

(Free translation from the original in Spanish)

EPM Group
Consolidated Financial Statements audited as of
December 31, 2012 and 2011
(Free translation from the original in Spanish)

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Empresas Públicas de Medellín E.S.P.
Consolidated Balance Sheet
At December 31, 2012 and 2011
(Amounts in millions of Colombian pesos)

Assets	Notes	2012	2011	Liabilities	Notes	2012	2011
Current assets		6,336,894	5,945,119	Current liabilities		3,087,887	3,438,745
Cash	10	1,496,488	961,755	Public credit transactions	20	234,773	452,508
Investments for liquidity administration	11	1,901,168	2,218,248	Hedging transactions	21	75,711	58,930
Accounts receivable, net	12	2,570,296	2,525,247	Accounts payable	22	1,591,823	1,865,739
Inventories, net	13	242,503	205,824	Taxes, liens and encumbrances payable	23	723,046	677,399
Prepaid expenses	14	67,473	32,394	Labor obligations	24	132,592	125,950
Other assets, net	18	58,966	1,651	Pension obligations and pension commutation	25	129,374	68,940
				Accrued liabilities	26	18,648	8,954
				Other liabilities	27	181,920	180,325
Non-current assets		28,941,015	28,090,774	Non-current liabilities		10,115,294	9,596,112
Investments for liquidity administration	11	9,672	66,516	Public credit transactions	20	7,316,939	6,522,385
Equity investments, net	15	507,177	505,917	Hedging transactions	21	85,438	124,768
Accounts receivable, net	12	738,605	727,129	Accounts payable	22	112,600	200,731
Property, plant and equipment; net	16	14,154,412	13,489,367	Taxes, liens and encumbrances payable	23	172,804	323,604
Actuarial financial reserve	17	741,441	716,148	Labor obligations	24	71,162	67,379
Other assets, net	18	2,251,882	2,329,945	Pension obligations and pension commutation	25	1,171,465	1,225,010
Appraisals	19	10,537,826	10,255,752	Accrued liabilities	26	295,921	325,999
				Other liabilities	27	888,965	806,236
				Total liabilities		13,203,181	13,034,857
				Minority interest	37	1,014,999	1,107,612
				Equity (see financial statements attached)		21,059,729	19,893,424
Total assets		35,277,909	34,035,893	Total liabilities and equity		35,277,909	34,035,893
Debt memorandum accounts	30	8,568,699	8,546,660	Credit memorandum accounts	30	19,979,394	6,028,541

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General Manager

Diana Rúa Jaramillo
Institutional Finance Director

Carlos Mario Tobón Osorio
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Empresas Públicas de Medellín E.S.P.
Consolidated Statement of Financial, Economic, Social and Environmental Activity
For the period comprised between January 1 and December 31, 2012 and 2011
(Amounts in millions of Colombian pesos)

	Notes	2012	2011
Operating income, net	31	12,586,616	11,595,433
Services rendering cost	32	(7,784,002)	(7,037,643)
Depreciations, provisions and amortizations costs	33	(1,094,129)	(854,526)
Gross surplus		3,708,485	3,703,264
Administrative expenses	34	(1,025,631)	(908,410)
Depreciations, provisions and amortizations expenses	33	(287,183)	(382,889)
Operating surplus		2,395,671	2,411,965
Non-operating income, net	35	848,986	610,718
Non-operating expenses, net	36	(927,383)	(824,209)
Non-operating surplus		(78,397)	(213,491)
Surplus prior to taxes		2,317,274	2,198,474
Income tax provision	23	(629,013)	(592,403)
Surplus prior to minority interest		1,688,261	1,606,071
Minority interest		(96,335)	(87,392)
Net surplus		1,591,926	1,518,679

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Empresas Públicas de Medellín E.S.P.
Consolidated Financial Statement of Changes in Equity
For the period comprised between January 1 and December 31, 2012 and 2011
(Amounts in millions of Colombian pesos)

	Capital	Surplus from donations	Reserves (Note 28)	Non-appropriate retained earnings (Note 29)	Equity revaluation	Translation adjustment	Surplus from appraisal	Total
Balance at December 31, 2010	67	113,392	3,193,028	3,824,179	2,963,843	(171,216)	8,452,066	18,375,359
Reserves appropriation			376,986	(376,986)				-
Reappraisal movements							347,381	347,381
Ordinary surplus transferred to the municipality				(50,000)				(50,000)
Extraordinary surplus transferred to the municipality								-
Period's movement		927			(526,046)	227,124		(297,995)
Net surplus of the period				1,518,679				1,518,679
Balance at December 31, 2011	67	114,319	3,570,014	4,915,872	2,437,797	55,908	8,799,447	19,893,424
Reserves appropriation			9,625	(9,625)				-
Reappraisal movements							488,278	488,278
Ordinary and extraordinary surplus transferred to the municipality				(789,841)				(789,841)
Period's movement						(124,058)		(124,058)
Net surplus of the period				1,591,926				1,591,926
Balance at December 31, 2012	67	114,319	3,579,639	5,708,332	2,437,797	(68,150)	9,287,725	21,059,729

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Empresas Públicas de Medellín E.S.P.
Consolidated Statement of Cash Flows
For the period comprised between January 1 and December 31, 2012 and 2011
(Amounts in millions of Colombian pesos)

	2012	2011
Cash flows from operating activities		
Period's surplus	1,591,926	1,518,679
Movement of items not involving cash		
Deferred income tax	(35,173)	54,682
Depreciations, provisions and amortizations	1,272,460	1,160,498
Actuarial computation	109,786	129,178
Translation adjustments	(226,875)	227,124
Minority interest	96,335	87,392
Other income and expenses not involving cash	132,022	(13,641)
Changes in operating items		
Accounts receivable variance	(211,174)	(456,052)
Inventories variance	(22,703)	(37,197)
Other assets variance	(52,385)	(2,252)
Accounts payable variance	(394,996)	814,048
Third parties collections and other liabilities variance	(98,918)	49,381
Labor obligations variance	(87,170)	(71,404)
Net cash flows in operating activities	2,073,135	3,460,436
Net cash flows from investment activities		
Assets and infrastructure investments	(1,866,903)	(1,795,251)
Subsidiaries and associated entities investments	-	(344,880)
Other assets	84,805	(678,907)
Net cash flows in investment activities	(1,782,098)	(2,819,038)
Net cash flows from financing activities		
Public credit and treasury disbursements	1,799,072	2,282,140
Capital amortizations	(1,032,614)	(1,555,470)
Surplus payment to the Municipality of Medellín	(839,842)	(797,500)
Net cash flows in financing activities	(73,384)	(70,830)
Net cash increase (decrease) and cash equivalents	217,653	570,568
Cash and cash equivalents at the beginning of the period	3,180,003	2,609,435
Cash and cash equivalents at the end of the period	3,397,656	3,180,003

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**Empresas Públicas de Medellín E.S.P.
Notes to the Consolidated Financial Statements
At December 31, 2012 and December 31, 2011
Amounts expressed in millions of Colombian pesos**

General notes

Note 1 Legal nature, corporate purpose and business activities

Empresas Públicas de Medellín E.S.P. (hereinafter "EPM" or the "Company") is the Parent Company of a business group that, along with its subsidiary companies integrating it, is located in Colombia and other countries.

EPM is a municipal decentralized entity created in Colombia through Agreement 58 of August 6, 1955 issued by the Administrative Council of Medellín as an Autonomous Public Establishment. It was transformed into a Municipal Government-owned industrial and commercial enterprise through Agreement 069 of December 10, 1997, issued by the Council of Medellín. As a result of its legal nature, EPM it is entitled to administrative and financial autonomy and has its own shareholders' equity, in accordance with Article 85, Act 489 of 1998. All the capital with which it was created and operates, as well as its shareholders' equity, is of a public nature and its sole owner is the Municipality of Medellín. Its main domicile is located in Carrera 58 No. 42-125, Medellín, Colombia. No duration term has been established for the entity.

The corporate purpose of EPM Group is to provide the residential public utilities of water, sewage, energy, fuel gas distribution, basic switched public telephony, and local mobile telephony in the rural sector, and other telecommunications services. The company may also provide residential cleaning services as well as all complementary activities for each of the public utilities, in addition to waste treatment and use.

To achieve its corporate purpose, without undermining the ownership of its assets, EPM and its related companies may enter into all types of contracts, associate or form consortia with other domestic or foreign individuals or legal entities. The objective is to achieve universality, quality and efficacy in the provision of the residential services offered to its users, with the aim of achieving general well-being and improving the quality of life of the population, following precise technical criteria, with legal and financial rigor, guided by the principles of solidarity and income redistribution.

The Company may also:

- Enter into strategic alliances, joint ventures, and any type of agreement or contract for business cooperation, provided that they allow the Company to achieve its corporate purpose.
- Participate in activities to promote innovation, scientific research and technological development in areas related to public utilities which comprise its corporate purpose.
- Enter into agreements to provide or receive technical cooperation, according to applicable regulations.

- In general, develop activities framed under its social purpose or those necessary to achieve its goals.

EPM Group provides its services through three Strategic Business Groups:

- Water Strategic Business Group
 - Water services
 - Wastewater service
- Energy Strategic Business Group
 - Energy generation
 - Transmission, distribution and commercialization of electricity (including ownership of part of the Colombian high-voltage electrical system)
 - Distribution and commercialization of natural gas (through household networks and service stations with the National Vehicle Gas (from the Spanish *Gas Natural Vehicular - GNV*) program).
- Telecommunications Strategic Business Group
 - Voice
 - Data
 - Internet
 - Professional services
 - Data center
 - Active Service Pages -ASP-
 - Content services
 - Government solutions

EPM Group Structure

EPM Group related companies are listed as follows, indicating the direct or indirect participation EPM has in each company:

Company	Location	Corporate purpose	Participation percentage		Creation date
			2012	2011	
EPM Inversiones S. A.	Medellín	To invest capital in domestic or foreign public utilities companies.	99.99%	99.99%	August 25, 2003
UNE EPM Telecomunicaciones S. A.	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.99%	99.99%	June 29, 2006
UNE EPM Bogotá S .A. (e)	Bogotá	To provide telecommunications, information technology and communications services; information services and complementary activities.	0%	99.88%	June 11, 1997
Emtelco S .A.	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.93%	99.93%	July 21, 1994
EdateL S .A. E.S.P.	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	56.00%	56.00%	December 17, 1969

Company	Location	Corporate purpose	Participation percentage		Creation date
			2012	2011	
Empresa de Telecomunicaciones de Pereira S .A. E.S.P. (ETP)	Pereira	To provide telecommunications, information technology and communications services; information services and complementary activities.	56.14%	56.14%	May 16, 1997
Cinco Telecom Corporation (CTC)	Miami	To provide telecommunications, information technology and communications services; information services and complementary activities.	100.00%	100.00%	December 24, 2001
Orbitel Comunicaciones Latinoamericanas S.A.U. (OCL)	Madrid	To provide telecommunications, information technology and communications services; information services and complementary activities.	100.00%	100.00%	July 22, 2003
Orbitel Servicios Internacionales S .A. (OSI)	Rionegro	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.99%	99.99%	June 27, 2003
Aguas Nacionales EPM S .A. E.S.P.	Medellín	To provide services of residential public utilities of water, sewage and cleaning, and treatment and use of wastes, complementary activities, and engineering services corresponding to the aforementioned public utilities.	99.99%	99.99%	November 29, 2002
Aguas de Urabá S.A. E.S.P.	Apartadó	To ensure the provision of public utilities of water, sewage and cleaning, and offset the lag of the infrastructure of these services in partner municipalities.	63.42%	63.42%	January 18, 2006
Empresas Públicas de Oriente S. A. E.S.P.	Rionegro	To provide water and sewage services to rural and suburban areas in the Municipalities of Envigado, Rionegro and El Retiro, in Valle de San Nicolás.	58.33%	58.33%	November 12, 2009
Empresa de Aguas del Oriente Antioqueño S. A. E.S.P.	El Retiro	To provide residential public utilities of water and sewage, as well as other complementary activities particular to each of these public utilities.	56.01%	56.01%	November 22, 1999
Regional de Occidente S. A. E.S.P.	San Jerónimo	To provide residential public utilities of water, sewage and cleaning, as well as other complementary activities particular to each of these public utilities, and the treatment and use of wastes.	62.11%	62.11%	December 26, 2006
Aguas de Malambo S. A. E.S.P. (c)	Malambo	To ensure the provision of the public utilities of water, sewage and cleaning in the jurisdiction of the Municipality of Malambo, in the Department of Atlántico.	78.32%	47.77%	November 20, 2010
Empresa de Energía del Quindío S. A. E.S.P. (EDEQ)	Armenia	To provide public utilities of electricity; purchase, sale and distribution of electricity; activities to be developed through the implementation of policies, plans, programs and projects related to power distribution and commercialization, and its administration, management and use, pursuant to regulations, standards and guidelines issued by the MME, thus primarily complying with the social function comprising such activity.	92.85%	92.85%	December 22, 1988
Central Hidroeléctrica de Caldas S. A. E.S.P. (CHEC)	Manizáles	To provide essential public utilities of energy, mainly the exploitation of electric generating plants, transmission and sub-transmission lines, and distribution networks; purchase, sale and distribution of electricity; construction or acquisition of electric power plants, substations, transmission lines, distribution networks and, in general, all kinds of facilities related to the production, purchase and sale of electricity, and the commercialization, import, distribution and sale of electricity.	80.10%	80.10%	September 9, 1950
Electrificadora de Santander S. A. E.S.P. (ESSA)	Bucaramanga	To provide public utilities of electricity; purchase, sale and distribution of electricity; activities to be developed through the implementation of policies, plans, programs and projects related to energy distribution and commercialization, and its administration, management and use, pursuant to regulations, standards and guidelines issued by the MME, thus primarily complying with the social function comprising such activity.	73.89%	73.77%	September 16, 1950

Company	Location	Corporate purpose	Participation percentage		Creation date
			2012	2011	
Centrales Eléctricas del Norte de Santander S. A. E.S.P. (CENS)	Cúcuta	To provide public electricity by developing, among other operations, those as follows: purchase, export, import, distribution and sale of electricity and other power sources; construction and operation of central power stations, generating plants and energy substations; and construction and operation of transmission and sub-transmission lines, and distribution networks.	91.52%	91.52%	October 16, 1952
EPM Ituango S. A. E.S.P.	Medellín	To fund, build, operate, maintain and exploit the Ituango hydroelectric plant and its return to Sociedad Hidroeléctrica Ituango S.A. E.S.P. to terminating the contracts entered into with it.	99.56%	99.56%	March 31, 2011
Comercializadora Energética Nacional Colombiana S. A. E.S.P. en Liquidación (CENCOL) (a)	Bucaramanga	To commercialize the electric power public utility.	-	95.00%	November 26, 2004
Hidroecológica del Teribe S. A. (HET)	Panama City	To fund the construction of the Bonyic hydroelectric project to meet the growing demand of power from the Isthmus of Panama.	97.09%	96.63%	November 11, 1994
Maxseguros EPM Ltd. (antes EPPM RE Ltda.)	Bermudas	To negotiate, contract and manage reinsurances for policies protecting equity.	100.00%	100.00%	April 23, 2008
Panama Distribution Group S. A. (PDG) (b)	Panama City	To invest capital in companies.	100.00%	100.00%	October 30, 1998
Elektra Noreste S. A. (ENSA) (b)	Panama City	To acquire energy in blocks and transport it to customers through the distribution networks; transform related voltage; deliver energy to consumers; install, operate and maintain street lighting in the concession area. In addition, the Company is authorized to conduct activities of energy generating to a limit of 15% of the peak demand, and energy in the concession area.	51.00%	51.00%	January 19, 1998
Gestión de Empresas Eléctricas S. A. (GESA)	Guatemala City	To provide advice and consultancy to distribution, generation and transmission electricity companies.	100.00%	100.00%	December 17, 2004
Distribución Eléctrica Centroamericana DOS S. A. (DECA II)	Guatemala City	To invest capital in companies engaged in the distribution and commercialization of electricity, and in the provision of telecommunications services.	100.00%	100.00%	March 12, 1999
Empresa Eléctrica de Guatemala S. A. (EEGSA)	Guatemala City	To distribute power.	80.90%	80.90%	October 5, 1939
Almacenaje y Manejo de Materiales Eléctricos S. A. (AMESA)	Guatemala City	To provide outsourcing services to the materials administration area.	100.00%	100.00%	March 23, 2000
Inmobiliaria y Desarrolladora Empresarial de América S. A. (IDEAMSA)	Guatemala City	To invest in real state.	80.90%	80.90%	June 15, 2006
Comercializadora Eléctrica de Guatemala S. A. (COMEGSA)	Guatemala City	To commercialize energy.	80.90%	80.90%	November 5, 1998
Transportista Eléctrica Centroamericana S. A. (TREC)	Guatemala City	To commercialize energy.	80.90%	80.90%	October 6, 1999
Enérgica S. A. (ENÉRGICA)	Guatemala City	To build and maintain projects and goods for energy sector.	80.90%	80.90%	August 31, 1999
Crediegsa S. A. (CREDIEGSA)	Guatemala City	To provide personnel hiring and other administrative services.	80.88%	80.88%	December 1, 1992
AEI El Salvador Holding S. A. (b)	Panama	To invest capital in the companies.	100.00%	100.00%	May 17, 2007
Distribuidora de Electricidad del Sur (Delsur) (b)	El Salvador	To transform, distribute and commercialize electricity, supplying energy to the Center-South of El Salvador, in Central America.	86.41%	86.41%	November 16, 1995
Electricidad de Centroamérica Ltda. de C.V. (ELCA) (b)	Santa Tecla	To invest in shares and other securities, and provide advice to Delsur.	100.00%	100.00%	December 9, 1997
PPLG El Salvador II (b)	Caimán	To invest capital in the companies.	100.00%	100.00%	April 9, 1999
Innova Tecnología y Negocios S. A. de C.V. (b)	El Salvador	To provide services specialized in electric engineering and electrical appliances sale to electricity users of Delsur.	100.00%	100.00%	October 19, 2010
EPM Capital México S. A. de C.V. (d)	Mexico	To develop infrastructure projects related to energy, electricity, gas, telecommunications, sanitation, water treatment plants, sewage, waste water treatment plants, wells, and buildings; as well as to the operation, studies and services in all business lines and disciplines related to the services above.	100.00%	-	May 4, 2012

Company	Location	Corporate purpose	Participation percentage		Creation date
			2012	2011	
CENS Inversiones S. A. (f)	Cúcuta	To invest capital in public utilities companies in the energy sector, regardless of the type or nature of such services, as well as in those entities whose corporate purpose corresponds to the activities included in Act 142 of 1994, or in the rules complementing, repealing, developing or modifying it.	99.47%	-	August 24, 2012

- (a) Company liquidated in October 2012.
- (b) Companies acquired in February 2011.
- (c) Company on which a shareholders' agreement was signed with the purpose of capitalizing 84.99%.
- (d) Company created in May 2012 in Mexico.
- (e) Company absorbed through merger by UNE EPM Telecomunicaciones S. A. on June 30, 2012. See Note 8.1.1.
- (f) Company created in August 2012 through the spin-off of Centrales Eléctricas del Norte de Santander S. A. E.S.P. (CENS). See Note 8.1.2.

Shares corresponding to Generadores Hidroeléctricos S. A. (Genhidro), Hidronorte S. A., Mano de Obra S. A. (MOSA), and Hidroeléctrica del Río Salá (Hidrosalá) were sold on November 28, 2012. See Notes 8.1.3 and 8.1.4.

Company	Location	Corporate purpose	Participation percentage		Creation date
			2012	2011	
Generadores Hidroeléctricos S. A. (Genhidro)	Guatemala City	To develop, design, construct, operate and maintain hydroelectric projects.	-	51.00%	November 20, 2006
Hidronorte S. A.	Guatemala City	To generate and transmit electricity.	-	97.00%	October 2, 1992
Mano de Obra S. A. (MOSA)	Guatemala City	To provide services regarding personnel hiring and other administrative services.	-	100.00%	September 8, 1992
Hidroeléctrica del Río Salá (Hidrosalá)	San Pablo	Hydroelectric project in progress.	-	100.00%	September 24, 2008

Note 2 Legal framework and regulation

The activities performed by EPM Group - rendering of residential public utilities services and telecommunications services, are regulated in Colombia, Guatemala, El Salvador and Panama. The most significant applicable regulations are the following:

2.1 Regulations for Colombia

2.1.1 General aspects

Colombia's 1991 Political Constitution provided that public utilities are inherent in the State's social purpose and that the State's duty is to ensure the efficient provision of such utilities to all inhabitants in the national territory.

The Constitution also provides that it behooves the President of the Republic to establish, in compliance with the Law, the general policies for administration and control of efficiency of residential public utilities, using the Superintendency of Household Public Utility Services to carry out control, inspection and monitoring activities over the entities that provide such public utilities.

Act 142 of 1994, Public Utilities Act, establishes the general criteria and policies governing the provision of residential public utilities in the country and the procedures and mechanisms for their regulation, control and monitoring.

Act 143 of 1994, Electricity Act, enables the constitutional approach; regulates the generation, transmission, distribution and commercialization activities in terms of electricity; creates market and competition environment; strengthens the sector; and defines intervention.

Because it is a company dedicated to providing residential public utilities, EPM is controlled by Acts 142 and 143 of 1994; therefore, according to those Acts and to Act 689 of 2001, the applicable contracting system is the private Law, without waiving the obligation to follow the general principles of the public function established by the Political Constitution, and all other principles that regulate the rendering of residential public utilities.

In addition, because it is a decentralized municipal entity, EPM is subject to the political control of the Council of Medellín, to the fiscal control of the Medellín Comptroller's office, and to the disciplinary control of the National Attorney General's Office.

Telecommunications companies are governed by the Political Constitution and Act 1341 of July 30, 2009, which defines the principles and concepts on the Society of Information and Organization of Information and Communications Technologies (ICT), additionally creates The *Agencia Nacional de Espectro* and other dispositions.

In accordance with Article 55 of Act 1341 of 2009, the acts and contracts regime for ICT suppliers, including those related to their labor regime and credit operations, independently of their nature and regardless of their capital composition, shall be governed by the private law regulation.

The foregoing is without prejudicing the obligation to comply with the general principles of the public service set out in Article 209 of the Political Constitution, and the general principles governing the budget, and other principles that govern and guide the rendering of public utilities and those of ICT.

2.1.2 Regulatory commissions

The president's function of establishing general policies for administrating and controlling efficiency in terms of residential public utilities was delegated to the Regulatory Commissions by Decree 1524 of 1994.

Regulatory Commissions in Colombia are in charge of regulating monopolies in the rendering of public utilities when competition is not possible. In other cases, their role is to promote competition among entities providing public services, so that operations of competitors are economically efficient, do not involve abuse of dominant position and produce quality services. Those entities are the following:

- The Energy and Gas Regulatory Commission (from the Spanish *Comisión de Regulación de Energía y Gas - CREG*), a technical body under the Ministry of Mines and Energy, regulates the tariffs for the sale of energy, and other aspects related to the operation of the Stock Energy Market and the provision of electricity and gas services.
- The Regulatory Commission for Potable Water and Basic Sanitation (from the Spanish *Comisión de Regulación de Agua Potable y Saneamiento Básico - CRA*), regulates the tariffs for water and sewage, and is a technical body under the Ministry of the Environment, Housing and Territorial Development.
- The Communications Regulatory Commission (from the Spanish *Comisión de Regulación de Comunicaciones - CRC*), a special administrative technical unit under the Ministry of Information and Communications Technologies, is responsible for promoting competition, preventing the abuse of dominant position, and monitoring networks and telecommunications services.

2.1.3 Tariff system

The tariff or rate system applicable to residential public utilities consists of those regulations that refer to the procedures, methods, formulas, structures, socioeconomic groups, billing, options, quantities and, in general, all those aspects that define the tariffs to be charged. According to the Law that regulates residential public utilities, this tariff system is guided by the principles of economic efficiency, neutrality, solidarity, redistribution and sufficiency, as well as by the criteria of simplicity and transparency.

Entities that provide public utilities must adopt the formulas defined from time to time by the corresponding Regulatory Commission in order to establish the tariffs for their specific situation. The Regulatory Commission may establish tariff limits that are mandatory for the companies, and the methodologies to determine the tariffs and convenience to apply the autonomous or the regulated freedom system, according to the market conditions.

Not to exclude other alternatives that might be defined by the Regulatory Commissions, factors in tariff formulas may include a charge per unit of consumption, a fixed charge, and a charge per connection contribution, whose collection may not violate the principle of efficiency, or transfer the cost of an inefficient management to the user, or derive benefits from dominant or monopolistic positions. Regulatory Commissions may design and publish different tariff options that take into consideration optimal tariff designs.

According to the provisions of the Law, the tariff formulas are valid for five years. After such time, the Commissions must review them to adapt them to the dynamics of the specific sector, and to the dynamics of the economy at large.

In addition, the tariff system includes the criteria of solidarity and income redistribution by means of which users from the lower socioeconomic levels benefit from subsidies applied to basic or subsistence consumption which are funded by the contributions made by industrial and commercial users, and residential users in socioeconomic levels 5 and 6, as well as contributions from the national government and territorial entities.

2.1.4 Regulation by sector

2.1.4.1 Potable water and basic sanitation

The tariffs for potable water and basic sanitation services take into consideration, on the one hand, the regulations pertaining to pricing; and the regulations for designing the subsidies and contributions scheme, on the other.

For these utilities, the CRA adopted the system of regulated freedom by means of which prices are defined by the local tariff-setting entity, using the methodology defined by Resolution CRA 287 of 2004 and complementary standards. For service providers other than municipalities, the local tariff-setting entity is the Board of Directors of the service provider.

The costs adopted by EPM were approved by Decree 211 of December 2005 and amended by Decree 232 of June 2007.

For each utility, pricing includes the following components:

2.1.4.1.1 Water supply

The tariff for this utility includes a fixed charge and a charge per consumption.

The fixed charge represents the costs incurred in by the companies to guarantee the permanent availability of the utility. This charge includes costs related to the administrative activity for the rendering of this service, modified by the corporate efficiency score computed by using the Data Envolvent Analysis (DEA) method.

The charge per consumption reflects the operating and maintenance costs of the system as well as the investment, replacement and rehabilitation costs, and recognition of infrastructure at the time of the computation. This charge also considers the average cost of environmental rates, which waterworks companies are subject to under the environmental authorities. These rates reflect the obligation derived from the use of the resource and are regulated by the Ministry of Environment, Housing and Territorial Development.

2.1.4.1.2 Basic sanitation service

Like water supply, the sanitation service applies a fixed charge and a discharge cost. The fixed charge represents the cost which the companies incur in to guarantee the permanent availability of the service; this charge includes the cost associated with the administrative activity to provide the service, affected by the comparative efficiency score computed by using the DEA.

The charge per consumption reflects the costs of operating and maintaining the system as well as the cost of investment, replacement and rehabilitation, and recognition of the infrastructure at the time of the computation. This charge also includes the average cost of environmental rates which reflects the obligation which sewage companies are subject to under the environmental authorities as compensation charges for the users' discharge into the receiving bodies.

2.1.4.1.3 Subsidies and contributions

In the potable water and basic sanitation services, the balances between contributions and subsidies are computed according to Act 1450 of 2011, and Decrees 1013 of 2005 and 4924 of 2011, which defined the minimum factors for contribution applicable to socioeconomic levels 5, 6, industrial and commercial; the methodology for the balance between the contributions from different sources and the subsidies for socioeconomic levels 1, 2, and 3; and the creation of a common pool of minimum contributions for the municipalities that are served by the same service provider. According to the latter, these contributions are distributed among the municipalities according to the percentage that each municipality assigns to cover the subsidies, and to the demand for total resources required to cover the subsidies.

According to current regulations, in no case may subsidies be greater than the amount required for minimum operating expenses, and they cannot be greater than 15% of the average cost offer for socioeconomic level 3, 40% of the average cost offer for socioeconomic level 2, or 70% of the average cost of supply for socioeconomic level 1.

2.1.4.2 Electricity sector

2.1.4.2.1 General considerations

Acts 142 and 143 of 1994 created the regime for the electricity service in Colombia. Act 143 of 1994 segmented the sector into four activities: generation, transmission, distribution and commercialization. These activities may be carried out by independent companies.

A generation company established after Act 143 of 1994 came into effect may not be a transporter or a distributor. A transporter established after Act 143 of 1994 became effective can only perform energy transmission activities.

The purpose of the legal framework is to meet the demand for electricity according to economic and financial viability criteria and also to encourage an efficient, safe and reliable operation of this sector.

On the basis of these Acts, the CREG designs, regulates and implements the institutional and regulatory framework for the Colombian electricity sector through specific Resolutions for each activity in the electrical energy service chain.

2.1.4.2.1.1 Activities of the electricity sector

Through different Resolutions, and based on Acts 142 and 143 of 1994, the CREG established the following general definitions for each of those activities:

Generation: production of electrical energy by using a hydraulic plant or a thermal unit connected to the National Interconnected System (from the Spanish *Sistema Interconectado Nacional - SIN*), whether that activity is exclusive or is combined with other activities in the electricity sector, no matter what the company's main activity is.

Transmission: transportation of energy through the National Transmission System (from the Spanish *Sistema de Transmisión Nacional - STN*), which consists of the network of lines, with the corresponding connection equipment, that operates at voltages equal to or greater than 220 kV. The National Transmitter (from the Spanish *Transmisor Nacional - TN*) is the legal entity that operates and transports electricity over the STN or has set up a company whose purpose is to carry out that activity.

Distribution: transportation of electrical energy through a set of lines and substations, and their related equipment, operating at voltages less than 220 kV that do not belong to a regional transmission system because they are dedicated to serve a municipal, district or local distribution system.

Commercialization: purchase of electricity in the stock energy market and the sale of electricity to other market agents or to regulated or non-regulated end-users, whether this activity is carried out exclusively or in combination with other activities in the electrical sector, regardless of the main activity.

Act 143 of 1994 prohibits vertical integration between generators and distributors, but allows both agents to carry out commercialization activities. For transmission, the Act stated that companies performing this activity must have transmission as their only objective. However, those companies that were vertically integrated on the date on which Act 143 of 1994 was promulgated could continue to be integrated but only when they keep separate accountings for the various activities.

Through Resolution 001 of 2006 and its modifications, and 060 of 2007, the CREG established the limits for the participation of companies in each activity in the sector, and defined the methodology to compute that participation.

For generation, the CREG set up a differential regulation according to the agent's participation in electricity generation and according to the market concentration. This allows an agent, under certain market concentration conditions, to have up to 30% interest in this activity.

The participation limits were raised for distribution and, for commercialization, it was defined that no company could have, either directly or indirectly, a participation greater than 25%, determined according to the computation methodology defined by Resolution CREG 001 of 2006, and modified by Resolutions CREG 163 of 2008 and 024 of 2009.

2.1.4.2.1.2 Stock Energy Market (from the Spanish *Mercado de Energía Mayorista – MEM*)

Act 143 of 1994 defined the Stock Energy Market as follows: “Market of large blocks of electrical energy in which generators and retailers buy and sell energy and power in the SIN, subject to the rules of operation.” Its operation is based on the existence of an energy exchange market where commercial trades take place, and there is a central operator for the SIN called National Dispatch Center (from the Spanish *Centro Nacional de Despacho – CND*). Resolution CREG 024 of 1995 regulated the commercial aspects of the MEM, and Resolution CREG 025 of 1995 regulated the operational aspects of the SIN.

Transactions carried out between generators and retailers are performed using two mechanisms:

- 1. Bilateral contracts:** purchases of energy for regulated market giving rise to bilateral contracts must be carried out through mechanisms stimulating free competition. Companies vertically integrated with generation activities can only buy from themselves up to 60% of the energy intended for their regulated market, and must participate like any other generator in the public bid for energy purchases. For non-regulated market, energy purchases are carried out through direct negotiations between generators and retailers or non-regulated users.
- 2. Power exchange:** this is a system used to buy and sell energy in the short term (hour by hour), based on a model of free competition between supply and demand. The generation resources offered to meet the demand are dispatched from the lower to the higher price, and the last to be dispatched defines the marginal cost of the transactions and sets the exchange price.

2.1.4.2.2 Energy generation

This is an activity open to competition; therefore, the prices are defined by the market. The generation agents carry out their energy transactions in the MEM (usually generators with installed capacities equal to or greater than 20 MW).

The following are also part of the system:

- 1. Smaller plants:** those with installed capacities less than 20 MW. The regulations applicable to commercial transactions carried out by these agents are found in Resolution CREG 086 of 1996.
- 2. Self-generators:** individuals or legal entities that produce electricity only to meet their own needs. They use the public network only to obtain backup from the SIN (Resolution CREG 085 of 1996).

3. **Co-generators:** individuals or legal entities that produce energy using a cogeneration process (Resolution CREG 05 of 2010).

Revenues from the generation activity are derived mainly from the sale of energy through bilateral contracts to the regulated and non-regulated market, energy exchange, secondary frequency regulation service (AGC), and reliability charges.

Resolution CREG 071 of 2006, and its amendments, approved the methodology for remunerating the MEM generators for their reliability charge. This charge is intended to promote the expansion of the electrical generation base in the country and to ensure that the generation resources are available to meet the demand in shortage situations. For this purpose, the Firm Power Obligations (from the Spanish *Obligaciones de Energía Firme - OEF*) necessary to meet the system's demand are auctioned among the generators. The generator to whom a OEF is assigned receives a remuneration that is known and stable over a specific period, and the generator agrees to provide that energy when the exchange price exceeds a threshold previously determined by the CREG, called Shortage Price (from the Spanish *Precio de Escasez*). This remuneration is computed and collected by the Commercial Exchange Administrator (from the Spanish *Administrador de Intercambios Comerciales - ASIC*) and is paid by the users of the SIN through the tariffs they charge to retailers.

2.1.4.2.3 Energy transmission

2.1.4.2.3.1 General aspects of current regulations

The most significant aspects of the current regulatory framework of this activity are comprised in Resolution CREG 011 of 2009, which are summarized as follows:

The methodology to remunerate the TN activity is known as "regulated revenue", which defines the maximum annual revenue to be paid to each national transmission agent, according to the assets actually owned in the STN. To this end, some typical construction units valued at their replacement costs as new, certain useful lives, administrative, operation and maintenance expenses (from the Spanish *Administración, Operación y Mantenimiento - AOM*), and a discount rate applicable to the assets were defined.

This revenue is collected by applying certain charges for the use of the STN, which are paid by retailers (demand) of the SIN, and are computed according to the methodology established by Resolution CREG 103 of 2000, which is based on the national stamp tax fees, with hourly differences for load periods, and makes it possible to remunerate transporters in the STN.

Invoicing and collection of the revenue from charges for the use of the STN are managed centrally through the STN's Accounts Settler and Administrator (from the Spanish *Liquidador y Administrador de Cuentas - LAC*), who invoices and computed usage charges.

With respect to quality, transmission agents must consider certain maximum levels of non-availability of the assets they own. Failure to meet these levels will lead to a decrease of the agent's regulated revenue, which is translated into a lower value of the charge for the use of the STN that must be paid by demand of the SIN.

2.1.4.2.3.2 Expansion of the STN

With respect to the expansion of the STN, the CREG issued a number of provisions, comprised mainly in Resolution CREG 022 of 2001 and its amendments, aimed at introducing efficiency factors in the implementation of the STN expansion.

This plan is defined by the Mining and Energy Planning Unit (from the Spanish *Unidad de Planeación Minero Energética - UPME*) and is assigned through a public bid process. Current and potential domestic transmitters compete in this process for the construction, administration, operation and maintenance of STN expansion projects. The respective project will be assigned to the offeror with the lowest present value for the expected cash flow.

2.1.4.2.4 Distribution

Distribution corresponds to the transportation of electricity over the Local Distribution System (from the Spanish *Sistema de Distribución Local - SDL*) or the Regional Transmission Systems (from the Spanish *Sistema de Transmisión Regional - STR*). This activity is carried out by Network Operators (from the Spanish *Operadores de Red - OR*), who are in charge of planning the expansion, investments, operation and maintenance of all or part of a STR or SDL. Although ORs have priority in the system expansion, assets may be owned by them or by third parties.

The SDL is the electrical energy transportation system that consists of a set of lines and substations, and related equipment, which operate at voltages under 57.5 kV (levels 1, 2, and 3), and are dedicated to rendering the service to one or several commercialization markets.

The STR is the electrical energy transportation system that consists of the assets used to connect to the STN and the set of lines and substations, with their related equipment, that operate at a level equal to or greater than 57.5 kV (level 4). For EPM, the voltage level is 110 kV. A STR may belong to one or more ORs.

Since the distribution activity is a monopoly, it is totally regulated. For this purpose, the CREG defines the remuneration to be paid, which is reviewed every 5 years as provided by Law. The methodology defined to determine the remuneration includes a quality component.

The basic factors for remuneration are comprised in Resolution CREG 097 of 2008, which defines the general methodology to determine distribution charges:

- The remuneration methodology for voltage level 4 corresponds to regulated revenue; for levels 3, 2 and 1, the methodology corresponds to a maximum price. In the first case, certain revenue is guaranteed to the OR, regardless of the demand's behavior; in the second case, a maximum charge is guaranteed but with the associated demand risk.

- Distribution charges for each voltage level are computed as the quotient between the annuity of the assets and AOM, and the energy transported of the base year (which is 2007 for the current tariff period). For assets, the regulator defines construction units (physical quantity) and values them at costs weighted between new replacement costs and the cost recognized in the previous regulated period; the AOM are computed by taking into account the actual AOM of the company and the service quality evolution of the preceding year. The regulator also defines the value of the WACC, which is a discount rate used to determine assets annuity. The energy transported includes some efficient energy losses which are also defined by the regulator.
- Once the methodology has been defined, the distribution charges by voltage level of each OR receive approval through an independent resolution. EPM's distribution charges were approved through Resolutions CREG 105 of 2009 and 026 of 2010 (the latter Resolution was the result of an appeal filed by EPM).

Additionally, for the distribution activity remuneration, the MME established Distribution Areas (from the Spanish *Áreas de Distribución - ADD*). Such areas correspond to a group of OR per areas according to their geographical proximity, which allow defining transport usage charges unified for all OR per the voltage level (1, 2, 3 and 4). According to Resolution MME 18 0574-2012, companies belonging to EPM Group correspond to ADD Centro.

Other basic aspects pertaining to the regulation of distribution are highlighted below:

2.1.4.2.4.1 Expansion of Regional Transmission Systems (STR) and Local Distribution Systems (SDL)

The regulation defines the criteria to ensure the expansion and coverage levels of STR and SDL included in Resolution CREG 070 of 1998.

The OR is responsible for preparing and implementing an expansion plan for the system it operates, according to its strategic, action and financial plans.

The OR's expansion plan must include all projects required by its system, including requests from third parties that are feasible within the context of its financial plan. If the OR does not implement a project comprised in its expansion plan, the interested user or a third party may develop it; therefore, a remuneration plan is defined. For the specific case of STR expansion, projects that are not interesting for the OR will be subject to public bid processes.

According to the provisions of Distribution Regulations (Resolution CREG 070 of 1998), planning must be carried out according to certain criteria, including: meeting the demand, adaptability, flexibility, environmental feasibility, economic efficiency, and quality and continuity of supply.

Based on the methodology defined in Resolution CREG 097 of 2008, expansion projects with average costs greater than the cost approved in the distribution charges for the OR will be included in the tariff after approval by the UMPE. Therefore, such projects begin to be paid after they begin operations and it is not necessary to wait until the following regulatory period, as it used to happen.

2.1.4.2.4.2 Quality of the electrical energy service

With regard to the quality of the electrical energy service, there is a difference between the quality of the energy supply and the quality of the service provided. The quality of the energy has to do with the deviations from the value specified for the voltage variables and the waveforms for voltage and current; on the other hand, the quality of service provided refers to the reliability of the service.

With regard to the quality of the service provided, the methodology defined in Resolution CREG 097 of 2008 introduced significant amendments, in which the quality scheme defined a system of incentives with compensations payable to the “most poorly served” users.

For the incentive scheme, a quality goal was established on the basis of the average quality for each distribution system, which varies within a range defined according to a two-year history (2006 and 2007), and whose performance is assessed on a quarterly basis as follows:

- If the OR fails to reach the goal, that is, performs worse than expected, its distribution charge is decreased (negative incentive).
- If the OR exceeds the goal, that is, achieves results better than expected, an incentive is granted by increasing the charge for distribution during the quarter following the assessment (positive incentive).
- If the OR achieves results within the range previously defined (range of indifference), its tariff is not affected.

In both cases above, when the tariff is increased or left the same, the “most poorly served” users, that is, those users whose individual quality deteriorated, must be compensated (the signal is that if the OR improves the average quality or if the quality remains the same, the affected users will receive compensation).

Resolution CREG 117 of 2010 established Grouped Reference Indices of Availability (from the Spanish *Índices de Referencia Agrupados de Disponibilidad - IRAD*) for EPM, which the service quality scheme of SDL started with.

2.1.4.2.5 Commercialization

This activity can be carried out by the generators and distributors of electricity, or it can be performed independently. The commercializing agent acts as an intermediary between the final user and all the other agents along the chain (generators, transporters, distributors and market administrator). Therefore, he is in charge of purchasing energy in the Stock Energy Market and selling it to the users, for which the trader carries out the following additional activities: billing, metering, collection, accounts receivable management, and customer care, among others.

Act 143 of 1994 segmented the retail electricity market into two types: regulated and non-regulated markets.

Regulated market: an electrical energy market in which tariffs operate under regulated freedom, are not negotiable, and are determined by using tariff formula defined in Resolutions issued by the CREG. Industrial, commercial and residential users may participate in this market. In addition, competition was introduced and, therefore, users may choose their service provider. The purchase of energy for the regulated market must be carried out through public bids to ensure agents free concurrence.

Non-regulated market: an electrical energy market in which users that have an energy demand equal to or greater than 0.1 MW, or a minimum monthly usage of 55 MWh participate (Resolution CREG 131 of 1998). This market is served by retailers and generators who are free to negotiate the prices (purchase component), the period and the quantities of electricity.

2.1.4.2.5.1 Tariff structure

According to current regulations, electrical energy retailers can charge their end-users a maximum cost per unit of consumption.

For the regulated market, this cost is computed according to the tariff formula defined by the CREG. Currently, the formula established by Resolution CREG 119 of 2007, which is in force since February 2008, is being applied.

The cost of providing the service is the sum of the costs involved in each activity of the electrical sector: generation (G), transmission (STN), distribution (SDL), commercialization (C), restrictions (R) and losses (P).

No tariff formula has been approved for the non-regulated market because it operates in a (supervised) free system, but the costs of the six components above are transferred, although some are computed differently: G is the result of the negotiation between users and retailers and, in turn, between retailers and generators.

In addition, a subsidies and contributions system is applied according to the principle of solidarity and income redistribution which requires the lower socioeconomic levels (1, 2, and 3) to be charged with less than the cost of the service provision, and socioeconomic levels 5 and 6 and the industrial and commercial sectors to be charged with an amount greater than this cost in order to pay for the subsidies given to the lower socioeconomic levels. Socioeconomic level 4 is charged with the cost of reference, that is, it does not cover contributions or received subsidies.

The provisions that have to do with subsidies and contributions are summarized below:

- Tariffs for users in socioeconomic levels 1 and 2: according to the provisions of Act 1117 of 2006, prorogated by Act 1428 of 2010, tariffs for subsistence consumption (users less than 131 kWh per month) can have a maximum monthly increase equal to inflation. This means that when the cost of providing the service increases more than inflation, the difference becomes a greater subsidy for the users. The percentage of subsidy is limited to 60% and 50% for socioeconomic levels 1 and 2, respectively.
- Tariff for users in socioeconomic level 3: users receive a subsidy equivalent to 15% of the cost of the service provision.

- Tariffs for socioeconomic levels 5 and 6, industry and commerce: users pay a contribution of 20% above the cost of providing this service which goes to pay for the subsidies given to socioeconomic levels 1, 2, and 3.

Act 1430 of 2011, which comprises tax regulations on control and competitiveness, established in Article 2 - *Industrial Users Electricity Sector Contribution*, ruling since 2012, that industrial users will not be subject to pay the solidarity contribution. Likewise, the Government establishes who will be the industrial user beneficiary of the discount and subject to such surcharge. This regulation became effective by means of Decrees 2915 of 2011 and 4955 to 2011 dated December 30, 2011.

Act 142 of 1994 made it mandatory to create within the Ministry of Mines and Energy (MME) a Solidarity Fund for Subsidies and Income Redistribution (from the Spanish *Fondo de Solidaridad para Subsidios y Redistribución de Ingresos - FSSRI*) that is funded with resources taken from the surplus of commercialization companies after offsetting subsidies and contributions in their own markets. In addition, if the resources from the companies' surplus are not enough to cover the total subsidies granted, the National Government puts up the rest from its own budget. Otherwise, public utilities companies may take any steps necessary to have the users pay for the total cost of providing the service.

2.1.4.3 Natural gas sector

2.1.4.3.1 General considerations

Act 142 of 1994 defined the legal framework for the provision of residential public utilities, defined natural gas as a public utility, and created the CREG as the body in charge of developing the regulatory and normative framework for the activities related to this service: commercialization starting from production, transportation, distribution and commercialization to the end-user. However, the regulations and competencies expressed in the Oil Code and the Association Contract still apply to the activities of exploration, exploitation and production of natural gas and, therefore, those activities are outside the scope of the CREG. The regulation of natural gas production is carried out by the MME, and resources are managed by the National Hydrocarbon Agency (from the Spanish *Agencia Nacional de Hidrocarburos -ANH*) through contracts.

After Act 142 of 1994 was enacted, there were significant changes in the institutional and regulatory aspects that have consolidated the development of the natural gas industry in the country. Then, new and substantial investments were made in the various activities of the industry through different governmental and private agents.

In addition, natural gas distribution companies began to operate under the legal framework of this Act without the need to have a concession contract with the State; an exception that applies only to those areas given exclusively to the distribution of natural gas over gas pipelines.

2.1.4.3.2 Activities of the sector

Based on Act 142 of 1994, the CREG defined the regulatory framework for the natural gas service through Resolution 57 of 1996 and at the same time established the following activities for the provision of natural gas:

2.1.4.3.2.1 Commercialization starting with production (supply of natural gas)

This activity consists of supplying the natural gas that comes from the various production fields located around the country.

In Colombia, commercialization starting with production of natural gas is performed by using two modalities:

1. Maximum prices for the gas produced by the fields of Ballena in La Guajira and Opón in Santander, Resolution 119 of 2005.
2. For the production from existing or future fields that join the national supply, different from those defined in this Resolution, prices will be set freely, and will not be subject to maximum limits, under the supervised freedom system defined by Act 142 of 1994.

Supply contracts are governed by various types of contracts such as “take or pay”, GPO (Gas Purchase Options) and conditional firmness contracts.

To ensure the supply of natural gas in the long term, the MME issued Decree 2100 of 2011, thus establishing guidelines for imports and exports of natural gas and establishing guidelines for commercializing gas. Such decree gave priority to the internal demand over the demand for export, established the mechanisms for information and assignment of the available offer of natural gas, and defined the criteria so that the producers can use the reserves for international commercialization.

This Decree established a placement order for the gas coming from fields with regulated maximum price; defined the concept of essential demand; and assigned the establishment of a commercialization procedure to the CREG for period 2012 and 2013, which is comprised in Resolution CREG 118 of 2011.

As from 2013, a new commercialization procedure will start ruling. Therefore, the CREG published Resolution 113 of 2012 subject to consult. The final one is expected to be finally published in 2013.

2.1.4.3.2.2 Transportation of natural gas

This activity consists of taking natural gas over high pressure steel pipelines, which make up the National Transport System (from the Spanish *Sistema Nacional de Transporte - SNT*), from the natural gas production fields to the entrance to major cities (city gate), large consumers, thermoelectric plants, and major industries.

This activity is considered a natural monopoly with price, quality and access regulation. The remuneration of the transportation service for the SNT is based on a scheme of passage or distance charges, computed as the sum of charges for each section of the gas pipeline between the point of entry of the gas into the SNT and the point of exit of the gas for each agent purchasing the gas transportation service. The remuneration and structure of charges are defined in Resolution CREG 126 of 2010.

This remuneration method and the current charge structure are aimed at facilitating competition among producers, facilitating the penetration of gas, and providing an efficient assignment of the transportation system's costs.

The distance charge system reflects the average costs of each system component and preserves the location signals, taking into account the efficient costs of investment and AOM of the gas pipeline and the volumes transported by it.

In addition, for each specific company the rate of return used is the weighted value between the historical cost of capital and the current cost of capital, according to the ratio between the existing asset base and the new investments projected for the tariff period.

Natural gas transportation contracts are governed by different types of agreements, such as: Firm contracts (take or pay), interruptible contracts, and occasional contracts. The natural gas transportation market is a bilateral market characterized by direct negotiations between the parties –the transporter and the sender- and transactions autonomous completion.

Access conditions to the transportation network and the specifications of quality and pressure for delivering natural gas must meet the conditions established in the Single Transportation Regulations (from the Spanish *Reglamento Único de Transporte - RUT*), Resolution CREG 71 of 1999.

Transportation charges applied to carry the gas to Valle de Aburrá are established in Resolutions CREG 114 of 2001, for the gas pipeline of Transmetano S.A., and 121 of 2012, for the gas pipelines of TGI S.A.

The physical "by pass" to the distribution network of natural gas by an existing or future user, which being able to have connection to the distribution network, given its pressure and quality needs required, wants to have direct connection to the SNT to avoid the remunerative payment of the distribution network, was prohibited by Resolution CREG 171 of 2011.

2.1.4.3.2.3 Distribution and commercialization of natural gas through pipelines networks

This activity consists of taking the gas from the city gate, or from a distribution system, to the final user through low and intermediate pressure pipelines which are mostly polyethylene.

Distribution of natural gas in Colombia is regulated according to the manner in which the service is provided: exclusive service areas (lower price obtained), and nonexclusive service areas (tariff formulas). The latter applies to EPM.

General criteria to contract for exclusive service area for distribution of natural gas are set forth in Resolutions CREG 014 of 1995 and 057 of 1996, and represent a concession system established by the Public Utilities Act assigned through public bids.

For areas with nonexclusive service, as is the case for EPM, the CREG defined in Resolution CREG 011 of 2003 the general criteria to remunerate the fuel gas distribution and commercialization activities, and the general tariff formulas for the provision of the residential public utility of fuel gas distribution over pipelines. Such resolution is under review process by the CREG according to the methodology basis published in Resolution CREG 136 of 2008, projects of Resolution CREG 178 of 2009 and 103 of 2010, and the remuneration methodology proposal for the following tariff period comprised in Resolution CREG 090 of 2012.

Natural gas distribution is considered a natural monopoly with regulated price, quality and access. The applicable regulatory regime corresponds to a "Price Cap" determined from the computation of medium-term average costs, which are transferred to the demand by using a basket tariff method applied based on average charges approved by the regulator.

The computation of medium-term average costs takes into consideration basic investment, projected five-year expansion, projection of AOM efficient expenses and demand for a twenty-year term, and a return rate for the cost of capital invested.

The "tariff basket" is applied based on six usage ranges, and has a ceiling price of 110% of the average charge approved by the regulator and a floor charge equal to the average cost of the intermediate pressure network. The ceiling charge is applicable to the first consumption range, including the entire household demand, and to the low consumption commercial sector.

Distribution and commercialization charges approved for EPM in its several relevant markets are applicable for five years and are established by the following Resolutions issued by the CREG:

- Resolution CREG 087 of 2004 for the relevant market comprised by the ten municipalities located in Valle de Aburrá.
- Resolution CREG 126 of 2008 for the relevant market comprised by the Municipality of La Ceja del Tambo.
- Resolutions CREG 055 and 080 of 2009 for the relevant market comprised by the Municipality of El Retiro.
- Resolutions CREG 054 and 079 of 2009 for the relevant market comprised by the Municipality of La Unión.
- Resolutions CREG 055 and 080 of 2010 for the relevant market comprised by the Municipalities of El Peñol and Guatapé.
- Resolution CREG 074 of 2011 defined the distribution and commercialization charges applicable to the relevant market comprised by the Municipalities of Yarumal, Santa Rosa de Osos, Donmatías, Entreríos, and San Pedro de los Milagros.
- Resolution CREG 178 of 2011 defined commercialization and distribution charges applicable to the relevant market comprised by the Municipality of Sonsón, in Antioquia.

- Resolution CREG 052 of 2007 for the users served in the relevant market comprised by the Municipalities of Guarne, Rionegro, Marinilla, and El Santuario.

The commercialization charge (Co) is an amount in pesos per invoice (\$/invoice) which pays for the costs of metering, invoicing, collection, customer service, commercialization margin, and accounts receivable in arrears, among others. Its definition takes into consideration the annual efficient expenses for AOM, the depreciation of assets associated with the commercialization activity, and a commercialization margin of 1.67% applied on the gross annual income obtained by the commercializing agent regulated for that year in which computations of AOM efficient expenses were made.

AOM efficient annual expenses are determined by using the DEA relative efficiency method. The authorized 1.67% commercialization margin is intended to remunerate the operational part of the activity with 1.60% plus a premium of 0.07% for accounts receivable risk.

The method to determine the Maximum Commercialization Base Charge, for the following tariff period, is currently under review by the CREG through Resolution 103 of 2010.

The rights and responsibilities of distributors, retailers and users, the conditions for free access to the distribution network, and the safety and minimum quality of the distribution system are defined in the code for the distribution of fuel gas through pipelines published through Resolution CREG 067 of 1995.

2.1.4.3.3 Tariff structure

Distribution-commercialization companies providing natural gas service in nonexclusive service areas apply, for the regulated market, the tariff formula defined by the CREG through Resolution 11 of 2003 for a five-year tariff period. This tariff formula allows companies to transfer each month the maximum average unit cost for purchases and transportation of natural gas, G and T, in addition to the distribution and commercialization costs, D and C for the said gas.

There is no tariff formula approved for the non-regulated market because it operates under a supervised freedom system. However, the cost of regulated components of transportation and distribution, as well as gas purchase and commercialization variables, is transferred according to the prices resulting from the negotiation between users and retailers.

2.1.4.3.4 Subsidies and contributions regime

According to the current applicable legal framework in Colombia, a subsidies and contributions regime is used in keeping with the principle of solidarity and income redistribution which makes it mandatory for users of lower socioeconomic levels 1 and 2 to receive subsidies at the cost of service provision, while socioeconomic levels 5 and 6, and the industrial and commercial sectors must pay a contribution on the value of this cost in order to pay for the subsidies given to socioeconomic levels 1 and 2. At present, socioeconomic levels 3 and 4 do not receive subsidies and do not have to pay contributions.

The provisions referring to subsidies and contributions are summarized as follows:

- Tariffs for users in socioeconomic levels 1 and 2, according to the provisions of Act 1117 of 2006, prorogued by Act 1428 of 2010, for subsistence usage (usage less than 20 m³ per month), cannot be subject to monthly increases greater than the rate of inflation. This means that when the cost of providing the service increases more than inflation, the difference represents a greater subsidy for the users. The Act set the maximum percent subsidy that can be given to socioeconomic levels 1 and 2 at 60% and 50%, respectively.
- It is important to note that the users of fuel gas in socioeconomic levels 3 and 4 are not eligible for subsidies and, at the same time, are exempt by Law from paying any contribution.
- Socioeconomic levels 5 and 6 contribute with 20% of the cost of the service.
- Commerce and industry contribute with 8.9% of the cost of service, except for the gas-based power generation, the petrochemical industry, and the Natural Vehicular Compressed Gas (from the Spanish *Gas Natural Comprimido Vehicular - GNCV*), whose contribution is 0%.
- Act 1450 of 2011, National Development Plan Act 2010 - 2014, established, in Article 102, that in 2012 industrial users of residential natural gas will not be subject to pay the contribution referred to in paragraph 89.5 of Article 89 of Act 142 of 1994 and that, for purposes of the provisions set in that Article, the National Government will regulate the conditions for providers of residential natural gas to properly control different classes of users. Such regulation was implemented through Decree 4956 of December 30, 2011.
- Act 142 of 1994 made it mandatory to create within the MME a FSSRI that is funded with resources taken from the surplus of commercialization companies after offsetting subsidies and contributions in their own markets. In addition, if resources from the FSSRI are enough to cover the total subsidies granted by companies, the National Government, on first instance, puts up the rest through budget transfers to the Ministry account set for such purpose. Otherwise, public utilities companies may take any steps necessary to have the users pay for the total cost of providing the service.

2.1.4.3.5 Integration of the natural gas sector

Resolution 57 of 1996 defined rules for participating in the natural gas sector that set limits for the agents in the sector. Companies whose purpose is to sell, commercialize or distribute natural gas may not be transporters or have an economic interest in a company transporting the same product.

For the purposes described herein, there is an economic interest of a transport company in another company whose purpose is the production, sale, commercialization and distribution of the same product, in the following cases:

- When these companies, their parents, subordinates or economically related parties are party to a contract to share profits or reduce cost, or in any joint venture with natural gas production, commercialization or distribution companies.
- When the production company owns more than 25% of the capital in the transport company and more than 30% of the capital in a distribution company.
- When the transport company owns more than 25% of the capital in a commercialization or distribution company or in a major consumer of natural gas.
- The transport company may not participate in natural gas commercialization activities, except when it owns shares in a natural gas distribution-commercialization company.

In addition, in Resolution 112 of 2007, the participation limits was raised for retail distribution and commercialization horizontal integration, which allows a distributor to participate up to 100% in these activities.

2.1.4.3.6 Quality of the natural gas service

Quality in the natural gas sector is rated according to two points of view: the first measures and assesses the quality of the service provided, for which the maximum equivalent time of interruption of service to the users (DES), and the response time from technical service in the event such as gas leaks, fire, quality of the flame and interruption (IRST) are specified; the second assesses the quality of the natural gas product, for which delivery pressures in individual lines (IPLI) and natural gas odorization are specified.

In Resolution 100 of 2003, the CREG defined the criteria, indicators and goals to measure this quality, and assigned to the responsibilities and compensations for failure to achieve these goals.

2.1.4.4 Telecommunications sector

The Ministry of Information and Communications Technologies (from the Spanish *Ministerio de Tecnologías de la Información y las Comunicaciones - MINTIC*) is the body in charge of establishing policies, plans and projects for this sector, as well as managing control and supervision functions on ICT networks and services.

With regard to policies funding, spectrum technical agency and regulations, this regulation appoints FONCOM, the Spectrum Agency (from the Spanish *Agencia para el Espectro*), and the Telecommunications Regulatory Commission (from the Spanish *Comisión de Regulación de Telecomunicaciones - CRT*) as the responsible bodies.

With regard to users' protection, the Superintendency of Industry and Commerce is in charge of knowing the appeals on petitions and complaints, and making some progress in research on practices violating the regime set by the CRT.

Both the Political Constitution and Act 182 of 1995 make the National Television Commission (from the Spanish *Comisión Nacional de Televisión - CNTV*) responsible for the regulations, policies, monitoring and control of television services. Such provision is under legislative review.

There are no legal restrictions in Colombia to the participation of Colombian or foreign entities in the private capital to provide telecommunications services. Foreign companies must establish an affiliate company to operate in Colombia.

Operators of local basic switched telephony defined as dominant in Resolution CRT 087 of 1997, that is, with a market share equal to or greater than 60%, must adhere to the methodology and the criteria established by the CRT to determine their tariffs. The remaining operators of basic public switched telephony (local, national, and international long-distance) are free to set their own tariffs.

Through Resolution 1250 of 2005, the CRT changed the system of rates for the TPBC to be applied as of January 1, 2006. The most significant changes for the local basic telephony service are as follows:

- Changes to the unit of measurement. Until December 2005 the charges were per impulse, and as of January 2006, the charge is computed in minutes.
- Different plans with minutes were created and the fixed charge was eliminated for all socioeconomic groups. The amount of the plan is always consumable, and customers have the chance to select the plan that best fits their needs.
- The basic local public switched telephony service has a system of subsidies and contributions. There is a subsidized usage for socioeconomic levels 1 and 2 of 200 minutes per month; the contribution is 20% and is collected from socioeconomic levels 5 and 6, companies, and the industrial sector. Socioeconomic levels 3 and 4 are charged with the reference cost, that is, no contribution or subsidy is received.

2.2 Regulations in Guatemala

2.2.1 General considerations

The 1985 Political Constitution of the Republic of Guatemala stated that it was a matter of national urgency to electrify the country, on the basis of plans produced by the State and the municipalities, in a process that can include the participation of private initiatives.

To implement the Political Constitution, the General Electricity Act was enacted in 1996 and defines fundamental legal regulations to facilitate the actions of the various sectors of the electrical system.

The main objectives of the General Electricity Act are as follows: to eliminate government influence on price decisions, thus allowing the Guatemalan electrical industry to operate in an open and competitive environment, so the prices of electricity reflect the lowest production cost available in the system; to regulate the transmission tolls and distribution tariffs in order to prevent monopolistic practices; to give the end-user a quality electricity service as well as the benefits of prices defined in a competitive market; and to integrate the Guatemalan electrical industry with a regional Central American market.

The principles of the General Electricity Act are as follows:

- The generation of electricity should not be regulated and the generation companies will not be required or have special permits or meet conditions imposed by the Government, except for hydroelectric, geothermal and nuclear plants.
- The transmission of electricity should be deregulated, except if companies have to use public facilities or public roads to carry out the transmission and distribution of the service.
- The prices of electricity must be freely determined, except for those transmission and distribution services that are subject to regulation.

2.2.2 Regulatory authorities

The General Electricity Act authorized the creation of two new institutions to regulate the electrical sector: The National Electrical Energy Commission (from the Spanish *Comisión Nacional de Energy Eléctrica –CNEE*) and the Administrator of the Wholesale Market (from the Spanish *Administrador del Mercado Mayorista –AMM*). On March 21, 1997, the Ministry of Mines and Energy (from the Spanish *Ministerio de Energía y Minas*) adopted the regulations that implemented the General Electricity Act. In 1997 and 1998, respectively, the CNEE and the AMM were created, thus completing the legal framework for the privatization of the electrical sector in Guatemala.

Ministry of Mines and Energy

The Ministry of Mines and Energy is the Guatemalan Government's most important entity in the electrical sector. It is responsible for enforcing the General Electricity Act and related regulations, and it is also responsible for coordinating the policies between the CNEE and the AMM. This government division is also authorized to grant operating permits to distribution, transmission and generation companies.

National Electrical Energy Commission (CNEE)

The Guatemalan electrical sector is regulated by the CNEE, a regulatory agency created to comply with the General Electricity Act. The CNEE acts as the technical branch of the Ministry of Mines and Energy and consists of three members appointed by the Guatemalan Government and assigned by the national universities, the Ministry of Mines and Energy, and by the Board of Directors of the AMM. Members hold their positions for five years.

The General Electricity Act assigns the following responsibilities to the CNEE:

- Set the transmission and distribution tariffs, as well as the method to compute the tariffs according to the provisions of the General Electricity Act.
- Ensure compliance with the laws and regulations that have to do with electricity, and impose penalties if necessary.
- Compliance of the entities that support the various public permits, protect the rights of the end-users, and prevent unfair, abusive or discriminatory competitive practices.

- Supervise and facilitate arbitration in the event of controversies among the various parties in the subsector.
- Define technical rules and performance standards for the electrical sector and ensure compliance with internationally accepted practices.
- Create regulations and rule to guarantee access and use of the transmission lines and distribution networks.
- Issue sanctions.

Administrator of the Wholesale Market (AMM)

Guatemalan wholesale electricity and capacity markets are managed by the AMM, an independent entity created in compliance with the General Electricity Act. The AMM coordinates operations of generation facilities, international connections, and transmission lines that constitute the national electricity system. In addition, the AMM is responsible for the security and operation of the national electricity system by carrying out an economically efficient dispatch and managing the electricity resources to minimize operating costs, including the cost of failures, within the restrictions imposed by the transmission systems and the quality of service requirements. In addition, the AMM is in charge of scheduling the supply and dispatching electricity.

The managing council of the AMM consists of five members, selected by each group of participants in the wholesale electricity and capacity markets, generation, transmission and distribution companies, electricity agents, and large users. Each participant in the wholesale electricity and capacity markets has a number of votes that is equal to the percentage of its participation in the market. EEGSA can elect the representative for the distribution companies and COMEGSA can choose the representative for the electricity agents; still, it will require a minor allied percentage for doing it in the following elections. The members hold their positions for two years.

The AMM is responsible for:

- Establishing the policies and the rules for the operation of the wholesale and capacity markets.
- Defining the rights and obligations of the participants in the wholesale electricity and in the capacity markets.
- Supervising the participants in the wholesale electricity and capacity markets.
- Establishing spot prices for transferring electricity and capacity among the participants in the wholesale electricity and the capacity markets.
- Ensuring that the purchases of electricity and capacity in the spot market are carried out and settled efficiently.
- Guaranteeing the supply and security of electricity and capacity in general.

The policies and rules of the AMM are subject to the approval of the CNEE. If a generation, transmission, or distribution company, or an electricity agent or a large user does not operate their facilities according to the regulations established by the AMM, the CNEE is entitled to impose fines and, in the event of a serious violation, may order it to disconnect from the national electricity system.

2.2.3 Tariff system

2.2.3.1 Distribution tariffs

According to the General Electricity Act and CNEE regulations, a distribution company is allowed to charge its regular customers a tariff that consists of an electricity charge to reimburse the distribution company for the cost of electricity and capacity that it purchases, and the transmission fees, and a Distribution Added Value (from the Spanish *Valor Agregado de Distribución –VAD*) charge to allow the distribution company to cover its operating expenses, complete its capital expenditure plans, and recover its capital costs. Although prices for electricity that are charged to large users are not regulated by the CNEE, they must pay a regulated tariff equal to the VAD charge applicable for delivering the electricity through the facilities of a distribution company.

2.2.3.2 Regulated Tariff

Every six months, the CNEE establishes the VAD for regulated clients; and every three months, the CNEE establishes the price of power and energy. At present, those tariffs include:

- A social tariff available for clients whose demand is less than 300 kWh per month.
- A simple tariff available for all clients who buy low-voltage electricity.
- Three additional tariffs available for clients who buy electricity for distribution at low voltages.
- Three tariffs available for clients who buy electricity for distribution at 13 kV.
- One tariff available for governmental entities buying electricity for public lighting.

The social, simple and public lighting tariffs consist only of an electricity charge, a VAD charge and a fixed monthly charge for connecting to the distribution system. The following three additional tariffs for low voltage and the three tariffs for 13kV are available to:

- Clients contracting the purchase of electricity and capacity only during peak hours, which is between 6.00 pm and 9.00 pm.
- Clients contracting the purchase of electricity only during off-peak hours.
- Clients contracting the purchase of capacity and electricity at any time of the day.

Clients asking for these tariffs sign contracts with the distribution company for the purchase of a specific amount of capacity. These tariffs consist of a fixed charge for capacity for each kW contracted, a charge for electricity used by the client, a charge for the use of capacity, and a fixed monthly charge for connecting to the distribution system. The charge for the use of capacity has two components: one for generation and transmission, and another one for distribution. Clients are charged with the use of capacity on the basis of the maximum amount of capacity demanded during any billing cycle.

The electricity charge and the generation and transmission component in the charge for capacity use is adjusted in the same manner as the electricity charge is computed for the social tariff, the simple tariff and the public lighting tariffs. The capacity charge and the distribution component in the maximum capacity charge are adjusted in the same manner as the VAD charges according to the social, simple, and public lighting tariffs.

2.2.3.3 Tariff adjustments

The VAD charges for each distribution company are defined by the CNEE every five years and are rated to equal an annuity over 29 years of the net replacement value of the distribution system which, in turn, is determined by computing the replacement value of the distribution network that would be required to offer the services provided by the distribution company during the following eight years in the same service area.

The replacement cost of the distribution system is determined by using a discount rate selected by the CNEE between 7% and 13%, based on studies carried out by independent consultants. Computation of the VAD for a distribution company uses as reference the estimated cost of an efficient distribution company that serves a similar distribution area and has provisions for the following costs:

- Losses incurred in the distribution of electricity.
- Administrative costs for providing the service to the customers.
- Distribution system maintenance and operation costs, including cost of capital.

The VAD collected by EEGSA until August 1, 2003 was determined when it was privatized. At the time, new VAD charges were determined to be applied as of May 2008. To determine VAD charges, the distribution company has to have a consultant approved by the CNEE to compute VAD components (including the net replacement cost) applicable for the company's distribution system. The CNEE can also hire a consultant to compute the VAD charge applicable to the company's distribution system.

After submitting the VAD computed by the consultants to the CNEE, this body decides whether it approves the VAD computed by the consultants. In the event that the VAD is not approved, the controversy is submitted to an arbitration panel consisting of three individuals, one appointed by the distribution company, one appointed by the CNEE, and another appointed by the first two arbitrators. In the event of not getting into an agreement within three days, the third one is appointed by the Ministry of Mines and Energy. The CNEE states that the decision of the expert committee is not binding; at least, it was applied that way in the 2008 VAD.

VAD charges are adjusted twice a year to reflect the effects of fluctuations in the exchange rate between the quetzal/dollar on the dollar-denominated components of the computation of the net replacement cost, and the effects of Guatemala inflation on the quetzal-denominated components included in the computation of the net replacement cost.

The electricity charge is used to reimburse the distribution company for the cost of electricity that it buys. The electricity charge component in the regulated tariffs consists of a base tariff and an electricity adjustments surcharge. According to the General Electricity Act and the CNEE regulations, the base tariff is adjusted on an annual basis to reflect the expected changes in the cost of electricity to be purchased by the distribution company over the following year. The electricity adjustment surcharge is adjusted every quarter to reflect variations in the actual costs of the electricity purchased by the distribution company with respect to the projected cost.

2.2.3.4 Social tariff

In 2001, Guatemala enacted the Social Tariff Act. This is an Act requiring a special tariff to be available for clients using less than 300 kWh per month. According to the regulations adopted by the CNEE, distribution companies requested their participation in bids for the contracts to purchase electrical energy to provide electricity to customers eligible for the social tariff. The Electrification National Institute (from the Spanish *Instituto Nacional de Electrificación - INDE*) has been the only offeror for this tariff; however, there are now other providers. Still, the INDE continues affecting the price through a subsidy paid to distributors for users with consumptions below 100kWh per month; therefore, it reduced the base rate applicable to these customers.

2.2.3.5 Transmission tolls

The General Electricity Act provides that all parties connected to the Guatemalan National Electricity System, including all generation, transport and distribution companies and electricity agents and large users, must pay for the connection to and use of the National Electricity System.

Transmission charges for electricity may be negotiated by the generation or distribution companies, or large users that use the national electricity system. In the absence of the negotiated price, the fees for the use of transmission lines, substations, and distribution facilities are set according to the regulations issued by the CNEE.

There are separate fees applicable to primary and secondary transmission systems. Both fees are determined on the basis of the transmission system's Replacement New Value (from the Spanish *Valor Nuevo de Reemplazo - VNR*), that is, the estimated cost of replicating a transmission system; a model including an estimated return on capital.

The fees for the primary transmission system are set by the CNEE on the basis of information provided by the owners of the transmission facilities and the AMM.

The transmission fees for the primary transmission system must be reviewed every two years and every time that a new generation capacity is connected to the national electricity system, or a portion of the secondary transmission system is updated to become part of the primary transmission system.

The increased fees for the primary transmission system were proposed by the AMM, but the CNEE has not approved tolls as from such proposal. The same happened with the secondary transmission fees, although the Law established they are negotiated between the owners of the transmission facilities, the generators and the electricity agents using their transmission facilities. If these parties do not reach an agreement, the fees are established by the CNEE, taking into consideration AMM and parties' decisions.

Transmission fees for the use of the primary transmission system are settled by generating companies or importers, and are included as part of the electricity costs in the tariffs paid by the regular customers. The transmission fees for the use of the secondary transmission system are paid by the distribution companies, electricity agents, or large users. Transmission fees for the use of the secondary transmission system which are paid by the distribution companies are included as part of the cost of electricity in the tariff paid by regular customers.

2.2.3.6 Wholesale electricity and capacity market

Guatemala wholesale electricity and capacity markets are "open border" markets which allow market participants to purchase electricity and capacity from generators and sell to customers inside and outside Guatemala. The parties who may participate in the wholesale electricity and capacity markets, but are not obligated to do so, include:

- Generation facilities with installed capacities of over 10 MW.
- Distribution companies with 20,000 or more customers.
- Transmission companies with systems connected to plants with a capacity of more than 10 MW.
- Electricity agents who purchase or sell 10 MW or more, including importers, exporters, and large users.

The spot market price for electricity is determined on an hourly basis according to the compensation price at which the demand can be met by using the available electricity being offered.

Participants in the wholesale market may also trade in capacity transactions, thus allowing generators that are not in a position to provide the engaged capacity to be able to purchase additional capacity. Prices in the capacity market are established by the AMM on the basis of the theoretical cost of setting up efficient generation capacity.

2.2.3.7 Operation of the national electricity system

The AMM is responsible for the security in the operation of the national electricity system, carrying out an economically efficient delivery, and managing the electricity resources in such a way as to minimize the operation cost, including the cost of failures, within the restrictions established by the national transmission system and the quality of service requirements.

The AMM may schedule the delivery of electricity to guarantee that electricity requirements are met at the lowest cost within the priorities defining the quality and security of the service, especially the requirements of supplementary services such as frequency, voltage, and reactive control regulation, and reserves, among others. The AMM delivers electricity acquired in the spot market according to the efficiency levels of the generators who offer the electricity.

2.3 Regulations in El Salvador

2.3.1 General considerations

A procedure for restructuring the electricity sector was developed in El Salvador. Such procedure was embodied in a legal and institutional framework aimed at promoting competition and conditions necessary to ensure the availability of an efficient energy offer capable of supplying the demand on technical, social, economic, environmental and financial viability criteria.

In the nineties, El Salvador launched a procedure to reform the energy sector, which involved the restructuring of the hydrocarbon and electricity sectors, the privatization of most state companies providing energy goods or services, and markets deregulation.

2.3.2 Regulatory framework

The legal framework of El Salvador electric sector is comprised by the Act of Establishment of the General Superintendency of Electricity and Telecommunications (from the Spanish *Superintendencia General de Electricidad y Telecomunicaciones - SIGET*) issued by Legislative Decree 808 of September 12, 1996, which gave legal life to this regulator; the General Electricity Act (from the Spanish *Ley General de Electricidad - LGE*) issued by Legislative Decree 843 of October 10, 1996; and the Regulations of the General Electricity Act established by Executive Decree 70 of July 25, 1997, including its amendments.

As a result of the electricity sector restructuring, both Unidad de Transacciones S.A. (UT), which manages the Wholesale Electricity Market, and Empresa de Transmisión de El Salvador (ETESAL) were created, while distribution and thermal generation companies were privatized. In addition, the hydroelectric and geothermal generation activities were separated, and a private partner entered into the latter one.

Among the recent changes taking place in the power sector of El Salvador, the following may be mentioned: the Legislature Meeting considered it necessary to create a non-profit autonomous state institution of public utilities that leads and rules the national energy policy. In this regard, Legislative Decree 404 was issued in October 2007 by the Meeting to create the National Power Council (from the Spanish *Consejo Nacional de Energía - CNE*). According to its creation act, the CNE is the higher authority, leader and ruler of the energy policy, aimed at establishing the policy and strategy to promote the efficient development of the energy sector.

The Wholesale Electricity Market (MME) of El Salvador, through the national transmission system (voltage network equal to or greater than 115,000 volts), allows all market agents and participants (from the Spanish *Participantes del Mercado - PM*) having a direct connection to the transmission system to have direct participation in power transactions.

These PM may be generators, distributors or end users. There is also the option for other agents not having connection to the transmission network to indirectly participate in the market, under the traders status, according to special regulations developed by the regulator, SIGET, in this regard.

At present, the MME has two instances for exchanging power: the Contracts Market (from the Spanish *Mercado de Contratos - MC*), and the System Regulator Market (from the Spanish *Mercado Regulator del Sistema - MRS*) or Opportunity Market (from the Spanish *Mercado de Oportunidad*).

Executive Decree 57 of June 2006 introduced amendments to the Regulations of the General Electricity Act. Firstly, it states that the dispatch of generating units shall be according to their variable operating costs. Therefore, one of the LGE reforms issued by Legislative Decree 1216 is implemented. This amendment seeks to ensure peaceful competition in the generation and supply demand segments at the minimum expected cost of operation and rationing. Consequently, the UT comes to be responsible for planning and coordinating the dispatch of generating units and the operation of the transmission system facilities.

Secondly, by means of such Decree, the recruitment scheme of long-term supply is ruled by distribution companies through a free competition procedure.

As from August 1, 2011, the Regulation for the Transmission System and Wholesale Market Operation Based on Production Costs (from the Spanish *Reglamento de operación del sistema de transmisión y del mercado mayorista basado en costos de producción - ROBCP*) came into force. Such regulation replaced the previous system based on opportunity offers. Under this new Regulation, the dispatch is determined by the power transaction price in the MRS, which will be equal to the marginal cost of the system operation in the corresponding market range.

The ROBCP provides that, in addition to the power delivered, valued on an hourly basis at the corresponding marginal power operating cost, the generating units selling power in the Opportunity Market will receive a payment for firm capacity equal to the marginal cost of high-quality generating capacity, applied on the power a unit or generating station is highly likely capable of injecting to the system in a control period corresponding to the maximum hours demanded by the generating facilities. The price to value such firm capacity transactions has been determined as the investment cost per kW on an annual basis plus the fixed cost of operation of an efficient unit to provide support and additional capacity in the system control period, amplified in a reserve margin and a loss factor corresponding to peak hours.

2.3.3 Regulatory authorities

2.3.3.1 National Electrical Market

Ministry of Economy (MINEC)

It is a central government body aimed at promoting economic and social development by increasing production, productivity and the appropriate use of resources. It is responsible for defining the country's commercialization policy and monitoring and supporting Central American economic integration.

It is in charge of leading the Electric Energy Office and the Social Investment Fund for Local Development; it also leads the National Energy Board.

In addition, it contributes to the development of competition and competitiveness of productive activities for both the domestic and foreign markets.

General Superintendency of Electricity and Telecommunications (SIGET)

It is a non-profit autonomous institution of public utilities. Such autonomy includes administrative and financial aspects. This entity is responsible for enforcing the rules comprised in international treaties on electricity and telecommunications in force in El Salvador and in the laws governing the electricity and telecommunications sectors and their regulations. It is also responsible for having knowledge of such regulations failure.

Transactions Unit (from the Spanish *Unidad de Transacciones - UT*)

It is responsible for managing the electricity wholesale market with transparency and efficiency, and operating the transmission system, thus maintaining security and quality, and providing market operators with satisfactory answers regarding their activities development. Similarly, it coordinates, along with the Regional Operating Agency (from the Spanish *Ente Operador Regional - EOR*), the energy transactions carried out by El Salvador with countries in Central America and others around the world. Finally, it determines liabilities in case of system failures.

Ministry of Environment and Natural Resources (from the Spanish *Ministerio de Medio Ambiente y Recursos Naturales - MARN*)

It is responsible for establishing, planning and implementing policies regarding environmental and natural resources; directing, controlling, supervising, promoting and developing environmental and natural resources issues; proposing rules, and ensuring their compliance, for the conservation and wise use of natural resources and, therefore, obtaining their sustained development; and promoting the active participation of all national sectors in the sustainable use of natural resources and the environment; among other functions.

Market Contracts (from the Spanish *Mercado de Contratos - MC*)

This market refers to the sale of energy where the agents involved establish the agreement features on a privately basis without reporting UT financial conditions.

System Regulator Market (from the Spanish *Mercado Regulador del Sistema - MRS*)

It is the energy "spot market". It allows the short-term balance to cover the total demand of the wholesale market, and allows establishing the balance between offer and demand.

National Energy Board (from the Spanish *Consejo Nacional de Energía - CNE*)

It is a government entity responsible for overseeing the establishment of the energy policy in the country.

Among other functions, it develops, proposes, coordinates and implements policies, programs, projects and actions that enable the efficient functioning of the sector, taking into account the generation, transmission and distribution activities that should be translated into the society's welfare. It also analyzes current energy problems, and proposes measures for the short, medium and long term, aimed at using energy on an efficient basis. It proposes – to government agencies and private sector bodies - the actions necessary to achieve the measures to be implemented. Since 2010, it directs the MINEC electric energy.

2.3.3.2 Regional Electricity Market (from the Spanish *Mercado Eléctrico Regional - MER*)

Electric Interconnection Regional Commission (from the Spanish *Comisión Regional de Interconexión Eléctrica - CRIE*)

This is the MER's regulator body created by the treaty signed by Central American countries, under legal jurisdiction and international public law.

The CRIE ensures competitive and non-discrimination conditions, promotes market development both in its initial and development stages, and resolves situations on authorizations to join the market or buy and sell energy. It also approves the fees for using the transmission system and, among other functions, seeks to establish the measures necessary for the proper market functioning.

Regional Operating Agency (from the Spanish *Ente Operador Regional - EOR*)

The EOR proposes market operating procedures to the CRIE, as well as the use of the Regional Transmission Network (from the Spanish *Red de Transmisión Regional - RTR*). It also ensures the operation and the regional bureau of energy to be made with economic criteria, pursuing to achieve adequate levels of safety, quality and reliability. It carries out commercial transactions among market agents, provides support to market evolution processes by providing information, and establishes the plan for expanding regional generation and transmission.

2.3.4 Tariff Regime

The end user tariff comprises the commercialization position, the distribution charge and the energy charge.

The commercialization charge and the distribution charge are approved for tariff periods of five years. During such terms, these charges are indexed annually according to the variance behavior of the consumer price index (CPI). The distribution charge is indexed on an annual basis with 50% of the CPI, while the commercialization charge is indexed with the 100% of the CPI. The energy charge is automatically adjusted every three months in accordance with the regulations, taking into account to the energy supply cost behavior of the distributor during the preceding three months. This cost takes into account the energy purchasing costs of tariff-transferable long-term contracts signed by distributors and their spot market purchases.

The reforms to the regulations of the General Electricity Act set out the following aspects:

- Distributors should cover a minimum percentage of long-term contracting equal to 70% no later than February 1, 2013, with contracts lasting less than or five years.
- Distributors should cover a minimum percentage of long-term contracting equal to 80% no later than July 1, 2017:
 - No more than 50% on contracts lasting less than five years.
 - At least 30% on contracts lasting more than five years.

Under unforeseeable circumstances or those of force majeure, or when any dully justified circumstance requires it, SIGET, after consulting the CNE and by agreement, may determine the extension of the aforementioned maturities, just for once and for a period no greater than one calendar year.

2.3.5 Grants and contributions system

For residential users with a consumption of up to 99 kWh per month, 89.5% of the full tariff differential with respect to the maximum prices established in November 1999 as follows is subsidized:

- Monthly consumption from 1 kWh to 50 kWh: USD0.0635 per kWh
- Monthly consumption from 50 kWh to 99 kWh: USD0.0671 per kWh

According to information provided by distributors, at December 2012, 1,057,301 customers, representing 66.9% of customers connected to the distribution network and corresponding to users consuming up to 99 kWh, were subsidized. In terms of energy consumption, these subsidized users demanded, in 2012, a volume of 631,919.4 MWh, equivalent to 12.9% of energy demand at the distribution level.

2.3.6 Specific Regulations

- Creation Act from the Superintendency of Electricity and Telecommunications.
- Creation Act Regulation from the Superintendency of Electricity and Telecommunications.
- General Electricity Act.
- General Electricity Act Regulation.
- Standards for determining commercialization and distribution charges.
- Quality standards of the distribution systems service: these have to regulate quality reference indices and indicators used by energy distribution companies to provide energy services to the distribution network users.
- Regulations for the transmission system and wholesale market operation: standards and procedures for the transmission system and energy wholesale market transactions in El Salvador.
- Regulations for the operation of the transmission system and the wholesale market based on production costs: these comprise standards and procedures for the transmission system operation and energy wholesale market transactions in El Salvador.
- Regulations applicable to commercialization activities: these regulations aim at developing standards to promote competition for commercializing electricity.

2.4 Regulations in Panama

2.4.1 General considerations

The electricity sector is divided into three activity areas: generation, transmission and distribution. Panama has established a regulatory structure for the energy industry, which is based on the legislation approved between 1996 and 1998. This framework creates an independent regulator, the Public Utilities Regulator (from the Spanish *Ente Regulador de los Servicios Públicos - ERSP*) (renamed in April 2006 by ASEP), and a process to fix rates on a transparent basis for selling energy to regulated customers.

2.4.2 Regulatory framework

According to the Electricity Act, energy rates are effective for 4 years (Article 95) and, during this period, may be updated based on changes in the consumer price index and to reflect the actual cost of energy purchases. For this purpose, the regulator should define the tariff system (Article 91), which must comprise the procedures for computing, updating and implementing energy rates. The tariff system must meet the following criteria in order of importance: i) Financial sufficiency, ii) economic efficiency, iii) equity, iv) simplicity, and v) transparency.

According to Article 98 of Act 6, the Value Added Distribution (VAD) comprises those costs a distribution company would have to provide distribution services efficiently in its concession areas. Such costs include: administrative costs; distribution system operation and maintenance costs, excluding metering, billing and customer service costs; standard losses cost in distribution networks; property depreciation cost; and the cost corresponding to the opportunity the distributor must have to obtain a return reasonable rate on investments.

The regulator sets a maximum of six distribution areas that represent those markets served at each concession area, and then computes the value added distribution for each representative area under the assumption of efficiency in managing the distribution company. The assumption of efficiency will be based on the recent performance of actual similar domestic or foreign companies.

In order to determine the return reasonable rate, the regulator will take into account distributor's efficiency, its service quality, its investment program for the validity period of rate formula, and other factors considered relevant. However, the rate set by the regulator must not exceed more than two points in the rate resulting from adding the effective annual interest rate, the average for the twelve months preceding the date in which the rate formula was fixed, the thirty-year bonds from the United States treasury, plus a premium of eight points on account of the risk of the energy distribution business in the country.

2.4.2.1 Regulatory system

- Act 6 of February 3, 1997 establishes the regulatory and institutional framework for rendering the energy public utility. It sets the regime which the energy distribution, generation, transmission and commercialization activities will be subject to.
- Decree Act 10 of February 26, 1998 amends Act 6 of 1997 in those matters regarding regulator functions, modalities of companies to participate in the electricity sector, restrictions on distribution and generation, rates updating, and cost recognized for block purchases.
- Executive Decree 22 of June 19, 1998 regulated Act 6 of 1997.
- Act 57 of October 13, 2009 amends Act 6 of 1997. Such amendments include: the requirement of generators to participate in energy or energy procurement processes, the obligation of Empresa de Transmisión Eléctrica S.A. (ETESA) to purchase energy on behalf of the distributors, the increase in fines that can be imposed by the regulator - up to \$20 million balboa, and the customers right to refrain from paying for the portion claimed, while giving a 30-day term to complain before the regulator in case of not being dissatisfied with the response provided by the distributor.
- Act 51 of September 29, 2010 creates the urban and residential cleaning authority, and amends certain articles of Act 6 of 1997 in order to make mandatory the collection of the cleaning rate by means of energy bills.

- Act 65 of October 26, 2010 adds two articles, 140-A and 140-B, to Act 6 of 1997. Such articles state that if the State requires the removal or relocation of energy infrastructure, companies shall proceed with the request within the period established in such article regulations. Article 140-B indicates that if the company fails to comply with the timely relocation, the infrastructure may be removed at the company's expense.
- Act 58 of May 30, 2011 amends articles related to rural electrification. These include the change in computing subsidies payable by the Rural Electrification Office (from the Spanish *Oficina de Electrificación Rural - OER*) to distributors for a 4-year period (it was previously paid after 20 years), and the creation of a rural electrification fund for 4 years, which will be comprised by contributions from market agents selling energy not exceeding 1% of its total net profit prior to taxes.
- Act 68 of September 1, 2011 establishes the obligation of distributors to answer claims within 15 calendar days. It also provides, as an ASEP function, to develop and approve a compensation chart applicable to cases of damages to customers. In addition, it establishes that ASEP will have 30 calendar days to resolve customer complaints, and 15 days to resolve appeals for reconsideration and appeal. On the other hand, it adds a paragraph to Article 95 of Act 6 on rural electrification, which defines "non-concession area" as the distance exceeding one kilometer, in a straight line, from the last post of the concession area.
- Executive Decrees 247 and 297 of 2012 regulated Act 65 of October 26, 2010, thus establishing deadlines and mechanisms for relocating government profit.
- Act 15 of April 26, 2012 establishes a fee to cover underground cabling costs and telecommunications and paid television services infrastructure, provided that distribution companies of the underground cabling area are, as part of the established plan, the parties transmitting the offerings and/or indictments, and driving calls for actions related to the hiring of people to be in charge of performing the underground cabling procedures in the areas to be included.

2.4.2.2 Regulation of the distribution sector

Distribution is the activity aimed at transporting energy and transforming related voltage from the delivery energy point through the transmission network to the customer's supply point. According to Act 6, the distribution activity includes the commercialization of energy to customers, which consists of selling energy to end-customers, including services related to metering, reading, billing and collecting energy delivered. The distribution company will be limited in terms of participating in other companies or activities, except in self-generation –upon the limitations established in the Act.

The general characteristics of the distribution activity are included in Act 6 of February 1997, Executive Decree 22 regulating Act 6, and distribution concession contracts. The most significant characteristics are summarized as follows:

- The distribution concessions are granted by ASEP with a 15-year term. Prior to expiring, ASEP calls for a competitive procedure for 51% of shares, in which the current owner participates with his offer. If his bid exceeds the highest price offered by other participants, then he will retain ownership of the block of shares. Otherwise, if there is another higher price, the block of shares will be awarded to the highest bidder, and ASEP will deliver the amount on account of the sale to the owner at that time. In either case, a new concession will be granted for other 15 years.
- There is zonal exclusivity during the concession period guaranteed by the government.
- The distributor is required to deliver the service (expand lines) to any user needing that, located within an area of 100 meters around the distributor's location.
- Beyond the 100 meters in reference, the distributor is also required to connect to anyone requesting it, but it could also require, besides the payment corresponding to the connection –as established in the tariff schedule, a contribution for the investment required for the connection.
- The concession contract provides a concession area between 500 and 3,000 meters from the distribution network, and a catchment area between 5,000 and 10,000 meters. In the current concession period, ENSA has established a concession area up to 500 meters and its catchment area up to 3,000 meters. In the catchment area, the operator will have the first option of providing the distribution service.
- The distribution service winners are required to allow the use of their distribution systems to third parties by means of paying tolls.
- A distributor can develop the generation activity within 15% of its demand, provided that distinguishes operations according to the type of activity.
- At the end of each rate period, ASEP checks, for each distributor, the Maximum Income Allowed (from the Spanish *Ingreso Máximo Permitido - IMP*) approved with regard to the actual income received in order to determine whether the variances are within a reasonable margin. This review will not consider variances in sales, in the amount or type of customers or in supplies costs or labor work, differently from those reflected by the CPI of the General Comptroller's Office of the Country.
- The tariff period is 4 years. The current one covers the period from July 1, 2010 to September 30, 2014.

2.4.3 Subsidies and contributions regime

There are various types of subsidies in Panama. The most significant are as follows:

- **Subsidies to retired people, agricultural activities and political parties:** the first 600kWh consumption of retirees (62-year-old men or older, and 57-year-old women or older) are entitled to a 25% discount. The difference between the consumption and such amount pays the full rate. 5% and 50% discounts are also applicable for the consumption in agricultural activities and provincial offices of political parties, respectively. The discounts for retirees, agriculture activities and political parties are cross-subsidies included in the rest of the consumption of customers in reviewing the tariff every four years.
- **Subsidies for basic consumption (Act 15):** customers with consumption levels below 100 kWh per month have a discount of up to 20% on their accounts. Funds for this discount come from a charge to customers with consumption above 500 kWh per month of up to 0.6% of their bill amount. Approximately, 70,000 customers receive this benefit.
- **Tariff Stabilization Fund:** since 2004, the Government adopted a direct subsidy for residential customers with consumption below 500 kWh per month. The invoice for each customer gets a discount thus making these customers not to perceive an increase in the rate. Funds for this subsidy come from the Government. At the end of each semester, a balance to verify that funds received match with the subsidies applied is performed. The Government has announced a gradual reduction process of the subsidy range to reach only to customers with consumption below 300 kWh. At present, it is only applied to customers with consumption below 450 Kwh per month.

In case ASEP request applying a rate lower than the corresponding one according to the tariff system, this fund is used to cover the difference between income with the rate applied and income that should be applied.

2.4.4 Regulatory Entities

The Secretary's Office of Power

Its mission is to formulate, propose and promote the national power policy in order to ensure the supply security and the rational and efficient use of resources and power on a sustainable basis, according to the National Development Plan. At present, it is filling before ETESA the creation of a power matrix with greater and more varied and clean and renewable resources (wind, gas, amongst other).

The National Authority for Public Utilities (from the Spanish *Autoridad Nacional de los Servicios Públicos - ASEP*)

It was established in accordance with the regulations of the public utilities regulator in 1996. It is an autonomous government entity responsible for regulating, controlling and monitoring the provision of water, sewage, telecommunications, radio and television, energy and natural gas.

On February 22, 2006, by means of Decree-Act 10, the Public Services Regulator (ERSP) was restructured and renamed. It is known as ASEP since April 2006. It has the same responsibilities and functions, but a general manager and an executive director, each one appointed by the President of Panama, and legalized by the National Meeting. It also has three national directors under the general manager's authority: one for the energy and water sector, one for the telecommunications sector, and one for the customer service sector. National directors are responsible for issuing resolutions related to their industries, and the appeals to those resolutions are decided by the general manager, thus construing the final stage of the administrative process.

ASEP's responsibilities include to:

- Ensure compliance with sector laws and regulations, and apply penalties for non-compliance.
- Grant concessions and licenses.
- Monitor service quality standards.
- Verify compliance with expansion goals, system improvements, and regulations in accordance with the terms of specific concessions or licenses.
- Promote competition and investigate anti-competitive and monopolistic practices.
- Determine the efficiency criterion to assess regulated companies performance.
- Establish principles and the methodology to define the tariffs.
- Determine the information to be provided by public utilities providers.
- Arbitrate disputes between operators, government agencies, municipalities and consumers.
- Authorize land expropriation and easement rights to expand the service.

ASEP operating costs are covered with several sources, including a control and monitoring rate charged to all energy sector participants. This rate cannot exceed 1% of gross revenues generated in the sector during the previous year, and it cannot be transferred to consumers. This fee collection is performed on a monthly basis, and each company pays the percentage defined by ASEP on regulated and non-regulated customers' revenues, less the amounts paid by the company to other service providers to cover energy and transmission costs. In 2012, this percentage was fixed at 0.73% (2011 – 0.59%), and it will be 0.78% for 2013.

Planning Unit of Empresa de Transmisión Eléctrica - ETESA

It develops plans for reference expansion. It projects global energy requirements and ways to meet such requirements, including the development of alternative sources, by establishing programs to conserve and optimize energy use. Public utilities companies are required to prepare and submit their expansion plans to ETESA.

National Dispatch Center (from the Spanish *Centro Nacional de Despacho - CND*)

It is operated by ETESA. It plans, supervises and controls the integrated operation of the national interconnected system. It also receives bids from generators participating in the energy sales market (spot), determines the energy spot price, manages the transmission network, and provides settlement amounts between suppliers and producers and consumers, among others.

Rural Electrification Office (from the Spanish *Oficina de Electrificación Rural - OER*)

It is responsible for promoting electrification in non-served, unprofitable and non-concession rural areas.

2.4.5 Restrictions

According to the law, companies have the following restrictions in each activity:

Distribution:

- To participate, directly or indirectly, in the control of generation plants when the equivalent aggregate capacity exceeds 15% of the demand served in their concession area.
- To request new concessions, provided that when doing so they render direct or indirect services, through the shares control of other distribution companies or other means, to more than 50% of the total number of customers in the domestic market. The ASEP can authorize this percentage to be exceeded when considering necessary to expand the concession area or expand the country's electricity system.

Generation:

- To directly or indirectly participate in the control of distribution companies.
- To request new concessions, provided that when doing so they render direct or indirect services, through other generation companies or other means, to more than 25% of the total number of customers in the domestic market. The Executive Body, upon previous ASEP approval, can increase this percentage when considering it necessary in accordance with competition conditions in the electricity market.

Transmission:

- 100% controlled by the Government.

Note 3 Statutory audit

The obligation of having a statutory auditor is not included in EPM's act of incorporation or bylaws. As an industrial and commercial State public utility company, EPM is not forced by the Commercial Code to have statutory auditor.

As a residential public utilities provider company, 100% is owned by the Municipality of Medellín. EPM is subject to tax control in accordance with Act 42 of 1993 and it is executed by the General Comptroller's Office of Medellín.

Note 4 External audit

EPM, within its corporate governance business plan, establishes the mandatory requirement of an external auditor and the General Manager responsibility to manage financial information.

For the 2012 and 2011 periods, PricewaterhouseCoopers Ltda. conducted the financial external audit to the individual financial statements of Empresas Públicas de Medellín E.S.P, to the consolidated financial statements of EPM Group and to the financial reports of projects to be submitted to Inter-American Development Bank (IDB).

Note 5 Accounting practices

Colombian companies belonging to EPM Group comply with the Public Accounting Regime (from the Spanish *Régimen de Contabilidad Pública - RCP*) for the preparation and presentation of financial statements, considering that this is the means for public accounting regulation and normalization established by the National General Accounting Office (from the Spanish *Contaduría General de la Nación - CGN*), a public body of Colombia. The RCP is in line with standards and practices of international acceptance for the public sector.

Local regulations contain international elements applicable to the local context, and strategic elements for interaction of the public sector in a globalized environment.

CGN's current regulations governing in the accounting are the following:

- Resolution 354 of 2007 adopted the RCP, established its structure, and defined the scope.
- Resolution 355 of 2007 adopted the Public Accounting General Plan (from the Spanish *Plan General de Contabilidad Pública - PGCP*) containing general public accounting regulations and the basis for recognition and disclosure of transactions, events and operations performed.
- Resolution 356 of 2007 adopted the Procedures Manual of the public accounting regime integrated by the general chart of accounts, accounting procedures and financial instructions.

- Resolution 357 de 2008 established the accounting internal control procedure and the yearly internal control assessment report to be issued and delivered to the CGN.

Upon reporting information for the consolidation of financial statements of EPM Group, international subsidiaries homologate their local practices to the accounting standards established by the CGN.

Under current regulations, the following accounting practices are adopted by EPM Group:

- a) **Functional currency:** the functional currency in Colombia is the Colombian peso. Accordingly, transactions performed by EPM in other currencies are understood as transactions in "currency other than pesos" and are recorded based on types of exchange rates effective on the dates of the transactions. Colombia's economy is not hyperinflationary.

During the period, the differences between the historical exchange rate accounted for and the rate in force at the collection or payment date are recorded as gain or loss on exchange differences and are taken to the "net financial income" in the statement of income. Foreign investments in controlled companies are out of this practice; instead, they are taken to equity.

- b) **Estimates and accounting judgment:** in preparing financial statements, estimates are used to quantify some of the assets, liabilities, revenues, expenses and obligations recorded in accounting. Basically, estimates refer to the following:
- The appraisal of assets to determine the existence of their losses due to impairment.
 - The useful life of property, plant and equipment, and intangible assets.
 - The assumptions used to compute the fair value of property, plant and equipment.
 - Public utilities rendered to customers, corresponding to certain billing cycles with consumptions of December, invoices of which are issued in January and February of the following year. Entries are made globally at the rates corresponding to specific income considering that rights thereof have already arisen.
 - Some variables, particularly costs from the electricity sector.
 - The assumptions used in the actuarial computation of liabilities for pension retirement.
 - The amount of liabilities associated with probable contingencies, which leads to recognize provisions.
 - The determination of the fair value in certain investments not listing in the securities public market.

These estimates are made in order to provide reasonable information that reflects the economic reality of the company at the cut-off date. The final result of the transactions relating to such estimates may be different from the final values and lead to future modifications according to their occurrence.

- c) **Concept of materiality:** recognition and disclosure of economic events take place in accordance with their relative importance. An economic event is material if its nature or amount, knowledge or ignorance, considering the circumstances, might significantly alter the economic decisions of information users. For the preparation of financial statements, materiality for disclosure purposes was determined on a 5% basis applied to each group of accounts.
- d) **Classification of assets and liabilities:** assets and liabilities are classified according to their use or to the degree of realization, enforceability or liquidity, in terms of time and value. Current assets and liabilities are defined as those values realizable or payable in a period not exceeding one year.
- e) **Cash and cash equivalents:** cash or cash equivalents are defined as the money in cash and banks and investments for liquidity management. For resources intended for specific purposes, programs motivating their creation are disclosed.
- f) **Investments for liquidity management:** these are the investments made to optimize surplus liquidity, that is, all those resources which are not immediately destined to the conduction of activities comprising the company's corporate purpose. Investment of liquidity surplus is performed under criteria of transparency, security, liquidity and profitability, following appropriate control guidelines and under non-speculative market conditions, as provided by General Management Decree 1651 of 2007.

Considering the provisions of Decree 1525 of 2008 from the Ministry of Finance and Public Credit, amended by Decrees 2805 and 4471 of 2009, 4686 of 2010 and 1468 of 2012, temporary investments in EPM may be constituted as Class 'B' treasury securities (TES) with fixed-rate or indexed to the Representative Value Unit (from the Spanish, *Unidad de Valor Real* - UVR), and as fixed-term deposit certificates (CDT), in current account deposits, savings accounts deposits or fixed-term deposits in banking institutions supervised by the Colombian Finance Superintendence or in entities with special regimes described in Section 10 of the Organic Statute of the Financial System, and in investment funds of the monetary or open market, with no permanence clause, in entities with the second highest rating in force for soundness or quality in portfolio management that comply with the investment criteria established for EPM.

Banking institutions where the surplus is invested must have a current rating of the highest category for the short term according to the scores currently used by securities rating bureaus: BRC Investor Services S.A. (BRC1+), Value and Risk Rating S.A (VrR1+) and Fitch Ratings (F1+), and they must have, at least, the third highest rating (AA) for the long term used by the rating agencies.

Surplus in foreign currency may be invested in foreign governments or financial institutions with a minimum rating of A+ for the long term and A1+ for the short term, as well as in foreign branches of banking institutions monitored by the Colombian Finance Superintendence with the highest applicable rating for the long and the short term, according to the scale used by the risk rating agencies that rate the Nation's foreign debt.

Portfolio of temporary investments is valued on a daily basis at market prices, as required by current regulations. Reference rates and prices used for the various securities categories are as follows: for local currency, those published by the Colombian Stock Exchange in its page of information for valuation (Infoval) and for foreign currency, those published by Bloomberg.

Purchase of investments (management of fixed income liquidity) is recorded at the purchase price, which is the same reasonable value. The cost of these transactions is recorded as an expense when incurred. After the initial recognition, they are valued at a reasonable value taking into consideration the market value established by the stock exchange where the security is traded. Any future differences arising from each valuation increase or decrease the cost, with charge or credit to income or expense accounts, as appropriate.

- g) **Equity investments:** equity investments in non-controlled entities comprise equity securities rated as low or minimal tradability or not traded, which do not allow EPM to control, share control, or exert significant influence on the issuer. These investments are characterized by not being available for sale. These investments are updated by the cost method on a quarterly basis, according to the realization cost of the investment made in the entity. If the intrinsic value is greater than the adjusted cost, the difference is recorded as an appreciation, affecting the shareholders' equity as a surplus. If the intrinsic value is less than the adjusted cost, any appreciation is decreased until it is exhausted, and beyond that amount, provisions are recorded with charge to income for the period under non-operating expenses.
- h) **Accounts receivable:** This represents the value of the rights in favor of EPM that arise from the rendering of public utilities. This item includes the services of: electric power supply, water supply, basic sanitation, fuel gas, and related subsidies. It also includes other concepts such as related parties, advances and pre-payments to contractors and suppliers of goods and services, sale of assets, loans to employees, funding for gas and gas appliances conversion, rendering of computer services, technical assistance and leases, among others.

The following conditions should be met for recognition of accounts receivable:

- That the service or good has been satisfactorily delivered.
- That there is a right on which the transfer of money or its compensation in kind can be legally required.
- The existence of a billing document, agreement, court order or other document legally established to support the right.

Doubtful accounts: doubtful accounts are those debts with maturity of more than six months or which have been sent for legal collection, thus generating the reclassification of the respective amount from accounts receivable into doubtful accounts. Debtors classified as government agencies are not included in this reclassification.

For the protection of accounts receivable, an administrative provision is established, with charge to the provision for accounts receivable expenses. Accounts receivable are not provisioned for when covered in guarantees. The provision amount to cover the non-collectability risk is generally determined in accordance with the following ranges:

- Due balances between 180 and 360 days: 50%
- Due balances greater than 361 days: 100%

The provision amount to cover the risk of non-collectability of accounts receivable in companies providing telecommunications services is generally determined in accordance with the following ranges:

- Debts with more than 240 days in arrears are considered doubtful debts for voice services. For other services, debts with more than 120 days in arrears are considered doubtful debts. Amounts ultimately considered uncollectible are charged to the provision as write-offs, when properly authorized.
- For value-added services, the provision of balances receivable under due collection is performed as follows: 90% for maturities between 120 and 360 days, and 100% for those with greater maturities.
- For voice services, the provision of balances receivable under due collection is performed as follows: 90% for maturities between 240 and 360 days, and 100% for those with greater maturities.
- For long-distance phone calls service, 100% of accounts receivable is provisioned after 120 days in arrears, or after returned by operators and third parties.

The same criterion is applied to individual debtors according to the particular studies on the debtor's solvency. The provision is made when the difficulties in responding to these debts are fully identified; therefore, it is determined whether the client is in normal operation, in liquidation or in financial restructuring (Act 550 of 1999, before December 27, 2006), or in corporate insolvency regime.

When a company starts a process of corporate insolvency regime, pursuant to Act 1116 of 2006, or is under administrative scrutiny by any monitoring and control entity for management purposes, the provision is adjusted up to 50% of the accounts receivable in arrears.

For debts of companies in liquidation or under administrative scrutiny for liquidation purposes, a provision of 100% of the accounts receivable is determined.

When there are rights whose recovery is not possible through executive summary, coercive jurisdiction or ordinary proceeding, accounts receivable write-off operates in order to recognize the termination of the account receivable in favor of EPM.

Accounts receivable write-off does not release EPM from the responsibility to continue with the appropriate collections. The practice to recognize accounts receivable write-off corresponds to a charge to the account receivable provision and credit to the client's accounts receivable or doubtful accounts, as appropriate.

The value of the account receivable written-off against the provision is taken to memorandum accounts. In case of an eventual recovery, the memorandum account balance is reduced and an income recovery is recorded.

- i) **Inventories:** inventories are defined as the assets acquired to be sold or consumed during the public utilities rendering process. They include merchandise in stock not requiring transformation, for example meters for energy, gas and water, supplies, materials such as spare parts and accessories for the rendering of services, and goods in transit and held by third parties.

They are valued by the weighted average method.

The use of materials and spare parts is recorded with charge to the "inventory of materials for the services rendering" account, at the average cost, with charge to the respective account of expenses, costs or investment.

Physical or monetary decreases, such as shrinkage, impairment, obsolescence or decrease in the selling price of inventories are taken into consideration for the computation of the provision that protects such events. Computation of the provision is performed by technical criteria that allow determining its reasonableness, based on the nature of the inventory.

Inventory physical counts are performed on a cyclical basis throughout the year in order to cover all items listed in the inventory.

Inventories maintain their inventory nature, regardless that by exogenous factors specific to the economy or by natural conditions inherent to business conditions turnover is slow. This condition of low turnover makes them "immobilized assets" in the companies of EPM Group, but they remain as inventory.

- j) **Property, plant and equipment:** these represent tangible assets acquired, built or under construction, for the purpose of use on a permanent basis in operating activities for the production and rendering of services, to lease them or use them as administrative support for the organization, not intended to be sold in the ordinary course of business, and the useful life of which exceeds one year.

The historical value of these assets includes all expenditures and charges necessary to make them available for use. All expenditures incurred in by the company to increase their useful life, extend their production capacity and operational efficiency, improve the quality of products and services, or allow a significant reduction in operating costs are capitalized as greater value of assets; by Decree 1678 of May 22, 2008, the General Management set policies, guidelines and business rules for the administration and management of the fixed assets and property of EPM.

As stated in Resolution 356 of September 2007, issued by the CGN, the companies update the value of property, plant and equipment through technical appraisals applying methodologies of recognized technical value, which consider, among others, criteria such as useful life, economic life, residual life, location, condition, productive capacity, market position, marketability degree, obsolescence, and impairment suffered by goods.

Updating of property, plant and equipment is performed every three years as from the last updating process, with the results recorded within the corresponding accounting period. However, if prior to this deadline the carrying value of property, plant and equipment experiences significant changes with respect to the replacement cost or realization value, a new updating process is conducted, recording its effect on the corresponding accounting period.

The useful lives of fixed assets in EPM are defined taking into account technical criteria, in accordance with asset's characteristics, considering future economic benefits or the asset's service potential, as well as physical and environmental conditions.

Likewise, such estimate is determined, among other factors, taking into account the physical wear out caused by the asset's use and functional wear out. The first is produced by the use of assets and the impairment caused by reasons other than their use, such as those related to time. The functional factors, on the other hand, are related to technological obsolescence and the asset's inability to operate efficiently. When technical criteria are not available, the useful lives established by the General Accounting Office may be used as reference.

General useful lives per type of asset:

Type of asset	Useful life in years
Buildings	
Dams, relay stations	50
Buildings, houses, offices, stores, posts, campsites, parking lots, garages, warehouses, sports facilities	50
Storage tanks	20
Plants, pipelines and tunnels	
Generation and treatment plants	50
Conduction plants	47
Regulation stations and substations	25
Water systems and pipelines	30
Pumping stations	20
Networks, lines and cables	
Distribution and air networks	25
Wastewater collection networks	30
Transmission lines and cables	40
Machinery and equipment	
Construction and industrial machinery	7
Tools and accessories	7
Pumping station equipment	7
Control center equipment, machinery and equipment for dredging and cleaning	5
Medical and scientific equipment	
Research equipment	5
Laboratory, medical and scientific equipment	7
Furniture, fixtures, and office equipment	7
Communications and computer equipment	5
Transportation, traction and lifting equipment	5
Dining, kitchen, and hotel equipment	7

Classifications include the following:

Constructions in progress: these represent all expenses incurred by companies of EPM Group in order to improve or increase the operating capacity, reduce operating costs, or increase service coverage, as well as for the expansion and sustainability of infrastructure to provide the services offered with the construction, expansion, modernization, rehabilitation or replacement of networks, plants and equipment, among others, until they are available for use in the conduction of operations.

The value by which constructions in progress are recognized is given by the total necessary expenditures directly associated with the acquisition or construction of the asset from the execution's starting date until the date the asset is ready for use or operation.

Commissions, financing costs, interests and exchange difference of interest arising from loans obtained to finance constructions in progress are capitalized until they are in operating conditions.

In the power generation business, investments are primarily made for the construction, rehabilitation or modernization of energy generation plants, and for the upgrading and replacement of their equipment.

Infrastructure investments intended for expansion and replacement of transmission and distribution networks in different voltage levels aim at building general use networks in order to meet the needs for growth of power demand and meet the work towards the reliability of the system. In addition those investments serve to meet regulatory requirements, service quality improvements, network shielding to reduce illegal connections, and change of elements with high impairment levels.

In the gas distribution business, on the other hand, investments are made to address the non-residential market and its expansion.

The Water Business Group makes investments intended to modernize and replace water supply and sewage networks in the different circuits, expanding pipes, and acquiring equipment for treatment plants and pumping stations.

Movable goods in storage: these correspond to goods acquired on any capacity, classified as permanent because they will be used in the future for production or management activities in EPM. As long as they remain in this condition, they will not be subject to depreciation, as provided in paragraph 171 of PGCP.

Property, plant and equipment not used: these include assets that, due to obsolescence, are not required for business operation, and those that are temporarily out of service, in rehabilitation process or waiting for a technical decision to be rehabilitated or discharged. Movable goods discharged due to obsolescence, or because they are no longer required by the Company, are taken to the exploitation store, where they are offered in public auctions (under internal regulation). They are written off at the time they are returned, not including vehicles which are discharged from accounting once sold.

Buildings: these represent the value of buildings and houses, offices, stands, parking lots and garages, warehouses, sports and recreational facilities, dams and storage tanks, among others, acquired by the company to develop its functions and provide public utilities.

Plants, pipelines and tunnels: these represent the value of plants, pipelines and tunnels acquired by the companies for energy generation, transmission and distribution, gas, water, and sanitation distribution, and telecommunications plants, among others.

Networks, lines and cables: these represent the value of energy distribution and water supply networks, wastewater collection, gas supply networks, and energy transmission and distribution lines used for energy transmission and distribution, and distribution of gas, water, and wastewater treatment.

Depreciation: this is computed based on the historical cost by the straight-line method. The basis used correspond to the useful life determined based on technical criteria such as additions or improvements, technological advancements, maintenance and repair policies, obsolescence, physical exposure of assets, or other factors.

The deferred depreciation reflects the value obtained by excesses of tax depreciation expense over accounting expense, given that tax regulations foresee the use of depreciation methods and useful lives different from those used for accounting purposes, which allows an asset to be depreciated faster for taxation purposes.

- k) **Actuarial financial reserve:** it is the set of assets allocated by the public accounting entity in virtue of legal provisions in force or by the Company itself to meet pension liabilities. Those assets are recorded in accounts associated with autonomous equity, and payments of retirement pensions and pension bonds are charged to these accounts.
- l) **Expenses paid in advance:** these are expenditures paid prior to reception of the goods or services required. They are amortized within the period in which services are received or costs or expense are accrued. Expenses paid in advance are measured at their original cost, based on the provisions of contractual agreements or prices set and agreed with third parties. Tax on sales which is not deductible is a greater value of the deferred asset and is recognized when payment is made or the corresponding invoice accrued.

For recognition of items to be recorded, these should be analyzed in such a way that concepts to be recorded as assets are separated from those that should be immediately recognized as expenses.

Amortization is made by the straight line method, over the period in which it is estimated that goods or services will be received and costs and expenses will be accrued.

- m) **Deferred charges:** these are expenditures on account of the provision of goods or services received that, with reasonable certainty, will generate future economic benefits.

Amortization is recognized over the periods in which benefits from costs and expenses incurred are expected to be received, in accordance with feasibility studies for their recovery, the estimated periods of goods or services consumption, or the validity of the respective contracts.

Balances of deferred assets should be valued at their net recovery value. At the end of each year, it must be established whether deferred charges will generate future benefits; otherwise, their value will be fully amortized.

n) **Intangible assets:** these correspond to those expenditures incurred for the acquisition or development of rights, licenses and software, of which future economic benefits may be obtained. Among others, those goods that are intended for the execution of primary activities in the value chain, from which future economic benefits are expected, are to be recognized in the balance sheet accounts as rights, software and licenses. These assets are recognized if they:

- Are identifiable: their value can be set out
- Are controllable: their access can be transferred or restricted
- Generate future economic benefits or a service potential
- Their money measurement is reliable.

The following are intangible assets:

Goodwill: this corresponds to the additional amount paid on the purchase of shares or partnership interest quotas, above the equity value, as recognition of attributes such as good name, qualified personnel, privilege credit reputation or control of the economic entity. This goodwill becomes an increased share in the business.

In order to reflect the economic reality of the transaction and its direct association with the economic benefits expected from the investment, the goodwill must be amortized based on methodologies of recognized technical value, during the period within which, according to the technical study performed for the acquisition, the investment is expected to be recovered. However, the goodwill with indefinite useful life is not subject to amortization.

At the end of each accounting period, companies of EPM Group assess the goodwill for purposes of verifying whether current conditions to generate future economic benefits remain the same.

Licenses and operating software: these payments are charged to the respective intangible accounts with charge to accounts payable. Administrative software and licenses are recognized as expenses.

Rights are amortized in accordance with the agreed period of use; if it is indefinite it is not amortized. Software is amortized to the extent it generates the expected benefits; Licenses are amortized in the same useful life period of the equipment to which they are associated. Software and operating licenses are amortized under the straight-line method.

Easements: these are amortized in accordance with the provisions in the act which gave them rise; that is, if the contract is of indefinite term, it will not be amortized; otherwise, if the contract is for a fixed duration, it will be amortized upon expiration of the term agreed in the contract.

- o) **Reappraisals:** these correspond to the excess of the appraised value and the carrying amounts of assets at the end of the period in accordance with current regulations.

The Methodology for investments determines the following:

- Equity investments in non-controlled entities are updated by the cost method on a quarterly basis, in accordance with the realization value of the investment in the entity.
 - The methodology used for property, plant and equipment corresponds to appraisals performed per group of assets such as: primary networks, secondary networks, transformers, poles, protection and manipulation equipment, public lighting lamps, transmission lines, lines supporting structures, optic fiber, energy substations, vehicles and special equipment, real estate, equipment for laboratory, pumping, waterworks tanks and containers, waterworks circuits and equipment for sewage treatment plant, among others.
- p) **Public credit transactions:** these correspond to acts or contracts which, in conformity with legal provisions on public credit, intend to provide EPM with resources for acquisition of goods or services with deferred payment conditions, such as government loans, issuance and placement of bonds and public debt securities. These are recognized at the value disbursed. Bonds and securities are recognized at par value, and credits from suppliers are recorded at the value of the good or service received. Collaterals granted to support payment of debt are recognized at the value of payments made on concept of capital.

Public credit transactions are classified as follows:

- Depending on where they are agreed:
 - Internal transactions: transactions in the country
 - External transactions: transactions outside Colombia
- According to their maturity:
 - Short-term: the obligation expires within one year.
 - Long-term: their maturity exceeds one year.

Public credit transactions in Colombia agreed in foreign currency shall be recognized at the market representative exchange rate (TRM, per its initial in Spanish) effective on the transaction date. This value must be restated on a monthly basis applying the TRM in force at month end. Operations contracted in different value units or specific indexes must be recognized at the price per unit on the date of the obligation and restated on a regular basis applying the price per unit or the index at the date of the update. The greater or lower value obtained as a result of the restatement is recognized within income accounts of the period. International subsidiaries restate amounts in accordance with official rates in their respective countries.

q) **Hedging operations:** these represent the value of financial operations agreed in order to manage the risk of liabilities which may be performed to purchase or sell assets such as foreign currencies, securities or financial futures on exchange rates, interest rates, liquidity indexes, or any other agreed; these shall be liquidated on a future date agreed.

They are recognized at the amount agreed in the contract. In Colombia, if they are agreed in currencies other than the Colombian peso, they are recognized at the TRM effective on the date of the transaction. On a monthly basis, they are restated at the TRM certified by the Finance Superintendence at month end. The greater or lower value obtained as a result of the restatement is recognized within income accounts of the period. International subsidiaries restate amounts in accordance with official rates in their respective countries.

r) **Accounts payable:** these include payment rights to third parties arising from the rendering of services or purchase of goods, use of assets owned by third parties, and other obligations in favor of third parties. These obligations are recognized when the service or good has been satisfactorily received and in accordance with the agreed value, fulfilling the following conditions:

- The good or service has been satisfactorily received, and its risks and benefits have been received.
- It is likely that the outflow of resources carrying future benefits result from the payment of such obligation.
- That the value can be determined on a reliable basis.

s) **Taxes, liens and encumbrances:** the tax structure of each country where companies belonging to EPM Group are located, their regulatory frameworks, and the plurality of operations carried out by those companies make each company be passive subject to national and local taxes, liens and encumbrances.

Rights in favor of the Nation, Departments, Municipal Authorities and other Active Parties are recognized as payable amounts once the conditions set forth in the corresponding guidelines issued are met. The most significant tax obligations on the companies' operations are the following:

- **Current income tax:** an income tax percentage determined for each period is required to be paid by companies belonging to EPM Group to the treasury of each country in which they conduct operations subject to such tax. In accordance with clearance and adjustments made between taxable income and accounting profit or loss affected by the income tax rate on the year's current income and in conformity with the provisions of tax regulations.

Recognition is made recording an expense and liability under accounts payable, tax payable. For interim periods the estimation of income tax on current income is recognized based on the projection of tax results for the year; therefore, the provision account is used during the year. Deferred tax is recognized separately from income tax as expense or recovery, as appropriate.

- **Deferred tax:** deferred tax arises from temporary differences between taxable income and accounting profits or losses originated from expenses or revenues. Accounting recognition differs from the time it is recognized for tax purposes and generates a higher or lower payment of the income tax amount for the current year. Such difference is computed at the rate applicable to the extent that there is reasonable expectation that such differences would be reversed in the future.

Deferred income tax is recognized in the period in which the temporary differences arise, using the current tax rate for its computation.

If the temporary difference results in an increased payment of income tax in the current year, it is recognized as deferred asset under "other assets, deferred taxes" account, and contrary nature items shall be lower values of income tax expense for the current year; this item is presented separately from current tax.

If the temporary difference results in a lower payment of income tax in the current year, it is recognized as a liability under "other liabilities, deferred taxes" account, and its contrary nature item is an expense shown as deferred tax presented separately from current tax.

- **Tax on equity:** in conformity with the provisions of Act 1370 of 2009, the tax on equity should be paid by Colombian companies to the National Government in eight installments during years 2011, 2012, 2013 and 2014. Its base is the net equity held by the entity at January 1, 2011. According to provisions of Article 9 of Decree-Act 4825 of 2010, those companies meeting the characteristics described in the said Article are subject to an additional 25% surcharge over the 4.8% tax on equity.

This tax has been accounted for with the methodology established by CGN, deducting the equity revaluation or accruing deferred assets amortized over the years in which payments of such tax are to be made, against the total tax liability payable for the years 2011 to 2014, in accordance with the guidelines of Concept 20119-158027.

- **Tax on sales:** the tax on sales arises upon transfer of goods or services. Companies selling taxable goods or services are subject to this tax, in conformity with the provisions of tax authorities in each country.

t) **Labor and social security obligations:** these are the commitments that companies of EPM Group have acquired with their works as a result of services provided through a labor relation in accordance with labor regulations, covenants or collective bargaining agreements.

u) **Accrued liabilities:** these are recognized when the following conditions are met:

- A benefit from the good or service has been obtained, but the supporting document from the supplier has not been received to be recognized as real.
- Consistent with the provisions of Law, the obligation exists to make payments or release resources in the future to cover debts, on a date agreed by the parties.

- The value of resources to be delivered or payment to be made can be reasonably estimated at a value close to its actual value, due to a prior price agreement with the supplier or creditor.
- v) **Contingencies:** recognition of contingencies associated with legal proceedings follows the procedure established by the National General Accounting Office in Chapter V for “recognition and disclosure of judicial proceedings, arbitration awards, extrajudicial reconciliations, and ordered and executed seizing of bank accounts.” It states that processes highly likely of a being lost should be recorded as a provision, while processes less likely of loss should be recorded in memorandum accounts as potential liabilities.

Situations or set of circumstances generating uncertainty on potential losses, the final result of which will only be known when one or more events occur or fail to occur, and which are not classified within the procedure described are recognized taking into account the principle of prudence for expense recording.

- w) **Pension liabilities:** pension liabilities borne by the companies of EPM Group in Colombia have two components: pension bonds and pension allowances, which in turn include pension payment quotas. Computation is based on the legal regulations in force for pensions. For purposes of actuarial assessment, guidelines established in National Government Decree 2783 of 2001 were observed.
- x) **Pension commutation:** according to Act 1466 of December 4, 2006, EPM Parent Company assumed in 2007 the pension liabilities of Empresa Antioqueña de Energía E.S.P. (EADE), liquidated.

The methodology used for the actuarial computation on account of pensions and pension bonds of EADE comply with the parameters and technical basis established by the competent authority and are the same used for the measurement of pension liabilities in EPM. These pension liabilities are 100% amortized.

In conformity with the provisions of Decree 941 of 2002, enacting Act 100, the corresponding autonomous equities were created to ensure payment of pension liabilities, bonds payment quotas payable by EPM, as well as the payment of substitute compensations derived from the risks regulated by the general pension system. The fund is projected in such a way that it is exhausted upon payment of the last pension borne by EPM (in year 2065).

- y) **Equity:** this is made up of accounts representing the tax capital, reserves, profits from previous years, income for the period, surplus, and revaluation of equity.
- z) **Reserves:** in compliance with Colombia tax provisions contained in Articles 130 (70% reserve on excess of tax depreciation on accounting depreciation) and 211 of the Tax Code, companies belonging to the EPM Group in Colombia created the required reserves in order to be entitled to the special tax treatment and obtain streamlining of payment of income taxes and fees.

In compliance with Decree 2336 of 1995, Article 1, reserves were established by application of the equity participation method. Reserves correspond to the profits generated at the end of the accounting year as a consequence of the application of special valuation systems at market prices and not conducted by the partnership, in accordance with the provisions of Article 27 (income realization) and other related provisions of the Tax Code.

- aa) **Financial surplus:** in compliance with Municipal Agreement 12 of 1998 from the Council of Medellín, Article 5 established that the basis for the settlement of financial surplus that may be transferred to the Municipality of Medellín is the profit before inflation adjustments, less taxes. With this basis, COMPES (from the Spanish *Consejo Municipal de Política Económica y Social*) determines the amount or percentage of the financial surplus that will be part of the municipal budget's capital resources.

Additionally, in Municipal Agreement 69 of 1997, concerning ordinary surplus, Article 13 provides: "The percentage of EPM's financial surplus, in accordance with Article 97 of Decree 111 of 1996, cannot be transferred to the Municipality of Medellín at a percentage greater than 30%, and it will be used exclusively for social investment and for payment for public lighting".

- bb) **Surplus on reappraisals:** it represents the net increase of assets' carrying amounts, determined as a result of the updating process, in conformity with technical standards. Excess of the intrinsic value of investments over their carrying amount, as well as the excess of realization value or replacement cost of assets over carrying amounts are recognized as appraisals in Companies belonging to the EPM Group .
- cc) **Equity revaluation:** the value of the inflation adjustment on equity accounts balances conducted from 1992 to 2000 were recorded in Colombia. The CGN eliminated such adjustments in the year 2000. Under current regulations, this balance may not be distributed as profit until the company is liquidated or fully deprived of capital.
- dd) **Memorandum accounts:** credit and debit memorandum accounts represent the estimation of facts or circumstances that may affect the financial, economic, social and environmental position of the public accounting entity, as well as the value of the assets, rights and obligations needed to be controlled. It also includes the value originated in the differences between public and accounting information used for taxation purposes.
- ee) **Operating income:** these correspond to the flows received by EPM in the accounting period, resulting from the ordinary course of its core business. Refunds and rebates on such concepts are recorded in separate accounts as a lower amount from revenue. The following requirements must be met for recognition of revenue:

- That the service was actually rendered or the assets actually delivered.
- That the value of the service or good can be reasonably quantified.
- That the product of the service provided or good sold is expected to be received.
- That the income is likely to increase EPM's net equity.

Income will not be recognized if there are doubts on its realization.

ff) **Non-operating income:** this represent income obtained by the companies belonging to the EPM Group from operations different than the rendering of utility services, including also income from items of extraordinary nature.

EPM will recognize as non-operating revenue the income not included within its corporate purpose, on which the risks and benefits have been transferred or the service has been effectively provided, the value of which may be reasonably quantified, and the product of the service or good provided is likely to be received.

gg) **Service rendering costs:** these are the expenditures required for the rendering of the utility service, without which it would not be possible to deliver the service or its quality may not be optimal. These costs are directly linked to the rendering of services, unlike expenses that correspond to expenditures associated with administrative activities. The following provisions must be met in order to recognize costs:

- That the good or service corresponding to the cost has been satisfactorily received or is being received (in the case of services received in various periods).
- That the risks and benefits of the good or service have been received.
- That the cost may be reliably measured.
- It is likely that outflow of resources carrying future benefits results from the payment of goods or services received.
- That the good or service corresponding to the cost is related to the rendering of services and is a necessary element in such services.

hh) **Expenses:** these are necessary expenditures arising from the normal operation of the organization, which support the rendering of the service. EPM recognizes its expenses as the financial, economic, social and environmental facts occur in such a way that they are systematically recorded within the related accounting period, regardless of the flow of monetary or financial resources. For such purpose, it must be taken into account that recognition is to be made when the following criteria are met:

- The good or service corresponding to the expense has been satisfactorily received or is being received.
- The risks and benefits of the good or service have been received.
- That the expense may be reliably measured.
- It is likely that outflow of resources carrying future benefits results from the payment of goods or services received.

Note 6 Significant effects and changes in the accounting information

During 2012, no significant changes were made on accounting information in the Companies of the Group.

Note 7 Subsequent events of impact for year 2013

EPM Parent Company shall directly develop the Ituango project

The Extraordinary General Shareholders' Meeting of EPM Ituango held on January 11, 2013, approved that EPM directly executes, not through EPM Ituango, the BOOMT (short for build, own, operate, maintain and transfer in 50 years to the power plant) contract and all other contracts subscribed for its execution, as well as the rights and obligations inherent thereof.

Approval of the contract's assignment to EPM would allow to reflect the financial benefits corresponding to the legal stability contract entered into by EPM and the Nation, and to make an additional social investment for USD100 million to improve the quality of life of the population in the area of influence of the hydroelectric power plant, seeking development and sustainability of the area, mainly in terms of education, health, conduction of productive projects and performance of infrastructure works.

EPM Parent Company is conducting negotiations for a potential integration of its telecommunication services in Colombia

Millicom, major shareholder of Colombia Móvil -TIGO- S. A., and EPM Parent Company have subscribed a non-binding memorandum of understanding, intending to seek the possibility to merge Colombia Móvil -TIGO- and UNE EPM Telecomunicaciones S. A., aiming at the creation of a combined telecommunications operator country-wide.

In light of the growing demand for fixed and mobile telecommunications services in Colombia, and the potential for combined operators to offer improved solutions, both companies consider it is possible to move forward to a possible integration of their respective operations. An eventual merger would bring forth for people in Colombia an integrated service portfolio in all regions of the country.

The Council of Medellín will study the proposal during the first semester of 2013, and if approved, negotiations would be conducted during the second semester.

Note 8 Other relevant aspects

8.1 Business combination and corporate restructuring

According to Colombian regulations, equity investments in controlled companies are subject to adjustments, recording as goodwill any excess of the purchase price over their book value. If the purchase value is less than the book value of the acquired entity, the difference increases the shareholders' equity, affecting the business combination in the respective shareholders' equity accounts.

In Colombia, negative goodwill is not recorded in the statement of income for the period. However, net equity is affected by the surplus on valuation.

8.1.1 Merger of UNE EPM Telecomunicaciones S. A. and UNE EPM Bogotá S. A. in June 2012

On June 30, 2012 UNE EPM Telecomunicaciones S. A. formalized the bylaws' reform consisting of a merger by virtue of which it took over its subsidiary UNE EPM Bogotá S. A.

At the time of the merger, balances on the Balance Sheet of UNE EPM Bogotá S. A. were as follows:

	June 30, 2012	December 31, 2011
Assets	346,321	349,158
Liabilities	170,319	172,150
Equity	176,002	176,008

Amounts in millions of Colombian pesos

Net balances in UNE EPM Telecomunicaciones S. A E.S.P. as a result of the merge were as follows:

	At June 30, 2012
Assets	
Assets EPM Bogotá S. A E.S.P.	346,321
- Accounts receivable (reciprocal)	(105,374)
- Investments UNE S. A. E.S.P.	<u>(176,002)</u>
Net assets resulting from the merger included in UNE S. A E.S.P	64,945
Liabilities	
Liabilities EPM Bogotá S. A E.S.P.	170,319
- Accounts receivable (reciprocal)	<u>(105,374)</u>
Net assets resulting from the merger included in UNE S. A E.S.P	64,945

Amounts in millions of Colombian pesos

8.1.2 Spin-off of Centrales Eléctricas del Norte de Santander S. A. E.S.P. (CENS) in August 2012

As a result of the spin-off of Centrales Eléctricas del Norte de Santander S. A. E.S.P. (CENS) on August 24, 2012 in Cúcuta, the company CENS Inversiones S. A. was incorporated, the corporate purpose of which is the investment of capital in companies organized as public utilities companies in the electric power sector, regardless of the type or nature of those public utilities, as well as those entities whose corporate purpose corresponds to the complementary activities described in Act 142 of 1994, or in any complementary regulations rescinding, developing or amending the above.

8.1.3 Subscription of shares in the Company for Electric Power Distribution of Central America II (DECA II) in October 2012

On October 10, 2012, EPM subscribed and paid 132.614.853 shares in the Company for Electric Power Distribution of Central America II (DECA II), all of which hold par value of one quetzal (Q1,00) each, by means of contributions of the shares owned in ones Generadores Hidroeléctricos S. A. (Genhidro) and Hidronorte S. A.

8.1.4 Sale of share participations in Generadores Hidroeléctricos S. A. (Genhidro) and Hidronorte S. A. in November 2012

On November 28, 2012, DECA II formalized the sale of share participations received from EPM on Genhidro S. A. and Hidronorte S. A.; the purchaser was AKIS International Ltd, subsidiary of Centro American Mezzanine Infrastructure Fund (CAMIF), an investment fund of Canadian origin located in Washington D.C.

The main consolidated financial information of Genhidro S. A. (including Hidronorte S. A.) at December 31, 2011 and at October 31, 2012 was as follows:

	Net income	Assets	Liabilities	Equity
31/12/2011	4,091	45,630	12,178	33,452
31/10/2012	3,743	41,948	9,086	32,862

Amounts in millions of Colombian pesos

8.2 International Financial Reporting Standards (IFRS) program

The International Financial Reporting Standards, IFRS, are a set of standards and interpretations of technical nature approved, issued and published by the International Accounting Standards Board (IASB). Those standards set forth criteria for recognition, valuation, presentation and disclosure of financial information.

These rules are becoming the universal accounting language to ensure that all countries speak in the same financial language, with greater consistency in accounting policies and comparability of the companies' financial information.

EPM has undertaken the project for adoption of those standards since 2009, responding to the growth strategy and facilitating access to international capital markets.

Approval of Act 1314 of 2009, which regulates the accounting principles and standards for financial information and information assurance, has become very significant in Colombia. Recently, The Ministry of Commerce, Industry and Tourism issued the decrees by means of which the International Financial Reporting Standards are officially adopted, and sets forth the regulatory framework and schedule of activities for application as of 2013.

8.3 Process for consolidation of accounting information

In 2009, through international issuance of bonds for USD 500 million, EPM acquired the obligation, with investors and International Banks to present on a regular basis the consolidated financial statements of EPM Group . This activity has been performed in EPM for administrative purposes, but with this issuance it acquired the formal obligation.

EPM consolidates its financial information with the companies in which it has equity participation equal or above 50%, directly or indirectly, or holds administrative control.

The consolidated financial statements are issued on a quarterly basis and are submitted to the Board of Directors. Once the Board of Directors is informed, these are published on the official website of EPM along with their corresponding notes.

Specific notes

Valuation-related notes

Note 9 Translation of foreign currency amounts

Bank balances, investments, accounts receivable, financial obligations and accounts payable in foreign currencies are expressed in Colombian pesos based on the TRM certified by the Finance Superintendence of Colombia. At December 31, 2012 and 2011 the values were as follows:

Currency	2012	2011	Variance %
US Dollar (USD)	1,768.23	1,942.70	(8.98%)
Sterling Pound (GBP)	2,874.26	3,019.15	(4.80%)
Japanese Yen (JPY)	20.46	25.26	(19.00%)
Euro (EUR)	2,331.23	2,521.92	(7.56%)
Swiss Franc (CHF)	1,931.76	2,077.52	(7.02%)
Quetzal (GQT)	223.76	248.67	(10.02%)
Mexican Peso (MXN)	135.91	144.03	(5.64%)

At December 31, 2012 and 2011, effects on income for exchange differences were as follows:

	2012	2011
Non-operating income from exchange differences		
Cash	5,095	27,899
Acquisition of goods and services	43,453	36,598
Investments	-	1,829
Accounts receivable	9,932	38,586
Public credit transactions	163,708	12,742
Other adjustments on exchange differences	32,310	12,951
Total non-operating income from exchange differences	254,498	130,605
Non-operating expenses from exchange differences		
Cash	11,349	2,303
Acquisition of goods and services	21,236	42,341
Accounts receivable	37,138	32,858
Investments	16,033	1,865
Short term external Public credit transactions	-	29,830
Other adjustments on exchange differences	30,253	8,545
Total non-operating expense from exchange differences	116,009	117,742

Amounts in millions of Colombian pesos

Balance sheet

Assets

Note 10 Cash

At December 31, the balance of cash was as follows:

		2012	2011
Cash		2,474	3,472
Banks		1,490,147	944,038
Other available resources	1	3,867	14,245
Total cash		1,496,488	961,755
Includes restricted cash	2	62,239	50,678

Amounts in millions of Colombian pesos

(1) This represents demandable foreign currency funds made by "overnight" transactions generating financial yields.

(2) The following special-destination accounts are included in cash on hand and in banks:

Fund	Destination	2012	2011
Restricted resources EPM Parent Company			
Agreements			
Municipality Medellín - Moravia	Construction, repair and replacement of water and draining networks and paving of the roads affected with these works in Moravia sector, in the Municipality of Medellín	1,052	4,354
Municipality of Medellín - Water	Comprehensive management of water for human consumption of the people in the Municipality of Medellín.	8,599	6,298
Municipality of Medellín - Miguel de Aguinaga	Maintenance of the Building Miguel de Aguinaga.	-	642
Municipality of Medellín - Premises	Acquisition of premises identified and characterized within the zones for protection of river basins supplying the water systems in the Municipality of Medellín.	456	3,020
Department of Antioquia e IDEA -Antioquia illuminated	Carry the electric power service to rural households in Municipalities of the Department of Antioquia.	3,521	9,339
Aldeas Program	Use the wood that is completing its aging cycle in the forests planted by EPM in surrounding areas of its reservoirs to build social interest housing in municipalities of Antioquia outside the Valle de Aburrá and give them to poor families, preferably those displaced by force or willingly.	411	4,723
National Royalties Fund - Gas	Construction of compressed natural gas distribution infrastructure and subsidies for connection of users in socioeconomic levels 1 and 2 of Municipalities El Peñol and Guatapé.	-	11
Government of Antioquia -Gas without Borders	Support the development of the expansion component by building residential gas connections within the framework of the program "Gas without borders" in sub-regions of the Department of Antioquia.	1,323	-
Conventional			
Housing Fund SINTRAEMDES	Contribute to housing acquisition and improvements for servants who are beneficiaries of the conventional agreement subscribed between EPM y Sinpro.	18,730	-
Housing Fund SINPRO		7,570	-
Disasters Fund SINTRAEMDES	Promote the wellbeing of servants with the purpose that the person may meet urgent and unforeseen needs for himself of his primary family group.	724	-
Disasters Fund SINPRO		858	-
Education Fund SINTRAEMDES	Promote the wellbeing of servants with the purpose that the person may meet the needs for payment of tuition, textbooks, and supplies required for his own studies or the studies of his primary family group.	743	-
Education Fund SINPRO		723	-
Motorcycle Repairs Fund	Promote the wellbeing of official workers who perform in the regional market and use their own motorcycles for the performance of their duties.	149	-
Motorcycle Replacement Fund		47	-
Guarantees			
Fondo Entidad Adaptada de Salud	Control and monitoring mechanism on collections of contributions to the Contributive Scheme for the General Social Security System in Health, (SGSSS, per its initials in Spanish).	527	-
Fund Fosyga		74	-
Deposits ACT 820	Corresponds to the guarantee demanded by the land lord to the tenant for payment of public utilities, as per the provisions of Article 15 in Act 820 of 2003 and Regulatory Decree 3130 of November 4, 2003.	603	34
Total restricted resources Epm Parent Company		46,110	28,421

Restricted resources ESSA S. A. E.S.P.			
Covenant Provincial Government -ESSA Stage V		5,271	7,793
Covenant Provincial Government -ESSA Stage IV		904	4,710
Covenant Provincial Government -ESSA- Stage I		804	779
Covenant Provincial Government -ESSA Stage III		173	1,619
Covenant Provincial Government	Construction of low and medium voltage networks, assemble of transformers and internal installations for rural electric power supply in villages of the Department of Santander	23	851
Covenant Faer GSA 160 2012		1,542	-
Faer 030	Technical assistance agreement between the Nation's Ministry of Mine and ESSA for the administration and execution of resources from the Financial support fund for electric power supply to Interconnected Rural Areas (FAER).	1,291	689
Covenant Faer 036		529	-
Prone	Execution of resources from the Program for Normalization of Electric Power Supply Networks - PRONE	900	905
Faer 014	Administration and execution of resources from the Financial support fund for electric power supply to Interconnected Rural Areas (FAER), allocated to rural electric power supply and normalization of electric power networks.	330	315
Public lighting San Gil	Resources from surplus from Public lighting of the Municipality of San Gil.	262	253
Public hearings	General administration and execution of resources from Public hearings by ESSA allocated to projects for construction of low and medium voltage networks for Rural Electric Power Supply.	90	87
Covenant ESSA - Municipality Charalá	Construction of low and medium voltage networks, assemble of transformers and internal installations for rural electric power supply in villages of the Municipality Charalá.	61	327
Line Puerto Wilches Barranca	Resources intended for the Line Puerto Wilches Barranca	-	36
Total restricted resources ESSA S. A. E.S.P.		12,180	18,364
Restricted resources EDEQ			
Housing fund	Resources destined to improve workers' quality of life by granting loans for the purchase or improvement of houses.	703	175
Fund for household damages	Resources destined to cover damages caused by difficult and unforeseen events affecting the workers or their families. .	13	12
Total restricted resources EDEQ S. A. E.S.P.		716	187
Recursos restringidos Regional de Occidente S. A. E.S.P.			
Covenant 10000083 Yields		-	16
Covenant 10000083 Sopetrán		54	405
Covenant 5847	Resources received during 2011 form inter-administrative covenant 08-CF-124850 agreed between the Department of Antioquia and Municipalities of Santafé de Antioquia and San Jerónimo, as well as resources received during 2011 under the inter-administrative covenant for financial support agreed between the Ministry of Environment, Housing and Territorial Development, the Department of Antioquia and Regional de Occidente with the purpose of providing financial support to the regional schemes for the rendering of water and draining services. .	8	143
Covenant- Santafé		2	2
Covenant-San Jerónimo		13	12
Total restricted resources Regional de Occidente S. A. E.S.P.		77	578
Restricted resources Aguas de Urabá S. A. E.S.P.			
Financial support 10003713-49 Apartadó		176	176
Financial support 10003713-49 Chigorodó		58	58
Financial support 10005141-153		2,891	2,891
Financial support 10005431-CF-12-4842	This corresponds to financial resources that Aguas de Urabá has generated from its own operation. These resources are held at banking entities such as Bancolombia, BBVA and Banco Popular.	31	3
Total restricted resources Aguas de Urabá S. A. E.S.P.		3,156	3,128
Total restricted resources		62,239	50,678

Note 11 Investments for liquidity management

At December 31, the balance of investments for liquidity management was comprised as follows:

		2012		2011	
		Value	Average profitability	Value	Average profitability
Rights in securities funds and investment trusts	(1)	422,418	5,37% E.A.	197,661	3.73% E.A.
Treasury bonds -TES	(2)	262,010	7.53% E.A.	938,438	4.80% E.A.
Fixed term deposit certificates	(3)	748,366	6.16% E.A.	888,548	5.67% E.A.
Bonds and securities issued by financial entities	(4)	395,422	1.16% E.A. en USD	107,702	2.19% E.A. en USD
Bonds and securities issued by foreign entities		44,657		-	
Bonds and securities issued by the National Government	(5)	44		26,219	3.89% E.A. en USD
Bonds and securities issued by the private sector		26,968	-39.44% E.A.	46,811	5.28% E.A.
Other investments for liquidity management		1,283		12,869	
Current investments for liquidity management		1,901,168		2,218,248	
Deposits of foreign debt transactions		2,555		2,807	
Bonds and securities issued by financial entities		-	8.50% E.A. en GTQ	63,709	8.63% E.A. en GTQ
Other investments for liquidity management		7,117		-	
Non-current investments for liquidity management		9,672		66,516	
Total investments for liquidity management		1,910,840		2,284,764	

Amounts in millions of Colombian pesos

- (1) Short term investments made with self-owned money in investment funds. These are treated as a current account and represent investments made to obtain profits over cash surplus.
- (2) Internal public debt securities issued by the National Government and administered by Banco de la República. These instruments are valued based on price.
- (3) Financial instruments for collection of savings with interest rates established based on amount, term, and market conditions when created. These instruments are valued based on the rate and margin in effect.
- (4) Correspond to investments in term deposits subscribed with international financial institutions with minimum rating of A+ for the long term and A-1+ for the short term, and foreign branches of banking entities supervised by the Colombia Finance Superintendence with the highest rating in effect for long and short terms.
- (5) Correspond to investments in Yankee Bonds, securities issued in dollars by the National Government and expressed in Colombian pesos, and Treasury Bills, securities issued by the United States Treasury with maturity of less than a year.

Note 12 Accounts receivable, net

At December 31, the balance of accounts receivable was as follows:

		2012	2011
Rendering of public utilities			
Electric power service		1,198,124	1,230,003
Telecommunications service		323,650	421,284
Subsidy on telecommunications service		56,230	49,689
Subsidy on electric power service		50,134	74,564
Fuel gas service		93,449	53,999
Water service		64,106	41,917
Sewage draining service		51,027	41,792
Subsidy on fuel gas service		6,081	-
Subsidy on water service		5,528	4,124
Subsidy on sewage draining service		1,715	168
Cleaning service		151	187
Other accounts receivable			
Rendering of services other than public utilities		227,232	216,637
Advances or credit balances for taxes and contributions		197,337	157,858
Deposits and advances delivered	(1)	193,944	88,295
Loans to employees		34,075	37,029
Interests		31,480	36,456
Resources given for administration		20,433	10,875
Pension payment quotas		19,809	18,219
Collection schemes		18,374	27,703
Sales of goods		17,780	21,997
Payments on behalf of third parties		16,120	18,955
Leasing		5,800	5,214
Administration of resources health system		4,557	11,452
Sales of assets		4,242	4,571
Fees and commissions		1,608	2,149
Dividends and shares receivable		4	5,012
Other minor accounts receivable		70,165	97,715
Doubtful accounts			
Electric power service		159,893	156,154
Telecommunications service		126,951	80,195
Water service		9,577	75,650
Fuel gas service		8,421	8,720
Sewage draining service		7,962	51,383
Other doubtful accounts receivable		87,585	87,658
Current accounts receivable		3,113,544	3,137,624
Current portion provision	(2)	(543,248)	(612,377)
Current portion accounts receivable, net		2,570,296	2,525,247

Rendering of public utilities			
Fuel gas service		147,017	170,270
Electric power service		146,301	64,867
Water service		27,425	42,642
Sewage draining service		17,773	25,995
Other accounts receivable			
Loans to employees		93,630	80,517
Deposits and advances delivered		65,755	75,072
Payments on behalf of third parties		16,059	14,283
Interests		5,173	41,975
Sales of assets		4,584	8,983
Rendering of services		1,357	1,777
Resources given for administration		126	-
Others	(3)	213,405	200,748
Non-current accounts receivable		738,605	727,129
Accounts receivable, net		3,308,901	3,252,376

Amounts in millions of Colombian pesos

- (1) Increase in this item is related to advances and prepayments for acquisition of goods and services for infrastructure investment projects.
- (2) Net movement of accounts receivable provision:

	2012	2011
Initial balance	612,377	548,810
Increase for the year	83,515	113,862
Expense from previous periods	885	(5,635)
Translation adjustment	(802)	-
Business combinations	-	24,044
Reclassification of provision	(24,694)	-
Recovery of provision	983	(16,105)
Use of provision	(129,016)	(52,599)
Total provision for accounts receivable	543,248	612,377

Amounts in millions of Colombian pesos

- (3) Includes loans from UNE EPM Telecomunicaciones S. A to Colombia Móvil S. A. E.S.P., and the corresponding yields. The promissory note in favor of UNE amounts to \$181,436, at a rate of DTF+4.15% T.A.

Note 13 Inventories, net

At December 31, the balance of inventories was as follows:

		2012	2011
Materials for the rendering of services		216,516	189,819
Merchandise in stock	(1)	18,100	13,793
Merchandise in possession of third parties		5,033	5,273
Merchandise in transit		8,796	2,628
Products in progress		770	595
Subtotal inventories		249,215	212,108
Provision			
Materials for the rendering of services		(6,527)	(4,750)
Merchandise in stock		(185)	(1,534)
Total provision	(2)	(6,712)	(6,284)
Total inventories		242,503	205,824

Amounts in millions of Colombian pesos

- (1) Includes items of groceries and food associated to products commercialized in the grocery supply stores of EPM.
- (2) Movement of the provision for protection of inventories was as follows:

	2012	2011
Initial balance	6,284	4,392
Increase of the period	4,620	1,796
Use of the provision	(859)	(620)
Adjustment from previous periods	(1,242)	-
Translation adjustment	(228)	
Recovery of provisions	(1,863)	(192)
Business combinations	-	908
End balance	6,712	6,284

Amounts in millions of Colombian pesos

Note 14 Expenses paid in advance

The balance of expenses paid in advance at December 31 was as follows:

		2012	2011
Insurance		36,994	25,492
Leasing		7,309	489
Other expenses paid in advance		23,170	6,413
Current expenses paid in advance		67,473	32,394
Insurance		7,567	5,575
Leasing		32,470	45,096
Other expenses paid in advance	(*)	93,588	122,804
Non-Current expenses paid in advance (Note 18)		133,625	173,475
Non-Current expenses paid in advance		201,098	205,869

Amounts in millions of Colombian pesos

(*) This includes rights of use for the cables called IRUS, Wimax and purchase of domains among other concepts (Irrevocable Right of Use –IRU- on dark optic fiber threads, purchase of domains, usufruct rights) by the subsidiary UNE EPM Telecomunicaciones S. A.

Note 15 Equity investments, net

At December 31, the balance of equity investments was as follows:

		2012	2011
In non-controlled entities		606,089	604,358
In entities under liquidation		603	1,049
Equity investments	(1)	606,692	605,407
Provision	(2)	(99,515)	(99,490)
Equity investments, net		507,177	505,917

Amounts in millions of Colombian pesos

(1) Investments recorded under the cost method as non-controlled investments:

Company	Location	Corporate purpose	Percentage of participation		Creation date
			2012	2011	
Isagen S. A. E.S.P.	Medellín	Generation and commercialization of electric power, natural gas by grids, as well as commercialization of coal, steam and other energy sources of industrial use.	13.14%	13.14%	April 4, 1995
Interconexión Eléctrica S. A. E.S.P.	Medellín	Operation and maintenance of its own transmission network, expansion of the national interconnection network, planning and coordination of the operation with resources from SIN.	10.17%	10.17%	September 14, 1967
Hidroeléctrica Ituango S. A. E.S.P.	Medellín	Operation and maintenance of its own transmission network, expansion of the national interconnection network, planning and coordination of the operation with resources from SIN.	46.47%	46.47%	December 29, 1997
Gestión Energética S. A. E.S.P. - GENSA	Manizales	Rendering of one or more public utilities considered under ACT 142 of 1994 or the conduction of one or several activities considered as complementary or one and the other activity.	0.19%	0.19%	May 4, 1993
Reforestadora Industrial de Antioquia - RIA	Medellín	Produce, transform and commercialize timber products and non-timber products from forestry plantations, seeking high profitability and sustainability.	6.84%	7.34%	February 28, 2003
Electrificadora del Caribe S. A. E.S.P.	Barranquilla	Distribution and commercialization of electric power in the Colombian Caribbean Region.	0.07%	0.07%	June 06, 1998
Colombia Móvil S. A. E.S.P.	Bogotá	Rendering and commercialization of personal communication services (PCS) in the national territory and overseas, and the rendering and commercialization of basic switched public telephone services in the locations defined by the Ministry of Communications	25.04%	25.04%	January 24, 2003
Transoriente S. A. E.S.P.	Bucaramanga	Transportation of fuel gas by means of construction, operation and maintenance of gas pipelines, ducts and branches.	6.73%	6.73%	March 24, 1994
Gas Natural del Oriente S. A. E.S.P.	Bucaramanga	Rendering of essential public utilities of residential fuel gas distribution in any part of the country.	10.00%	10.00%	August 30, 1997

The value of investments recorded under the cost method, detailing the adjusted cost, reappraisal and associated provisions, correspond to the following:

2012

Entity	Cost	Provision	Net	Reappraisal	Dividends
Isagen S. A. E.S.P.	194,311	-	194,311	702,995	27,577
Interconexión Eléctrica S. A. E.S.P.	187,035	-	187,035	893,978	20,156
Colombia Móvil S. A. E.S.P.	152,073	(81,622)	70,451	-	-
Hidroeléctrica Ituango S. A. E.S.P.	28,025	-	28,025	6,202	620
Gestión Energética S. A. E.S.P.	12,700	(12,092)	608	-	-
Transoriente S. A. E.S.P.	8,633	-	8,633	2,826	-
Gas Natural del Oriente S. A. E.S.P.	7,651	-	7,651	10,573	1,297
Reforestadora Industrial de Antioquia (RIA)	5,076	(129)	4,947	-	-
Electrificadora del Caribe S. A. E.S.P.	1,398	(340)	1,058	-	-
Others	9,790	(5,332)	4,458	12,014	37
Total	606,692	(99,515)	507,177	1,628,588	49,687

Amounts in millions of Colombian pesos

2011

Entity	Cost	Provision	Net	Reappraisal	Dividends
Isagen S. A. E.S.P.	194,311	-	194,311	546,417	10,987
Interconexión Eléctrica S. A. E.S.P.	187,035	-	187,035	1,074,148	9,684
Colombia Móvil S. A. E.S.P.	152,073	(81,622)	70,451	-	-
Hidroeléctrica Ituango S. A. E.S.P.	28,025	-	28,025	6,202	-
Gestión Energética S. A. E.S.P.	12,700	(11,977)	723	-	1,625
Transoriente S. A. E.S.P.	8,633	-	8,633	2,404	-
Gas Natural del Oriente S. A. E.S.P.	7,651	-	7,651	9,199	7,103
Reforestadora Industrial de Antioquia (RIA)	5,076	(339)	4,737	-	-
Electrificadora del Caribe S. A. E.S.P.	1,398	(345)	1,053	-	-
Others	8,505	(5,207)	3,298	1,137	-
Total	605,407	(99,490)	505,917	1,639,507	29,399

Amounts in millions of Colombian pesos

At December 31, 2012, the main financial information corresponding to investments recorded under the cost method is as follows:

2012

Company	Net result	Assets	Liabilities	Equity
Interconexión Eléctrica S. A. E.S.P.	272,938	8,912,304	2,792,599	6,119,705
Isagen S. A. E.S.P.	407,957	6,200,731	2,714,065	3,486,666
Hidroeléctrica Ituango S. A. E.S.P.	1,030	90,960	17,438	73,522
Reforestadora Industrial de Antioquia -RÍA-	205	76,245	3,950	72,295

Amounts in millions of Colombian pesos

2011

Company	Net result	Assets	Liabilities	Equity
Interconexión Eléctrica S. A. E.S.P.	336,776	9,384,833	2,988,490	6,396,343
Isagen S. A. E.S.P.	479,112	5,882,447	2,507,569	3,374,878
Hidroeléctrica Ituango S. A. E.S.P.	1,481	92,672	18,848	73,824
Reforestadora Industrial de Antioquia (RIA)	(186)	69,591	3,847	65,744

Amounts in millions of Colombian pesos

The following capitalizations or investment acquisitions in non-controlled companies were performed:

	2012	2011
Hidroeléctrica Ituango S.A. E.S.P. (*)	-	(42)
Concentra Inteligencia de Mercados	-	84
Total capitalizations	-	42

Amounts in millions of Colombian pesos

(*) It corresponds to the reimbursement of greater capitalization in excess.

(2) The movement of the investments provision was as follows:

Concept	2012	2011
Initial balance	99,490	101,075
Increase for the year	3,390	11,226
Provision expense from previous years	-	-
Reclassification of provisions	-	(230)
Recovery of provisions	(3,365)	(12,581)
End balance	99,515	99,490

Amounts in millions of Colombian pesos

Note 16 Property, plant and equipment, net

At December 31, the balance of property, plant and equipment was as follows:

		2012	2011
Ongoing constructions	(1)	1,634,074	992,357
Plants, ducts and tunnels	(2)	7,779,364	7,918,380
Networks, lines and cables	(2)	7,317,027	6,916,110
Buildings	(2)	2,970,508	2,865,541
Communication and computer equipment		1,256,016	1,109,765
Machinery and equipment		469,191	460,579
Land		227,676	219,859
Transportation, traction and lifting equipment		147,674	138,812
Movable goods in store		140,831	95,612
Furniture, fixtures and office equipment		112,862	118,911
Property, plant and equipment not used		102,587	98,591
Machinery, plant and equipment in assembly		90,516	134,948
Property, plant and equipment in transit		32,481	64,087
Medical and scientific equipment		28,659	26,825
Property, plant and equipment in maintenance		6,622	16,207
Others		10,942	6,663
Subtotal property, plant and equipment		22,327,030	21,183,247

Depreciation accrued			
Plants, pipelines and tunnels		(5,424,238)	(5,069,011)
Networks, lines and cables		(3,054,715)	(2,829,927)
Communication and computer equipment		(797,091)	(664,636)
Buildings		(652,597)	(604,250)
Machinery and equipment		(258,243)	(249,412)
Transportation, traction and lifting equipment		(105,754)	(99,067)
Furniture, fixtures and office equipment		(81,367)	(83,815)
Medical and scientific equipment		(16,680)	(15,191)
Others		(1,777)	(1,632)
Depreciation accrued	(3)	(10,392,462)	(9,616,941)
Deferred depreciation		2,323,135	2,025,290
Total depreciation		(8,069,327)	(7,591,651)
Provisions for protection of property, plant and equipment	(4)	(103,291)	(102,229)
Total property, plant and equipment, net		14,154,412	13,489,367

Amounts in millions of Colombian pesos

- (1) At December 31, 2012, ongoing constructions showed an increase of \$641,717, equivalent to 64.67%, with respect to December 2011, explained by the acquisition of goods and services. In the Energy Generation Business investments were made mainly for the construction, rehabilitation and modernization of electric power generation stations, as well as for upgrading and replacement of equipment thereof.
- (2) Corresponds to operating infrastructure components of the Generation, Transmission and Distribution business of Natural Gas, water, Sanitation, wastewater and Telecommunications.

The main variance correspond to acquisition of goods and services and capitalization of infrastructure Works in the electric power, water and telecommunications services, concerning replacement, modernization and automation of electric power substations to purchase equipment for operating infrastructure equipment, as well as transformers, section divisions, lightning rods, sections of primary and secondary networks circuits, protection and manipulation equipment for operating infrastructure.

- (3) Movement of depreciation is detail as follows:

	2012	2011
Initial balance	9,616,941	8,708,653
Increase for the period	836,150	714,193
Business combination	-	407,623
Translation adjustments	(38,486)	-
Deferred depreciation, net	350,701	156,950
Discharge of property, plant and equipment	(196,567)	(370,479)
Charges from previous years	131	-
Adjustments and eliminations	(206,454)	-
Others	30,046	-
End balance	10,392,462	9,616,941

Amounts in millions of Colombian pesos

(4) Movement of the provision for property, plant and equipment was as follows:

	2012	2011
Initial balance	102,229	71,028
Increase for the period	30,392	26,162
Provision expense from previous years	(15,475)	(2,248)
Reclassification of provision	(10,440)	12,793
Discharge of property, plant and equipment	(408)	(5,506)
Translation adjustments	(3)	-
Others	(3,004)	-
End balance	103,291	102,229

Amounts in millions of Colombian pesos

Note 17 Actuarial financial reserve

At December 31, the balance of the actuarial financial reserve:

Concept		2012	2011
Trust funds	(*)	741,441	716,148
Total trust funds		741,441	716,148

Amounts in millions of Colombian pesos

(*) This is mainly comprised by trust funds of EPM, the most notable being the following:

- Autonomous equity with Fiduciaria Davivienda S. A. for the administration of resources destined for the payment of pension allowances both of EPM and those derived from the pension commutation of EADE. The equity was opened with an amount of \$322,000.
- Consortium EPM 2008, comprised by BBVA Fiduciaria S. A. with a share of 40%, BBVA Horizonte with a share of 40% and Fiduciaria Corficolombiana with a share of 20%, to ensure coverage of the liabilities generated from pension bonds, pension payment quotas and payment of substitute compensations derived from risks regulated by the general pension system.

Note 18 Other assets

At December 31, the balance of other assets was the following:

		2012	2011
Goods given to third parties	(1)	42,986	246
Deferred charges	(2)	15,980	1,405
Total other current assets		58,966	1,651
Intangible assets	(3)	2,011,384	2,117,518
Deferred charges	(2)	464,907	432,221
Goods given to third parties	(1)	351,811	348,337
Goods and services paid in advance		133,625	173,475
Trust fund rights	(4)	130,949	149,934
Works and improvements in third party property	(5)	130,585	145,701
Goods acquired by financial leasing		3,480	3,483
Goods of arts and culture		77	77
Goods received as payment in kind		-	678
Total other non-current assets		3,226,818	3,371,424
Amortization of intangible assets	(3)	(716,945)	(826,844)
Amortization of goods given to third parties	(1)	(254,811)	(211,475)
Depreciation of goods acquired in leasing		(3,176)	(2,951)
Provision on goods given to third parties	(1)	(4)	(209)
Total depreciations, amortizations and provisions other assets		(974,936)	(1,041,479)
Total other non-current assets		2,251,882	2,329,945
Total other assets, net		2,310,848	2,331,596

Amounts in millions of Colombian pesos

(1) At December 31, the balance of goods given to third parties was as follows:

		2012	2011
Goods given for administration	(1.1)	313,418	245,949
Goods given as loan for use	(1.2)	54,754	79,772
Other goods given to third parties		26,625	22,862
Subtotal goods given to third parties		394,797	348,583
Amortization	(1.3)	(254,811)	(211,475)
Provision		(4)	(209)
Total goods given to third parties		139,982	136,899

Amounts in millions of Colombian pesos

(1.1) This had an increase of \$67,469 (2011 – \$59,594), corresponding mainly to goods given to telecommunications customers by UNE EPM Telecomunicaciones S. A.

(1.2) In EPM Parent Company, 146,829 meters for prepaid energy for \$41,793 (2011 – increase \$17,451) were discharged, which were fully amortized, in accordance with the provisions of Instructions 016 of 2012 from the National General Accounting Office, with respect to lower value assets.

(1.3) Movement of accrued amortization of goods given to third parties was as follows:

	2012	2011
Initial balance	211,475	128,366
Increase for the period	71,088	92,702
Expense in previous periods	-	(3)
Withdrawals	(54,559)	-
Adjustments and eliminations	(2,749)	-
Other increases (decreases)	29,556	(9,590)
End balance	254,811	211,475

Amounts in millions of Colombian pesos

(2) At December 31, the balance of deferred charges was as follows:

		2012	2011
Deferred taxes	(2.1)	337,587	228,467
Studies and projects	(2.2)	67,828	94,376
Tax to preserve democratic security	(2.3)	28,427	42,640
Discount in bonds and securities of long term foreign public debt	(2.4)	21,490	25,412
Premium for legal stability contracts	(2.5)	7,544	8,039
Organization and set up expenses		1,281	1,382
Development expenses		-	12,792
Other deferred charges		16,730	20,518
Total deferred charges		480,887	433,626

Amounts in millions of Colombian pesos

- (2.1) An increase of \$107,423 (2011 - \$26,828) was seen mainly for recognition of EPM Parent Company of the tax rights over goodwill for the acquisition of foreign companies.
- (2.2) A decrease of \$38,147 (2011 - \$17,397) was seen, being notable the amortization for 35,695 (2011 - \$0) corresponding to studies associated to the Porce IV project.
- (2.3) This corresponds to tax on equity, in conformity with Act 1370 of 2009 in Colombia, for companies of the Group which did not have in their equity any equity revaluations to be deducted. This tax shall be amortized until 2014.
- (2.4) This corresponds to the discount granted on issuance of international bonds (coupon of 7.625%), for the credit of USD 500 million. The Premium shall be amortized until expiration in July 2019.
- (2.5) This corresponds to the Premium paid to the Nation for the legal stability contract for the energy generation activity of EPM Parent Company. The contract was subscribed for a twenty-year (20) term for an amount equivalent to 0.5% of the value of investments performed during the unproductive period and 1% in the operating stage. The initial amount was \$9,894.

(3) At December 31, the balance of intangible assets was as follows:

		2012	2011
Goodwill and know how	(3.1)	1,197,866	1,208,842
Software, licenses, rights		786,533	886,709
Brands, concessions and franchises		2,088	2,068
Easements		14,157	10,750
Other intangible assets		10,740	9,149
Subtotal intangible assets		2,011,384	2,117,518
Less amortization of goodwill and know how	(3.1)	(321,472)	(271,380)
Less amortization of software, licenses, rights		(378,131)	(539,196)
Less amortization of brands, concessions and franchises		(2,068)	(2,068)
Less amortization of easements and others		(15,274)	(14,200)
Subtotal amortization	(3.2)	(716,945)	(826,844)
Total intangible assets		1,294,439	1,290,674

Amounts in millions of Colombian pesos

(3.1) Goodwill was comprised as follows:

	Cost	Amortization	Net value
Distribución Eléctrica Centroamericana DOS (II) S. A.	336,144	(15,958)	320,186
EPM Ituango S. A. E.S.P.	177,667	-	177,667
Panama Distribution Group	109,883	(11,279)	98,604
Emtelsa S. A. E.S.P.*	51,850	(10,154)	41,696
Promisión S. A. E.S.P.*	85,513	(30,834)	54,679
Empresa de Telecomunicaciones de Pereira S.A. E.S.P.	79,081	(79,081)	-
Edatel S. A. E.S.P.**	68,786	(50,448)	18,338
Costavisión S. A. E.S.P.*	65,453	(12,818)	52,635
Orbitel S. A. E.S.P.	55,869	(23,570)	32,299
UNE EPM Telecomunicaciones S. A.**	41,979	(24,920)	17,059
Del Sur	40,462	(6,268)	34,194
Empresa de Energía del Quindío S. A. E.S.P. (EDEQ)	23,923	(18,778)	5,145
Emtelco S. A.	20,929	(20,088)	841
Gestión de Empresas Eléctricas S. A.	17,678	(764)	16,914
UNE EPM Bogotá S. A.	6,409	(6,367)	42
EPM Televisión S. A. E.S.P.	9,552	(9,552)	-
Hidroecológica del Teribe S. A.	6,032	-	6,032
Central Hidroeléctrica de Caldas S. A. E.S.P. (CHEC)	592	(592)	-
Aguas de Malambo S. A. E.S.P.	64	(1)	63
Total goodwill	1,197,866	(321,472)	876,394

Amounts in millions of Colombian pesos

2011			
	Cost	Amortization	Net value
Distribución Eléctrica Centroamericana DOS (II) S. A.	336,140	(8,716)	327,424
EPM Ituango S. A. E.S.P.	177,667	-	177,667
Panama Distribution Group	91,969	(5,256)	86,713
Emtelsa S. A. E.S.P.	93,829	(31,243)	62,586
Promisión S. A. E.S.P.	85,513	(12,471)	73,042
Empresa de Telecomunicaciones de Pereira S. A. E.S.P.	79,081	(79,081)	-
Edatel S. A. E.S.P.	68,786	(45,853)	22,933
Costavisión S. A. E.S.P.	65,453	(9,545)	55,908
Orbitel S. A. E.S.P.	55,869	(21,263)	34,606
Del Sur	49,370	(3,476)	45,894
Empresa de Energía del Quindío S. A. E.S.P. (EDEQ)	23,923	(13,994)	9,929
Emtelco S. A.	20,929	(20,027)	902
Generadores Hidroeléctricos S. A. (Genhidro)	18,726	(3,850)	14,876
Gestión de Empresas Eléctricas S. A.	17,678	(382)	17,296
UNE EPM Bogotá S. A.	6,409	(6,316)	93
EPM Televisión S. A. E.S.P.	9,552	(9,552)	-
Hidroecológica del Teribe S. A.	6,032	-	6,032
Hidronorte S. A.	1,324	-	1,324
Central Hidroeléctrica de Caldas S. A. E.S.P. (CHEC)	592	(355)	237
Total Goodwill	1,208,842	(271,380)	937,462

Amounts in millions of Colombian pesos

(*) In accordance with CGN concept issued in December 2007, the goodwill generated by increased price paid for a representative capital value with respect to its intrinsic value, may only be recorded when the companies are effectively merged. In the case of Emtelsa, Promisión and Costavisión, amortization generated started in January 2009.

(**) This corresponds to Know How.

(3.2) Movement of amortization is detailed as follows:

	2012	2011
Initial balance	826,844	765,583
Increase for the year	259,291	100,268
Withdrawal of intangible assets	(369,189)	(659)
Business combination	-	17,142
Other decreases	-	(55,490)
End balance	716,946	826,844

Amounts in millions of Colombian pesos

- (4) Rights in the trust fund are resources provided by companies of the Group to companies in charge of administration of autonomous equity.
- (5) Works and improvements in third party property include adjustments in some customer service offices in different zones.

Note 19 Reappraisals

At December 31, the balance of reappraisals was as follows:

		2012	2011
Equity investments		1,628,588	1,639,507
Property, plant and equipment	(*)	8,855,757	8,537,759
Other assets		53,481	78,486
Total reappraisals		10,537,826	10,255,752

Amounts in millions of Colombian pesos

(*) At December 31, it was comprised as follows:

		2012	2011
Plants, ducts and tunnels		3,192,990	3,075,887
Networks, lines and cables		2,819,167	2,826,820
Buildings		1,306,880	1,316,785
Land		1,373,104	1,181,442
Communication and computer equipment		64,243	48,890
Transportation, traction and lifting equipment		48,177	35,137
Machinery and equipment		33,543	34,539
Furniture, fixtures and office equipment		17,150	17,948
Medical and scientific equipment		462	270
Dining room, kitchen, pantry and hotel equipment		41	41
Total reappraisals of property, plant and equipment		8,855,757	8,537,759

Amounts in millions of Colombian pesos

Liabilities

Note 20 Public credit transactions

At December 31, the balance of public credit transactions was as follows:

		2012	2011
Domestic debt transactions	(1)	21,396	206,778
Foreign debt transactions	(2)	213,377	245,730
Current public credit transactions		234,773	452,508
Domestic debt transactions	(1)	2,749,766	2,523,519
Foreign debt transactions	(2)	4,567,173	3,998,866
Non-current public credit transactions		7,316,939	6,522,385
Total public credit transactions		7,551,712	6,974,893

Amounts in millions of Colombian pesos

(1) Domestic debt transactions:

	2012	2011
Current domestic debt transactions	21,396	206,778
Non-current domestic debt transactions	2,749,766	2,523,519
Total public credit transactions	2,771,162	2,730,297

Amounts in millions of Colombian pesos

Owing company deudora	Interest rate	Pesos (millions)	Interest rates	Pesos (millions)	
EPM	Bonds *	DTF + 1.49% a 2.59%, IPC + 3.25% a 7.12%, Fixed 10.80% to 13.80%	DTF + 1.49% a 2.59%, IPC + 3.25% a 7.12%, Fixed 10.80% to 13.80%	1,295,710	1,332,410
UNE	Bonds **	IPC + 3.67% a 5.10%	IPC + 3.67% a 5.10%	600,000	600,000
EPM	Davivienda (Club Deal)	DTF + 3.4%	DTF + 3.4%	270,000	270,000
EPM	BBVA (Club Deal)	DTF + 3.4%	DTF + 3.4%	180,000	180,000
EPM Bogotá	Bonds ***	IPC + 7.25% a 7.75%	IPC + 7.25% a 7.75%	-	120,000
EPM	Banco Santander (Club Deal)	DTF + 3.4%	DTF + 3.4%	72,000	72,000
CENS	Bancolombia y Banco de Bogotá	DTF + 3.3% - DTF + 3.0%	DTF + 3.3%	80,000	50,000
UNE	Local syndicated credit	DTF + 3.9%		200,000	
ESSA			6.25% EA		40,000
EPM	Helm Bank (Club Deal)	DTF + 3.4%	DTF + 3.4%	35,000	35,000
Aguas de Urabá	Others	DTF - 1% - DTF + 3.9%	DTF + 5.10	11,594	2,000
EDEQ	Others	DTF + 2.45% - DTF + 2.9%	DTF + 2.45% - DTF + 2.9%	13,300	15,800
CHEC, Telefónica de Pereira, Aguas de Occidente y EPM Inversiones	Others	DTF - 1.0% a 5.10%, Fixed 6.5%	DTF + 1.98% a 5.10%, Fixed 6.5%	13,558	13,087
Total		2,771,162		2,730,297	

* EPM bonds at December 31 do not have guarantee and include: i) \$1,000,000 the auction of which was held between November 2008 and March 2009, with expirations between 2011 and 2024; and ii) \$500,000 the auction of which was held on December 14, 2010, expiring in the years 2016, 2022 and 2030.

** This item corresponds to bonds with no guarantee, the auctions of which were held as follows: i) \$300,000 on March 12, 2010, expiring in 2015 and 2020 and ii) \$300,000 on October 20, 2011, expiring in 2016 and 2023.

*** On July 1, 2012, EPM Bogotá merged with UNE, who assumed the liabilities of the company taken over. Bonds issued on August 14, 2002 expired and were cancelled on August 14, 2012.

(2) Foreign debt transactions:

	2012	2011
Current foreign debt transactions	213,377	245,730
Non-current foreign debt transactions	4,567,173	3,998,866
Total public credit transactions	4,780,550	4,244,596

Amounts in millions of Colombian pesos

2,012						2,011			
Owing Company deudora		Interest rate	Source currency	Balance source currency	Equivalent in pesos	Interest rate	Source currency	Balance in source currency	Equivalent in pesos
EPM	Bonds *	7.625%	USD	500	884,115	7.625%	USD	500	971,350
EPM	Bonds **	8.375%	COP	1,250,000	1,250,000	8.375%	COP	1,250,000	1,250,000
EPM	IFC ***	Libor + 1.875% - 2.15%	USD	349	617,112				
EPM	Bank of Tokyo y BBVA Tokyo	Libor + 0,95%	USD	183	324,173	Libor + 0,95%	USD	200	388,540
EPM	BID 1664	Libor + 1.05%	USD	200	353,646	Libor + 1.05%	USD	199	387,334
EPM	BID 2120	Libor	USD	99	174,409	Libor	USD	44	86,077
EPM	BID 792	Libor + 1.43%	USD	58	102,384	Libor + 1.43%	USD	87	168,729
ENSA	Bonds	7.6%	USD	100	176,823	7.6%	USD	100	194,270
EEGSA	Citibank	8.5%	USD	97	171,934	8.25%	USD	97	188,898
EPM	BID 800	Libor + 1.43%	USD	57	100,215	Libor + 1.43%	USD	65	125,833
EEGSA	Banco Industrial	Active rate - 6.56%	GTQ	497	111,120	Active rate - 5.30%	GTQ	199	49,545
EEGSA	Banco G&T Continental	Active rate - 6.56%	GTQ	323	72,185	Active rate - 5.50%	GTQ	199	49,545
UNE	Syndicated JPMorgan	Libor + 2%	USD	47	82,517	Libor + 1.75%	USD	93	181,319
EEGSA	Banco Agromercantil de Guatemala	Active rate - 6.56%	GTQ	175	39,158				
DEL SUR	Bonds	Min 5% - Max 8%	USD	21	37,133	Min 5% - Max 8%	USD	21	40,797
EEGSA	Others	Active rate - 6.56%	GTQ	163	36,550	Active rate - 5.30% and 5.80%	GTQ	99	24,581
EPM, HET	Others ****	Libor + 2%, Fixed 7% to 9%	USD	10	17,254	Libor + 0.4%, Fixed 7% to 9.15%	USD	7	13,739
ENSA	Others	Libor + 1.25% to 2.375%	USD	100	176,823	Libor + 1.25% to 2.375%	USD	30	58,281
DEL SUR	Others	Min 4.5% - Max 6.5%, Fixed 6.50% Active rate - 5.50%	USD	30	52,999	Min 4.5% - Max 6.5%, Fixed 6.50% - Active rate - 6%	USD	34	65,758
Total					4,780,550	4,244,596			

(*) Bonds with no guarantee issued in July 2009, listed at the Luxemburg Euro MTF stock exchange and placed in markets of United States, Europe, Asia and Latin America, with expiration July 2019. These are not subject to compliance with financial covenants as they have double rating investment grade granted by Fitch Ratings and Moody's.

(**) EPM issued in January 2011 global bonds in pesos in the international capital markets for an amount of \$1,250,000, destined to the general investments plan. The issuance, rated as investment level Baa3 by Moody's and BBB- by Fitch Ratings, was placed at a yield of 8.5% expiring on February 1, 2021 and a coupon of 8.375%.

(***) Full disbursement of resources from credit type AB subscribed on December 29, 2011 for a total amount of USD349.

(****) Hidronorte's debt for USD5 million is no longer listed due to the sale of shares in that company.

Covenants regarding loans

1. Bank of Tokyo Mitsubishi and Banco Bilbao Vizcaya Argentaria Tokyo with guarantee from Japan Bank for International Cooperation JBIC:

- (Ratio debt / Ebitda) EPM shall not allow that the Total Financial Debt / Ebitda index exceeds from 2.9 to 1.
- (Ratio debt / capital) EPM shall not allow that the total long term financial debt / capital index to exceed 1.5 to 1.

2. Inter-American Development Bank "BID"

- Ratio total debt / Ebitda of EPM Group shall be less or equal to 3.5.
- Ratio long term debt / assets of EPM Group shall not exceed 1.5 times its assets.

3. International Financial Corporation - IFC

- Ratio total debt / Ebitda of EPM must be lower or equal to 3.5 times.
- Ratio interest hedging must be greater than 3 times.

4. Syndicated credit EPM Telecomunicaciones S. A. E.S.P

- Leverage ratio no greater than 3.0
- Ebitda to interest ratio no less than 2.5

5. Credit EGGSA with Citibank

- Ratio total debt / Ebitda must be lower or equal to 5 times.
- Ratio Ebitda / financial expenses must be greater than 3 times.

At December 31, 2012 and 2011, EPM Group was in compliance with those covenants.

Detail of expirations of non-current financial obligations per year is as follows:

Year	US dollars (thousands)	Quetzals (thousands)	Colombian pesos (thousands)	Equivalent in pesos (thousands)
2014	468,443	1,055	289,272	758,770
2015	282,257	1,055	251,065	534,377
2016	247,603	37,291	361,681	646,576
2017	147,405	37,291	137,114	321,810
2018 forward	1,912,726	182,320	2,960,360	5,055,406
Total	3,058,434	259,012	3,999,492	7,316,939

Note 21 Hedging operations

At December 31, the balance of credit hedging operations was as follows:

		2012	2011
Obligations in derivative contracts		254,893	261,548
Rights in derivative contracts (DB)		(179,182)	(202,618)
Current hedging operations		75,711	58,930
Obligations in derivative contracts		274,969	529,861
Rights in derivative contracts (DB)		(189,531)	(405,093)
Non-current hedging operations		85,438	124,768
Total hedging operations (*)		161,149	183,698

* Amounts in millions of Colombian pesos

(*) Detail of expirations of non-current hedging operations per year is as follows:

Year 2012	Contractual rights	Contractual obligations	Net
2014	92,812	(133,940)	(41,128)
2015	45,440	(56,755)	(11,315)
2016	51,278	(84,273)	(32,995)
Total	189,530	(274,968)	(85,438)

Amounts in millions of Colombian pesos

Note 22 Accounts payable

At December 31, the balance of accounts payable is as follows:

		2012	2011
Acquisition of domestic goods and services		680,303	874,386
Acquisition of foreign goods and services		314,763	405,834
Creditors	(*)	373,318	352,207
Interests payable		187,048	194,080
Other accounts payable		36,391	39,232
Current accounts payable		1,591,823	1,865,739
Acquisition of domestic goods and services	(*)	16,205	50,000
Acquisition of foreign goods and services		-	15,630
Other accounts payable		96,395	135,101
Non-current accounts payable		112,600	200,731
Total accounts payable		1,704,423	2,066,470

Amounts in millions of Colombian pesos

(*)The Municipality of Medellín, upon prior authorization by the Municipal Council, incorporated in Agreement 53 of 2010 (which sets forth the program forgivable loans for graduate education tuition and maintenance of young people from socioeconomic levels 1, 2 and 3) extraordinary surplus receivable from EPM for \$150,000. The Agreement provides that those resources are payable in three installments of \$50,000 each for the periods 2011, 2012 y 2013.

Note 23 Taxes, liens and encumbrances payable

At December 31, the balance of taxes, liens and encumbrances payable comprised the following:

		2012	2011
Income tax	(1)	398,352	346,001
Tax on equity	(2)	145,952	161,775
Income withholdings		57,993	56,782
Tax on sales		21,151	25,565
Industry and commerce tax		39,697	39,601
Other taxes, contributions and charges payable		59,901	47,675
Current taxes, contributions and charges payable		723,046	677,399
Tax on equity	(2)	152,141	285,365
Tax on sales for temporary imports	(3)	20,663	38,239
Non-current taxes, contributions and charges payable		172,804	323,604
Total taxes, contributions and charges payable		895,850	1,001,003

Amounts in millions of Colombian pesos

- (1) Income tax: applicable tax provision in force determine the following:
- Par value rate on income tax is of 33% for the Parent Company and domestic subsidiaries, except for Orbitel Servicios Internacionales S. A (OSI), which is a company located in a Free Zone and is subject to a par value rate for taxes of 15%. For subsidiaries in Guatemala, tax is determined by the Optional Regime (rate of 31% on taxable income determine on the basis of net income) or by the general regime (rate of 5% on gross income and 10% for capital gains); for subsidiaries in El Salvador the rate is 30% for companies with taxable income greater than USD150,000 and 25% for those not exceeding such value; and the tax rate for subsidiaries in Panamá is 30%.
 - Residential public utility companies are not subject to the presumptive income system determined based on the net taxable income of the immediately prior year. All other companies do apply such system.

- During 2012, EPM had transactions with its related parties overseas, which compels the company to meet the regulations for transfer pricing; similarly, UNE and OSI held transactions with their related parties overseas. For that reason, the aforementioned companies of the Group are compelled to prepare a transfer pricing study and the individual reporting statement. In the year 2012, Act 52 was issued in Panama, containing obligations in terms of transfer prices applicable to transactions with related parties.
- The EPM Group uses the tax deduction called "special deduction for investments in productive fixed assets", equivalent to 40% of the investments made during the taxable year. This benefit continues for the Parent Company by virtue of the legal stability contract subscribed with the National Government in the year 2008. Such benefit involves the condition to apply the straight line depreciation method on assets subject to this deduction; if those assets are sold or no longer used in the income generating activity before the completion of their useful economic life, it will be compulsory for the company to reimburse the value of the deduction in proportion to the remaining useful life of the asset in the income tax return of the taxable period in which the event takes place. This benefit is transferred to the shareholders by means of increase in non-taxable dividends.

Details of taxable income for the Corporate Group at December 31 are as follows:

		2012	2011
	Profits before income tax provision	2,317,274	2,198,474
Less	Profits before income tax provision in Guatemala ISR 5%(*)	5,627	-
Plus	Items increasing income		
	Non-deductible expense on tax on equity	16,820	15,728
	Valuation of investments by straight line method	78,617	-
	Other non-deductible expenses	457,640	140,349
	Increase of provisions for non-deductibles	174,015	224,438
	Dividends received from companies where control is held	435,677	-
	Costs and expenses from previous periods	31,593	8,852
	Total items increasing net taxable income	1,194,362	389,367
Less	Items decreasing income		
	Special 40% deduction on investments in the year	61,484	71,939
	Excess of depreciation property, plant and equipment (**)	484,230	408,033
	Non-taxable income	352,516	245,998
	Income not subject to income tax- dividends	231,226	133,404
	Deduction for investment in science technology/environmental	133,240	-
	Profits from appraisals of liquidity investments	135,424	-
	Total items decreasing net income	1,398,120	859,374
	Net ordinary income for the period	2,107,889	1,728,467
Less	Exempt income	53,778	42,508
	Taxable items and presumptive income offset	-	2,065
Plus	Especial net income	3,444	368
	Net taxable income	2,057,555	1,684,262

Considering the different income tax rates, the detail of liquidation of provision for the year 2012 is as follows:

	33%	31%	30%	15%	Total
Net taxable income	1,791,063	115,882	143,676	6,934	2,057,555
Provision for current income tax before discounts	635,683	35,923	43,102	1,040	715,748
Tax discounts-water and draining / withholdings overseas(***)	85,392	-	-	-	85,392
Provision for current income tax (1)	550,290	35,923	43,102	1,040	630,355
Tax on occasional gain	610				610
Net charge to income for deferred income tax	(4,626)		(2,953)		(7,579)
Income tax provision charge to income	546,274	35,923	40,149	1,040	623,386
(+) ISR 5% on taxable income (****)					5,627
Total income tax					629,013

The detail of liquidation of income tax provision for the year 2011 is as follows:

Net income	1,684,262
Income tax	
33% provision for current income tax before discounts	514,530
31% provision for current income tax before discounts	44,924
30% provision for current income tax before discounts	10,782
25% provision for current income tax before discounts	7,549
15% provision for current income tax before discounts	380
Tax discounts - water and draining (***)	51,570
Provision for current income tax	526,595
Tax on occasional gain	577
Net charge to income for deferred taxes	60,984
ISR 5% on taxable income	4,247
Provision for income tax charge to income	592,403

Amounts in millions of Colombian pesos

(*) This is excluded from net income clearance given that some subsidiaries in Guatemala pay taxes on 5% of their revenues rather than at the 31% rate on income tax.

(**) Excess of tax depreciation over accounting depreciation corresponds to the following: (i) use of different useful lives (quicker for taxation purposes), (ii) application of the depreciation method by reduction of balances and (iii) increase of the depreciation base by adding to the cost the historic inflation adjustments cost (2001-2006), given that these have been suspended from this date due to legal provisions.

(***) In Colombia, the deduction for investing in regional water and sewage companies is comprised in Article 104 of Act 788 of 2002 and equals to 40% of the capital actually paid in order to expand service coverage.

(****) Tax computed based on revenues.

Movements of deferred taxes during the year were as follows:

	2012	2011
Initial balance of deferred tax assets	228,467	201,639
Initial balance of deferred tax liabilities	(804,126)	(696,270)
Subtotal	(575,659)	(494,631)
Net adjustment on income for the period	7,579	(60,983)
Adjustment on deferred tax charged to previous years	27,594	(20,045)
End balance of deferred tax assets	337,587	228,467
End balance of deferred tax liabilities	(878,073)	(804,126)
Total deferred tax, net	(540,486)	(575,659)

Amounts in millions of Colombian pesos

Reconciliation between accounting equity and tax equity at December 31 is shown below:

		2012	2011
	Accounting equity	21,059,729	19,893,424
Less			
	Assets' reappraisal	(10,537,826)	(8,616,244)
	Adjustments on inflation, depreciation and tax amortization	(2,589,913)	(2,411,360)
	Excess of tax depreciation	(3,132,030)	(2,025,290)
	Income tax payable	(249,960)	(232,708)
	Credit deferred monetary correction, net	(70,963)	(84,331)
	Deferred tax - assets	(337,586)	(228,467)
		(16,918,278)	(13,598,401)
Plus			
	Tax inflation adjustments	4,383,764	3,888,118
	Deferred tax - liabilities	878,073	804,126
	Actuarial computation	88,907	114,894
	Provisions and contingencies	446,147	483,944
	Provision for property, plant and equipment	103,291	102,439
	Provision debts	247,649	136,797
	Provision investments	99,515	99,490
		6,247,346	5,629,808
	Net tax equity	10,388,797	11,924,831

- (1) This corresponds to accrual of tax on equity payable for the years 2013 and 2014.
- (2) Corresponds to VAT payable on temporary imports of goods.

On a general basis, income tax returns of the EPM Group for the years 2011 and 2010 are opened to review by tax authorities. Management of EPM and subsidiaries, as well as their legal advisors consider that the amounts recorded are sufficient and that it is not likely that liabilities arise in excess of those already recorded.

Legal stability contracts

EPM subscribed a legal stability contract in Colombia by virtue of Act 963 of 2005 (for the electric power generation business). The contract protects EPM against adverse tax changes and enables the company to use the rules that are favorable. The main legal stability provisions are as follows:

- Income tax rate of 33%.
- Tax on equity until 2010.
- Special 40% deduction on investment of real productive fixed assets (on legal stability contracts for the electric power generation activity).
- Special deduction for investments in environmental science and technology
- Other basic rules in determining income

The contract is in effect for a twenty-year (20) period as from June 2008.

New regulations

Tax bill and emergency measures in Colombia:

The main changes included by virtue of Act 1607 of 2012 are summarized as follows:

- **Income tax:** former income tax rate of 33% is modified and reduced to 25%, and a new tax is created called income tax for equality (CREE) at a rate of 9% for the years 2013 through 2015 and of 8% as from 2016. For taxpayers of CREE, it is established that they are released from contributions to SENA (2%), ICBF (3%) and healthcare (8,5%) for employees (new hires and employees) who earn up to 10 minimum monthly salaries in force.
- **Tax on occasional gains:** the rate of this tax has been decreased from 33% to 10% for legal entities and assimilated entities. This applies for sales of fixed assets owned by EPM for more than two (2) years. However, for lotteries, ruffles, bets and the sort, the tax rate remains 20%.
- **Tax on sales (VAT):**
 - * The existing rates are reduced to only three rates: 0%, 5% and 16%.
 - * Private surveillance services, temporary and integral cleaning and cafeteria services are charged with 16% VAT, applied to the AIU margin, which for no reason may be less than 10% of the value of the contract.
 - * Exchange operations for purchase and sale of foreign currency, as well as Exchange operations on financial derivatives are now exempt from VAT.

These changes in VAT are applicable to contracts granted from January 1, 2013. Contracts currently in execution or which have been granted shall remain with the rate and VAT taxable base in effect at the moment in which they were granted. When those contracts are modified or extended, the corresponding regulatory changes mentioned above shall be applied.

- **New national tax on consumption:** as of January 1, 2013 the new national tax on consumption is created and applicable to rendering of mobile telephone services (4%), some vehicles (8% and 16%) and to food and drinks prepared in restaurants, coffee shops, self-service shops, ice-cream parlors, fruit shops, pastry shops and bakeries (8%).

Tax reform in El Salvador

The main changes brought about with the reform to the Law and ISR approved by means of Decree 957 of December 2011 are as follows:

- Change to the current tax rate from 25% to 30% for companies with profits greater or equal to USD150.000; a 25% rate is applicable for profits below that amount.
- Withholdings on dividends: dividends paid or credited to partners or shareholders are subject to 5% withholding. They were formerly exempt from ISR and paid when declared.

Tax reform in Guatemala:

The main changes brought about with the income tax reform (Decree 10-2012), the effects of which are applicable as from January 1, 2013, are as follows:

- Change of the rate to determine the taxable income for profitable activities as follows:
Taxable year 2013: 31%
Taxable year 2014: 28%
Taxable year 2015: 25%
- Change to the rate to determine taxes on income from capital, gains, and income losses:
 - Capital income from movable and real estate: 10% rate (formerly taxed under the general scheme at a rate of 5% and under the optional scheme at a rate of 31%).
 - Capital gains: 10% rate (formerly taxed under the general scheme at a rate of 10% and under the optional scheme at a rate of 31%).
 - Distribution of dividends, profits and yields: 5% rate. These were not subject to tax in the former scheme.

Note 24 Labor obligations

At December 31, the balance of labor obligations was as follows:

		2012	2011
Severance payments	(1)	47,192	44,519
Vacations premiums	(2)	31,654	29,633
Vacations		24,270	20,802
Interests on severance payments		9,682	9,240
Payroll payable		7,637	7,813
Other premiums		5,344	7,254
Other salaries and social benefits		6,813	6,689
Current labor obligations		132,592	125,950
Severance payments	(1)	35,672	34,912
Other premiums	(3)	28,164	25,288
Compensations		7,313	7,179
Other salaries and social benefits		13	-
Non-current labor obligations		71,162	67,379
Total labor obligations		203,754	193,329

Amounts in millions of Colombian pesos

- (1) The current portion corresponds to severance payments for employees that shall be transferred to the severance funds before February 14, 2013. The non-current portion corresponds to severance payments for employees under the former scheme.
- (2) This corresponds to the Premium granted to employees of EPM and UNE EPM Telecomunicaciones S. A. who enjoy vacations equivalent to 32 days of ordinary salary per each year of service and proportional to each fraction of a year. The special premium in July is considered as a liquidation factor as from January 1, 2011.
- (3) It corresponds to the estimate, present value, of future payments on account of seniority premium of official employees at EPM and UNE EPM Telecomunicaciones S. A. They are entitled to this premium every 5 years of service in the company 5, 10, 15, 20, 25, 30, 35, 40 and 45 years, whether continuous or discontinuous. The employee receives 12, 17, 23, 30, 35 and 40 days of its basic salary, respectively.

Note 25 Pension obligations and pension commutation

At December 31, the balance of pension obligations and pension commutation was comprised as follows:

	2012	2011
Pension bonds	81,293	4,340
Retirement pensions	36,673	54,752
Pension commutation	11,408	9,848
Current pension obligations and pension commutation	129,374	68,940
Retirement pensions	735,586	722,439
Pension bonds	354,228	416,279
Pension commutation	81,651	86,292
Non-current pension obligations and pension commutation	1,171,465	1,225,010
Total pension obligations and pension commutation (*)	1,300,839	1,293,950

Amounts in millions of Colombian pesos

(*) Movement of actuarial computation was as follows:

	Actuarial computation	Balance to be amortized	Net liability
Balance at December 31, 2010	1,353,758	(90,705)	1,263,053
Adjustment on actuarial computation	116,952	(116,952)	-
Amounts paid for pension liabilities	(98,051)	-	(98,051)
Charge to income - amortization	-	129,178	129,178
Net movement pensions payable	(230)	-	(230)
Balance at December, 2011	1,372,429	(78,479)	1,293,950
Adjustment on actuarial computation	99,375	(99,375)	-
Amounts paid for pension liabilities	(92,901)	-	(97,596)
Charge to income - amortization	-	109,786	109,786
Other charges to income	(9,996)	-	(5,301)
Balance at December, 2012	1,368,907	(68,068)	1,300,839

Amounts in millions of Colombian pesos

The main factors in actuarial computations on account of retirement pensions for the years ended December 31, were as follows:

	2012	2011
Number of people covered	6.811	6.804
Technical interest rate	4.80%	4.80%
Pension readjustment rate *	3.26%	3.53%

(*) This rate corresponds to weighted average inflation of years 2009, 2010 and 2011 as follows: 3 points for 2011, 2 points for 2010 and 1 point for 2009, in accordance with the provisions of Item 1 in Article 1 of Decree 2783 of December 20, 2001.

Note 26 Accrued liabilities

The balance of accrued liabilities at December 31 was as follows:

		2012	2011
Provision for contingencies		3,572	2,207
Other provisions		15,076	6,747
Current accrued liabilities		18,648	8,954
Provision for contingencies	(*)	209,766	188,800
Provision for insurance and reinsurance		154	270
Other provisions		86,001	136,929
Non-current accrued liabilities		295,921	325,999
Total accrued liabilities		314,569	334,953

Amounts in millions of Colombian pesos

(*) This includes provisions for civil and administrative litigations, labor lawsuits, tax proceedings and other contingencies. The main proceedings rated as probable were the following:

Third party	Claim	2012	2011
Civil and administrative			
Metro de Medellín	Discussion on the remuneration of EPM networks for using the Metro (Transportation System).	-	17,278
Manuel Márquez y otros	Riogrande II Project - Compensation to the community for not having acquired mining fields.	10,065	10,065
Ruiz Betancur José Alberto	Damages for primary electric power lines crossing close to a house in Copacabana.	7,269	7,269
Pacific Stratus Energy Colombia	Terminate mutually the contract corresponding to the commercial offer presented by EPM to Pacific Stratus Energy Colombia for USD3,500,000	6,189	-
Concretos y Asfaltos S.A Conasfaltos S.A	Compensation from damages in the sub-management of Projects in water of EPM. USD3,298,054	5,832	-
Conasfaltos S.A	Compensation from damages in the sub-management of Projects in EPM. USD3,298,054	29,218	5,898
Fiscales			
Municipality of Tuta	Discussion on the industry and commerce tax for the commercialization activity in the municipality for the generator.	21,702	11,928
Municipality of Yumbo	Discussion on the industry and commerce tax for the commercialization activity in the municipality for the generator.	8,726	4,942
Municipality of Caloto	Discussion on the industry and commerce tax for the commercialization activity in the municipality for the generator.	3,704	2,103

Note 27 Other liabilities

At December 31, the balance of other liabilities was the following:

		2012	2011
Collections in favor of third parties	(1)		
Sale of public utilities and telecommunications		24,210	27,915
Taxes		13,130	18,314
Public lighting		11,995	13,374
Sales on behalf of third parties		11,087	11,887
Collections of third party accounts receivable		9,259	15,666
Other collections in favor of third parties		12,724	8,249
Income received in advance			
Sales		39,327	22,405
Sale of public utilities and telecommunications		30,457	27,434
Leasing		16,203	18,311
Other income received in advance		12,749	15,682
Deferred taxes	(2)	779	1,088
Other current liabilities		181,920	180,325
Deferred taxes	(2)	877,295	803,038
Other liabilities		11,670	3,198
Other non-current liabilities		888,965	806,236
Total other liabilities		1,070,885	986,561

Amounts in millions of Colombian pesos

- (1) Agreements for collection of accounts receivable with entities such as Municipality of Medellín, Empresas Varias de Medellín E.S.P., Publicar S. A., Telmex S. A., Comcel S. A. and Colombia Móvil S. A. E.S.P., among others.
- (2) Deferred tax is of credit nature if the difference giving rise to it involved payment of a lower tax in the year.

Note 28 Reserves

At December 31, the balance of reserves was as follows:

		2012	2011
Legal reserves		2,998,040	2,439,435
Occasional reserves		574,008	1,117,368
Equity funds	(1)	7,591	9,023
Other reserves		-	4,188
Total reserves	(2)	3,579,639	3,570,014

* Amounts in millions of Colombian pesos

(1) At December 31, the equity funds showed the following balances:

	2012	2011
Self-insurance fund	3,491	3,491
Financing Plan	3,108	3,108
Housing fund	992	992
Other funds	-	1,432
Total equity funds	7,591	9,023

Amounts in millions of Colombian pesos

(2) The Boards of Directors or General Shareholders' Meetings approve the following each year upon presentation of the financial statements at period end:

- Create and release reserves to comply with Article 130 of the Tax Code.
- Create and release reserves to comply with Decree 2336 of 1995 for the profits from the application of the equity participation method.
- Create reserves for future investments.

Note 29 Surplus

In 2012, ordinary surplus for \$458,095 and extraordinary surplus for \$331,746 were accrued, in accordance with agreements 05 and 07 of May 2 and 30, 2012 of the Council of Medellín. The total surplus paid during the year 2012 amounted to \$839,841 (2011 - \$797,500).

Note 30 Memorandum accounts

At December 31, memorandum accounts were comprised as follows:

		2012	2011
Contingent rights	(1)	850,579	831,513
Tax debt memorandum accounts	(2)	7,035,921	6,835,939
Control debt memorandum accounts	(3)	682,199	879,208
Debt memorandum accounts		8,568,699	8,546,660
Contingent responsibilities	(4)	733,198	1,423,087
Tax credit memorandum accounts	(5)	18,527,797	3,604,765
Control credit memorandum accounts	(6)	718,399	1,000,689
Debit memorandum accounts		19,979,394	6,028,541
Total debit memorandum accounts		28,548,093	14,575,201

Amounts in millions of Colombian pesos

(1) Contingent rights correspond to civil proceedings in which EPM Group companies sue third parties, generally contractors, who breached their contractual obligations. These have a high probability of having a favorable outcome.

- (2) Tax debit memorandum accounts correspond to differences between accounting and tax regulations. They mainly include the difference in depreciations, shares and contributions; in general, differences in assets, costs and deductions accounts.
- (3) This account records transactions that EPM Group has with third parties or for internal control, without allowing its nature to affect the financial position. This account includes assets fully depreciated, obsolete inventories, and others. It corresponds to rights in favor of the Company.

At December 31, 2012, it includes written-off accounts receivable amounting to \$158,186 (2011 -\$46,500), Autoseguros Fund amounting to \$61,828 (2011 \$52,564), and loans and payments from the EPM Housing Fund through Sintraemsdes and Sinproepm unions amounting to \$4,642 (2011 \$33,267).

- (4) Contingent responsibilities correspond to civil proceedings in which EPM Group companies sue third parties, generally contractors, who breached their contractual obligations. These have a high probability of having a favorable outcome. The main proceedings in contingent credit memorandum accounts are as follows:

Third party	Claim	2012	2011
Compañía Minera La Cuelga	Compensation for all economic damages incurred in by Compañía Minera La Cuelga, which gave rise from the works of execution, reservoir filling and commissioning of Porce III hydroelectric project.	34,898	34,898
Css Constructores S. A.	Compensation for damages caused by the loss of the right the Consortium had to be tenderer of the public works contract in the tender process PC-009013 - Construction and works associated to Porce III hydroelectric project.	28,475	28,475
Municipality of Bello	Annulment of resolution by means of which an industrial establishment is enrolled.	-	84,995
CREG	A serious and unrecoverable breach was declared, and the enforcement of Porce IV hydroelectric project profits was ordered.	-	27,042
Uribe Restrepo Luis Fernando	EPM breached the contract signed with Grodco, tender No. PC-2010-0191 - Porce IV	-	25,000

- By 2012, there is not collateral to back the debt of subsidiary UNE EPM Bogotá S. A. due to its payment:

Company	Concept	2012	2011	Term	Maturity
Public debt bonds	UNE EPM Bogotá S.A.	-	77.196	10 years	2012
Total collaterals		-	77.196		

Amounts in millions of Colombian pesos

- Contingent responsibilities include counter-guarantee to the National Government related to loans granted by the IDB. The guarantee corresponds to the operating income pledge, equivalent to 120% of the service on account of the following semester debt of IDB credits.
- (5) Tax credit memorandum accounts are comprised by the differences between accounting and tax regulations. They refer especially to the registration of investment reappraisals, deferred monetary correction and accumulated depreciation of property, plant and equipment.
- (6) Control credit memorandum accounts are comprised by commitments or contracts related to potential liabilities that may affect the financial structure of the economic entity.

They include the following credits to be disbursed in 2013:

- Inter-American Development Bank (IDB) amounting to USD351,4 for the Medellín River Sanitation Program –a project of the Bello wastewater treatment plant.
- *Agencia Francesa de Desarrollo (AFD)* amounting to USD338,2 for growth and expansion projects in energy generation, transmission and distribution businesses.

Statement of financial, economic, social and environmental activity

Note 31 Operating revenues, net

At December 31, operating revenues were comprised as follows:

		2012	2011
Services rendering			
Energy service	(1)	9,009,364	8,282,088
Telecommunications service		1,826,778	1,730,148
Fuel gas service	(2)	441,979	399,531
Wastewater service	(3)	354,827	339,092
Water service	(3)	330,937	305,986
Communications service		290,680	236,942
Insurance and reinsurance service		4,290	4,117
Computer service		3,154	6,584
Cleaning service		2,682	2,492
Other services	(4)	258,886	216,122
Total services rendering		12,523,577	11,523,102
Sale of goods		86,508	94,443
Total services rendering and sales of goods		12,610,085	11,617,545
Discounts			
Sales of services			
Energy service		(22,767)	(20,981)
Water service		(371)	(256)
Wastewater service		(121)	(60)
Telecommunications service		(1)	(670)
Other services		-	(15)
Total sale of services		(23,260)	(21,982)
In the sales of goods		(209)	(130)
Total discounts		(23,469)	(22,112)
Total operating income		12,586,616	11,595,433

Amounts in millions of Colombian pesos

- (1) Energy services include generation, transmission, distribution and commercialization services.
- (2) The increase corresponds mainly to the increase in consumptions and the higher rate given by the higher cost of gas during the year.
- (3) The increase corresponds to the increase in the number of users and the increase rate.
- (4) It primarily includes the sale of grocery services provided by EPM to its employees and their families.

Note 32 Services rendering cost

The costs on account of services rendering during the period were:

		2012	2011
Cost of goods and public utilities – Sales	(1)	5,222,460	4,753,849
Personnel cost	(2)	812,228	690,621
Orders and contracts on account of other services		421,659	425,545
Maintenance and repair		353,564	334,376
Materials and operating costs		119,704	106,024
Licenses, contributions and royalties		158,873	135,447
General costs		185,496	232,056
Leases		113,212	76,827
Direct supplies		92,969	24,811
Costs for the sale of goods		92,544	82,464
Insurances		58,542	51,741
Fees		51,929	54,005
Public utilities		51,077	33,380
Taxes		46,435	33,720
Cost for services rendering losses		3,310	2,777
Total services rendering cost		7,784,002	7,037,643

Amounts in millions of Colombian pesos

(1) This increase is explained as follows:

- Generation: due to greater charges on account of the use of networks, and more energy purchases due to higher stock prices and more amounts sold.
- Transmission and distribution: due to higher costs in external STR on account of the ADD application, and more energy consolidated purchases.
- Gas: due to more amounts commercialized, higher cost, and more facilities and connections.

(2) The increase corresponds to the salary increase in EPM and UNE EPM Telecomunicaciones S.A., equivalent to CIP + 1.00%, and more affiliations as from the second semester of 2011.

Note 33 Depreciations, provisions and amortization

The amount corresponding to depreciations, provisions and amortizations is comprised as follows:

	2012	2011
Depreciation		
Networks and lines depreciation	341,275	255,851
Plants, pipelines and tunnels depreciation	269,457	251,515
Communication and computer equipment depreciation	107,798	43,853
Buildings depreciation	44,284	69,629
Machinery and equipment depreciation	26,323	48,545
Other depreciations	13,780	12,653
Total depreciation cost	802,917	682,046
Amortization cost		
Intangible assets amortization	191,613	80,439
Goods delivered to third parties amortization	70,718	75,464
Improvements in others' property amortization	17,859	13,945
Studies and projects	11,022	2,632
Future pensions actuarial computation amortization	-	-
Total amortization cost	291,212	172,480
Total depreciation, provisions and amortization cost	1,094,129	854,526
Depreciation		
Communications and computer equipment depreciation	16,269	16,399
Buildings depreciation	5,087	5,335
Furniture, mixtures, and office equipment depreciation	4,859	5,338
Machinery and equipment depreciation	4,034	2,337
Transport equipment depreciation	1,980	2,089
Other depreciation	1,004	649
Total depreciation expense	33,233	32,147
Actuarial computation		
Retirement pension updating	78,478	91,782
Bond quotas and bonds updating	22,038	24,800
Pension commutation updating	4,889	9,244
Pension quotas updating	852	218
Future pension updating	3,529	3,134
Total actuarial computation expense	109,786	129,178
Amortization		
Intangible assets amortization	15,741	19,829
Goods delivered to third parties	370	661
Total amortization expense	16,111	20,490
Provisions		
Accounts receivable provision	83,515	113,862
Property, plant and equipment provision	30,392	26,162
Inventories provision	4,620	1,796
Industry and Commerce tax provision	15	35,851
Other provisions	9,511	23,403
Total provisions expense	128,053	201,074
Total depreciation, provisions and amortization expense	287,183	382,889
Total depreciation, provisions and amortization	1,381,312	1,237,415

Amounts in millions of Colombian pesos

Note 34 Administrative expenses

The administrative expenses balance during the period was comprised as follows:

		2012	2011
Personnel expenses			
Salaries and wages		319,539	301,277
Effective contributions		56,963	49,998
Attributable contributions		43,694	41,527
Payroll contributions		9,262	11,050
Total personnel expenses	(1)	429,458	403,852
General expenses			
Commissions, fees and services		87,316	70,791
Studies and projects		48,125	8,367
Leases		47,923	46,758
Intangible expenses	(2)	46,027	48,492
Maintenance		40,261	37,809
Advertisement		22,729	25,335
Promotion and disclosure		19,273	24,928
Monitoring and security		11,017	10,576
Public utilities		10,586	11,423
Materials and supplies		8,276	5,412
General insurances		7,774	8,345
Communications and transport		5,281	5,950
Cleaning elements, laundry and cafeteria		3,946	5,997
Other administrative expenses		50,793	41,253
Total general expenses		409,327	351,436
Industry and Commerce tax		52,270	21,730
Financial movements lien		44,659	44,412
Supervision and audit quota		26,449	22,572
Contributions		20,358	22,080
Equity tax	(3)	16,511	15,728
Other taxes		26,599	26,600
Total taxes, liens and encumbrances		186,846	153,122
Total administrative expenses		1,025,631	908,410

Amounts in millions of Colombian pesos

- (1) The increase is explained by the salary increase in 2012.
- (2) Amount on account of administrative licenses and software used in supporting activities.
- (3) It corresponds to the equity tax accounted for by companies not having balance in the "Revaluation of Equity" account at December 31, 2010 (see note 23).

Note 35 Non-operating revenues

Non-operating revenues during the period were comprised as follows:

	2012	2011
Financial revenue		
Accounts receivable interests	63,074	55,138
Interests in arrears	28,635	30,211
Interests on financial institutions deposits	42,529	37,447
Dividends and participations	49,687	54,307
Yields on administrative deposits	18,539	53,217
Profit from the appraisal of liquidity administrative investments in debt securities	131,876	58,105
Other financial revenue	90,203	38,226
Exchange difference adjustment	254,498	130,605
Other ordinary revenue	32,184	39,216
Extraordinary revenue		
Recoveries	77,027	61,068
Uses	11,364	5,881
Compensations	12,513	24,229
Other extraordinary revenue	42,926	17,341
Adjustment from previous periods	(6,069)	5,727
Total non-operating income	848,986	610,718

Amounts in millions of Colombian pesos

Note 36 Non-operating expenses

Non-operating expenses during the period are as follows:

		2012	2011
Interests			
Domestic public credit transactions		212,880	216,120
Foreign public credit transactions		208,091	164,775
Other interests		102,922	114,135
Commissions		19,604	27,029
Exchange difference adjustment		116,009	117,742
Financial expenses			
Securities administration and issuance		935	6,669
Discount on financing bonds and securities		2,868	2,783
Loss for the appraisal of liquidity administrative investments		25,769	11,387
Other financial expenses		10,929	8,693
Other ordinary expenses		23,798	27,579
Extraordinary expenses	(1)	48,676	42,772
Equity investment provision		3,390	11,226
Tax obligations provision		3,317	158
Contingencies provision			
Litigations	(2)	111,010	58,841
Other provisions		6,055	1,042
Intangible expenses amortization		51,938	34,636
Adjustment from previous periods		(20,808)	(21,378)
Total non-operating expenses		927,383	824,209

Amounts in millions of Colombian pesos

- (1) It corresponds to the contribution to Fundación EPM, amounting to \$14,147 (2011 - \$7,950), for the following programs: Library Network, Spaces for Culture, Los Deseos Park, House of Music, and Finding Christmas, among others.
- (2) It corresponds to non-probable litigations provision. See Note 26.

Note 37 Minority interests

At December 31, the minority interest for each of EPM Group subsidiaries was comprised as follows:

	2012		2011	
	Percentage	Amount	Percentage	Amount
Electrificadora de Santander S. A. E.S.P. (ESSA)	26.10%	288,952	26.23%	345,388
Central Hidroeléctrica de Caldas S. A. E.S.P. (CHEC)	19.89%	163,574	19.89%	153,939
Elektra Noreste S. A. (ENSA)	48.84%	135,177	48.84%	137,040
Edatel S. A. E.S.P.	44.00%	123,636	44.00%	130,084
Empresa Eléctrica de Guatemala S. A. (EEGSA)	19.09%	77,606	19.09%	91,677
Empresa de Telecomunicaciones de Pereira S. A. E.S.P. (ETP)	43.86%	75,022	43.86%	72,595
Centrales Eléctricas del Norte de Santander S. A. E.S.P. (CENS)	8.48%	38,597	8.48%	70,163
Transportista Eléctrica Centroamericana S. A. (TRELEC)	19.09%	38,833	19.09%	19,044
Generadores Hidroeléctricos S. A. (Genhidro)	-	-	49.00%	15,987
Aguas de Urabá S. A. E.S.P.	36.58%	15,455	36.58%	15,791
Distribuidora de Electricidad del Sur (Delsur)	13.59%	10,868	13.59%	12,027
Comercializadora Eléctrica de Guatemala S. A. (COMEGSA)	19.09%	8,952	19.09%	11,187
Empresa de Energía del Quindío S. A. E.S.P. (EDEQ)	7.15%	10,715	7.15%	8,404
Aguas de Malambo S. A. E.S.P.	21.67%	3,069	52.23%	4,522
Regional de Occidente S. A. E.S.P.	37.88%	4,286	37.88%	4,085
EPM Ituango S. A. E.S.P.	0.44%	5,549	0.44%	3,481
Hidroecológica del Teribe S. A. (HET)	2.91%	2,648	3.37%	2,949
Enérgica S. A. (ENÉRGICA)	19.09%	1,449	19.09%	2,703
Empresas Públicas de Oriente S. A. E.S.P.	41.67%	2,369	41.67%	2,350
Inmobiliaria y Desarrolladora Empresarial de América S. A. (IDEAMSA)	19.09%	4,691	19.09%	2,092
Empresa de Aguas del Oriente Antioqueño S. A. E.S.P.	43.98%	1,228	43.98%	1,101
Crediegsa S. A. (CREDIEGSA)	19.09%	1,309	19.09%	600
CENS Inversiones S. A.	0.53%	535	-	-
Other (*)	-	479	-	403
Total interés minoritario		1,014,999		1,107,612

Amounts in millions of Colombian pesos

(*) It includes the minority interest of Emtelco S. A., Aguas Nacionales S. A. E.S.P., EPM Inversiones S. A, and UNE EPM Telecomunicaciones S. A.

Note 38 Transactions with related parties

At December 31, transactions with related parties were comprised as follows:

Company	December 2012			December 2011		
	Accounts receivable	Accounts payable	Other obligations	Accounts receivable	Accounts payable	Other obligations
Área Metropolitana del Valle de Aburra	2,593	512	-	3,997	3,924	-
Caja Nacional de Previsión Social - En Liquidación	8,815	-	-	9,185	35	-
Corporación Autónoma Regional de las Cuencas de los Ríos Rionegro y Nare	-	2,603	-	2	2,393	-
Corporación Autónoma Regional del Centro de Antioquia	-	4,845	-	-	4,127	-
Government of Antioquia	4,667	5	3	14,962	16,761	7,626
Dirección de Impuestos y Aduanas Nacionales	-	143,829	813	14,669	636,617	1,921
Empresa de Energía del Casanare - Enerca S.A. E.S.P.	4,063	186	-	446	346	-
Generadora y Comercializadora De Energía Del Caribe S.A. E.S.P.	10,172	-	-	6,886	3,591	-
Transportadora de Gas Internacional S.A. E.S.P.	-	5,798	-	-	5,307	-
Ecopetrol S. A.	175	3,760	27	2,190	13,257	27
Electrificadora del Huila S. A. -E.S.P.	978	451	-	2,214	738	-
Electrificadora del Meta S. A. -E.S.P.	12,012	606	-	9,401	337	-
Electrificadora del Tolima S. A. -E.S.P. - En Liquidación	1,180	-	24	1,838	-	-
Empresa de Energía Eléctrica de Arauca	1,646	100	-	885	167	-
Empresas Municipales de Cali E.I.C.E E.S.P.	7,733	742	-	17,463	1,962	386
Fundación Empresas Públicas de Medellín	4,351	43	-	4,553	90	-
Isagen S.A.	4,715	8,041	-	6,905	9,866	-
Ministry of Mines and Energy	69,586	-	-	63,102	4,620	2,381
Municipality of Amalfi	511	922	34	5	679	55
Municipality of Arboletes	1,176	40	-	67	56	41
Municipality of Barbosa - Antioquia	1,051	494	-	74	524	75
Municipality of Bello	69	2,268	-	366	2,846	1,043
Municipality of Envigado	113	1,429	-	1,597	1,596	509
Municipality of Itagüí	898	1,028	6	1,597	1,223	1,047
Municipality of Medellín	15,733	59,920	1,980	25,145	126,356	5,756
Municipality of Necoclí	2,401	79	1	458	61	37
Municipality of San Rafael	491	885	280	414	631	292
Municipality of Turbo	1,440	219	-	1,187	239	217
Municipality of Yolombó	867	375	-	574	315	18
Universidad de Antioquia	6,479	1,070	1,431	7,802	1,734	1,647
Other	27,447	19,006	83	172,529	281,727	32,987
TOTAL	191,362	259,256	4,682	370,513	1,122,125	56,065

Amounts in millions of Colombian pesos

(Free translation from the original in Spanish)

Company	December 2012			December 2011		
	Income from the sale of goods and services	Other income	Costs and expenses	Income from the sale of goods and services	Other income	Costs and expenses
Área Metropolitana del Valle de Aburra	1	48	5,903	-	151	5,648
Centrales Eléctricas de Nariño S. A. ESP	2,351	-	5,940	3,562	-	6,450
Comisión de Regulación de Energía y Gas	-	-	3,223	4	-	4,603
Corporación Autónoma Regional del Centro de Antioquia	-	-	20,835	319	-	10,339
Government of Antioquia	2,474	-	441	3,457	40	694
Empresa de Energía de Pereira S. A. E.S.P.	1,988	-	1,346	11,190	78	2,856
Empresa de Energía del Casanare - Enerca S. A. E.S.P.	19,311	-	2,055	2,125	-	2,115
Empresa Distribuidora del Pacífico S. A. E.S.P.	632	-	2,879	710	-	3,413
Generadora Y Comercializadora De Energia Del Caribe S. A. E.S.P.	58,093	-	-	59,390	1	-
Transportadora de Gas Internacional S. A. E.S.P.	17	-	55,589	6	-	48,538
XM Compañía de Expertos en Mercados S. A. E.S.P.	-	-	12,039	19,433	-	11,667
Ecopetrol S. A.	807	676	105,354	16,610	4	92,674
Electricadora Del Huila S. A. -E.S.P.	5,793	-	4,982	7,299	-	5,158
Electricadora Del Meta S. A. -E.S.P.	37,327	-	2,473	33,888	-	3,759
Empresa de Energía de Cundinamarca S. A. -E.S.P	2,216	-	2,818	4,111	-	2,787
Empresa de Energía Eléctrica de Arauca	7,396	-	1,373	7,708	57	1,163
Empresas Municipales de Cali E.I.C.E E.S.P.	51,536	10	5,189	87,858	30	9,863
Empresas Varias de Medellín	6,153	-	26	4,939	8	32
Instituto Colombiano de Bienestar Familiar	138	-	3,392	332	-	11,197
Isagen S. A.	37,892	22	42,394	31,784	21,182	40,199
Municipality of Amalfi	9	14	3,200	59	11	1,507
Municipality of Bello	1,055	-	2,825	2,214	7	3,832
Municipality of Carolina Del Príncipe	9	5	2,797	33	18	1,605
Municipality of Itagüí	1,570	140	1,794	5,257	-	2,820
Municipality of Medellín	10,008	223	57,794	22,295	564	75,638
Municipality of Santa Rosa de Osos	52	-	2,809	306	-	1,877
Superintendencia de Servicios Públicos Domiciliarios	-	-	9,624	-	53	13,616
Universidad de Antioquia	3,404	17	3,464	6,299	288	5,703
Other	18,104	1,151	51,937	265,175	76,940	390,254
Total general	268,336	2,306	414,495	596,363	99,432	760,007

Amounts in millions of Colombian pesos



Independent Accountants' Report

(Free translation from the original in Spanish)

To the Board of Directors of
Empresas Públicas de Medellín E. S. P.

March 5, 2013

We have audited the consolidated balance sheets of Empresas Públicas de Medellín E.S.P. at December 2012 and 2011 and the related consolidated statements of financial, economic, social and environmental activities, of changes in equity and of cash flows for the years then ended, as well as a summary of the main accounting policies set forth in Note 5 and other explanatory notes.

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with the accounting principles generally accepted in Colombia for entities under the supervision of the Superintendency of Household Public Utility Services and with the provisions of the Colombian General Accountants' Office. Such responsibility includes: designing, implementing and maintaining relevant internal control to the preparation and fair presentation of the financial statements that are free of material misstatements whether due to fraud or error; selecting and applying the appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on such consolidated financial statements based on our audits. We performed our work in accordance with the auditing standards generally accepted in Colombia. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit of financial statements involves, among others, performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the independent accountant considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as assessing the overall presentation of the financial statements. We believe that the audit evidence we obtained provides a reasonable basis for the opinion on the consolidated financial statements we express in the following paragraph.

*PricewaterhouseCoopers Ltda., Edificio Forum, Calle 7 sur No. 42-70, Torre 2, Piso 11, Medellín, Colombia,
Tel: (57-4) 325 4320, Fax: (57-4) 325 4322, www.pwc.com/co*



*To the Board of Directors of
Empresas Públicas de Medellín E. S. P.*

March 5, 2013

In our opinion, the aforementioned consolidated financial statements audited by us, which were faithfully taken from the accounting books, fairly present, in all material respects, the consolidated financial position of Empresas Públicas de Medellín E.S.P. at December 31, 2012 and 2011 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in Colombia for entities under the supervision of the Superintendency of Household Public Utility Services and with the provisions of the Colombian General Accountants' Office, applied on a consistent basis.

(Original in Spanish signed by:)

Bibiana Moreno Vásquez
Certified Public Accountant
Professional Card No. 167200-T