

Report of Corporate Governance 2012

Institutional Presentation

The growth of EPM, from a municipal public company, responsible for the provision of water and energy services for a local metropolitan conglomerate, to becoming the main company for public services in Colombia and the head office of the second business group in the country, with international operations, has imposed important challenges from the perspective of corporate governance. This growth has led the company to adopt an explicit improvement strategy for this material, using the highest international standards for companies with a public nature as references.

In compliance with the practices of good governance, EPM presents this report as a commitment to the publication of information and transparency with investors and other stakeholders.

This document describes the main advances and achievements related to corporate governance of the EPM Group during 2012. For this reason, the report has been divided into five chapters:

- Chapter 1:** Conceptual framework of corporate governance in EPM
- Chapter 2:** Management of governance organizations in EPM
- Chapter 3:** Management of governance organizations in the EPM Group
- Chapter 4:** Results with regards to compliance with corporate governance practices on the pillars of the EPM Corporate Governance Model: compliance, control environment and accountability.
- Chapter 5:** Report on monitoring of annual plan of corporate governance activities in 2012 and challenges for 2013.



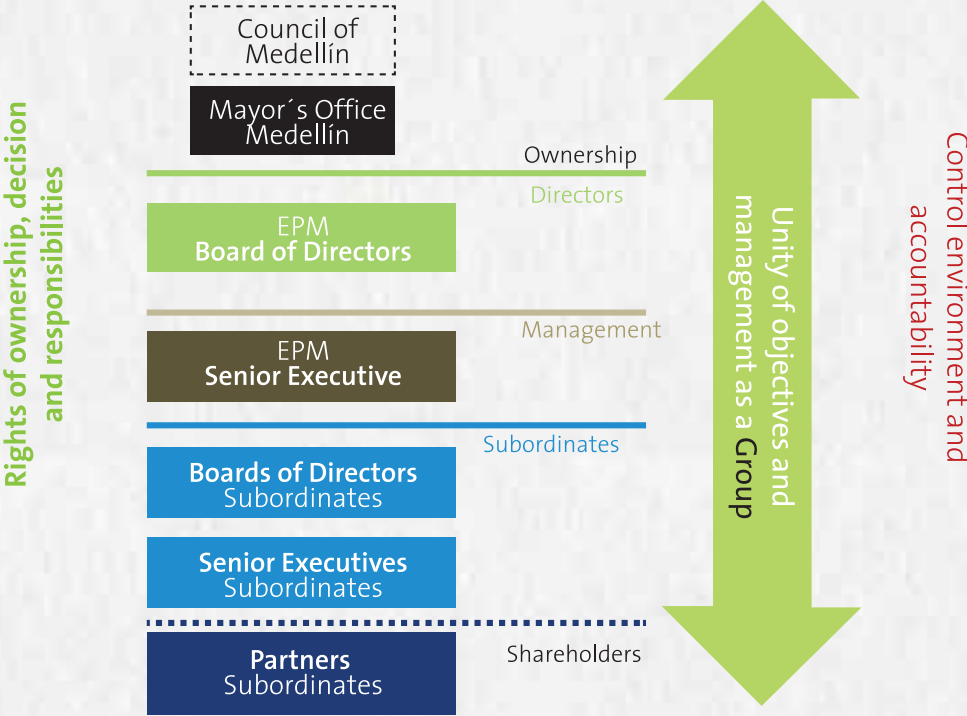
Chapter 1. Conceptual framework of EPM corporate governance

EPM understands **corporate governance as a set of practices and standards that establish an appropriate and necessary balance between the owners, directors and management of the company**, allowing them to ensure proper corporate governance in an environment of transparency toward stakeholders and the market in general.

Corporate governance at EPM defines the rules of play for the exercise of ownership, decision making and the scope of responsibilities of each governance organization, with the objective of preserving the proposals and management of the business group, always procuring sustainability and generation of value for the company.

In Image 1, the different relations between governance organizations are described, which are handled by the EPM Corporate Governance Model.

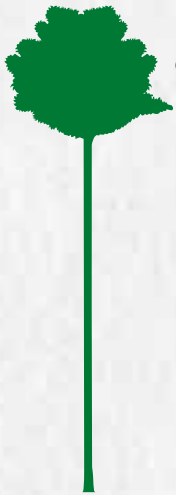
Image 1: Governance organizations in the EPM Group



Interaction between the different levels of governance in the company should guarantee adequate assignation of rights of ownership, decision and responsibilities at each level, always within a control and accountability environment, in such a manner that the Governance Model optimizes the generation of value for the business group set.



Chapter 2. Management of governance organizations in the EPM Group



City Hall of Medellín,
owner of EPM

Ownership: Municipality of Medellín

All ownership rights of EPM are held by the Municipality of Medellín, represented by the Mayor of Medellín, who, in virtue of the Colombian legal framework, names the General Manager, presides over the Board of Directors and directly names the members that form part of the same.

The relationship with the Municipality of Medellín in its role as owner of EPM is only through the participation of the Mayor of the city within the EPM Board of Directors, as well as in the transfer of financial excess generated in the business management.

An agreement between the city of Medellín, through the Municipal Council and EPM, within the Articles of Association of the entity, establishes that the company must annually transfer to the Municipality, in an ordinary manner, a percentage equivalent to 30% of the net adjusted income (net income before adjustments for inflation minus taxes). However, in exceptional cases and at the request of the Mayor, transfers can be decreed for amounts higher than that defined, which must be previously approved by the Council of Medellín.

The extraordinary requirements for financial transfers from EPM to the Municipality must be in accordance with the financial sustainability of the entity, in such a manner that the requirements of the Municipality are attended to without negatively influencing the long-term feasibility, solvency and financial stability of EPM.

Below, the detailed figures of ordinary and extraordinary transfers are presented for 2012.

To find out more about other roles of the Municipality of Medellín, see the Owner stakeholder.

Principles of the relationship with the owner: Relations Framework Agreement

The Relations Framework Agreement, signed between EPM and the Municipality of Medellín in 2007, explicitly includes a self-limitation on the Municipality's use of their ownership rights in exchange for the sustainability of the EPM business conglomerate. The Relations Framework Agreement also formalizes the Municipality's self-regulation statement by explicitly establishing respect for the company's administrative autonomy, ensuring the appointment of directors with the best personal and professional qualities, maintaining independence in the operational management of the financial resources and keeping the Municipal Development Plan coherent with the long-term investment plans.

The limitation of ownership rights of the Municipality imposes conditions on EPM. For this reason, through the Agreement, the company commits to carry out efficient and productive management of its assets, to agree on the transfer plan with the owner, to use the legally established methods of communication company-owner and, particularly, to always act with transparency, impartiality and objectivity.

In 2012, EPM and the Municipality of Medellín issued a proposal to amend the Framework Agreement, as a joint effort that is the result of the statement made by the Municipal Government concerning their intent to ensure EPM has the corporate governance mechanisms that are appropriate to its special nature, that will allow the company to be properly managed, to obtain the

resources needed to undertake the outlined strategic imperatives, to be highly competitive at a national and international level, and to gain the confidence of its investors. This amendment will be a way to strengthen the Agreement by incorporating citizen measurement and monitoring mechanisms to the commitments agreed therein by both parties.

It is expected that in 2013 the Municipality of Medellín and EPM will sign the proposal to modify the Framework Agreement, in order to ratify the willingness expressed by both on April 23, 2007. This would strengthen the Agreement, updating it to the new business and social reality of the city.

Transfers 2012

The Medellín Council determined that the percentage of EPM's financial surplus that could be transferred to the Municipality through ordinary means would be equivalent to 30% thereof. The Framework Agreement on Governance established that additional, extraordinary transfers could be made, taking into consideration the financial requirements of the Municipality for specific investment programs and EPM's financial needs for its own management, so that this would not put business viability or its expansion projects at risk.

The additional transfers must, in all cases, be authorized through agreement with the Municipal Council, with the prior approval of the Mayor for the social investment for which the transfers are intended, and with prior consultation with the company on the impact on its investment plan and credit risk rating.



EPM building

In 2012, the ordinary surpluses transferred were equivalent to COP 458 billion, which corresponds to 30% of the profits for 2011. In addition, there were extraordinary contributions totaling COP 381 billion.

The ordinary transfers were made on the basis of the accounting calculations of the financial surpluses at the end of the previous fiscal year. The extraordinary transfers, in turn, were in all cases approved in advance by the City Council after evaluating the needs stated by the city’s Mayor and the company’s investment plans.

In total, during 2012, COP 839 billion were transferred, as is shown in the following table:

During the last three years

	Transfers from EPM to the Municipality of Medellín			
	2010	2011	2012	% of total value transferred
Ordinary transfers	509,343	437,346	458,095	55%
Extraordinary transfers	337,500	360,154	381,746	45%
Total transfers	846,843	797,500	839,841	100%
Variation transfers	44%	-6%	5%	

Payments of extraordinary transfers correspond to the following:

- Second installment for COP 50 billion for the loan cancellation program for registrations and sustainability of higher education for young people at levels 1, 2 and 3, authorized through Agreement No. 53 of 2010 of the Council of Medellín. (Three annual installments of COP 50 billion each are paid in 2011 - 2013).
- Additions to the budget of the Municipality of Medellín for compliance of the commitments acquired by EPM within the Municipal Development Plan for COP 51.746 billion.
- Social investment for COP 280 billion, through Agreement No. 5 of 2012.

Total extraordinary transfers	2011	2012
Priority projects Development Plan for Medellín	187,500	51,746
Higher education credits	50,000	50,000
Social investment	122,654	280,000
Total	360,154	381,746

In agreement with the By-laws of EPM, and in compliance with the Framework Agreement, the transfers made were analyzed from a financial perspective, and as in previous years, the figures transferred do not compromise the long-term financial feasibility of the company.



Members of the EPM
Board of Directors

Management – Board of Directors

- In compliance with our By-laws, Agreement 12 of 1998, and with the Corporate Governance Code, we present to you the following information related to management of the Board of Directors in 2012, which is divided into the following sections:
- Formation of the Board of Directors
- Management of the Board of Directors
- Management of support committees of the Board of Directors
- Remuneration of the Board of Directors
- Evaluation of the Board of Directors
- Conflicts of interest

Formation of the Board of Directors

De acuerdo con la Ley 142 de 1994 y los Estatutos de In accordance with Law 142 of 1994 and the By-laws of the company, the EPM Board of Directors consists of nine members:

- The Mayor of the City of Medellín, as President of the Board
- Five persons freely designated by the Mayor of Medellín.
- Three persons chosen by the Mayor of Medellín from among the oversight representatives registered with

the Social and Development Oversight Committees for Household Public Services¹.

Of the nine members, only the Mayor as President of the Board may designate a delegate to replace him in the case of temporary absence, who must be a public servant of the municipal administration.

The present members, as well as the Mayor himself, promised to comply with the regime of disqualifications and conflicts of interest established in the Law.

In accordance with the establishments of the Code of Good Governance of the company and the Framework Agreement for Relations with the Municipality of Medellín², five of the members of the Board must be independent.

For a member of the Board of Directors to be considered independent, they must comply with the following requirements:

- a. Not exercise nor have exercised as an employee or executive of EPM or any of its affiliates or subsidiaries, including people with said quality during the year previous to their designation.
- b. Not exercise nor have exercised during the year previous to their designation as Office secretary or employee of the municipality of Medellín or any of the entities controlled, assigned to or associated with the same.

¹ In accordance with Article 27.6 of Law 142, 1994.

² This requirement is specified in Law 964 of 2005 which regulates the issuers of securities.

- c. Not be an employee or executive of a foundation, association or society that receives contributions or sponsorship from EPM.
- d. Not be an administrator of an entity where EPM participates in the Board of Directors.
- e. Not exclusively depend on the income received as fees for pertaining to the EPM Board of Directors.

During 2012, four of the members designated by the Mayor of Medellín complied with the characteristics of independence mentioned. Furthermore, a position that is currently vacant will be covered in said organization, with a quality member from the Oversight Committee.

From May 2012, the Board of Directors had the following formation:

Formation of the EPM Board of Directors 2012

Name	Board Position	Independent Y/N
Aníbal Gaviria Correa	President	No
Rubén Hernando Fernández Andrade	Member	No
Luis Fernando Arbeláez Sierra	Member	yes
Beatriz Restrepo Gallego	Member	yes
Andrés Bernal Correa	Member	yes
Manuel Santiago Mejía Correa	Member	yes
Gabriel Ricardo Maya Maya	Supervisory Member	No
Alberto Arroyave Lema	Supervisory Member	No
Vacant	Supervisory Member	Not applicable

Note: during the first months of the year, the following changes took place in the formation of the Board of Directors: 1) Mr. Francisco Correa Molina participated in the Board of Directors meetings held in February, and 2) Ms. Tatyana Aristizábal Londoño participated in the Board of Directors meetings held in February and March, after which they resigned from their positions.



Session of the EPM Board of Directors

Management of the Board of Directors

In order to facilitate the actions and management of the Board of Directors in 2012, as well as to apply some of the stipulations contained in the Internal Regulations of the Board, the General Secretariat created an agenda with the annual program of activities for issues that are continuously presented to said organization, indicating the meeting, the objective, the person responsible and the estimated duration of the presentation.

During the year, as a permanent point of the agenda for the meetings of the Board, the issues pending, derived from previous meetings, were included with the objective of facilitating their monitoring.

On the website for the members of the board, the agenda for the meetings was published, along with support documents, some pending issues, information of general interest, seminars and events, among others.

In order to meet the requirements of the Internal Regulations of the Board of Directors, on the website the information corresponding to each meeting was published with the prior notice established in the regulations, that is to say, five calendar days before the respective meeting.

To efficiently meet the training needs of the members of the Board of Directors, a general training plan for the Board was created. In this manner, six meetings were held during on July 19, August 3 and 31, September 14, October 19 and November 16, 2012. The most relevant content dealt with in said programs was made available to the members of the Board of Directors, via publishing on the Board’s website. Beatriz Restrepo Gallego, Manuel Santiago Mejía Correa and Andrés Bernal Correa participated in the mentioned training plan.

During 2012, the Board of Directors held a total of 12 ordinary meetings, following the annual meeting schedule contained in Minutes Record 1543

of February 7, 2012; it followed this schedule 67% of the time, considering the fact that it was necessary to reschedule the planned dates of four of the meetings on request of the Mayor of Medellín, in order to facilitate attendance of the members of the Board, who were informed of this in a timely fashion. Also, the Board of Directors held an extraordinary meeting.

The meetings of the Board of Directors had the quorum established to deliberate and decide, in accordance with the establishments of Article 13 of the company By-laws3.

Attendance at the corresponding meetings is described in the following table:

Member of Board of Directors	Attended	Did not attend	Total	% Attendance per member
Aníbal Gaviria Correa or delegate4	13	0	13	100%
Alberto Arroyave Lema	13	0	13	100%
Rubén Hernando Fernández Andrade	13	0	13	100%
Gabriel Ricardo Maya Maya	13	0	13	100%
Luis Fernando Arbeláez Sierra	12	1	13	92%
Beatriz Restrepo Gallego	13	0	13	100%
Andrés Bernal Correa	8	5	13	62%
Manuel Santiago Mejía Correa	7	1	8	87%
Tatyana Aristizábal	2	1	3	66%
Francisco Correa Molina	1	1	2	50%

3 Article 13: “Quorum and decisions: A quorum for deliberation in all meetings of the Board of Directors will be established with the majority of the members. Equal majority will be required to validly decide upon issues within competence.”

4 Under the Statute of EPM, Article 7 paragraph a) “Medellin Mayor who shall preside, or his designee representative to replace him on temporary absences”.

Some of the main topics deliberated during 2012 by the EPM Board of Directors were:

- Approval of the EPM financial status of the previous year.
- Approval of the budget and modifications of the same.
- Periodical reports of the EPM financial status and the consolidations of the EPM Group.
- Analysis of the committee management reports from the Board of Directors.
- Management results of the affiliate companies of electricity, water and telecommunications.
- Adjustments to the organizational structure and planning projects and development of human talent.
- Corporate Social Responsibility Model and sustainability and corporate governance reports.
- EPM Business Group Internal Control System.
- Investment Plan 2013 - 2016.
- Project progress such as Ituango, Nueva Esperanza, Espíritu Santo and others.
- Investment alternatives at the national and international level.
- Growth strategy for Natural Gas.
- Approval of policies for Control and Human Rights.
- EPM plan for expansion and investment.
- Progress of the construction of the wastewater treatment plant in Bello. Progress of the project for adoption of the International Financial Reporting Standards by EPM and the affiliate companies.
- Strategic Addressing Business Group 2012 - 2022 and Strategic Plan.
- Topics of users, business structure and sustainability.



EPM Board of Directors annual self-evaluation workshop

Management of support committees of the Board of Directors

In relation to the management of committees of the Board of Directors, until August 2012, said organization had the support of the following committees: Audit, Administrative Issues and New Businesses.

Starting in September, the Board of Directors restructured the support committees as part of the implementation of improved corporate governance practice, creating 4 committees, namely: Strategy, Management, Audit and Project Monitoring.

Below, the principal issues referring to management of Board committees are described:

Committees that operated until September 2012

Committee	Decree of creation	Functions	Members	Sessions
Audit Committee	Decree 217 of 2006 by the Board of Directors, modified by Decree 323 of September 11, 2012.	<ul style="list-style-type: none"> - Supervise compliance with the internal auditing program - Monitor preparation, presentation and revelation of financial information. - Control compliance with specific practices of corporate governance 	<p>From January to September: Alberto Arroyave Lema, Gabriel Ricardo Maya Maya and Tatyana Aristizábal Londoño that participated in the Committee until the month of March.</p> <p>From September on: Andrés Bernal Correa, Manuel Santiago Mejía, Alberto Arroyave and a space reserved for the person occupying the vacant supervisory member. There was also a permanent member delegated by the Mayor of Medellín.</p>	10 sessions
Strategy Committee	Decree 322 of September 11, 2012	<p>Detailed analysis, promotion and monitoring of:</p> <ul style="list-style-type: none"> - EPM Strategy - Mechanisms to ensure strategic and operative coordination and information flow for EPM and the Group - Business Policies - Corporate Governance Policies - New business or investment projects 	Andrés Bernal Correa, Manuel Santiago Mejía, Gabriel Ricardo Maya and a space reserved for the person occupying the vacant supervisory member position.	3 sessions
Management Committee	Decree 321 of September 11, 2012	<p>Detailed analysis, promotion and monitoring of:</p> <ul style="list-style-type: none"> - Corporate social responsibility, sustainability and environmental management - Plans for relations with stakeholders - Corporate reputation - Configuration of Board committees - Administrative structure - Performance evaluation of EPM General Manager 	Beatriz Restrepo, Rubén Hernando Fernández, Gabriel Ricardo Maya and Luis Fernando Arbeláez.	3 sessions
Project Monitoring Committee	Decree 342 of September 11, 2012	<p>Detailed analysis, promotion and monitoring of:</p> <ul style="list-style-type: none"> - Formulation, execution and evaluation of projects - Risk map for recommended projects - Project status and communication with Board of Directors 	Beatriz Restrepo, Rubén Hernando Fernández, Gabriel Ricardo Maya and Alberto Arroyave. There was also a permanent member delegated by the Mayor of Medellín, the Director of Town Planning.	2 sessions

Committee	Decree of Creation	Functions	Members	Sessions
Committee of Administrative Issues	Decree 268, July 7, 2009, valid to September 2012.	Analyze in detail administrative issues of interest to the Board of Directors	Francisco Correa Molina, Rubén Hernando Fernández Andrade and Luis Fernando Arbeláez Sierra.	5 sessions
Committee of New Businesses	Decree 274, February 2, 2010, valid to September 2012.	Analyze in detail the development of new business that promote national and international growth	Andrés Bernal Correa, Beatriz Restrepo Gallego and Tatyana Aristizábal Londoño, who, on leaving the Board of Directors, was replaced by Manuel Santiago Mejía Correa.	5 sessions

Remuneration of the Board of Directors

In compliance with the provisions of Decree 1165 of 2009 that established the remuneration for the members of the Board of Directors (with the exception of the Mayor or his designee), **each member received the monthly sum of three current legal minimum salaries for attending each meeting of the Board of Directors or each meeting of the Board of Directors Committee of which they formed part.**

Ms. Beatriz Restrepo Gallego refused to receive said payments, in writing.

During 2012, the amount of the fees paid to members of the EPM Board of Directors rose to 222,713,100 COP, 53% of which corresponds to attendance at Board of Directors meetings, and the remaining 47% to the attendance at support committees of this organization.

Evaluation of the Board of Directors

One of the main events of the Board of Directors management process is the self-evaluation that the members do at the end of the fiscal year. This evaluation is directed toward two main areas:

- I. The evaluation of each Board of Directors meeting as regards matters such as the timeliness, quality and relevance of the information they were sent before each meeting, the clarity and depth of the subjects that were analyzed, the estimated time it took to handle each one, compliance with the planned schedule, duration of the meeting and effectiveness in making decisions.
- II. The evaluation that each member makes of the administration of the company, of the Board of Directors as a collegiate body and of its own management as a member of the same; also self-evaluates the relationship with the committee to which it pertains and management and performance as a member of the same.

The self-evaluation of the management of the Board of Directors contained 38 questions on desirable behaviors of board members; these were evaluated on a scale of 1 to 4, where 1 meant “Disagree totally” and 4 meant “Agree totally.” This evaluation was carried out based on the presence of the behavior described in each question.

In accordance with the results, which are presented in the following table, it can be observed that desirable behavior was found in the actions of the Board of Directors.

Issues	Score 2011	Score 2012
In relation to the administration of the company	3.5	3.3
In relation to the Board of Directors as a collegiate body	3	3.5
In relation to management as a member of the Board of Directors	3.6	3.8
In relation to the committee and management as a member of the same	3.8	3.9
TOTAL	3.6 Somewhat agree	3.6 Somewhat agree

With regards to the actions of the Board and with the objective of converting it into an organization which is increasingly effective, the members recommended, among other things:

- To strengthen the relationship with the affiliate companies of the EPM Group.
- To increase the services with departmental coverage in Antioquia.
- Continue the focus on integral sustainability for the entire EPM Group.

- Explore possible new lines of investment.
 - Analyze current investments and new investments in other countries.
- With the objective of creating a strengthening strategy for the Board of Directors for 2013, the firm Governance Consultants, consultant hired for this effect, highlighted the following issues as principal findings of the evaluation of the Board of Directors in 2012:
- There is a high level of commitment from the members of the Board of Directors for commitment and the development of their responsibilities.
 - Opportunities to improve are noted with respect to the capacity of the Board of Directors to effectively monitor strategic elements of the organization - key performance and risk indicators, as well as own decisions over time.
 - There are worries related to the type of issues discussed.
 - Opportunities to improve are identified in order for the Board of Directors to efficiently comply with their responsibilities (with regards to time, not efficiency).
 - Positive evaluation of the importance of the committees to the performance of the Board of Directors; however, opportunities for improvement are presented in the reorganization of the same.

As to the evaluation of the meetings that were held, on a scale of 1 to 5, with 5 being excellent, the final scores were:

Criteria		Score 2011	Score 2012
1	Opportunity, quality and relevance to the information provided before the meeting	3.6	4.0
2	Clarity of depth of issues handled	3.8	4.3
3	Estimated time for handling each issue	3.5	3.8
4	Compliance with scheduled agenda	3.6	3.5
5	Duration of meeting	3.5	3.5
6	Effective decision making	3.8	4.2
Result		3.6 good	3.9 good

Conflicts of interest

The members of the Board of Directors declared that they clearly understood the procedure for handling any conflicts of interest that might arise.

In the meeting held on June 5, 2012, (Minutes Record 1549), Mr. Andrés Bernal reported his resignation as a member of the Board of Directors of Cementos Argos, therefore he didn't consider his participation in the discussion related to the Espíritu Santo project a conflict of interest.

In the meeting held on October 2, 2012 (Minutes Record 1553), Mr. Luis Fernando Arbeláez Sierra reported that a family member of his was one of the Magistrates of the Administrative Court of Antioquia in charge of the claim lodged by EPM in virtue of the payment made to the municipality of Bello for the benefits of the wastewater treatment plant project - PTAR Bello, therefore he considered that there could be a conflict of interest with regards to this issue, which motivated him to leave the meeting.

Mr. Manuel Santiago Mejía Correa provisionally left the meeting held on November 6, 2012 (Minutes Record 1554) as he considered that the topic of celebrating contracts for joint accounts with a gas service station could be a conflict of interest due to a family member of his being a partner in said company.

No other Board members thought that there was a possible conflict of interest in carrying out their duties.



Management – Senior Management

Formation of EPM senior management

In December 2012, the group of EPM directors was formed as described below:

Table 10. Formation of the executive team in December 2012

Position	Name
General Management	Juan Esteban Calle Restrepo
Water Management	Eduardo Esteban Cadavid Restrepo
Energy Management	Jesús Arturo Aristizábal Guevara
International Growth Management	Gabriel Jaime Betancourt Mesa
Institutional Services Management	Eduardo Esteban Cadavid Restrepo (e)
Business Responsibility Management	Ana Mercedes Villegas Mejía
Institutional Planning Management	Adriana María Paláu Ángel
Institutional Finance Management	Diana Oliva Rúa Jaramillo
Communications Unit	Ana Cristina Navarro Posada
Compliance Unit	César Augusto Roldán Jaramillo
Internal Control Management	Hernán Darío Vergara Castro
General Secretariat	Maritza Alzate Buitrago
Human Resources and Organizational Management	Ana María Restrepo Botero
Special Projects Advisor	Valeria Restrepo Abad



It is important to highlight that the first level organizational structure only had one modification during the period of 2012, with the creation of the Compliance Unit.

Evaluation of the General Manager

The Board of Directors, in a meeting held in November 2012, approved the methodology to carry out an annual evaluation of the General Manager. With the evaluation, not only the results obtained by the company in each period are revised, but also the methods used to obtain them, which would show the alignment of the management of the General Manager with the values of the company and the strategic planning dictated by the Board of Directors.

The Management Committee programmed the management evaluation for the General Manager during 2012 for the meeting of the Board of Directors held in April 2013. The evaluation will allow promotion of reflection on the management of the General Manager and that of the company, in such a way that management and alignment aspects that can be strengthened are identified in the organizations of company governance.

The evaluation consists of three parts:

1. Evaluation of internal management at the company, measured using indicators which form part of the Balanced Scorecard (BSC).
2. Evaluation of the perception of company management from external public bodies.
3. Evaluation of the competence of the Manager and of the values and behavior of the same, from their management, motivation in the company and their promotion of achieving future goals and, therefore, the objective of sustainability.



Juan Esteban Calle Restrepo,
EPM General Manager

Remuneration of EPM superior management

For 2012, the average remuneration of the first level directors was of COP 14.78 million, with an increase of 4.8% with respect to the previous year.

Management support committees: Institutional Committee

As support for the work of the General Manager, he contacted the Institutional Committee, created in February 27, 2006, through Resolution number 1803, established as a support mechanism for EPM management, with the following objectives:

- Definition and monitoring of the strategic process of the company.
- The determination of growth guidelines based on the institutional strategy and the corporate strategy of each SBG.
- Discussion and recommendation of large investments of the organization.
- Discussion and coordination of issues associated with relevant company contracting.

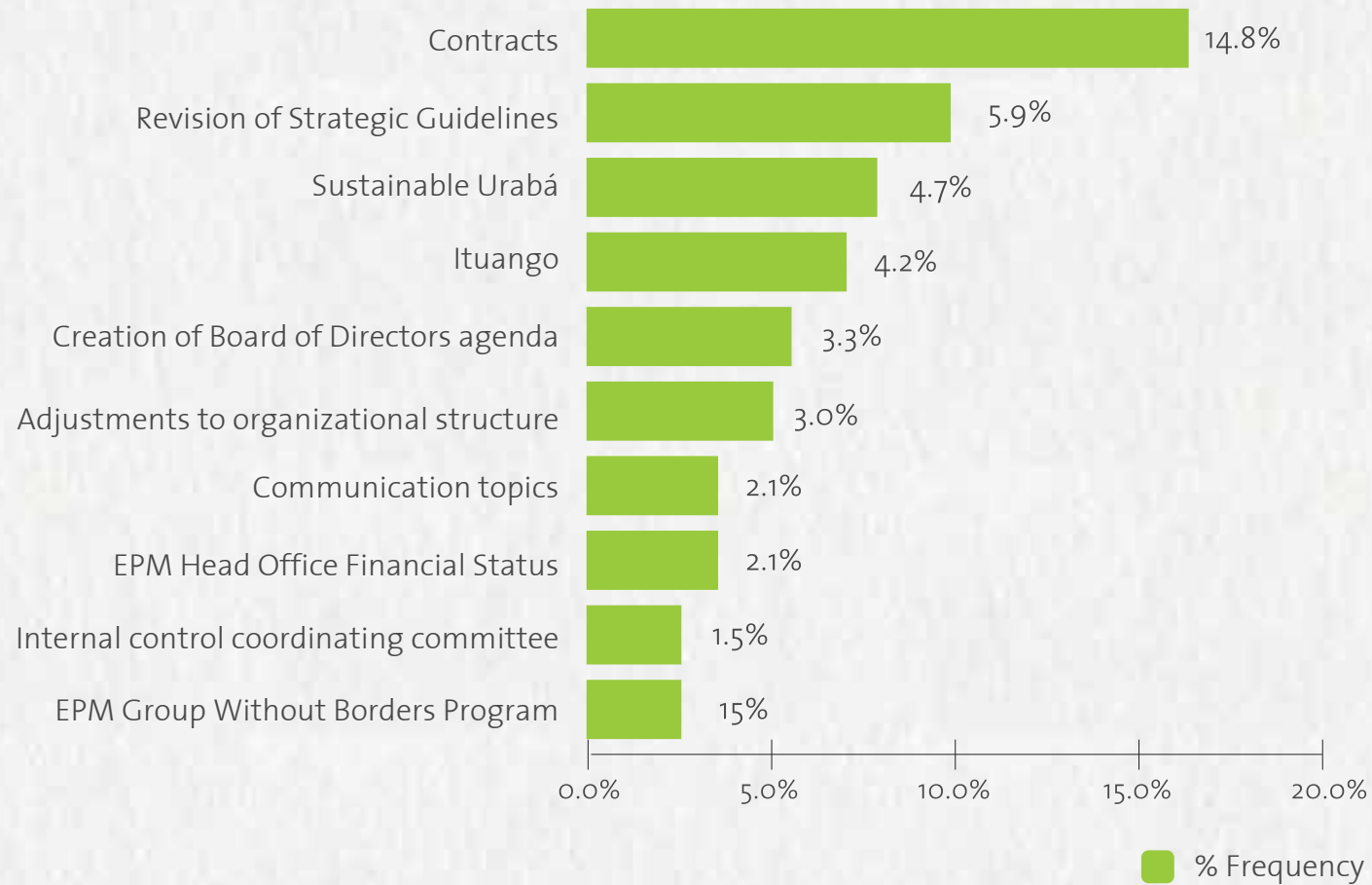
The Committee is composed of the General Manager, who presides over the same, the other first level executives of the company, and the General Secretary, who coordinates and elaborates the respective reports.

During 2012, the Committee held a total of 54 meetings, the majority of which were weekly. The frequency percentage for the main issues dealt with is presented in image 2.



Session of the EPM
Institutional Committee

Image 2: Issues dealt with in the Institutional Committee



Chapter 3. Management of governance organizations in the EPM Group

Ownership in the EPM Group

The EPM Group is formed of 40 companies, 19 of which are located in Colombia and 21 in the United States, Spain and Central America.

Images 3 and 4 present the ownership structure of the companies that form part of the EPM Group, as well as the percentage of control that EPM Head Office has over each one.

Image 3. EPM Business Group in Colombia, United States and Spain

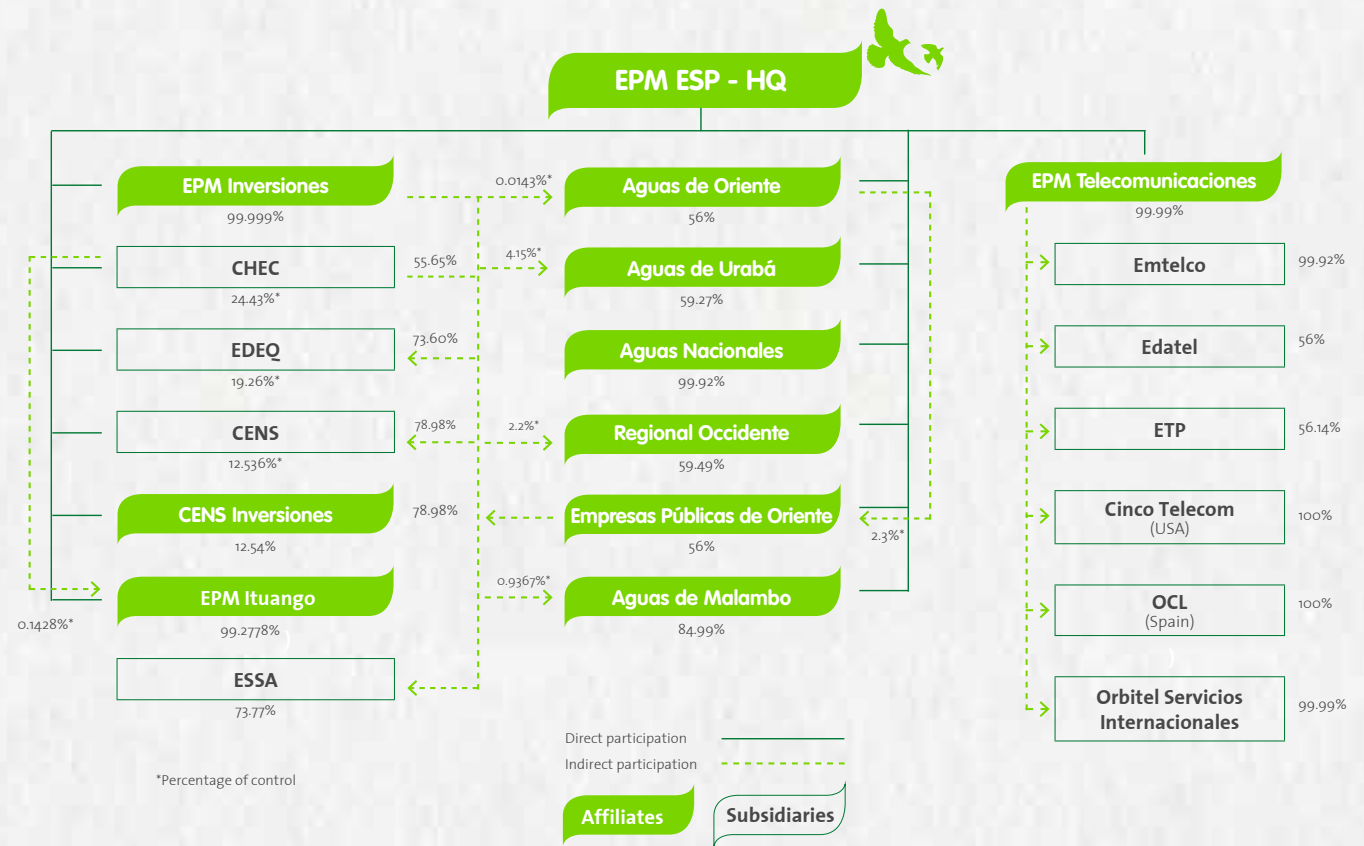
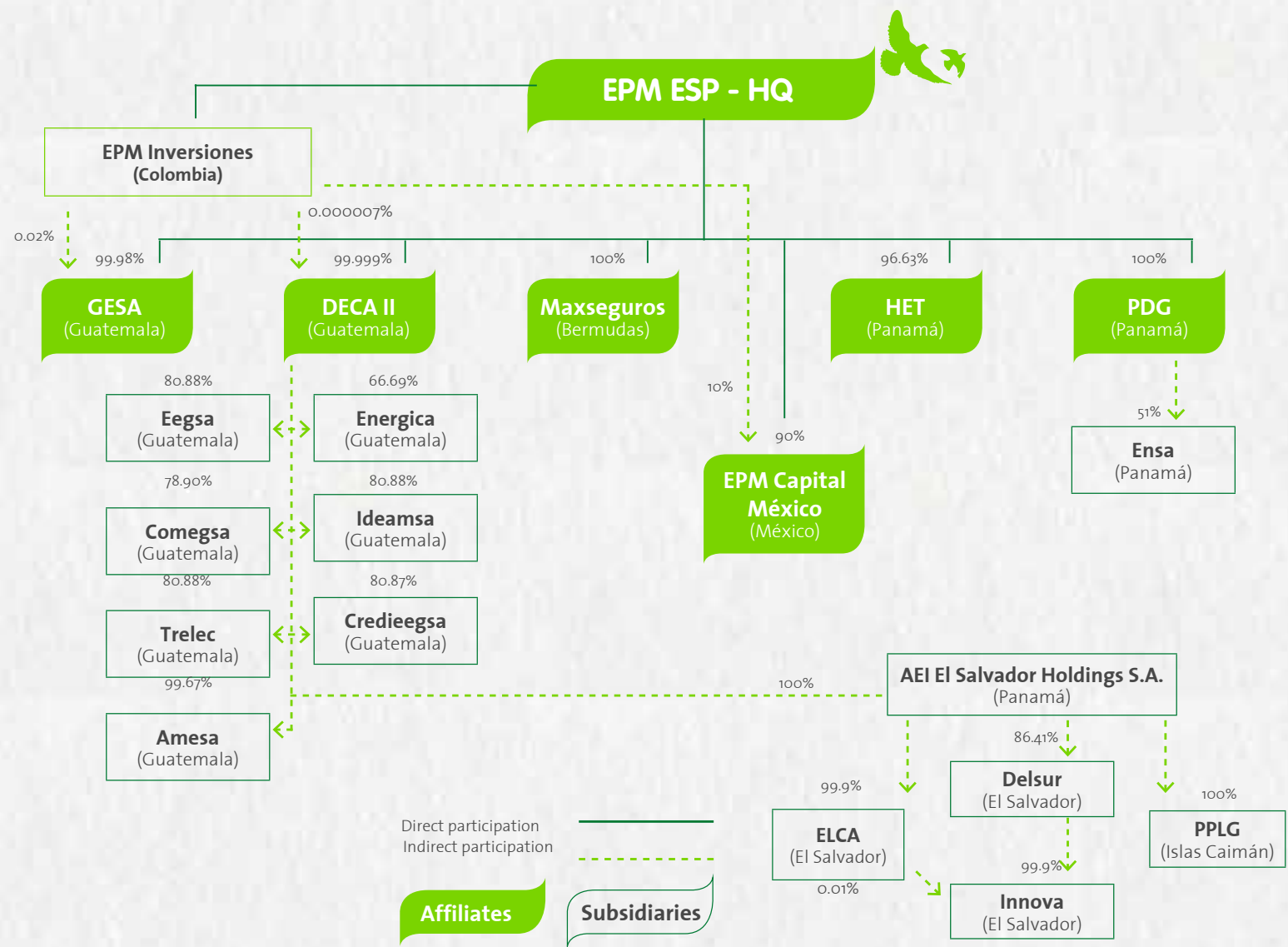


Image 4: EPM Business Group Central America and the Caribbean



Management: EPM Board of Directors

With the objective of preserving unity of the objective and management of the Business group, EPM endeavors to conserve the numerical majority within each of the boards of directors of the subordinate companies; therefore, it tends to nominate a number of internal and external members for each board of directors that, together, are sufficient to adopt decisions through majority voting⁵.

EPM endeavors to appoint external members in to all boards of directors in the EPM Group.

⁵ In accordance with the stipulations of the Guidelines for Appointment and Action of the members of boards of directors of the EPM Group companies, internal members are considered to be those with valid labor ties to any of the EPM Group companies, and an external member is considered to be a person without a valid labor tie to any of the companies of the group or a commercial tie with any of the same.

Below, the members of the boards of directors of the Group companies are presented, classified by SBG:

Boards of directors of water companies

Company	Principal	Category
Aguas de Oriente Antioqueño S.A. E.S.P.	Jorge Antonio Yepes Vélez	Internal
	Santiago Ochoa Posada	Internal
	Claudia Patricia Restrepo Montoya(*)	External
	Elkin Darío Villada Henao	Partner
	Carlos Mario Salazar Bermúdez	Partner
EPO Empresas Públicas de Oriente Antioqueño S.A E.S.P.	Jorge Antonio Yepes Vélez	Internal
	Santiago Ochoa Posada	Internal
	Claudia Patricia Restrepo Montoya	External
	Rafael Nanclares Ospina	Partner
	Elkin Darío Villada Henao	Partner
Regional Occidente S.A. E.S.P.	Javier Ernesto Ceballos Ochoa	Internal
	Edgardo Martínez Echeverri	Internal
	Luis Fernando Arango Arango	External
	César Augusto Hernández Correa	Partner
	Frey Rodríguez Vargas	Partner
Aguas de Urabá S.A. E.S.P.	Inés Helena Vélez Pérez	Internal
	Edgardo Martínez Echeverri	Internal
	Luis Fernando Arango Arango	External
	Edgar Payares Berrío	Partner
	Luis Fredy Mejía Betancur	Partner

Aguas de Malambo S.A. E.S.P.	Jorge William Ramírez Tirado	Internal
	Víctor Rodrigo Vélez Marulanda	Internal
	Claudia María Ángel Agudelo	Internal
	Enrique Escobar Uribe	External
	Víctor Manuel Escorcía Rodríguez	Partner
Aguas Nacionales EPM S.A. E.S.P.	Eduardo Esteban Cadavid Restrepo	Internal
	Oscar Hernán Herrera Restrepo (**)	Internal
	Carlos Adolfo Mejía Arbeláez	Internal
	Enrique Escobar Uribe	External
	Tatyana Aristizábal Londoño	External

(*) Ms. Ángela María Ocampo joined the Board of Directors of Aguas de Oriente and EPO, replacing Claudia Patricia Restrepo.

(**) Mr. Juan Carlos Castro joined the Board of Directors of Aguas Nacionales, replacing Óscar Hernán Herrera.

Boards of directors of energy companies in Colombia

Company	Principal	Category
CENS	Luis Carlos Rubiano Ortégón	Internal
	Diana Rúa Jaramillo	Internal
	Néstor Raúl Encinales Gallo	Internal
	Federico Arango Toro	External
	Édgar Jesús Díaz Contreras	Independent
ESSA	Luis Carlos Rubiano	Internal
	Néstor Raúl Encinales Gallo	Internal
	Valeria Restrepo Abad	Internal
	Federico Arango Toro	External
	Richard Alfonso Aguilar Villa	Independent
EDEQ	Luis Carlos Rubiano Ortégón	Internal
	Maritza Alzate	Internal
	Luis Guillermo Pérez Valencia	Internal
	Luis Alberto Sanín Correa	External
	Óscar Jaramillo García	External
CHEC	Luis Carlos Rubiano Ortégón	Internal
	Ana Mercedes Villegas Mejía	Internal
	Luis Alberto Sanín Correa	External
	Gilberto Saffón Arango	External
	Guido Echeverri Piedrahíta	Independent

Company	Principal	Category
EPM Inversiones	Carlos Mario Tobón Osorio	Internal
	Alejandro José Jaramillo	Internal
	Juan Fernando Bermúdez Picón	Internal
EPM Ituango	Diana Rúa Jaramillo	Internal
	Carlos Mario Méndez Gallo	Internal
	José Luis Yate Ramírez	Internal
	Mauricio Alberto Restrepo Terreros	Internal
	Carlos Alberto Osorno	External
HET	Luis Carlos Rubiano Ortigón	Internal
	Jorge Mario Pérez Gallón	Internal
	Gabriel Jaime Betancourt Mesa	Internal
	Claudia Jiménez Jaramillo	External
	Javier Ernesto Ortiz	External

Boards of directors of telecommunication companies

Company	Principal	Category
UNE	Aníbal Gaviria Correa	Internal
	Juan Esteban Calle Restrepo	Internal
	Juan Felipe Gaviria Gutiérrez (**)	External
	Federico Arango Toro	Independent
	Juan Rafael Arango Pava	Independent
	Juan Carlos Uribe Jaramillo	Independent
	David Escobar Arango	External
	Beatriz Restrepo Uribe	Independent
ETP	Marc Willy Eichmann Perret	Internal
	Nibaldo Toledo Takahashi	Internal
	Claudio Jiménez Ospina	Internal
	Enrique A. Vásquez Zuleta	Partner
	Mauricio Vega Lemuz	Partner
Edatel	Marc Willy Eichmann Perret	Internal
	Carlos Duque Uribe	Independent
	Felipe Hoyos Vieira	Independent
	Juan Fernando Prats	Independent
	Alba Luz Hoyos Naranjo	Partner
	José Vicente Blanco Restrepo	Partner
	Luis Hernando Berrío	Partner
Emtelco	Marc Willy Eichmann Perret	Internal
	Juan Guillermo Vélez (****)	Internal
	Juan Fernando Vásquez Duque	Internal
	John Jairo Marín López	Internal

(**) Ms. Beatriz Restrepo Uribe joined the Board of Directors of UNE, replacing Juan Felipe Gaviria.

(****) Mr. John Jairo Marín López joined the Board of Directors of Emtelco, replacing Juan Guillermo Vélez.

Boards of directors of international energy companies

Country	Company	Principal	Category
Guatemala	Distribución Eléctrica Centroamericana Dos (II), S.A. (DECA II)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
Guatemala	Empresa Eléctrica de Guatemala, S.A. (Eegsa)	Ramiro Valencia Cossio	External
		Néstor Raúl Encinales Gallo	Internal
		Gabriel Jaime Betancourt Mesa	Internal
		Wilson Chinchilla Herrera	Internal
		Lizardo Arturo Sosa López	Independent
Guatemala	Credieegsa, S.A. (Credieegsa)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
Guatemala	Comercializadora Eléctrica de Guatemala, S.A. (Comegsa)	Ramiro Valencia Cossio	Externo
		Néstor Raúl Encinales Gallo	Internal
		Gabriel Jaime Betancourt Mesa	Internal
		Wilson Chinchilla Herrera	Internal
		Lizardo Arturo Sosa López	Independent

Country	Company	Principal	Category
Guatemala	Enérgica, S.A. (Enérgica)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
Guatemala	Transportista Eléctrica Centroamericana, S.A. (Trelec)	Ramiro Valencia Cossio	External
		Néstor Raúl Encinales Gallo	Internal
		Gabriel Jaime Betancourt Mesa	Internal
		Wilson Chinchilla Herrera	Internal
		Lizardo Arturo Sosa López	Independent
Guatemala	Almacenaje y Manejo de Materiales Eléctricos, S.A. (AMESA)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
Guatemala	Inmobiliaria y Desarrolladora Empresarial de América, S.A. (Ideamsa)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
Guatemala	Gestión de Empresas Eléctricas, S.A. (GESA)	Ramiro Valencia Cossio	External
		Gabriel Jaime Betancourt Mesa	Internal
		Hugo Villalobos	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal

Country	Company	Principal	Category
Panamá	AEI El Salvador Holding S.A.	Carlos Mario Tobón	Internal
		Juan Camilo Martínez	Internal
		Olga Johanna Uribe	Internal
Islas Caimán	PPLG El Salvador II	Gabriel Jaime Betancourt Mesa	Internal
		Alejandro José Jaramillo Arango	Internal
El Salvador	Distribuidora de Electricidad del Sur, S.A. de C.V. (Delsur)	Gabriel Jaime Betancourt Mesa	Internal
		Néstor Raúl Encinales Gallo	Internal
		Wilson Chinchilla Herrera	Internal
		Tatyana Aristizábal Londoño	External
El Salvador	Electricidad de Centroamérica (ELCA)	John Jairo Isaza Mesa	Internal
		Liliana Merino	Internal
		Ángela María Moreno Maya	Internal
El Salvador	Innova Tecnología y Negocios Ltda.	Roberto González	Internal
Panamá	Elektra Noreste S.A. (ENSA)	Gabriel Jaime Betancourt Mesa	Internal
		Néstor Raúl Encinales Gallo	Internal
		Claudia Jiménez	External
		José Domingo Arias	Independent
		Virgilio E. Sosa V.	External
Panamá	Panamá Distribution Group S.A. (PDG)	Gabriel Jaime Betancourt Mesa	Internal
		Álvaro de Jesús Castaño Otálvaro	Internal
		Alejandro José Jaramillo Arango	Internal
		Ángela María Moreno Maya	Internal

Boards of directors of institutional companies of the EPM Group

Business	Principal	Category
EPM Foundation	Juan David Echeverri Rendón	Internal
	Mauricio Mendoza Salas	Internal
	Valeria Restrepo Abad	Internal
	Luz Elena Gaviria López	External
	Amalia Arango Toro	External
Maxseguros	Diana Rúa Jaramillo	Internal
	Eduardo Cadavid Restrepo	Internal
	Jorge Mario Pérez Ramírez	Internal
	Steve Arrowsmith	External
	Claudia Chapman Chapman	Internal

Evaluation

In 2012, EPM unified the self-evaluation methodology for management of the boards of directors of the companies that form part of the EPM Group. Said methodology consisted of 33 qualitative questions that take into account three large components:

- a. The relationship between the Board of Directors and the Company Management
- b. Performance of the Board of Directors as a collegiate body
- c. Individual performance of members

The self-evaluation was applied in 21 companies of the EPM Group and the average result was 3.7 out of 5. It is expected that in 2013 the boards of directors will design and implement an improvement plan based on the unified results of 2012.

Relationship with Partners.

Below, the main milestones in relation to the EPM Group companies and their partners during 2012 are presented, classified by SBG; it contains the main member changes and resolution of conflicts.

Water	Energy (International)	Institutional
<p>*Change in the stock participation of Aguas de Malambo; EPM increased participation in the company.</p> <p>*Various members of the Board of Directors rejected their position due to participation in other important EPM projects. The replacement members were responsible for taking their place in the various meetings of the Board of Directors.</p>	<p>*DECA II sold the investment fund, CAMIF, the totality of their stock participation in Genhidro S.A., owner of the Guatemala generation company Hidronorte S.A., with capacity of 10 MW.</p>	<p>•The EPM Foundation recognizes in EPM Telecomunicaciones S.A. E.S.P. the condition of founding member, as a contributor within the resources originally delivered by EPM.</p> <p>The initial fund of the EPM Foundation consisted of:</p> <ul style="list-style-type: none">-EPM: COP 90,000,000-FEPEP: COP 2,500,000,000-UPB: COP 2,500,000-CEIPA Foundation: COP 2,500,000-EAFIT University: COP 2,500,000 <p>•Maxseguros EPM has one single shareholder, Empresas Públicas de Medellín E.S.P.</p>

In the telecommunications affiliates: UNE, Edatel, ETP and Emtelco and national energy: CHEC, EDEQ, ESSA, CENS, EPM Inversiones and HET did not present changes in members nor resolution of conflict.





Chapter 4. Compliance control environment and accountability

Compliance

In the meeting held on November 1, 2011 (Minutes Record No. 1541), the EPM Board of Directors authorized the creation of the Compliance Unit. Said authorization took place in the first semester of 2012 in agreement with said Unit.

Once the work team was formed, a plan was made for 2012, which incorporated actions on the following work fronts:

- Awareness and training for EPM personnel with respect to the work of the Compliance Unit.
- Discussion with officials and employees about areas of compliance in the city of Medellín.
- Administration of legal and reputation risks associated with the risk of Asset Laundering and Financing of Terrorism, AL/FT: for compliance with this function, the Unit hired a specialized firm, Konfirma SAS, with

the objective of supplying “Information related to risks associated with the stakeholders of Empresas Públicas de Medellín and EPM Ituango,” which permits, for each third party, identity checks against public sources of information, both national and international, with the objective of identifying possible legal and reputation risks that must be controlled on establishing relations with the same.

During the second semester of 2012, 10,308 consultations were made, 540 complete investigations and 6 mass consultations with 9,768 third parties.

- Involvement of AL/FT risk prevention in the hiring process: preventative controls were designed and implemented within the process “Acquire and administrate goods and services.” Furthermore, control activities were incorporated to the evaluation and offer assignation stages, in this way preventing legal, reputation, operational or contagious AL/FT activity risks from a possible supplier.
- Transparent contact and the Ethics Line: EPM began implementation and launch of the “Transparent Contact” Line, achieving in 2012 the structure of the operation launch plan, the functionality of the technological solution, the flow of reports that will be received and the responsibilities corresponding to the various dependencies involved in the processes of the issue.

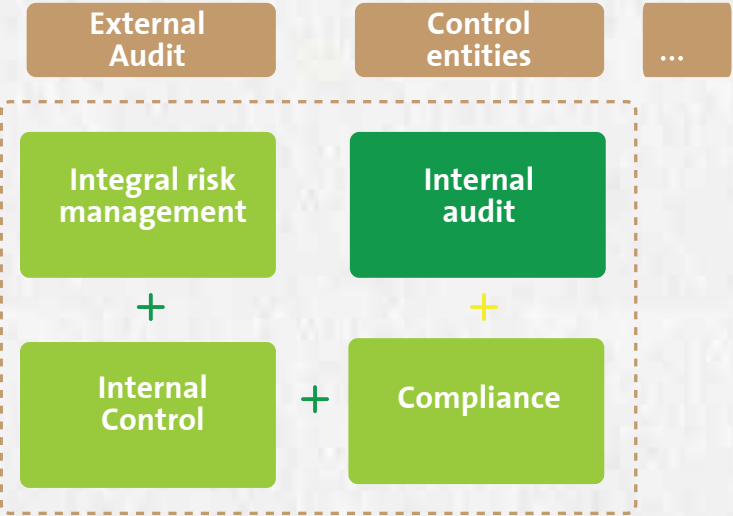
Control environment

The legal nature of EPM, its 100% state character, the economic sector in which it operates and its condition as an issuer of securities convert it into an entity that is widely controlled by external entities and by internal control mechanisms that are regulated by law, as well as those that have been voluntarily adopted.

EPM adopted the Standard Internal Control System [Modelo Estándar de Control Interno (MECI)] as an internal control system for the entities of the State, regulated by the Decree of General Management 1573 of 2006.

Furthermore, as part of the Corporate Governance Model of the EPM Group, a control environment model was defined which includes elements of self-control and risk management, with internal, external and third-party auditing, as shown in the following graph:

Image 5: Diagram of the control environment of EPM



Enterprise Risk Management

In an environment with high levels of doubt that affect the performance of the strategy and the compliance of the organization’s goals, **enterprise risk management (ERM) has become very relevant in companies with a management tool for making proactive decisions that contribute to achieving objectives and the efficient assignment of resources.**

Although each of the EPM servers manage the risks associated with their activities, unification of the criteria and mechanisms that permit this coordinated management are required, which are applicable to different levels at EPM and that can be reflected in the achievement of the objectives described in the strategic guidelines. The Internal Risk Management System formalizes and standardizes the manner in which EPM manages risks in an integral, logical and systematic manner.

The system is designed in accordance with the particularities and needs of EPM. Therefore, it includes the best ERM practices at a national and international level, but is not strictly limited to any specific standard. For the elaboration of the same, experiences of different companies in the sector were taken into account, the Colombian Technical Standard for Quality in Public Management NTC GP 1000:2004, the Colombian Technical Standard for Risk Management 5254, the Standard NTC ISO 31000:2011, the definitions of the

Standard Model for Internal Control MECI 1000:2005, the Guide for risk administration issued by the Administrative Department of the Public Function, among others.



Although the system was already designed, in 2013 EPM will face important challenges with regards to its adjustment and implementation, in a manner that will permit improvement of decision making, both for EPM and for the business group.

Internal Audit

Internal Management Control, through Internal Auditing Sub Management, performs the independent verification of the Internal Control System through the periodical performance and systematic work of auditing and monitoring of improvement plans formed to resolve the identified control weaknesses. It also carries out, via Sub Management of Control Design and Planning, activities to strengthen the Control systems and control consulting.

The performance of audit work is carried out through a tri-annual planning exercise, with the objective of covering all EPM processes. This exercise covers the dimensions of: finance, processes, people, technology and stakeholders through the organization of work fronts organized by knowledge disciplines and business areas.

For 2012, the work plan saw 72 audit projects, distributed in this way:

Auditing work carried out in 2012

Macro-process	Number of Activities
Supply and Administration of Goods and Services	18
Financial Management	10
Management of Information Technology	7
Commercial Management - EGA	7
Human Talent Management	4
Provision of Aqueduct and Sanitation Services	4
Provision of Electric Power Services	4
Legal Management	3
Business Verification	3
Environmental Management	2
Leasable Infrastructure Management	2
Provision of Corporate Services	2
Provision of Natural Gas Services	2
Organizational Development Management	1
Business Planning	1
Provision of Value Added Services	1
Provision of Special Services	1
Grand Total	72

The following achievements were obtained in other work fronts related to the auditing activity:

- Full adoption of the International Audit Standards
- Implementation of the Quality Assurance and Improvement Program - QAIP
- Within the collaborative network existing between ISA and Isagen, performance of four roundtables and celebration of the second Effective Audit Congress.
- Production launch of the IT tool for extraction and analysis of data.
- Elaboration of an audit plan for the EPM Group.
- Independent evaluation of “gap analysis” needs, of the internal audit activity, with certification objections for the IIA.
- Development of communication and control training activities.
- Advisers and consultancy related to risk, control and government in accordance with international standards for the activity of internal audit activity.
- Guidelines related to control of the internal audit offices at affiliates and investments of the EPM Group, in relation to the policy and the control alignments.
- Approval by the EPM Board of Directors of the policy and control alignments with Group scope.
- Strengthening of the regulations and operation of the Audit committees of the affiliates of the Energy SBG, both national and international.
- Development of two internal control meetings to strengthen technical knowledge and business topics, as well as the competence of the group auditors.

- Diagnostics of the status of the Internal Control System and of the Internal Control Office of the recently acquired affiliates.

External Audit

Due to its legal nature as an industrial and commercial state company, EPM is not obliged to have external financial audits represented by a fiscal reviewer or external auditor.

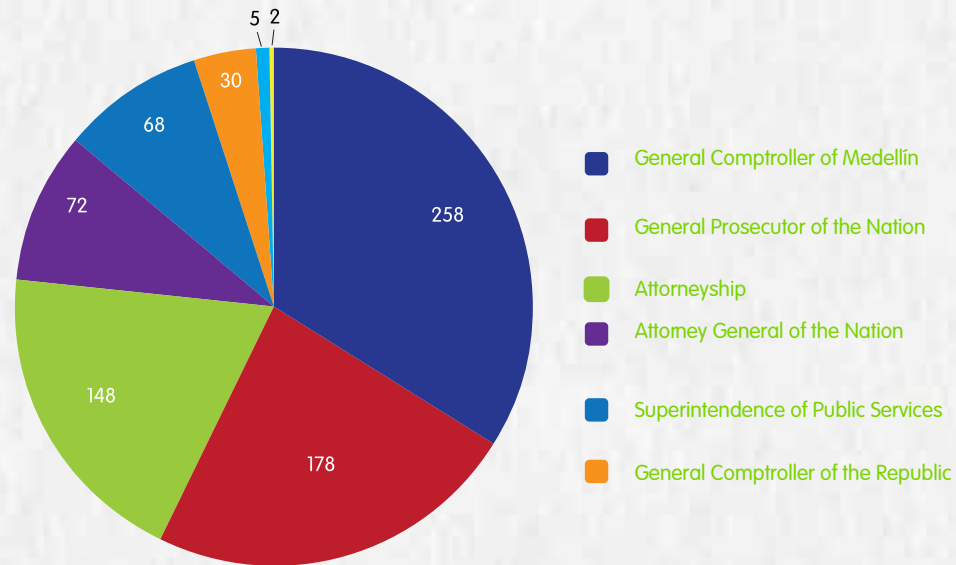
As good corporate governance practice and in relation to the commitments that the entity has with the multilateral bank, EPM contracted an external financial audit, the scope of which includes, as well as an opinion of the financial status, an annual evaluation of the Internal Control System of the company. **For 2012, the auditor of EPM and its business group continued to be the group PricewaterhouseCoopers Ltda.**

Control entities

In compliance with the accountability responsibility for the different control entities in charge of fiscal and disciplinary monitoring, EPM attended 761 requirements made by external control entities during 2012.

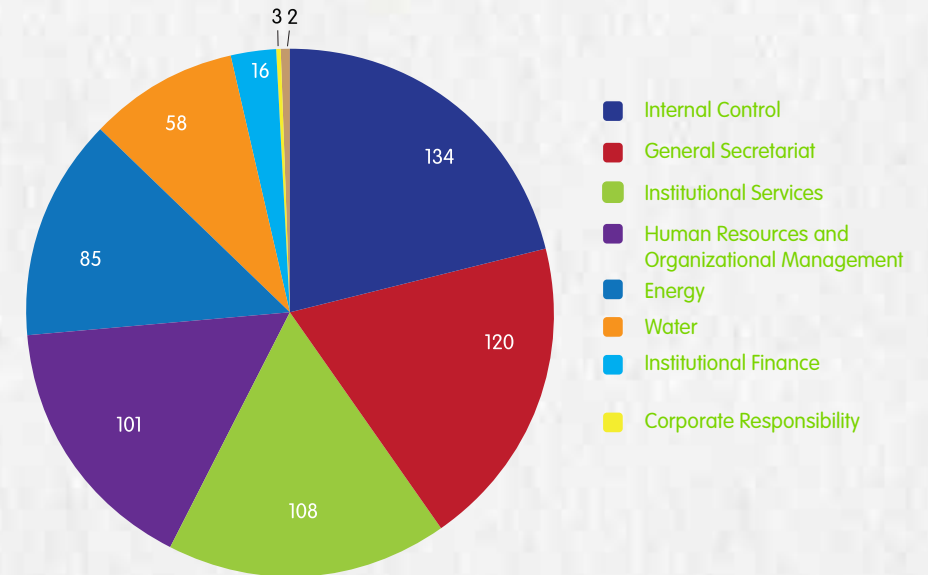
The majority of the requirements that were attended to originated from the General Comptroller of Medellín, Representative of Medellín and the Attorney General, as shown in the following graph:

Image 6: EPM requirements from external control entities in 2012, shown by requesting entity



The requirements were directed towards all dependencies of the company, in this manner:

Image 7: EPM requirements from external control entities in 2012, shown by the dependency to which they were directed



Transparency and accountability

Transparency at EPM

In 2012, EPM participated voluntarily for the fifth time, along with other leading companies in the sector of public services in Colombia, in the “Measurement of Transparency Policies and Mechanisms,” promoted by the Transparency Corporation of Colombia.

The methodology for evaluation was updated and new indicators and sub-indicators were incorporated to each component, therefore the measurement results are not comparable with previous years.

Some strengths identified were:

- The Communications Policy, which is developed through internal and external alignment; in a clean and opportune manner with all stakeholders using various channels.
- The delivery of information in a truthful, clear and opportune manner to the Client stakeholders, related to the Uniform Condition Contract, the invoice, the environment changes, efficient use of the service and health and safety.
- Monitoring of the impact of information delivery.
- Strengthening of relations with suppliers, contractors and community.
- The Customer Service System, which is permanently monitored.
- The corporate governance practice, such as the Code of Ethics, the operation of the Code of Ethics and the Code of Corporate Governance, which demonstrates all regulations pertinent to the management of the Board of Directors.

The rating obtained by EPM in the Colombian Transparency Indicator was 86 and the rating of the “Energy and Gas” sector was of 78.



Risk rating

During 2012, EPM maintained constant communication with the risk rating firms in order to provide transparent and opportune information that would allow the general market to see the risk rating of the company and its capacity to handle its obligations.

The rating company Fitch Ratings ratified the investment level rating of EPM, AAA6 at the local level and “BBB7” at the international level, due to its debt in local and foreign currency. The outlook is stable for all of the ratings.

In the report dated September 25, 2012, Fitch Ratings stated that the rating reflects the low business risk of EPM, derived from the operational diversification

6 **Local AAA rating:** the obligations rated in this category are considered to have the highest credit quality. It represents the highest rating assigned by Fitch Ratings Colombia in the scale of domestic ratings. This rating is assigned to the best credit quality with respect to other issuers or issues of the country and normally corresponds to the financial obligations issued or guaranteed by the Government.

7 **International BBB rating:** among the reasons stated by Fitch Ratings for increasing the investment level rating from BBB- to BBB is the greater diversification and growth of cash flow, maintaining a strong investment level of credit protection indicators. Also notable is EPM's solid financial profile, “characterized by a low level of leverage and high position of liquidity.” Fitch also considered the improved macroeconomic conditions of Colombia and the absence of intervention from the Government and the Municipality of Medellín in EPM.

and its status as a provider of public services. Furthermore, it considers that there is adequate liquidity, given the maturity profile of its financial debt and cash levels.

With regards to the regulatory framework and its impact on the company, Fitch Ratings considers that “the recent regulatory changes have had a neutral or positive impact on the financial profile of EPM. Moving forward, the expected regulatory changes are directed towards providing greater transparency to the market and it is expected that there will be a neutral impact on the credit profile of the company. Additionally, the diversified business model of EPM mitigates the regulatory risk given that it is improbable that there will be a simultaneous decrease of fees for all businesses which work with the company.”

The rating company Moody’s ratified the Baa3 international rating for valid international issues in the market and the corporate debt of the company. The investment level rating is classified by Moody’s within the group of entities considered, by the most demanding investors, to be susceptible to receiving finance.

The rating granted by Moody’s reflects EPM’s leadership as a principal provider of public services and greatest generator of electrical energy in Colombia. Equally, it incorporates the predictable cash flows associated with regulated businesses, which operate with a relatively transparent and stable regulatory framework.

It also recognizes, among other things, the benefits of the diversification associated with the international

expansion of EPM and the links with the Municipality of Medellín; the Government Framework Agreement is notable, which highlights the risk of political interference from the Municipality of Medellín and offers visibility of its dividend distribution policy, as well as the fiscal control resulting from the ownership exercised by the same.

The following table shows the risk ratings received during 2012:

Risk credit ratings – EPM

Rating Name	Concept	Rating		perspective	
		2011		2012	
Fitch Ratings de Colombia S.A.	Corporate debt	AAA Triple A	AAA Triple A	Stable	Stable
	Program of issue and position of bonds for COP 2 billion.				
Fitch Ratings	Corporate debt	BBB	BBB		
	Internal issue of bonds for USD 500 million.				
	Internal issue of global bonds for USD 680 million (COP 1.25 billion)				
Moody’s Investors Service	Corporate debt	Baa3	Baa3		
	Internal issue of bonds for USD 500 million.				
	Internal issue of global bonds for USD 680 million (COP 1.25 billion)				

Note: the international ratings “BBB” and “Baa3” are investment grade

Information Disclosure

EPM develops two types of information supply management for national and international public investors and other players in the stock market. One of them has a voluntary character due to the Corporate Transparency Policy in the financial market; the other has an obligatory character where related to the valid standards (where the relevant information that must be reported to the Financial Superintendent of Colombia, in accordance with Decree 2555 of 2010 of the Presidency of the Republic), or commitments derived from financial contracts.

a. Voluntary information.

One of the main objectives of the investor customer service office is to keep them informed in an opportune, clear, sufficient and truthful manner of the financial and non-financial situation of the company, the business and investment perspectives and the facts relevant to the organization.

EPM has different communication methods to ensure that information reaches the investors, such as:

- Investor page on the corporate website of EPM, www.epm.com.co
- Exclusive email account for investors
- Direct telephone line to attend to information requests and questions about the company and the EPM Group.

The company prints press bulletins in Spanish and English, holds online conferences and webcasts with financial trimester results, organizes investor visits, participates in informative road shows (one-on-one and group meetings), preparation for positioning of bond issuing, and holds international events for investors.

In 2012, the principal actions and achievements in relation to investors were:

Web page for investors, <http://www.epm.com.co/site/inversionistas/inversionistas.aspx>: the new corporate website was launched with a new structure and presentation of content for the new investor page. The page includes the following menu: corporate governance, financial information, risk ratings, titles issued and event reports. Also, the Home page includes an “investor kit” where the most recent financial executive reports can be found and the presentation of results.



Online conferences and webcast on trimester financial results (accompanied by presentation and executive report). During 2012, four online conferences were held for national and international investors.

Monitoring reports for international analysts: international banking analysts that monitor the trimester results of EPM continued with the publication of their company performance results in 2012.

Preparation and attention during investor visits: 18 visits from foreign institutional investors were attended to, that were related to finding a deeper understanding of the strategy and management of the company.

Annual Meeting for the EPM Group Investors, held on May 10 in the city of Bogota, with the participation of 87 national investors and market players. This event was published by journalists in various specialized media publications and had higher attendance numbers than previous years.

Issuer-investor events: EPM participated in 4 international events organized by banks, where the company made contact and held one-on-one meetings with more than 60 foreign investors.

b. **Obligatory information - Relevant information**

With regards to the standards of the public stock market in relation to relevant company information (Decree 2555 of 2010 of the Presidency of the Republic), there are internal mechanisms that are intended to guarantee compliance and that are also consistent with the Communication and Transparency policies, such as the referral of relevant information that is reported to the Financial Superintendence of Colombia, with a public or confidential character, depending on its strategic content.

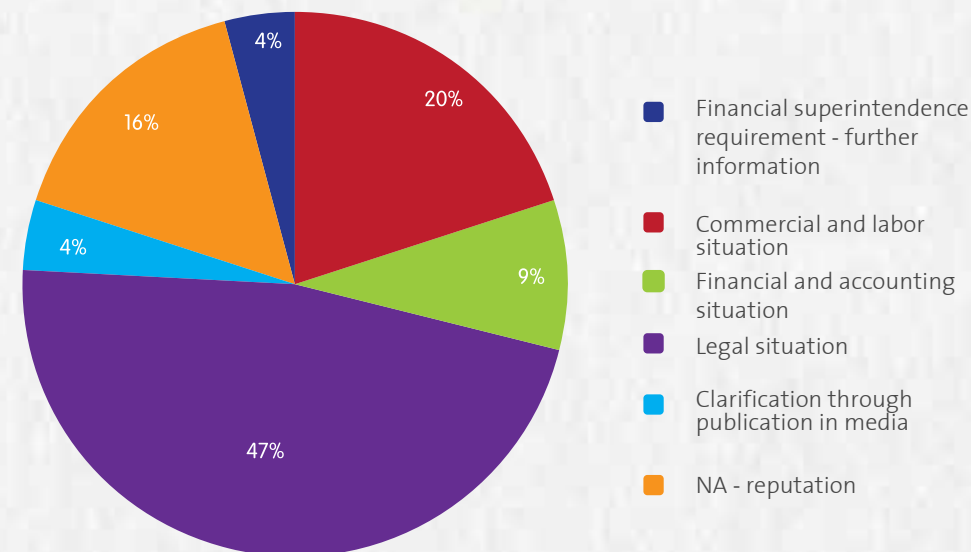
Each finance contract that EPM signs establishes a series of information disclosure commitments, including the trimester report of the financial statuses of the company to the General Comptroller of the Nation, the report of significant changes in ownership, maintenance of solid financial indicators, among others.

Relevant information is defined in the applicable standards as:

“All situations related to the issuer or its issuance that would have been taken into account by a prudent and diligent expert when purchasing, selling or maintaining securities of the issuer or at the time of exercising the political rights which are inherent to said securities.” Decree 2555 of 2010

In 2012, EPM reported 79 relevant facts to the Finance Superintendence, through the website www.superfinanciera.gov.co. These are shown below:

Image 8: Summary of relevant facts reported by EPM



The 16% that are identified as “NA” (Not applicable) are facts that are considered important by the company, but do not strictly obey the establishments of Decree 2555 of 2010. They are reported in order to provide greater information about the company to the stock market, with the objective of complying with the concept of transparency.

Country Code Survey

In the External Newsletter 028 in 2007, the Financial Superintendence of Colombia established the obligation of completing and submitting a survey through which the stock market can see the adoption of the recommendations of the “Code for best corporate governance practices in Colombia” (hereinafter, the Country Code).

The survey is divided into four sections of questions with respect to the practices related to the General Shareholders Meeting, the Board of Directors, the disclosure of financial and non-financial information, and the solution of controversies.

8 The responses with regards to the practices implemented are contextualized in the special legal nature of the company.

9 The survey completed by EPM can be consulted at the following address: <http://www.superfinanciera.gov.co/Codigopais/presentacion.htm>. Annual Report Link: Survey for each year: Type of Issuer 260 Public Entities: Issuer 033 Empresas Públicas de Medellín E.S.P.

As an issuer in the Colombian stock market, EPM has annually completed the Country Code Survey⁸ and the results of the same have been published on the page of the Financial Superintendent⁹ and on the EPM website, investor section. The present report indicates all of the practices where compliance with the same is asked as part of the survey, and that have been adopted by the company.

Operations with economic associates

As the head office of the group, EPM decided to maintain a direct relationship with its companies that are associated with the strategic business groups (SBG) of Water, Energy, Telecommunications and institutional companies (EPM Foundation and Maxseguros), which would permit the adequate transfer of knowledge and technical and administrative support necessary to guarantee, as a Business group, the provision of services with excellent quality.

For the relationship between EPM and its associated companies, it was necessary to define the policies of objective and management unit for the EPM Group and the consequent determination of the scope of the institutional intervention in affiliate companies, called the EPM Group Work Model.

Below, some of the operations with economic associates in 2012 are shown:



a. **Operations with economic associates of the Water SBG**

Temporary operations were started with the OneWorld system in the water affiliates, in order to comply with the IFRS route, with ERP OneWorld being one of the 11 projects associated with the IFRS program that needed to be unified between all companies of the group.

The main objectives that EPM demanded from its affiliates for the implementation of the ERP OneWorld were:

- Optimization of the business processes.
- Access to all information in a reliable, precise and opportune manner (data integrity).
- Share information between all components of the organization.
- Elimination of unnecessary reengineering data and operations.
- Integration of the affiliate in a OneWorld information system that complies with the consolidation of the financial information of the EPM Group, all under the IFRS standards for accounting information.

b. **Operations with economic associates of the national Energy SBG**

As part of the compliance of framework contracts for business collaboration between the national energy companies and EPM, a permanent collaboration project was carried out using the synergy networks created in order to deal with operational issues such as:

- Remodeling of networks
- Recovery and control of energy losses.
- Distribution Process and Commercial Process
- Automation of sub stations
- Contracting of Scada system support (BSC)
- Environmental and social strategy
- Support for implementation and improvement of IT systems and technological solutions
- Among others.



c. **Operations with economic associates of the international Energy SBG**

EPM distributes electrical energy in Central America through various affiliates. During the year, it consolidated its presence in Guatemala, Panama and El Salvador and brought about the policies of internal control, human resources, social responsibility and environmental management, as well as financial alignment.

The principal consolidation operations of the EPM Group in the Central American energy market, which are operations between affiliates, are shown below:

Eegsa: the affiliate DECA II owns 80.88% of Empresa Eléctrica de Guatemala S.A. - **Eegsa** - energy distributor that serves 4,100,000 locals and sells 3,873 GWh/year. Annual goals for coverage and quality of service were met.

ENSA: Panama Distribution Group - PDG, affiliate of the EPM Group, has the majority of shares (51%) of Elektra Noreste S.A. - ENSA, distribution company in Panama that serves 1,503,000 locals and sells 2,933 GWh/year.

Delsur: DECA II, affiliate of EPM in Guatemala, is the owner of 100% of the shares of AEI El Salvador Holdings, a company with 86.4% of Distribuidora de Electricidad Del Sur - Delsur in El Salvador, which serves approximately 1,371,000 locals and sells 1,282 GWh/year.

Genhidro: DECA II sold the investment fund, CAMIF, the totality of their stock participation in Genhidro S.A., owner of the Guatemala generation company Hidronorte S.A., with capacity of 10 MW.

- With regards to the international water market:

Creation of EPM Capital Mexico S.A. de C.V.: in May 2012, the affiliate was created in Mexico with the objective of offering the career and experience of the head office in the provision of public utility services and other related services in this country; investments would be carried out through the Company, initially in the water sector.



Mexico City

Chapter 5. Plan of activities for Corporate Governance

In the second meeting of the EPM Board of Directors each year, the “Annual plan of activities for corporate governance” is presented and approved, a voluntary practice implemented since 2006 in order to maintain constant evaluation of the business practices in this area.

On February 21, 2012, the annual plan was approved. Compliance with activities that form part of the plan and the main goals achieved during its validity are presented in this report.

Principal achievements and compliance with execution of the annual plan of activities for Corporate Governance in 2012

Within the annual corporate governance plan (hereinafter, the annual plan) all new activities are included that must be carried out by various dependencies of EPM, with the common objective of improving the relationship between government organizations, in such a way that promotes objective and management unity, and produce better transparency conditions, accountability and control.

The items on the annual plan for 2012 are presented in the following table:

Annual Corporate Governance Plan for 2012

Activities		Person in charge	% Compliance in 2012 Number of Activities		
			Expected	Performed	Status
1 Implementation of new Corporate Governance Model for the EPM Group					
Deliverables	1.1 Documents of the Corporate Governance Model	Director of Business Responsibility	100%	80%	
	1.2 Work plan for the implementation of the Corporate Governance Model approved by CI		100%	100%	
	1.3 Model of Corporate Governance approved by the EPM Board of Directors		100%	100%	
	1.4 Implementation of the practices prioritized in stage 1: 2012		100%	100%	
2 Standardization of the internal audit activity					
Deliverables	2.1 Design of the self-evaluation methodology for the internal audit activity	Internal Control Management	100%	100%	
	2.2 Acquisition and implementation of technological tools to support the internal audit activity		20%	20%	
	2.3 Execution and presentation of self-evaluation report for the internal audit activity		30%	30%	

Activities		Person in charge	% Compliance in 2012 Number of Activities		
			Expected	Performed	Status
3 Making the EPM Group work model operational					
Deliverables	3.1 Plan for making the work model approved by the Monitoring Committee operational	Human Resources and Organizational Management Team	100%	100%	
	3.2 Implementation indicators of the operation model included in the group's BSC.		100%	50%	
	3.3 Intranet site accessible to affiliates		100%	40%	
	3.4 Methodology guide of approved protocol for interaction with affiliates and at least six approved and correctly formalized protocols.		100%	60%	
	3.5 Activation of at least three synergy networks.		100%	60%	
	3.6 Alignment of approved and formalized economic model		100%	60%	
	3.7 Execution of 30% of the change assimilation plan.		100%	50%	
4 Project for the adoption of the International Financial Reporting Standards - IFRS - EPM Group			60%		
Deliverables	4.1 Accounting alignment approved under IFRS	Institutional Finance Management	100%	97%	
	4.2 Account plan for the consolidated EPM Group		90%	90%	
	4.3 Structure of the financial statuses		93%	85%	
	4.4 Situations of awareness for decision making related to opening balance.		99%	89%	
	4.5 Requirements for change in the processes		100%	99%	
	4.6 Requirements to change information systems		100%	99%	
	4.7 Data quality standards		100%	99%	
	4.8 Contingency plan for production on IFRS		93%	77%	
	4.9 Progress reports for the implementation of the requirements in the IFRS processes.		64%	60%	
	4.10 Report of training plan performance.		0%	0%	

Activities		Person in charge	% Compliance in 2012 Number of Activities		
			Expected	Performed	Status
5	Implementation of the Enterprise Risk Management System				
Deliverables	5.1 Structure proposal for the EPM Group approved by the Board of Directors.	Management of Institutional Services	100%	100%	
	5.2 Implementation in EPM head office of the methodology guide for risk management, in accordance with priority of processes carried out together with the Human Resources and Organizational Management Team and Internal Control.		15%	15%	
	5.3 Dissemination, broadcast and implementation of enterprise risk management at the EPM Group in accordance with the work plan agreed by Human Resources and Organizational Management Team, Water and Energy.		30%	30%	
6	Implementation of the Model for Relations with Stakeholders of the UNEP applied to relations with investors.				
Deliverables	6.1 Implementation and documentation of stage 1 of the UNEP methodology for relations with investors.	Institutional Finance Management	100%	50%	
	6.2 Implementation and documentation of stage 2 of the UNEP methodology for relations with investors.		100%	0%	
7	Ethics, Culture and Values management.				
Deliverables	7.1 Validation and publication of the procedure “Instructions for actions of the Ethics Committee.”	Human Resources and Organizational Management Team	100%	80%	
	7.2 Development of the appropriation strategy for the Code of Ethics.		100%	10%	
	7.3 Activation of the communication channels between the Ethics Committee and the group of servers.		100%	50%	

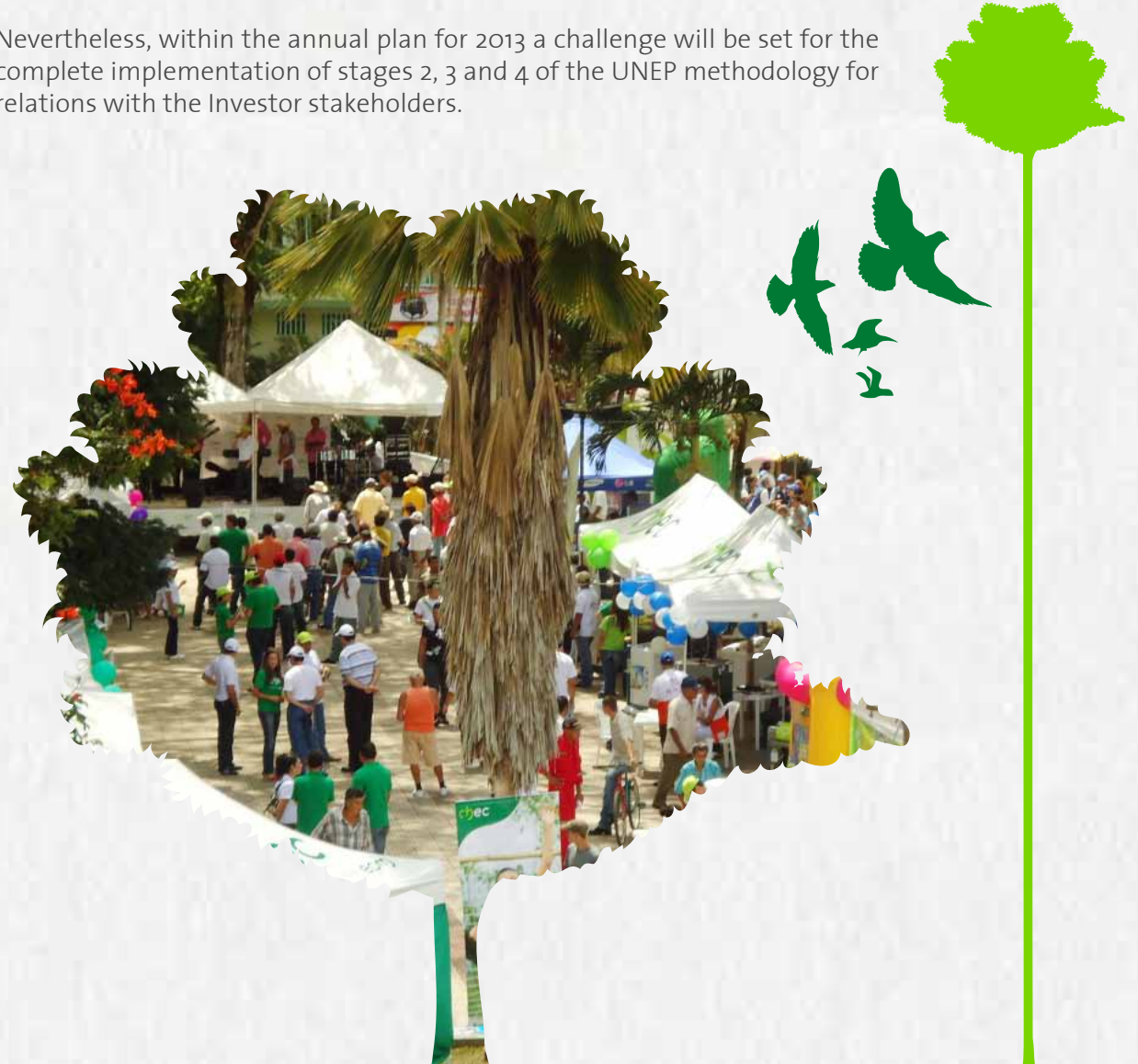
The average compliance of the activities proposed within the plan was of 85% with respect to the plans, with the following notable achievements:

- Implementation of Phase 1 of the Model of Corporate Governance, with the following practices:
 1. Alignment of appointment and actions of the members of the boards of directors of the companies pertaining to the EPM Group.
 2. New committee structures for the BD of EPM
 3. Methodology for the management evaluation for the General Manager of EPM
 4. Standardization of evaluation of boards of directors in the EPM Group.
- Full adoption of the International Audit Standards
- Approval in the EPM Board of Directors of the control policies and alignments that affect the Group and strengthening of the regulations and operation of the audit committees in the affiliates of the Energy SBC, both national and international.
- Launch of the financial information systems under IFRS, in a staggered manner, as such: EPM HQ, EPM Investments, EPM Ituango and Affiliates Water (January 8). Affiliate CENS (January 9). Affiliates ESSA, CHEC y EDEQ (January 14):
- Elaboration, presentation and validation of the structure proposal for enterprise risk management, an exercise which was carried out together with the proposal presented by corporate governance.
- Creation and regulation of the EPM Ethics Committee.
- Activation of communications means for ethical issues such as: Ethics Committee mail box and the Ethics Line (currently being tested for technological security).

Among the topics that did not reach the expected progress for 2012 are Implementation and Documentation of stage 2 of the UNEP methodology for relations with investors, as in 2012 the priorities were changed with regards

to the relationship of this stakeholder in order to comply with the Dow Jones standards. For this reason, the activities referring to the implementation of the UNEP methodology suffered the consequent setbacks.

Nevertheless, within the annual plan for 2013 a challenge will be set for the complete implementation of stages 2, 3 and 4 of the UNEP methodology for relations with the Investor stakeholders.



Annual Plan 2013

Despite the fact that the annual plan is approved by the Board of Directors in the second meeting of each year, below there is a diagram of the principal challenges, converted to actions, which will be proposed as the annual plan for 2013 to the EPM Board of Directors.

Proposal for Annual Corporate Governance Plan 2013

Activities		Person in charge
1 Implementation of new Corporate Governance Model for the EPM Group		
Deliverables	1.1 Implementation of the strengthening plan for the EPM Board of Directors	Director of Business Responsibility
	1.2 Implementation of the strengthening plan for the boards of directors of the group	
	1.3 Adjusted framework agreement	
2 Unification of management and information related to the EPM Group boards of directors		
Deliverables	2.1 Acquisition of a technological platform for integrated management of the boards of directors of the Group	General Secretariat - Business Responsibility Management
	2.2 Design and approval of a work plan for the integrated management of the boards of directors of the Group	
	2.3 Implementation of the integrated management of the boards of directors of the Group for at least 1 company in each business and the head office.	

Activities		Person in charge
3	Implementation of the Enterprise Risk Management System	
Deliverables	3.1 Present proposal for sizing and obtain resources.	Management of Institutional Services
	3.2 Apply the ERM methodology in accordance with priorities.	
	3.3 Continue development and implementation of the awareness and disclosure strategy.	
4	Ethics, Culture and Values management.	
Deliverables	4.1 Revision of the projection related to ethics with Group scope.	Human Resources and Organizational Management Team
	4.2 Activate the Ethics Line	
	4.3 Strengthen the actions of the change and culture network to specifically support the projects of the Group	
	4.4 Promotion of spaces to exchange with other ethic committees	
	4.5 Develop the required level of management for the new strategic guidelines for EPM Group Without Borders, strengthening the leadership role as an axle mobilizing the target culture with values.	
	4.6 Generation of conversation spaces to promote ethical reflections in the organization.	
5	EPM Group IFRS Program	
Deliverables	5.1 Plan for technical training of International Financial Reporting Standards IFRS	Institutional Finance Management
	5.2 Recommendations for government of data required by IFRS	
	5.3 IFRS Opening balance - International Financial Reporting Standards -	
	5.4 IFRS Financial status (transition year)	
	5.5 IFRS Stabilization program and associated projects	

Activities		Person in charge
6	Implementation of the Model for Relations with Stakeholders of the UNEP applied to relations with investors.	
	6.1 Implementation and documentation for stage 2 of the Model	Institutional Finance Management
	6.2 Implementation of stages 3 and 4 of the Model	
7	Centralized internal audit	
Deliverables	7.1 Redefinition of basic functions and positions of Internal Control Management	Internal Control Management
	7.2 Standardization of the audit activity in EPM - final phase	
	7.3 Implementation of the Quality Assurance and Improvement Program - QAIP	
	7.4 Definition and implementation of the training and development plan for EPM Group auditors	