards of directors of the water companies is the trouble with the allotted time for the meetings.

Power generation, distribution, transmission, and commercialization companies

Items assessed		CHEC		EDEQ		CENS		ESSA	
		2017	2018	2017	2018	2017	2018	2017	2018
1	Relationship of the board of directors with the company's management.	92% ●	96% ●	93% ●	96% ●	92% ●	94% ●	95% ●	96% ●
2	Performance and effectiveness of the board of directors as a deliberative body.	95% ●	97% ●	95% ●	98% ●	94% ●	98% ●	98% ●	96% ●
3	Roles of both the chairman and secretary of the board.	96% ●	99% ●	97% ●	99% ●	100% ●	100% ●	100% ●	100% ●
4	Individual performance as a member of the board of directors.	97% ●	97% ●	96% ●	98% ●	93% ●	99% ●	98% ●	99% ●
Total average		95% ●	97% ●	95% ●	97% ●	95% ●	98% ●	98% ●	98% ●

Items assessed		DECA II		Delsur		ENSA		HET		EPM Chile		EPM Transmisión Chile 2018
		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	
1	Relationship of the board of directors with the company's management.	90% ●	79% ●	89% ●	83% ●	94% ●	92% ●	79% ●	83% ●	88% ●	84% ●	83% ●
2	Performance and effectiveness of the board of directors as a deliberative body.	90% ●	88% ●	96% ●	92% ●	98% ●	95% ●	93% ●	98% ●	93% ●	91% ●	90% ●
3	Roles of both the chairman and secretary of the board.	93% ●	90% ●	97% ●	98% ●	98% ●	98% ●	100% ●	98% ●	98% ●	98% ●	100% ●
4	Individual performance as a member of the board of directors.	98% ●	93% ●	97% ●	98% ●	97% ●	98% ●	98% ●	97% ●	93% ●	97% ●	98% ●
Total average		93% ●	87% ●	95% ●	93% ●	97% ●	96% ●	93% ●	94% ●	93% ●	92% ●	93% ●

Approval levels

● Averages higher than 91%    ● Averages between 84% and 91%    ● Averages equal to or lower than 83%

The boards of directors of the companies in the energy business in Colombia continue to be the ones with the best results in their self-assessment, which shows the synchrony and alignment of the expectations among the governing bodies.

## Strengthening plan

Based on the results of the evaluation, each board of directors establishes a plan to strengthen its management and seek excellence.

This plan is agreed by the deliberative body and the monitoring of its implementation is part of the typical agenda of each affiliated company.

## Remuneration of the boards of directors of the companies of Grupo EPM

Grupo EPM recognizes the attendance at the meetings of the board of directors and at the committees in the companies that have these spaces.

The public servants of EPM who act as members of the board of directors in the companies of Grupo EPM do not receive additional remuneration for this role. Furthermore, each shareholders' meeting defines annually the amount to be paid to the external members and some partners (when applicable), as follows:

Companies	Value per meeting
Aguas Regionales	COP 1,106,575
Adasa	55 UF*
Ticsa	USD 800
CHEC	COP 1,562,484
ENSA	USD 2,000
Eegsa	USD 1,600
Delsur	USD 2,000
*Unidad de Fomento (unit of account used in Chile)	

## Managers of Grupo EPM

Since 2014, the management team of Grupo EPM, made up of the vice presidents of EPM and the managers of the operating affiliated companies in Colombia and Latin America, led by the CEO of EPM, has met periodically with two main objectives:

- To create a shared vision of the group.
- To empower the leaders of the companies as leaders of the group.

In each of the meetings, a specific topic is addressed, which is aligned with the strategic moment of the group and which strengthens the unity of purpose and direction.

In 2018, the Meeting of Executives was held on December 4 and 5. The topics addressed were:

- The Ituango hydroelectric project.
- The cultural transformation process.



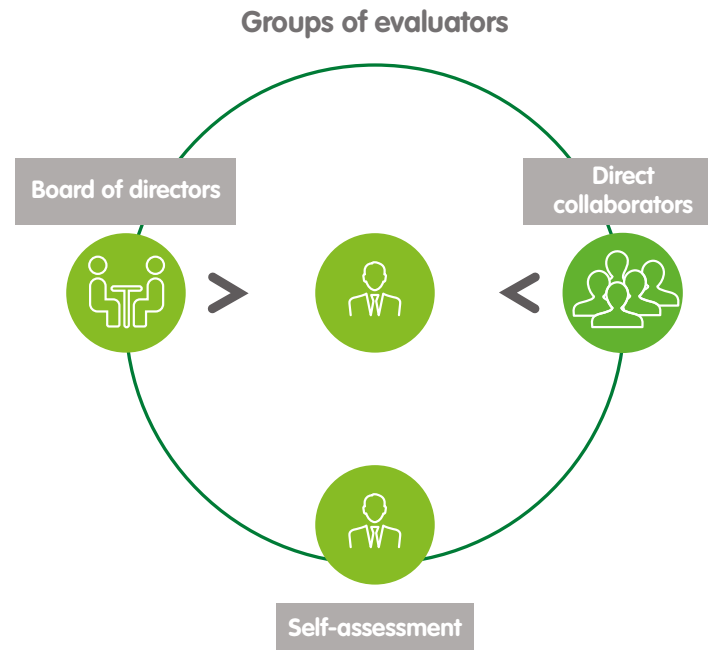
*Team of managers of Grupo EPM and team of vice presidents of EPM.*

## Assessment of the managers of Grupo EPM

Just as the CEO and leader of Grupo EPM is assessed, the managers of the companies of the group are also assessed based on the quantitative results of their management (the what) and the way in which said results were obtained (the how). The assessment considers the results obtained from the Balanced Scorecard, as well as the coherence of the management style of each manager with the behaviors and actions that Grupo EPM has defined for its leaders.



EPM has a unified methodology that consists of a multisource tool for assessing the descriptors associated with ten organizational actions defined for Grupo EPM. The actions are behaviors that show the presence of the cultural features of the group, defined to enable its strategic planning.



The following are the organizational actions defined by Grupo EPM to evaluate the exercise of leadership by the managers of the affiliates:

Ethical management	Service orientation
Create strategic vision	Development
Achieve results	Adaptability
Impact and influence	Innovation
Cultural sensitivity	Ability to learn



## Results and strengthening plans

The evaluation results are submitted to the February session of the board of directors of each affiliate. According to the feedback, each collegial body concludes whether the manager:

- Does not comply.
- Complies with the actions.
- Shows superior actions that allow him or her to be a role-model leader in the group.

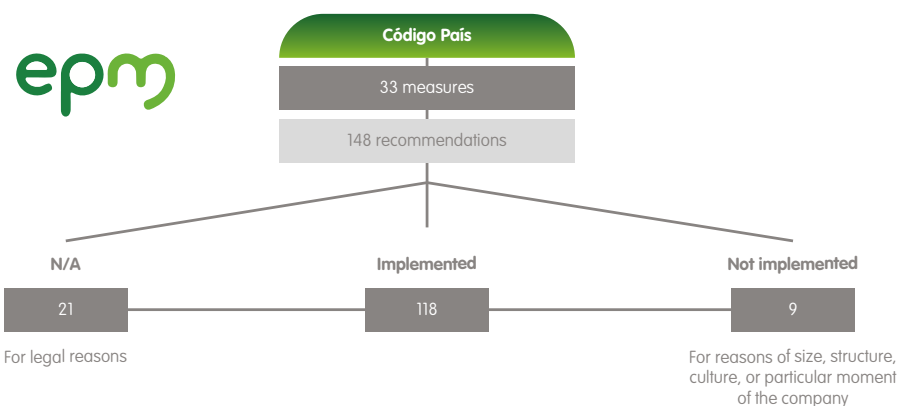
This evaluation is part of each manager's goals and is known as the management style indicator; in cases where the company has variable pay, it represents a significant factor for its annual bonus.

From this evaluation exercise, a strengthening plan is defined for the manager as well as a public statement about his or her performance, which is part of the annual management report of the corresponding company.

# Corporate governance assessments

## Código País

EPM submitted the 2018 Código País survey within the term established by the Financial Superintendence of Colombia, which explains the corporate governance practices adopted and applied during the period between January 1 and December 31, 2018.



The report of this survey is published on the EPM website.

## Dow Jones Sustainability Index

During 2018, improvement actions identified in the 2017 Dow Jones measurement results were implemented.

## Transparencia por Colombia (Transparency for Colombia)

For more than 10 years EPM has participated voluntarily in the Business transparency assessment, public utilities chapter, promoted by Transparencia por Colombia Corporation.

The overall goal of the Business transparency assessment (abbreviated MTE in Spanish) is to improve transparency and anti-corruption standards. It is a tool that identifies institutional designs and practices that lead to corruption risks.

Specific goals:

- Monitor and evaluate transparency and anti-corruption mechanisms and policies.
- Generate particular recommendations on transparency and anti-corruption.
- Promote spaces for dialogue and exchange of good practices.



With a final score of 89.6 points on average, EPM ranks low in corruption risk.

In this way, it is possible to identify the extent to which policies and mechanisms have been improved to prevent this risk, to facilitate access to information, and to promote spaces for dialogue and participation with the different stakeholders.

Based on the results, an improvement plan will be defined to be executed in 2019. It is intended to close gaps, meet the established goals, and improve rating in the next measurement.

## Relevant information

EPM is considered an issuer, since it participates in the Colombian public securities market through the issuance of bonds and commercial papers. Therefore, it is subject to timely notification on the market concerning relevant information arising in the course of its activities.

Furthermore, since it is a business group, the Financial Superintendence also requires the reporting of relevant information from its affiliates. In compliance with this requirement, Circular Letter 2018-CIR-1553 of October 10, 2018 was issued with detailed instructions and procedures, disclosed and accepted by all companies of Grupo EPM.

In addition, since 2013 EPM has received the Issuer Recognition -IR<sup>1</sup>- granted by the Colombian Stock Exchange (BVC), given the importance that markets have sufficient and timely information for investment decisions. This promotes the adoption of best practices among issuers in terms of disclosure of information and investor relations (IR).

## Credit risk rating

In view of the contingency that occurred in the Ituango Hydroelectric Project, and in order to maintain confidence, EPM continued its practice of informing credit risk rating firms, investors, and the financial market in general.

In 2018, EPM was able to maintain the level of international investment grade given by the rating agencies: Moody's Baa3 with negative outlook, and Fitch Ratings BBB, and national AAA.

In turn, the ratings granted definitively supported the financing strategy, which included loans of approximately USD 750 million with the international financial sector, and COP 1 trillion with local banks. Thus, liquidity risk was reduced.

Moreover, the energy affiliates in Colombia and Adasa in Chile performed positively by maintaining their AAA and AA ratings, respectively.

<sup>1</sup> [https://www.bvc.com.co/pps/tibco/portalbvc/Home/Empresas/IR/Empresas\\_IR?action=dummy](https://www.bvc.com.co/pps/tibco/portalbvc/Home/Empresas/IR/Empresas_IR?action=dummy)

# Corporate governance planning

## Monitoring of the 2018 Corporate Governance Plan

During 2018, a periodic monitoring was carried out regarding the fulfillment of the proposed activities, and improvements that facilitated their fulfillment were identified. Also, the management committee of the Board of Directors of EPM continued monitoring in August.

N.	Emphasis / Plan matters	Fulfillment (%) 2018
1	Strengthening of property management.	85%
2	Strengthening of Grupo EPM's governance bodies.	73%
3	Strengthening of the intra-group engagement.	90%
4	Strengthening of the framework for action of governance and its relations.	78%

### Legend

	Fulfillment equal to or greater than 90%.
	Fulfillment between 75% and less than 90%.
	Fulfillment below 75%.

## Achievements and progress in EPM

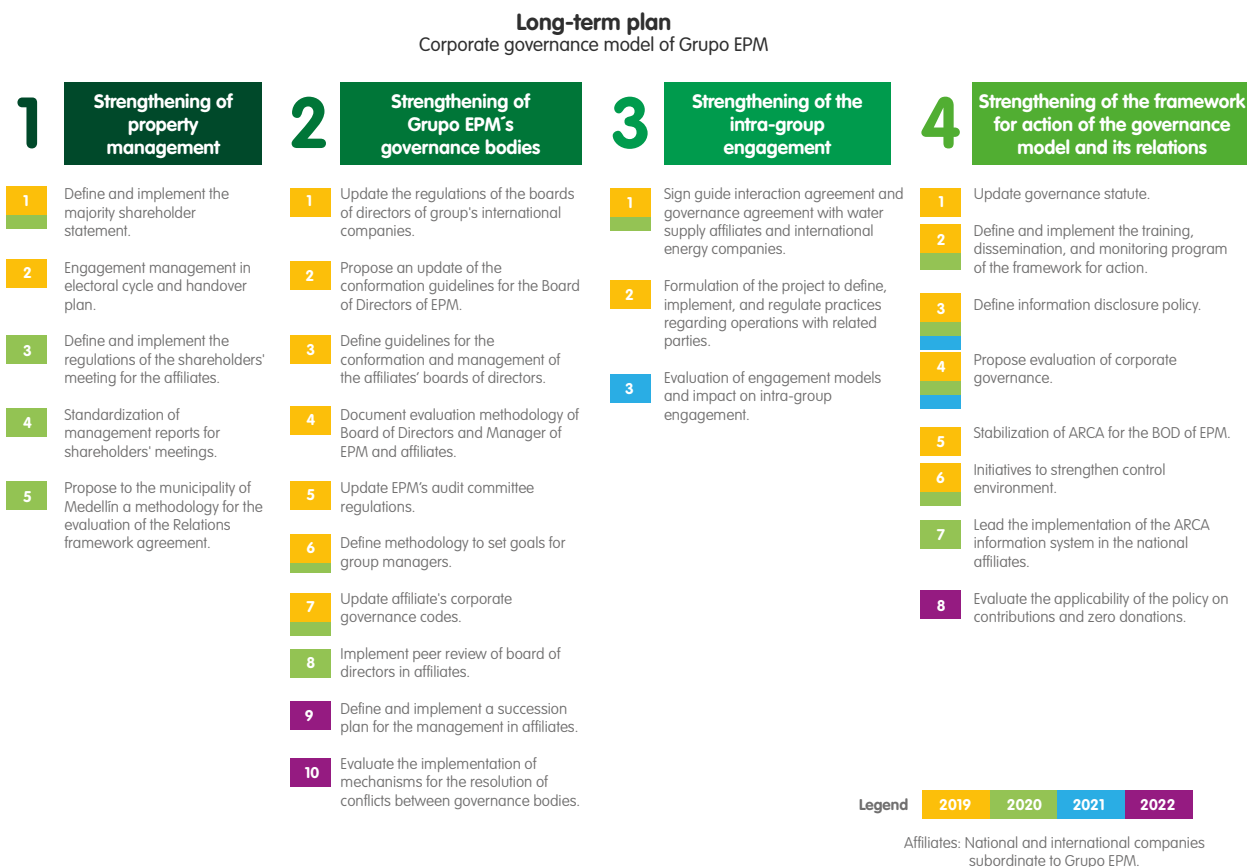
- Definition and implementation of the engagement plan with the owner.
- Evaluation and definition of the strengthening plan for the Board of Directors of EPM with the support of an external consultant.

## Achievements and progress in Grupo EPM

- Definition and implementation of the engagement plan with partners.
- Updating of the regulations for the boards of directors of the international affiliates.
- Updating of the evaluation mechanism of the boards of directors of the affiliates (sessions and annual).
- Evaluation and definition of the strengthening plan for the boards of directors of the affiliates.
- Updating of the guide for the execution and management of minutes of the governance agreement.
- Strengthening of the group audit through definition and implementation of the audit plan.
- Strengthening of fulfillment management at group level through:
  - Updating of the code of business conduct with group scope.
  - Progress in the design and implementation of procedures for consultation and verification of public lists in ENSA, Eegsa, and Delsur.
  - Actions focused on the implementation of accountability guidelines in group's national affiliates.
  - Implementation of the transparency and conflict of interest statements tool in the affiliates ESSA, EDEQ, CENS, and EPRio.

## 2019 – 2022 Corporate Governance Plan

The 2019-2022 Corporate Governance Plan was designed based on a multi-source analysis that consolidates a long-term vision and includes Grupo EPM's initiatives to maintain constant evolution in the area of corporate governance.



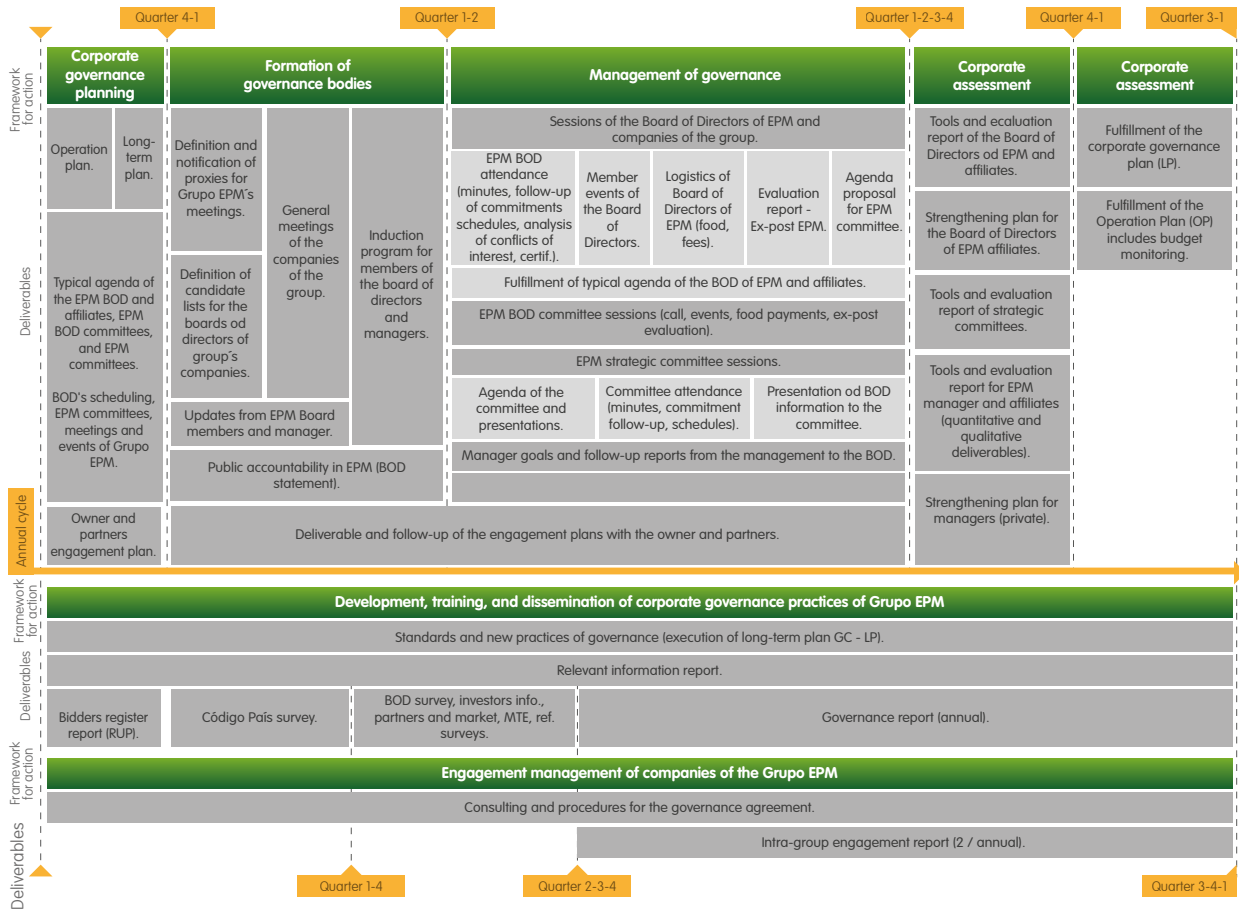
## 2019 Operation Plan of the Corporate Governance Unit

It consolidates the recurring deliverables of the annual corporate governance cycle, in accordance with the framework for action of Grupo EPM's governance model. (See Annex 1: governance bodies and framework for action). The outcome of the follow-up to the operation plan is detailed in this report.



## Operation plan

### Corporate governance model of Grupo EPM



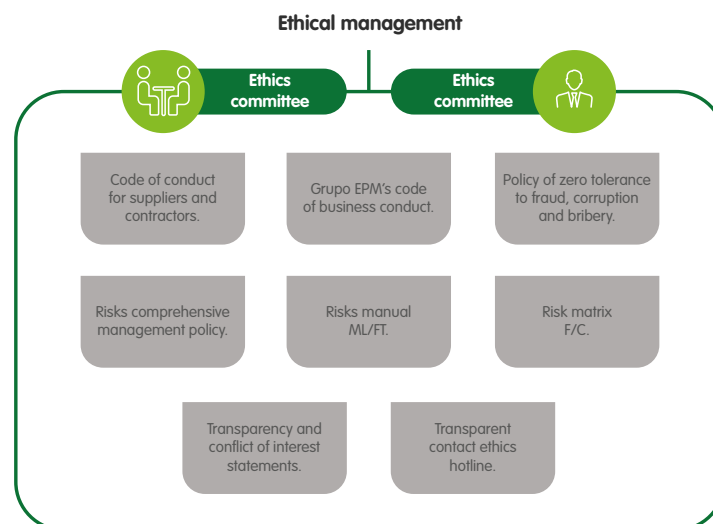
# Accountability

## Ethical management of Grupo EPM

### GRI 102-17

EPM is aware of its role in the society in which it operates and to which it provides its services. Therefore, it has established social responsibility as the cross-cutting theme that guides its actions and strategy for optimizing operations and growth.

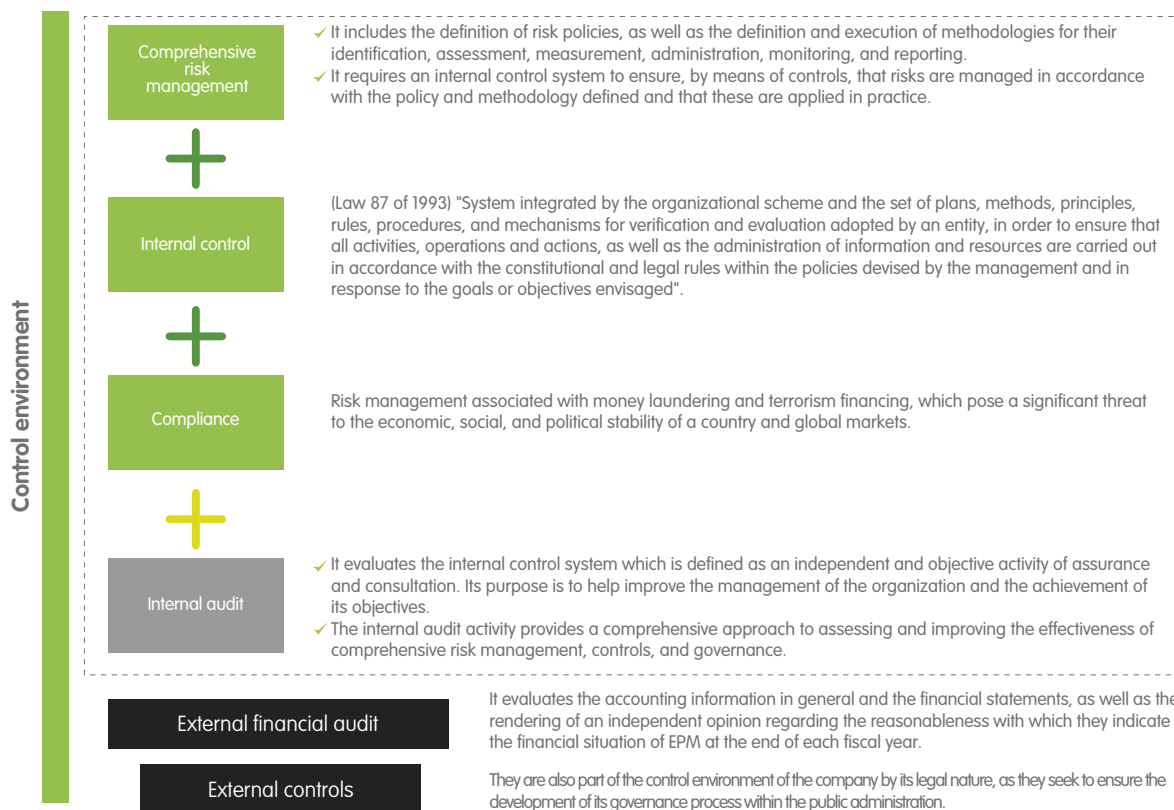
This responsibility becomes a reality in the performance of the human group that makes up the company, since each behavior we carry out reflects the principles of ethical action and values on which it is based.



## Control environment of Grupo EPM

Its legal nature, its 100%-public capital, the economic sector in which it operates, and its condition as an issuer of securities are reasons why EPM is a company broadly supervised by internal control mechanisms regulated by law and external control bodies, as well as those that have been voluntarily adopted and have been implemented in the companies of the group.

The control environment allows the company to have policies, processes, procedures, activities, and information that ensure the unity of purpose and direction, and that they comply with the internal and external legal framework that regulates us; all of this intending to achieve the objectives and the BHAG of the group. It also allows cohesion between the companies that are part of it.



## Corporate audit management

In 2018, 100% of the risk-based audit plan approved by the board of directors was implemented. It covers the processes with the highest level of risk and according to the prioritization criteria set based on the methodology.

949 audit assignments for assurance and consulting and management and development were implemented in Grupo EPM to assess mission, strategic, and support processes.

As a result of the audit work, improvement opportunities were identified that are managed by those responsible through the development of improvement plans and the verification of their fulfillment and effectiveness, in accordance with the monitoring carried out by the audit.

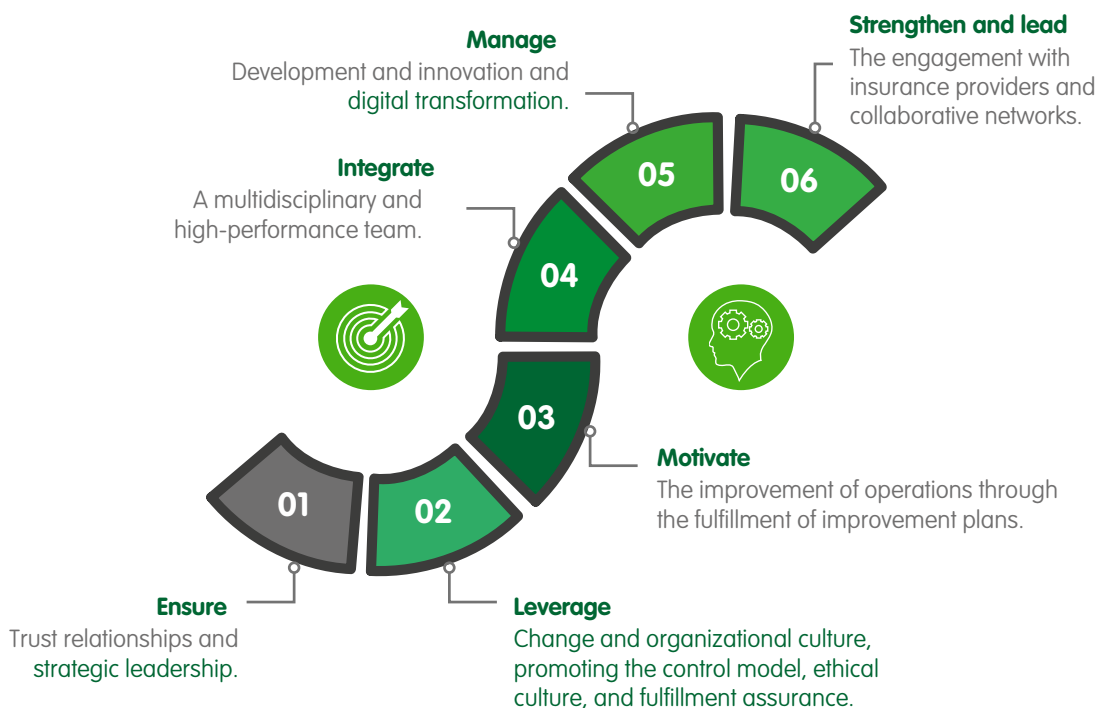
During 2018, the indicator for the formulation of improvement plans by audit work performed reached 91% in Grupo EPM.

In addition, as part of the corporate audit model whose purpose is to carry out assurance and consulting activities within the group, the following activities were performed:

- Definition and promotion of awareness-raising and communication plans in control culture, emphasizing the three lines of defense model and improvement plans.
- Support in the implementation of the group's ethical management elements.
- Quality assurance and improvement program (abbreviated PAMC in Spanish).
- Development of tools for data extraction and task automation.
- Consulting in the structuring of the Integrated Model of Planning and Management (abbreviated MIPG in Spanish).

Also, the audit team of EPM allocated 12% of the operating time to support the audit plan of the group's affiliated companies, as well as direct support in the audit management and development activities.

As a result of the strategic approach of the corporate audit for the 2018-2025 period, the strategic initiatives are framed within six management focuses:



## External audit plan **Código País 29.12**

Due to its legal nature of state-owned industrial and commercial company, EPM is not required to have an external financial audit. As a good corporate governance practice and in order to fulfill the commitments that the company has with multilateral banks, EPM hired an external financial auditor. The audit scope includes the opinion on the financial statements, an annual evaluation of the company's internal accounting control system (which is relevant for the preparation and reasonable submission of the financial statements), an audit to the information reported to the CREG by the network operators and related to the expenses of administration, operation, and maintenance (AOM), and a specific audit to certify EPM's fulfillment of the commitments established in the legal stability contract, as well as the verification of the corporate environmental management index (abbreviated IGAE in Spanish), verification of the sustainability report, and the financial audit for the district cooling project.

As external financial auditor for the Grupo EPM, the private firm KPMG S.A.S., which is one of the four largest audit firms in the world, was selected for the second half of 2018.

Contract	Purpose	Period (Start – End)	Payments in 2018
CT-2013-000094-R4 Deloitte	EPM requests the contractor to provide the external audit services required by the company.	01/01/2018 30/04/2018	COP 558,714,375 (before VAT)
CRW 11756 KPMG	EPM requests the contractor to provide the external audit services required by the company. Addendum to the contract for the final report of the Aguas Claras Wastewater Treatment Plant project (Bello), under the 2120 OC-CO credit.	01/05/2018 31/12/2018	COP 840,333,333 (before VAT)

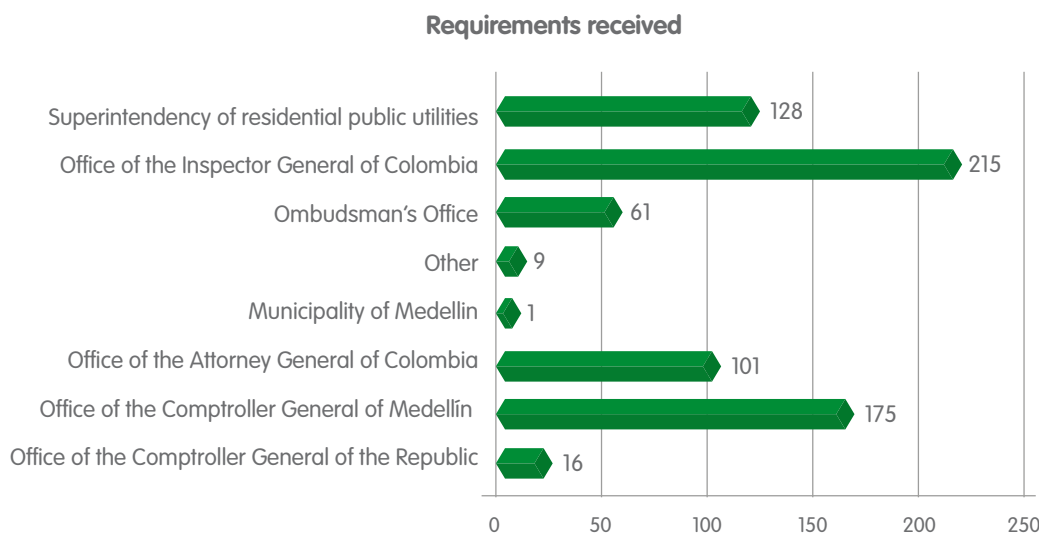
The value of the tax audit contract is COP 1,380 million. The fees paid by EPM represent 0.91% of KPMG's total revenue from tax auditing activity.

## Insurance providers

The exercise of control carried out by the external insurance providers (control entities) to the companies that are part of Grupo EPM has its origin in the Colombian National Constitution. According to this fundamental law, the control objects are different for each entity; however, in practice, the control is materialized on the same projects, processes, issues, or topics.

External insurance providers are all public entities at the municipal, departmental, or national level that exercise tax, disciplinary, penal, or management control over each of the companies of Grupo EPM.

In compliance with its accountability to the different entities in charge of tax, disciplinary, and penal supervision, EPM received a total of 706 requests from external control entities in 2018, with an indicator of 100% of response.



## Comprehensive risk management

**Código País 33.3 – iv. b) c) d); GRI 102-26 102-29 GRI 102-30 102-31**

The comprehensive risk management report is part of the sustainability report and can be consulted by [clicking here](#).

## Internal control

The MIPG is a new reference framework for directing, planning, executing, monitoring, evaluating, and controlling the management of public entities and agencies in order to generate results that meet development plans and solve citizens' needs and problems, with integrity and quality of service, according to decrees 1499 and 648 of 2017 of the Administrative Department of Public Service (abbreviated DAFP in Spanish).

The responsibility for the MIPG in EPM lies with its legal representative (Decree 2198 of May 2, 2018). Its institutionality is represented by both the Institutional Committee of Management and Performance and the Institutional Committee of Control Coordination (Decree 2192 of January 5, 2018). **Código País 33.3 – iv. a)**





## Compliance

### GRI 102-17

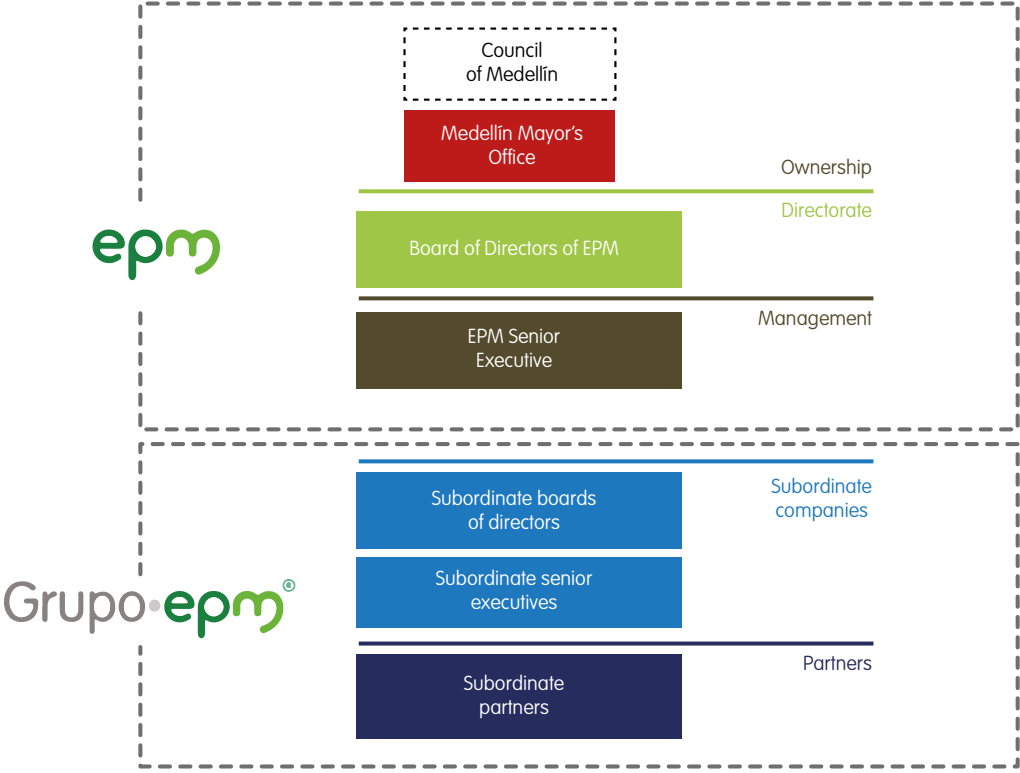
The compliance report describes transparency practices, is part of the sustainability report, and can be consulted by [clicking here](#).



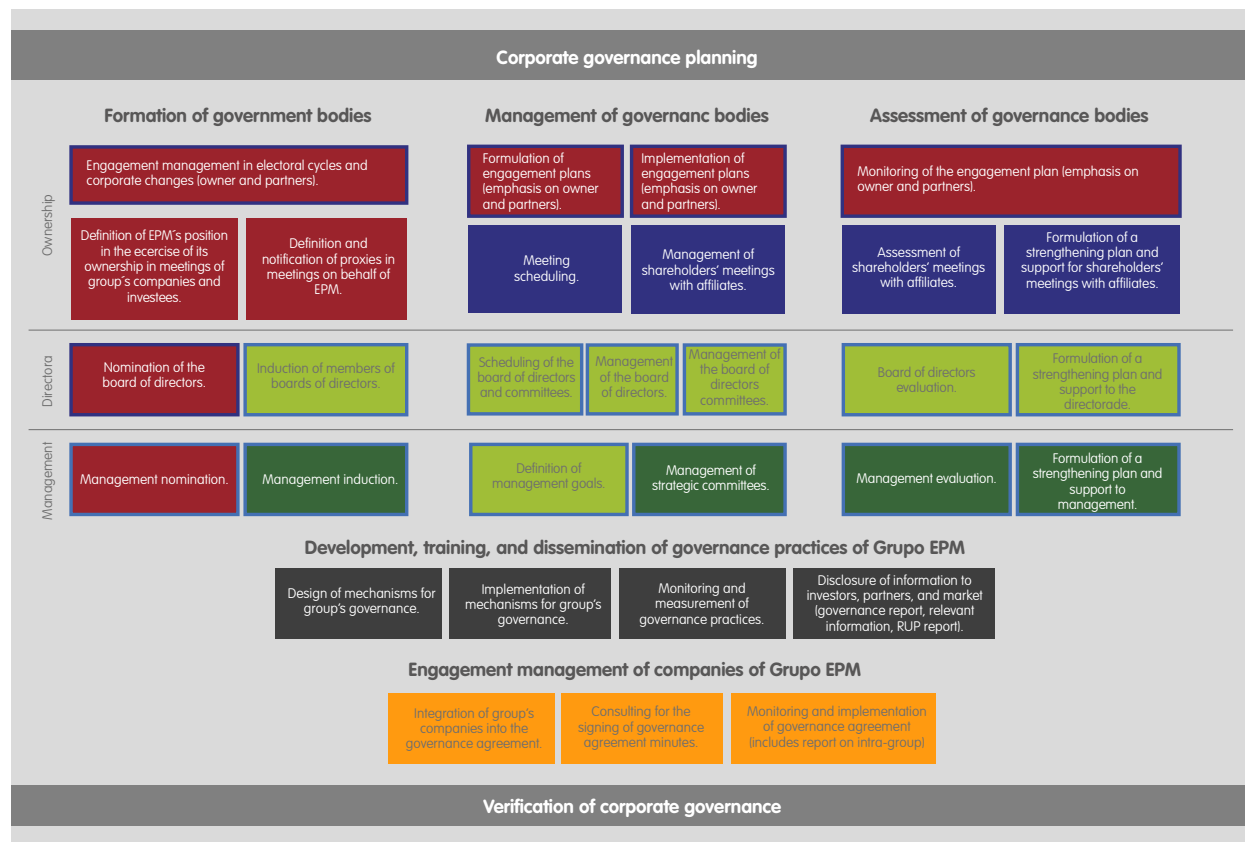
# Annexes

## Annex 1: Governance bodies and framework for action

### Governance bodies



## Marco de Actuación del Modelo de Gobierno del Grupo





## Annex 2: Context on the Relations Framework Agreement

The Relations Framework Agreement<sup>2</sup>, signed by EPM and the Municipality of Medellín in 2007, reflects the common goal of these two entities of creating conditions of business management that enable sustainability and creation of value for their stakeholders, but, especially, that make EPM a viable source of revenue for the city of Medellín.



<sup>2</sup> Link to the Relations Framework Agreement:

<https://www.epm.com.co/site/Portals/5/documentos/InformacionRelevante/1.%20Convenio%20marco%20de%20relaciones.pdf>

## Annex 3: Board of directors' profiles

GRI 102-18

Profiles of the members of the board of directors									
Education and experience / Board's member	Federico Gutiérrez	Andrés Bernal	Claudia Jiménez	Javier Genaro Gutiérrez	Manuel Santiago Mejía	Alberto Arroyave	Elena Rico	Gabriel Ricardo Maya	Carlos Raúl Yepes
Business management with an emphasis on international business		x	x	x	x		x		x
Financial management		x	x	x	x		x		x
Management of residential public utilities or other EPM's corporate sectors, including urban development	x		x	x		x	x	x	
Ethics, sustainability, and corporate social responsibility	x	x		x	x				x
Public management or legal management	x		x	x	x	x	x	x	x

The "profile" concept is understood as the area of knowledge in which someone has training and experience.





## Annex 4: Statement by the Board of Directors of EPM on the performance of the CEO

In its session held on March 26, 2019, the Board of Directors of EPM, in the performance of its duties for the strengthening of and the compliance with Corporate Governance practices, evaluated the performance of Jorge Londoño De la Cuesta, CEO of EPM and leader of Grupo EPM, considering the 2018 results described in its Management Report, as well as the assessment of the management style reflected in his actions, which are a proof of the organizational values in the fulfillment of the group's goals.


It is important to note that, except for the Mayor of Medellín, Federico Gutiérrez Zuluaga, the members exercise our functions with total autonomy before the management and the municipality of Medellín as the owner of the company.

We also highlight that EPM is and will continue to be a 100% public company at the service of all citizens.

The year 2018 brought enormous challenges due to the contingency of the Ituango Hydroelectric Project, a transcendental infrastructure work for Colombia, but also a regional development initiative that benefits 12 municipalities directly and over 160.000 people in its area of influence, not only through job generation, but through investments in institutional strengthening and the contribution to education, culture, residential public utilities and the strengthening of productive projects among communities, within the framework of the corporate social responsibility policy. With an optimistic attitude and immense gratitude for the support from so many people and institutions, we can affirm that we are making progress in the recovery of the project and committed to providing the country with the electrical energy that it requires for its development.

The board of directors recognizes not only the company's excellent financial and operational performance under the direction of Jorge Londoño De La Cuesta, but also its leadership capacity in facing the toughest year in the company's history, demonstrating a great balance and an exemplary integrity to address complex situations in a calm manner and transmitting peace of mind to the teams. His determination, dedication, commitment, and responsibility, added to his enormous hard work, have allowed him as a human being and professional to keep going without giving up, despite the adversities on all fronts. His exceptional human qualities are undoubtedly a hallmark that will forever mark the history of this institution.

In particular, we want to highlight how Jorge Londoño has handled the contingency of the Ituango Hydroelectric Project. He has always been present in every situation that has required attention and has permanently support the internal and external teams, with ability and determination to make difficult and risky decisions, attentive to respond to all the requirements from various organisms and interested people, and with a transparent, effective, and accessible information to every audience, prioritizing always the life of the people, the environment, and the project. Today, thanks to the work of our CEO and his team, we are optimistic about the definitive recovery of the project and the possibility of being able to meet the commitments we have acquired with Colombians.



Grupo EPM is an example of perseverance in its business purpose and a symbol of strength and leadership supported by principles and values. It has a history that has allowed it to overcome different situations, strengthen its spirit, and make its organizational culture evolve, seeking to remain in time and grow through sustainability criteria. The presence of Grupo EPM in Antioquia, in several regions of Colombia, and in different Latin American countries represents the materialization of a business strategy with a long-term vision, which has contributed to maintaining its financial strength and to the development of the territories where it operates, by generating well-being, opportunities for people, and improving their quality of life.


Among the main financial results obtained through its businesses and affiliate companies, the group achieved revenues amounting to COP 16.3 trillion, with a 9% increase compared to the previous year; an EBITDA amounting to COP 5.1 trillion, 8% higher than that of 2017; and a period result of COP 2.4 trillion, which means an increase of 4% compared to 2017. These results, in general terms, are in line with and, in some cases, exceed the goals proposed for 2018. In turn, the parent company, EPM, achieved revenues amounting to COP 8.2 trillion, with a 10% increase compared to the previous year; an EBITDA amounting to COP 3.3 trillion, 7% higher than that of 2017; and a net profit of COP 2.3 trillion, which means an increase of 7%, results that continue to grow and exceed the goal we set for 2018.

During 2018, EPM made, to its owner, the municipality of Medellín, transfers framed within the principle of sustainability, so that they are used for social investment and the payment of public lighting, in accordance with the provisions of Agreement 069 of 1997. These transfers amounted to COP 1.5 trillion.

Grupo EPM has a positive impact reflected in the generation of economic added value amounting to COP 8.6 trillion, which is distributed as follows:

- Reinvestment in company 26%
- Owner 17%
- Goods and services suppliers 17%
- Grupo EPM people 16%
- Financial suppliers 14%
- State 6%
- Community and environment 2%

The previous results have been obtained within the framework of some categories known as “4C+1G” (closeness, coverage, consolidation, care for the environment, and growth) around which the CEO will report on his management. The regional initiatives, in Urabá and Eastern Antioquia; the achievements related to the Unidos por el agua (United for water) program in Medellín, which closed the year with a total of 23,068 homes connected to the water supply and sewerage services; and various initiatives implemented by the national affiliates, which improve the universalization of public utilities, stand out. We also highlight the accumulated results in the protection of watersheds, which have exceeded the goals set; the progress made in the Sanitation and Wastewater Management Plan in Medellín; and initiatives to promote sustainable mobility. All these initiatives reaffirm our commitment to the city, the department, and the country. Moreover, part of the results include a huge effort to save costs and expenses, austerity in the operation of the entity, and some shifts in non-strategic investments for the near future.



In the second half of 2018, an adjustment was made to the group's strategic planning, in which the following aspects were prioritized:

1. Recovering the Ituango hydroelectric project.
2. Obtaining sources of liquidity.
3. Making businesses profitable.
4. Growing based on the initiatives within the framework of the prospective 2025 vision exercise.
5. Contributing significantly to evolution of the organizational culture.

The board of directors and the management team, headed by the CEO, will work together during 2019 to achieve a sound result in the main future challenges of Grupo EPM, both in terms of the recovery of the Ituango Hydroelectric Project, in the continuity of important social projects such as the Unidos por el agua (United for water) and the Unidos por el gas (United for natural gas), as well as in the other focal points of its strategic planning. This will be done following a path that will be marked by innovation, digital transformation, the development of power generation projects from non-conventional renewable sources, new models, and additional services to offer solutions for homes and businesses. These initiatives will lead to efficiency in the operation and synergy between the different businesses, among others, thus strengthening the performance as a business group.

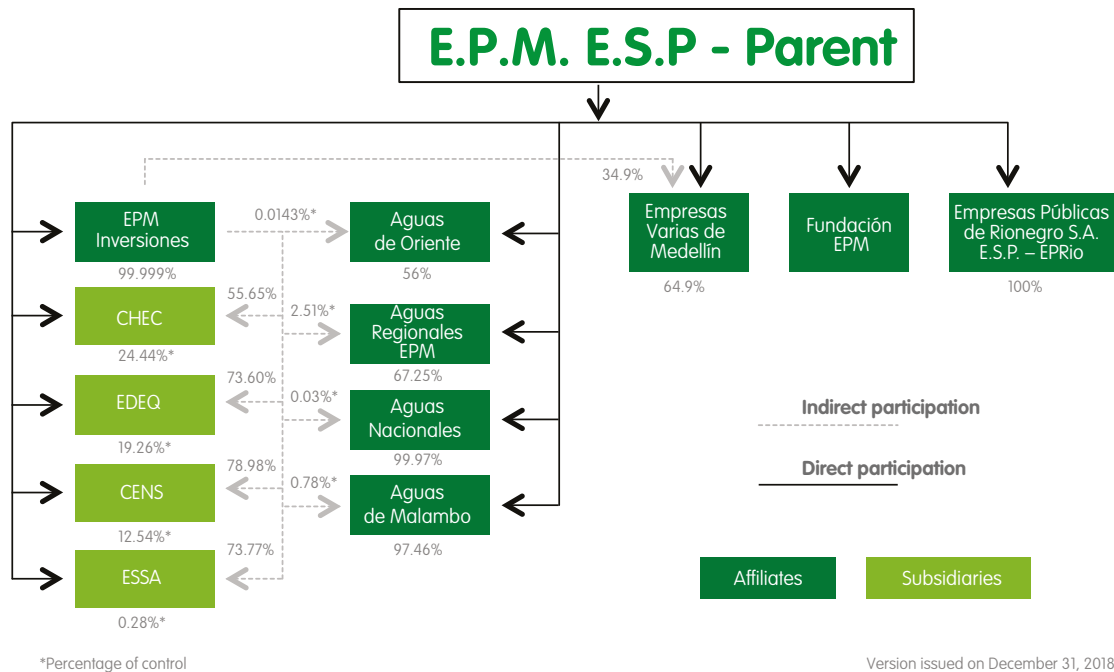
Receive, Mr. Londoño, on behalf of the board of directors, our most sincere congratulations and our gratitude for the work you and your team do.

Signed

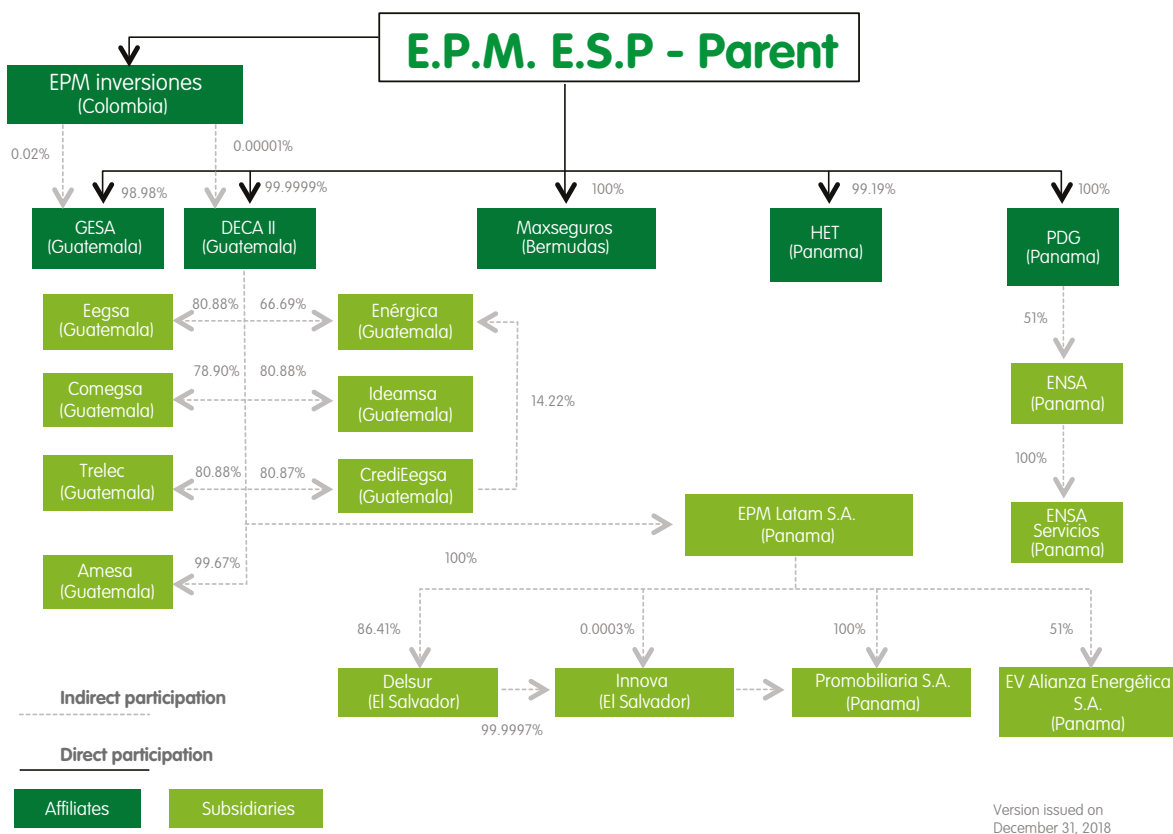
Claudia Jiménez Jaramillo  
Chairwoman of the Management  
Committee from Board of  
Directors of EPM

## Annex 5: Grupo EPM's shareholding structure

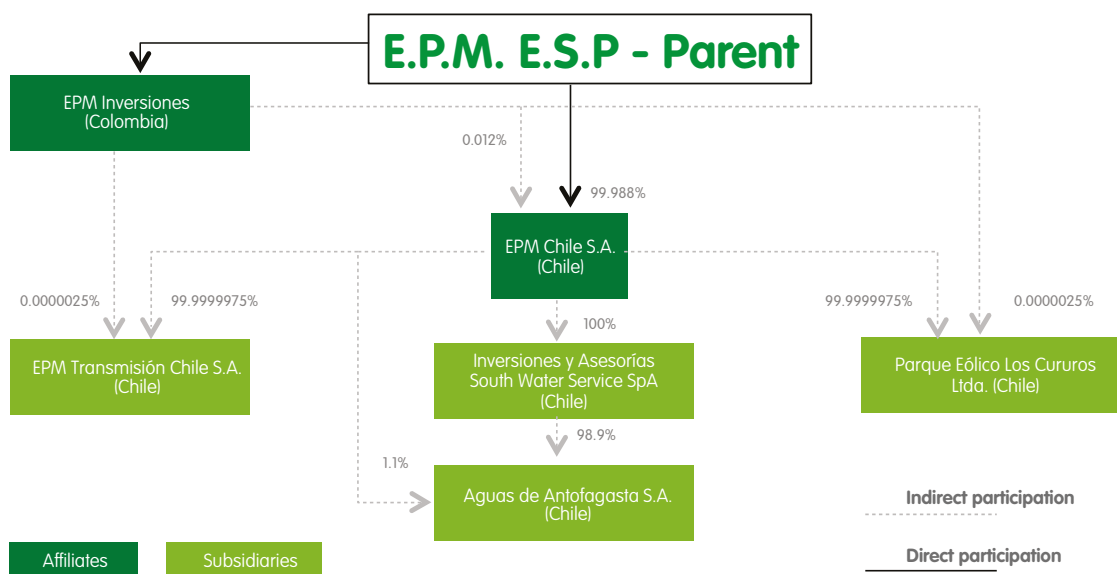
### Affiliates and subsidiaries in Colombia



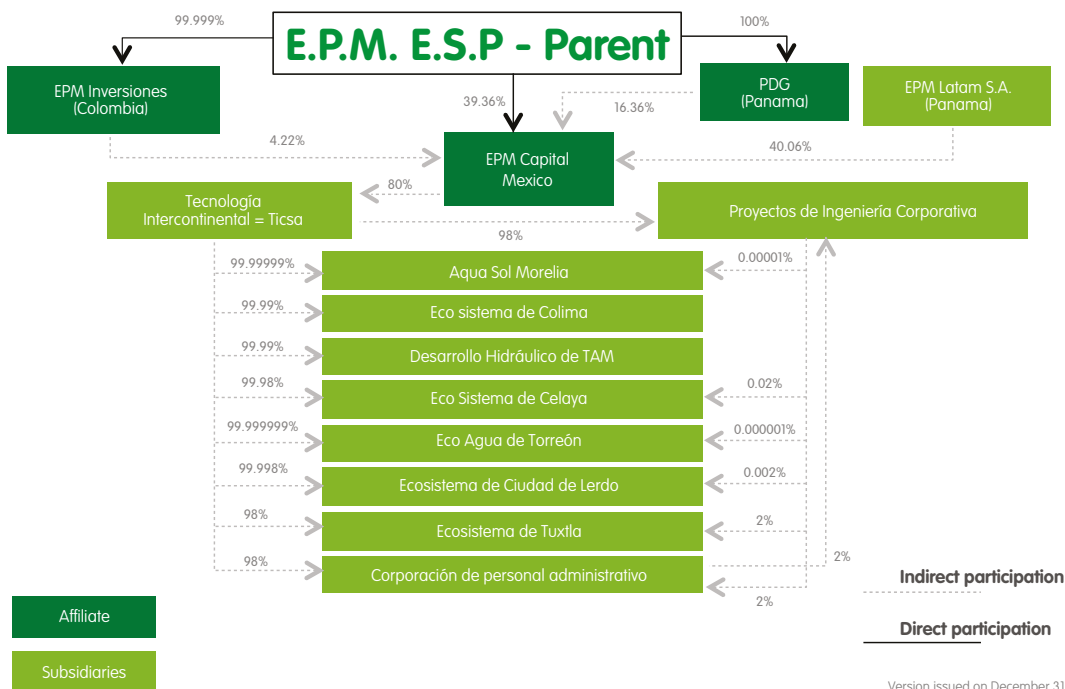
## Affiliates and subsidiaries in Central America and the Caribbean



## Affiliates and subsidiaries in Chile



## Affiliates and subsidiaries in Mexico





# 2018 Sustainability Report

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