



Alcaldía de Medellín
Distrito de
Ciencia, Tecnología e Innovación

DRAFT RESOLUTION

Whereby the disposal of certain shareholdings is authorized and other provisions are dictated.

THE COUNCIL OF MEDELLÍN

In using its powers, particularly those granted by Article 17 of Law 226/1995

HEREBY AGREES TO

Article 1. Authorize Empresas Públicas de Medellín E.S.P. to fully or partially dispose of the shares it owns or may own in UNE EPM Telecomunicaciones S.A. and Inversiones Telco S.A.S.

Article 2. The disposal to be carried out by Empresas Públicas de Medellín E.S.P. shall be performed in accordance with technical studies and one or several predefined programs that are consistent with the principles of democratization, preference, protection of public property and continuity of service, pursuant to the terms and procedures provided by Law 226/1995.

Article 3. Under the terms of Article 4 of Law 226 of 1995, the resources Empresas Públicas de Medellín E.S.P. Obtains from the sale will be incorporated into its budget.

Article 4. This resolution shall become effective as of the date of its publication in the Official Gazette of the District of Medellín, and it repeals any provisions contrary to it.

Issued in Medellín, on July 22, 2024.

The Chairman,

The Secretary,



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EPM is and will continue to be a 100% public company, and the proposed sale of shareholdings seeks to protect the public assets.

1 Background

1.1 Trajectory of the investment in UNE EPM Telecomunicaciones S.A. And Inversiones Telco S.A.S.

With the opening of the telecommunications market in Colombia and the arrival of world-class competitors such as Movistar and Claro (previously Telmex), Empresas Públicas de Medellín E.S.P. (hereinafter, “EPM”) decided in 2005 to spin off its telecommunications strategic business unit from the parent company to create a new company focusing exclusively on telecommunications, to enable it to better address the new competitive challenges.

UNE EPM Telecomunicaciones S.A. (hereinafter, “UNE” or the “Company”) was legally created as a beneficiary company of the spin-off of EPM's telecommunications business, in accordance with the authorization granted by the Municipal Council by means of Agreement No. 45/2005 (hereinafter, “Agreement 45”). This Agreement ordered that the company resulting from the spin-off could not transform into a different type of company, change its shareholder structure or assign its administration, management or business operations to a third party without prior authorization from the Council of Medellín.

UNE's initial shareholders were EPM, Empresas Varias de Medellín, Empresa de Desarrollo Urbano (“EDU”), Instituto Tecnológico Metropolitano (“ITM”) and Instituto de Deportes y Recreación (“INDER”).

In 2013, EPM decided it was necessary to manage the risks inherent to its shareholdings in companies in the ICT sector to ensure the sustainability of the business in the long term, such as UNE and its affiliates (Edatel, ETP, Orbitel, CTC and OCL), as well as Emtelco S.A.S. (hereinafter, “Emtelco”), which at that time was owned by UNE, and in Colombia Móvil S.A. E.S.P., in which UNE owned 25% of its shares.



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In line with the above, the decision was made at the time to search for a strategic partner for UNE and its investments.

To achieve the above, one of the first steps taken was to request authorization from the Council of Medellín to transform UNE into a mixed public-private company that could receive private capital. Consequently, in May 2013, the Council approved Agreement 17/2013 (hereinafter, "Agreement 17"), through which it authorized changing the legal nature and shareholder structure of UNE, as well as assigning its administration, management or business operations to third parties.

After several studies and assessments, the partner chosen to operate and control the telecommunications businesses, which best adjusted to the need to face the challenges of competition and protect the public assets EPM had invested directly in UNE and indirectly in Colombia Móvil S.A. E.S.P. was Millicom International Cellular S.A. ("Millicom"), which decided to take an interest in the capital of UNE through the merger of the latter's equity with that of its affiliate Millicom Spain Cable S.L., which in turn was owned by the intermediate company Millicom Spain S.L.

The transaction was structured as a merger by absorption, in which the absorbing company was UNE and the absorbed company was Millicom Spain Cable S.L. Said merger was formalized on August 14, 2014, in this way complying with the provisions of Agreement 17.

The equity of Millicom Spain Cable S.L. was comprised by assets represented in shares in Colombia Móvil S.A. E.S.P., equivalent to an equity interest of 50% + 1 share, and cash for USD 860 million. Following the merger, the company Millicom Spain Cable S.L. dissolved but was not liquidated, and its equity, including the aforementioned assets, was merged into the equity of UNE.

Pursuant to the provisions of subsection b. of Article 1 of Agreement 17, Millicom gained administrative and operating control over UNE after the merger.



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The following are the current shareholders of UNE:

Accionistas	Acciones Ordinarias	Acciones preferenciales	% Participación
Empresas Públicas de Medellín E.S.P.	5,015,031	3	50.000000%
Instituto de Deportes y Recreación (INDER)	1	-	0.000010%
Millicom Spain, S.L.	5,014,029	-	49.989980%
Peak Record S.L.	251	-	0.002502%
Peak Five S.L.	251	-	0.002502%
Global Albion S.L.	251	-	0.002502%
Global Locronan S.L.	251	-	0.002502%
Total	10,030,065	3	100.000000%

The shareholders of UNE entered into a Shareholder Agreement, signed by EPM and INDER (public-sector shareholders), and by Millicom Spain S.L., Peak Record S.L., Peak Five S.L., Global Albion S.L. and Global Locronan S.L. (Millicom shareholders). According to this agreement, the Millicom shareholders shall have joint control.

In accordance with the above shareholder composition and taking into account the provisions of the Shareholders' Agreement, Millicom controls UNE. Among other provisions, the following has been agreed upon:

- The Board of Directors is comprised of seven members, of which Millicom proposes four and EPM proposes the remaining three, giving Millicom a majority in decision-making.
- UNE's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are appointed by the Board of Directors by a simple majority, which could be formed with the Board members proposed by Millicom.

Additionally, although EPM and INDER have a majority shareholding (50%+1 share), there are three EPM shares that are preferred and do not have voting rights, which means Millicom has the majority of the shares with voting rights.

At the same time, in November 2013, Millicom Spain S.L. created a company called Inversiones Telco S.A.S. (hereinafter "INVERTELCO"), which subsequently sold



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50%+1 of its shares to EPM. Its corporate purpose includes, among others, investing in companies whose corporate purpose is to provide business process outsourcing (BPO) and Contact Center services. This company became the owner of Emtelco's shares, a contact center and BPO¹ services company.

The current shareholders of INVERTELCO are:

Accionista	Acciones Ordinarias	Acciones Preferenciales	% Participación
Empresas Públicas de Medellín E.S.P.	7,363,126,367	147,265	50.0005%
Millicom Spain, S.L.	7,363,126,368	0	49.9995%
TOTAL	14,726,252,735	147,265	100.0000%

INVERTELCO owns 99.999985% of Emtelco's shares, a company incorporated in July 1994 in the city of Medellín by EPM and Empresas Municipales de Cali E.I.C.E. E.S.P. (EMCALI) as a telecommunications company that provided connectivity services and communications equipment. It was initially located in Bogotá. Its shareholder structure is the following:

Accionista	# de acciones
Inversiones Telco S.A.S.	13,720,336
Colombia Móvil S.A. E.S.P.	1
Orbitel Servicios Internacionales S.A.S.	1
Total	13,720,338

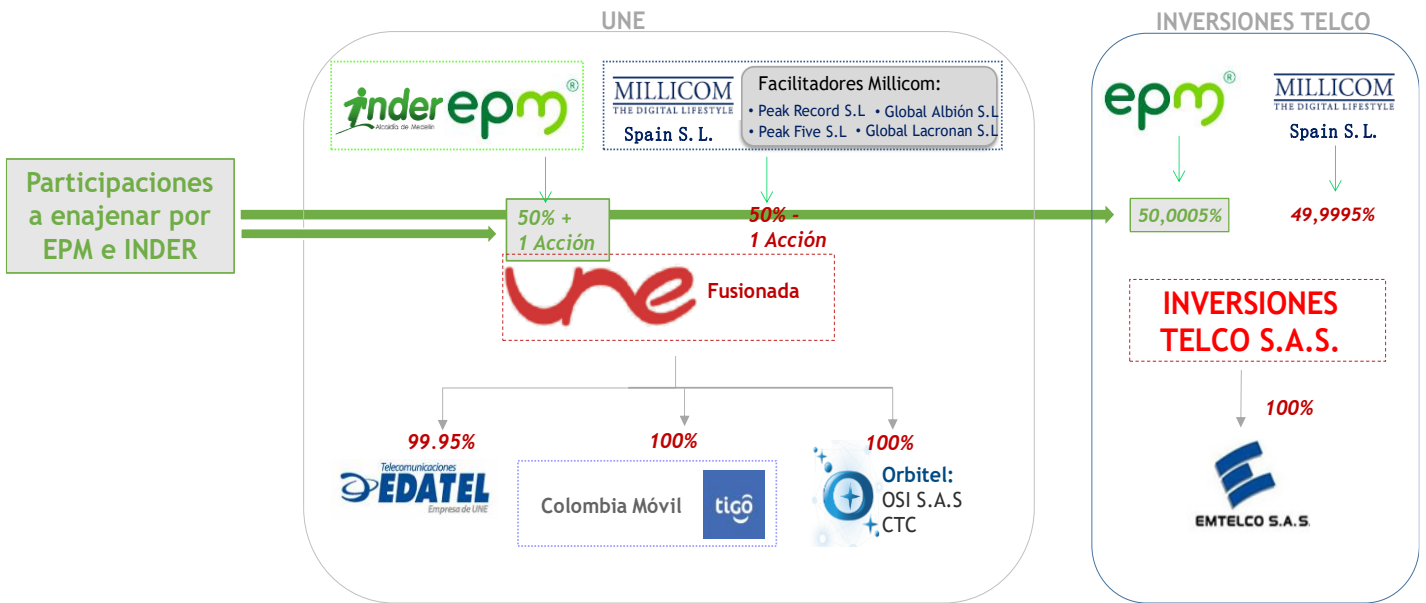
There is a Shareholders' Agreement signed between EPM and Millicom Spain S.L. on November 8, 2013 in INVERTELCO. In light of this agreement, the latter is the controlling company. Its content is similar to the Shareholders' Agreement signed for UNE.

The following is the current corporate structure through which EPM and INDER, in their capacity as decentralized entities of the Special District of Medellín, act as public-sector shareholders of UNE, and through which EPM acts as public-sector shareholder in INVERTELCO:

¹ Business Process Outsourcing. BPO consists in the outsourcing of business processes to service providers, either internal or external to the company.



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1.2 Intention to Divest from UNE and INVERTELCO

In 2021, the Board of Directors of EPM authorized initiating the necessary procedures, including the procedure before the Council of Medellín, to sell the shares EPM had and would have had in UNE and INVERTELCO.

Under the above authorization, three successive Draft Agreements were presented to the Council of Medellín seeking to authorize EPM to sell its shares in UNE and INVERTELCO. These projects were denied due to the lack of trust with the administration at the time, without the absence of technical and legal elements.

In October 2023, after going through a difficult liquidity and equity situation, UNE decided to ask its shareholders for a capitalization that would allow it to face these problems while negotiating and executing various projects that would guarantee the Company's long-term sustainability. In this way, both Millicom and EPM agreed to capitalize the company for a total of COP 600,000 million.

The authorization requested to the Council of Medellín seeks for EPM to sell the shares it owns or will own in UNE, since EPM has been talking with INDER - an entity for which this investment is not a relevant asset and is not within its strategic





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objectives - since 2021 to buy the only share it owns in the capital of UNE through an inter-administrative contract, which is not subject to the procedure of Law 226 of 1995 by express provision of Article 20, since it is a share sale "*between state bodies.*" In this way, EPM would be the only public shareholder in UNE, exempting INDER from initiating the same sales process EPM will perform according to the procedure of Law 226, whose cost for INDER would be much higher than the value of the share it currently holds in UNE.

This sale of INDER's share in UNE to EPM is justified to the extent that its initial participation was as a facilitator to comply with the condition of Agreement 17 on the plurality of the decentralized public shareholders of the Municipality of Medellín (now the District). This means this share is not a relevant asset, and much less is it within INDER's strategic objectives.

2 Description of the Companies whose Shares are to be Sold

2.1 UNE

UNE is a mixed public-private stock company, the majority of whose shares are held by the public sector. Its corporate purpose is to provide services in telecommunications, information technology and communications, information services and associated and/or related complementary activities. Its corporate domicile is in the city of Medellín and its duration is indefinite. The Company operates its business in the Colombian territory and offers landline telecommunications, Internet, television and satellite services.

UNE has investments in landline and mobile telecommunications services companies, both in Colombia and in the United States through Colombia Móvil S.A. E.S.P., Edatel S.A., Orbitel Servicios Internacionales S.A.S.² (OSI), and Cinco Telecom Corporation (CTC), which, in combination, provide the following telecommunications services to the following users:

² In liquidation.





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Users in thousands	December 2023
Landlines - Total consolidated UNE users	4,466
TV	1,221
Telephone	1,547
Broadband	1,699
Mobile-Total users	15,201
Prepaid	11,257
Post-paid	3,945

Source: UNE 2023 Management Report.

The following are the main figures extracted from the company's consolidated financial statements at December 2023:

Financial figures (millions of pesos)	2023
Consolidated UNE*	
Revenues	5,457,904
EBITDA	1,744,075
Total assets	10,260,018

* Includes UNE, Colombia Móvil, Edatel and OSI, and CTC.

Source: Official 2023 consolidated financial statements of UNE

Through the fixed and mobile services the Company provides, it is present in 97% of the country's urban areas.

REGIONAL OFFICES	COVERAGE	
	FIXED NETWORK	MOBILE NETWORK
Andean	Antioquia, Boyacá, Cesar, Norte de Santander, Santander.	Antioquia, Arauca, Bolívar, Boyacá, Cesar, Chocó, Norte de Santander, Santander.
Bogotá	Bogotá D.C., Cundinamarca.	Bogotá D.C., Cundinamarca.





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Coast	Atlántico, Bolívar, Cesar, Córdoba, La Guajira, Magdalena, Sucre.	Archipiélago de San Andrés y Providencia, Atlántico, Bolívar, Cesar, Córdoba, La Guajira, Magdalena, Sucre.
South	Caldas, Cauca, Meta, Nariño, Quindío, Risaralda, Tolima, Valle del Cauca.	Amazonas, Caldas, Caquetá, Casanare, Cauca, Guainía, Guaviare, Huila, Meta, Nariño, Putumayo, Quindío, Risaralda, Tolima, Valle del Cauca, Vaupés, Vichada.

Source: UNE 2023 Management Reports.

2.2 INVERTELCO

INVERTELCO is a mixed public-private decentralized municipal services company, in which the public sector holds an equity interest above 50%, and whose corporate purpose is to invest in telecommunications and BPO companies. It currently owns 99.999985% of Emtelco's shares.

In 2003, the company expanded its services to venture into Call Center services and began operating in Medellín.

Later, in 2007, the telecommunications business of Emtelco was spun off, which was integrated into the equity of UNE, and the company maintained the call center services operation.

In 2009, Emtelco created a new business line, business process outsourcing (BPO), and began to operate as a contact center and to incorporate other communications and relationship channels into its service portfolio.

Currently, Emtelco designs BPO solutions to connect corporate customers with their end users through different services: customer service, sales, collections, back office and service desk, using different channels: telephone, online and face-to-face.

The following are the consolidated financial results of INVERTELCO at December 31, 2023:



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Financial figures (millions of pesos)	2023
Consolidated Inversiones Telco*	
Revenues	500,928
EBITDA	49,939
Total assets	266,316

* Includes Emtelco.

Source: 2023 official consolidated financial statements of Invertelco.

3 Arguments for the Divestment

EPM is a company with positive operating results, with healthy profitability and liquidity indicators that confirm its sustainability over time. In order to maintain its track record and the positive evolution of its portfolio of controlled and uncontrolled investments, it must continuously assess the dynamics of its businesses and take action as necessary, either to decide on which investments to make in order to pursue the strategy it has defined, or to establish which of the businesses it is involved in no longer fulfill its strategic objectives, either because of changes in the industry or the market, changes in long-term plans, changes in the profitability or the liquidity of the investment, or even because it poses risks that the owner, in line with its profile, is not willing to take on.

3.1 Reasons in Light of EPM's Strategy and Needs

- It would be preferable for EPM itself to manage the equity it has invested in UNE and INVERTELCO in strategic businesses in which it does have competitive advantages and whose risk is more in line with the risk level that is acceptable for a household public utilities company and its owner, the Special District of Medellín. The funds received from the possible divestment of assets in which EPM does not have control could be redirected towards initiatives that are managed by EPM and that form part of its strategic businesses, contemplated within EPM's business plan.
- UNE and INVERTELCO are assets that are not consolidated in the financial statements of EPM, they do not contribute EBITDA nor revenues, and consequently their sale would not have negative effects on EPM's loan and





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bond covenants or financial commitments, and on the contrary would have a favorable effect by not having to increase debt, improving EPM's cash flow and generating greater EBITDA, as it invests in strategic businesses for EPM.

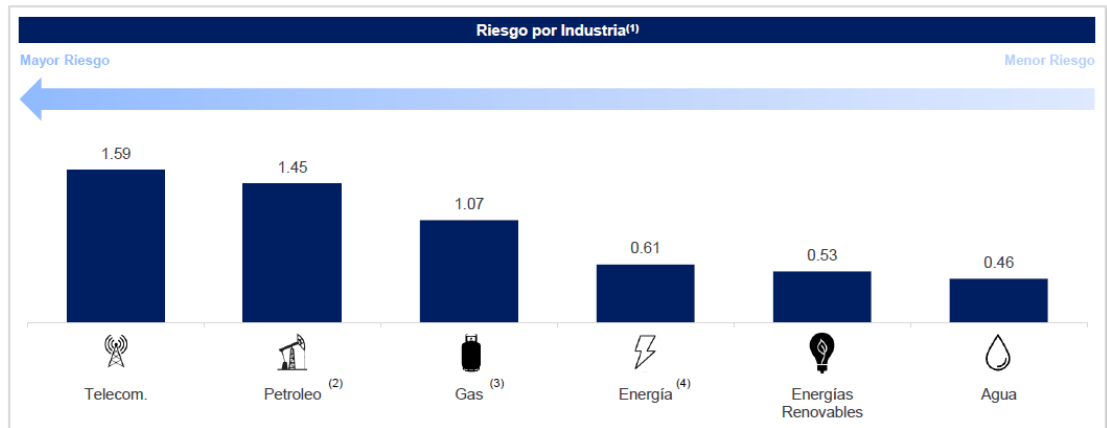
- The telecommunications sector has a different and higher level of risk than the energy, water, gas and other sectors in which EPM operates. BTG Pactual presented the following slide in 2022, which shows a comparison of the level of risk of the telecommunications industry vs. the utility industry of electricity, water, gas (among others). These sectors are strategic for EPM, in which it has a relevant presence at a national and international level. It is clear that the level of risk of the telecommunications industry is much higher than the risk of the residential public utilities sector.

Racional de la Desinversión

Nivel de riesgo de las compañías de TMT



Para el mercado, el sector de las telecomunicaciones presenta un mayor nivel de riesgo que el sector de energía y agua, sectores estratégicos para EPM



Comentarios

- El sector de **telecomunicaciones es más riesgoso** en comparación con otros sectores con participaciones estatales
- Esto se debe a i) la constante **innovación tecnológica**, ii) el cambio en los **hábitos de consumo**, y iii) las modificaciones a los **marcos regulatorios aplicables**
- EPM cuenta con una **participación no-controlante en UNE**, y el tercero controlante tiene el derecho de **gestionar el riesgo del sector** según su criterio
- EPM tiene otros **negocios estratégicos** donde tiene **ventajas competitivas** y que son **más afines al nivel de riesgo aceptable** para una empresa de servicios públicos domiciliarios

Nota: Números al 4 de Octubre de 2021; (1) Medido mediante el beta de 5 años. El beta es una medida de volatilidad de un sector contra el mercado. Las compañías seleccionadas tienen presencia en Latinoamérica, están listadas y tienen una liquidez diaria superior a US\$ 1 mm; (2) Incluye *upstream, midstream y downstream* de Oil & Gas, (3) Incluye el negocio de distribución únicamente; (4) Incluye generación, transmisión y distribución
 Fuente: CapitalIQ





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- EPM does not control UNE or INVERTELCO, and as mentioned earlier, does not have broad experience in the challenges currently faced by the telecommunications, contact center and BPO businesses, which implies that it does not have significant input in the operating management of UNE and INVERTELCO, since all such knowhow stayed in UNE when the telecommunications business was spun off.
- In recent years, risks associated with EPM's investment in UNE have already materialized and may occur again, as was the case with the call for capitalization in 2023 and the impairment of the investment in 2022.

3.1.1 Reasons associated with UNE

Overhead

UNE is the third largest telecommunications operator in the country in terms of income. The Company has a diversified portfolio of services and steady cash flow generation, although its debt and cost profile have cyclically deteriorated in recent months.

UNE is in a highly competitive industry, in a regulated market with free price competition, strong players, a high technological component that requires participants to make heavy capital investments, and therefore to seek the best options to monetize its assets by providing an excellent service. For this reason, it requires the availability of resources for acquiring equipment, software, network deployment and/or participation in bids for electromagnetic spectra.

The above context of potentially large investment requirements, quick technological obsolescence and intense competition implies a high level of risk that creates greater demands in terms of the time required to recover the investments, and make it necessary to have highly specialized and costly personnel due to the technical, strategic and market particularities of the business. These capital-intensive trends are expected to continue in the future as new technologies have to be implemented - for example, 5G technology, in which UNE has already participated in a spectrum auction under a joint venture with Movistar, in the process of network deployment - and as new competitors enter the Colombian telecommunications market.



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EPM is the top player in the field of public utilities in Colombia, with a relevant role in Latin America. It is also the parent company of a Business Group (“the EPM Group”) whose strategic planning, resources, capabilities and metrics revolve around residential public utilities³. However, and for the same reason, in the current environment, EPM cannot take on the imperious capital and resource requirements that the telecommunications business demands.

UNE Diagnosis

UNE is one of Millicom's most representative markets worldwide. The following figures are highlighted with respect to 2023⁴:

- Mobile customers in Colombia account for 25.4% of Millicom’s mobile customers in Latin America.
- Landline customers in Colombia account for 33.4% of Millicom’s landline customers in Latin America.
- Colombia contributes 22.8% of Millicom’s Latin American revenues.
- Colombia contributes 19% of Millicom’s Latin American EBITDA.

Position of Millicom in the markets where it is present⁵:

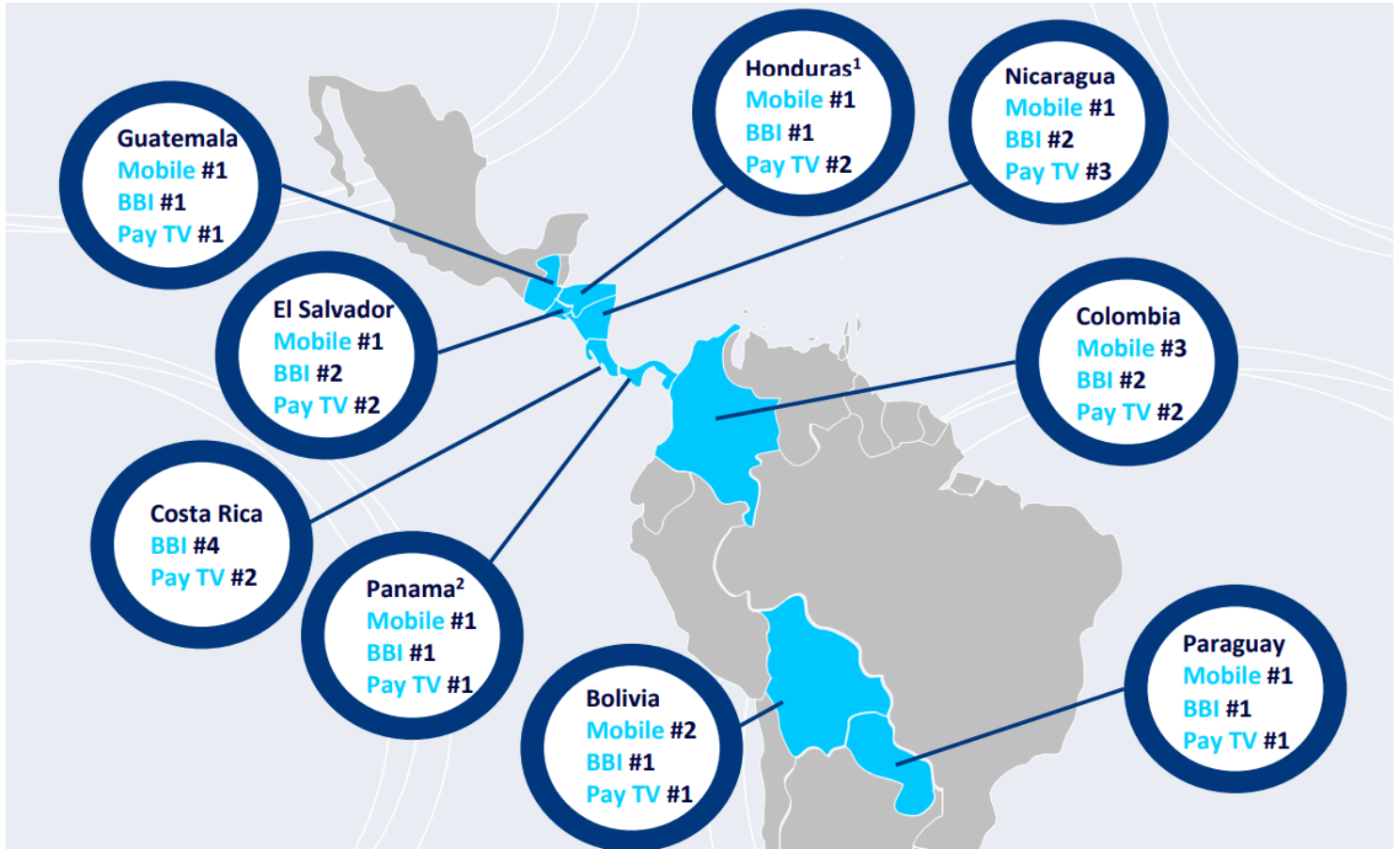
³ As of the issuance of Law 1341 of 2009 (Article 72), basic public switched telephone and local mobile telephone services in the rural sector ceased to be residential public utilities and, as of that date, are not governed by Law 142 of 1994 on Residential Public Utilities.

⁴ https://www.millicom.com/media/5753/financical-and-operational-data-file-q4-24_final.xlsx

⁵ Source: Millicom 2023 Annual Report.



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Under the operating and financial control of Millicom, the Company has achieved the following:

- Before the UNE–Millicom merger, it had been estimated that the synergy in terms of EBITDA would be worth COP 715 thousand million by 2019, but the merger reached COP 751 thousand million in synergies at December 2017. The synergy in terms of cash flow was expected to total COP 723 thousand million by 2019, but at December 2017, the merger had already achieved cash flow synergy worth COP 1 billion.

Many of the synergy projects performed better than expected, and as a result the savings plan was fulfilled two years ahead of schedule. In this way, one of the positive effects of the merger carried out in 2014 was verified. These



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effects could not have been achieved if EPM and the public shareholders that accompanied it had remained sole shareholders of that company.

- In the spectrum auction held on December 20, 2019, UNE participated and was awarded 40 MHz in the 700 MHz band, in which it invested COP 2.45 billion.

This award creates an obligation for UNE to provide coverage in 1,636 locations between 2021 and 2025.

- Direct and/or indirect coverage through affiliates increased from 773 municipalities in 2015 to 1,100 municipalities in 2019. By 2023, the Company covered more than 6 million homes in Colombia.
- In an auction held in December 2023, the Tigo - Movistar Temporary Joint Venture obtained permission to use 80 MHz in the 3,500 MHz band in the 5G auction for COP 318 thousand million.
- The operational integration with ColTel for the mobile business facilitated synergies in using the spectrum and the infrastructure necessary to provide the service.
- Through fixed and mobile services, the Company is present in 97% of the country's urban areas.
- The following were the changes in the most important services between 2015 and 2023⁶:
 - Broadband connections increased by 329,703 to a total of 1,698,952 connections. In 2015, only 7% of customers had a speed of more than 10 MB. Now, in 2023, the average customer's speed is above 187 Mbps.
 - Television services increased by 179,324 to a total of 1,220,794 users.
 - Landlines decreased by 180,387 to 1,546,621 lines.

⁶ Source: UNE EPM Telecomunicaciones S.A. Management and Sustainability Reports, 2015 and 2023.



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- Mobile lines increased by 4,287,417 to a total of 15,201,455 lines.
- Product offerings have also increased, with the following highlights:
 - Offer of satellite television and OneTV.
 - Offers of broadband with speed up to 300MB for households.
 - Access to value-added applications, such as Amazon Prime and Max.
 - Postpaid plans for mobile telephone services to be always connected with unlimited voice.
 - In the companies and government line, offerings have been developed related to cybersecurity, Internet of Things (IoT), cloud-based services and applications, among others.

As part of the consultation performed by Oliver Wyman, the Company's strategy in the medium term (2018-2025 period) was analyzed. The consultant found it to be generally consistent and self-financing but limited in scope by the business' cash-generating capacity. The following are some specific aspects with high impact:

- **Strategy:** In general, a Digital Lifestyle approach is used, which in operating terms implies the expansion of the landline network, monetization of the mobile network and the digitalization of services.

Consultant's opinion: The strategy is consistent considering the cash flow restrictions.

- **Revenues:** Growth of 4% per year, focused on households and B2B⁷. Strong expansion (2x) in broadband and in TV (2.6x).

Consultant's opinion: In general, the revenues are consistent with the investment levels, but in the specific case of the television business, revenues may be overestimated.

- **Costs and EBITDA:** Reduction in costs based on increased operating efficiencies (digitalization) and EBITDA growth of 8% per year on average,

⁷ Business to Business. It is part of the corporate business unit.



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which implies an increase in the EBITDA margin from 26% in 2016 to 31% in 2021.

Consultant's opinion: The improvement in EBITDA is consistent with the strategic plan, although the increase in EBITDA margin is optimistic.

- **Network and CAPEX:** Installing approximately 800,000 new HPs⁸ and 200 mobile locations per year until 2021. The cash flow from the mobile business is expected to support the investment in the fixed business. In general, the plan is self-financed, i.e., it does not require shareholder contributions.

Consultant's opinion: The investment plan is consistent with the business strategy. It could be more aggressive but is not due to cash flow restrictions.

- **Debt and dividends:** The plan calls for a continuous reduction in the Company's indebtedness and financial leverage, and no dividend payouts was expected at least until 2020.

Consultant's opinion: The plan is conservative in terms of debt and dividends and includes some margin of error.

Even though the final results of the study by the consultant Oliver Wyman were delivered to EPM in February 2018, from that date to the present we can say that the great majority of the consultant's opinions regarding UNE's Business Plan provided in 2017 have proved to be highly accurate.

Financial Results

UNE's main financial figures show a positive operating cash flow, which means the operation generates sufficient cash to execute the investments the company requires. This is demonstrated by the fact that EBITDA is higher than Operating Capex every year. EPM would not receive these benefits because it does not consolidate this investment in its Financial Statements. However, being a portfolio investment, they would be perceived in the sales value.

⁸ Home Passed. Homes passed.





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Income Statement Figures⁹

	2023	2022	2021	2020	2019
Revenues	5,457,904	5,436,328	5,131,194	4,843,434	4,927,143
EBITDA	1,744,075	1,641,589	1,555,822	1,622,042	1,626,135
Net income	-1,144,778	-473,814	-572,492	-212,543	519
Op. Capex ¹⁰ ₁₁	1,077,202	1,166,500	1,199,327	1,023,880	941,379

Amounts in millions of pesos

Moreover, even though net income is not the most important indicator for determining an asset's value, it is the basis for distributing dividends. For this reason, for an investor like EPM, this is a key indicator to enable delivering the transfers the Special District of Medellín requires year after year. On the other hand, it is important to keep in mind that, in the telecommunications industry, it is common for the value of companies to not necessarily be generated by their ability to pay dividends, but by the appreciation of their shares as a result of growth, reinvestment of profits, market share, and other aspects.

As shown in the above table, the net income of UNE in four of the last five years has been negative. In 2019, even though it was positive, it was equivalent to a return on equity (ROE) of 0.5%, which is lower than that of EPM's core businesses. Consequently, in terms of expected dividends, EPM has the possibility of obtaining higher yields in its strategic businesses. Considering the challenges in the telecommunications industry, EPM does not expect to receive dividends from UNE in the near future.

Debt Rating

On the other hand, during 2023, UNE's debt rating suffered several reductions as a result of the company's liquidity conditions and the negotiations among shareholders for its capitalization. On April 04, 2024¹², "*Fitch Ratings upgraded UNE EPM*

⁹ 2019 to 2023 Consolidated Financial Statements for UNE EPM Telecomunicaciones S.A. Not including Emtelco.

¹⁰ Capital investments for operations. Does not include spectrum.

¹¹ Source of Operating Capex: Financial statements viewed by management excluding Emtelco.

¹² <https://www.fitchratings.com/research/es/corporate-finance/fitch-upgrades-une-epms-ratings-to-aa-col-from-a-col-outlook-revised-to-stable-04-04-2024>





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Telecomunicaciones S.A.'s (Tigo UNE) long-term and short-term national ratings to 'AA(col)' from 'A-(col)' and to 'F1+(col)' from 'F2(col)', respectively. At the same time, the agency upgraded the rating of the Domestic Public Debt Bond Program to 'AA(col)' from 'A-(col)' and that of commercial paper to 'F1+(col)' from 'F2(col)'. In addition, the Long-Term Outlook Rating was revised to Stable from Evolving.

The ratings improvements and stabilization of the outlook reflect Tigo UNE's strengthening liquidity, demonstrated by the capitalizations made in 2023 by its two shareholders, Millicom International Cellular S.A. [BB+ Stable Outlook] and Empresas Públicas de Medellín (EPM) [AAA(col) Negative Outlook], as well as due to the proceeds from recent tower sales and the demonstrated ability to access bank debt financing. In addition, Fitch projects an improvement in Tigo UNE's free cash flow (FCF) generation over the rating horizon as a result of cost control initiatives. The ratings also consider the company's governance structure."

The key rating factors are the following:

- Improved Liquidity Position.
- FCF trends.
- Corporate Governance.
- Intense Price Competition.
- Defensive Market Position.
- Wide range of services.
- Links between Parent Companies and Subsidiaries.

Additionally, the rating report highlights the following:

Tigo UNE's business profile compares well with other telecom operators in Latin America. However, governance issues and weak cash generation limit the company's rating.

In general, Tigo UNE's business profile is similar to its direct competitor, Colombia Telecomunicaciones S.A. E.S.P. BIC (ColTel). Both have similar shares of Colombian market revenues. However, Tigo UNE's leverage has historically been lower. Tigo UNE is also somewhat stronger in the fixed broadband and pay TV business, which could imply more subscriptions as cash flows, since the Colombian mobile market is still mostly prepaid.





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Tigo UNE's business profile, due to its larger scale and diversification, compares positively with that of Empresa de Telecomunicaciones de Bogotá, S.A., E.S.P. (ETB) [AA(col) Stable Outlook]. Nevertheless, its weak liquidity position and governance issues weaken its credit profile with respect to its peers.

This last point, related to governance, is a risk that the rating agency reiterated in its latest report. For this reason, it is important to consider the potential impact EPM may also have on UNE's rating through this factor, which is exogenous to the Company, in the analysis.

UNE's Situation and Capitalization

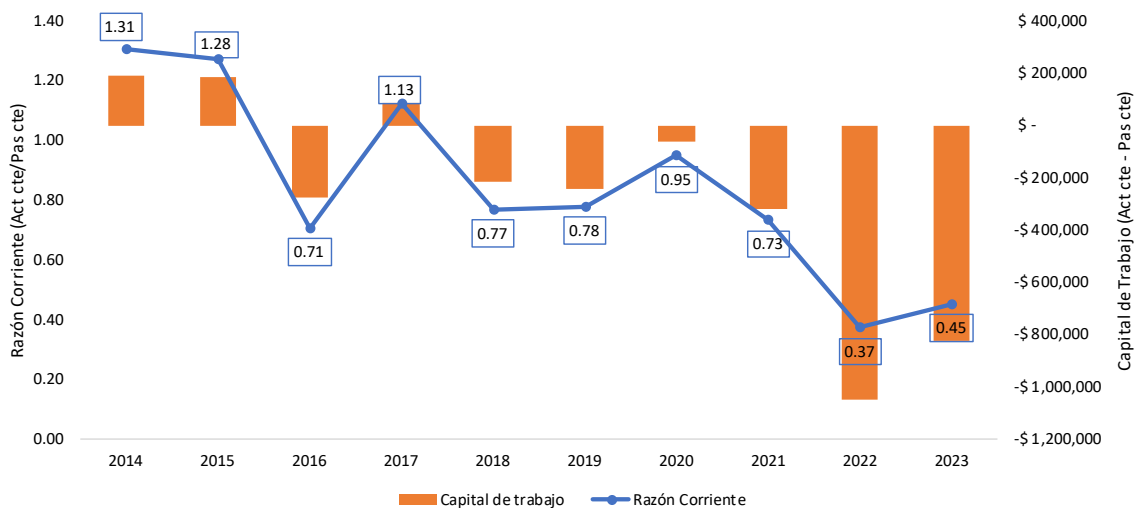
Some of UNE's liquidity and equity indicators had been showing a recurring deterioration in recent years, which led to a capitalization request to shareholders in 2023. It was executed in the last quarter of the year, amounting to COP 600 thousand million. Some of these indicators are presented below:

Current Ratio: It allows determining a company's liquidity index or its capacity to dispose of cash in the event of an eventuality or contingency that requires it. To some extent, it indicates the level of assurance that the company has the capacity to meet short-term obligations, debts or liabilities.

Working capital: It denotes the difference between the company's current assets and current liabilities. It can indicate whether the company has what it needs to operate before making a profit, which means it shows whether a company has enough money to cover its expenses to make a profit, as shown in the following liquidity evolution chart:



Evolución de Indicadores de Liquidez



Figures in millions of pesos

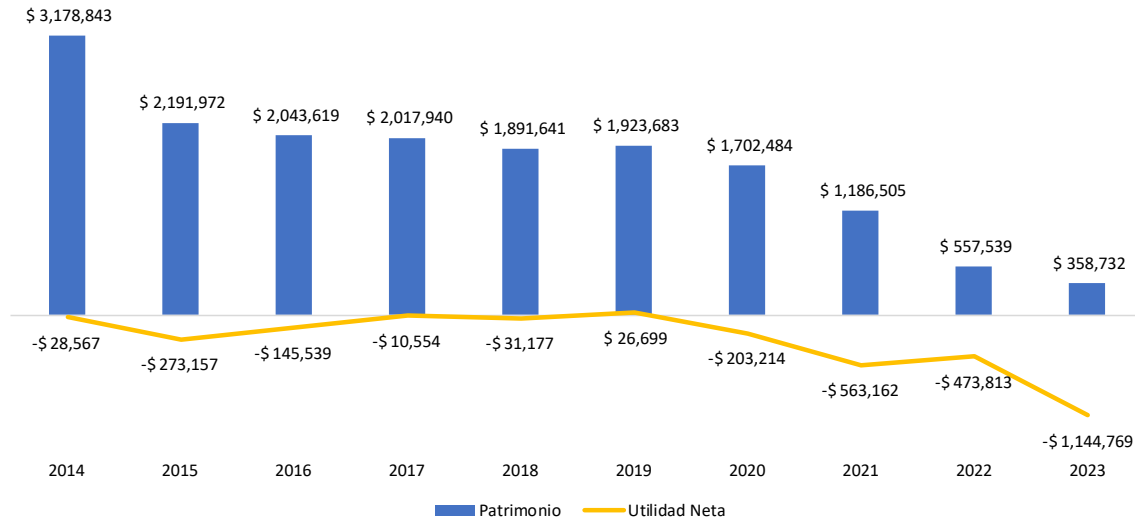
Source: EPM calculations based on UNE 2014-2023 Separate Financial Statement

Furthermore, there was a growing concern about the risk that UNE would have negative equity in the short term, also based on the evolution of various indicators, which are presented below.

The evolution of equity, which is strongly related to each period's results, continues showing a trend of significant losses:



Patrimonio de UNE Vs. Utilidad (Pérdida) Neta



Figures in millions of pesos
Source: UNE 2014-2023 Separate Financial Statements

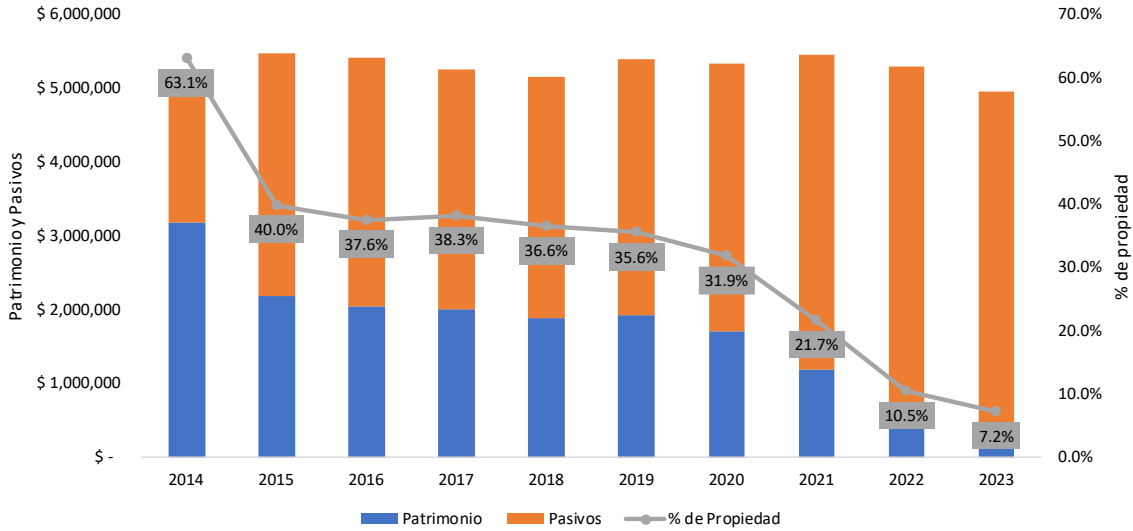
Equity Ratio: It measures the way assets are financed by discriminating the source between equity (shareholders' equity) and liabilities (different creditors).

It can be seen that, as equity, or partners' ownership over the company's assets, has been decreasing, liabilities have been increasing. This means that, in the event of a possible liquidation of UNE, shareholders would be the last to be prioritized, behind creditors, to claim their share of the liquidation proceeds, leaving them with a very low probability of recovering resources.



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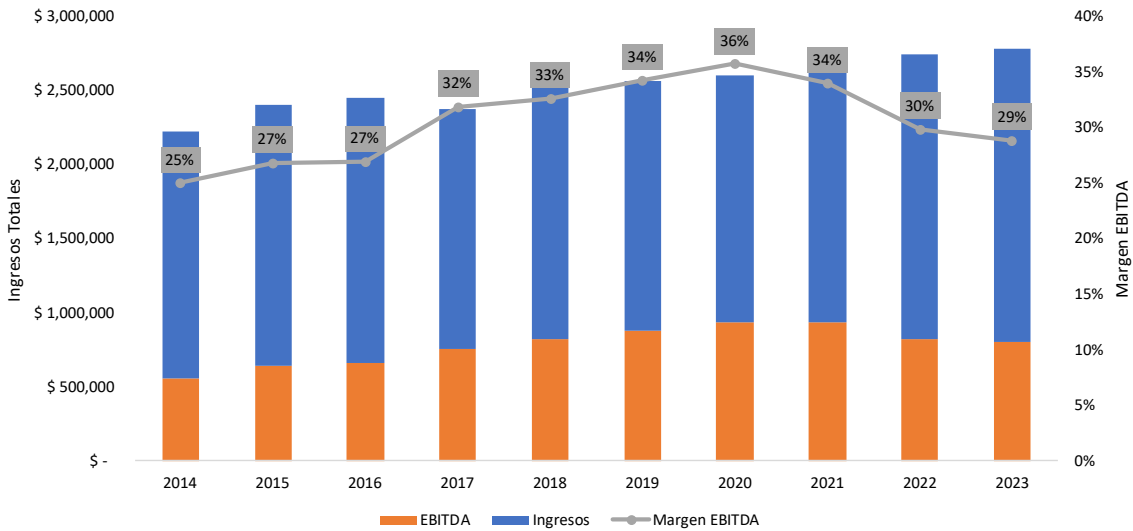
Indicador de Propiedad



Figures in millions of pesos
 Source: UNE 2014-2023 Separate Financial Statements

In the state of the Company's operations, although it has shown decreases in its EBITDA margin, the company has presented an updated business plan with several projects to recover margins, as can be seen in the following table:

Ingresos y EBITDA



Figures in millions of pesos
 Source: UNE 2014-2023 Separate Financial Statements





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In this scenario, UNE's management has carried out various analyses and programs, both internal management, such as a cost and expense reduction program, prioritization of investments, increased indebtedness, and external management, by negotiating projects such as the mobile infrastructure sharing announced in early 2014 with Movistar, among others.

3.1.2 Reasons associated with Invertelco

INVERTELCO, like UNE, is in a highly competitive industry for some of the services it provides in Colombia and abroad. Price is a determining factor for success in this industry, and it is a major challenge to maintain long-term contracts in this sector, given that customers always seek lower service prices with improved quality.

The industry has been specializing and consolidating, and large players have been acquiring companies in regions or segments that leverage their growth and internationalization, increasing competition and reducing profitability margins.

This business' investment requirements have begun to migrate to omnichannel platforms, seeking to meet the new challenges brought by the pandemic and improve the provision of services, expand the value offer (robotics, artificial intelligence, analytics, and others) and reinvent the solutions offered to customers in terms of the customization and specialization of services.

It has also been observed that the value of contracts related to contact center services and business process outsourcing (BPO) has been declining, partly due to the automation of processes, which means competition for new clients or contracts will become increasingly intense. This shows the need for Emtelco to complement its service offering with a more comprehensive portfolio of experience management and digital solutions.

3.1.3 Accounting Impairment of the Investment

In October 2022, EPM recorded an impairment in the value of UNE's investment of COP 981,290 million. Additionally, an adjustment was made in December of the same year to the impairment caused by updating the business plan delivered by UNE, which amounted to COP 62,732 million, for a total in 2022 of COP 1,044,022



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million. Subsequent to this date, no additional impairment has been recorded on the value of the investment.

An investment's impairment is recorded for accounting purposes as a decrease in the value of the asset, against an expense in the Income Statement, affecting the profit for the period. Therefore, recording the impairment of the investment in UNE in 2022 impacted EPM's profits for that year and, consequently, caused a decrease in the transfers to the District for 2023, since EPM's net income is the basis for distributing said transfers.

This situation is not exempt from happening again. In that event, it would once again have an impact on EPM's profits and transfers to the Special District of Medellín.

3.2 Reasons associated with the telecommunications sector and the businesses developed by UNE and INVERTELCO.

3.2.1 The international telecommunications sector

Trends:

In a consultation with the firm Oliver Wyman (see recommendation in section 3.3.1), the consultant highlighted different aspects of the industry, which today, complemented with the sector's current situation, support the decision to dispose of the shareholding in UNE and INVERTELCO, as described below:

Global trends in telecommunications indicate a major transformation of the business that also affects this industry in the Colombian market. The following are the most important trends identified in telecommunications:

- Migration of voice service from landline to mobile, and in turn the migration of mobile voice to data, mainly affecting the companies that are still strong in landline voice.



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- Migration of value from the telecommunications industry to media and OTT¹³ companies, driven by Internet service, at the expense of other telecommunications offerings.
- Change in the composition of telecommunications companies, where voice and OTT have become more prominent and have taken a portion of income from landline voice and television.
- Very significant increase in data traffic, which implies constant investment by telecommunications operators to meet the demand.
- The specialization of services is leading to concentration in the industry, and in the owners of said businesses, creating higher risk in the business.

Markets with similar structure to the Colombian market:

Oliver Wyman delivered an analysis of markets in which they studied markets with competitive structures similar to Colombia's, or markets in which there are two large operators competing with one or several small operators.

The following were the conclusions:

- Increased competitiveness between operators: the EBITDA margin tends to be lower in this market structure, leading to intense competition to acquire market share.
- The early deployment of new technologies helps capture market share: operators who took the lead in deployment of FTTH¹⁴ or 4G gained market share in services related to these new technologies, which implies that in the future the companies that invest first in new technologies will have a competitive edge for gaining market share.
- Small operators have lower EBITDA margins: historically, the third operator has a much lower EBITDA margin than the first and second largest operators.

¹³ OTT - Over the Top. It refers to services that reach users through telecommunications services but that are provided by third parties, such as Netflix and Skype, among others.

¹⁴ Fiber To the Home. Fiber to the home.



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- Packaging of services to increase EBITDA margin: operators are increasingly offering integrated services as a way to gain customer loyalty, increase market share and protect EBITDA margin.

The third operator faces an ever more competitive environment from a disadvantageous position of smaller scale and lower EBITDA margin.

State participation in the telecommunications business:

Based on a study conducted by BTG Pactual in 2021, it can be seen there is a strong presence of private telecommunications operators in the main Latin American countries. Only in Colombia do some of them have public participation.

An example in Colombia, as indicated above, is the approximately 32.5% stake held by the National Government in Colombia Telecomunicaciones (Movistar), which it attempted to dispose of in 2018, unsuccessfully, through a process under Law 226 of 1995. As a shareholder of Colombia Telecomunicaciones, the Nation does not have - unlike EPM in UNE - an exit mechanism other than trying to sell its shares through the process regulated in said Law. This means the value of the public equity invested therein cannot be maximized as required by proper fiscal management.

The following two images, prepared by the investment banking firm BTG Pactual, show details of the different telecommunications operators in Colombia, Mexico, Brazil, Chile, Argentina and Peru.

It should be noted that some operators have a presence in several of these countries, including Claro, which is present in all of them. This confirms that the telecommunications business is essentially a business of economies of scale due to the high levels of investment required. This puts operators that are only present in one country or with a limited number of customers at a competitive disadvantage. It is also clear that, due to the risks in the sector, state capital does not participate in the telecommunications business in most Latin American countries, since there is no state capital in the region's leading telecommunications companies, with the exception of Colombia, Costa Rica and Uruguay.

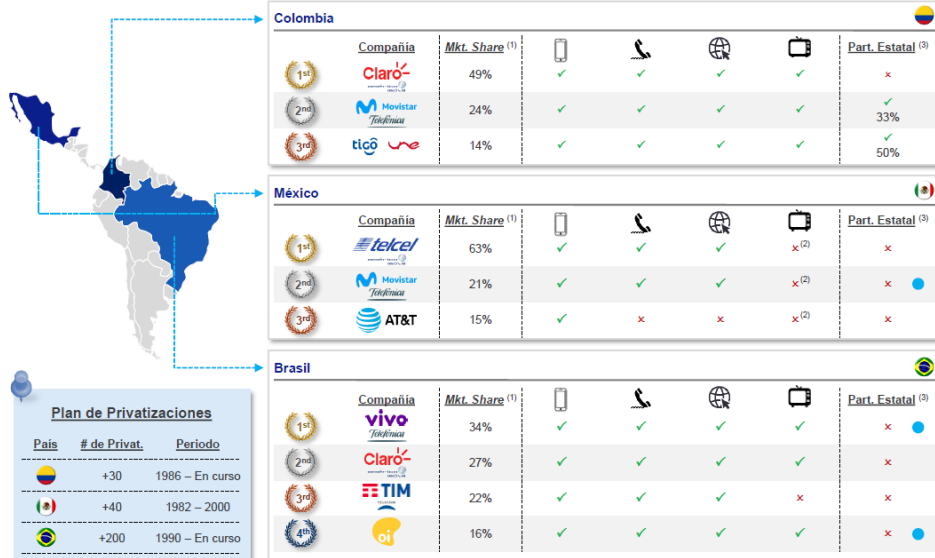


Racional de la Desinversión

Principales compañías de TMT en la región (1/2)



Los principales estados de la región no cuentan con participaciones accionarias en los principales jugadores de TMT. Estos ejecutaron planes de enajenación de sus participaciones *non-core* a finales del siglo 20



Notas: Datos a Septiembre del 2020; (1) Basado en el número de suscriptores de líneas móviles. Participación remanente distribuida entre otros operadores; (2) Imposibilidad regulatoria para ofrecer servicios de televisión; (3) Incluye participaciones directas e indirectas
 Fuente: Fitch Solutions – Telecommunications Report, EMIS, Página web de las compañías, Congreso de cada país

● Empresa Completamente Privatizada

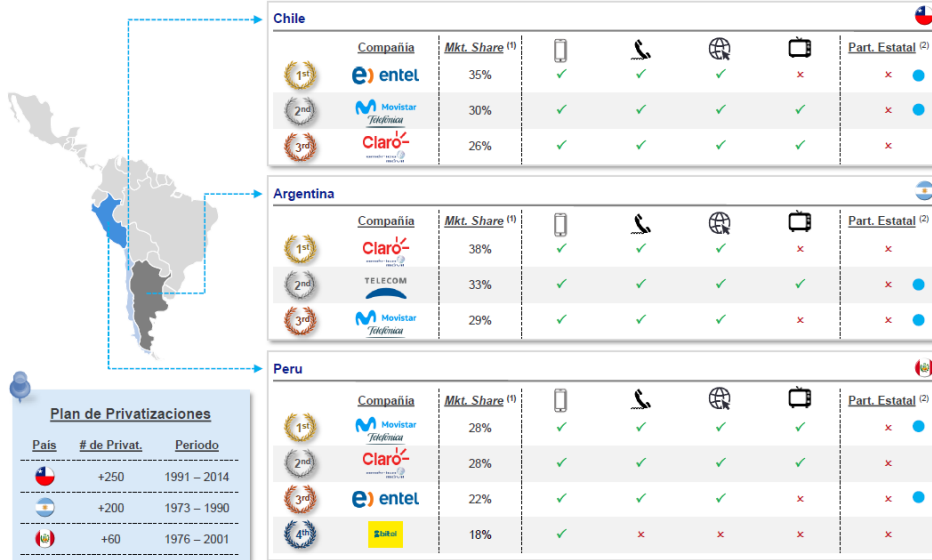


Racional de la Desinversión

Principales compañías de TMT en la región (2/2)



Los principales estados de la región no cuentan con participaciones accionarias en los principales jugadores de TMT. Estos ejecutaron planes de enajenación de sus participaciones *non-core* a finales del siglo 20



Notas: Datos a Septiembre del 2020. (1) Basado en el número de suscriptores de líneas móviles. Participación remanente distribuida entre otros operadores; (2) Incluye participaciones directas e indirectas
 Fuente: Fitch Solutions – Telecommunications Report, EMIS, Página web de las compañías, Congreso de cada país

● Empresa Completamente Privatizada

Economies of Scale:

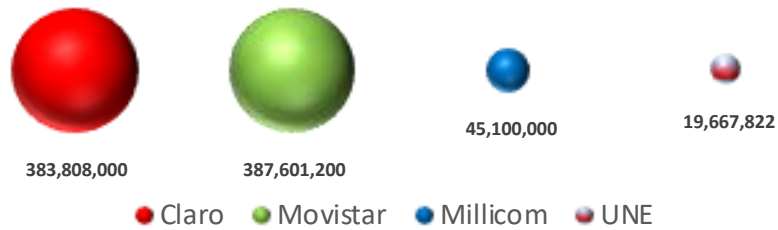
Below is a graphical comparison at scale to identify the size or magnitude of UNE's main competitors in Colombia, considering their income, customers and equity, with global¹⁵ figures as of the end of 2023, which contributes to the divestment ratios associated with economies of scale:

¹⁵ For Claro and Movistar, information is presented on a global basis. The information for Millicom also corresponds to the global level and includes UNE. UNE's user figures correspond to the company's operations in Colombia only, as it does not have an international presence.





Cantidad de Unidades Generadoras de Ingreso



Ingresos Totales (millones de USD)



Patrimonio (millones de USD)



UNE's relative size and its operation, when compared to its direct competitors, shows a structural disadvantage, which is compensated to some degree by its parent company Millicom.



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Economies of scale are critical to achieving state-of-the-art telecommunications services with a cost structure that makes them affordable. Some impacts of economies of scale can be identified in:

- The cost of terminal equipment, such as cable modems, set-top boxes and mobile terminals, for which volume purchases improve prices.
- Fixed and mobile telecommunications infrastructure elements also have advantages in the value of their acquisition when purchased in volume.

UNE, on its own account, i.e., without being a part of the Millicom Group, does not have the size to achieve the economies of scale required to remain competitive in the telecommunications industry, particularly when its competitors belong to large multinational companies with hundreds of millions of customers who compete in various geographies. For this reason, UNE should continue to be part of a strong multinational telecommunications group, to enable it to continue to have access to economies of this type.

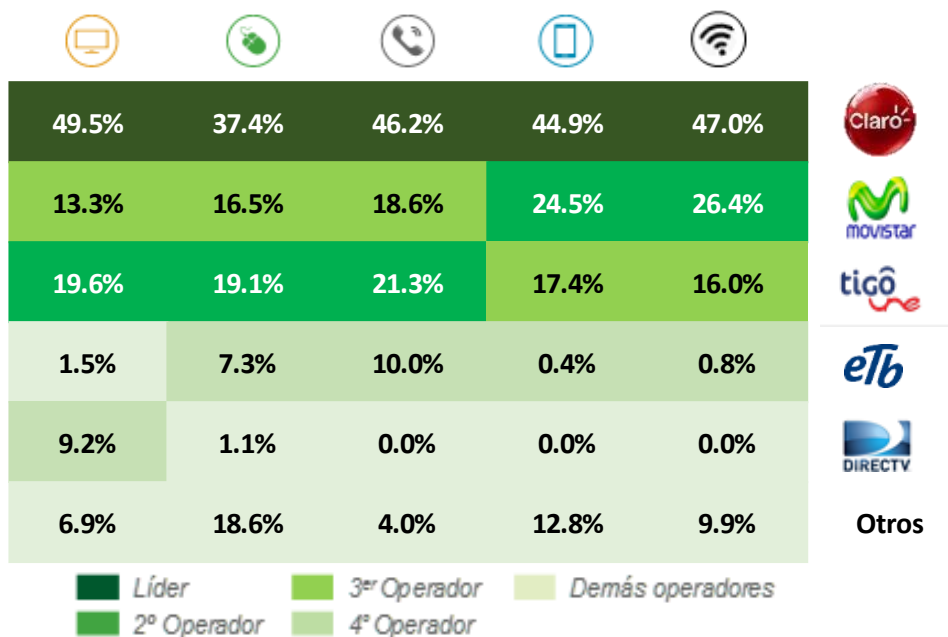
3.2.2 The Telecommunications Sector in Colombia

3.2.2.1 Market Share by Service

The market's composition for Television, Data, Voice and Cellular Telephony services is shown in the following table as of December 31, 2023:



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Source: MinTic Quarterly Report T-IV-23, MinTic TV report Dec-23.

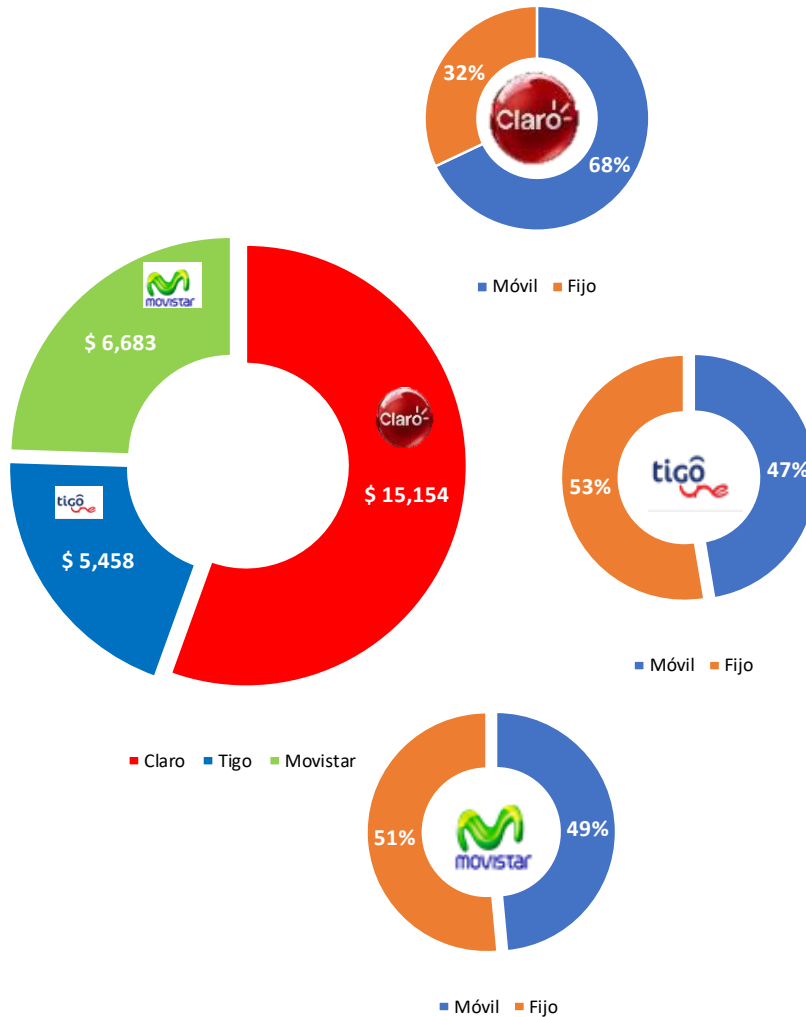
Claro is the leading operator in all services, followed by UNE, which is second in fixed services (television, fixed internet and voice), and third in mobile services (cellular telephony and mobile data). Movistar is second in mobile services and third in fixed services.

3.2.2.2 Revenues and EBITDA

Over the last ten years, Claro has been the leader of the Colombian telecommunications market in terms of revenues:



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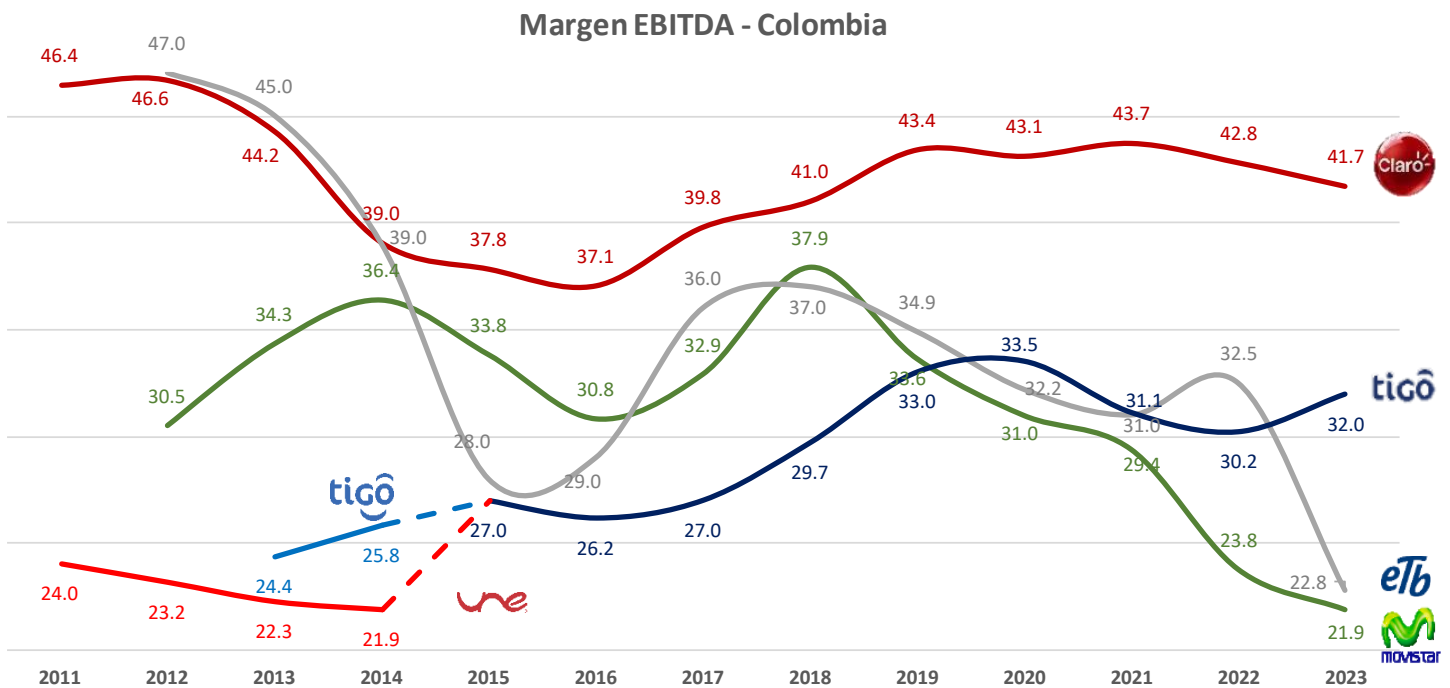
Source:
Claro: América Móvil 2023 Financial Statements
Movistar: Colombia Telecomunicaciones 2023 Financial Statements
Tigo: UNE 2023 Financial Statements

After the merger between UNE and Millicom, Telefónica-Movistar and UNE has disputed second place in the industry in terms of income. By the end of 2023, Movistar had already consolidated its position as the second largest operator in the country, followed by UNE.





Claro, in its effort to maintain its market leadership, and WOM, with its aggressive entry into the mobile market with very low prices, have forced prices to lower in the market, which has impacted the average EBITDA margin and profitability in the industry as a whole:



UNE's EBITDA margin in 2023 showed a slight increase, remaining above thirty (30) points. Competitors, such as ETB and Movistar, have shown significant drops in their EBITDA margins due to higher commercial costs associated with their strategy of selling and then renting infrastructure, especially infrastructure related to fiber optics.

In addition to the above, WOM, the trading name of the firm Novator Partners, is a new competitor in Colombia. It began offering mobile services on April 5, 2021. It acquired spectrum in the December 2019 700Mhz spectrum auction, acquired a controlling position in Avantel S.A.S. in early 2020 and acquired 5G spectrum in December 2023. It has established itself as the fourth largest mobile operator in the country. It entered the market aggressively in a manner that is very similar to what it did in Chile using, among other aspects, disruptive advertising, frontal attacks on competitors highlighting customer complaints, and revolutionizing the mobile market



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with its value proposition of “*mereces más* (you deserve more).” In Colombia, they launched prepaid offers of 15 Gb for COP 35,000, they opened 100 stores nationwide and 80 kiosks in 30 cities as the main asset to guarantee the brand. The launch of offerings by this new operator led other operators to lower prices or to reconfigure their offerings, which has led to lower margins and changes in market share (for example, in Chile, in 5 years its market share increased from 3% to 20%). In Colombia, its objective is to have a 25% market share in 5 years. In April 2024, WOM requested to enter a business reorganization process, which was admitted in May 2024.

Finally, a new Brazilian telecom operator, Telecall, acquired a block of 5G spectrum in the December 2023 auction. It has initially reported that it will focus on providing fixed wireless services (such as fixed wireless broadband).

As a result of the aggressive actions of WOM and any other potential new competitor, UNE and the other current operators may lose customers and/or be forced to continue cutting prices.

3.2.2.3 The Case of ETB

Empresa de Telecomunicaciones de Bogotá (ETB) is controlled by the District of Bogotá. Public shareholders own 88.4% of the company, while private shareholders own 11.6%.

Prior to September 2003, the company put up a block of shares for sale to raise private capital. At that time, the company was valued at approximately COP 2.29 billion.

ETB reached its highest valuation on September 15, 2009 when it reached a value of COP 4.5 billion, due to market agents’ expectations regarding the process the company was undergoing to obtain a strategic partner, which began in July of that same year. Analysts explain that, under these circumstances, what made the market move and the share price rise so much were the prospects of what the company's operation could be in the medium and long-term with the arrival of a strategic partner



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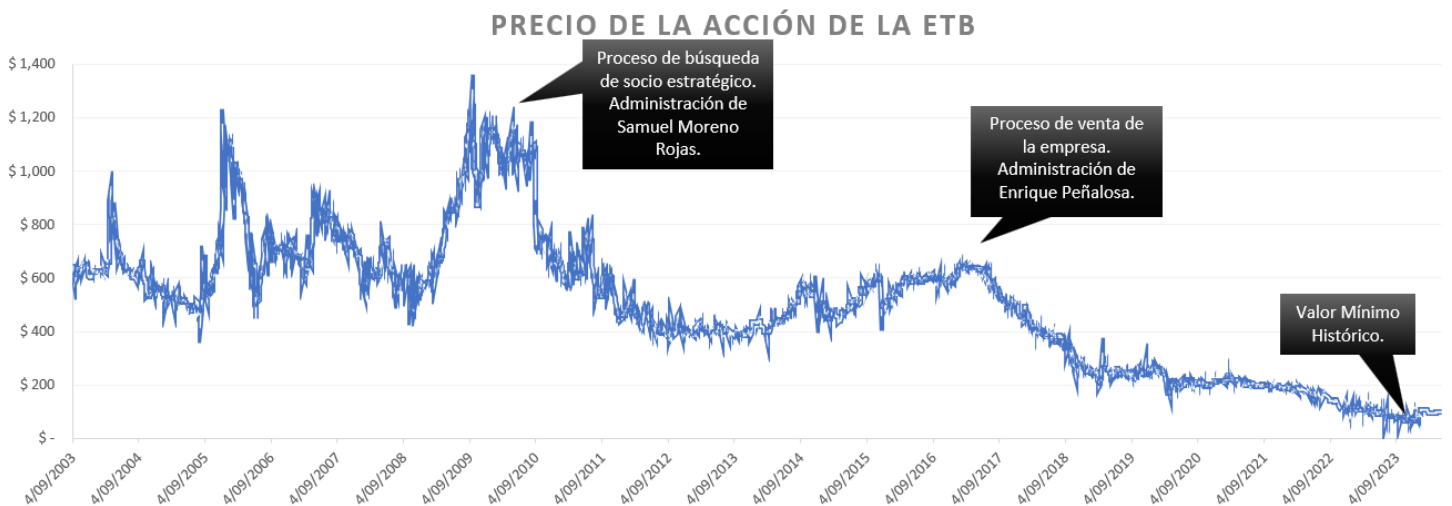
that would inject capital into the company and allow it to expand its participation in areas beyond fixed telephony, especially Internet¹⁶.

When UNE executed its merger with Millicom, on August 14, 2014, ETB had a market price of COP 1.8 billion. That means since 2009, when a strategic partner was expected to arrive, to the date of UNE's merger with Millicom, ETB had lost 60% of its value.

In November 2023, the company reached its lowest value since it was listed on the Colombian Stock Exchange, with a market price of COP 204,157 million.

As of May 2024, ETB closed with an approximate value of COP 355,000 million, which represents an 84.5% loss in value since its debut on the Stock Exchange in 2003 and 92.2% with respect to its highest value on the Stock Exchange, achieved in September 2009.

Below is the evolution of ETB's share price since its debut on the stock exchange in September 2003:



¹⁶ Retrieved from Portafolio: <https://www.portafolio.co/economia/finanzas/accion-etb-estrella-bolsa-387052>.





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During the 2017 sales process, Enrique Peñalosa, in different scenarios, tried to justify his plan to sell ETB, saying managing the company represented a risk to public assets due to the high competition in the telecommunications sector. Therefore, he preferred to convert it into cash resources that would allow him to make social investments and build 30 schools, four hospitals, eight gardens, two mega sports centers, Transmilenio trunk lines and capitalize the EPS Capital Salud¹⁷.

3.2.3 Contact Center and BPO

In 2021, expert Altman Solon identified the following as trends in the Contact Center and BPO sector:

- In terms of Growth:
 - Increased penetration of IT outsourcing services in all industries.
 - Good post-COVID positioning, especially in the public, financial and e-commerce sectors, as BPO allows companies to scale their resources without Capex.

- In terms of Technology:
 - Traditional outsourcing solutions are in decline as customers demand cloud-based microservices.
 - Cloud and X as a Service¹⁸ models are on the rise, as they allow companies to improve integration flexibility and reduce infrastructure costs.
 - Increased demand for automation through AI¹⁹, ML²⁰ and RPA²¹ technologies for better analytics and improved customer experience:

¹⁷ Retrieved from La República: <https://www.elespectador.com/bogota/juez-tumba-la-venta-de-la-etb-article-702445/>.

¹⁸ For a better understanding of this term, see the definition in the following website: <https://www.santanderopenacademy.com/es/blog/xaas.html>: "The term XaaS comes from X as a Service, and can also be called "anything as a service", "everything as a service" or even "everything in the cloud." It is a concept used to describe the trend of consuming anything as a cloud service. In other words, it is not a new cloud model or a new way of doing things, but a philosophy that companies can adopt when building their IT infrastructures."

¹⁹ AI: Artificial Intelligence.

²⁰ ML: Machine Learning.

²¹ RPA: Robotic Process Automation.



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- AI/ML allows for increased transparency and predictive capabilities.
- RPA replaces manual tasks, freeing up employee time, increasing productivity, reducing costs and improving accuracy.

- In terms of Competition:
 - There have been a significant number of acquisitions and mergers of BPO companies in recent years, with growing interest in Latin America.
 - Adopting BpaaS²² allows smaller suppliers to emerge and compete with larger companies.

- In terms of Risk:
 - The local BPO market continues to develop. Legal restrictions, global competitors and a lack of reach to international clients could limit Emtelco.
 - The pandemic caused a downturn in the global BPO market, coupled with increased concerns about the use of outsourced services, their quality and data protection.

3.3 Recommendations from Third-party Experts and Consultants

EPM has received recommendations from two consulting firms regarding its investment in the telecommunications sector, which are presented below:

3.3.1 Oliver Wyman

The consultant Oliver Wyman, in a consultation conducted in 2017 to identify and recommend alternatives that could generate the highest value in the short and long-term for EPM with respect to the portfolio investments it holds in the ICT industry, as non-controlling majority shareholder, recommended the shareholder EPM, considering the context and the associated risks, to dispose of its 50% stake in UNE (completely exit the business). Attached below is an image of the recommendation according to the consultant's final report:

²² BPaaS: Business Process as a Service.



Recomendación:

- Considerando el contexto y los riesgos asociados, nuestra recomendación para el accionista EPM es la **venta de su participación de 50% en TigoUNE (salir integralmente del negocio)**
- El momento de iniciar el proceso de venta **depende de:**
 - Hacer la estructuración de la estrategia política
 - Proceso de venta a ser acelerado en caso de bajo desempeño de TigoUNE en Q1/2 2018
 - La oportunidad de compra de ETB debe ser analizada en detalle, y si viable, la venta debe ser reevaluada

3.3.2 McKinsey

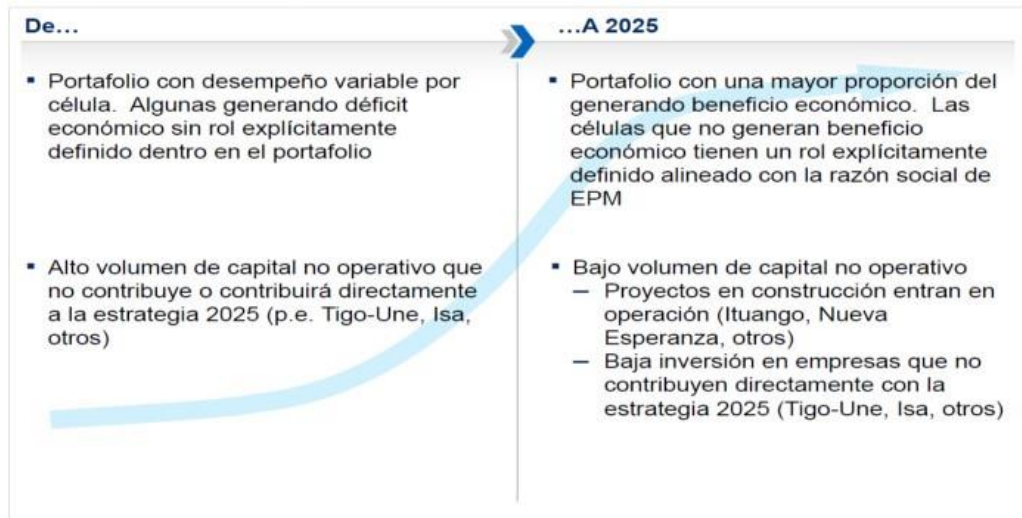
The 2025 consulting study carried out in 2017 by McKinsey to “*identify the actions the EPM Group should take in its current businesses/lines of business and those to be ventured into in the future, as well as design the action path to implement the recommendations to optimize the Group’s value by 2025,*” also recommended EPM to focus on the businesses of its corporate purpose (water and sewage systems, electricity and gas), and that one of the strategies to obtain financing for the new projects was to divest non-strategic assets, among which it specifically mentioned UNE. A slide show with McKinsey's recommendation is attached:



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AJUSTES ORGANIZACIONALES

Para cumplir la aspiración estratégica a 2025 se propone realizar desinversiones selectivas



FUENTE: Análisis equipo de trabajo

CONFIDENCIAL McKinsey & Company 307

McKinsey also stated that the current political, regulatory and economic situation, which has been having a negative impact on the Company and, looking forward, does not present a trend that suggests that the situation can be reversed in the short-term, causes fear and uncertainty. This is not only the case for the telecommunications sector, but for the market in general, putting the value of companies at risk due to the difficulty of growing and remaining competitive in the market.

3.4 Other reasons for divesting the telecommunications, contact center and BPO businesses

3.4.1 related to EPM's position as non-controlling shareholder of UNE and INVERTELCO

In addition to the above reasons, EPM is convinced that it is imperative to proceed with disposing of these investments based on the following reasons:

- In the UNE merger process, EPM negotiated a Shareholders' Agreement with Millicom in which it was granted a series of advantages despite its status as a



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non-controlling shareholder. These included the so-called *public asset protection clause*²³, or Right of Exit, in light of which the company is granted successive mechanisms to sell its share, respecting the obligation to exhaust the procedure established by Law 226 of 1995, to which it is subject as a public entity.

The validity of this right extends until December 31, 2026 (term extended in 2023, in negotiations for capitalization), reason why it is imperative for EPM to begin its sale process as soon as possible.

We must remember that the eventual joint offer of 100% of the shareholding owned by Millicom and EPM in UNE must have been made in order to take advantage of the benefits of the *public asset protection clause* before December 31, 2026. However, the following steps must have been taken to reach this joint offer:

- Stage 1 of Law 226 of 1995 for the solidarity sector (recipients of special conditions).
- Stage 2 of Law 226 of 1995 for the general public.
- Once the stages of Law 226 of 1995 have been exhausted, if EPM still owns shares in UNE, it must offer them to Millicom, which has a Right of First Refusal agreed upon in the Bylaws.
- If Millicom decides not to accept this offer, then EPM may proceed to offer 100% of the Company's shares to a third party.

Not having these exit options is precisely what has kept the Nation and the Capital District from exiting their stakes in CoITel and ETB, respectively.

- As a result of the capitalization made to UNE in the second semester of 2023, EPM was able to obtain a put option on 100% of the UNE shares owned by EPM from Millicom, for COP 330,000 million.

²³ The public asset protection clause has no impact on the company's valuation. This clause creates a greater probability of a successful sale, greater liquidity of the asset and a greater number of interested investors. In other words, the clause allows is offering 100% of the shares owned by EPM and Millicom to a third party if EPM does not manage to sell its share in the two stages of Law 226 and Millicom does not exercise its right of first refusal. This generates greater attraction for investors and reduces the risk of EPM leaving public resources trapped in the company.





EPM can decide to exercise this option until September 30, 2024. As of that date, it would have one year to complete the process of Law 226, necessary for Millicom to acquire the shares.

3.4.2 Closing the digital divide and connectivity in the Special District of Medellín

In 2021, consultant Altman Solon presented an analysis of the situation regarding the participation of governments in bridging the digital divide in their countries, which is summarized in the following slide:

Modelos de Operación e Infraestructura – Modelos Gubernamentales

Algunos gobiernos han combinado esfuerzos en infraestructura para ayudar a cerrar la brecha digital en sus países

Nivel de Injerencia en Infraestructura Telecom Comparativa Entre Países



	Incentivo Federal Infraestructura	Operadores Masivos con Capital Público	Tipo de Iniciativas	Penetración de banda ancha 2020
	○	No	De regulación, espectro con requisitos de cobertura	44%
	○	Si	Sin incentivos, inversión en su propio operador	60%
	○	Si	Gobierno limita competencia, único inversor en banda ancha	83%
	◐	Si	Subsidios para red troncal de fibra óptica	49%
	◑	No	Subsidios públicos para Internet y despliegue rural (CAF, RDOF)	88%
	◑	No	Red celular compartida con participación público/privada	50%
	◑	No	Subsidios públicos para Internet (ANRBD) y red troncal	59%
	◑	No	Subsidios públicos a la demanda (FITEL) y red troncal	29%
	●	No	Red nacional mayorista de capital público (NBN)	93%

Fuente: SNL Kagan, Altman Solon Investigación y Análisis

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Now, the State being a shareholder in telecommunications companies is not an indispensable condition to achieve high broadband Internet penetration, since closing the digital divide is clearly a task that must be developed jointly between the Nation and telecommunications operators. However, for this initiative to be successful, the State must create or generate sufficient conditions or incentives for operators to be able to strengthen their initiatives and accompany the growth in coverage and in the provision of new and better services that facilitate Internet access to all citizens. The image above shows that even countries with 100% private operators have better broadband penetration indicators than Colombia, and that the most relevant issues that impact closing of the divide are, among others, public policies, incentives, greater competition among operators (regardless of whether these operators are public or private), the very geography of countries and the urban/rural distribution of their population.

On the other hand, the fact that EPM has a stake in UNE does not guarantee the implementation of massive telecommunications programs that the Special District of Medellín intends to implement for the benefit of the city, to close the digital divide (among others). This can be achieved through partnerships and agreements with UNE itself or other operators, without requiring the shareholder to be EPM.

Moreover, the municipalities and districts can generate systems that allow and facilitate internet access to less favored or difficult-to-access communities, without the territorial entity needing to own or control any telecommunications company or operator. If that were the case, and EPM had control of UNE, the service should be provided under cost-efficient conditions for UNE or any other company (without detriment to the company's assets). Therefore, it would be in the best interest of the territorial entities -and in this case the Special District of Medellín- to put the telecommunications operators in competition to achieve the best offer and best conditions for the provision services.



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4 Legal basis - Procedure for the democratization of state stock ownership - Law 226 of 1995

4.1 General Aspects of Law 226 of 1995

Law 226/1995 ("Law 226") contains the procedure and guidelines for the disposal of government-owned shareholdings, pursuant to Article 60 of the Political Constitution, which establishes:

Article 60. *The State shall promote, in accordance to law, access to property ownership. Whenever the State disposes of its shareholdings in a company, it shall take all steps conducive to the democratization of share ownership and will offer its workers and solidarity and worker organizations special conditions to have access to such share ownership. The law shall regulate these matters.*

The elements that form part of this procedure can be summarized as follows:

- It applies in the case of a full or partial disposal of equity interests owned by the State in any of its forms or levels in favor of private parties.
- According to the provisions of Article 2 of Law 226, the principle of democratization implies that *"during the disposal processes mechanisms shall be used that ensure broad publicity and unhindered access, as well as procedures that promote mass participation in share ownership."* Also, Article 3 establishes everything related to what the law calls "preference", by creating the elements necessary to enable the presentation of purchase proposals by a sector of citizens subject to the preferences with respect to the whole process of alienation (the "Solidarity Sector"), and which is made up of:
 - The active workers and pensioners of the companies whose shareholdings will be disposed of, and of the entities in which these hold majority shareholdings, as long as their employment contracts have not been terminated with just cause.
 - The former workers of the companies whose shareholdings will be disposed of, and of the entities in which these hold majority shareholdings, as long as their employment contracts have not been terminated with just cause.



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- The associations of employees or former employees of the companies whose shareholdings will be disposed of.
 - The labor unions, labor union federations and confederations.
 - Employee cooperatives, mutual investment funds, pension and severance funds.
 - Cooperatives
 - Family compensation funds, pursuant to the provisions of paragraph 2 of Section 3 of Article 16 of Law 789/2002.
- The purpose of the participation of the Solidarity Sector in the sales process is to satisfy one of the requirements established in the Political Constitution and in the Law, namely the democratization of share ownership, to which end mechanisms will be used to ensure wide publicity and unhindered access.
 - In order to ensure effective access for recipients of special conditions, measures may be taken to prevent actions by third parties through intermediaries, such as, for example, at the time an offer is submitted, to require the submission of statements by the groups that form part of the solidarity sector, in which they indicate that they do so in their own benefit and not for the benefit of a third party, and that in the event it is found that any misrepresentation has been made in the statement, they would be subject to criminal charges.

A requirement could also be established of not disposing of the acquired shares for a period of up to two (2) years, imposing financial penalties in the event of early resale or transfers of ownership of the acquired shareholdings.

- Additionally, Article 14 of Law 226 establishes that during the disposal process all measures must be taken aimed at preventing the violation of the principles of democratization, of protection of public property, of preference and unhindered access referred to therein.
- The disposal must be carried out under what Article 6 of the Law calls a “*disposal program (...) designed for each specific event, which shall abide by the provisions set forth in this Law*”.

The disposal program must contain the elements established in Article 7 of said Law, and those listed in Article 11 of Law 226:



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The law also indicates that the disposal program must include an itemized list of all the details involved in the disposal procedure.

4.2 Disposal Procedure

As indicated earlier, Article 60 of the Constitution was regulated by means of Law 226, which required that any disposal of shareholdings owned by the State must abide by the principles of democratization, preference, protection of public property and continuity of service.

Law 226 establishes a chronological order for the procedure of disposing of shareholdings, as follows:

- a) Deciding/authorizing the disposal of a specific asset.
- b) Obtaining authorization from the corresponding territorial corporation under the terms of Article 17 of Law 226.
- c) Once authorization has been obtained, preparing a disposal program, for which the valuation or technical study obtained with respect to the shares to be disposed of will be taken into account.
- d) The Board of Directors of the entity owning the shares approving and adopting the disposal program.
- e) Publicizing the disposal plan and carrying the program out, which must be organized at least in two stages, the first of which is to make the offering to the solidarity sector.

In compliance with Law 226 of 1995 and the aforementioned procedure, in this case, the necessary steps will be taken to dispose of all the shares EPM has or may have in UNE and INVERTELCO, all of which will be offered to the Solidarity Sector in an initial stage, for a term of two (2) months.

The sales program to be designed shall be subject in all cases to the aspects established in Law 226, such as:

- A fixed share price will be determined, which will be equivalent to the price resulting from the appraisal.



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The central criterion to be used for the estimation of the sales price of the shareholdings in the companies that will be disposed of must be to ensure the protection of the public property in such investments. As indicated earlier, to such effect technical studies will be carried out based on recognized valuation techniques, and the disposal shall be structured to optimize the financial return of each transaction.

- A credit line will be defined to finance acquiring the shares for sale, and the terms and conditions thereof, in accordance with the terms set forth in Law 226 (Articles 10 and 11).
- The term during which the offer to the Solidarity Sector will be in force and the mechanism for its development will be defined.

In this way, once the programs for disposing of the shareholdings in UNE and INVERTELCO have been approved, EPM would proceed to offer all the shares EPM has in both companies to the Solidarity Sector, first and exclusively, but for a determined term.

It should be noted that, since a public offering is required to offer the shares to both the Solidarity Sector and to the general public, UNE and INVERTELCO's shares must be previously and temporarily registered in the National Securities and Issuers Registry, in accordance with the rules that regulate the Public Securities Market and Issuers in Colombia²⁴, since these shares are not registered in the Stock Exchange.

Once the offering phase to the Solidarity Sector has concluded, the remaining shares may be offered to the general public, ensuring massive citizen participation, in accordance with the mechanism adopted for this purpose, as well as within the framework of the rules that regulate the Public Securities Market in Colombia. In any case, it is important to mention that the value of the shares in the subsequent stage or stages may not be lower than the value offered in the first stage.

²⁴ Article 5.2.2.2.1 of Decree 2555 of 2010, "Whereby the rules regarding the financial, insurance and securities market sectors are collected and reissued and other provisions are issued."





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5. Scope and Purpose

UNE and INVERTELCO are considered non-strategic investments for the EPM Group, because the telecommunications, contact center and BPO business lines provided by these two companies are not currently included in the strategic businesses of the EPM Group.

When EPM made the decision to merge UNE EPM Telecomunicaciones S.A. with Millicom, relinquishing operating and financial control, one of the main reasons for doing so was the high-risk level of this business, which does not fit the current risk profile of EPM or its owner, the Special District of Medellín. This level of risk is reflected, among others, in high investment requirements, the need for knowledge of the business and the market, intense competition against global players, the need to have economies of scale for the competitiveness of the business and in the risks that have already materialized for EPM as a shareholder, such as the 2023 capitalization and impairment of the investment recorded in 2022.

The various factors explained earlier lead the company to have heavy cash requirements, which directly affects dividend payouts, which implies that the best way to recover the investment is by divesting these assets. By selling the shares in UNE and INVERTELCO, the intention is specifically to recover the value invested in these companies, which are not controlled or managed by EPM, in order to reinvest the proceeds from the sale and obtain a higher return on these resources.

EPM, as a public company, is not the best owner for companies in competitive conditions, such as UNE and INVERTELCO, since it slows down their processes by giving them the status of public companies, and EPM will have to manage resources again in the event a new capitalization is required. This would have the effect of increasing the exposure of more public resources in companies with the risk profiles of UNE or INVERTELCO, with the possibility of investing them in strategic businesses with the acceptable level of risk for EPM and better profitability.

The authorization requested to the Honorable Council to dispose of these shareholdings, in order to protect the value of the public investment in UNE EPM Telecomunicaciones S.A. and Inversiones Telco S.A.S., in short, is based on reducing the exposure of public resources to the level of risk of the



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telecommunications, contact center and BPO industry and to ensure the proper provision of public utilities and the company's sustainability over time.

For the reasons explained above, we conclude that at this time it is advisable to adopt the decision to divest the companies UNE and INVERTELCO as submitted to the considerable of the Honorable Council, in order to initiate the procedure set out in Law 226/1995 and subsequently exercise the Right of Exit within the terms and conditions agreed upon in the UNE Shareholders' Agreement.

We reiterate that EPM is and will continue to be a 100% public company, and the proposed sale of shareholdings seeks to protect the public assets.

FEDERICO GUTIÉRREZ ZULUAGA
Mayor of Medellín



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