

## Auditors

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### EXTERNAL AUDITOR'S REPORT

To the shareholders of  
EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P. (EPM):

We have audited the general balance sheet of EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P., as of December 31, 2013 and the related statements of financial, economic, social and environmental activity, changes in equity, changes in financial position and cash flows for the year then ended, as well as the summary of the main accounting policies and other explanatory notes. The financial statements as of December 31, 2012, were audited by another external auditor who in his report of March 5, 2013 issued an opinion on them without qualifications.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in Colombia and instructions issued by the General Accounting Office of the Nation of Colombia. This responsibility includes: designing, implementing and keeping an internal control system that is adequate for the preparation and presentation of financial statements, free from significant misstatement, whether due to fraud or error; selecting and applying the appropriate accounting policies, as well as making the accounting estimates that are deemed to be reasonable under the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We obtained the necessary information to fulfill our functions and carry out our work in accordance with generally accepted auditing standards in Colombia. These standards require planning and performing the audit in order to attain reasonable assurance of whether or not the financial statements are free of significant errors. An audit of the financial statements involves examining, on a selective test basis, the evidence that supports the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of significant error in the financial statements. In the evaluation of risk, the auditor considers the Company's internal control that is relevant for the 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 accounting principles used and the significant accounting estimates made by Management, as well as the evaluation of the overall presentation of the financial statements. We consider that our audit provide us a reasonable basis to issue our opinion.

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accounting principles used and the significant accounting estimates made by Management, as well as the evaluation of the overall presentation of the financial statements. We consider that our audit provide us a reasonable basis to issue our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial situation of EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P. and its subordinates as of December 31, 2013, the results of its operations, the changes in its equity, the changes in its financial position and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Colombia and instructions issued by the General Accounting Office of the Nation of Colombia, uniformly applied with those of the previous year.

As explained in more detail in Note 8.1.8.to the financial statements, the Boards of Directors of EPM and UNE S.A. approved the master negotiation agreement to merge UNE and Millicom, process that is subject to approved by the regulatory and government authorities. In accordance with the contract, EPM would have the majority shareholding in the merged company with a participation of 50% plus one share in the capital stock. Millicom in turn, would be the owner of the remaining shares, and would assume the full consolidation of the financial statements and the administrative and operating control of the entity. The General Accounting Office of the Nation of Colombia issued a binding concept whereby it gives instructions to maintain the investment of the mentioned affiliated under the equity method, until the time of the final approval of the merger process.



DELOITTE & TOUCHE LTDA.

February 25, 2014.

## Legal representative and accountant



### Certification by EPM's Legal Representative and Accountant

February 25, 2014

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

We, the undersigning Legal Representative and Accountant of Empresas Públicas de Medellín E.S.P., certify that the balances of the consolidated accounting statements of Empresas Públicas de Medellín E.S.P. and its related companies, as of December 31, 2013, were elaborated in accordance with the regulations established in the Public Accounting Regime, and that the disclosed information trustworthily reflects the financial, economic, social and environmental situation of Empresas Públicas de Medellín E.S.P. and its related companies. We certify that the assertions contained in the basic accounting statements were verified, mainly the ones stating:

- a) That the facts, transactions and operations were acknowledged and carried out by Empresas Públicas de Medellín E.S.P. and its related companies during the accounting period that ended on December 31, 2013.
- b) That the economic facts were disclosed in accordance with what is established in the Public Accounting Regime.
- c) That the total value of the assets, liabilities, equity, revenue, expenses, costs, and memorandum accounts was disclosed in the consolidated basic accounting statements of Empresas Públicas de Medellín E.S.P. and its related companies up to the cut-off date, December 31, 2013.
- d) That the assets represent a potential of services or future economic benefits, and the liabilities represent past facts that imply an outgoing flow of resources in the carrying out of the state commitment functions of Empresas Públicas de Medellín E.S.P. and its related companies, as of December 31, 2013.

  
Juan Esteban Calle Restrepo  
CEO

  
Carlos Mario Tobón Osorio  
Accounting Manager  
Professional ID Card No. 62449-T  
*Estadístico ahi.*

## Colombian Financial Superintendency



### Certification for the Colombian Financial Superintendency

JUAN ESTEBAN CALLE RESTREPO, acting as the legal representative of the Industrial and Commercial Company of Municipal Order, registered as EMPRESAS PUBLICAS DE MEDELLÍN E.S.P., and complying with Article 46, Law 964 of July 8, 2005.

#### CERTIFIES:

That the consolidated accounting statements and other relevant reports for the public do not contain corruptions, inaccuracies, or errors that impede knowing the true equity situation or the operations of Empresas Públicas de Medellín E.S.P. and its related companies as of December 31, 2013.

Juan Esteban Calle Restrepo  
CEO  
Citizenship Card No. 70.566.038

This certification has been issued in Medellín on February 25, 2014, for the purpose of complying with the requirements demanded by the Colombian Financial Superintendency to issuers of securities.

*estamos ahí.*

## General Balance Statement

Empresas Públicas de Medellín E.S.P.

Consolidated Balance Sheets

At December 31, 2013 and 2012

(Amounts stated in millions of Colombian pesos)

### General Balance Statement



Empresas Públicas de Medellín E.S.P.

General Balance Statement

At December 31

(Translation of financial statements originally issued in Spanish- See note 5)

(Amounts stated in millions of Colombian pesos)

ASSETS	Notes	2013	2012
<b>CURRENT ASSETS</b>		<b>6,306,990</b>	<b>6,336,894</b>
Cash	10	1,306,580	1,496,488
Investments for liquidity management	11	1,289,538	1,901,168
Accounts receivable, net	12	3,303,599	2,570,296
Inventories, net	13	258,083	242,503
Prepaid expenses	14	64,590	67,473
Other assets, net	18	84,600	58,966
<b>NON-CURRENT ASSETS</b>		<b>31,991,689</b>	<b>28,941,015</b>
Investments for liquidity management	11	8,185	9,672
Investments, net	15	501,370	507,177

LIABILITIES	Notes	2013	2012
<b>CURRENT LIABILITIES</b>		<b>4,173,817</b>	<b>3,087,887</b>
Public credit transactions	20	847,806	234,773
Hedging operations	21	32,803	75,711
Accounts payable	22	2,123,326	1,591,823
Taxes payable	23	462,063	723,046
Labor obligations	24	157,774	132,592
Pension obligations and pension commutation	25	241,793	129,374
Estimated liabilities	26	66,264	18,648
Other liabilities	27	241,988	181,920
<b>NON-CURRENT LIABILITIES</b>		<b>11,109,051</b>	<b>10,115,294</b>
Public credit transactions	20	8,382,690	7,316,939
Hedging operations	21	35,635	85,438

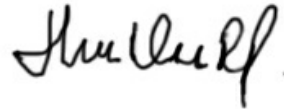
Accounts receivable, net	12	959,692	738,605
Property, plant and equipment, net	16	16,023,149	14,154,412
Actuarial financial reserve	17	736,183	741,441
Prepaid expenses	14	200,678	133,625
Other assets, net	18	2,377,768	2,118,257
Revaluation off assets	19	11,184,664	10,537,826
<b>TOTAL ASSETS</b>			
		<b>38,298,679</b>	<b>35,277,909</b>
Debit memorandum accounts	30	8,001,836	8,568,699

Accounts payable	22	300,941	112,600
Taxes payable	23	2,805	172,804
Labor obligations	24	67,194	71,162
Pension obligations and pension commutation	25	1,157,999	1,171,465
Estimated liabilities	26	219,558	295,921
Other liabilities	27	942,229	888,965
<b>TOTAL LIABILITIES</b>		<b>15,282,868</b>	<b>13,203,181</b>
Minority intereses	37	968,297	1,014,999
<b>Equity (see financial statements attached)</b>		<b>22,047,514</b>	<b>21,059,729</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>38,298,679</b>	<b>35,277,909</b>
Credit memorandum accounts	30	20,266,573	19,979,394



**JUAN ESTEBAN CALLE RESTREPO**

General Manager  
Certification enclosed



**DIANA OLIVA RÚA JARAMILLO**

Corporate Finance Vice President



**CARLOS MARIO TOBÓN OSORIO**

Accounting Manager  
Professional card No.62449-T  
Certification enclosed



## Financial, economic, social and environmental activity statement

### Empresas Públicas de Medellín E.S.P

#### Consolidated Statement of financial, Economic, Social and Environmental Activity

At December 31, 2013 and 2012

(Amounts stated in millions of Colombian pesos)

### Financial, economic, social and environmental activity statement



### Empresas Públicas de Medellín E.S.P

#### Consolidated Statement of financial, Economic, Social and Environmental Activity

At December 31

(Translation of financial statements originally issued in Spanish- See note 5)

(Amounts stated in millions of Colombian pesos)

	2013	2012
Net income	12,986,466	12,498,850
Service rendering costs	(8,123,451)	(7,703,343)
Depreciation, provision and amortization	(946,320)	(1,094,129)
<b>GROSS SURPLUS</b>	<b>3,916,695</b>	<b>3,701,378</b>
Administrative expenses	(1,069,680)	(1,025,631)
Depreciation, provision and amortization	(338,364)	(287,183)
<b>OPERATING SURPLUS</b>	<b>2,508,651</b>	<b>2,388,564</b>
Non-operating income, net	827,025	856,093
Non-operating expenses, net	(1,009,906)	(927,383)
<b>NON-OPERATING SURPLUS</b>	<b>(182,881)</b>	<b>(71,290)</b>

<b>SURPLUS FROM THE PERIOD BEFORE TAXES</b>	<b>2,325,770</b>	<b>2,317,274</b>
Income tax provision and income tax for equity-CREE, net	(599,016)	(629,013)
<b>SURPLUS FOR THE PERIOD BEFORE MINORITY INTERES</b>	<b>1,726,754</b>	<b>1,688,261</b>
<b>Minority interes</b>	<b>(101,941)</b>	<b>(96,335)</b>
<b>NET SURPLUS</b>	<b>1,624,813</b>	<b>1,591,926</b>

**JUAN ESTEBAN CALLE RESTREPO**  
 General Manager  
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**DIANA OLIVA RÚA JARAMILLO**  
 Corporate Finance Vice President

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## Cash flow statement

**Empresas Públicas de Medellín E.S.P**  
**Consolidated Statement of Cash Flows**  
**At December 31, 2013 and 2012**

(Amounts stated in millions of Colombian pesos)

### Cash flow statement



**Empresas Públicas de Medellín E.S.P**

**Consolidated Statement of Cash Flows**

**Por el periodo comprendido entre el 1 de enero y el 31 de diciembre de 2013 y 2012**

(Translation of financial statements originally issued in Spanish- See note 5)

(Amounts stated in millions of Colombian pesos)

	2013	2012
<b>Cash flows from operating activities</b>		
<b>Period surplus</b>	<b>1,624,813</b>	<b>1,591,926</b>
<b>Movement of items not involving cash</b>		
Deferred Income tax	7,511	(35,173)
Depreciation, provision and amortization	1,150,065	1,272,460
Actuarial computation	134,835	109,786
Traslation adjustment	288,469	(226,875)
Minority interest	101,941	96,335
Other non-cash items of income and expenditure	74,183	132,022

**Changes from operation activities**

Accounts receivable	(619,676)	(211,174)
Inventories	(14,268)	(22,703)
Other assets	(87,208)	(52,385)
Accounts payable	82,499	(394,996)
Third parties collections and other liabilities	(289,153)	(98,918)
Labor obligations	(80,713)	(87,170)
<b>Net cash provided by operating activities</b>	<b>2,373,298</b>	<b>2,073,135</b>

**Cash flow from investments activities**

Assets and infrastructure investments	(2,919,439)	(1,866,903)
Bussiness combination	(62,980)	-
Other assets	(125,844)	84,805
<b>Net cash used in investments activities</b>	<b>(3,108,263)</b>	<b>(1,782,098)</b>

**Cash flows from financing activities**

Public credit and treasury disbursements	1,484,653	1,799,072
Capital amortizations	(367,732)	(1,032,614)
Surplus paid to the Municipity of Medellin	(1,183,493)	(839,842)
<b>Net cash used in financing activities</b>	<b>(66,572)</b>	<b>(73,384)</b>
<b>Net cash (decrease) increase and cash equivalents</b>	<b>(801,537)</b>	<b>217,653</b>
Cash and cash equivalent at beginning of period	3,397,656	3,180,003
<b>Cash and cash equivalents at end of period</b>	<b>2,596,119</b>	<b>3,397,656</b>

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*Juan Esteban Calle Restrepo*      *Diana Oliva Rúa Jaramillo*      *Carlos Mario Tobón Osorio*

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General Manager  
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Corporate Finance Vice President

**CARLOS MARIO TOBÓN OSORIO**

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Cash flow statement

## Equity change statement

**Empresas Públicas De Medellín E.S.P**  
**Consolidated statement of changes in Equity**  
**At December 31, 2013 and 2012**  
(Amounts stated in millions of Colombian pesos)

### EConsolidated statement of changes in Equity



**Empresas Públicas de Medellín E.S.P**

**Consolidated statement of changes in Equity**

**At December 31, 2013 and 2012**

(Translation of financial statements originally issued in Spanish- See note 5)  
(Amounts stated in millions of Colombian pesos)

	Tax capital	Surplus on donation	Reserves (Note 28)	Non-appropriate retained earnings (Note 29)	Equity revaluation	translation adjustment	Surplus on revaluation of assets	Total equity
Balances as of December 31, 2011	67	114,319	3,570,014	4,915,872	2,437,797	55,908	8,799,447	19,893,424
Appropriation of reserves			9,625	(9,625)				-
Revaluation movements							488,278	488,278
Ordinary and extraordinary surplus				(789,841)				(789,841)
Movements for the year						(124,058)		(124,058)
Net surplus for 2012				1,591,926				1,591,926

<b>Balances as of December 31, 2012</b>	<b>67</b>	<b>114,319</b>	<b>3,579,639</b>	<b>5,708,332</b>	<b>2,437,797</b>	<b>(68,150)</b>	<b>9,287,725</b>	<b>21,059,729</b>
Appropriation of reserves				-				-
Revaluation movements							597,529	597,529
Ordinary and extraordinary surplus				(1,234,557)				(1,234,557)
Movements for the year								-
Net surplus for 2013				1,624,813				1,624,813
<b>Balances as of Decembe 31, 2013</b>	<b>67</b>	<b>114,319</b>	<b>3,579,639</b>	<b>6,098,588</b>	<b>2,437,797</b>	<b>(68,150)</b>	<b>9,885,254</b>	<b>22,047,514</b>



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General Manager  
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## 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, with the 55 related parties are part of it, is present in Bermuda, Chile, Colombia, El Salvador, Spain, United States, Guatemala, Cayman Islands, Mexico and Panama.

EPM is a municipal decentralized entity created in Colombia by means of 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 company through Agreement 069 of December 10, 1997, issued by the City Council of Medellín. As a result of its legal nature, EPM has administrative and financial autonomy and its own equity, in accordance with Article 85, Law 489 of 1998. All the capital of its incorporation and its current operation, as well as its equity, is public, its sole owner being the Municipality of Medellín. Its main domicile is located at Carrera 58 No. 42-125, Medellín, Colombia. No duration term has been established for the company.

The corporate object of EPM is to provide domiciliary public utilities of water, sewage, power, fuel gas distribution, basic public switched fixed-line telephone system, and local mobile telephone in the rural sector, and other telecommunications services. The company may also provide public waste collection, treatment and use services, as well as all complementary activities proper of each of these public utilities.

The EPM Group offers its services through three business groups and other segments:

- ♦ Energy: made up by the business of Generation, Transmission, Distribution and Commercialization of Energy and Distribution of Natural Gas.
- ♦ Water: consisting of the waterworks, wastewater and cleaning and sanitation businesses.
- ♦ Telecommunications: in October 2013 the framework agreement was signed whereby the negotiation of the merger between UNE and Millicom was closed, whereby EPM will have the majority shareholding in the merged company with a participation of 50% and 1 share in the capital stock. Millicom, in turn will own the remaining shares, assume and administrative and operating control of the entity and the full consolidation of the financial statements.
- ♦ Other segments: made up by the investment vehicles: EPM Inversiones, PDG, EPM Chile, EPM Capital Mexico. Additionally, there is Max Seguros Ltd, captive reinsurance company, incorporated to negotiate, contract and provide reinsurance services.

### EPM Group structure

Following is a detail of the companies related to the EPM Group, indicating the direct or indirect participation that EPM has within the companies:

#### Direct or indirect participation that EPM has within the companies



Company	Location	Corporate purpose	Direct participation percentage		Creation date
			2013	2012	
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	Armenia	Rendering of public utilities of electric power; purchase, sale and distribution of electric power; these activities shall be conducted through the execution of policies, plans, programs and projects concerning distribution and commercialization of electric power, as well as related management, handling and uses in conformity with the regulations, guidelines and standards issued by the MME, primarily	92.85%	92.85%	December 22, 1988

			regulations, guidelines and standards issued by the INMIVC, primarily fulfilling the social function framed by such activity.			
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)		Manizales	Rendering of essential public utilities of electric power, mainly exploitation of electric power generation plants, transmission and sub transmission lines, and distribution network; purchase, sell and distribution of electric power; construction or acquisition of electric power generation plants, substations, transmission lines, distribution networks, and all sorts of installations related to production, purchase and sale of electric power, as well as commercialization, imports, distribution and sell of electric power.	80.10%	80.10%	Septiembre 9, 1950
Electricadora de Santander S.A. E.S.P. (ESSA)		Bucaramanga	Rendering of residential public utilities of electric power and related complementary activities of generation, transmission, distribution and commercialization, as well as rendering of services related to public utilities activities, in accordance with the legal and regulatory framework.	74.05%	73.89%	September 16, 1950
Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS)		Cúcuta	Rendering of electric power utility, for which the following operations are performed, among others: purchase, exports, imports, distribution and sell of electric power and other energy sources; construction and exploitation of electric power stations, generating plants and substations, and the construction and exploitation of transmission and sub transmission lines and distribution networks.	91.52%	91.52%	October 16, 1952
Elektra Noreste S.A. (ENSA)		Panamá City	Rendering of electric power utility, for which the following operations are performed, among others: purchase, transport through the distribution network, tension transformation, to install, operate and maintain public lightning in the concession area. Also, the entity is authorized to generate energy power with a limit of 15% in respect of the maximum energy in the concession area.	51.00%	51.00%	January 19 1998
Hidroecológica del Teribe S.A. (HET)	(i)	Panamá City	Finance the construction of the Bonyic Hydroelectric project to meet the growing demand of electric power in the Isthmus of Panama.	99.99%	97.09%	November 11, 1994
Empresa Eléctrica de Guatemala S.A. (EEGSA)		Guatemala City	To commercialize energy.	80.90%	80.90%	Octubre 5, 1939
Gestión de Empresas Eléctricas S.A. (GESA)		Guatemala City	Provide advisory and consultancy services to companies of electric power distribution, generation and transportation.	100.00%	100.00%	December 17, 2004
Almacenaje y Manejo de Materiales Eléctricos S.A. (AMESA)		Guatemala City	Guatemala City To provide outsourcing services to the materials administration area.	100.00%	100.00%	March 23, 2000
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.	80.90%	80.90%	December 1, 1992
Distribuidora de Electricidad del Sur (Delsur)		San 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

Innova Tecnología y Negocios S.A. de C.V.		San Salvador	To provide services specialized in electric engineering and electrical appliances sale to electricity users of Delsur.	100.00%	100.00%	October 19, 2010
Parque Eólico Los Cururos Ltda.	(2)	Santiago de Chile	Electricity generation through all types of fuels and renewable energy in any form, such as wind, photovoltaic and biomass. Transmission, purchase and sale of electricity to customers either or any interconnected system. Elaborate, execute, implement, manage and maintain projects related to the use of renewable energy, cogeneration or regeneration.	100.00%	N.A.	August 26, 2011
Parque Eólico La Cebada S.A.	(3)	Santiago de Chile	Electricity generation through all types of fuels and renewable energy in any form, such as wind, photovoltaic and biomass. Transmission, purchase and sale of electricity to customers either or any interconnected system. Elaborate, execute, implement, manage and maintain projects related to the use of renewable energy, cogeneration or regeneration.	100.00%	N.A.	February 17, 2011
Aguas Nacionales EPM S.A. E.S.P.		Medellín	Rendering of residential public utilities of water, sewage draining, sanitation, and treatment and use of waste material and related complementary activities and engineering services pertaining to those public utilities.	99.99%	99.99%	November 29, 2002
Aguas de Urabá S.A. E.S.P.		Apartadó	Ensure the rendering of residential public utilities of water, draining and sanitation and compensate for the underdevelopment of infrastructure for those services in associate municipalities.	63.42%	63.42%	January 18, 2006
Empresas Públicas del Oriente S.A. E.S.P.		Rionegro	Rendering of public utilities of water and draining services for rural areas and sub urban areas of the Municipalities of Envigado, Rionegro and El Retiro, in the so called Valle de San Nicolás.	58.33%	58.33%	November 12, 2009
Empresa de Aguas del Oriente Antioqueño S.A. E.S.P.		El Retiro	Rendering of residential public utilities of water and draining, as well as other complementary activities related to each of those public utilities.	56.01%	56.01%	November 22, 1999
Regional de Occidente S.A. E.S.P.		San Jerónimo	Rendering of residential public utilities of water, draining and sanitation, as well as other complementary activities related to each of those public utilities and treatment and use of waste material.	62.11%	62.11%	December 26, 2006
Aguas de Malambo S.A. E.S.P.	(4)	Malambo	Ensure the rendering of residential public utilities of water, draining and sanitation within the jurisdiction of the Municipality of Malambo in the Department of Atlántico.	87.99%	78,32%	November 20, 2010
Aquasol Pachuca S.A. de C.V.	(5)	Pachuca de Soto	Preparation of the final design, construct, equipment and operation of a wastewater treatment plant, in the city of Pachuca de Soto. Develop potable water projects and water treatment plants.	57.60%	N.A.	July 5, 2004
Ecosistemas de Colima S.A. de C.V.	(5)	Colima	Preparation of the final design, construct, equipment and operation of a wastewater treatment plant, covers a period of one year for the construction, testing and commissioning, and 19 years for the operation, preservation and maintenance of the plant, and stabilization of sludge generated in the municipalities of Colima and Villa de Alvarez, in the Colima State.	79.99%	N.A.	February 14, 2006

Construction, equipping, testing, commissioning, operate and maintain



Ecosistemas de Tuxtla S.A. de C.V.	(5)	Tuxtla	Construction, equipping, testing, commissioning, operate and maintain a wastewater treatment system, as well as the execution of additional works, in the form of total private recoverable investment . Develop potable water projects and water treatment plants.	80.40%	N.A.	November 17, 2006
Ecosistemas de Uruapan S.A. de C.V.	(5)	Uruapan	Rendering of residential public utilities of water, draining and sanitation within the jurisdiction of the Municipality of Uruapan, Michoacán. It also is subject to the preparation of the final design for a wastewater treatment plant. It comprises a period of one year to prepare the final design, construction, equipment, testing and commissioning and 15 years for the operation, preservation and maintenance of the plant.	80.20%	N.A.	November 18, 2009
Ecosistema de Ciudad Lerdo S.A. de C.V.	(5)	Lerdo Durango	Construction, equipping, commissioning, operation and maintenance for 20 years a sewage treatment system in the City of Lerdo, Durango, and the execution of additional works in the mode of total private recoverable investment.	80.00%	N.A.	April 24, 2007
Aquasol Morelia S.A. de C.V.	(5)	Morelia	Construction of a wastewater treatment plant, as well as the equipment and operation of the plant in Atapaneo in the Municipality of Morelia, Michoacan State.	100.00%	N.A.	November 13, 2003
Ecosistemas de Celaya S.A. de C.V.	(5)	Celaya	Preparation of the final design, construct, equipment and operation of a wastewater treatment plant, as well as the transport and disposal of solid waste and sludge generated by the plant, in the city of Celaya, Guanajuato State.	80.00%	N.A.	December 5, 2008
Ecosistema de Morelos S.A. de C.V.	(5)	Cuernavaca	Preparation of the final design, construct, equipment, testing, commissioning, operate, conserve and maintain the wastewater treatment plant in Acapantzingo, Municipality of Cuernavaca, Morelos State.	80.00%	N.A.	November 17, 2009
Desarrollos Hidráulicos de TAM S.A. de C.V.	(5)	México City	Desing projects, construction, equipment, expansion, improvement, preservation, maintenance, establishment and operation of all types of water supply systems and sewerage and drainage works as well as the collection and sewage treatment and all types of solid waste.	79.29%	N.A.	August 25, 1995
Ecoagua de Torreón S.A. de C.V.	(5)	Torreón	Provide services for wastewater treatment operation, whether municipal or domestic, as well as activities related to the treatment of wastewater.	80.00%	N.A.	October 25, 1999
Sistema de Aguas de Tecomán S.A. de C.V.	(5)	Tecomán	Preparation of the final design, construct, equipment and operation of a wastewater treatment plant, covers a period of one year for the construction, testing and commissioning, and 19 years for the operation, preservation and maintenance of the plant, and stabilization of sludge generated.	49.60%	N.A.	August 21, 2009
Proyectos de Ingeniería Corporativa S.A. de C.V.	(5)	México City	Providing the services of design, general, engineering or the construction, professional and technical services, manage and carry out all the activities needed for the development of a company, commercial, industrial or services in the form of individuals or legal persons.	98.00%	N.A.	Agosto 8, 2011
Corporación de Personal Administrativo	(5)	México City	Providing the professional services towards to operate, manage and carry out all the activities needed for the development of a company, commercial, industrial or services in the form of individuals or legal	98.00%	N.A.	Agosto 8, 2011

S.A. de C.V.	(5)	Mexico City	Commercial, industrial or services in the form of individuals or legal persons, as well as the management, recruitment, hiring and interchange of staff that perform functions at the petitioner companies	70.00%	N.A.	August 6, 2011
Empresas Varias de Medellín S.A. E.S.P.	(6)	Medellín	Rendering of cleaning public utilities as part of the integral management waste collection treatment.	99.90%	N.A.	January, 1964
EPM Inversiones S.A.		Medellín	Capital investment in domestic or foreign societies organized as public utilities companies.	99.99%	99.99%	August 25, 2003
UNE EPM Telecomunicaciones S.A.		Medellín	Rendering of telecommunications services, information and communication technology services, information services and complementary activities.	99.99%	99.99%	June 29, 2006
Eritelco S.A.		Medellín	Rendering of telecommunications services, information and communication technology services, information services and complementary activities.	99.93%	99.93%	July 21, 1994
Edatel S.A. E.S.P.		Medellín	Rendering of telecommunication, information and communications technologies services and information services as well as complementary activities.	56.00%	56.00%	December 17, 1969
Empresa de Telecomunicaciones de Pereira S.A. (ETP)		Pereira	Rendering of telecommunication, information and communications technologies services and information services as well as complementary activities.	99.98%	56.14%	May 16, 1997
Cinco Telecom Corporation (CTC)		Miami	Rendering of telecommunication, information and communications technologies services and information services as well as complementary activities.	100.00%	100.00%	December 24, 2001
Orbitel Comunicaciones Latinoamericanas S.A.U. (OCL)		Madrid	Rendering of telecommunication, information and communications technologies services and information services as well as complementary activities.	100.00%	100.00%	July 22, 2003
Orbitel Servicios Internacionales S.A. (OSI)		Rionegro	Rendering of telecommunication, information and communications technologies services and information services as well as complementary activities.	99.99%	99.99%	June 27, 2003
Maxseguros EPM Ltd.		Bermudas	Negotiation, contracting and handling of reinsurance for policies covering equity.	100.00%	100.00%	April 23, 2008
Panama Distribution Group S.A. (PDG)		Panamá City	Capital investments in partnerships.	100.00%	100.00%	October 30, 1998
Distribución Eléctrica Centroamericana DOS S.A. (DECA II)		Guatemala City	Capital investments in companies dedicated to distribution and commercialization of electric power and to provide telecommunication services.	100.00%	100.00%	March 12, 1999
Inmobiliaria y Desarrolladora Empresarial de América S.A. (IDEAMSA)		Guatemala City	Investment in real estate.	80.90%	80.90%	June 15, 2006
AEI El Salvador Holding S.A.		Panamá City	Capital investments in partnerships.	100.00%	100.00%	May 17, 2007
Electricidad de Centroamérica Ltda. de C.V. (ELCA)		Santa Tecla	Investment in shares and other securities titles, and advisory to DELSUR company.	100.00%	100.00%	December 9, 1997
PPLG El Salvador II		Caimán	Capital investments in partnerships.	100.00%	100.00%	April 9, 1999

EPM Capital México S.A. de C.V.		México City	Develop infrastructure projects of any kind, including but not limited to projects related to electric power, public lighting, gas, telecommunications, sanitation, treatment plants for potable water, draining, sewage treatment plants, wells, buildings, as well as the operation, studies and services in all fields and branches in connection with the above.	100.00%	100.00%	May 4, 2012
EPM Chile S.A.	(9)	Santiago de Chile	Develop infrastructure projects of any kind, including but no limited to projects related to electric power, public lighting, gas,Telecommunications, sanitation, treatment plants for potable water, draining, sewage treatment plants,wells; render electric power services, water and cleanness; participate in all kind of competity ,tenders, of kind private or public .	100.00%	N.A.	February 22, 2013
Tecnología Intercontinental S.A. de C.V. (TICSA)	(5)	México City	Study, development, promotion and execution of industrial projects and processes, as well as the design, manufacture, assembly and machinery assembly, the development of technology including its commercialization, commercial representation and trade.	80.00%	N.A.	Julio 28, 1980
<b>Liquidation of companies 2013:</b>						
CENS Inversiones S.A. en Liquidación	(7)	Cúcuta	Capital investment in companies organized as public utility service companies in the electric power sector, regardless of the type or nature of those public utilities, and entities whose corporate purpose relates to the complementary activities included in Act 142 of 1994, or in any complementary regulation, rescinding, developing or amending the above.	N.A.	99.47%	August 24, 2012
ESSA Capital S.A. en Liquidación	(8)	Bucaramanga	Capital investment in companies organized as public utility service companies in the electric power sector, regardless of the type or nature of those public utilities, and entities whose corporate purpose relates to the complementary activities included in Act 142 of 1994, or in any complementary regulation, rescinding, developing or amending the above.	N.A.	N.A.	February 20, 2013
EPM Ituango S.A. E.S.P. en Liquidación	(10)	Medellín	Financing, construction, operation, maintenance and commercial exploitation of Ituango Hydroelectric power station and the Hydroelectric Society Ituango S.A. E.S.P. upon termination of the contracts subscribed with the latter.	N.A.	99.41%	March 31, 2011
Espíritu Santo Energy S. de R.L.	(11)	Panama City	Execute, organize, take in to and promote the purchase , sale and distribution of electric power, also, the company will render the public electric power generation.	N.A.	N.A.	March 27, 2009
Espíritu Santo Colombia S.A.S. E.S.P.	(11)	Bogotá D.C.	Rendering of residential public utilities of electric power and related complementary activities of generation and transmission.	N.A.	N.A.	May 28, 2009

Direct or indirect participation that EPM has within the companies

- Under the local accounting rule of Panama, IFRS, this Company recognized an impairment that implied an expense in its financial statements; however, in the homologation of the Colombian accounting practices the recognition of this expense is not applicable.
- Company (formerly Sociedad Pacífico S.A.) acquired in March 2013 through the affiliates EPM Chile and EPM investments. On April 2013 it changed its corporate name and corporate form.
- Company acquired in March 2013 through the affiliates EPM Chile and EPM investment.
- Company to which a capitalization was made in June 2013 reaching a participation of 87.99%.
- In September 2013 a capitalization was made equivalent to 80% of the shares of the company Tecnología Intercontinental S.A. de C.V. (TICSA), through the affiliate EPM Capital México S.A. de C.V. TICSA is holding company consisting of 13 companies.
- On November 1, 2013 EPM acquired 99,90% of the shares.
- Company founded in August 2012 by the cleavage of Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS). On August 9, 2013 the liquidation of the company was recorded in the Chamber of Commerce of Cúcuta.
- Company formed in February 2013 by the cleavage Electricadora Santander SA E.S.P. (ESSA). On August 1, 2013 the liquidation of the company was recorded in the Chamber of Commerce of Bucaramanga.
- Company formed in February 2013 in Chile.
- On March 12, 2013, the dissolution of this company was registered in the Chamber of Commerce of Medellin. In an extraordinary meeting of November 29, 2013, the General Stockholders Meeting of EPM Ituango S.A. en Liquidación approved the final liquidation account and the distributions of the remnants. The commercial registration in the Chamber of Commerce of Medellin was cancelled on January 15, 2014.
- Companies acquired in January 2013.

On October 8, 2013 through deed of Notary Fifth of the Republic of Panama, the liquidation of the company Espiritu Santo Energy S. de R.L. was notarized.

In meeting of November 29, 2013, the General Stockholders' Meeting of Espiritu Santo Colombia S.A.S. E.S.P. en Liquidación, approved the liquidation accounts and the distribution of remnants.

## Note 2 - Legal and regulatory framework

The activities performed by EPM, rendering of domiciliary public utilities, are regulated in Colombia, Guatemala, El Salvador, Panamá, Chile and México. The most significant applicable regulatory aspects are the following:

### 2.1 Regulations in Colombia

#### 2.1.1 General aspects

The Political Constitution of Colombia of 1991 provided that public utilities are inherent to the State's social purpose and that its duty is to ensure the efficient rendering of those services to all inhabitants of the national territory. The Constitution also establishes that it corresponds to the President of the Republic to point out, in compliance with the law, the general administration and efficiency control policies of domiciliary public utilities, exercising, through the Superintendence of Domiciliary Public Utilities, the control, inspection and monitoring of the entities that provide them.

Law 142 of 1994, the Public Utilities Law, defines the general criteria and the policies that must rule the rendering of domiciliary public utilities in the country and the procedures and mechanism for their regulation, control and monitoring.

Law 143 of 1994, the Electric Law, made viable the constitutional approach and regulates the generation, transmission, distribution and commercialization of electric power, at the same time that it created market environment and competition, strengthened the sector and limited the State's intervention.

Because it is a company engaged in the rendering of domiciliary public utilities, EPM is governed by laws 142 and 143 of 1994. Therefore, according to those laws and to Law 689 of 2001, the contracting regime that rules it is private law, without waiving the obligations to follow the general public function principles set forth in the Constitution and other principles that rule the provision of domiciliary public utilities. Likewise, 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's Controller Office and to the disciplinary control of the General Attorney's Office.

#### 2.1.2 Regulation commissions

The President's function of establishing general policies for administration and efficiency control of residential public utilities was delegated to the Regulatory Commissions by means of Decree 1524 of 1994.

In Colombia, Regulatory Commissions have the function of regulating monopolies in the rendering of public utilities when competition is not possible. In all other cases, the function is to promote the competition among those who provide public utilities, in order that the operations of the competitors will be economically efficient, do not imply abuse in the dominant position and produce quality services. These entities are the following:

- ◆ The Energy and Gas Regulatory Commission (CREG, for its initials in Spanish) technical entity attached to the Ministry of Mines and Energy (MME) that regulates the energy sale rates and aspects related to the operation of the Wholesale Energy Market and the rendering of the electric power and gas services.
- ◆ The Potable Water and Basic Sanitation Regulatory Commission (CRA, for its initials in Spanish), regulates the water and sewage rates, technical entity attached to the Ministry of Housing, City and Territory.
- ◆ 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 domiciliary public utilities is made up by rules related to procedures, methodologies, formulas, structures, socioeconomic groups, billings, options, values and, in general, all aspects that determine the charge of the rates. According to the Public Utilities Law said regime is oriented by the criteria of economic efficiency, neutrality, solidarity, redistribution, financial sufficiency, simplicity and transparency.

Entities that provide residential public utilities must observe formulas periodically defined by the respective Regulatory Commission to set their tariffs. In this respect, the regulatory commission may establish maximum and minimum tariff limits that must be mandatorily complied by the companies; it may also define the methodologies to determinate the rates and the convenience of applying the regulated or supervised freedom system, in accordance with market conditions.

Notwithstanding other alternatives that might be defined by the Regulatory Commissions, the factors in tariff formulas may include a charge per consumption unit, a fixed charge and a connection contribution charge, the collection of which, under no circumstance, may contradict the principle of efficiency, nor transfer the cost of an inefficient management to the user, nor derive benefits from dominant or monopolistic positions. Regulatory Commission may design and disclose to the public various tariff options that take into consideration optimal rate designs..

Based on legal provisions, the tariff formulas have a term of five years. After which the commissions must review them to adjust them to the particular dynamics of the sector and of the economy in general.

Additionally, the tariff system includes the criteria of solidarity and income redistribution, whereby subscribers of lower socioeconomic levels are benefited with subsidies on basic consumption 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 sector**

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

For these utilities the CRA adopted the regulated freedom system, whereby the prices are set by the local rate-setting entity, in accordance with the methodology defined in resolution CRA 287 of 2004 and its complementary regulations. For service suppliers different from the municipality, the local rate-setting entity corresponds to the board of directors of the supplier company.

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

For each utility, pricing includes the following components:

#### **2.1.4.1.1 Water supply service**

The Tariff of this service includes a fixed charge and a charge for consumption.

The fixed charge represents the costs incurred by EPM to guarantee the permanent availability of the service. This charge includes costs related to the administrative and commercial activity for the rendering of this service, affected by the comparative efficiency score, calculated based on the Data Envelopment Analysis (DEA) technique.

The charge for consumption reflects the costs to operate and maintain the system, as well as the investment, replacement and rehabilitation costs, and the infrastructure recognition at the time of the computation. This charge also considers the average costs of environmental rates, which reflect the obligation to which water supply companies are subject by environmental authorities. These rates reflect the obligation arising from the use of the resource and are regulated by the Ministry of the Environment and Sustainable Development.

#### **2.1.4.1.2 Basic sanitation service**

As in the case of the water supply utility, in the sanitation service a fixed charge and a charge for use. The fixed charge represents the costs incurred by the companies to guarantee the permanent availability of the service, including the accounting costs associated to the administrative and commercial activity of providing the service, affected by the comparative efficiency score calculated based on the DEA technique.

The charge for consumption reflects the costs to operate and maintain the system, as well as the investment, replacement, rehabilitation costs, and the infrastructure recognition at the time of the computation. This charge also includes the average cost of environmental rates, which reflect the obligation to which sewage companies are subject under environmental authorities for compensatory rates for the subscriber's wastewater disposal into receiving sources.

#### **2.1.4.1.3 Cleaning and sanitation service**

The rates of the ordinary public utility service of cleaning and sanitation consider, on one hand, the regulatory provisions on the subject of pricing, and on the other, the regulation for the design of the subsidy and contribution scheme.

For these services, the CRA (Potable Water and Basic Sanitation Regulation Commission, for its initials in Spanish), adopted the regulated freedom regime; for the case of cleaning and sanitation the regulation is of price ceiling, thus the CRA estimates maximum prices at which the public utility companies may provide the service, and develops the rate methodologies in order to establish the maximum rate in each market. Prices are set by the local rate fixing entity (Board of Directors), in conformity with the methodology defined in Resolutions CRA 351 and 352 of 2005 and their complementary regulations.

Rates include the services of solid waste collection, transportation and final disposal, as well as the sweeping and cleaning of roads and public areas.

#### 2.1.4.1.4 Subsidies and contributions

In the water supply and basic sanitation services, the balances between contributions and subsidies are calculated in accordance with Law 632 of 2000, Law 1450 of 2011, Decrees 1013 of 2005 and 4924 of 2011, which established minimum contribution factors applicable to subscribers of socioeconomic levels 5 and 6, industrial and commercial subscribers; the methodology to find balance between contributions from the various sources and subsidies for socioeconomic level 1, 2 and 3, as well as the creation of a common pool of minimum contributions for municipalities served by the same supplier. According to the latter, these contributions are distributed among the municipalities according to the percentage that each municipality assigns to cover subsidies, and to the total demand for resources required to cover said subsidies.

In the ordinary public cleaning and sanitation services, the balance between contributions and benefits are calculated in accordance with Act 632 of 2000, Act 1450 of 2011, Decree 1013 of 2005, which set the minimum applicable factors contributing to level 5, 6, industrial and commercial users; the methodology balance between the contributions of the different sources and subsidies in level 1, 2 and 3.

According to legal regulations, subsidies cannot in any case exceed the value of basic subsistence consumption or be higher than seventy percent (70%) of the average cost of the supply for level 1, forty percent (40%) for level 2 and fifteen percent (15%) for level 3. While the factors of solidary contribution for the public utilities of water supply and sewage will be minimum the following: residential subscribers of level 5, fifty percent (50%); residential subscribers of level 6, sixty percent (60%); commercial subscribers fifty percent (50%); and industrial subscriber thirty percent (30%).

#### 2.1.4.2 Electric power sector

##### 2.1.4.2.1 General

Law 143 of 1994 segmented the electric power service into four activities: generation, transmission, distribution and commercialization, which may be carried out by independent companies. The legal framework's purpose is to supply the demand of electricity under economic and financial viability criteria and move towards an efficient, secure and reliable operation of the sector.

Based on these laws 142 and 143 of 1994, the CREG designs, regulates and implements the institutional and regulatory framework of the Colombian electric sector by means of specific resolutions for each of the activities of the electric power service chain.

##### 2.1.4.2.1.1 Activities of the electric power sector

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

**Generation:** Consists in the production of electric power based on different sources (conventional or non-conventional), whether this activity is performed exclusively or combined with another or other activities of the electricity sector, regardless of which of them is the main activity.

**Transmission:** The national transmission activity is the transportation of electric power in the National Transmission System (STN, for its initials in Spanish). It is made up by the set of lines, together with their corresponding connection equipment, that operate at voltages equal to or higher than 220 kV. The National Transmitter is the legal person that operates and transport electric power in the STN or has incorporated a company which object is the performance of said activity.

**Distribution:** Consists in transporting electric power through a set of lines and substations, with their associated equipment, that operate at voltages lower than 220 kV.

**Commercialization:** Activity consisting in the purchase of electric power in the wholesale market and its sale to other market agents or end subscribers regulated or not regulated, whether this activity is performed exclusively or combined with other activities of the electric power sector, regardless of which of them is the main activity.

Law 143 of 1994 prohibits the vertical integration between generators and distributors, but allows that both agents may perform the commercialization activity. For the transmission, it defined that the companies that perform it must have this activity as their exclusive object. However, companies that as of the date of passing of Law 143 of 1994 were vertically integrated could continue being so, provided that they keep separate accountings for the various activities

By means of Resolution 011 of 2006, and its amendments, and Resolution 060 of 2007, the CREG established the limits of participation of the companies in each one of the activities of the sector, defining also the methodologies for calculation of such participation.

For the generation activity, it established a differential regulation, according to the participation of the agent in the electric power generation activity and the market concentration. In this manner, this allows that under certain market concentration conditions, an agent may have up to 30% participation in this activity.

For the distribution activity the participation limits were released, while for the case of commercialization it was established that no company may have, directly or indirectly, a market share in excess of 25.49%, determined according to the calculation methodology defined in Resolution CREG 001 of 2006, modified by Resolutions CREG 163 of 2008 and 024 of 2009.

#### 2.1.4.2.1.2 Wholesale Electric Power Market (MEM, for its initials in Spanish)

Law 143 of 1994 defined the Wholesale Electric Power Market (MEM) in the following terms: "The market of large blocks of electric power, in which generators and commercialization agents sell and buy energy and power in the National Interconnected System (NIS), subject to the operating regulations"...Its operation is based on the existence of an electric exchange market, where commercial interchanges are made, and a central operator of the NIS called National Dispatch Center (NDC). Resolution CREG 024 of 1995 regulated the commercial aspects of the MEM and Resolution CREG 025 of 1995 the operating aspects of the NIS.

Transactions performed between generators and commercialization agents are made through two mechanisms:

**Bilateral agreements:** Power purchases intended to the regulated market must be made through mechanisms that encourage free competition and that request and give an opportunity under equal conditions to all interested agents to submit their offers, which must be evaluated based on the price. Vertically integrated companies with the generation activity can only self-purchase up to 60% of the power intended to their regulated market and must participate as any other generator in the public bid for power purchases. For the non-regulated market power purchases are made through direct negotiations between generators and commercialization agents or non-regulated subscribers.

**Energy Exchange Market:** It is a system whereby energy is sold and purchased in the short term (hour by hour), based on a model of free competition between supply and demand. The generation resources offered to cover the demand are dispatched from lower to higher price, using for this purpose model of optimization by day, based on which the hourly exchange rate is set.

#### 2.1.4.2.2 Power generation activity

It is an activity open to competition and for this reason the prices are market defined. Generator agents subject to central dispatch, with an installed capacity equal to or in excess of 20 MW, carry out their electric power transactions in the MEM. In addition, the following types of generators are part of the system:

- ◆ Small-size plants: Those with installed capacity of less than 20 MW. The regulations applicable to commercial transactions carried out by these agents are included in CREG Resolution 086 of 1996.
- ◆ Self-generator: Natural or legal person who produces electric power exclusively to take care of its own needs. It uses the public network only to obtain support from the SIN (CREG Resolution 086 of 1996).
- ◆ Cogenerator: Natural or legal person who produces energy using a cogeneration process (CREG Resolution 005 of 2010). This process consists in the combined production of electric power and thermal power that forms integral part of the productive activity of those who produce that power, both intended to their own consumption or that of third parties in industrial or commercial processes.

Revenues from the generation activity proceeds basically from power sales through bilateral agreements in the regulated and non-regulated markets, of the power market exchange, the Automatic Generation Control (AGC) service and the reliability charge.

By means of CREG Resolution 071 of 2006, and its subsequent amendments, the methodology was established for remunerating the reliability charge to MEM generators. This charge intends to promote the expansion of the electric power generation capability in the country and make sure that the generation resources are available to supply the demand in critical hydrology events. To this end, the Firm Power Obligations (OEF, for its initials in Spanish) that are required to cover the system's objective demand defined by the regulator are auctioned.

The generator to which OEFs are assigned receives a known remuneration that is stable during a determined term, and agrees to deliver this energy when the exchange price exceeds the threshold previously established by the CREG, known as "scarcity pricing". The Administrator of Commercial Interchanges (ASIC, for its initials in Spanish) calculates, collects and distributes this revenues and it is paid by regulated and non-regulated subscribers of the SIN through the rates charged by the commercialization agents.

The implementation of CREG Resolution 071 of 2006 had a transition period from December 1, 2006 up to November 30, 2012. During this period, both the mechanism of assignment of the reliability charge and the determination of the price were managed centrally. In this transition the price of the OEF was of 13,045 USD /MWh (USD of 2006).

From November 30, 2012 to November 30, 2015, the OEF price is \$13,008 USD /MWh (USD of 2008) and corresponds to those OEFs assigned through the first auction that took place on May 6, 2008; this value applies both for existing plants and for new plans with OEF assignment in the auction process. As of December 1, 2015 the reliability charge will have a value of USD 15.70 USD /MWh (USD of 2011), according to the results of the auction of December 27, 2011.

#### 2.1.4.2.3 Energy transmission activity

##### 2.1.4.2.3.1 General aspects of regulations in effect

The most relevant aspects of the regulatory framework in effect of this activity are contained in CREG Resolution 011 of 2009, which are summarized below.



The remuneration methodology of the National Transmission activity is known as “regulated income”, whereby the maximum annual income that remunerates each national transmitter are established, in accordance with the assets effectively owned in the STN. For the above, typical constructive units were established valued at replacement cost as new, useful lives, administration, operation and maintenance expenses (AOM) and a discount rate applicable to the assets were defined.

These revenues are collected through the application of some charges for the use of the STN, which are paid by the commercialization agents of the SIN (demand), determined in accordance with the methodology established in CREG Resolution 103 of 2000, which is based on a national stamp charge with time differentiation by loan period that permits to remunerate transporters of the STN. The resulting charge and collection of the application of charges for the use of the STN are managed centrally through the person in charge of the Account Assessment and Administration (LAC, for its initials in Spanish) of the STN, who bills and calculates the charges for use.

On the subject of quality, the transmission agents must take into account some maximum value of non-availability of the assets owned by them. The failure to comply with these values will lead to the reduction of the agent’s regulated income, which results in a lower value of the charge for use of the STN that must be paid by the demand of the SIN. Likewise, they will make compensations of energy not supplied when the non-availability of these assets causes demand not met that exceeds the limits previously established in the regulation.

#### **2.1.4.2.3.2. Expansion of the STN**

With regard to the expansion of the STN, the CREG adopted a set of provisions contained in CREG Resolution 022 of 2001, and its modifications, that seek to introduce elements of efficiency in the performance of the STN expansion plan. This plan is defined by the Mining Energy Planning Unit (UPME, for its initials in Spanish), and is awarded through public bidding processes. In this processes compete existing national, as well as potential transmitters, for the construction, management, operation and maintenance of the STN expansion projects. The bidder with the lowest present value of the expected income flow will be awarded the respective project.

#### **2.1.4.2.4 Distribution activity**

The distribution activity is the transportation of electric power through the Local Distribution System (SDL, for its initials in Spanish) or the Regional Transmission System (STR, for its initials in Spanish). This activity is carried out by Network Operators (OR, for its initials in Spanish) who take charge of the planning of the expansion, investments, operation and maintenance of all or part of a STR or SDL. The assets may be owned by them or by third parties, although the OR has the priority in the system expansion.

The SDL is the electric power transportation system that consists of the set of lines and substations, together with their associated equipment, that operate at voltage levels lower than 57.5 kV (levels 1, 2 and 3), engaged in the rendering of the service in one or several commercialization markets. The STR is the electric power transportation system made up by the connection assets to the STN and the set of lines and substations, together with their associated equipment, that operate at a level equal or higher than 57.5 kV (level 4). An STR may belong to one or more OR.

Since the distribution activity is a monopoly, it is totally regulated. To this effect, the CREG defines the remuneration applicable, which is reviewed every five years as provided by the law. The methodology established for the remuneration has a quality scheme associated. The basic elements of the remuneration are contained in CREG Resolution 097 of 2008, whereby the general methodology for determination of distribution charges was defined, emphasizing the following:

- ◆ The methodology for remuneration for voltage level 4 is of regulated income and for levels 1, 2 and 3 of maximum price. In the first case an income is guaranteed to the OR, regardless of the demand’s behavior, and in the latter a maximum charge is guaranteed but with the demand risk associated.
- ◆ Distribution charges of each of the voltage levels are calculated as the ratio between annuity of AOM assets and the power transported of the base year (for the current rate period it corresponds to 2007). In assets, the regulator defines constructive units (physical quantity) and values them at weighted costs between replacement price to new and the cost recognized in the preceding regulatory period; the AOM are determined by considering the actual AOMs of the company and the service quality evolution of the immediately preceding year. The regulator also defines the value of the Weighted Average Cost of Capital (WACC), which is the discount rate used to find the annuity of assets. The energy transported considers some efficient energy losses, which are also defined by the regulator.
- ◆ Upon definition of the methodology, each OR is approved by an independent resolution its own distribution charges by voltage level. The distribution charges for EPM were approved by means of CREG Resolutions 105 of 2009 and 026 of 2010.

Additionally, for the distribution activity remuneration, the MME defined the distribution areas (ADD, for its initials in Spanish), that correspond to a group of Network Operators by zones considering their geographic proximity, in order to define in this manner the charges for transportation use of all ORs by voltage level (1, 2, 3 and 4), that for the case of the Companies of the EPM Group corresponds the ADD-Center in accordance of the Resolution MME 18 0574 of 2012; and although the unified charges are defined to transfer to the rate in the commercialization markets of the ORs of the ADD, each OR will receive as income its charges approved by means of CREG Resolutions.

The regulation establishes the criteria to ensure the expansion and coverage levels of the STR and SDL, which are in the CREG Resolution 079 of 1998. The ORs are responsible for preparing and executing the expansion plan of the system operated by them, in accordance with their strategic, action and financial plans.

#### **2.1.4.2.4.1 Expansion of Regional Transmission Systems (STR) and the Local Distribution Systems**

The OR's expansion plan must include all projects required by their system, considering requests from third parties and that are viable under the context of their financial plan. If the OR does not carry out a project contained in their expansion plan, it can be carried out by the interested subscriber or a third party, for which a remuneration scheme is defined. For the specific case of the STR expansion, the projects that are not of interest of the OR will be subject to public bid processes.

According to the provisions of the Distribution Regulations, CREG Resolution 070 of 1998, the planning must be done based on certain criteria, among them, meeting the demand, adaptability, flexibility, environmental viability, economic efficiency, quality and continuity in the supply.

Based on the methodology defined in CREG Resolution 097 of 2008, the expansion projects that have an average cost in excess of that approved in the distribution charges to the network operator will be incorporated in the rate, prior approval by the UPME. Thus, such projects start to be remunerated once they begin to operate and it is no longer necessary to wait until the following regulatory period as it was the case before. In the year 2013, the CREG issued Resolution 024 of 2013, which establishes the procedures to be followed for the expansion of the STRs (selection processes).

#### 2.1.4.2.4.2 Quality of the electric power service

The regulation differentiates the quality of the power supplied from the quality of the service provided. The quality of the power relates to the deviations of the values specified for the voltage variables and for the form of the voltage and current waves, while the quality of the service provided refers to the reliability of the service.

Regarding quality of the service rendered, the methodology defined in CREG Resolution 097 of 2008 introduced incentives with compensations to the worst served subscribers in the SDL and for the case of the STR compensations were defined by energy not supplied when the non-availability of these assets causes unattended demand that exceeds the limits previously established in the regulation.

For the incentive scheme, a quality target was defined, calculated based on the average quality for each distribution system, which varies within a range defined based on a two-year history (2006 and 2007) and its fulfillment is evaluated quarterly, as follows:

- ◆ If the OR fails to reach the goal, that is, performs worse than expected, their distribution charge is reduced.
- ◆ If the OR exceeds the goal, that is, achieves a better result than expected; they are giving an incentive increasing them the charge for distribution use in the quarter following that evaluated.
- ◆ If the OR achieves results that places them within the range previously defined (indifference range) their rate is not affected.

In both cases above, when the tariff is improved or when it remains the same, it is necessary to compensate the "worst served" subscribers, that is, those subscribers to whom the quality is individually deteriorated.

CREG Resolution 117 of 2010 determined the Grouped Availability Benchmark Indexes (IRAD, for its initials in Spanish) for EPM, with which it started the application of the SDL service quality scheme.

#### 2.1.4.2.5 Commercialization activity

Generators and distributors of electric power may carry out this activity jointly or it may be carried out independently. The commercialization agent is the intermediary between the end subscriber and all other agents that are behind the chain (generators, transporters, distributors and market administrator). Therefore, he is in charge of purchasing energy from the wholesale market and selling it to those subscribers, for which it prepares the billing, measuring, collection and service to subscribers, among others.

Law 143 of 1994 established a segmentation of the retail electricity market in two types: regulated market and non-regulated market.

**Regulated market:** Electric power market in which the rates operate under the regulated freedom regime, are not negotiable and are determined through rate formulas established in resolutions issued by the CREG. Industrial, commercial and residential subscribers can participate in this market. Also, competition was introduced in such a way that subscribers are free to choose the service provider. The purchase of energy for the regulated market must be done through public bids in order to ensure agents free concurrence.

**Non-regulated market:** Electric power market in which users with a demand for electricity equal or in excess of 0.1 MW, or a minimum monthly power consumption of 55 MWh, as established by CREG Resolution 131 of 1998. Commercialization and generation agents supply it; who negotiate the prices freely (generation component), the period and the electric power quantities.

##### 2.1.4.2.5.1 Tariff structure

According to the regulations in effect, electric power commercialization agents may charge their end subscribers a maximum cost per consumption unit. For the regulated market said cost is calculated in accordance with the rate formula defined by the CREG, in CREG Resolution 119 of 2007, which became effective by February 2008.

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

For the non-regulated market a tariff formula is not approved because it operates under the (monitored) free system, but the costs of the six components above are transferred to it, although some of them are calculated differently: the G results from the negotiation between subscribers and commercialization agents and, also, between the latter and the generators.

The provisions on the subject of subsidies and contributions are summarized below:

- ◆ Tariffs for subscribers of levels 1 and 2: according to the provisions of Law 1117 of 2006, extended by means of Law 1428 of 2010, for subsistence consumptions, consumptions lower than 131 kWh/month, the tariffs can only increase monthly a maximum of the inflation. This means that when the cost of rendering the service grows above the inflation, the difference becomes a higher subsidy for subscribers. The subsidy percentage has a limit of 60% and 50% for levels 1 and 2 respectively.
- ◆ Rates for level 3 subscribers: they receive a subsidy equivalent to 15% of the cost of rendering the service.
- ◆ Rates for level 5 and 6 and the commercial sector: they pay a contribution of 20% on the cost of rendering the service, intended to cover the subsidies granted to subscribers of levels 1, 2 and 3.

Law 1430 of 2011, whereby tax regulations of control and for competitiveness are issued, established a contribution, setting forth as of 2012 that industrial subscribers will not be subject to the charge for solidarity contribution. In addition, the Government will establish who is the industrial subscriber beneficiary of the discount and subject to that surcharge. Such regulation became effective by means of decrees 2915 of 2011, 4955 of 2011 and 2860 of 2013.

Law 142 of 1994 established the obligation to create in the Ministry of Mines and Energy a Solidarity Fund for Subsidies and Redistribution of Income (FSSRI, for its initials in Spanish), which is funded with resources from the surpluses that commercialization companies generate, after offsetting subsidies and contributions in their own markets. Additionally, if the resources from the companies' surpluses are not sufficient to cover the total amount of the subsidies applied, the National Government covers the shortage, charging the budget. Otherwise, the public utility companies may take the necessary measures in order that subscribers cover the total service cost.

### **2.1.4.3 Natural gas sector**

#### **2.1.4.3.1 General**

Law 142 of 1994 defined the legal framework for the rendering of domiciliary public utilities, environment in which natural gas is defined as a public utility, and created the CREG as the entity in charge of developing the rules and regulations for the activities associated to this service: commercialization from production, transportation, distribution and commercialization to end subscriber. However, the regulations and competences expressed in the Oil Code and the Association Contract continue to rule for the exploration, exploitation and production of natural gas and, therefore, it is beyond the scope of CREG's regulation. The regulation of the natural gas production is made by the MME and the administration of gas resources is carried out through contracts with the National Hydrocarbons Agency (ANH, for its initials in Spanish).

After the Law 142 of 1994 significant changes took place on institutional and regulatory matters which have consolidated the development of the natural gas industry in the country, achieving the incorporation of new and considerable investments in the different activities of the sector, through different public and private agents. Natural gas distribution companies started to exercise their activity under the legal regime of this law, without need for a concession contract with the Nation, exception applicable only to the exclusive service areas for distribution of natural gas through a network based on Law 142 of 1994, the CREG defined the regulatory framework of the natural gas utility by means of Resolution 057 of 1996.

#### **2.1.4.3.2 Activities of the sector**

The CREG defined the regulatory framework for the natural gas service and established the following activities for the provision of natural gas:

##### **2.1.4.3.2.1 Commercialization since production (supply of natural gas)**

This activity consists in the sale of natural gas originating in the different production fields located in the national territory, to the commercialization agents or non-regulated users who wish to access gas supply directly.

The CREG, by means of Resolution 08 of 2013, modified the commercialization mechanism in effect to improve the liquidity and efficiency of the primary and secondary gas markets. The above, through the definition of requirements and standards for the contracts, as well as of the market operator and some modifications to the secondary market, including matters related to long and short term "take or pay" mechanisms.

For fields with a production higher than 30 MCFD, the bilateral negotiation is allowed in case that the annual balance of the added supply and demand made by UPME shows excess supply in at least three of the five years of the horizon. Otherwise, an annual and simultaneous auction is held in the points of entry to the system and with standardized products of 1 and 5 years.

The types of supply contracts permitted, both in the primary and the secondary markets, are: firm, conditioned firmness, gas purchase option, gas purchase option against exports and of contingency for thermal and non-thermal demand (per provisions of CREG Resolution 062 of 2013). Contracts with interruptions will be allowed until November 2014 and subsequently they will be made by monthly auction.

#### **2.1.4.3.2 Transportation of natural gas**

This activity consists in the conveyance of natural gas in high-pressure steel pipes that makes up the National Transportation System (SNT), from the natural gas production fields to the entrance to the large cities (city gate) and to large consumers, thermoelectric plants and large industries.

The activity is considered a natural monopoly with price, quality and access. The remuneration of the service is based on a scheme of charges by passage or distance, determined as the sum of the charges corresponding to each gas pipeline section from the point of entry of gas to the SNT up to the point of exit of gas of each purchasing agent of the utility. The remuneration and charge structure are established in CREG Resolution 126 of 2010. The distance charge scheme reflects the average costs of each component of the system and preserves the location signs, for which efficient investment costs and the gas pipeline AOM as well as the volumes transported by it are taken into account.

The natural gas transportation market is a bilateral market characterized by the direct negotiation between the parties, transporter and sender, closing the transactions autonomously. Contracts are ruled according to the standardization established by CREG Resolution 089 of 2013.

Access conditions to the transportation network, as well as the quality and pressure specifications for delivery of natural gas must comply with the conditions that are set forth in the Single Transportation Regulations (RUT, for its initials in Spanish), CREG Resolution 071 of 1999.

CREG Resolution 171 of 2011 prohibited the physical “by-pass” to the natural gas distribution network by an existing or future user, who although being able to connect to the distribution network, given his pressure and quality requirements, wishes to connect directly to the SNT to avoid the remuneration payment of the distribution network.

#### **2.1.4.3.2.3 Retail distribution and commercialization of natural gas through pipelines networks**

The natural gas distribution activity through pipe networks consists in the conveyance of said fuel from the city gate regulating stations, or from a distribution system, to the connection of an end user, through medium and low pressure pipes, which are mostly made of polyethylene.

Distribution of natural gas in Colombia is regulated according to the service modality: exclusive service areas (those given in concession according to the lower price obtained) and areas of non-exclusive service (tariff formulas—Regulated Freedom Regime). The latter applies to EPM.

For the non-exclusive service areas, by means of Resolution 011 of 2003, the CREG established the general criteria to remunerate the fuel gas distribution and commercialization activities and the general rate formulas for the rendering of the domiciliary public utility of fuel gas distribution through pipe networks.

The activity of natural gas distribution through pipe networks is considered a natural monopoly regulated in price, quality and access. The applicable regulatory regime corresponds to a Price Cap determined based on the calculation of the average medium term costs, which are transferred to the demand using a rate basket methodology applied based on the average charges approved by the regulator.

The calculation of the medium term average costs considers the base investment, the five-year expansion projection, the demand and efficient AOM expenses projection for a 20-year horizon and a rate of return that remunerates the cost of the invested capital.

The tariff basket is applied based on six consumption ranges, and has a cap price equal of 110% the average charge approved by the regulator and also a floor charge equal to the average cost of the medium pressure network. The cap charge is applied to the first consumption range, which includes the entire residential demand and the low consumption retail sector. Distribution and commercialization charges for each relevant distribution market are approved by the CREG through a specific regulation, at the request of distributors.

The commercialization charge (Co) is a value in COP (Colombian Peso) for invoice (COP/invoice) that remunerates the costs of metering, billing, collection, customer service, commercialization margin and past due receivables risk, among others. Its definition takes into account annual efficient AOM expenses, depreciation of assets associated to the commercialization activity and a commercialization margin of 1.67%, applied on the gross annual income of the commercialization agent in the regulated market for the year corresponding to that in which the calculations of the efficient AOM expenses were made.

Annual efficient AOM expenses are determined using the DEA relative efficiency methodology, and the commercialization margin recognized is intended to remunerate an operating margin of the activity of 1.60% and a receivables risk premium of 0.07%.

The rights and responsibilities to be complied with among distributors, commercialization agents and users, the free access conditions to the distribution network and the safety and minimum quality of the distribution service, are established in the code of fuel gas distribution by networks, issued by CREG Resolution 067 of 1995.

In addition, CREG Resolution 123 of 2013 established the Commercialization Regulation of the Natural Gas Utility that contains the set of provisions that regulate the rights and obligations of commercialization agents, as well as the rights and obligations of non-regulated users when they participate directly in the natural gas wholesale market.

#### 2.1.4.3.3 Tariff structure

For the regulated market distribution-commercialization companies that serve the natural gas utility in non-exclusive service areas applied, for 2013 and previous years, the tariff formula established in CREG Resolution 011 of 2003. This tariff formula permits companies to transfer monthly the average maximum unit cost for natural gas purchases and transportation (G & T), in addition to its distribution and commercialization (D & C) costs.

For the non-regulated market a tariff formula is not approved since a monitored freedom regime operates. However, as in the case of the regulated market, the costs of the regulated transportation and distribution components are transferred, as well as the gas purchase and commercialization variables, the latter in accordance with the prices resulting from the negotiation between users and commercialization agents.

#### 2.1.4.3.4 Subsidies and contributions regime

According to the current applicable legal framework in Colombia, a subsidies and contributions regimes is used, in conformity with the principle of solidarity and income redistribution, which mandates that users of level 1 and 2 be granted some subsidies to the cost of the utility and to level 5 and 6, industrial (according to the DIAN classification) and commercial sectors, be charged a contribution on the value of said cost to cover the subsidies granted to the former. Currently levels 3 and 4 do not receive subsidies and are not charged contributions.

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

- ◆ The levels for users of level 1 and 2 in the range of subsistence consumption (lower than 20 m<sup>3</sup> /month), according to the provisions of Law 1117 of 2006, extended by Law 1428 of 2010, cannot have monthly increases in excess of the Consumer Price Index (CPI). This implies that when the unit cost for the service grows above inflation, the difference becomes higher subsidy for those users. The Law defined the maximum percentage of subsidy that can be granted to level 1 and 2 at 60% and 50%, respectively.
- ◆ It is important to emphasize that users of fuel gas that belong to level 3 and 4 are not subject to subsidy and at the same time they are exempt by law from the payment of contribution.
- ◆ Socioeconomic levels 5 and 6 contribute 20% of the service value.
- ◆ Commerce and industry contribute 8.9% on the service value, with the exception of the gas-based generation of electricity, the petrochemical industry and vehicle compressed natural gas (VCNG), whose contribution is 0%.
- ◆ Law 1450 of 2011, Law of the National Development Plan 2010-2014, established that as of 2012 industrial users of domiciliary natural gas will not be subject to the contribution charge referred to by Law 142 of 1994 and that the National Government will regulate the necessary conditions in order that the providers of domiciliary natural gas carry out an adequate control among the different types of users. Such regulation was implemented through decree 4956 of December 30, 2011.
- ◆ Law 142 of 1994 established the obligation to create in the MME the Solidarity Fund for Subsidies and Redistribution of Income (FSSRI), which is funded with resources from the surplus of commercialization companies generate, after offsetting subsidies and contributions in their own markets. If the resources of the fund are not enough to cover the total amount of the subsidies applied by the companies, initially the National Government covers the shortage through budget transfers to the Ministry account used for this purpose. In case that this is not possible the public utilities companies may take the necessary measures in order that subscribers cover the total service cost.

#### 2.1.4.3.5 Integration of the natural gas sector

Resolution 057 de 1996 determined the rules for capital stock participation in the natural gas sector, which impose limits to the sector's agents. In this respect, companies whose objective is to sell, commercialize or distribute natural gas, may not be transporters or have any economic interest in a transportation company of the same product. For the purposes described, there is an economic interest of a transportation company in another which object is the production, sale, commercialization or distribution of the same product, in the following cases:

- ◆ When these companies, their parent companies, subordinates or related parties are party of an agreement to share profits or reduce costs or in any joint venture agreement with producing, commercialization or distributing companies of natural gas.
- ◆ When the production company owns more than 25% of the corporate capital in the transportation company and 30% of the corporate 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 may not participate in the natural gas commercialization activities, save when they hold a capital stock participation in a natural gas distribution-commercialization company.

Additionally, Resolution 112 of 2007 released the participation limit of retail natural gas distribution and commercialization, which permits a distribution-commercialization agent participate up to 100% in these activities.

#### 2.1.4.3.6 Quality of the natural gas service

The quality in the natural gas sector is assessed in two perspectives. The first measures and assesses the quality of the service rendered; for this purpose the maximum time of equivalent duration of the service interruption to the users and the technical service response time are measured and evaluated in the case of events such as gas leaks, fire, quality of flame and interruption. And the second assesses the natural gas product quality, for which purpose the delivery pressure indexes in individual lines and the odorization of natural gas are specified.

Through Resolution 100 of 2003, the GREC defined the criteria, indicators and goals to measure this quality and determined the responsibilities and compensations for the failure to achieve these goals.

#### **2.1.4.4 Telecommunications sector**

The Ministry of Information Technology and Communications (MINTIC) is the entity in charge of defining the policies, plans and projects of the sector, as well as to rule the duties of monitoring and control on suppliers of Technology, Information and Communications (TIC) networks and services.

As refers the financing policies, technical entity and regulation of the spectrum, said regulations establish as entities in charge the FONTIC (Technology, Information and Communications Fund), Agency for the Spectrum and Telecommunications Regulation Commission (CRT, for its initials in Spanish).

Regarding to users protection, the Superintendence of industry and commerce is the competent entity in charge of deciding on the appeal recourses related to petitions, complains and claims and carrying out the investigations for practices that infringe the regime set by the CRT.

The Constitution and Law 182 of 1995 leave in the hands of the National Television Commission (CNTV, for its initials in Spanish) the regulation, policies, monitoring and control of the television service, provision that is being subject to legislative review.

There are no legal restrictions in Colombia to the participation of nationals or foreigners in the private capital of the companies to provide telecommunications services. Foreign entities must establish and affiliate to operate in Colombia.

Basic local switched telephone operators classified as dominant in Resolution CRT 087 of 1997, that is, with a market share equal to or higher than 60%, must abide by the criteria and methodology established by the CRT, in order to determine their rates. The remaining operators of Basic Public Switched Telephone (BPST) services (local, national and international long distance), may determine their rates freely.

By means of resolution 1250 of 2005, the CRT changed the system of rates for the BPST, applicable as of January 1, 2006. The most important changes for the local service of basic telephone are the following:

- ◆ Changes in the measurement of the unit of measure: up to December 2005, there were changes by pulse and as of January 2006 the charge is made by minutes.
- ◆ Different plans with minutes were created and fixed charge was eliminated for all level; the amount of the plan will always be consumable and the customer has the option to select the most adaptable plan to his needs.
- ◆ The basic local public switched telephone service has a system of subsidies and contributions; there is a consumption subsidized for levels 1 and 2 of 200 minutes per month; the contribution is of 20% and is charged to levels 5 and 6 to companies and the industrial sector. Levels 3 and 4 are charge the cost or reference, that is, no contribution or subsidy is received.

## **2.2 Regulations in Guatemala**

### **2.2.1 General Considerations**

The political constitution of the republic of Guatemala of 1985 declared as national urgency the electrification of the country, based on plans formulated by the State and the municipalities, in a process that could have the participation by private initiative.

With the constitution as legal support, in 1996 the General Electricity law was passed, whereby fundamental legal regulations were established to facilitate the actions of the different sectors of the electric system.

The main objectives of the general electricity law are as follows: eliminating the government influence on decisions on prices, in order to allow the Guatemalan electricity industry to operate in an open and competitive environment to achieve electricity prices that reflect the lowest production cost; regulate the transmission tolls and the distribution rates in order to avoid monopoly practice; provide end users a quality electricity service and the benefits of the prices established in a competitive market and integrate the Guatemalan electricity industry within a regional Central American market.

The principles of the general electricity law are:

- ◆ The generation of electricity is free and the generation companies do not have to require special permits or comply with conditions imposed by the Government, except for hydroelectric, geothermal and nuclear plants.
- ◆ The transmission of electricity is deregulated, except if the companies use public domain goods to provide the transmission and distribution of services.
- ◆ Electricity exchange prices are freely determined, not so those of transmission and distribution services which are subject to regulation.

## 2.2.2 Regulatory authorities

The General Law of Electricity provided the creation of two new entities: the National Electric Energy Commission (CNEE, for its initials in Spanish), as regulatory entity, and the Wholesale Market Administrator (AMM, for its initials in Spanish), as operator. On March 21, 1997 the Ministry of Energy and Mines adopted the regulations implemented by that law. In 1997 and 1998, respectively, were created the CNEE and the AMM, completing in this manner the legal framework for the privatization of the Guatemalan electric sector.

### Ministry of Energy and Mines

The Ministry of Energy and Mines is the Guatemalan government's most important entity in the electric sector. It is responsible for enforcing the General Electricity Law and the related regulations, as well as for the coordination of policies between the CNEE and the AMM. This government division also has the authority to grant authorization permits for the operation of distribution, transmission and generation companies.

### National Electrical Energy Commission (CNEE for its initials in Spanish)

The Guatemalan electric sector is regulated by the CNEE, a regulatory entity created pursuant to the General Electricity Law, as technical entity of the Ministry of Energy and Mines and subordinated to the latter. It is made up by three members appointed by the President of the Republic based on groups of three people proposed by the presidents of universities, the Ministry of Energy and Mines and the Wholesale Market agents. The term of each director is of five years.

The General Electricity Law establishes the following responsibilities to the CNEE:

- ◆ Set the transmission and distribution tariffs, as well as the methodology to calculate the tariffs in accordance with the provisions of the General Electricity Law.
- ◆ Ensure compliance with the laws and regulations related to the electricity and impose penalties, if necessary.
- ◆ Compliance of entities that support the various public permits, protect the rights of end users and prevent anti-competition, abusive and discriminatory activities.
- ◆ Settle controversies that arise between subsector agents.
- ◆ Define technical rules and performance standards for the electricity sector and guarantee the compliance with international accepted practices.
- ◆ Create regulations and rules to guarantee the access and use of transmission lines and distribution networks.
- ◆ Issue sanctions.

### Wholesale Market Administrator (AMM)

The Guatemalan wholesale market is managed by the AMM, a private entity created by the General Electricity Law that coordinates the operation of the generation facilities, international interconnections and transmission lines that form the national electricity system. Also, it is responsible for the safety and operation of the system by carrying out an economically efficient dispatch and managing the electricity resources in such a way as to minimize the operating costs, including costs of failures, within the restrictions imposed by the transmission system and the quality requirements of the service. Likewise, the AMM is in charge of scheduling the supply and dispatch of electricity.

The managing council of AMM is made up by five members, elected by each group of participants in the wholesale market of electricity: generators, distributors, transporters, commercialization agents and large users. Each participant in the whole market has a number of votes that is equal to the percentage of his participation in the market. EEGSA (Empresa Eléctrica de Guatemala S.A.) has the capacity to elect a representative from the distribution, COMEGSA (Comercializadora Eléctrica de Guatemala) has been able to elect a representative of the commercialization agent of electricity, but for the upcoming elections will require a small percentage allied in order to obtain it. Members hold their positions for two years.

The AMM is responsible for:

- ◆ Establishing policies and the rules for the conduction of wholesale and capacity markets.
- ◆ Defining of the rights and obligations of participants in the wholesale electricity and capacity markets.
- ◆ Supervise participants of the wholesale electricity and capacity markets.
- ◆ Establishing spot prices for transfer of electricity and capacity between participants of wholesale electricity and capacity market.
- ◆ Ensure that purchases of electricity and capacity in the spot market are efficiently established and settled.

- ◆ Guaranteeing the supply and safety of electricity and capacity in general.

The regulations of the AMM are subject to approval by the CNEE. If a generation, transmission or distribution company or an electricity agent or large user does not operate their facilities in conformity with the regulations established by the AMM, the CNEE has the capacity of penalizing it with fines and, in case of a serious infringement, it may require that the national electricity system will be disconnected.

### **2.2.3 Tariff system**

#### **2.2.3.1 Distribution tariffs**

According to the general electricity law and the regulations of the CNEE, a distribution company charges its regular customers a tariff that is made up by

- ◆ An electricity charge, intended to reimburse the distribution company for the cost of electricity and the capacity purchased by the latter.
- ◆ The transmission tariffs.
- ◆ A charge for Added Distribution Value (VAD, for its initials in Spanish), intended to allow the distribution company to cover its operating expenses, complete its capital expense plans and recover its capital costs.

Although the electricity prices that are charged to the large users are not regulated by the CNEE, they must pay a regulated tariff, equal to the VAD charge applicable for the delivery of electricity through the facilities of a distribution company.

#### **2.2.3.2 Regulated tariff**

The CNEE, every five years establishes the Added Distribution Value for regulated customers, which is revised quarterly. Biannually the power and energy price is revised. Currently the following tariffs are affected:

- ◆ A social tariff available to customers whose demand less than 300 kWh per month.
- ◆ A simple tariff available to all customers that purchase low voltage electricity.
- ◆ Three additional tariffs available to customers who buy electricity to distribute at low voltages.
- ◆ Three tariffs available for customers who buy electricity to distribute at 13 kV.
- ◆ One tariff available to government entities that buy electricity for public lighting.

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

- ◆ Customers who contract the purchase of capacity and electricity only during peak demand hours which are between 18:00 and 22:00 h.
- ◆ Customers who contract the purchase of electricity only out of peak hours.
- ◆ Customers who contract purchase of capacity and electricity during any time of the day.

Customers who request these tariffs establish a contract with the distribution company to acquire a specific amount of capacity. These tariffs consist in a fixed capacity charge for every kw contracted, a charge for electricity used by the customer, a charge for use of capacity and a fixed monthly charge for connection to the distribution system. The charge of use of capacity has two components: one of generation and transmission and the other of distribution. Customers are charged the capacity use based on the maximum amount of capacity demanded during any billing cycle.

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

#### **2.2.3.3 Tariff adjustments**

VAD charges for every distribution company are established by the CNEE every 5 years, based on a study made by a consultant contracted by the company, prequalified by the CNEE, and they are calculated to equal an annual payment over 30 years of the net replacement value of the distribution system, which is determined by calculating the replacement value of a distribution network that would be necessary to offer the services provided by the distribution company for the following eight years in the same service area.



The replacement value of the distribution system is determined based on a discount tariff selected by the CNEE from 7% to 13%, according to the studies made by independent consultants. The VAD calculation for a distribution company uses as reference the estimated costs of an efficient distribution company, which serves a similar distribution area and provides for the following costs:

- ◆ Losses suffered in the distribution of the electricity.
- ◆ Administrative costs for rendering of the service to customers.
- ◆ Maintenance and operation costs of the distribution system, including the cost of capital

The VAD collected by EEGSA until August 2003 was determined when it was privatized. At the time new VAD charges were also established, scheduled to be in force in May 2008. For the processes of establishing the VAD charges it is necessary that the distribution company will have a consultant approved by CNEE to calculate the VAD components (including the net replacement value) applied for the company's distribution system. The CNEE may also hire a consultant to calculate the VAD with application to the company's distribution system.

After the presentation of the VAD, computed by CNEE consultants, this same instance decides if it approves the mentioned VAD. In case that it does not approve it, the controversy is remitted to an experts' committee made up by three members, one appointed by the distribution company, another appointed by the CNEE and another appointed by the first two members; if no agreement is reached in three days, the third one is appointed by the Ministry of Energy and Mines. The CNEE holds that the pronouncement by the experts' commission is not binding; at least it was so applied in VAD 2008.

The charges of VAD are adjusted biannually to reflect the effect of fluctuations in the exchange tariff of the Quetzal/US dollar on the components denominated in U.S. dollars of the calculation of the net replacement value and the effects of the Guatemalan inflation in the components denominated in Quetzals of the calculation of the net replacement value.

The electricity charge is intended to reimburse the distribution company for the electricity costs of this purchase. The electricity charge components of the regulated tariffs consist in a base rate and an electricity adjustment surcharge. According to the General Electricity Law and the regulations of the CNEE, the base tariff is adjusted annually to reflect the changes anticipated in the cost of electricity to be acquired by the distribution company during the following year. The electricity adjustment charge is adjusted quarterly to reflect the variations in the actual cost of electricity acquired by the distribution company of the projected cost.

#### **2.2.3.4 Social tariff**

In 2001, Guatemala enacted the social tariff law, which requires that a special tariff will be available for customers with an electricity consumption lower than 300 kWh per month. According to regulations adopted by CNEE, the distribution companies requested to participate in bidding processes for power purchase agreements, in order to supply electricity to customers that were eligible for the social tariff. The National Electrification Institute (INDE) has been in most of the times the supplier for this rate; however, recently there are other suppliers, but the INDE continues affecting the price by means of a subsidy that it pays to the distributors for those users with consumptions lower than 300 kWh-month, differentiating those that consume less than 50 kWh and less than 100 kWh-month, whereby the base tariff applicable to these customers is reduced.

#### **2.2.3.5 Transmission tolls**

The General Electricity Law provides that all parties that connect to the national electricity system of Guatemala, including all the generation, transportation and distribution companies, as well as electricity agents and large users, must pay for the connection and the use of it.

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

There are separate quotas applicable to the primary and secondary transmission systems. Both quotas are determined on the basis of the New Replacement Value (NVR) of the transmission system, that is, the estimated cost of the replication of a transmission system, model that includes an estimated return of the capital.

The quotas for the primary transmission system are determined by the CNEE based on the information provided by the owners of the transmission facilities and the AMM.

The transmission quotas for the primary transmission system are revised every two years, and the customary practice has been that the secondary transmission system is also updated.

The transmission quotas for the use of the primary and secondary transmission system are calculated on the Wholesale Market itself.

#### **2.2.3.6 Wholesale electricity and capacity market**

The Guatemalan Wholesale Market is a "frontier-free" market, allowing market participants to purchase electricity and capacity from generators and sell to customers within and outside Guatemala. Among the parties that may participate in the wholesale electricity and capacity market are included:

- ◆ Generation facilities with an installed capacity of over 10 MW.
- ◆ Distribution companies with 20,000 customers or more.

- ◆ Transmission companies with a system connected to plants with a capacity of over 10 MW.
- ◆ Electricity agents who purchase or sell 10 MW more including importers, exporters and large users.

The market spot price for electricity is established on an hourly basis that is supported on the compensation price, at which the demand may be satisfied through the available electricity offered.

Wholesale market participants may also trade capacity transaction (Power is the term most used in Guatemala), allowing generators that are not in a position to provide the capacity committed to be able to purchase additional capacity. Capacity market prices are established by the AMM based on the theoretical cost of the setting up efficient generation capacity.

### **2.2.3.7 Operation of the national electricity system**

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

The AMM must schedule the delivery of electricity to guarantee the coverage of the electricity requirements at a minimum cost within the priorities that define the quality and safety of the service, particularly the requirements of supplementary services, such as the regulation of the frequency and voltage and the reactive control and the reserve, among others. The AMM delivers electricity acquired in the spot market, in accordance with the efficient 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 necessary conditions to secure the availability of an efficient energetic offer, capable of supplying the demand under technical, social, economic, environmental and financial viability criteria.

In the nineties, El Salvador promoted a reform process in the energy sector that consisted in the restructuring of the hydrocarbon and electricity sectors, the privatization of most of the state companies that provided energetic goods or services and markets deregulation.

### **2.3.2 Regulatory framework**

The legal framework of the Salvadorian electric sector is made up by the Law for Creation of the General Superintendence of Electricity and Telecommunications (SIGET), enacted by means of Legislative Decree 808 of September 12, 1996, which gave legal life to the regulatory entity; the General Electricity Law (LGE), enacted by means of Legislative Decree 843 of October 10, 1996 and the Regulation of the General Electricity Law, established by means of Executive Decree 70 of July 25, 1997, including their amendments.

As a result of the electricity sector restructuring, two entities were created, the Unidad de Transacciones S.A. (UT), which manages the Wholesale Electric Energy Market, and Empresa de Transmisión de El Salvador (ETESAL); at the same time, distribution as well as thermal generation companies were privatized. Furthermore, the activities of hydroelectric and geothermal generation were separated, with a private partner incorporating in the latter one.

Among the last changes that have taken place in the energetic sector of El Salvador it is worth mentioning that the Legislative Assembly considered necessary to create a state autonomous nonprofit public service institution, that will be the ruling and regulatory entity of the national energetic policy. In this respect, the Assembly issued in October 2007 Legislative Decree 404 that creates the National Energy Council (CNE). According to the law that created it, the CNE is the highest, ruling and regulatory authority on the subject of energetic power, which purpose is the establishment of the policy and strategy that promote the efficient development of the energetic sector.

The Wholesale Electricity Market (MME) of El Salvador, through the national transmission system (network of 115,000 volts or higher), permits the direct participation in energy transactions of all agents or participants of the market (PM) that have a direct connection with the transmission system. This PM may be generators, distributors or end users. There is also availability for other agents that have no connection with the transmission network to be able to participate indirectly in the market, under the form of commercialization agents, according to the special regulation that in this respect the regulating entity, SIGET, has developed.

With Executive Decree 57 of June 2006 modifications are introduced to the Regulations of the General Electricity Law. First of all, it is established that the dispatch of generating units will be in conformity with their respective variable operating costs. In this manner one of the reforms of the LGE issued by the mentioned Legislative Decree 1216 is implemented. This modification seeks to guarantee the healthy competition in the generation segment and the supply of the demand at a minimum cost expected of operation and rationing. To this end, the UT would be given the responsibility to plan and coordinate the dispatch of generating units and the operation of the facilities of the transmission system.

Secondly, this same Decree regulates the contracting scheme of the long-term supply by distributing companies, through free participation procedures.

As of August 1, 2011 the Regulations for operation of the transmission system and of the wholesale market based on production costs (ROBCP) started operations, which substituted the previous system based on opportunity offers. With these new Regulations the dispatch is determined by the transaction price of the energy in the MRS that will be equal to the marginal operating cost of the system in the respective market interval.

The ROBCP provides that, in addition to the energy dispatched, valued by hour at the marginal cost of operation of the respective energy, the generating units that sell energy in the Opportunity Market will receive a payment for firm capacity equal to the marginal cost of installation of leading edge generation capacity, applied on the power that one generating unit or plant is capable of injecting to the system with a high probability in a control period corresponding to the hours in which the maximum demand of the generating system is produced. The price to value the transactions of firm capacity has been determined as the cost per kW of investment annualized plus the fixed cost of operation of an efficient unit to grant support and additional capacity in the system control period, extended in a reserve margin and in loss factor corresponding to the hours of highest demand.

### **2.3.3 Regulatory entities**

#### **2.3.3.1 National electric market**

##### **Ministry of Economy (MINEC)**

Institution of the Central Government, which purpose consists in the promotion of the economic and social development through the increase of production, productivity and rational utilization of resources. Among its responsibilities is that of defining the country's commercial policy and the follow up and encouragement of the economic Central American integration.

It has under its command the Direction of Electric Energy and the Social Investment Fund for Local Development; in addition, it heads the National Energy Council.

In addition, it contributes to the development of competition and competitiveness of productive activities both for the internal and for the external market.

##### **General Superintendence of Electricity and Telecommunications (SIGET)**

It is a non-profit autonomous public service institution. Said autonomy consists of the administrative and financial aspects and is the competent entity to apply the rules contained in international treaties about electricity and telecommunications in effect in El Salvador and in the laws that rule the electricity and telecommunications sectors and their regulations, in addition to deciding on their non-fulfillment.

##### **Transactions Unit (UT)**

Among the duties is that of managing with transparency and efficiency the wholesale electric energy market and operating the transmission system, maintaining the safety and quality and providing to the market operators satisfactory answers for the performance of their activities. Likewise, it coordinates with the Regional Operator Entity (EOR), the energy transactions performed by El Salvador with other countries at the Central American and international levels. Finally, it determines the responsibilities in case of failures in the systems.

##### **Ministry of the Environment and Natural Resources (MARN)**

Among its functions is that of formulating, planning and executing the environmental and natural resource policies; it exercises the direction, control, inspection, promotion and development on the subject of environment and natural resources; it proposes the legislation on conservation and rational use of natural resources, to obtain their sustained development, and watches for their fulfillment, at the same time that it promotes the active participation by all sectors of the national life in the sustained use of the natural resources and of the environment, among others.

##### **Contract Markets (MC)**

This market refers to the sale of energy where the agents involved established the characteristics of the agreement in a private manner without formulating financial conditions to the UT.

##### **System Regulating Market (MRS)**

It is the spot market of electric power. It serves to make the short-term balance to obtain the coverage of the total demand of the wholesale market and permits to establish balance between the supply and demand.

##### **National Energy Council (CNE)**

It is a government entity in charge of watching for the formulation of the energetic policy of the country.

Prepares, proposes, coordinates and executes policies, programs, projects and actions that permit an efficient operation of the sector, taking into account the generation, transportation and distribution activities, that must be reflected in wellbeing for society. In addition, it analyzes the current energy problems and proposes short, medium and long-term measures, intended to the efficient use of energy, proposes to government entities and to the private sectors the actions necessary for the achievement of the measures that are decided to be implemented, among other functions. As of year 2010, it performs the functions of the electric energy direction of the MINEC.

### 2.3.3.2 Regional Electric Market (MER)

#### Regional Electric Interconnection Commission (CRIE)

It is the regulating entity of the MER created by the framework convention, executed by the countries of the Central American isthmus, with its own legal personality capacity of international public law.

The CRIE guarantees conditions of competition and non-discrimination, proper of the development of the market, both in its initial operation and in its evolution and resolves situations on the authorizations to joint the market or for the purchase and sale of energy; in addition, it approves the tariff for use of the transmission system, among other functions that seek to establish the measures necessary for the good operation of the market.

#### Regional Operating Entity (EOR)

The EOR proposes to the CRIE the operating procedures of the market and of the use of the Regional Transmission Network (RTR). Likewise, it makes sure that the operation and regional dispatch of energy will be made with economic criterion, trying to reach adequate levels of safety, quality and reliability; it carries out the commercial management of transactions between market agents, supports through the supply of information the market evolution processes and formulates the plan that indicates the expansion of the regional generation and transmission.

### 2.3.4 Tariff System

The tariff to the end user is made up by the commercialization charge, distribution charge and energy charge.

The commercialization charge and the distribution charge are approved for tariff periods of five years, during which they are annually indexed with the variation of the consumer price index (CPI). The distribution charge is indexed annually with 50% of the CPI while the commercialization charge is indexed with 100% of the CPI. The energy charge is adjusted automatically, pursuant to the regulations, every three months according to the cost of the supply of energy of the distributor during the previous three months. Said cost takes into account the costs of purchase of energy of the long-term contracts transferable to tariff entered into by distributors and their spot market purchases.

The amendments to the regulations of the General Electricity Law establish the following aspects:

- ◆ Distributors shall have covered a minimum long term contracting percentage of 70% at the latest by February 1, 2013, with contracts for terms of less than or equal to five years.
- ◆ Distributors shall have covered a minimum long term contracting percentage of 80% by July 1, 2017:
  - No more than 50% in contracts of less than five years.
  - At least 30% in contracts of more than five years.

In situations of force majeure or Acts of God, or when some circumstance duly justified requires it, the SIGET, prior consultation with the CNE, may determine by means of an agreement the extension of the terms indicated above, only once and for a term not exceeding one calendar year.

### 2.3.5 Subsidies and contributions regime

For residential subscribers with a consumption of up to 99 kWh per month, a subsidy is granted for 89.5% of the differential of the full tariff with respect to the maximum prices established in November 1999, which are the following:

- ◆ Monthly consumption from 1 kWh to 50 kWh: USD 0.0635 per kWh
- ◆ Monthly consumption from 50 kWh up to 99 kWh: USD 0.671 per kWh

According to the information provided by distributing companies, as of December 2012 a total of 1,057,301 customers were subsidized, which represent 66.9% of the customers connected to the distribution network and that correspond to the subscribers that consume up to 99 kWh. In terms of energy consumption, these subsidized users demanded during 2012 a volume of 631,919.4 MWh, the equivalent to 12.9% of the energy demand at the distribution level.

### 2.3.6 Specific regulations

- ◆ Law of creation of the Superintendence of Electricity and Telecommunications.
- ◆ General Law of Electricity.
- ◆ Regulation of the General Law of Electricity
- ◆ Rules for determination of distribution and commercialization charges.

- ◆ Service quality rules of the distribution systems: their purpose is to regulate the indexes and indicators of reference of quality applied by the electric power distributors in the provision of electric power services to the users of the distribution network.
- ◆ Operating regulations of the transmission system and of the wholesale market: rules and procedures for the operation of the transmission system and for the administration of transactions of the wholesale market of electric power in El Salvador.
- ◆ Operating regulations of the transmission system and of the wholesale market based on production costs: contains the rules and procedures for the operation of the transmission system and for the administration of transactions of the wholesale market of electric power of El Salvador.
- ◆ Regulations applicable to the commercialization activities: its purpose is to develop the rules intended to promote competition on the subject of commercialization of electric power.

## 2.4 Regulations for Panama

### 2.4.1 General aspects

The electric sector of Panama is divided into three areas of activities: generation, transmission and distribution. Panama has established a regulatory structure for the electric industry, which is based on the legislation approved between 1996 and 1998. This framework creates an independent regulator, the National Authority of Public Utilities — ASEP- and creates also a transparent pricing process for the sale of energy to regulated customers.

### 2.4.2 Regulatory framework

According to the Electric Law, the electricity tariffs have a term of 4 years (Article 95) and during this period they may be updated based on the variations of the consumer price index and to reflect the actual cost of the energy purchases. For this purpose, the regulator must define the tax regime (Article 91), which in turn must contain the calculation procedures, update and application of electric tariff. The tariff regime must follow 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 Law 6, the Added Distribution Value (VAD) is made up by the costs that an efficient distribution company would have to provide the distribution service in its concession zone, as follows: administration, operation and maintenance costs of the distribution system, excluding the costs of measurement, billing and customer services; the cost of the standard losses in the distribution networks, the cost of depreciation of its property and the cost corresponding to the opportunity that the concessionaire must have to obtain a reasonable profitability tariff on its investments.

The regulator will establish a maximum of six distribution areas, representative of the markets serviced in each concession zone and then will calculate the added distribution value for each representative area, under the assumption of efficiency in the operation of the distribution company. The assumption of efficiency will have as a base the recent performance of similar real companies, national or foreign.

To set the reasonable profitability tariff, the regulator will take into account the efficiency of the distributor, the quality of his service, and his investment program for the period of effectiveness of the tariff formulas and any other factor that may be considered relevant. However, the tariff that the regulatory entity defines shall not be more than two points different from the tariff resulting from adding the annual effective interest tariff, average of the twelve months prior to the date on which the tariff formula is set, of the thirty-year treasury notes of the United States of America, plus a premium of eight points for the electric distribution business risk in the country.

#### 2.4.2.1 Regulatory regime

It is made up mainly by the following regulations:

- ◆ Law 6 of February 3, 1997. It sets forth the regulatory and institutional framework for the rendering of the public service of electricity. It establishes the regime to which the distribution, generation, transmission and commercialization of electric energy are subject to.
- ◆ Decree Law 10 of February 26, 1998. Modifies Law 6 of 1997, as refers to the duties of the regulator, the modalities of the companies to participate in the electric sector, the restrictions in distribution and generation, the update of the tariffs and the cost recognized by purchases in block.
- ◆ Executive Decree 22 of June 22, 1998. It regulated Law 6 of 1997.
- ◆ Law 57 of October 13, 2009. Several modifications to Law 6, 1997 are made, among which are the following: obligation by generating companies to participate in the energy or power purchasing processes, the obligation by the Company Transmisión Eléctrica S.A. (ETESA) to purchase energy in representation of the distributors and the increase in the fines that may be imposed by the regulator up to \$20 million Balboas, and at the same time establishes the right of customers to refrain from paying the portion being congested and grants them a term of 30 days to file a claim with the regulator in case of not being satisfied with the answer given by the distributor.
- ◆ Law 51 of September 29, 2010, whereby the urban and domiciliary cleaning authority is created and certain articles of Law 6 of 1997 are modified, in order to make mandatory the charge of the cleaning and sanitation tariff through the electricity bills.

- ◆ Law 65 of October 26, 2010. Through this new Law two articles are added, 140-A and 140-B, to Law 6 of 1997, whereby it is established that if the State requires the removal or relocation of electric infrastructure, the companies must proceed with the request within the term that is established in the regulation of said article. In turn, article 140-B indicates that if the company does not comply with the relocation within the term stipulated, the infrastructure may be freely removed at the cost of the company.
- ◆ Law 58 of May 30, 2011. The articles related to rural electrification are modified, among which we can mention the modification of the calculation of the subsidy that the Rural Electrification Office (OER) must pay to the distributors for a period of 4 years (previously it was paid at 20 years) and the creation of a rural electrification fund for 4 years that will be made up by the contributions by the market agents that sell electric energy, which shall not exceed 1% of their net profit before taxes.
- ◆ Law 68 of September 1, 2011. Through this Law the obligation is established by the distributors to respond to the claims in 15 calendar days. Likewise, it is established, as a function of the ASEP, to prepare and approve an indemnification table applicable to cases of damages caused to customers. It is also established to the ASEP a term of 30 calendar days to resolve the customer claims and of 15 days to resolve the reconsideration and appeal recourses. On the other hand, a paragraph is added to Article 95 of Law 95 of 2006 on rural electrification, that defines "area not given under concession" as the distance that exceeds one kilometer, in straight line, from the last pole of the concession area.
- ◆ Executive Decree 247 and 297 of 2012. It regulated Law 65 of October 26, 2010, establishing terms and mechanisms for the relocation of public utilities.
- ◆ Law 15 of April 26 of 2012. It establishes a tariff to cover the costs of undergrounding of cables and infrastructure of the telecommunications and paid television services. The distribution companies of the zone to underground as part of the plan established, will be the units in charge of processing the offers and/or bills of charges and the conduction of the biddings of the acts related to the contracting of the people that will carry out the undergrounding plan in the areas included.
- ◆ Law 43 of August 9, 2012 modifies Law 6, including the form of special Bill of Charges, in order to make feasible the purchase of power and/or energy based on the generation technology. On the other hand, as a new function it is assigned to the ASEP to determine the criteria and procedures for the compliance with article 47 of Law 6, which deals with the process of renewal of the concession for distribution.

#### 2.4.2.2 Regulation of the distribution sector

The distribution is the activity which purpose is the transportation of electric power and the transformation of the related voltage, from the point of delivery of the energy by the transmission network up to the point of supply to the customer. According to Law 6, the distribution activity covers the commercialization of energy to customers, which is no more than the sale to the end customer, including measurement, reading, billing and collection of energy delivered. The distribution company is limited the participation in other companies or activities, except in its own generation with the limitations established in the Law.

The general characteristics of the distribution activity are included in Law 6 of February 1997, Executive Decree 22 that regulates Law 6 and the distribution concession contracts. The most relevant characteristics are summarized below:

- ◆ Distribution concessions are granted by the ASEP for a term of 15 years. Before the expiration of this term the ASEP will open a competitive bidding process of open participation for the sale of the package of 51% of the shares, in which current holder may participate, who will set the price of the shares. If offers are presented that are lower or equal to the price set by the holder, the latter will continue to be the holder of the block of shares. To the contrary, if there is a higher price, the block of shares will be awarded to the highest bidder and the ASEP will deliver the amount for the sale to the holder up to that moment. In any of the two cases a new concession will be granted for another 15 years.
- ◆ There is zone exclusiveness during the term of the concession with guarantee from the State.
- ◆ The distributor has the obligation to provide the service (expand lines) to every user who requires it, located within 100 meters around the distributor facilities.
- ◆ Beyond the mentioned 100 meters, the distributor will also have the obligation to connect to everyone who requests it but it may require, in addition to the payment for connection that the tariff schedule contains, a contribution for the investment necessary for the connection.
- ◆ In the concession contract a concession zone is established from 500 to 3000 meters of the distribution network and a zone of influence between 5,000 and 10,000 meters. In the current concession period, ENSA has defined its concession zone up to 500 meters and its zone of influence up to 3,000 meters. In the zone of influence the operator will have the first option to provide the distribution service.
- ◆ The parties awarded the distribution service have the obligation to allow the use of their distribution systems to third parties, through the payment of tolls.
- ◆ A distributor may perform the generation activity within 15% of its demand and provided that it allows differentiating the operations by type of activity.
- ◆ At the end of each tariff period, ASEP reviews, for each distributing company, the approved IMP (maximum income allowed) in respect to the actual income received in order to determine if the variations are within a reasonable margin. For this review no variations in sales will be considered, in the quantity or type of customers, or in the costs of inputs or labor, in a manner different to that reflected by the CPI of the General Controller's Office of the Republic.
- ◆ The tariff period is of 4 years. The current one covers from July 1, 2010 to September 30, 2014.

### 2.4.3 Subsidies and contributions regime

In Panama several types of subsidies are considered, the main ones are:

- ◆ Subsidies to retirees, agricultural activities and political parties: the consumption of the first 600 kWh of retirees (men of 62 years of age or older and women of 57 years of age or older) is entitled to a discount of 25%. The difference between the consumption and that quantity pays the full tariff. Discounts of 5% and 50% are also applicable to the consumption in agricultural activities and the provincial offices of political parties, respectively. Discounts to retirees, agricultural activities and political parties are crossed subsidies that are included in the rest of the customers' consumption in reviewing the tariff every four years.
- ◆ Subsidies for basic consumption (Law 15): customers with consumption levels below 100 kWh per month have a discount of up to 20% in their accounts. The funds for this discount come from a charge to the customers with consumption in excess of 500 kWh per month of up to 0.6% of their invoice value. Approximately 70,000 customers receive this benefit.
- ◆ Tariff Stabilization Fund: since 2004 the Government approved a direct subsidy for residential customers with a consumption of less than 500 kWh per month. In the invoice of each customer a discount appears that causes that these customers will not receive tariff increase. The funds for this subsidy come from the Government. At the end of each biannual period a balance is made to verify that the funds received coincide with the subsidies applied. The Government has announced a progressive reduction process of the subsidy range to arrive only at the customers with a consumption of less than 300 kWh. Currently it is only applied to customers with a consumption lower than 450 kWh per month. In case that the ASEP requests the application of a tariff lower than the corresponding one according to the tariff regime, this fund is used to cover the difference between the income with the tariff applied and the income with the tariff that should have been applied.
- ◆ Energetic Compensation Fund (FACE): The FACE is created through Cabinet Resolution No. 174 of November 8, 2011, which approved the execution of a Trust Agreement for the creation of a fund which object is to compensate the electric power distribution companies for the amounts they failed to receive through the update of electric tariffs due to the commitment acquired by the State to mitigate the transfer of the inflation imported into the country through the increases in the fuel prices. The Trust Agreement provides that in the periods in which the tariffs of the electric power distribution companies and verified by the ASEP are higher than the tariff applied to the customers of the preceding six-month period, the FACE will be used to compensate these increases; otherwise, the difference will be returned to the FACE to compensate the disbursements made during the previous tariff periods.

### 2.4.4 Regulatory entities

#### Secretary of Energy

Its office is to formulate, propose and promote the national energy policy in order to guarantee the safety of the supply, the rational and efficient use of resources and the energy in a sustainable manner, according to the National Development Plan. Currently it is processing with the Empresa de Transmisión Eléctrica (ETESA), the creation of an energetic parent company with more and more varied renewable and clean renewable resources (eolic, gas, among others).

#### National Authority of Public Utilities (ASEP)

Established in accordance with the law of the regulatory entity of public utilities of 1996. It is an autonomous entity of the Government with responsibility to regulate, control, monitor the rendering of the services of water and sanitary sewage, telecommunications, radio and television, electricity and natural gas.

On November 22, 2006, by Decree Law 10, the Regulatory Entity of Public Utilities (ERSP) was restructured and changed its name, and thus since April 2006 it is known as the ASEP, with the same responsibilities and functions that the regulatory entity had but with a general administrator and an executive director, each designated by the President of the Republic of Panama and ratified by the National Assembly. Likewise, it has three national directors under the authority of the general administrator, one for the electricity and water sector, one for the telecommunications sector and one for the customer service sector. The national directors are responsible for issuing resolutions related to their respective industries and their appeals are resolved by the general administrator as the final stage of the administrative process.

The responsibilities of the ASEP include:

- ◆ Securing the compliance with the sector laws and regulations and applying penalties for non-fulfillments.
- ◆ Granting concessions and licenses.
- ◆ Monitoring the service quality standards.
- ◆ Verifying the fulfillment of goals of expansion, system improvement and the regulation, in accordance with the terms of the specific concessions or licenses.
- ◆ Promote competition and investigate monopolistic and anti-competition practices.
- ◆ Determine the efficiency criteria to assess the performance of regulated companies.
- ◆ Establish the principles and methodologies to define the rates.
- ◆ Determine the information to be provided by suppliers of the public service.

- ◆ Arbitrate conflicts between operators, governmental agencies, municipalities and consumers.
- ◆ Authorize the expropriation of land and easements for the expansion of the service.

The operating costs of the ASEP are covered with several sources, including a control and monitoring rate that is charged to all participants of the electric sector. This rate shall not exceed 1% of the gross income generated in the sector during the previous year and it cannot be transferred to the consumers. The charge of this rate is made monthly and each company pays the percentage defined by the ASEP on the income of the regulated and non-regulated customers, less the amounts paid by the company to other suppliers of services to cover costs of energy and transmission. In the year 2012 this percentage was set at 0.73% (2011 — 0.59%) and for 2013 it is of 0.78%.

### **Planning Unit of the Empresa de Transmisión Eléctrica (ETESA)**

It prepares the reference expansion plans. It projects the global requirements of energy and the forms to satisfy those requirements, including the development of alternative sources and establishing programs to keep and optimize the use of energy. The public service companies are required to prepare and present their expansion plans to ETESA.

### **National Dispatch Center (CND)**

It is operated by the ETESA. It plans, supervises and controls the integrated operation of the National Interconnected system. It receives the offers of the generators that participate in the energy spot market, determines the spot prices of energy, manages the transmission network and provides the settlement values between suppliers and producers and consumers, among others.

### **Rural Electrification Office (OER)**

Is the entity responsible to promote electrification in rural areas not served, not profitable and not concessioned.

## **2.4.5 Restrictions**

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

### **Distribution:**

- ◆ Participate, directly or indirectly in the control of generation plants, when the equivalent added capacity exceeds 15% of the demand served in its concession zone.
- ◆ Request new concessions, if by making it serves directly or indirectly, through the shareholding control of other distribution companies or other means, more than 50% of the number of total customers in the national market. The National Authority of Public Utilities (ASEP) may authorize exceeding this percentage when in its judgment it may be necessary to expand the concession zone or the expansion of the country's electric system.

### **Generation:**

- ◆ Participate directly or indirectly in the control of distribution companies.
- ◆ Request new concessions if, by doing so, serves directly or indirectly, through other generation companies or other media, more than 25% of the electricity consumption of the national market. The Executive Body, prior opinion from the ASEP, may increase the percentage indicated when it considers that the conditions of competition in the electric market justify it.

### **Transmission:**

- ◆ Controlled 100% by the State.

## **2.5 Regulations in Chile**

### **2.5.1 General aspects**

In the Chilean electric market the activities of generation, transmission and distribution are identified, which are regulated by the General Electric Service Law (LGSE).

In Chile there are four interconnected electric systems: The Interconnected System of the Large North (SING) that covers the territory between the cities of Arica and Antofagasta, with 28.06% of the country's installed capacity; the Central Interconnected System (SIC) that covers from the towns of Talca and Chiloé, with 71.03% of the country's installed capacity; the Aysen System that serves the consumption of Region XI, with 0.29% of the capacity; and the Magallanes System that supplies the Region XII, with 0.62% of the country's installed capacity.



The reforms in the Chilean electric sector started in 1978 with the creation of the National Energy Commission and were formalized with the approval of the Electric Law in 1982. In Chile there is no participation by the State in the sector given that it was privatized as of 1980.

## 2.5.2 Regulatory framework

According to the General Law of Electric Services (LGSE), the National Energy Commission is the competent authority to calculate the rates by means of the technical reports for setting the base price, which is later established by decree from the Ministry of Economy, Promotion and Reconstruction. The legislation in effect establishes as basic premise that rates must represent the actual electricity generation, transmission and distribution costs in order that an optimum development of the electric systems can be obtained.

In those segments where there are competition conditions there is price freedom. This is the case of supply to end users which connected power is in excess of 2,000 kW (Free Customer), under the assumption that they have a higher negotiating capacity and, therefore, greater possibility to receive the supply of electricity by other forms. Contrarily, the law regulates the supply prices to end users whose connected power is lower than or equal to 2,000 kW (Regulated Customers) given that this market has characteristics of natural monopoly.

Additionally, customers who have a connected power higher than 500 kW are entitled to choose between a regulated rate and a free price rate, after a minimum period of permanence of 4 years in the regime that they have chosen and communicating the change at least 12 months in advance.

In the electric systems with a size in excess of 1,500 kW in installed capacity of generation, the Law makes a distinction between two price levels subject to establishment: The generation prices — transportation (Base Prices) and the distribution prices.

The price that distributing companies may charge to users located in their distribution zone, for the electricity distribution service, is determined by the sum of the base price, the VAD (Added Distribution Value) and a single charge or toll for the use of the main transmission system, in such a way that the resulting supply price corresponds to the cost of the utilization by the user of the resources at the production-transportation and distribution levels.

The VAD represents the payment to the distribution company for its standard investment, operation and maintenance costs, its overhead, billing and customer service costs, and its average distribution losses in power and energy.

Both the base price and the VAD are regulated. On the one hand, the base price is set biannually, in the months of April and October of each year, through a technical report from the CNE, by means of a decree from the Ministry of Economy. On the other hand, the VAD is established in accordance with the formulas for calculations set every four years, by the Ministry of Economy, prior Technical Report from the CNE.

Decree No. 276 of 2004 contains the different rate options to which the final user has access, depending on his consumption characteristics, power and type of installed measurement. Users may freely elect the rate option most convenient for them, for a minimum term of one year, at the end of which they can modify it or maintain it. Companies that have concessions of electric distribution have the obligation to accept the rate option of each customer.

In order to motivate investment and secure the access to the electric service to all persons who require it, the regulatory system is design to provide to the aggregated set of the distribution facilities of the concessionaires a reasonable economic profitability rate on the investment that cannot be over four points different from the update rate of 10%, real annual.

In this manner, upon determination of the preliminary rates, the Commission verifies annually the with the income and real exploitation costs, the annual profitability of the distribution industry remains between 5% and 15%, during the period of effectiveness of the rate options.

### 2.5.2.1 Regulatory regime

The legal framework of the Chilean electric sector consists mainly of:

- ◆ Law 20402 of 2009. It creates the Ministry of Energy, establishing modifications to Decree Law 2224 and to other legal regulations.
- ◆ Law 20257 of 2008. It introduces modifications to the General Law of Public Utilities — LGSE — in respect to the generation of electric power with renewable non-conventional energy sources.
- ◆ Decree with Force of Law No. 4 DFL No. 4 of 2007. It approves modifications to the Decree with Force of Law No 1 of 1982, General Law of Public Utilities, on the subject of electric power.
- ◆ Decree with Force of Law No. 1 DFL No. 1 of 1982. The General Law of Public Utilities establishes the fundamental provisions for the development of the economic activity in the electric industry. It can only be modified in Congress, its most relevant modifications being those applied by Law No. 19940 of 2004 (Short Law I) that reformed the regulatory framework of Transmission and Law Mo. 20018 of 2005 (Short Law II), which reformed the commercialization regime between generators and distributors for the supply of regulated customers. The regulations, in turn, are prepared by the sector entities of the Executive Branch and must be submitted to the provisions established by the Law.

### 2.5.2.2 Regulation of the distribution sector

Distribution is defined as that activity that carries out the transportation of power and electric energy at voltage levels of 23 kV or less, and is in charge of the supply of energy to consumers whose connected power is lower than or equal to 2,000 kW or that choose to enter into a free contract.

Companies that have the concession of the public service of distribution basically provide three services: Transportation and commercialization of electricity to consumers within its concession area, other services associated provided to the distributor's own customers, and transportation to other companies that commercialize energy and power in the market that is within the concession area.

Given that in Chile the distribution of electricity constitutes a natural monopoly, the State establishes regulated prices for supplies to end customers. All matters related to the operation and exploitation of the electric facilities intended to the distribution public service are regulated by the General Law of Electric Services, by its Regulations and by the laws that modify them (Law 19940 of March 2004 — Short Law I and Law 20018 of May 2005 — Short Law II). The most relevant characteristics that these provisions contemplate are summarized below:

- ◆ The distribution of electricity in Chile within a determined zone may be carried out by Public Utility Concession.
- ◆ The concession may be provisional, in which case it is requested directly to the Superintendence, or final, in which case it must be requested to the President of the Republic through the Ministry of Economy, Promotion and Reconstruction.
- ◆ No exclusiveness is granted in the distribution. A new distributor may request and obtain a new concession in part or in the entire territory already under concession.
- ◆ Distributing companies beneficiaries of concessions must provide the service to anyone who requests it within their concession zone, or to anyone who connects to it through its own lines or those of third parties, in compliance with the technical regulations of service quality and safety.
- ◆ Distribution concessions must assure the permanent supply of energy, in such a way that they are able to satisfy the total consumption projected of their regulated consumers for a period of at least three years, with the obligation to hold a bidding process previously for the supply that they are not able to provide through their own generation (Short Law II).
- ◆ The future supply contracts of energy will be awarded to the generators that, in public bids, open, non-discriminatory, transparent and competitive in prices, offer the supply at the lowest cost (Short Law II).
- ◆ The General Law of Electric Services contains the rules for setting prices or maximum rates for regulated customers, with an effective period of four years.
- ◆ Distributors shall transfer directly to their regulated end customers the average price of the award of their contracts, instead of the base price set by the authority (Short Law II).
- ◆ Customers not subject to pricing of the distributing companies enter into long-term contracts in which the service price is freely established by the parties.

### 2.5.3 Subsidies and contributions regime

Law 20040 regulates the matters related to subsidies for consumption of electricity. According to this provision, if within a period equal to or lower than 6 months, the electric rates for residential users, urban and rural show a real accumulated increase equal to or higher than 5%, the President of the Republic, by means of supreme decree issued through the Ministry of Economy, Promotion and Reconstruction, may establish a transitory subsidy to the payment of electric energy consumption that will favor low income residential users who are up to date in their payments.

The subsidy will be discounted by the companies that have the concessions of the public distribution service to their respective customers beneficiaries of the subsidy. These companies must evidence to the Superintendence of Electricity and Food the amounts discounted in order to authorize the respective payment.

### 2.5.4 Regulatory entities

#### Ministry of Economy, Encouragement and Reconstruction

Designs and monitors the implementation of public policies that affect the country's competitiveness. Its main lines of action are related to the design and promotion of Innovation and Enterprising Policies.

#### Ministry of Energy

It is the highest body of cooperation of the President of the Republic in the duties of government and administration of the energy sector. This public entity is responsible for determining the plans, policies and rules for the development of the electric sector. In addition, it grants concessions for hydroelectric plants, transmission lines, substations and electric distribution zones. The National Energy Commission (CNE) is an instrumentality of the Ministry of Energy.

## National Energy Commission (CNE)

The National Energy Commission (CNE) is a public and decentralized organization with its own equity and full capacity to acquire and exercise rights and obligation that relates the President of the Republic through the Ministry of Energy.

In particular, the National Energy Commission conducts the setting of prices to electricity and network gas companies. It is responsible for designing techniques and calculating the regulated prices established in the Law. Likewise, it monitors and projects the current and expected operation of the energetic sector, through the generation of the works plan, which constitutes a guideline for the ten-year expansion of the system. Furthermore, it proposes to the Ministry of Energy the legal and regulatory rules that are required on the subjects of its competence.

Finally, it advises the Government, through the Ministry of Energy, in all those matters related to the energetic sector for its better performance. The institutional framework of the CNE is Decree Law 2224 of May 25, 1978, modified by Law 20402.

## Superintendence of Electricity and Fuels (SEC)

It is the public entity which mission is to monitor the adequate operation of the electricity, gas and fuels services, in terms of their safety, quality and price. In addition to setting the technical standards, the objective of the SEC is to examine and oversee the compliance of legal and regulatory provisions on generation, production, storage, transportation and distribution of liquid fuels, gas and electricity to verify that the quality of the services rendered to users will be that indicated in those provisions and technical regulations and that the operation and the use of the energetic resources do not represent any danger for people or their things. The constitutional framework of the SEC is Law 18410 of 1985, modified by Law 20402.

## Economic Load Dispatch Center (SIC)

The CDEC —SIC is the entity in charge of coordinating and determining the operation of the SIC facilities, including generating plants, lines and substations of the transmission system and free customer consumption bus-bars of free customers. Among its duties is to watch for the safety of the service in the electric system, guarantee the most economic operation of the group of facilities of the electric system and guarantee the easement on the transmission systems established through electric concessions decree. The CDEC-SIC is made up by the generators, transmission companies and free customers that operate in the SIC and are its members which finance it. The institutional framework of the CDEC is Decree 291.

## Economic Load Dispatch Center (SING)

The CDEC - SING is the entity in charge of coordinating and determining the operation of the facilities of the SING. It is analogous to the CDEC-SIC.

## Panel of Experts

The Panel of Experts is an entity integrated by professionals of wide experience, whose function is to issue a pronouncement, through rulings with a binding effect, on discrepancies and conflicts that arise on occasion of the application of the electric legislation and that companies of the sector submit to their decision. Generators, transmission companies and distributors finance the panel. The matters on which the panel has competence as well as its institutional framework are included in Title VI of the General Law of Electric Services.

## 2.5.5 Restrictions and limits

Some limits contemplated by the Chilean regulation are:

- ◆ **Restricted corporate object:** The companies that have public concessions of public service of distribution shall only use their distribution facilities for the public service and public lighting.
- ◆ **Separation of companies:** The companies that are operators or owners of the trunk transmission systems must be incorporated as open joint stock companies. These corporations cannot engage, either by themselves or through related natural or legal persons, to activities that involve the generation or distribution of electricity. The performance of other activities, that do not involve those indicated above, shall only be carried out through affiliate or associated stock companies
- ◆ **Limitation to participation:** The individual participation of companies that operate in any other segment of the electric system, or of users not subject to price setting in the trunk transmission system, shall not exceed, directly or indirectly, eight percent of the total investment value of the trunk transmission system. Additionally, the joint participation of generating and distributing companies and of the group of users not subject to price setting, in the trunk transmission system, shall not exceed forty percent of the total investment value of the trunk system. These limitations to the property extend to business groups or legal or natural persons that form part of transmission companies or that have joint action agreements with transmission, generating or distributing companies.

The owners of the facilities constructed previously to their definition as belonging to the trunk system may maintain the ownerships of those facilities and will not be applied the limits of ownership, and will be able to exceed the percentages of eight and forty indicated above.

## 2.6 Regulations for Mexico (Sanitation)

### 2.6.1 Regulatory Framework

The legal framework that regulates the rendering of the services of potable water, drainage, sewage, treatment and disposal of wastewater, has suffered transformations as a consequence of the reforms to constitutional article 115 and of the policies adopted recently on the subject of contracting public debt and granting of guarantees for their repayment. Within them the following are outstanding:

- ◆ Strengthening the decentralization criteria by assigning to the municipalities the primary responsibility of the services of water supply and sanitation, with the subsidiary of support of state government, at the express request of the municipalities.
- ◆ Resolving the legal gap by including the treatment and disposal of wastewater, generically called sanitation, whereby, among other things, a solid legal base is established for the charge of these services.
- ◆ Establishing the principle of treasury autonomy for the municipalities, without excesses of discretion, which, among other things, promotes the possibility of aligning the specific costs of the services and recovering them through determined tariffs (Law of Quotas and Rate of each Municipality).
- ◆ In an important manner, exception privileges are defined which a good number of instrumentalities and entities of the federal and state, and even municipal, public sector used to resort to and continue to do so.
- ◆ Establish that the municipalities propose to the state legislators the applicable quotas and tariffs. According to the constitutional rule, legislators of the states will approve the laws of income of municipalities, will review and examine their public accounts. The municipalities will approve the budgets of expenses based on their available income.

Within the constitutional regime are worth mentioning especially the provisions of constitutional article 117, which establishes that the states cannot in any case:

“Incur directly or indirectly obligations or debts with governments of other nations, with foreign corporations or individuals, or when they are to be paid in foreign currency or outside the national territory”. The same article indicates that: “States and Municipalities shall not incur obligations or debts except when they are intended to productive public investments, even those incurred by decentralized entities and public companies, pursuant to the basis established by the legislatures in a law or by the concepts and up to the amount that they establish annually in the respective budgets. The executives will inform of their exercise when rendering public account”.

### 2.6.2 Regulatory regime

In the state environment, each one of the 32 federative entities has its respective water laws, with notably equal purposes, notwithstanding the various denominations. The modifications to the state legislature associated to the rendering of water supply and sanitation services derived mainly from a series of initiatives promoted by the National Water Commission — CAN in the nineties. The evolution that since then and up to the beginning of this decade has experienced the state legal regime on the subject of water and sanitation, is summarized as follows:

- ◆ Reforms of 1983 to constitutional article 115, whereby the municipal nature of the water supply and sanitation services was ratified and strengthened, which forced to redirect the role of the state authorities on this subject, in order to assign them a subsidiary role and to some extent, regulatory.
- ◆ Government policies established to promote the creation of decentralized organizations (decrees of creation) of the Municipal Administration, with the technical capacity and administrative and financial autonomy necessary for the efficient provision of the services, together with the instruction of schemes of participation by the private sector.
- ◆ Greater participation of the state authorities in the administration of the national water, through agreements that, pursuant to the provisions of constitutional article 116, may be executed by the federation with the state governments, in order that the latter carry out or exercise different tasks or authorities, of the exclusive competence of the federal government. This possibility was reinforced even more with the reforms and additions to the National Water Law that entered into force in 2004.

The first laws enacted under the conception of decentralized operator entities have been slowly adjusted; in essence, to strengthen the citizens’ participation in government entities and open ways to the participation by the private sector in the provision of the services, as well as to optimize the mechanisms and procedures to determine the quotas and tariffs associated to the charge of the potable water and sanitation services.

### 2.6.3 Regulation of the Potable Water and Sanitation distribution sector

**Provision of services:** In all the states involved it is established that these services are to be rendered through **decentralized public entities** of the Public Municipal Administration.

In the laws of water services, the basis are set out in order that the social and private sector may be able to participate in the rendering of the services. Especially, in the legislation is detailed the manner how the state government, through its respective State Water Commissions, may take part in the rendering of the services

**Autonomy:** The greater autonomy is granted to the State Water Commissions this in turn to the Water Operator Entities.

Legal provisions issued by CONAGUA refer to the incorporation and operation of the operator entities created as decentralized entities of the municipal public administration. In the relevant aspects are included:

- ◆ Municipal operator entities (central or decentralized).
- ◆ Inter-municipal operator entities.
- ◆ The corresponding state water commission.
- ◆ Different ways of organization of the social sector or of the private sector different from a decentralized public entity.

#### 2.6.4 Subsidies and contributions regime

**Contributions:** By establishing the charge of the services (Potable Water, Sanitation and Sewage) under the form of fiscal contribution (rights), the tariff proposals must be incorporated into the municipal income laws. All this notwithstanding that the same laws (that cannot be above the constitutional provisions) grant to the government bodies of the operator entities the power to establish the Quotas and tariffs to charge for the services.

**Subsidies:** By means of the programs that are operated by various Federal Government agencies (CONAGUA), state governments and municipalities, subsidies are subject, first, to the availability of budget resources that result from the processes established for said purpose, by means of the timely action by corresponding state units, supported with duly integrated projects (Potable Water, Sewage and Sanitation in URBAN ZONES (APAZU), Program for the Construction and Rehabilitation of the Potable Water and Sanitation Systems in Rural Areas (PROSSAPYS) Program of Return of Rights (PRODDER) Program for Treatment of Wastewater (PROTAR).

**To the user:** Directly through Municipal Water Operator Entities.

- ◆ Eliminate 100% of fines and surcharges when paying the total of the year's consumption.
- ◆ 50% to retirees and the elderly.
- ◆ From 8% to 12% for advance annual payment.

#### 2.6.5 Regulatory entities

**SEMARNAT:** Incorporates in the different environments of society and the public function, criteria that secure the optimum protection, conservation and use of the natural resources of the country, creating in this manner an integral and comprehensive environmental policy that permits to reach sustainable development, provided that they are not expressly entrusted to another agency; as well as on the subject of ecology, environmental sanitation, water environmental regulation of urban development and of the fishing activity, with the participation that corresponds to other agencies and entities.

**CONAGUA:** Administers and preserves national waters, with the participation of the society, in order to achieve the sustainable use of the resource with the joint responsibility of the three government levels and the society in general, it being an authority with technical quality and promoter of the government orders in the integrated management of the hydric resource and its inherent public goods and protects the bodies of water, guaranteeing a sustainable development and preserving the environment.

**SEDESOL:** Defines the commitments of the administration to progress in the achievement of an effective social development. It formulates and coordinates the solidary and subsidiary social policy of the federal government, oriented towards the common good, and executes it in joint responsibility with the society.

#### 2.6.6 Restrictions

According to the Constitution of the United States of Mexico "Article 27. The ownership of the land and waters included within the limits of the national territory corresponds originally to the Nation, which has had and currently has the right to transfer their possession to private parties, constituting private property." Expropriations can only be made for a public utility cause and by means of indemnification

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## Note 3 - Statutory audit

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Empresas Públicas de Medellín E.S.P. has no obligation to have a statutory auditor, since it is an industrial and commercial company of the State, and since all the capital for its incorporation and operation is of a public nature. For the same reason, the entity is subject to full fiscal control by the Contraloría General de Medellín.

The subsidiaries in Colombia for being constituted as corporations (S.A - Sociedades Anonimas in Spanish) are required to have the figure of the "Revisor Fiscal" (external auditor), in accordance with the provisions of the Commercial Code of the country. International subsidiaries do not have this figure but have external audits.

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## Note 4 - External audit

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According to provisions of the Good Corporate Governance Code, as a control mechanism is established the external audit, whose purpose is the examination of the accounting information in general and of the financial statements, as well as the issuing of an independent opinion in respect to the reasonableness of the financial statements to indicate the financial condition of the company at the closing of each fiscal period. The Audit Committee of the Board of Directors previously reviews the External Audit Plan and follows up the auditors performance.

Through a request for public tenders, the firm Deloitte & Touche Ltda. was hired for the period from May 1, 2013 to April 30, 2014 to carry out the financial external audit to the individual financial statements of Empresas Públicas de Medellín E.S.P., to the consolidated financial statements of the EPM Group and to the financial reports of the projects that must be submitted to the Inter-American Development Bank (IADB) and to the International Financial Corporation (IFC).

## Note 5 - Accounting practices

For the preparation and presentation of the financial statements, the company, as a public entity, complies with the Public Accounting Regime (RCP, for its initials in Spanish), established by the Nation's General Accounting Office (CGN, for its initials in Spanish), a public entity of the Republic of Colombia. The RCP is harmonized with rules and practices accepted internationally for the public sector. Local regulations contain international elements applicable to the local context and strategic for the interaction of the public sector in a globalized environment.

These consolidated financial statements and notes to the consolidated financial statements were translated into English, from statements originally issued in Spanish, for the convenience of readers.

The regulations in effect of the CGN that rule accounting matters are:

- Resolution 354 of 2007: adopted the RCP, established its structure and defined the scope of application.
- Resolution 355 of 2007: adopted the General Public Accounting Plan (PGCP, for its initials in Spanish), which contains the general public accounting regulations and the grounds to recognize and disclose the transactions, events and operations carried out.
- Resolution 356 of 2007: adopted the procedures manual of the public accounting regime consisting of the general catalogue of accounts, the accounting procedures and the accounting instructions manual.
- Resolution 357 of 2008: establishes the internal accounting control procedure and the remittance of the annual internal control evaluation report that must be sent to the CGN.

Also applicable are the regulations of the Superintendence of Domiciliary Public Utilities (SSPD, for its initials in Spanish), a technical entity created by the Constitution of Colombia to exercise the control, inspection and monitoring of the entities that provide domiciliary public utility services.

The unified system of costs and expenses by activities of EPM is ruled by Resolution 20051300033635 of December 28, 2005, issued by the SSPD, updated with Resolution 20101300021335 of 2010, which was derogated with Resolution 20131300001025 of 2013.

According with the regulations in effect, EPM adopts the accounting practices detailed below:

- **Functional currency:** the function currency of Colombia is the Colombian peso. Consequently, the operations carried out by EPM in other currencies are considered denominated in a "currency different from the peso" and are recording according to the exchange tariffs in effect on the dates of the operations. For international subsidiaries functional currency shall be governed according to the laws of the country of origin.

For domestic and foreign companies the differences between the historic exchange tariff accounted for and the tariff in effect on the date of the charge or payment are recorded as exchange difference gain or loss and are presented in the "net non-operating result" of the income statement. Excepted from this practice are investments abroad in controlled companies, which are recorded in the equity through the equity method.

The exchange rates used at December 31 are certified by the Financial Superintendence of Colombia, as well:

### Exchange rates



Currency	2013	2012
US Dollar (USD)	1,926.83	1,768.23
Euro (EUR)	2,655.08	2,331.23



Japanese Yen (JPY)	18.32	20.46
Sterling Pound (GBP)	3,191.31	2,874.26
Swiss Franc (CHF)	2,166.57	1,931.76
Quetzal (Q)	245.73	223.76
Mexican Peso (MXN)	147.11	135.91
Chilean Peso (CLP)	3.66	3.69

### Exchange rates

Investments abroad in controlled companies are not subject to adjustment for exchange differences, because the latter is recognized in the equity through the equity method.

◆ **Accounting estimates and judgments:** in the preparation of the financial statements estimates are used to quantify some of the assets, liabilities, income, expenses and commitments that are recorded in the accounting. Basically estimates refer to:

- ◆ Valuation of assets to determine the existence of losses by their impairment.
- ◆ Useful life of properties, plant and equipment and intangibles.
- ◆ Realization value to determine the inventories provision.
- ◆ Recoverability of accounts receivable to determine the receivables provision.
- ◆ Hypothesis used to calculate the reasonable value of properties, plant and equipment.
- ◆ Public utilities supplied to customers, corresponding to billing cycles with consumptions of December, but the invoices for which are issued in January of the following year. The records are made globally and at the respective tariffs of the specific income in consideration that the right to said income already exists.
- ◆ Some macroeconomic variables, particularly costs of the electric sector.
- ◆ Hypothesis used in the actuarial calculation of the retirement pension and seniority bonus calculations.
- ◆ Amount of liabilities associated to possible contingencies, which gives rise to recognition of provisions.
- ◆ Determination of reasonable value of investments that are not quoted in the public exchange market.

These estimates are made as a function of providing reasonable information that reflects the economic reality of the company as of the closing date. The end result of the operations referred to by those estimates may be different from the final values and originate future modifications according to their occurrence.

◆ **Materiality notion:** The recognition and disclosure of the economic events is made according to their relative importance. An economic event is material when because of its nature or amount, its knowledge or lack of knowledge, taking into account the circumstances, may significantly alter the economic decisions for users of information. When preparing the financial statements, the relative importance for disclosure purposes was determined on 5% basis applied to each group of accounts.

◆ **Classification of assets and liabilities:** Assets and liabilities are classified according to the use to which they are intended or according their degree of realization, enforceability or assessment in terms of times and values. The values realizable or payable within a term not exceeding one year are considered current assets and liabilities.

**Cash and cash equivalents:** Money in cash and in banks is considered cash. Funds that because of contractual or conventional reasons have a restricted availability are recorded separately.

- ◆ **Investments for liquidity management:** Correspond to the investments made to optimize the excess liquidity surpluses, that is, all funds that are not immediately intended to the performance of activities that constitute the company's corporate object. Investment of excess liquidity is made under the criteria of transparency, security, liquidity, profitability, under the guidelines of an adequate control and at market conditions with no speculative purposes in accordance with Decree from the General Management 1651 of 2007.

Considering the stipulations of Decree 1525 of 2008 from the Ministry of Finance and Public Credit, modified by Decrees 2805 and 4471 of 2009, 4686 of 2010, 1468 of 2012 and 600 and 1117 of 2013, transitory investments in EPM may be created in treasury securities (TES), Class B, fixed Rate or indexed to the UVR (Real Value Unit) and in term deposit certificates (CDT, for its initials in Spanish), in checking or savings account or in term deposits with banking institutions monitored by the Financial Superintendence of Colombia or in entities with special regimes, contemplated in section tenth of the financial system organizational structure and in collective investment portfolio of the monetary or open market, without pact of permanence, in entities with the second best rating in effect on strength or quality in the administration of portfolios and that comply with the investment regime provided for EPM.

The bank establishment subject to investment of excesses must have a rating in effect corresponding to the maximum category for short term, in accordance with the scales currently used by the rating agencies BRC Investor Services S.A. (BRC1+), Value and Risk Ratings S. A. (VrR1+) and Fitch Ratings (F1+) and receive as minimum the third best rating in effect for the long term (AA) used by the respective corporations. Foreign currency excesses may be investment in international governments or financial institutions with a minimum tariff of A+ for the long term and A-1+ for the short term, the same that in branches abroad of banking establishments monitored by the Financial Superintendence of Colombia, that have the maximum rating in effect for the long and short term according to the scale used by rating agencies that tariff the Nation's foreign debt.

The portfolio of liquidity investments is valued daily at market prices, according to the provisions of the regulations in effect. Prices and benchmark tariff used for the different categories of securities are: for local currency those published by the Stock Exchange of Colombia in its information for valuation page (Infovalmer), and for foreign currency those published in Bloomberg.

The purchase of investments, administration of fixed income liquidity, is recorded at purchase cost, which is the same reasonable value. The costs of these transactions are recognized as expenses when incurred. Subsequently to their initial recognition, they are valued at reasonable value taking into consideration the market value established in the stock exchange where said security is traded. Differences that arise between each valuation increase or decrease their cost, with debit or credit to the results accounts of financial income or expenses, according to the case.

- ◆ **Equity investments:** Consists of investment in controlled and uncontrolled entities.

- ◆ **Investments in controlled entities:** Equity investments in controlled entities consist of investments made with the intention of exercising control or have the joint control. They are recognized at their historic cost and the equity investments in which EPM exercises major influence are included.

The historic cost is made up by the acquisition price or original amount, plus all the disbursements necessary made by EPM for the acquisition of the investment. These investments are not subject to exchange difference adjustment, since the equity method incorporates it, but are subject to adjustment to intrinsic value in order to recognize at the time of the purchase the difference between the acquisition price and the intrinsic value of the shares, quotas or part of corporate interest. If as a result of the comparison the investment value is lower than the intrinsic value, the difference is recorded as appreciation. If, to the contrary, as a result of the comparison the value of the investment is higher than the intrinsic value, the difference is recorded as provision, affecting results. The adjustment to the intrinsic value is modified by new acquisitions.

- ◆ **Equity investments in uncontrolled entities:** They consist of the participative securities classified as of low or minimum tradability or without any trading, which do not permit EPM to control, share the control or exercise any major influence on the issuing entity. These investments have the characteristic of not being available for sale. They are updated by the cost method quarterly, based on the value in the stock exchange or their intrinsic value. If the intrinsic value or stock exchange trading value is higher than the adjusted cost, the difference is recognized as appreciation, affecting the equity as surplus. If the intrinsic value or stock exchange trading value is lower than the adjusted cost, the appreciation created is reduced until it is extinguished, and beyond that value provisions are recognized against results for the period as other non-operating expenses.

- ◆ **Debtors:** It constitutes the value of the rights in favor of EPM originated in the rendering of the public utilities services. Within this item are the utilities of electric power, water, basic sanitation, fuel gas and their respective subsidies. It also includes other items such as related parties, prepayment and advances for contractors and suppliers of goods and services, sale of goods, loans to employees, financing for the conversion to gas and for gas appliances, rendering of other information technology services, technical assistance and leases, among others.

One of the following conditions must be met for their recognition:

- ◆ 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 may be legally demanded.
- ◆ The existence of a collection document, agreement, court ruling or other document legally issued that supports the right.

**Doubtful accounts:** As doubtful accounts are considered those that are over six month past due or when they are sent to legal collection, event that originates the reclassification of the respective amount from current account receivables to doubtful accounts. From this reclassification are exempted the debtors that are classified as official entities.

An administration provision is established for the protection of receivables, charged to the expense account of provision for debtors. When risks for the recovery of debtor balances are evidenced, the calculation of this

provision corresponds to a technical evaluation that allow to determine the loss contingency or risks for eventual debtor's insolvency. Each month the collectability status is assessed using the cascade model; which requires a historic base of minimum 12 months to determine the non-collectability percentages.

When there are rights which recovery is not possible through legal process, coercive jurisdiction, or ordinary channels, the write-off will apply to recognize the extinction of the account receivable in favor of EPM.

The account receivable write-off does not release EPM of the responsibility to continue with the collection efforts that will be relevant. The practice for the recognition of the receivable write-off, is, as it may correspond, a charge to the account of debtors provision and a credit to the account receivable from the customer or to doubtful accounts.

The value of the account receivable to be cancelled against the provision is recorded in memorandum accounts. In an eventual recovery, the balance of the memorandum account is reduced and an income for recovery is recorded.

The value of the provision to cover the risk of uncollectibility of accounts receivable from companies providers of telecommunications services, is determined in general according to the following ranges:

- As doubtful accounts for voice services are considered those that are over 240 days past due and for the remaining services those that have a due day of over 120 days. The sums that are finally considered uncollectible are charged to the provision as write-offs, when they are duly authorized.
- For value added services the provision is made of the balances past due as follows: 90% for expirations from 120 to 360 days and for longer expirations 100%.
- For voice services the provision is made of the balances that are past due, as follows: 90% for expirations from 240 to 360 days and for longer expirations 100%.
- For the long distance service 100% of debtors is provisioned after they exceed 120 days or it is returned by operators and third parties.
- **Inventories:** As inventories are classified the goods acquired with the intention to sell them or consume them in the process of rendering public utility services. They include goods in stock that do not require transformation such as power, gas and water meters, supplies, materials such as parts and accessories for rendering services and goods in transit and held by third parties.

The goods acquired will be incorporated to inventories at the time of their receipt for their acquisition cost, added with all costs and expenses necessary to put them in usable or sale conditions. The weighted average method is used for their valuation. The consumption of materials and spares is recorded with credit to the account of inventory of materials for rendering of services, for the average cost, with charge to the respective expense, cost or investment account.

In order to reflect the value of the inventory in accordance with its economic reality, in EPM the inventories will be updated at their realization value, provided that this value is lower than the book value. In this case the provisions will be recognized for the difference; otherwise, provisions will be recovered when they exist, not exceeding the value created for this item. For the case of physical reductions, such as decreases, deterioration or obsolescence the inventory retirement will be made directly against expense.

Physical inventory counts are taken on a rotating basis throughout the year, in order to cover all articles catalogued in the inventories.

Inventories keep their inventory nature, regardless of the fact that because of exogenous factors proper of the economy or by natural situations inherent to the business conditions they have a slow turnover. Although they continue as inventories, this low turnover gives them a "immobilized good" characteristic in EPM

- **Properties, plant and equipment:** Represents the tangible goods acquired, constructed or in process of construction, with the intention of using them permanently in operating activities for the production and rendering of services, to lease them or to use them as administrative support of the organization, that are not intended for sale in the normal course of business and which useful life exceeds one year.

The historic value of these assets includes all disbursements and charges necessary to put them in usable conditions. All disbursements made by the company to increase the useful life of these assets, extend their productive capacity and operating efficiency, improve the quality of products and services, or allow a significant reduction of operating costs are capitalized as higher value of the asset.

Pursuant to the provisions of Resolution 356 of September 2007, issued by the CGN, the company updates the value of properties, plant and equipment by means of technical appraisals with the application of methodologies of recognized technical value, which consider among other criteria, their useful life, economic life and remaining life, the location, condition, productive capacity, market situation, degree of tradability, obsolescence and deterioration suffered by goods.

The update of properties, plant and equipment is made every three years from the latest update made and the recording is made in the respective accounting period. However, if prior to the completion of this term the value in books of properties, plant and equipment experiences significant changes in respect to the replacement cost, or the realization value, a new update is made, recording its effect in the respective accounting period.

Useful lives of fixed assets in EPM are defined taking into account technical criteria, in accordance with the characteristics proper of the asset, considering future economic benefits, the potential of the asset service, the capacity or physical performance expected of it, as well as the physical and environmental conditions.

They shall be defined taking into account technical criteria and in the terms that it is expected that they will bring economic benefits to the company, taking into account the following factors to determine them:

- The use of the asset or its physical wear and tear, which is estimated by reference to the capacity or physical yield expected of it.
- The expected natural deterioration caused by reasons other than its use that depends on operating aspects such as: number of work shifts in which the asset will be used, the repairs and maintenance program, among others.
- The geographic location of the asset.
- The legal limits or similar restrictions on the use of the asset.

In case there are no technical criteria, the useful lives established by the CGN may be taken as reference.

The average of general useful lives by type of asset used in 2013 is:

## The average of useful lives by type of asset



Type of assets	2013	2012
<b>Constructions</b>		
Dams, repeating stations	49	48
Buildings, houses, offices, stores, booths, camps, parking, garages, warehouses, sports facilities	30	30
Storage tanks	30	30
<b>Plants, ducts and tunnels</b>		
Generation plants	43	44
Treatment plants	48	49
Conduction plants	45	47
Substations and regulation stations	24	24
Water works and channeling	30	30
Pumping stations	27	27
<b>Networks, lines and cables</b>		
Distribution and air networks	22	22
Wastewater collection networks	35	32
Transmission lines and cables	33	33
<b>Machinery and equipment</b>		
Construction equipment, industrial machinery	7	7

Tools and accessories	7	7
Equipment for pumping stations	7	7
Control center equipment	13	12
Dredging machinery and equipment, cleaning equipment, other machinery and equipment	7	8
<b>Medical and scientific equipment</b>		
Research equipment	6	6
Laboratory, medical and scientific equipment	11	11
<b>Furniture, fixtures and office equipment</b>	7	7
<b>Communications and computer equipment</b>	5	5
<b>Transportation traction and lifting equipment</b>	5	5
<b>Dining, kitchen, pantry and hotel equipment</b>	7	7

The average of general useful lives by type of asset used in 2013 is

The following are among the classifications:

**Constructions in progress:** Presents all disbursements made by the company in the process of construction, expansion, modernization, rehabilitation or replacement of networks, plants and equipment, among others, until they are in conditions to be used in performance of the operation to guarantee the expansion and sustainability of the infrastructure to provide the services offered through construction.

The value for which the constructions in progress are recognized is given by the total disbursements necessary and indispensable that are directly associated to the acquisition or construction of the good from the date of initiation of the performance until the date when the asset is ready for its use or operation.

Commissions, financial costs, interest and exchange difference of interest originated in loans obtained for financing of works under construction, are capitalized up to the time when they are in operating conditions.

Disbursements made to carry out the pre-feasibility and feasibility phases in projects shall not be capitalized, that is, they must be recorded in expense accounts. If during these phases fixed assets or intangibles are acquired, they shall be recorded in the corresponding accounts of property, plant and equipment or intangibles.

In the power generation business investments are made, mainly for the construction, rehabilitation or modernization of power generation plants as well as for the repowering and replacement of their equipment.

Investments in infrastructure for the expansion and replacement of transmission and distribution networks in different voltage levels are intended to the construction of general use networks in order to cover the needs arising from the growth of power demand to take care of the works aimed at the system's reliability. Additionally, to cover regulatory requirements, improvement of service quality level, shielding of networks to reduce fraudulent connections and the change of elements that show a high degree of deterioration.

In the gas distribution business, in turn, investments are made to address the non-residential market and the expansion beyond the Valle de Aburra through Compressed Natural Gas system in the municipalities where access with conventional gas pipelines is not yet possible.

In the Strategic Business Group of Water, investments are made intended to the modernization and replacement of waterworks and wastewater networks in the different circuits, expansion of conductions and acquisition of equipment for water treatment plants and pumping stations. In addition, replacement of equipment in waste water treatment plants, as well as the construction, replacement, optimization and expansion of secondary networks and collectors as part of the "Sanitation Program of the Medellin River and its affluent streams".

**Movable goods in storage:** Correspond to the movable goods acquired in any modality, which are characterized as permanent because they will be used in the future in production or administration activities

in EPM. While they maintain this condition they are not subject to depreciation, as provided in paragraph 171 of the General Public Accounting Plan.

**Properties, plant and equipment not exploited:** include assets that because of obsolescence, are not required for the operation of the business and those that are temporarily out of service, in rehabilitation process or waiting for a technical decision to be rehabilitated or retired. Movable good assets that are retired by obsolescence or because they are no longer required by the company, are taken to the reuse warehouse where they are offered through public auctions (by internal regulations). This are retired at the time they are reintegrated, exception made of vehicles that are retired in the accounting when sold.

**Buildings:** Represents the value of buildings and houses, offices, booths, parking, garages, warehouses, sports and recreational facilities, dams and storage tanks among others, acquired by the company for the performance of its functions and the referring of public utilities.

**Plants, ducts and tunnels:** Represents the value of plants, ducts and tunnels acquired by the company for the generation, transmission and distribution of energy, distribution of gas, provision of water and sanitation.

In the operating infrastructure used by EPM in the power generation, transmission and distribution of power, natural gas, water supply and sanitation are, among others, the civil works and equipment of the generation, treatment, conduction plants, gas pipelines, power substations, channeling and pumping stations.

**Networks, lines and cables:** Represents the value of the distribution networks of energy, waterworks, collection of wastewater, gas supply networks, power transmission and distribution lines used in the business operation.

**Depreciation:** It is calculated on the historic cost under the straight-line method. The base used is the useful life determined according to technical criteria, such as additions or improvements, technological advances, maintenance and repairs policies, obsolescence, physical exposure of the goods and other factors.

Deferred depreciation reflects the value obtained by the excess of the fiscal over the accounting depreciation expense, because the tax regulation provides the use of depreciation methods and useful lives different from those used for accounting purposes, which permits that for tax purposes an asset will be depreciated in a more accelerated manner.

- ◆ **Actuarial financial reserve:** It is the set of assets that have been intended by the public accounting entity according to legal provisions in effect or by its own initiative to take care of pension obligations. These assets are recorded in accounts associated to funds and the payments of retirement pension and pension bonds are paid against them.
- ◆ **Expenses paid in advance:** These are disbursements that are paid before receiving the good or service required. They are deferred during the period in which the services are received or the costs or expenses are accrued. Expenses paid in advance are measured for their original cost, as provided in the contractual agreements or the prices set and agreed with third parties.
- ◆ **Deferred charges:** Are disbursements corresponding to the supply of goods or rendering of services received that, with reasonable certainty, will generate future benefits. The amortization is recognized during the periods in which it is expected to receive the benefits of the costs and expenses incurred, according to the feasibility studies for their recovery, the estimated periods of consumption of goods or services or the effective periods of the respective agreement. The balances of deferred assets must be appraised at their net recovery value. At the end of each year, it must be determined if the deferred charges will generate future benefits; otherwise, their value will be fully amortized.
- ◆ **Intangibles:** Are those disbursements made for the acquisition or development of the set of incorporeal goods, or without physical appearance, such as rights, licenses and software, from which future benefits may be obtained. As intangibles will be recognized in the balance sheet accounts, among others, those goods that are intended to the performance of primary activities of the value chain, on which it is expected to obtain future economic benefits. These goods are recognized if they are:
  - ◆ Identifiable: their value can be established.
  - ◆ Controllable: they can be transferred or their access can be restricted.
  - ◆ Generate future economic benefits or a service potential.
  - ◆ Their monetary measurement is reliable.

Intangibles are:

- ◆ **Goodwill:** Corresponds to the additional amount that is paid in the purchase of shares or quotas of corporate interest, above their equity value, as recognition of attributes such as good name, qualified personnel, good credit reputation or the control of the economic entity.

In order to reflect the economic reality of the operation and its direct association with the economic benefits that are expected to be obtained from the investment, the goodwill must be amortized based on methodologies of recognized technical value, during the term in which, according to the technical study made for the acquisition, the investment is expected to be recovered. Nevertheless, the goodwill with indefinite useful life is not subject to amortization.

At the closing of each accounting period, EPM assesses the goodwill in order to verify if the conditions of generation of future economic benefits are maintained, taking into account the financial projects of each company.

- ◆ **Licenses and software:** Are those right acquired by a company to exploit a determined invention, knowledge, trademark or technology that has their corresponding intellectual property.

The updates of licenses, that form a part of the support and maintenance agreement entered into, are accounted for as a maintenance cost.

Software is understood as the set of computer programs, procedures, rules, documentation and associated data that form part of the operations of a computer system.

- ◆ **Intangibles generated internally:** For their recognition it is necessary to identify and separate the research phase and the development phase, where the disbursements made in the research phase are recorded as cost or expense in the income statement in the period in which they are made, and disbursements made in the development phase may be, may be capitalized provided that each and all the characteristics for their recognition are evidenced.
- ◆ **Easements:** they are amortized in accordance with the provisions of the act that originated them; that is, if the contract is in perpetuity, they will not be amortized; if, to the contrary, is for a definite term, it will be amortized upon expiration of the term agreed in the contract.
- ◆ **Financial Obligations:** Correspond to the acts or contracts that, in accordance with legal provisions on public credit, are intended to provide EPM the resources for the acquisition of goods or services with a term for their payment such as loans, issue and placement of bonds and public debt securities. They are recognized for the value disbursed. Bonds and securities must be recognized for their face value. Guarantees granted to secure the payment of the debt are recognized for the value of the payments corresponding to capital that could be made, which are recorded in memorandum accounts.

Public credit operations are classified as:

#### **According to the place where they are agreed:**

- ◆ Internal: operations in the national territory
- ◆ External: operations outside Colombia

#### **According to the expiration:**

- ◆ Short term: the obligation expires in a term of one year.
- ◆ Long term: its expiration is over one year.

Public credit operations agreed in foreign currency must be recognized at the Market's Representative exchange rate (TRM, for its initials in Spanish) on the date of the transaction. This value must be re-expressed monthly applying the TRM of the end of the month. In the case of operations made in different units of value or specific indexes, they must be recognized for the price of the unit on the date of the obligation and be re-expressed periodically, applying the price of the unit or the index of the date of the update. The higher or lower value obtained as a result of the re-expression is recognized in the period in profit and loss accounts.

- ◆ **Hedging operations:** They represent the value of financial operations that are entered into in order to cover the risk of liabilities and may be carried out to purchase or sell assets, such as foreign currency, securities or financial futures on exchange rates, interest rates, stock exchange indexes or any other underlying asset agreed, which will be calculated on a future date agreed. They are recognized for the value agreed in the agreement.

If made in currencies other than the Colombian peso, they are recognized at the TRM of the date of the transaction. Monthly they are re-expressed with the TRM certified by the Financial superintendence of Colombia at the end of the month. The higher or lower value obtained as result of the re-expression is recognized in the period of in the profit and loss accounts.

- ◆ **Accounts payable:** Includes the payment rights in favor of third parties originated in services received or purchase of goods, use of assets owned by third parties and other obligations incurred in favor of third parties. These obligations are recognized at the time that the service or good has been satisfactorily received and in accordance with the value agreed, complying with these conditions:
  - ◆ That the good or service has been satisfactorily received and that its risks and benefits have been received.
  - ◆ That it is probable that from the payment of that obligation a disbursement of funds will derive that incorporate future benefits.
  - ◆ That the value may be determined in a reliable manner.
- ◆ **Taxes payable:** The tax structure in Colombia, the regulatory framework and the plurality of operations performed by EPM make the company to be subject to taxes, levies, rates and contributions of the national and territorial levels.

As taxes payable are recognized the rights in favor of the Nation, the department and the municipalities and other active subjects, upon compliance of the conditions provided in the corresponding regulations issued. The major taxes that correspond to EPM are the following:

- ◆ **Ordinary income tax:** EPM is a taxpayer of the ordinary income tax regime, at the general rate of 25%. The income tax is recognized as a current expense in accordance with calculation adjustment made between the income for tax purposes and the accounting profit or loss, affecting the item 'income tax' as an offsetting entry in the accounts payable called 'taxes payable'. In intermediate periods a current income tax estimate is recognized based on the forecast of fiscal results for the year, and thus during the year the provision account is used. The deferred tax is recognized separately from the income tax as expense or recovery.

Since 2013 EPM is also a taxpayer of the income tax for equality —CREE—. This tax was created by Law 1607 of 2012 and is defined as the contribution made by corporations, legal and similar persons who are taxpayers filers of the income and complementary tax, for the benefit of workers, generation of employment and social investment in the terms provided by said law. Article 21 and 22 of the mentioned law indicate the generating event and taxable base of the same and, in turn, article 23 defines the applicable rate, which will be of 9% for the years 2013 to 2015 while as of 2016 will be of 8%.

This tax has in turn an advance collection mechanism that is declared and paid monthly and that is calculated on the net income received by entities subject to this tax, for which these entities act as self-with holders, applying to that net income the rate associated to their main economic activity, in accordance with the provisions of the regulations in effect for this tax. The deferred tax arises from the application of the income tax rate to the temporary differences between tax incomes and the accounting profit or loss. This tax is recognized to the extent that there is a favorable expectation that such differences will be reversed in the future. The applicable income tax rate is that in effect at the time that the mentioned differences are reversed.

If the temporary difference entails a higher income tax payment in the future, it is recognized as a deferred liability in the account of other liabilities, deferred taxes and its offsetting entry will be a lower value of the income tax expense of the current year; this entry is presented separately from the current tax.

If the temporary difference entails a lower income tax payment in the future, it is recognized as an asset in the account other assets and its offsetting entry will be a higher value of the income tax expense of the current year and it will be presented separately from the current tax.

- ◆ **Equity tax:** Pursuant to the provisions of Law 1370 of 2009, the equity tax must be paid to the National Government in eight installments that cover the years 2011, 2012, 2013 and 2014 and the base of which is the net equity that the entity had as of January 1, 2011. According to Article 9 of Decree Law 4825 of 2010, it corresponds to EPM pay 25% additional to 4.8% as surtax of the equity tax. Since 2011 this tax has been accounted for with the methodology established by the CGN debiting equity appreciation against the total liability of the tax payable for years 2011 to 2014, according to the indications contained in Concept 20119-158027.
- ◆ **Sales tax:** EPM is a taxpayer of the common regime. This tax is generated by the sale of goods and services taxed, as well as by the exempt income derived from the exports of services. The utilities of energy, waterworks, sewage and domiciliary gas are excluded from the tax.

The sale tax that is not discountable is a higher value of the asset, cost or expense and is recognized at the time that the payment is made or the respective invoice is accrued.

- ◆ **Transfers of Law 99 of 1993:** Companies that generate hydroelectric power, which nominal installed power exceeds 10,000 kilowatts, will transfer to regional autonomous corporations (CAR, for its initials in Spanish) and to the municipalities and districts where the reservoir or hydrographic basin is located, 6% of the gross sales of power by its own generation, in accordance with the rate that may be indicated for block sales by the CREG. In the case of the thermal plants, the transfer is of 4%.

For the payment of the transfers, CREG Resolution 135 of 1996 established the rate for block sale of electric power at \$62.88/kWh (set in CREG Resolution 060 of 1995 and its modifications), which is increased annual as of January 1, 1997 with an index equivalent to the inflation target provided by the competent authority for each period.

**FAZNI (Financial support fund for energizing not interconnected zones) Contribution**, created in accordance with Article 81 of Law 633 of 2000: for every kWh shipped in the Wholesale Energy Exchange, ASIC, charges one peso (\$1) to the power generating agents. The CREG in Resolution 102 of December 2006, made adjustments in compliance with Article 1 of Law 1099 of 2006, which extended the term of this contribution until December 31, 2014, updating the peso (\$1) again as of January 1, 2007 with the Producer Price Index (PPI), calculated by the Central Bank.

**FAER (Financial support fund for energizing rural interconnected zones) Contribution**, created in by Article 105 of Law 788 of 2002 and regulated by Decree 3652 of December 7, 2003: EPM as owner of assets of the National Transmission System must contribute one COP (\$1.00), Colombian currency, for every kilowatt/hour dispatched in the Wholesale Power Exchange. This fund will be managed by the Ministry of Mines and Energy and will be intended to projects for the construction and installation of new rural electric infrastructure.

**PRONE (Program for standardization of electric networks in subnormal neighborhoods) Contribution**, created by means of laws 812 of 2003, 1112 of 2006 and 1151 of 2007: the Ministry of Mines and Energy manages the fund, having as taxpayers the users of the energy transportation; the taxable event is the transportation of energy, the taxable base is kWh, at a rate of \$1 per kWh transported. Colombian Government's objective with the funds of this program is the legalization of users, the optimization of the service and the reduction of non-technical losses through the installation or adaptation of



distribution networks, the connection to the users' homes and the installation of the power meter.

**Social Energy Fund (FOES)**, created by means of article 118 of Law 812 of 2003 as national special fund, funded with resources from the congestion income calculated by the ASIC, as proceeds of electric power exports to neighboring countries within the agreements of the Andean Community of Nations (ACN).

**Subsidies and contributions:** at the time of billing subsidies are recorded as an account receivable and contributions as an account payable, at the end of the period the subsidies and contributions are applied to each utility and an account receivable or payable is recorded according to the shortage or surplus that has been generated.

- ◆ **Labor and social security obligations:** these are the commitments that EPM has acquired with its workers for the services provided through an employment relationship established in accordance with the labor legislation, pact or collective bargaining agreement.
- ◆ **Estimated liabilities:** These are recognized when the following conditions are met:
  - ◆ EPM has obtained a benefit from the good or service, but the supporting document has not been received from the supplier to be recognized as real.
  - ◆ EPM has the obligation, according to the provisions of the law, to make payments or to give up resources in the future to take care of credits, on a date established by the parties.
  - ◆ The value of the resources to be delivered or the payment may be reasonably estimated and very close to their actual value.

Among the main estimated liabilities are:

- ◆ **Contingencies:** for the recognition of the contingencies associated to legal processes EPM follows the procedure established by the CGN in chapter V for "the recognition and disclosure of legal processes, arbitration awards, out of court conciliations and attachments decreed and executed on bank accounts". It is established therein that the processes with a rating of probable must be recorded as provision, while the processes with lower probability of loss must be recorded in memorandum account as potential obligations.

The situation or set of circumstances that generate uncertainty on possible losses and which final result will only become known when one or more events occur or cease to occur and that are not classified within the described procedure, are recognized taking into account the principle of prudence for the recording of expenses.

- ◆ **Pension obligations:** pension obligations by EPM have two components, pension bonds and pensions, which in turn include the pension quota shares. Their calculation has its legal base on legal regulations in effect on pensions. For the purposes of the actuarial evaluation, the parameters established in Decree 2783 of 2001 of the National Government were followed.

Since 2010 the evaluation has been made taking into account the new mortality table of annuitants approved by the Financial Superintendence of Colombia in its Resolution 1555 of 2010, according to which the life expectations of annuitants (retirees) increased in respect to previous tables, which means a longer period of pension payment and therefore an increase in pension liabilities.

The pension adjustment rate as of December 31, 2013 was of 2.99% (as of December 31, 2012 was of 3.26%) according to paragraph 1, Article 1, of the mentioned Decree 2783. Pension bonds were updated and capitalized according to Decree 1748 of October 12, 1995 and Article 6 of Decree 4937 of 2009 from the Ministry of Finance and Public Credit, which ordered to value the type T bonds (bonds not issued), at an interest rate of 4%, from the closing date to the date of update, which in 2009 form part of type B bonds, corresponding to the average premium and that was valued at a rate of 3%. The values already known of the bonds on the closing date, after deducting those paid during the year were taken as base.

In the calculation methodology were included the additional payments of June and December of each year, as well as the real value of the funeral allowance in the group of retirees of which EPM is in charge, in compliance with item b), Article 2 of Decree 1517 of August 4, 1998.

The pension liability is 100% amortized, in compliance with Resolution 356 of 2007; since 2009 pension payments are recorded affecting the liability account.

- ◆ **Pension Commutation:** according to Minutes 1466 of December 4, 2006, EPM assumed in 2007 the pension liabilities of Empresa Antioqueña de Energía E.S.P. (EADE), liquidated.

The methodology used for the actuarial calculation of pensions and pension bonds of EADE follows the parameters and technical bases established by the competent authority and are the same ones used for measuring pension liabilities in EPM. These pension liabilities are amortized 100%.

Pursuant to the provisions of Decree 941 of 2002, which regulates Law 100, the respective trust funds were created to guarantee the payment of pension obligations derived from pension funds and pension quota shares that correspond to EPM, as well as the payment of pensions and from the pension commutation. The fund is forecasted in such a way that it will extinguish at the time of payment of the last pension payable by EPM (year 2065). With the creation of these funds the availability of resources to take care of the payment of the pension liabilities and pension bonds of the companies is guaranteed, at the same time that their financial management is independent.

- ◆ **Equity:** is made up by the accounts that represent the tax capital, reserves, profits from previous periods, results for the period, surplus and equity appreciation.

- **Reserves:** in compliance with Decree 2336 of 1995, Article 1, a reserve was created by the application of the equity participation method. The reserve corresponds to the profits that are generated at the closing of the accounting period as a consequence of the application of special valuation systems at market prices and that have not been realized in the name of the company, in accordance with the rules of Article 27 (income realization) and other concurring regulations of the Tax Code.
- **Financial surpluses:** in compliance with Municipal Agreement 12 of 1998, from the Council of Medellin, it was established in Article 5 that the base for assessment of the financial surpluses that are transferred to the Municipality of Medellin is the net profit. With this base, the Compes (Municipal Council for Economic and Social Policy) determines the amount or percentage of the financial surpluses that will form part of the resources of the budget of the municipal budget.

Additionally, Municipal Agreement 69 of 1997, in its Article 13, mentions: "The percentage of EPM financial surpluses, in conformity with Article 97 of Decree 111 of 1996, cannot be transferred by a percentage over 30% to the Municipality of Medellin and will be intended by the latter exclusively to social investment and payment of city lighting".

Financial surpluses to be transferred to the Municipality of Medellin are recognized when the COMPES determines them, in compliance with legal formalisms, based on the financial statements of the previous year approved by the Board of Directors and sent by the General Manager of EPM to the Secretary of Finance of the Municipality, through a decrease in the profits of previous periods.

In those exceptional cases in which the Municipal Council approves extraordinary or additional financial surpluses, the recognition will be made with the document that gives rise to the obligation for EPM to transfer the financial surpluses, that is, when the certain amount is determined as well as the condition of method, place and time to make their transfer.

- **Equity appreciation:** it records the value of inflation adjustments of the equity account balances made since 1992 to 2000, year in which the CGN eliminated them. According to regulations in effect, this balance cannot be distributed as profit until the company is liquidated or decapitalized.
- **Valuation surplus:** represents the excess of the appraised value and the book value of assets held at end of period, in accordance with current standards. In the EPM Group Companies is recognized as the excess enhancement of the intrinsic value of investments compared to their book value and the excess of net realizable value or replacement cost of the assets over the book value.
- **Investment:** in controlled entities: they are subject to adjustment to the intrinsic value, in order to recognize the difference between the acquisition price and the intrinsic value of the shares, quotas or social interest, at the time of purchase.
- **Property, plant and equipment:** corresponds to the excess of the appraised value and the book value of assets held at end of period, in accordance with current regulations.
- **Memorandum accounts:** debtor and creditor memorandum accounts represent the estimate of events or circumstances that may affect the financial, economic, social and environmental situation of the public accounting entity, as well as the value of goods, rights and obligations that require to be controlled. They also include the value originated in the differences arising between the public accounting information and that used for tax purposes.
- **Operating income:** is the cash flow received by EPM in the accounting period, originated in the performance of its main activity. The returns, discounts and rebates for these items are recorded in separate accounts as lower value of the income. For the recognition of revenues the following conditions must be fulfilled:
  - That the service has been effectively rendered or the good has been delivered.
  - That the value of the service of good may be reasonable quantified.
  - That it is expected to receive the product of the service provided or good sold.
  - That the income is susceptible of increasing the net equity of EPM.
  - The income will not be recognized if there are any doubts about its realization.
- **Non-operating income:** Represents the income obtained by EPM in operations other than the provision of the public utility, including also the income for entries of an extraordinary nature.

EPM will recognize as non-operating income those that are not framed within its main corporate object, on which the risks or benefits have been transferred or the service has been effectively provided, that their value may be reasonably quantified and that it is probable to obtain the proceeds of the good or service delivered.

- **Costs of rendering the services:** These are the disbursements necessary to provide the public utility service, without which it would not be possible to provide it or its quality would not be optimum. These costs are connected directly to the rendering of the service, at a difference of the expenses that are disbursements associated to administrative activities. For the recognition of costs it is necessary to fulfill the following:
  - That the good or service subject of the costs has been satisfactorily received or is being received (for the case of services provided in several periods).
  - That the risks and benefits of the good or service have been received.

- ◆ That the value of the cost may be reliably measured.
- ◆ It is probable that from the payment of the good or service received the outflow of resources that involve future benefits may be derived.
- ◆ That the good or service subject of the cost is related to the rendering of services or is an element necessary in those services
- ◆ **Expenses:** expenses are necessary disbursements, derived from the normal operation of the organization, that serve as support for the rendering of the service. EPM recognizes its expenses to the extent that the financial, economic, social an environment events occur, in such a way that they will be systematically contemplated in the corresponding accounting period, regardless of the flow of monetary or financial resources. For this purpose it will be necessary to take into account that the recognition will be made when:
  - ◆ The good or service subject of the expense has been satisfactorily received or is being received.
  - ◆ That the risks and benefits of the good or service have been received.
  - ◆ That the value of the expense may be reliably measured.
  - ◆ It is probable that from the payment of the good or service received the outflow of resources that involve future benefits may be derived.

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## Note 6 - Significant changes in accounting practices

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For 2013 the following changes in the practices were made:

- ♦ Methodology to determine the receivables provision: up to 2012 the methodology used to establish the receivables provision was the individual provision, as of 2013 the method of recognized technical value, cascade model is used.
- ♦ Methodology to value litigations and lawsuits: up to 2012 the value of litigations and lawsuits corresponded to the value of the claim or the amount expected to be paid, as of 2013 the value of litigations and lawsuits classified as long term is established as the present value of the estimated value to be paid using as discount rate the rate of the In the statement of financial, economic, social and environmental activity the government securities TES fixed rate.

### Reclassifications

In order to present the figures of both periods in a way that their comparability is propitiated, the following reclassifications were made in the presentation of the figures of the previous year:

In the income of year 2012 a total value was presented for \$12,586,616, disclosing for that period a value of \$12,498,850. The lower income for \$87,766 was due to the change of the accounting practice in respect to the presentation of the return of the charge for reliability for \$80,659 (lower income), which was presented as operating cost in 2012; and the leasing of the electric infrastructure for \$7,107 (higher operating income), which was presented as non-operating income in the previous year.

In the costs of year 2012 a total value was presented for \$7,784,022, disclosing in this period a value for \$7,703,343. The difference for \$80,659 (lower cost) was due to the change of accounting practice in respect to the presentation of the return of the change for reliability commented above.

In the non-operating income of year 2012 a total value was presented for \$848,986, disclosing in this period a value for \$856,093. The difference of \$7,107 (lower non-operating income) was due to the change of accounting practice in respect to the presentation of the leasing of the electric infrastructure, commented above.

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## Note 7 - Subsequent event of impact for year 2014

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As of this date no events have been identified

## Note 8 - Other relevant aspect

### 8.1 Business combination and corporate restructure

Under Colombian regulations, equity investments in controlled companies are subject to adjustments, recognizing as goodwill the excesses between their acquisition price and their book value. If the purchase value is lower than the book value of the acquired entity, the difference is recognized as an equity increase, affecting the combination of business in the respective equity accounts.

In Colombia no negative goodwill is recorded in the income statement for the period. However, the net equity is affected by the surplus for appreciation.

#### 8.1.1 Acquisition and liquidation of the Panamanian Company Espíritu Santo Energy S. de R.L.

In January 2013, EPM and EPM Inversiones acquired the Panamanian company Espíritu Santo Energy S. de R.L. owner of 99.99% of the shares of the company Espíritu Santo Colombia S.A.S. E.S.P. which was owner of the rights to carry out the hydroelectric project Espíritu Santo in Colombia that will generate approximately 600 megawatts of energy, on the basin of the Cauca River, in the North of Antioquia. The transaction was closed for \$134,878 million.

On October 8, 2013, by means of deed of Notary Fifth of the Republic of Panama the liquidation of the company Espíritu Santo Energy S. de R.L. was notarized. Remnants for \$4,335 million were received.

In the meeting of November 29, 2013, the General Stockholders' Meeting of Espíritu Santo Colombia S.A.S. E.S.P. in Liquidation approved the liquidation accounts and the distribution of the remnants for \$2,928 million.

With the liquidation of these companies the hydroelectric project will be carried out by EPM.

#### 8.1.2 Creation of the Company EPM Chile S.A. and acquisition of the companies Parque Eólico Pacífico S.A. and Parque Eólico La Cebada S.A.

In February 2013 the company EPM Chile S.A. was created with contributions from EPM and EPM Investments for \$61,628 million as of December 2013.

This affiliate acquired in March 2013, 100% of the Chilean companies Parque Eólico La Cebada S.A. and Parque Eólico Los Cururos Ltda. (formerly Parque Eólico Pacífico), which carry out the construction of an eolic park of 109.6 megawatts in the region of Coquimbo, North of Chile. The value of the transaction was of \$31,803 million.

#### 8.1.3 Capitalization of the Company Tecnología Intercontinental S.A. de C.V.

On September 20, 2013 a capitalization was made equivalent to 80% of the shares of the Company Tecnología Intercontinental S.A. de C.V. (TICSA), through the affiliate EPM Capital Mexico S.A. de C.V. TICSA is a holding company consisting of 13 companies, 11 of them engaged in the design, construction, operation and startup of the wastewater treatment plants (PTAR). During its 25 years of experience it has developed more than 250 wastewater treatment plants, industrial and municipal. Currently, it is in charge of the operation of 9 PTAR with Mexican operator entities and is constructing other 4 projects, by which its treatment capacity will total more than 11 cubic meters per second (11,000 liters per second) of wastewater. The value of the transaction was for \$217.732 million.

#### 8.1.4 Acquisition of the Company Empresas Varias de Medellín S.A. E.S.P.

On November 1, 2013, EPM acquired 99.90% of the shares of Empresas Varias de Medellín S.A. E.S.P. (Emvarias) for \$34,490 million.

Emvarias was created 49 years ago. It provides the service of municipal collection of waste, mainly solid waste and complementary activities of transportation, sweeping and cleaning of roads and public areas, treatment, use and final disposal of waste, cutting of grass and trimming of trees located in the roadways and public areas. It is a company leader in the rendering of the domiciliary public service of cleaning and sanitation in the Valle de Aburrá.

#### 8.1.5 Liquidation of the Company EPM Ituango S.A. E.S.P.

In the extraordinary General Stockholders Meeting of EPM Ituango S.A. E.S.P. of January 11, 2013, it was decided to assign to EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P. the contractual position that it had with HIDROELÉCTRICA ITUANGO S.A. in the contract BOOMT (Build, Operate, Own, Maintenance and Transfer), for the construction, operation, maintenance and transfer of the Ituango project to EPM.

The decisions made by in this meeting were the following:

- ◆ Assign in favor of EPM the contractual position that EPM Ituango has in the BOOMT contract for a value of \$18,520 and the remaining contracts that it has executed for the performance of the BOOMT, as well as the rights and obligation inherent to it.
- ◆ Sell to EPM the assets associated to the project at their accounting value based on the listing of assets as of December 31, 2012, plus the adjustment for the investments made from January 1st to 11, 2013.

By means of private document executed on January 19, 2013 EPM ITUANGO S.A. E.S.P. (In liquidation) assigned its contractual position as contractor in the BOOMT contract to EMPRESAS PUBLICAS DE MEDELLIN E.S.P. as well as the remaining contracts that form part of the project and consequently the assignee accepted to assume in their proceedings, substance and equity all legal actions, pretrial conciliations, police and administrative coverage, claims third party liability claims, in which EPM ITUANGO S.A. E.S.P. would be acting as defendant, plaintiff, party summoned or summoning to conciliation, and addressee of claims, related to the performance of the Ituango hydroelectric project, which may be currently underway.

In order to carry out the mentioned assignment, EPM ITUANGO S.A. E.S.P. (In liquidation), by means of private document of February 7, 2013, sold to EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P. all assets with which EPM ITUANGO S.A. E.S.P. was carrying out the BOOMT contract. It was indicated that as of that date EMPRESAS PÚBLICAS DE MEDELLÍN E.S.P. was the owner and therefore subject to the obligations and duties inherent to the condition as owner of each of the assets. The liquidation of EPM Ituango S.A. E.S.P. was registered at the Chamber of Commerce of Medellin on January 13, 2014, said company being fully extinguished.

### **8.1.6 Liquidation of the Company CENS Inversiones S.A.**

On August 9, 2013, the company CENS Inversiones SA. was liquidated. The process of liquidation was started in April and was completed with the registration at the Chamber of Commerce of Cucuta. The companies of the EPM Group received \$100,137 million as remnant of the liquidation.

### **8.1.7 Creation and liquidation of the company ESSA Capital S.A.**

The company ESSA Capital S.A. was incorporated on February 20, 2013 as a result of the spin-off of part of the equity of Electrificadora de Santander S.A. E.S.P., according to approval by the General Stockholders' Meeting of January 24, 2012. The shareholders of ESSA Capital S.A. were EPM, EPM Inversiones, Department of Santander, Municipality of Bucaramanga and other minor shareholders.

On August 1, 2013 the dissolution of the company ESSA Capital S.A. was registered at the Chamber of Commerce of Bucaramanga.

The General Stockholders' Meeting in an extraordinary session of August 29, 2013 approved the liquidation inventory and advance distribution of the remnants, of which the EPM Group companies received \$176,658 million.

### **8.1.8 Framework Merger Agreement EPM - Millicom**

The boards of directors of UNE and EPM approved on October 1, 2013 the final documents of the negotiation that will permit the merger between UNE and Millicom. Upon signature of this framework agreement, it was presented for approval to the Colombian regulatory and governmental authorities, among them the Superintendence of Industry and Commerce, the Financial Superintendence, the Superintendence of Corporations, the National Authority of Television and the Meeting Bondholders of UNE. According to the schedule provided, the final approval of the merger should be ready during the first half of 2014.

The process for the integration of UNE EPM Telecomunicaciones and Millicom was started on February 5, 2013, when both companies executed a non-binding memorandum of understanding. On May 9th a transcendental advance took place with the issuance of Agreement 17 of 2013 by the Council of Medellin, that authorized the transformation of UNE under a series of conditions that were complied with in full. On July 22nd both companies signed a new memorandum of understanding, this time of a binding nature, after completing the conversations related to the structure and terms for the integration of their operations.

Among the agreements reached the following are outstanding:

- ◆ EPM will have the majority shareholding in the merged company with a participation of 50% and 1 share of corporate capital. Millicom, in turn, will be the owner of the remaining shares and will assume the full consolidation of the financial statements and the administrative and operating control of the entity.
- ◆ The Company will continue to have its registered office in Medellin, will bill new headquarters for the integrated company and will continue being a source of employment for the region.

Once the regulatory authorities authorize the merger, EPM will abandon the equity method and the consolidation of UNE and its affiliates.

## **8.2 International Financial Reporting Standards (IFRS) Program**

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

These standards are becoming the universal accounting language enforceable and accepted to make sure that in all countries the same financial language is spoken, with greater consistency in the accounting policies and comparability of the companies' financial information.

EPM undertook the adoption project of International Financial Standards IFRS since 2009, to respond to its growth strategy and facilitate the access to international capital markets.

In Colombia, the approval of Law 1314 of 2009, whereby accounting and financial reporting and information assurance principles and standards are regulated, has gained great importance. In December 2013, the CGN issued Resolution 743 whereby the Public Accounting Regime, the regulatory framework provided in the annex to National Decree 2784 of 2012 from the Ministry of Trade, Industry and Tourism of Colombia whereby the International Financial Reporting Standards are officially adopted in the country. According to these regulations, EPM belongs to Group 1 of preparers of financial information and therefore, it presented to the authorities in charge of monitoring the company the IFRS implementation plan and progress reports of 2013, as per the information requirements established in the different resolutions.

### **8.3 Process of consolidation of accounting information**

In 2009, with the international bond issue for USD 500 million, EPM acquired the commitment, with the investors and international banks, to present periodically the consolidated financial statements of the EPM Group; this exercise was being carried out in EPM for administrative purposes, but with this issue the formal obligation was acquired.

EPM consolidates its financial information with the companies in which it holds an equity interest equal to or in excess of 50%, either directly or indirectly or has the administrative control.

The consolidated financial statements are issued quarterly and are present to the Board of Directors. After the Board of Directors is informed, they are published in the official EPM page together with their respective Notes.



## Note 9 - Conversion of values in foreign currency

The balances in cash, banks, accounts receivable, investments, suppliers and financial obligations in foreign currency were expressed in Colombian pesos based on the Market's Representative Exchange Rate (TRM, for its initials in Spanish) certified by the Financial Superintendence of Colombia. As of December 31st the values are:

Exchange rate to Colombian pesos		
Currency	2013	2012
US dollar (USD)	1,926.83	1,768.23
Sterling pound (GBP)	3,191.31	2,874.26
Japanese yen (JPY)	18.33	20.46
Euro (EUR)	2,655.08	2,331.23
Chilean peso (CLP)	3.66	3.69
Quetzal (QGT)	245.73	223.76
Mexican peso (MXN)	147.12	135.91

Valores utilizados

The effects in results for exchange difference as of December 31st were the following:

Exchange rate results		
Non-operating income from exchange differences	2013	2012
Cash	34,539	5,095
Acquisition of goods and services	20,856	43,453
Investments	8,006	-
Accounts receivable	39,731	9,932

Public credit transactions	(12,772)	163,708
Other adjustments for exchange difference	45,440	32,310
<b>Total non-operating income from exchange differences</b>	<b>135,800</b>	<b>254,498</b>
<b>Non-operating expenses from exchange differences</b>		
Cash	19,359	11,349
Acquisition of Domestic goods and services	12,924	21,236
Accounts receivable	9,891	37,138
Investments	-	16,033
Short term external public credit transactions	215,494	-
Other adjustments for exchange difference	48,031	30,253
<b>Total non-operating expenses from exchange differences</b>	<b>305,699</b>	<b>116,009</b>


Amounts stated in millions of Colombian pesos



Efectos en resultados por diferencia

## Note 10 - Cash

As of December 31, cash are comprised as follows:


Cash 			
		2013	2012
Cash		6,738	2,474
Banks		1,243,154	1,490,147
Other available resources	(1)	56,688	3,867
<b>Total cash</b>		<b>1,306,580</b>	<b>1,496,488</b>
Restricted cash	(2)	<b>144,945</b>	<b>62,239</b>

\* Amounts stated in millions of Colombian pesos

Saldo del efectivo

(1) Includes funds in foreign currency payable on demand, realized through overnight operations that generate a financial return.

(2) Cash in banks includes the following accounts with special destination:

Accounts with specific destination 			
Fund	Destination	2013	2012
<b>Restricted Resources EPM</b>			
Agreements			

IADB Credit 2120	Intended to the disbursement of the credit funds, which was granted for the construction of the wastewater treatment plant - PTAR in Bello. The resources that arrive at this account are requested via legalization, only duly legalized funds are released.	43,246	-
Municipality of Medellin - Water	Integral management of water for human consumption of the inhabitants of the Municipality of Medellin.	5,124	8,599
Department of Antioquia Covenant	Join efforts for the institutional development, strengthening, transformation or creation of companies in order to ensure the rendering of public utilities in the municipalities of the Department.	2,974	-
Ministry of Mines and Energy - Special Promotion Quota Fun	Co-financing agreements for the construction, distribution and connection infrastructure to lower income subscribers in the municipalities of Amagá, Santa Fé de Antioquia, Sopetrán, San Jerónimo and Ciudad Bolívar. Compressed natural gas and connect subscribers to Don Matías, Entreríos, San Pedro, Santa Rosa and Yarumal. Agreement No. 106 construction infrastructure to lower income subscribers of Valle de Aburrá, La Ceja, La Unión, and El Retiro. Agreement 179: includes the municipality of Sonsón	2,415	-
Government of Antioquia - Gas without borders	Support the development of the expansion component through the construction of domiciliary gas connection within the framework of the program "Gas without borders" in the sub-regions of the Department of Antioquia.	2,398	1,323
Municipality de Medellin - Moravia	Construction, repair and replacement of waterways and sewage networks and paving in the Municipality of Medellín of the streets affected by these works in the neighborhood of Moravia.	1,069	1,052
Municipality de Barbosa	Replacement and modernization of secondary waterways and sewage networks and their complementary works in the neighborhoods of Robles, Centro, La Bicentenario, Los Ángeles and El Portón in the Municipality of Barbosa	1,039	-
Ministry of Mines and Energy - Trust management	Manage the funds and make the payment of the agreement entered into with the Ministry of Mines and Energy FAER GGC 225 2012 (CT-2012-001774 in EPM), to extend and improve the electric power services in the zones of the National Interconnected System located in the Commercialization Market of the Network Operator.	673	-
Rural Electrification Agreements	Construction and works supervision of domiciliary installations by EPM, to develop rural electrification programs in different municipalities of the Department of Antioquia.	369	-

Multilateral Fund of the Montreal Protocol	Agreement with the Ministry of Environment and Sustainable Development for the performance of activities in the framework of the implementation of the Montreal Protocol in Colombia.	290	-
Aldeas program	Take advantage of the wood that completes its maturity cycle in the forests planted by EPM around its reservoirs, to construct low-income homes in the municipalities of Antioquia out of Valle de Aburrá and deliver them to low income people, preferably who have been forced or voluntary displaced.	260	411
Department of Antioquia and IDEA -Antioquia lighted	Carry the electric power service to rural homes in Municipalities of the Department of Antioquia.	135	3,521
Municipality de Medellín - Land	Acquisition of pieces of land identified and characterized within the zones of protection of the hydrographic basins that supply the water systems of the Municipality of Medellín.	47	456
Fondo Nacional de Regalías - Gas	Construction of the compressed natural gas distribution infrastructure and subsidies for the connection of users of social economic level 1 and 2 of the municipalities of El Peñol and Guatapé.	1	-
<b>Conventional</b>			
Sinpro Housing Fund	Contribute to the acquisition of homes and their improvement, of workers beneficiary of the labor agreements entered into between EPM and the labor unions.	15,501	7,570
Sintraemdes Housing Fund		14,897	18,730
Sintraemdes Disaster Fund	Promote the wellbeing of its workers through the availability of funds in order that they may take care of their urgent and unforeseen needs or those of their primary family group.	912	724
Sinpro Disaster Fund		851	858
Sinpro Education Fund	Promote the wellbeing of workers in order that they may take care of their payment needs of school tuition, textbooks and supplies required to carry out their own studies or those of their family group.	904	723
Sintraemdes Education Fund		796	743
Motorcycle Repair Fund	Promote the wellbeing of official workers who perform their work in the regional market and use motorcycles owned by them for the performance of their work.	152	149
Motorcycle Replacement Fund		61	47
<b>Guarantees</b>			
Entidad Adaptada de Salud Fund and Fosyga Fund	Control and Monitoring mechanism to the collection of contributions of the Contributive Regime of the General Social Security System for Healthcare.	641	601
	Corresponds to the "compensation" that should be performed between the invoice transaction and		

International Energy Transactions	performed between the invoice transaction and prepayments bag, looking that perform the actual payment XM.	358	-
Deposits Law 820	Corresponds to the guarantee required by the landlord to the tenant for the payment of public utilities. According to Article 15 of Law 820 of 2003 and Regulatory Decree 3130 of 2003.	40	603
<b>Total restricted resources Epm Parent Company</b>		<b>95,153</b>	<b>46,110</b>
<b>Restricted resources ESSA S. A. E.S.P.</b>			
Covenant Faer 235	Extend coverage, improve quality and continuity of electric power service and satisfy its demand in the zones of the National Interconnected System — SIN located in the commercialization market of the NETWORK OPERATOR, through execution of resources of the Financial Support Fund for Energizing of Interconnected Rural Zones FAER.	4,940	-
Covenant Faer 090		4,867	-
Convenio Autoseguros	Self-insurance Agreement	4,960	-
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).	1,260	1,291
Prone	Execution of resources from the Program for Normalization of Electric Power Supply Networks - PRONE	817	900
Covenant Provincial Government -ESSA Stage V	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.	498	5,271
Covenant Faer GSA 160 2012	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).	395	1,542
Public lighting San Gil	Resources from surplus from Public lighting of the Municipality of San Gil.	348	262
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.	342	330
Covenant Provincial Government -ESSA Stage III	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	296	173

Covenant Jesus María	Construction of low and medium voltage networks, assemble of transformers and internal installations for rural electric power supply in villages of the Department of Jesús - María, Santander.	138	-
Covenant Provincial Government -ESSA Stage IV	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	203	904
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.	93	90
Covenant Provincial Government -ESSA- Stage I	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	-	804
Covenant Faer 036	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).	-	529
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 Department of Charalá	-	61
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
<b>Total restricted resources ESSA</b>		<b>19,157</b>	<b>12,180</b>
<b>Restricted resources EDEQ</b>			
Housing fund	Resources destined to improve workers' quality of life by granting loans for the purchase or improvement of houses.	554	703
Fund for household damages	Resources destined to cover damages caused by difficult and unforeseen events affecting the workers or their families.	11	13
<b>Total restricted resources EDEQ</b>		<b>565</b>	<b>716</b>
<b>Restricted resources CENS</b>			
Contract FAER GGC 105 - 2013 entered into between the Nation (MINISTRY OF MINES) AND	Execution of the works for the rural electrification of the municipalities of Convención, San Calixto, Cáchira, Hacarí, Ocaña, La Playa, Villa Caro, Torame and La Esperanza	14,829	-

CENS. (FAER CATATUMBO III)	Ocaña, La Playa, Villa Caro, Teorama and La Esperanza Department of Norte de Santander.		
FUNDESCAT	Execution of the works for the rural electrification of the municipalities of Tibu and El Tarra, Department of Norte de Santander.	5,275	-
CONVENIO CENS - ECOPETROLL	Execution of the works for the rural electrification of the municipalities of Tibu and El Carmen, Department of Norte de Santander.	4,007	-
Rotating Housing Fund	Financing the value of a home for those workers that do not own it.	178	-
Convenio FAER 021	General administration and execution of some resources of the financial support fund for energizing of interconnected rural zones - FAER.	124	-
Electrificadora Vereda Aguablanca - FNR	Construction of medium and low voltage interconnection networks village Aguablanca Municipality of Bucarasica Norte de Santander.	106	-
AOM Contract	Administration, operation, maintenance and replacement of the rural electrification assets constructed with the resources of the project "program of rural electrification zone of Catatumbo and province of Ocaña, phase 1, Norte de Santander".	62	-
FAER 003 Agreement	General administration and execution of some resources of the financial support fund for energizing of interconnected rural zones - FAER.	3	-
<b>Total restricted resources CENS</b>		<b>24,584</b>	<b>-</b>
<b>Restricted resources Regional de Occidente</b>			
Covenant 10000083 Sopetrán	Resources received during 2011 from 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.	22	54
Covenant-San Jerónimo		13	13
Covenant- Santafé		2	2
Covenant 5847		1	8
<b>Total restricted resources Regional de Occidente</b>		<b>38</b>	<b>77</b>
<b>Restricted resources Aguas de Urabá</b>			
Contributions 10005141- 143 EAU	Inter-administrative agreement for the construction of the master plans of waterworks — Phase II of the region of Urabá. Municipalities of Turbo, Carepa, Apartado y	3,402	2,891



Uraba, municipalities of Turbo, Carepa, Apartado y Chigorodo.

Financial performance 10004502	Balance of capitalization resources received from the Department of Antioquia and the interest yielded.	582	-
Contributions Department 10008940	Inter-administrative agreement for the performance of the optimization of the Wastewater collection system of the Municipality of Turbo	371	-
Financial performance 10005141	Inter-administrative agreement for the construction of the master plans of waterworks — Phase II of the region of Uraba, Municipalities of Turbo, Carepa, Apartado y Chigorodo.	5	-
Financial support 10005431- 07-CF12-4842	Balance of agreement signed with Department of Antioquia for the execution of works	2	31
Financial support 10003713-49 Apartadó	Support the execution of the works and investment plan of the waterworks projects, defined in the crash plan for the municipalities of Apartadó y Chigorodó.	-	176
Financial support 10003713-49 Chigorodó	Support the execution of the works and investment plan of the waterworks projects, defined in the crash plan for the municipalities of Apartadó y Chigorodó.	-	58
<b>Total restricted resources Aguas de Urabá</b>		<b>4,362</b>	<b>3,156</b>
<b>Restricted resources Aguas Nacionales</b>			
Trust — Fiduciaria Bogota 197517	Inter-administrative collaboration agreement No. 1 entered into between EPQ IN LIQUIDATION and EPM for the management of investments and supervision, maintenance and operation of the waterworks, sewage and cleaning and sanitation systems in the urban zone of the municipality of Quibdo.	1,002	-
FL Bancolombia 536423		53	-
MN Main Cash		30	-
FL MN Petty Cash Restricted A		1	-
<b>Total restricted resources Aguas Nacionales</b>		<b>1,086</b>	<b>-</b>
<b>Total restricted resources</b>		<b>144,945</b>	<b>62,239</b>

## Note 11 - Investments for liquidity management

As of December 31 investments for liquidity management are comprised as follows:

### Investments for liquidity management



		2013		2012	
		Value	Average profitability	Value	Average profitability
Rights in securities funds and investment trusts	(1)	72,832	3.26% E.A.	422,418	5.37% E.A.
Treasury securities —TES	(2)	126,181	6.09% E.A.	262,010	7.53% E.A.
Fixed term deposit certificates	(3)	633,692	4.06% E.A, 5.69% E.A. en GTQ, 3.85% E.A. en USA	748,366	6.16% E.A.
Bonds and securities issued by financial entities	(4)	309,467	0.38% E.A. en USD	395,422	1.16% E.A. en USD
Bonds and securities issued by foreign entities		78,796	8.50% E.A. en GTQ 7.21% E.A. en USD	44,657	
Bonds and securities issued by the National Government	(5)	51		44	
Bonds and securities issued by the private sector		31,492		26,968	-39.44% E.A.
Other investments for liquidity management	(6)	37,027	0.99% E.A en USD	1,283	
<b>Current investments for liquidity management</b>		<b>1,289,538</b>		<b>1,901,168</b>	
Deposits of foreign debt transactions		-		2,555	
Other investments for liquidity management		8,185		7,117	
<b>Non-current investments for liquidity management</b>		<b>8,185</b>		<b>9,672</b>	
<b>Total investments for liquidity management</b>		<b>1,297,723</b>		<b>1,910,840</b>	

\* Amounts stated in millions of Colombian pesos


\* Amounts stated in millions of Colombian pesos

#### Investments for liquidity management

- (1) Short-term investments made with own funds in investment funds. They are treated as a current account and are investments made to obtain a yield on cash surpluses.
- (2) Internal public debt securities issued by the National Government and administered by the Central Bank. These instruments are valued by price in case that they have been traded on the day of the valuation.
- (3) Financial instruments for borrowing of savings; their interest rate is determined by the amount, term and market conditions at the time of creation.
- (4) These correspond to term deposit investments, entered into with international financial institutions with a minimum rating of A+ for the long term, and A-1+ for the long term and branches abroad of banking institutions monitored by the Financial Superintendence of Colombia with the maximum rating in effect for long and short term.
- (5) Investments in international investment mutual funds or Exchange Trade Funds (ETF) and bonds issued by trusts and guaranteed with cash flows by bank loan.
- (6) Correspond to Tax Refund Securities (TIDIS, for its initials in Spanish).

## Note 12 - Accounts receivable, net

As of December 31 accounts receivable are comprised as follows:

Debtors			
		2013	2012
<b>Rendering of public utilities</b>			
Electric power service		1,268,526	1,198,124
Telecommunications service		296,898	323,650
Subsidy on telecommunications service		17,764	56,230
Subsidy on electric power service		5,741	50,134
Fuel gas service		98,402	93,449
Water service		62,123	64,106
Sewage draining service		69,140	51,027
Subsidy on fuel gas service		6,638	6,081
Subsidy on water service		5,511	5,528
Subsidy on sewage draining service		2,413	1,715
Cleaning service		6,929	151
<b>Other accounts receivable</b>			
Rendering of services other than public utilities		217,802	227,232
Advances or credit balances for taxes and contributions	(1)	351,273	197,337
Deposits and advances delivered		162,978	193,944
Loans to employees		28,481	34,075

Interests		328	31,480
Resources given for administration	(2)	664,976	20,433
Pension payment quotas		25,532	19,809
Collection schemes		10,732	18,374
Sales of goods		30,061	17,780
Payments on behalf of third parties		38,062	16,120
Leasing		8,706	5,800
Administration of resources health system		0	4,557
Sales of assets		279	4,242
Fees and commissions		3,109	1,608
Dividends and shares receivable		0	4
Other minor accounts receivable		89,281	70,165
<b>Doubtful accounts</b>			
Electric power service		161,234	159,893
Telecommunications service		137,313	126,951
Water service		9,684	9,577
Fuel gas service		10,335	8,421
Sewage draining service		8,149	7,962
Other doubtful accounts receivable		92,897	87,585
<b>Current accounts receivable</b>		<b>3,891,297</b>	<b>3,113,544</b>
<b>Current portion provision</b>	(3)		<b>(587,698)</b>
<b>Current portion accounts receivable, net</b>			<b>2,570,296</b>
Rendering of public utilities			
Fuel gas service		164,430	147,017
Electric power service		161,493	146,301
Water service		28,214	27,425
Sewage draining service		16,797	17,773
<b>Other accounts receivable</b>			
Loans to employees		112,089	93,630
Deposits and advances delivered		91,539	65,755
Payments on behalf of third parties		2,001	16,050

Payments on behalf of third parties		3,091	16,059
Interests		319	5,173
Sales of assets		4,830	4,584
Rendering of services	(4)	334,327	1,357
Resources given for administration		1,506	126
Charging schemes		84	0
Others		40,973	213,405
<b>Non-current accounts receivable</b>			<b>959,692</b>
<b>Accounts receivable, net</b>			<b>4,263,291</b>
			<b>3,308,901</b>

\* Amounts stated in millions of Colombian pesos

#### Debtors

(1) Includes mainly advances of income tax and VAT of temporary investments.

(2) Includes trusts by Aguas Nacionales S.A E.S.P., for \$604,219 (2012 - \$0).

(3) The movement of the allowance for doubtful accounts was as follows:

### Transactions of the provision for accounts receivable



	2013	2012
Initial balance:	543,248	612,377
Increase for the year	110,882	83,515
Expense from previous periods	(1,565)	885
Translation adjustment	2,208	(802)
Business combinations	7,743	-
Reclassification of provision	(1,107)	(24,694)
Recovery of provision	(33,888)	983
Use of provision	(39,823)	(129,016)
<b>Total provision for accounts receivable</b>	<b>587,698</b>	<b>543,248</b>

Amounts stated in millions of Colombian pesos


Movimiento de la provisión

During 2013 the methodology to determine the provision was changed see note 6

(4) Includes mainly concession agreement valued as accounts receivable corresponding to the T1 rate component, for the construction of wastewater treatment plans in the Ticsa Group of Mexico. The value was for \$332,957 (2012 - \$0).

## Note 13 - Inventories, net

As of December 31, inventories are comprised as follows:

Inventories 			
		2013	2012
Materials for the rendering of services	(1)	218,720	216,516
Merchandise in stock	(2)	30,787	18,100
Merchandise in possession of third parties		7,685	5,033
Merchandise in transit		5,302	8,796
Products in progress		1,024	770
<b>Subtotal inventories</b>		<b>263,518</b>	<b>249,215</b>
<b>Provision</b>			
Materials for the rendering of services		(3,587)	(6,527)
Merchandise in stock		(1,848)	(185)
<b>Total provision</b>	<b>(3)</b>	<b>(5,435)</b>	<b>(6,712)</b>
<b>Total inventories</b>		<b>258,083</b>	<b>242,503</b>

Amounts stated in millions of Colombian pesos



Saldo de inventarios a 31 de diciembre

(1) Includes minor spare parts used for the repair of company assets, also includes elements and accessories for the rendering of services.

(2) Include elements of foods and provisions associated to products commercialized in the supply stores of EPM.

(3) The movement of the inventories provision was as follows:



## Transactions of the inventory provisions



	2013	2012
Initial balance	6,712	6,284
Increase of the period	2,319	4,620
Use of the provision	-	(859)
Adjustment from previous periods	(476)	(1,242)
Translation adjustment	(8)	(228)
Recovery of provisions	(1,392)	(1,863)
Reclassifications	(1,720)	-
<b>End balance</b>	<b>5,435</b>	<b>6,712</b>

Amounts stated in millions of Colombian pesos



Movimiento de la provisión

## Note 14 - Prepaid expenses

As of December 31, prepaid expenses are comprised as follows:

Expenses paid in advance		2013	2012
Insurance		38,667	36,994
Leasing		6,776	7,309
Other prepaid expenses		19,147	23,170
<b>Current prepaid expenses</b>		<b>64,590</b>	<b>67,473</b>
Insurance	(1)	38,489	7,567
Leasing		30,806	32,470
Other expenses paid in advance	(2)	131,383	93,588
<b>Non-Current prepaid expenses (see note 18)</b>		<b>200,678</b>	<b>133,625</b>
<b>Non-Current prepaid expenses</b>		<b>265,268</b>	<b>201,098</b>

Amounts stated in millions of Colombian pesos

Saldo de gastos pagados por anticipado

(1) Includes mainly all risks policies for \$32,665 (2012 - \$0) and third party liability \$295 (2012 - \$0) of the Hidroitango project in EPM Parent. Both policies have an effective term up to March 2020.

(2) Includes mainly the rights of use of cables called IRUS, Wimax and purchase of domains, among other items (Irrevocable Right of Use — IRU — on dark optic fiber thread, purchase of domains, beneficiary rights).

## Note 15 - Investments, net

As of December 31, balances of investments are comprised as follows:

Equity investments		2013	2012
In non-controlled entities		604,872	606,089
In entities under liquidation		102	603
<b>Investments</b>	(1)	<b>604,974</b>	<b>606,692</b>
Provision	(2)	(103,604)	(99,515)
<b>Investments, net</b>		<b>501,370</b>	<b>507,177</b>

Amounts stated in millions of Colombian pesos

Saldo de las inversiones patrimoniales

(1) The investments recorded under the cost method as not controlled were:

Non-controlled investments		Corporate purpose	Percentage of participation		Creation date
Company	Location		2013	2012	
Isagen S.A. E.S.P.	Medellin	Generation and commercialization of electric power, natural gas by grids, as well as commercialization of coal, steam and other energy sources of industrial use.	13.11%	13.11%	April 4, 1995

Interconexión Eléctrica S.A. E.S.P.	Medellin	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.	Medellin	Operation and maintenance of its own transmission network, expansion of the national interconnection network, planning and coordination of the operation with resources from SIN.	46.45%	46.45%	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	Medellin	Produce, transform and commercialize timber products and non-timber products from forestry plantations, seeking high profitability and sustainability.	6.82%	6.84%	February 28, 2003
Electrificadora del Caribe S.A.	Barranquilla	Distribution and commercialization electricity in the Colombian Caribbean.	0.07%	0.07%	June 06, 1998
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

#### Non-controlled investments

The value of investments recorded under the cost method, with detail of adjusted cost, revaluation and associated provisions, were:

### Amounts of the non-controlled investments (2013)



2013					
Entity	Cost	Provision	Net	Revaluation	Dividends
Isagen S.A. E.S.P.	194,312	-	194,312	955,907	24,460
Interconexión Eléctrica S.A. E.S.P.	187,035	-	187,035	837,676	21,170
Colombia Móvil S. A. E.S.P.	152,073	(85,493)	66,580	-	-
Hidroeléctrica Ituango S.A. E.S.P.	28,111	-	28,111	6,314	1,977

Gestión Energética S.A. E.S.P.	12,700	(12,059)	642	-	-
Transoriente S.A. E.S.P.	8,633	-	8,633	4,089	-
Gas Natural del Oriente S.A. E.S.P.	7,651	-	7,651	11,137	2,416
Reforestadora Industrial de Antioquia (RIA)	5,076	(125)	4,951	-	-
Electrificadora del Caribe S.A. E.S.P.	1,764	(336)	1,428	-	-
Hidroeléctrica del Río Aures	446	-	446	12	-
Others	1,794	(213)	1,581	14,583	455
<b>Total</b>	<b>599,595</b>	<b>(98,226)</b>	<b>501,370</b>	<b>1,829,718</b>	<b>50,478</b>

Amounts stated in millions of Colombian pesos

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Amounts of the non-controlled investments (2013)

## Amounts of the non-controlled investments (2012)



2012					
Entity	Cost	Provision	Net	Revaluation	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
<b>Total</b>	<b>606,692</b>	<b>(99,515)</b>	<b>507,177</b>	<b>1,628,588</b>	<b>49,687</b>

Amounts stated in millions of Colombian pesos

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Amounts of the non-controlled investments (2012)

The main financial information of equity investments as of December 31 was:

### Financial information as of December 31, 2013



2013				
Company	Net result	Assets	Liabilities	Equity
Interconexión Eléctrica S. A. E.S.P.	433,048	10,233,090	2,818,975	7,414,115
Isagen S.A. E.S.P.	314,422	7,309,208	3,553,393	3,755,815
Hidroeléctrica Ituango S.A. E.S.P.	834	92,436	18,005	74,431
Reforestadora Industrial de Antioquia —RÍA-	67	77,203	3,480	73,723

Amounts stated in millions of Colombian pesos



Información financiera principal de las inversiones

### Financial information as of December 31, 2012



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 stated in millions of Colombian pesos



Tabla de valores 2013

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

## Transactions of the investment provision



Concept	2013	2012
Initial balance	99,515	99,490
Increase for the year	4,097	3,390
Provision expense from previous years	855	-
Business combination	47	-
Recovery of provisions	(910)	(3,365)
<b>End balance</b>	<b>103,604</b>	<b>99,515</b>


Amounts stated in millions of Colombian pesos



Movimiento de la provisión de inversiones

## Note 16 - Property, plant and equipment, net

As of December 31, the components of property, plant and equipment are comprised as follows:

Properties, plan and equipment 			
		2013	2012
Constructions in process	(1)	3,204,013	1,634,074
Plants, pipelines and tunnels	(2)	7,966,692	7,779,364
Networks, lines and cables	(2)	7,980,215	7,317,027
Buildings	(2)	3,058,647	2,970,508
Communication and computer equipment		1,298,462	1,256,016
Machinery and equipment		493,079	469,191
Land		210,648	227,676
Transportation, traction and lifting equipment		203,365	147,674
Movable assets in the warehouse		179,552	140,831
Furniture, fixtures and office equipment		113,978	112,862
Property, plant and equipment not used		103,530	102,587
Machinery, plant and equipment in assembly		131,409	90,516
Property, plant and equipment in transit		13,126	32,481
Medical and scientific equipment		29,787	28,659
Property, plant and equipment in maintenance		10,640	6,622
Others		11,215	10,942
<b>Subtotal property, plant and equipment</b>		<b>25,008,358</b>	<b>22,327,030</b>
<b>Depreciation accrued</b>			
Plants, pipelines and tunnels		(5,719,737)	(5,424,238)
Networks, lines and cables		(3,517,871)	(3,054,715)



Communication and computer equipment		(855,934)	(797,091)
Buildings		(780,247)	(652,597)
Machinery and equipment		(286,407)	(258,243)
Transportation, traction and lifting equipment		(161,560)	(105,754)
Furniture, fixtures and office equipment		(84,501)	(81,367)
Medical and scientific equipment		(17,483)	(16,680)
Others		(1,812)	(1,777)
<b>Depreciation accrued (cr)</b>	<b>(3)</b>	<b>(11,425,552)</b>	<b>(10,392,462)</b>
Deferred depreciation		2,561,246	2,323,135
<b>Total depreciation</b>		<b>(8,864,306)</b>	<b>(8,069,327)</b>
Provisions for protection of property, plant and equipment (cr)	(4)	(120,903)	(103,291)
<b>Total property, plant and equipment, net</b>		<b>16,023,149</b>	<b>14,154,412</b>

Amounts stated in millions of Colombian pesos

Saldo de las propiedades, planta y equipo

(1) An increase of \$1,569,939 in respect to the previous year, explained especially by the incorporation of the Hydroelectric Project Ituango to the balance sheet of EPM, which initial value was \$804,294, and the execution of charges for this same project intended to the construction of access roads and camps, the initiation of the excavation of the spillway and of the vault of the main cavern of the power house, the completion of the excavation of the tunnel of access to the power house, and of the deviation tunnels.

(2) Corresponds to operating infrastructure components of the business of Generation, Transmission and Distribution, Natural Gas, Waterworks, Wastewater Sanitation.

(3) The movement of the depreciation during the year is detailed below:

### Transactions of the depreciation of properties, plant and equipment



	2013	2012
Initial balance	10,392,462	9,616,941
Increase for the period	817,477	836,150
Business combination	46,735	-
Translation adjustments	59,601	(38,486)
Deferred depreciation, net	238,110	350,701

Discharge of property, plant and equipment	(120,460)	(196,567)
Charges from previous years	3,757	131
Adjustments and eliminations	-	(206,454)
Others	(12,130)	30,046
<b>End balance</b>	<b>11,425,552</b>	<b>10,392,462</b>

Amounts stated in millions of Colombian pesos

Movimiento de la depreciación

(4) The movement of the provision during the year is detailed below:

### Transactions of the provision of properties, plant and equipment




	2013	2012
Initial balance	103,291	102,229
Increase for the period	29,811	30,392
Provision expense from previous years	(706)	(15,475)
Reclassification of provision	-	(10,440)
Discharge of property, plant and equipment	(223)	(408)
Translation adjustments	3	(3)
Business combination	26	-
Recovery of provision	(2,365)	-
Others	(8,934)	(3,004)
<b>End balance</b>	<b>120,903</b>	<b>103,291</b>

Amounts stated in millions of Colombian pesos

Movimiento de la provisión de la propiedad

## Note 17 - Actuarial financial reserve

The actuarial financial reserve as of December 31 is made up by:

Trust funds 			
Concept		2013	2012
Trust funds	(*)	736,183	741,441
<b>Total trust funds</b>		<b>736,183</b>	<b>741,441</b>

Amounts stated in millions of Colombian pesos

Saldo de la reserva financiera actuarial

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

- ◆ The autonomous equity trust was created with Fiduciaria Davivienda S. A. for the management of the resources intended to the payment of pension both of EPM and those derived from the pension commutation of EADE.


The autonomous equity trust was created for the amount of \$322,000; with this figure plus the returns that are expected to be obtained, it will be possible to cover up to 2056 the total pension payments according to the actuarial study.

- ◆ An autonomous equity trust was created with the Consortium EPM 2008 (made up by BBVA Fiduciaria S.A. with the participation of 40%, BBVA Horizonte with a participation of 40% and Fiduciaria Corficolombiana with a participation of 20%) to guarantee the coverage of the obligations generated by the pension bonds, pension quota shares and the payment of substitution indemnification derived from the risks regulated by the general pension system.

The value of the autonomous equity trust is projected in such a way that it will extinguish at the time of the last pension bond payment due by EPM in 2065; therefore with its creation is guaranteed the availability of funds to cover the pension liability of bonds and their financial management is made independent.

## Note 18 - Other assets, net

The balance of other assets as of December 31 corresponds to:

Other assets 			
		2013	2012
Goods given to third parties	(1)	49,183	42,986
Deferred charges and other intangible	(2)	35,667	15,980
Provision of goods given to third parties	(1)	(250)	-
<b>Total other current assets</b>		<b>84,600</b>	<b>58,966</b>
Intangibles	(3)	2,322,117	2,011,384
Deferred charges	(2)	499,169	464,907
Goods supplied to third	(1)	400,430	351,811
Trust fund rights	(4)	118,112	130,949
Works and improvements in third party property	(5)	133,158	130,585
Goods acquired by financial leasing		3,077	3,480
Goods of arts and culture		77	77
Goods received as payment in kind		-	-
<b>Total other non-current assets</b>		<b>3,476,140</b>	<b>3,093,193</b>
Amortization of intangibles	(3)	(793,667)	(716,945)
Amortization of goods given to third parties	(1)	(301,787)	(254,811)
Depreciation of goods acquired in leasing		(2,914)	(3,176)
Provision on goods given to third parties	(1)	(4)	(4)
<b>Total depreciations, amortizations and provisions other assets</b>		<b>(1,098,372)</b>	<b>(974,936)</b>

Total other non-current assets		2,377,768	2,118,257
Total other assets, net		2,462,368	2,177,223

\* Amounts stated in millions of Colombian pesos



Other assets

(1) The goods delivered to third parties as of December 31 correspond to:

### Details of the properties conveyed to third parties

		2013	2012
Goods given for administration	(1.1)	368,353	313,418
Goods given as loan for use		51,330	54,754
Other goods given to third parties		29,930	26,625
<b>Subtotal goods given to third parties</b>		<b>449,613</b>	<b>394,797</b>
<b>Amortization</b>	(1.2)	(301,787)	(254,811)
<b>Provision</b>		(254)	(4)
<b>Total goods given to third parties</b>		<b>147,572</b>	<b>139,982</b>

Amounts stated in millions of Colombian pesos



Saldo de bienes entregados a terceros

(1.1) The movement the goods delivered to third parties amortization is:

### Transactions of the amortization of properties conveyed to third parties

		2013	2012
--	--	------	------

Initial balance	254,811	211,475
Increase for the period	70,149	71,088
Withdrawals	(21,343)	(54,559)
Adjustments and eliminations	-	(2,749)
Other increases (decreases)	(1,830)	29,556
<b>End balance</b>	<b>301,787</b>	<b>254,811</b>

Amounts stated in millions of Colombian pesos

Movimiento de la amortización de bienes

(2) Detail of the balance of deferred charges as of December 31st:

Deferred charges			
		2013	2012
Deferred tax	(2.1)	413,138	337,587
Studies and projects		72,641	67,828
Tax to preserve democratic security	(2.2)	16,671	28,427
Discount in bonds and securities of long term foreign public debt	(2.3)	18,616	21,490
Premium legal stability contracts	(2.4)	7,049	7,544
Organization and set up expenses		1,176	1,281
Other deferred charges		5,545	16,730
<b>Total deferred charges</b>		<b>534,836</b>	<b>480,887</b>

Amounts stated in millions of Colombian pesos

Saldo de cargos diferidos

(2.1) In 2013 deferred tax debit has been generated by receivables provision, actuarial calculation, provisions, exchange difference on investments abroad and goodwill, mainly.

(2.2) Corresponds to the equity tax, pursuant to Law 1370 of 2009 in Colombia, for the Group companies that did not have in their equity appreciation of equity to be discounted. This tax will be amortized up to year 2014.

(2.3) Corresponds to the discount granted by the issue of international bonds (coupon of 7.625%), by the credit of USD 500 million. The premium will be amortized up to its expiration date in July 2019.

(2.4) Corresponds to the premium paid to the Nation for the legal stability agreement for the power generation activity of EPM. It was executed in a term of twenty years and its value was equivalent to 0.5% of the value of the investments made in the unproductive period and 1% in the operating phase. The initial value amounted to \$9,894.

(3) The detail of intangible as of December 31st is:

<b>Intangible assets</b>			
		2013	2012
Goodwill and know how	(3.1)	1,420,440	1,197,866
Software, licenses, rights		877,837	786,533
Brands, concessions and franchises		24	2,088
Easements		14,230	14,157
Other intangibles		9,586	10,740
<b>Subtotal intangibles</b>		<b>2,322,117</b>	<b>2,011,384</b>
Less amortization of goodwill and know how	(3.1)	353,635	(321,472)
Less amortization of software, licenses, rights		(426,737)	(378,131)
Less amortization of brands, concessions and franchises		(4)	(2,068)
Less amortization of easements and others		(13,291)	(15,274)
<b>Subtotal amortization</b>	<b>(3.2)</b>	<b>(793,667)</b>	<b>(716,945)</b>
<b>Total intangibles</b>		<b>1,528,450</b>	<b>1,294,439</b>

Amounts stated in millions of Colombian pesos

Saldo de intangibles

(3.1) The composition of the goodwill as of December 31st is the following:

<b>Goodwill composition as of December 31, 2013</b>			

Company	Cost	Amortization	Net value
Distribución Eléctrica Centroamericana II S. A. - DECA II	336,140	(23,992)	312,148
EPM Ituango S.A. E.S.P. en Liquidación	177,667	-	177,667
Panama Distribution Group S. A. - PDG	109,883	(16,681)	93,202
Emtelsa S.A. E.S.P.*	51,850	(12,746)	39,104
Promisión S.A. E.S.P.*	85,513	(34,234)	51,279
Empresa de Telecomunicaciones de Pereira S.A. E.S.P.	79,081	(79,081)	-
Edatel S.A. E.S.P.**	68,786	(55,043)	13,743
Costavisión S.A. E.S.P.*	65,453	(16,091)	49,362
Orbitel S.A. E.S.P.	55,869	(25,877)	29,992
UNE EPM Telecomunicaciones S.A.**	37,144	(21,323)	15,821
Del Sur S.A. de C.V.	44,433	(10,639)	33,794
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	23,923	(23,573)	350
Emtelco S.A.	20,929	(20,148)	781
Gestión de Empresas Eléctricas S.A.	17,682	(1,189)	16,493
UNE EPM Bogotá S.A.	6,409	(6,389)	20
Tecnología Intercontinental S.A. de C.V. (TICSA)	170,472	-	170,472
Hidroecológica del Teribe S.A. (HET)	6,032	(6,032)	-
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)	593	(593)	-
Aguas de Malambo S.A. E.S.P.	64	(4)	60
Espíritu Santo Energy S. de R.L.	32,200	-	32,200
Aguas Nacionales EPM S.A. E.S.P.	3	-	3
Parque Eólico Los Cururos Ltda.	19,618	-	19,618
Parque Eólico La Cebada S.A.	10,696	-	10,696
<b>Total Goodwill</b>	<b>1,420,440</b>	<b>(353,635)</b>	<b>1,066,805</b>

Amounts stated in millions of Colombian pesos



Goodwill composition as of December 31, 2013

\* According to a concept from the CGN, issued in December 2007, the goodwill generated by the higher price paid for a value representative of capital in respect to its intrinsic value, can only be recorded when the companies are effectively merged. For the case of Emtelsa, Promisión and Costavisión, the amortization generated started in January 2009.

\*\* This corresponds to Know How

(3.2) The movement of the amortization is detailed below:

Transactions of the amortization of intangible assets			
		2013	2012
Initial balance		716,946	826,844
Increase for the year		51,945	259,291
Withdrawal of intangibles		-	(369,189)
Others		24,776	-
<b>End balance</b>		<b>793,667</b>	<b>716,946</b>

Amounts stated in millions of Colombian pesos


Movimiento de la amortización se detalla

(4) Trust rights are the resources delivered by the group companies to companies in charge of the administration of autonomous trusts.

(5) The leasehold improvements and works include adaptations in some customer service offices in the different zones.

## Note 19 - Revaluation of assets

As of December 31, revaluation of assets is comprised as follows:


Revaluation 			
		2013	2012
Equity participation investments		1,840,799	1,628,588
Property, plant and equipment	*	9,290,911	8,855,757
Other assets		52,954	53,481
<b>Total revaluation of assets</b>		<b>11,184,664</b>	<b>10,537,826</b>

Amounts stated in millions of Colombian pesos



Saldo de valorizaciones

(\*) As of December 31 comprise:

Revaluation of properties, plant and equipment 			
		2013	2012
Plants, pipelines and tunnels		3,303,625	3,192,990
Networks, lines and cables		3,154,869	2,819,167
Buildings		1,263,924	1,306,880
Lands		1,410,552	1,373,104
Communication and computer equipment		55,423	64,243
Transportation, traction and lifting equipment		50,178	48,177
Machinery and equipment		33,187	33,543

Furniture, fixtures and office equipment		17,230	17,150
Medical and scientific equipment		1,885	462
Dining room, kitchen, pantry and hotel equipment		38	41
<b>Total reappraisals of property, plant and equipment</b>		<b>9,290,911</b>	<b>8,855,757</b>

Amounts stated in millions of Colombian pesos



Valores a 31 de diciembre comprendió

## Note 20 - Public credit transactions

As of December 31st, public credit transactions are as follows:

Public credit transactions			
		2013	2012
Domestic debt transactions	(1)	326,604	21,396
Foreign debt transactions	(2)	521,202	213,377
<b>Current public credit transactions</b>		<b>847,806</b>	<b>234,773</b>
Domestic debt transactions	(1)	3,473,724	2,749,766
Foreign debt transactions	(2)	4,908,966	4,567,173
<b>Non-current public credit transactions</b>		<b>8,382,690</b>	<b>7,316,939</b>
<b>Total public credit transactions</b>		<b>9,230,496</b>	<b>7,551,712</b>

Amounts stated in millions of Colombian pesos

Saldo de operaciones de crédito

(1) Domestic debt transactions:

Internal indebtedness transactions			
		2013	2012
Current domestic debt transactions		326,604	21,396
Non-current domestic debt transactions		3,473,724	2,749,766
<b>Total public credit transactions</b>		<b>3,800,328</b>	<b>2,771,162</b>

Operaciones de endeudamiento interno tabla N. 1

### Details of the internal indebtedness transactions



2,013				2,012	
Owing company debtor	Entity	Interest rate	Pesos (millions)	Interest rate	Pesos (millions)
EPM	Bonds *	DTF + 1.49% a 2.59%, IPC + 3.25% a 7.12%, Fija 10.80% a 13.80%	1,662,990	DTF + 1.49% a 2.59%, IPC + 3.25% a 7.12%, Fija 10.80% a 13.80%	1,295,710
UNE	Bonds **	IPC + 3.67% a 5.10%	600,000	IPC + 3.67% a 5.10%	600,000
EPM	Davivienda (Club Deal)	DTF + 2.7%	270,000	DTF + 3.4%	270,000
EPM	BBVA (Club Deal)	DTF + 2.7%	180,000	DTF + 3.4%	180,000
ESSA	Banco de Bogotá	DTF + 2.8%	155,500		
EPM	Banco Santander (Club Deal)	DTF + 2.7%	72,000	DTF + 3.4%	72,000
CENS	Bancolombia, Banco de Bogotá	DTF + 3.0%	70,000	DTF + 3.3% - DTF + 3.0%	80,000
UNE	Local syndicated credit	DTF + 3.45%	400,000	DTF + 3.9%	200,000
UNE	Davivienda	DTF+1.36%	310,000		
EPM	Helm Bank (Club Deal)	DTF + 2.7%	35,000	DTF + 3.4%	35,000
AGUAS DE URABÁ	Helm Bank y Banco Popular	DTF - 1% - DTF + 3.9%	17,844	DTF - 1% - DTF + 3.9%	11,594
EDEQ	Bancolombia y BBVA	DTF + 2.45% - DTF + 2.9%	20,508	DTF + 2.45% - DTF + 2.9%	13,300
CHEC, AGUAS DE OCCIDENTE, EDATEI	Icel y Bancolombia	DTF + 3.5%, Fija 6.5% - 6.87%	6,485	DTF - 1.0% a 5.10%, Fija 6.5%	13,558
<b>TOTAL</b>			<b>3,800,328</b>		<b>2,771,162</b>

Details of the internal indebtedness transactions

\* The EPM bonds do not have guarantee and included: i) \$1,000,000 million which auction took place between November 2008 and March 2009, with expiration between the years of 2011 and 2024, and ii) \$500,000 million which auction took place on December 14, 2010, with expiration in years 2016, 2022 and 2030.

\*\* This item corresponds to bonds without guarantee which auctions took place as follows: i) \$300,000 million on March 12, 2010 with expiration in 2015 and 2020 and ii) \$300,000 million on October 20, 2011 with expirations in 2016 and 2023.

(2) Foreign debt transactions:

External indebtedness transactions		
	2013	2012
Current foreign debt transactions	521,202	213,377
Non-current foreign debt transactions	4,908,966	4,567,173
<b>Total public credit transactions</b>	<b>5,430,168</b>	<b>4,780,550</b>

Amounts stated in millions of Colombian pesos

Operaciones de endeudamiento externo tabla N.1

Details of the external indebtedness transactions									
2013						2012			
Owing company debtor	Entity	Interest rate	Source currency	Balance source currency	EEquivalent in pesos	Interest rate	Source currency	Balance source currency	Equivalent in pesos
EPM	Bonds *	7.625%	USD	500	963,415	7.625%	USD	500	884,115
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	672,464	Libor + 1.875% - 2.15%	USD	349	617,112
EPM	AFD ***	4.32%	USD	195	375,732				
EPM	BID 1664	Libor + 1.05%	USD	185	355,722	Libor + 1.05%	USD	200	353,646
EPM	Bank of Tokyo y BBVA Tokyo	Libor + 0,95%	USD	167	321,133	Libor + 0,95%	USD	183	324,173

ENSA	Bonds	7.6%	USD	100	192,683	7.6%	USD	100	176,823
EPM	BID 2120	Libor	USD	99	190,053	Libor	USD	99	174,409
EPM	BID 800	Libor + 1.43%	USD	49	93,603	Libor + 1.43%	USD	57	100,215
EPM	BID 792	Libor + 1.43%	USD	29	55,783	Libor + 1.43%	USD	58	102,384
EEGSA	Citibank	8.5%	USD	97	187,355	00-ene-00	USD	97	171,934
EEGSA	Banco Industrial	Tasa Activa - 6.56%	GTQ	497	122,028	Tasa activa - 5.30%	GTQ	497	111,120
EEGSA	Banco G&T Continental	Tasa Activa - 6.56%	GTQ	323	79,271	Tasa activa - 5.50%	GTQ	323	72,185
UNE	Sindicado JPMorgan	Libor + 2%	USD	0	0	Libor + 1.75%	USD	47	82,517
EEGSA	Banco Agroromercantil de Guatemala	Tasa Activa - 6.56%	GTQ	175	43,002	Tasa Activa - 6.56%	USD	175	39,158
DEL SUR	Bonds	Min 5% - Max 8%	USD	21	40,369	Min 5% - Max 8%	USD	21	37,133
EEGSA	Others	Tasa Activa - 6.56% - 5.29%	GTQ	163	40,138	Tasa activa - 5.30% y 5.80%	GTQ	163	36,550
EPM, HET	Others	Libor + 2%, Fija de 7% a 9%	USD	9	17,446	Libor + 0.4%, Fija de 7% a 9.15%	USD	10	17,254
TICSA****	Banco del Bajío	TIE+2.75%	MXN	117	17,185				
TICSA****	Santander	TIE + 4.5%	MXN	20	2,932				
TICSA****	Banobras	Tasa Fija 8.2% 8.3% 9.0% 11.5%	MXN	217	31,994				
TICSA****	Interacciones	TIE+3.00%- 3.90% - 4.0% - 4.07%	MXN	672	98,805				
TICSA****	Banorte	TIE+4.00%, 4.5%	MXN	143	20,992				
ENSA	Others	Libor + 2.375% y TF 4,73% EA	USD	100	192,683	Libor + 1.25% a 2.375%	USD	100	176,823
DEL SUR	Others	Min 4.5% - Max 6.5%	USD	34	65,379	Min 4.5% - Max 6.5%, Fija 6.50% - Tasa Activa - 6%	USD	30	52,998
	<b>Total</b>				<b>5,430,168</b>				<b>4,780,550</b>

#### Details of the external indebtedness transactions

(\*) Bonds without guarantee issued in July 2009, quoted in the Luxembourg Euro MTF stock exchange, placed in the United States, Europe, Asia and Latin American markets, with expiration in July 2019. They are exempt from compliance with financial covenants because they have double investment degree rating granted by Fitch Ratings and Moody's.

(\*\*) EPM issued in January 2011, global bonds in pesos in the international capital market for an amount of \$1,250,000 million, intended to the general investments plan. The issue, which received an investment grade rating of Baa3 by Moody's and BBB- by Fitch Ratings, was placed at a yield of 8.5% with expiration on February 1, 2021 and coupon of 8.375%.

(\*\*\*) In September 2012, the EPM Group entered the Mexican water market with capitalization of USD 112 million to the firm Tecnología Intercontinental S.A.P.I. de C.V. TICSA, equivalent to 80% of the company share, through

(\*\*\*) In September 2013, the EPM Group entered the Mexican water market, with capitalization of USD 113 million to the firm Tecnología Intercontinental SAPI de CV, TICSА, equivalent to 80% of the company shares, through the affiliate EPM Capital México SA de CV.

### Covenants related to loans

#### ◆ Bank of Tokyo Mitsubishi and Banco Bilbao Vizcaya Argentaria Tokyo with Guarantee from the Japan for International Cooperation JBIC:

- ◆ Debt to EBITDA ratio — EPM should not allow the total financial debt to EBITDA ratio to be higher than 3.5 to 1.
- ◆ Debt to capital ratio — EPM should not allow the total long term financial debt to capital ratio to be higher than 1.5 to 1.

#### ◆ Inter-American Development Bank “IADB”

- ◆ Total debt to EBITDA ratio of EPM Group must be lower than or equal to 3.5.
- ◆ Relationship between total long term debt and assets of EPM Group should not exceed 1.5 times its assets.

#### ◆ International Finance Corporation “IFC”

- ◆ Total debt to EBITDA ratio of EPMs must be lower than or equal to 3.5.
- ◆ Interest coverage ratio must be higher than 3 times.

#### ◆ French Development Agency – AFD

- ◆ Total debt to EBITDA ratio of the EPM Group must be lower than or equal to 3.5.
- ◆ Interest coverage ratio must be higher than 3 times.

#### ◆ Credit of EGGSA with Citibank

- ◆ Total debt to EBITDA ratio must be lower than or equal to 5.
- ◆ EBITDA / financial expenses ratio should be 3 times higher.

At December 31, 2013 and 2012, the EPM Group was in fulfillment of these covenants.

The detail of the expirations of public credit operations as of December 31st, corresponds to:

### Details of due amounts as of December 31, 2013



Year	US dollars (millions)	Quetzales (millions)	Colombian pesos (millions)	Mexican pesos (millions)	Equivalent in pesos (millions)
2014	261	5	326,604	114	847,806
2015	148	5	583,272	89	882,032
2016	159	167	397,239	100	758,771
2017	102	167	212,672	120	468,068
2018	120	167	475,996	125	766,285
2019 en adelante	1,143	648	3,054,545	621	5,507,533
<b>Total</b>	<b>1,933</b>	<b>1,159</b>	<b>5,050,328</b>	<b>1,169</b>	<b>9,230,495</b>



## Note 21 - Hedging operations

The balance as of December 31st of hedging operations is as follows:

Hedging operations		
	2013	2012
Obligations in derivative contracts	133,940	254,893
Rights in derivative contracts (Db)	(101,137)	(179,182)
<b>Current hedging operations</b>	<b>32,803</b>	<b>75,711</b>
Obligations in derivative contracts	141,029	274,969
Rights in derivative contracts (Db)	(105,394)	(189,531)
<b>Non-current hedging operations</b>	<b>35,635</b>	<b>85,438</b>
<b>Total hedging operations (*)</b>	<b>68,438</b>	<b>161,149</b>

Amounts stated in millions of Colombian pesos



Saldo de las operaciones de cobertura

(\*) The detail of the expirations of hedging operations for the year is as follows:

Non-current portion of the hedging operations as of December 31, 2013			
Year 2013	Contractual rights	Contractual obligations	Net
2013	-	-	-
2014	101,137	133,940	(32,803)
2015	49,516	56,755	(7,239)
2016	55,878	84,274	(28,396)

<b>Total</b>	<b>206,531</b>	<b>274,969</b>	<b>(68,438)</b>
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Amounts stated in millions of Colombian pesos



Detalle de vencimientos de las operaciones tabla N.1

### Non-current portion of hedging operations as of December 31, 2012



Year 2012	Contractual rights	Contractual obligations	Net
2013	179,182	(254,893)	(75,711)
2014	92,812	(133,940)	(41,128)
2015	45,440	(56,755)	(11,315)
2016	51,278	(84,273)	(32,995)
<b>Total</b>	<b>368,712</b>	<b>(529,861)</b>	<b>(161,149)</b>

Amounts stated in millions of Colombian pesos



Detalle de vencimientos de las operaciones tabla N.2

## Note 22 - Accounts payable

As of December 31st, the balance of accounts payable is comprised as follows:

Accounts payable		2013	2012
Acquisition of domestic goods and services	*	960,536	680,303
Acquisition of foreign goods and services		350,270	314,763
Creditors		565,887	373,318
Interests payable		186,703	187,048
Other accounts payable		59,930	36,391
<b>Current accounts payable</b>		<b>2,123,326</b>	<b>1,591,823</b>
Acquisition of domestic goods and services		2,233	16,205
Other accounts payable		298,708	96,395
<b>Non-current accounts payable</b>		<b>300,941</b>	<b>112,600</b>
<b>Total accounts payable</b>		<b>2,424,267</b>	<b>1,704,423</b>

Amounts stated in millions of Colombian pesos




Saldo de cuentas por pagar

(\*) There was an increase in the accounts payable associated to the business combination of with Ticsa Group of Mexico and Emvarias.

## Note 23 - Taxes payable

As of December 31, the balance of taxes payable is comprised as follows:

Taxes, contributions, and levies 			
		2013	2012
Income tax	(1)	52,124	398,352
Tax on equity	(2)	147,078	145,952
Income withholdings		80,359	57,993
Value added tax - VAT		(4,049)	21,151
Industry and commerce tax		37,979	39,697
Other taxes, levies and contributions		148,572	59,901
<b>Total current taxes payable</b>		<b>462,063</b>	<b>723,046</b>
Tax on equity	(2)	2,085	152,141
Sales tax on temporary imports	(3)	720	20,663
<b>Total non current taxes payable</b>		<b>2,805</b>	<b>172,804</b>
<b>Total taxes payable</b>		<b>464,868</b>	<b>895,850</b>

Amounts stated in millions of Colombian pesos


Saldo de los impuestos, contribuciones y tasas por pagar

(1) Income tax: tax regulations applicable and in force provide the following:

- For 2013 the nominal rate of the income tax is 25% (2012 — 33%) for the parent and national affiliates with the exception of Orbitel Servicios Internacionales, which because it is a company located in a Free Trade Zone has a nominal tax rate of 15%. The nominal rate of the income tax for equity CREE is of 9% as of 2013- For the Guatemala affiliates, the tax is determined by the Optional Regime (rate of 31% on the taxable income determined on the taxable income determined on the basis of the net income) or by the General Regime (6% rate on gross income and 10% for capital gains); for the affiliates of El Salvador 30% for the companies with taxable income higher than US\$150,000 and 25% for those that do not exceed that limit; for the Panama and Mexico affiliates a taxation rate of 30%.
- The domiciliary public utility companies in Colombia are excluded from determining the income tax by the system of presumptive income calculated based on the net tax equity of the immediately preceding year; for the calculation of the income tax for equity CREE they are not benefited by that exclusion.

- Due to the operations that EPM carries out with its related parties located abroad, it is subject to the regulations that in respect to transfer pricing were introduced in Colombia with laws 788 of 2002 and 863 of 2003.
- In the year 2012 Law 52 was enacted in Panama, which contemplates obligations regarding transfer pricing applicable to the operations with related parties.
- The Parent Company of the EPM Group uses the tax deduction called "Special deduction for investments in productive fixed assets", equivalent to 40% of investments made during the fiscal year. This benefit continues in effect for the parent company on occasion of the legal stability agreement signed with the National Government in 2008. Said benefit contemplates the condition of applying the depreciation by the straight line system on the assets subject to this deduction; if the assets are sold or cease to be used in the income producing activity prior to the expiration of their economic life, it will be mandatory for the company to reimburse the value of the deduction claimed proportionately to the remaining useful life of the asset in the income tax return of the tax period in which this event occurs. This benefit is transferred to the shareholders through the increase of not taxed dividends.
- With the entry into force of Decree 957 of December 2011 that modified ISR (Income Tax) Law of El Salvador, the dividends that are paid or credited to the partners or shareholders were taxed with a 5% withholding.

The listing of the net taxable income for the entire Business Group as of December 31 is shown below:


Income tax and supplementary taxes			
		2013	2012
	<b>Profit before income tax provision</b>	<b>2,325,770</b>	<b>2,317,274</b>
<b>Less</b>	<b>Less Profits before income tax provision in Guatemala ISR 6%(*)</b>	<b>39,761</b>	<b>5,627</b>
<b>Plus</b>	<b>Items increase income</b>		
	Non- deductible expense for tax on equity	17,680	16,820
	Valuation of investments by straight line method	61,667	78,617
	Other non-deductible expenses	285,818	457,640
	Increase of non-deductible provisions	151,605	174,015
	Dividends received from companies where control is held	887,304	435,677
	Expenses and costs from previous periods	18,509	31,593
	<b>Total items increasing net taxable income</b>	<b>1,422,583</b>	<b>1,194,362</b>
<b>Less</b>	<b>Items Decrease income</b>		
	Special 40% deduction on investments in the year	268,247	61,484
	Excess property, plant and equipment depreciation	458,938	484,230
	Non-taxable income	519,829	485,756
	Income not subject to income tax- dividends	798,213	231,226
	Profits from liquidity investments appraisal	24,044	135,424
	<b>Total items decreasing net income</b>	<b>2,069,271</b>	<b>1,398,120</b>

	<b>Net ordinary income for the period</b>	<b>1,639,321</b>	<b>2,107,889</b>
<b>Less</b>	Exempt income	38,962	53,778
	Clearings	2,181	-
<b>Plus</b>	Plus Especial net income	-	3,444
	<b>Net taxable income</b>	<b>1,598,178</b>	<b>2,057,555</b>

Amounts stated in millions of colombian pesos

Income tax and supplementary taxes

Considering the different income tax rates, the detail of the calculation of the provision for this tax is as follows:

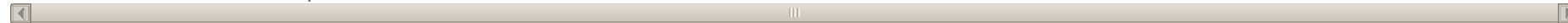
Taxable liquid income 					
	Tariff 31%	Tariff 30%	Tariff 25%	Tariff 15%	Total
<b>Taxable income</b>	<b>111,324</b>	<b>107,240</b>	<b>1,365,059</b>	<b>14,555</b>	<b>1,598,178</b>
Provision for current income tax before discounts	34,511	36,608	343,678	2,183	416,980
Tax discounts-water and draining / withholdings overseas	-	-	48,390	-	48,390
<b>Provision for current income tax (1)</b>	<b>34,511</b>	<b>36,608</b>	<b>295,288</b>	<b>2,183</b>	<b>368,590</b>
Tax on occasional gain	-	-	367	-	367
Net charge to income for deferred income tax	-	8,885	61,812	-	70,697
<b>Income tax provision charge to income</b>	<b>34,511</b>	<b>45,493</b>	<b>357,467</b>	<b>2,183</b>	<b>439,654</b>
(+) ISR 6% on income taxable (****)	-	-	-	-	5,268
<b>Total income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>444,922</b>



Taxable liquid income


**Impuesto de renta para la equidad - CREE**

Provision for the income tax for equity - CREE		
	<b>Income tax for equity CREE , taxable income liquid</b>	<b>1,360,771</b>
<b>Plus</b>	<b>Items increase income</b>	
	Special deduction in productive fixed assets	268,247
	Other special Deductions	4,451
	Other increase Items	23,632
	<b>Total items increase taxable income</b>	<b>296,330</b>
<b>Less</b>	<b>Items decrease income</b>	
	Other items decrease	23,576
	<b>Total items decrease taxable income</b>	<b>23,576</b>
	<b>Taxable income for ordinary deputation</b>	<b>1,633,525</b>
<b>Plus</b>	<b>Minimum income tax base for equity CREE</b>	<b>78,626</b>
	<b>Total taxable income liquid</b>	<b>1,712,151</b>
	Tax rate	9%
	<b>Income tax for equity CREE , provision</b>	<b>154,094</b>
<b>TOTAL INCOME TAX AND TAX FOR EQUITY CREE</b>		<b>599,016</b>



Impuesto de renta para la equidad

The detail of the calculation of the provision for income tax in 2012 was the following:

Taxable liquid CREE income tax 					
	Tariff 33%	Tariff 31%	Tariff 30%	Tariff 15%	Total
<b>Taxable income</b>	<b>1,791,063</b>	<b>115,882</b>	<b>143,676</b>	<b>6,934</b>	<b>2,057,555</b>
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
<b>Provision for current income tax (1)</b>	<b>550,291</b>	<b>35,923</b>	<b>43,102</b>	<b>1,040</b>	<b>630,356</b>
Tax on occasional gain	610				610
Net charge to income for deferred income tax	(4,625)		(2,953)		(7,579)
<b>Income tax provision charge to income</b>	<b>546,276</b>	<b>35,923</b>	<b>40,149</b>	1,040	<b>623,388</b>
(+) ISR 5% on income taxable (****)	-	-	-		5,625
<b>Total income tax</b>					<b>629,013</b>

Amounts stated in millions of colombian pesos

Taxable liquid CREE income tax

(\*) It is excluded from the calculation of the net income because some Guatemalan affiliates are taxed on 6% of their income and not at the rate of 31% on taxable income.

(\*\*) The excess of tax over accounting depreciation corresponds to: (i) the utilization of different useful lives; (ii) the application of the depreciation method of declining balances and additional shifts, and (iii) the increase in the depreciation base by the addition in the cost of historic inflation adjustments (2001-2006), since as of that date they were suspended by legal provision

(\*\*\*) In Colombia, the discount for investment in regional water networks and sewage companies is set forth in Article 104 of Law 788 of 2002, equivalent to 40% of the capital effectively paid in order to extend the service coverage.

(\*\*\*\*) Tax calculated based on the income.

Movements of deferred taxes during the year were as follows:

Net deferred tax 	
--	--





	2013	2012
Initial balance of deferred tax asset	337,587	228,467
Initial balance of deferred tax liability	(878,073)	(804,126)
<b>Subtotal</b>	<b>(540,486)</b>	<b>(575,659)</b>
Net adjustment on income for the period	(70,696)	7,579
Adjustment on deferred tax charged to previous years	49,016	27,594
New investments / interests minority elimination	(3,126)	-
End balance of deferred tax asset	413,138	337,587
End balance of deferred tax liability	(978,430)	(878,073)
<b>Total deferred tax, net</b>	<b>(565,292)</b>	<b>(540,486)</b>

Amounts stated in millions of Colombian pesos



Movimientos del impuesto diferido durante

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

### Conciliation of accounting revenue and taxable income



	2013	2012
<b>Accounting equity</b>	<b>22,047,514</b>	<b>21,059,729</b>
<b>Less</b>		
Revaluation of assets	(11,184,664)	(10,537,826)
Adjustments for inflation, depreciation and tax amortization	(2,825,555)	(2,589,913)
Excess of tax depreciation	(3,207,375)	(3,132,030)
Income tax payable	-	(249,960)
Credit deferred monetary correction, net	(53,222)	(70,963)
Deferred tax, assets	(413,138)	(337,586)
	<b>(17,683,954)</b>	<b>(16,918,278)</b>
<b>Plus</b>		
Tax inflation adjustments	4,313,778	4,383,764

Deferred tax, liabilities	978,430	878,073
Actuarial computation	51,874	88,907
Provisions and contingencies	252,677	446,147
Provision for property, plant and equipment	120,903	103,291
Provision accounts receivables	399,186	247,649
Provisions of investments	103,604	99,515
	<b>6,220,452</b>	<b>6,247,346</b>
<b>Tax equity</b>	<b>10,584,012</b>	<b>10,388,797</b>

Amounts stated in millions of Colombian pesos

Principales partidas que componen la conciliación

(2) Corresponds to accrual of tax on equity payable, for the years 2013 and 2014.

(3) Corresponds to the VAT payable for temporary imports of goods.

On a general basis, income tax returns of the EPM Group for the years 2011 and 2012 are opened to review by the tax authorities. The Administration of EPM and subsidiaries, as well as their legal advisors consider that the amounts recorded are sufficient and it is not likely that liabilities arise in excess of those already recorded.

### Legal stability contracts

EPM Parent Company entered into a legal stability contract in Colombia based on Law 963 of 2005 (for the power generation business). The contract protects EPM against adverse tax changes and permits it to use the rules that are favorable to it; the main rules stabilized are:

- ◆ Income tax rate of 33%
- ◆ Tax on equity until 2010.
- ◆ Special deduction of 40% on the investment of real productive fixed assets.
- ◆ Special deduction for investment in science and technology and environmental.
- ◆ Other basic rules in the determination of income.

The agreement has a term of 20 years counted as of June 2008.

### New regulations

#### Tax reform and emergency measures Colombia

The main changes incorporated by the Law 1607 of 2012 are summarized in:

- ◆ Income tax: The previous income tax rate of 33% is modified, reducing it to 25% and a new tax called income tax for equality (CREE) is created with a rate of 9% for years 2013 to 2015 and of 8% as of 2016. For taxpayers of CREE the reform establishes the exoneration of contributions to SENA (2%), ICBF (3%) as of July 1, 2013 and healthcare (8.5%) as of January 1, 2014, in respect to employees (new and old) who earn up to 10 minimum monthly legal wages.

- ◆ Capital gains tax: In respect to this tax, it has been reduced from 33% to 10% for legal and similar persons. This implies in the sale of fixed assets owned by EPM for over two (2) years. However, for lotteries, raffles, bets, and similar, the tax rate continues to be 20%.
- ◆ Sales tax—VAT-:
  - ◆ The number of existing rates is reduced to only three: 0%, 5% and 16%.
  - ◆ The surveillance, temporary and integral cleaning and cafeteria services will be subject to 16% VAT, but applied to the AIU (Administration, Contingencies and Profit) margin, which in no case shall be less than 10% of the contract value.
  - ◆ Exchange operations of purchase and sale of foreign currency, as well as the exchange operations on derivative instruments have been excluded from VAT.
- ◆ These changes in the VAT will be applicable to contracts that are awarded as of January 1, 2013. The contracts that are currently being performed or that have already been awarded will continue with the VAT rate and taxable base that were in effect at the time of the award. When these contracts are modified or extended, the regulatory changes indicated above will be applied.
  - ◆ New national consumption tax: As of January 1, 2013 the national consumption tax is created, which will apply to the rendering of the mobile telephone service (4%), some vehicles (8% and 16%) and to the prepared food and beverage sale service in restaurants, cafeterias, self-service premises, ice cream, fruit shops and bakeries (8%).

### **Tax reform in Guatemala:**

The major changes brought by the income tax reform (Decree 10-2012), which effects take place as of January 1, 2013 are:


- ◆ Modification of the rate for determination of the taxable income of profitable activities as follows:
  - ◆ Tax year 2013: 31%
  - ◆ Tax year 2014: 28%
  - ◆ Tax year 2015: 25%
- ◆ Modification of the rate for determination of capital income, capital gains and losses:
  - ◆ Movable and immovable capital income: Rate 10% (formerly taxed in the general regime of 5% and the optional regime at a rate of 31%)
  - ◆ Capital gains: Rate 10% (formerly taxed in the general regime of 10% and the optional regime at a rate of 31%)
  - ◆ Distribution of dividends, gains and profits: Rate 5%. In the previous law they were not taxed.

### **Tax reform in Mexico:**

- ◆ Mexico had a tax reform in December 2013. By means of Decree published in the Official Diary, on December 11, this new regulation derogated the Business Tax at Single Rate (IETU) and the Tax on Cash Deposits.
- ◆ A new Income Tax Law (ISR) was issued, maintaining for legal persons a taxation rate of 30%. A withholding of 10% is established on dividends paid to individuals and foreigners, which in the case of payment of dividends to Colombia do not apply because of the Double Taxation Treaty signed with Mexico and which entered into force on January 1, 2014. Based on said treaty, the withholding in the payment of interest to a Colombian credit shall not be higher than 10%.
- ◆ The profit sharing received by the workers of the company (PTU) will be calculated on the same basis of the income tax, without being reduced by the profit sharing paid in the period or with the tax losses pending to be applied.

## Note 24 - Labor obligations

The balance of labor obligations as of December 31st was:

Labor obligations 			
		2013	2012
Severance	(1)	56,972	47,192
Vacations premium	(2)	34,738	31,654
Vacations premium		24,435	24,270
Interest on severance		10,488	9,682
Payroll payable		11,234	7,637
Other premiums		14,281	5,344
Other salaries and fringe benefits		5,626	6,813
<b>Total current labor obligations</b>		<b>157,774</b>	<b>132,592</b>
Severance	(1)	34,838	35,672
Other premium	(3)	23,962	28,164
Compensations		8,301	7,313
Other salaries and fringe benefits		93	13
<b>Total- non-current labor obligations</b>		<b>67,194</b>	<b>71,162</b>
<b>Total labor obligations</b>		<b>224,968</b>	<b>203,754</b>

Amounts stated in millions of Colombian pesos

Saldo de las obligaciones laborales

(1) The current portion corresponds to the severance payments for employees that shall be transferred to the severance funds before February 14, 2014. The non-current portion corresponds to the severance payments for employees of the previous scheme.

(2) This 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.

(3) It corresponds to the estimate, at present value, of the future payments corresponding to the seniority bonus. In EPM, Central Hidroeléctrica de Caldas SA. E.S.P. and the Empresa de Energía de Quindío S.A. E.S.P. the official workers are entitled to this bonus every time they complete five years of service in the company, continuous or discontinuous. The estimated value is determined by the actuary, taking into account the average salary increase, discount rate of 5.77% and the mortality rates approved by the Financial Superintendence in Resolution 155 of 2010. For the remaining affiliates the estimate is updated each year based on the consolidation of information of all employees who become entitled to those bonus.

## Note 25 - Pension obligations and pension commutation

The balance of pension obligations and pensions commutation as of December 31 is comprised as follows:

Pension obligations and pension commutation			
		2013	2012
Pension bonds		79,744	81,293
Retirement pensions		157,817	36,673
Pension commutation		4,232	11,408
<b>Total current pension obligations and pension commutation</b>		<b>241,793</b>	<b>129,374</b>
Retirement pension		637,867	735,586
Pension bonds		429,963	354,228
Pension commutation		90,169	81,651
<b>Total non- current pension obligations and pension commutation</b>		<b>1,157,999</b>	<b>1,171,465</b>
<b>Total pension obligations and pension commutation (*)</b>		<b>1,399,792</b>	<b>1,300,839</b>

Amounts stated in millions of Colombian pesos

Saldo de las obligaciones pensionales y conmutación pensional

(\*) The movement of the actuarial calculation was:

Transactions of the pension commutation and liabilities			
	Actuarial computation	Balance to be amortized	Net liability
Balance at December 2011	1,372,429	(78,479)	1,293,950

Adjustment on actuarial computation	99,375	(99,375)	-
Amounts paid for pension liability	(92,901)	-	(92,901)
Charge to income — amortization	-	109,786	109,786
Net movement pensions payable	(9,996)	-	(9,996)
<b>Balance at December 2012</b>	<b>1,368,907</b>	<b>(68,068)</b>	<b>1,300,839</b>
Adjustment on actuarial computation	194,127	(194,127)	-
Amounts paid for pension liability	(96,708)	-	(96,708)
Charge to income — amortization	-	134,620	134,620
Bussines combination- Emvarias	174,086	(107,279)	66,807
Net movement pensions payable	86	-	86
Other charges to income	(5,852)	-	(5,852)
<b>Balance at December, 2013</b>	<b>1,634,646</b>	<b>(234,854)</b>	<b>1,399,792</b>

Amounts stated in millions of Colombian pesos

Movimiento del cálculo actuarial

The major factors in the actuarial calculations corresponding to retirement as of December 31st were:

Factors for the actuarial calculation		
	2013	2012
Number of people covered	7,035	6,811
Technical interest rate	4.80%	4.80%
Pension readjustment rate*	2.99%	3.26%

Principales factores en los cálculos actuariales por concepto

(\*) This rate corresponds to the weighted average of inflation of 2010, 2011 and 2012, as follows: 3 points for 2013, 2 points for 2011 and 1 point for 2010, according to the provisions in Paragraph 1 of Article 1 of Decree 2783 of December 20, 2001.

## Note 26 - Estimated liabilities

As of December 31, the estimated liabilities balance is comprised as follows:

Estimated liabilities		2013	2012
Provision for contingencies	*	49,735	3,572
Otrher provisions		16,529	15,076
<b>Total current estimated liabilities</b>		<b>66,264</b>	<b>18,648</b>
Provision for contingencies	*	108,454	209,766
Provision for insurance and reinsurance		45	154
Otrher provisions		111,059	86,001
<b>Total non-current estimated liabilities</b>		<b>219,558</b>	<b>295,921</b>
<b>Total Estimated liabilities</b>		<b>285,822</b>	<b>314,569</b>

Amounts stated in millions of Colombian pesos



Saldo de pasivos estimados

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

Details of the main legal processes		2013	2012
Third Party	Claim	2013	2012



Municipality of Tuta	Discussion of the industry and commerce tax by the commercialization activity in the municipality for the generator.	17,547	21,702
Manuel Márquez and others	Riogrande II Project, indemnification to the community for not having acquired the mining reserves.	7,728	10,065
Concretos y Asfaltos S.A	Indemnification for damages for USD 3,298,054	6,325	5,832
José Alberto Ruiz Betancur	Injuries for primary power lines that go by close to a residence in Copacabana.	5,546	7,269
Pacific Stratus Energy Colombia	Terminate by mutual consent the agreement corresponding to the commercial offer presented by EPM to Pacific Stratus Energy Colombia USD 3,500,000	-	6,189
Municipality of Yumbo	Discussion of the industry and commerce tax by the commercialization activity in the municipality for the generator.	3,940	8,726
Municipality of Caloto	Discussion of the industry and commerce tax by the commercialization activity in the municipality for the generator.	3,095	3,704


Amounts stated in millions of colombian pesos



Details of the main legal processes

## Note 27 - Other liabilities

As of December 31, other liabilities balance is comprised as follows:

Other liabilities 			
		2013	2012
<b>Collections in favor of third parties</b>	(1)		
Sales of public utilities and telecommunication		17,901	24,210
Taxes		14,011	13,130
Public lighting		20,076	11,995
Sales on behalf of third parties		8,188	11,087
Collection of accounts receivables third parties		13,072	9,259
Other collections of third parties		7,632	12,724
<b>Income received in advance</b>			
Sales		56,028	39,327
Sales of public utilities and telecommunication		27,065	30,457
Leases		13,674	16,203
Other income received in advance		13,340	12,749
Deferred tax	(2)	50,892	779
Advance tax		109	0
<b>Other current liabilities</b>		<b>241,988</b>	<b>181,920</b>
Deferred tax	(2)	927,539	877,295
Other liabilities		14,690	11,670
<b>Other non-current liabilities</b>		<b>942,229</b>	<b>888,965</b>
<b>Total other liabilities</b>		<b>1,184,217</b>	<b>1,070,885</b>

Amounts stated in millions of Colombian pesos



El saldo de otros pasivos

(1) Agreements for collection of receivables executed with entities such as Municipality of Medellin, Empresas Varias de Medellin E.S.P., Publicar S.A., Telmex S.A., Comcel S.A. and Colombia Movil S.A. E.S.P., among others.

(2) The deferred tax is credit if the difference that originated implied the payment of a lower tax in the year.

## Note 28 - Reserves

As of December 31, the reserves balances are comprised as follows:

Reserves			
		2013	2012
Legal reserves		3,257,570	2,998,040
Occasional reserves		574,008	574,008
Equity funds	(1)	7,591	7,591
<b>Total reserves</b>	<b>(2)</b>	<b>3,839,169</b>	<b>3,579,639</b>

Amounts stated in millions of Colombian pesos



Saldo de reservas a 31 de diciembre

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

Equity funds			
		2013	2012
Self- Insurance fund		3,491	3,491
Financing plan		3,108	3,108
Housing fund		992	992
<b>Total Equity funds</b>		<b>7,591</b>	<b>7,591</b>

Amounts stated in millions of Colombian pesos



Fondos patrimoniales a 31 de diciembre

(2) The Board 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 Article 130 of the Colombian Tax Code.
- ◆ Create and release reserves to comply with Decree 2336 of 1995 for the profits in the application of the equity method.
- ◆ Create reserves for future reinvestments.

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## Note 29 - Surpluses

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Based on the determination of the COMPES in the meeting of April 30, 2013, ordinary financial surpluses were transferred to the Municipality of Medellín for \$526,122 (2012 - \$458,095) and extraordinary financial surpluses for \$708,435 (2012 - \$331,746) as defined by Decree 1202 of June 26, 2013 issued by the Mayor of Medellín and Agreement 74 of 2013) and Minutes the COMPES meeting of December 23, 2013.

The total financial surpluses paid in 2013 was of \$1,183,493 (2012 - \$839,841), which includes the third installment of the scholarship fund for \$50,000.

## Note 30 Memorandum accounts

As of December 31, memorandum accounts are comprised as follows:

Memorandum accounts		2013	2012
Contingent rights	(1)	899,588	850,579
Tax debit	(2)	6,518,951	7,035,921
Control debit	(3)	583,297	682,199
<b>Total debit memorandum accounts</b>		<b>8,001,836</b>	<b>8,568,699</b>
Contingent liabilities	(4)	254,144	733,198
Tax credit	(5)	19,021,106	18,527,797
Control credit		991,323	718,399
<b>Total credit memorandum accounts</b>		<b>20,266,573</b>	<b>19,979,394</b>
<b>Total memorandum accounts</b>		<b>28,268,409</b>	<b>28,548,093</b>

Amounts stated in millions of Colombian pesos

Saldo de las cuentas de orden

**(1)** Contingent rights correspond to litigations in civil processes in which the companies of the EPM Group brings suit against third parties, generally contractors that is considered that failed to comply with their contractual obligations. These have probabilities of having a favorable result.

**(2)** Tax debit memorandum accounts refer to the differences between accounting and tax regulations. They include mainly the difference in the depreciation, inflation adjustments to property, plant and equipment, shares and contributions and addition to tax goodwill. In general, differences in asset, cost and deduction accounts.

**(3)** It records the operations that the companies of the EPM Group have with third parties or for internal control, without their nature affecting their financial situation. These accounts include fully amortized assets, obsolete inventories and other. It corresponds to the right in favor of the Company.

**(4)** The contingent liabilities correspond to civil proceedings in which the companies of the EPM Group are sued by third parties, generally contractors that are considered to have failed to comply with their contractual obligations.

Contingent liabilities include counter-guarantee to the National Government related to credits granted by the IADB. The value of the guarantee corresponds to the encumbrance of the operating income, equivalent to 120% of the debt service of the following six-month period of the IABD credits.

**(5)** Tax credit memorandum accounts are made up by the differences between accounting and tax regulations. They refer especially to the recording of appreciation of investments, the deferred monetary indexation and accumulated depreciation of properties, plant and equipment.



## Note 31 Operating income, net

Estado de actividad financiera, económica, social y ambiental.  
As of December 31, operating income is comprised as follows:

Net operating income		2013	2012
<b>Rendering of services</b>			
Electric power service	(1)	9,083,011	9,009,364
Telecommunications service		1,892,943	1,826,778
Fuel gas service		539,813	441,979
Sewage service	(2)	373,779	354,827
Water service	(2)	346,017	330,937
Communications service		323,158	290,680
Cleaning service		26,650	2,682
Insurance and reinsurance service		5,561	4,290
Computation service		1,838	3,154
Other service	(3)	378,857	251,779
<b>Total service rendering</b>		<b>12,971,627</b>	<b>12,516,470</b>
Sale of goods		100,338	86,508
<b>Total sales of goods and rendering services</b>		<b>13,071,965</b>	<b>12,602,978</b>
<b>Discounts</b>			
<b>Sales of services</b>			
Electric power service		(85,184)	(103,426)
Water service		-	(371)
Sewage service		-	(121)

Telecommunications service	(217)	(1)
Other service	(4)	-
<b>Total sale of services</b>	<b>(85,405)</b>	<b>(103,919)</b>
Sale of goods	(94)	(209)
<b>Total discounts and returns</b>	<b>(85,499)</b>	<b>(104,128)</b>
<b>Total net income</b>	<b>12,986,466</b>	<b>12,498,850</b>

Amounts stated in millions of Colombian pesos




Valor de los ingresos operacionales

- (1) Energy services include the generation, transmission, distribution and commercialization services.
- (2) The increase in water services is explained by the increase in the number of users and the rate increase.
- (3) Includes mainly sales by the supply stores service provided by EPM to its officers and family group.

## Note 32 - Costs for rendering of services

As of December 31, costs for rendering of services, is comprised as follows:

Service-rendering costs 			
		2013	2012
Cost of goods and public utilities — Sales	(1)	4,851,810	4,679,535
Acces charge and interconnection for telecommunication services		232,127	313,320
Cost of distribution and marketing of gas natural		198,072	148,947
Personnel cost	(2)	898,210	812,228
Orders and contracts on account of other services		472,627	421,659
Maintenance and repair	(3)	413,715	353,564
General costs		205,382	185,496
Licenses, contributions and royaltie		180,744	158,873
Materials and others operation costs		133,476	119,704
Leases		123,235	113,212
Costs for sale of goods		118,720	92,544
Direct inputs consumption	(4)	81,137	92,969
Honorarium		65,998	51,929
Insurance		62,279	58,542
Taxes		46,092	46,435
Public utilities		36,822	51,077
Cost for services rendering loses		3,005	3,309
<b>Total rendering services loses</b>		<b>8,123,451</b>	<b>7,703,343</b>

Amounts stated in millions of Colombian pesos

Valor de los costos por la prestación de servicios

(1) Includes energy purchases, payment for the use of networks and pipelines and restrictions.

(2) The salary increase of 2013 was of 3.94% (2012 — 4.73%).

(3) Includes maintenance and repairs of lines, networks and ducts and maintenance and repairs of buildings.

(4) Includes purchases of fuel for generation of the thermal plant La Sierra for \$56,943 (2012 - \$77,347) and chemical products for the treatment of potable water \$11,110 (2012 - \$8,592).

## Note 33 - Depreciation, provisions and amortization

As of December 31, depreciation, provisions and amortization are comprised as follows:

### Depreciations, provisions and amortizations



	2013	2012
<b>Depreciations</b>		
Depreciation of transmission networks and lines	352,374	341,275
Depreciation of plants, pipelines and tunnels	257,558	269,457
Depreciation of communication and computing equipment	89,819	107,799
Depreciation of buildings	41,913	44,286
Depreciation of machinery and equipment	23,719	26,323
Other depreciations	15,202	13,777
<b>Total depreciation costs</b>	<b>780,585</b>	<b>802,917</b>
<b>Amortization costs</b>		
Amortization of intangibles	77,990	191,613
Amortization of goods given to third parties	64,913	70,718
Amortización on improvements to third parties property	12,409	17,859
Projects and studies	9,934	11,022
Amortization of futures pension actuarial computation	215	-
Depletion	274	-
<b>Total amortization costs</b>	<b>165,735</b>	<b>291,212</b>
<b>Total costs of depreciations and amortizations</b>	<b>946,320</b>	<b>1,094,129</b>
<b>Depreciations</b>		
Depreciation of communication and computing equipment	17,517	16,268
Depreciation of buildings	5,170	5,084

depreciation furniture and fixtures	6,270	4,867
Depreciation of machinery and equipment	4,972	4,033
Depreciation transportation equipment	1,886	1,981
Other depreciation	1,077	1,000
<b>Total depreciation expenses</b>	<b>36,892</b>	<b>33,233</b>
<b>Actuarial computation</b>		
Update of retirement pensions	74,872	78,478
Update of bonds and pension payment quotas	15,697	22,038
Update of pension commutation	10,081	4,889
Update of quotas in other parts	21,917	852
Update future pension	12,052	3,529
<b>Total actuarial calculation expense</b>	<b>134,619</b>	<b>109,786</b>
<b>Amortizations</b>		
Amortization of intangibles	10,789	15,741
Goods given to third parties	86	370
<b>Total amortization expenses</b>	<b>10,875</b>	<b>16,111</b>
<b>Provisions</b>		
Provision for receivable	110,882	83,515
Provision for property, plant and equipment	29,811	30,392
Provision on inventories	2,319	4,620
Provision of industrie tax and trade	-	15
Other provisions	12,966	9,511
<b>Total provisions expenses</b>	<b>155,978</b>	<b>128,053</b>
<b>Total depreciation, amortization and provisions expenses</b>	<b>338,364</b>	<b>287,183</b>
<b>Total depreciation, amortization and provisions</b>	<b>1,284,684</b>	<b>1,381,312</b>


\* Amounts stated in millions of Colombian pesos



Valor de las depreciaciones, provisiones y amortizaciones

## Note 34 - Administration expenses

As of December 31, administration expenses are comprised as follows:

Administration expenses		2013	2012
			
Personal expenses			
Salaries and wages		354,832	319,539
Effective contributions		59,239	56,963
Imput contributions		48,193	43,694
Payroll contributions		6,029	9,262
<b>Total personnel expenses</b>		<b>468,293</b>	<b>429,458</b>
General expenses			
Commissions, fees and services		132,472	87,367
Project and studies		11,458	48,125
Leases		48,766	47,856
Intangibles	(1)	41,494	46,043
Maintenance		44,208	40,222
Advertisement		23,313	22,729
Promotion and disclosure		20,070	19,273
Monitoring and security		11,035	10,925
Public utilities		8,597	10,569
Materials and supplies		10,882	8,275
General insurances		7,868	7,771
Transportation and communication		6,148	5,290
Cleaning elements, laundry and cafeteria		3,481	3,947

Other administration expenses		47,968	50,935
<b>Total general expenses</b>		<b>417,760</b>	<b>409,327</b>
Industry and commerce tax		65,409	52,270
Financial movements lien		48,182	44,659
Supervision and audit quota		27,627	26,449
Contributions		2,176	20,358
Equity tax	(2)	17,790	16,511
Other taxes		22,443	26,599
<b>Total taxes, levies and contributions</b>		<b>183,627</b>	<b>186,846</b>
<b>Total administrative expenses</b>		<b>1,069,680</b>	<b>1,025,631</b>

Amounts stated in millios of Colombian pesos



Valor de los gastos de administración

(1) Value of licenses and software of an administrative nature used in the support activities.

(2) Corresponds to the tax on equity that was accounted for by the companies that did not have any balance in the account "revaluation of equity" as of December 31, 2010 (see note 23).



## Note 35 - Non-operating income, net

As of December 31, non-operating income is comprised as follows:

Non-operating income			2013	2012
<b>Financial</b>				
Accounts receivable interests			48,577	63,074
Default interest			26,874	28,635
Interests on financial institutions deposits			31,840	42,529
Dividends and participations			50,483	49,687
Yields on administrative deposits			1,390	18,539
Profit from the appraisal of liquidity administrative investments in debt securities			40,622	131,876
Other financial revenue			48,714	90,203
<b>Exchange differences adjustment</b>	<b>(1)</b>		<b>135,800</b>	<b>254,498</b>
<b>Others ordinary revenue</b>			<b>178,864</b>	<b>39,291</b>
<b>Extraordinary</b>				
Recoveries	(2)		199,900	77,027
Uses			7,404	11,364
Compensations			13,279	12,513
Other Extraordinary income			42,915	42,926
<b>Adjustment from previous years</b>			<b>363</b>	<b>(6,069)</b>
<b>Total non-operating income</b>			<b>827,025</b>	<b>856,093</b>

Amounts stated in millions of Colombian pesos



Valor de los ingresos no operacionales

(1) During 2013 there was a devaluation of the peso in respect to the U.S. dollar of 8.97% (2012 — revaluation 8.98%).

(2) Includes recovery of provisions for receivables, and litigations and lawsuits, generated by the change in methodology (see note 6).

## Note 36 - Non-operating expenses

As of December 31, non-operating expenses are comprised as follows:

Non-operating expenses		2013	2012
<b>Interests</b>			
Domestic public credit transactions		200,679	212,880
Foreign public credit transactions		226,880	208,091
Other interests		95,614	102,922
<b>Commissions</b>		<b>8,852</b>	<b>19,604</b>
<b>Exchange differences adjustments</b>	<b>(1)</b>	<b>305,699</b>	<b>116,009</b>
<b>Financial Expenses</b>			
Securities administration and issuance		1,211	935
Discount on financing bonds and securities		2,868	2,868
Loss for investments valuation		3,374	25,769
Other financial expenses		9,648	10,929
<b>Other ordinary expenses</b>		<b>28,356</b>	<b>23,798</b>
<b>Extraordinary</b>	<b>(2)</b>	<b>4,281</b>	<b>48,676</b>
<b>provision on equity investments</b>		<b>4,097</b>	<b>3,390</b>
<b>Provision for tax obligations</b>		<b>3,648</b>	<b>3,317</b>
<b>Provision for contingencies</b>			
Litigation	(3)	57,134	111,010
Other provisions		1,206	6,055
<b>Intangible expenses amortization</b>		<b>40,856</b>	<b>51,938</b>
<b>Adjustment from previous year</b>		<b>15,503</b>	<b>(20,808)</b>

<b>Total non-operating expenses, net</b>	<b>1,009,906</b>	<b>927,383</b>
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Amounts stated in millios of Colombian pesos



Valor de los gastos no operacionales a 31 de diciembre

(1) During 2013 there was a devaluation of the peso in respect to the US dollar of 8.97% (2012 — revaluation 8.98%).

(2) There was a decrease in respect to 2012, mainly by the expense of \$24,877 of the effective guarantee for the non-construction of the generation plant Porce IV.

(3) It corresponds to the provision of litigations rated as probable (see note 26).

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## Note 37 - Minority interest

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

Minority interest



Company	2013		2012	
	Percentage	Value	Percentage	Value
Electrificadora de Santander S.A. E.S.P. (ESSA)	25.95%	227,591	26.10%	288,952
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)	19.90%	166,850	19.89%	163,574
Elektra Noreste S.A. (ENSA)	48.84%	146,709	48.84%	135,177
Edatel S.A. E.S.P.	44.00%	126,799	44.00%	123,636
Empresa Eléctrica de Guatemala S.A. (EEGSA)	19.10%	100,970	19.09%	77,606
Transportista Eléctrica Centroamericana S.A. (TRELEC)	19.10%	46,035	19.09%	38,833
Tecnología Intercontinental S.A.P.I. De C.V.	20.00%	44,020	-	-
Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS)	8.48%	41,721	8.48%	38,597
Aguas de Urabá S.A. E.S.P.	36.58%	15,244	36.58%	15,455
Distribuidora de Electricidad del Sur (DELSUR)	13.59%	15,832	13.59%	10,868
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	7.15%	10,774	7.15%	10,715
Comercializadora Eléctrica de Guatemala S.A. (COMEGSA)	19.10%	6,280	19.09%	8,952
Regional de Occidente S.A. E.S.P.	37.89%	5,123	37.88%	4,286
Inmobiliaria y Desarrolladora Empresarial de América S.A. (IDEAMSA)	19.10%	5,081	19.09%	4,691
Aguas de Malambo S.A. E.S.P.	12.01%	2,508	21.67%	3,069
Empresas Públicas de Oriente S.A. E.S.P.	41.67%	2,296	41.67%	2,369
Enérgica S.A. (ENÉRGICA)	19.10%	2,021	19.09%	1,449
Empresa de Aguas del Oriente Antioqueño S.A. E.S.P.	43.99%	1,251	43.98%	1,228
Crediegsa S.A. (CREDIEGSA)	19.10%	1,018	19.09%	1,309
Empresas Varias S.A. E.S.P.	0.10%	67	-	-
Hidroecológica del Teribe S.A. (HET)	0.01%	25	2.91%	2,648
Empresa de Telecomunicaciones de Pereira S.A. E.S.P. (ETP)	0.01%	18	43.86%	75,022
EPM Ituango S.A. E.S.P.	-	-	0.44%	5,549
CENS Inversiones S.A.	-	-	0.53%	535
Otras (*)	-	65	-	479
<b>Total minority interests</b>		<b>968,297</b>		<b>1,014,999</b>

Amounts stated in millions of Colombian pesos

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Minority interest

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## Note 38 - Transactions with related parties

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

### Transactions with related parties - Balance accounts



Company	December 2013			December 2012		
	Accounts receivable	Accounts payable	Other obligations	Accounts receivable	Accounts payable	Other obligations
Área Metropolitana del Valle de Aburrá	1,566	-	-	2,593	512	-
Caja Nacional de Previsión Social en Liquidación	-	-	-	8,815	-	-
Comisión de Regulación de Energía y Gas	-	1,586	-	-	1,092	-
Corporación Autónoma Regional de las Cuencas de los ríos Negro y Nare	34	2,240	-	-	2,603	-
Corporación Autónoma Regional del Centro de Antioquia	-	5,451	-	-	4,845	-
Corporación Ruta N Medellín	1,700	737	-	-	-	-
Departamento de Antioquia	210	9,437	-	4,667	5	3
Dirección de Impuestos y Aduanas Nacionales	-	92,102	813	-	143,829	813
E.S.P. Empresa de Energía del Casanare - Enerca S.A.	112	156	-	4,063	186	-
E.S.P. Generadora y Comercializadora de Energía del Caribe S.A.	483	-	-	10,172	-	-
E.S.P. Transportadora de Gas Internacional S.A.	-	8,926	-	-	5,798	-
E.S.P. Enviaseo	-	10	1,310	-	-	-
E.S.P. XM Compañía de Expertos en Mercados S.A.	30,731	37,704	-	-	-	-
Ecopetrol S.A.	171	3,874	27	175	3,760	27
Electrificadora del Huila S. A. E.S.P.	661	394	3	978	451	-



Electrificadora del Meta S. A. E.S.P.	7,420	326	26	12,012	606	-
Electrificadora del Tolima S. A. E.S.P. en liquidación	1,180	-	24	1,180	-	24
Empresa de Energía Eléctrica de Arauca	111	99	-	1,646	100	-
Empresa de Vivienda de Antioquia	1,820	-	-	-	-	-
Empresa Urrá S.A. E.S.P.	-	1,394	-	-	-	-
Empresas Municipales de Cali E.I.C.E. E.S.P.	7,827	2,790	94	7,733	742	-
Fundación Empresas Públicas de Medellín	5,675	4,506	-	4,351	43	-
Isagen S.A.	3,311	20,118	-	4,715	8,041	-
Ministerio de Minas y Energía	58,052	2,611	-	69,586	-	-
Municipio de Amalfi	13	1,191	-	511	922	34
Municipio de Arboletes	13	34	-	1,176	40	-
Municipio de Barbosa - Antioquia	68	1,598	-	1,051	494	-
Municipio de Bello	495	2,169	1	69	2,268	-
Municipio de Envigado	208	1,388	-	113	1,429	-
Municipio de Itagüí	937	1,269	7	898	1,028	6
Municipio de Medellín	6,209	159,912	4,429	15,733	59,920	1,980
Municipio de Necoclí	72	76	-	2,401	79	1
Municipio de San Rafael	437	891	-	491	885	280
Municipio de Turbo	116	213	-	1,440	219	-
Municipio de Yolombó	421	333	-	867	375	-
Municipio de Yondó (Casabe)	1,405	31	-	92	28	-
Universidad de Antioquia	5,290	1,462	2,356	6,479	1,070	1,431
Universidad Nacional de Colombia	373	1,663	-	216	140	-
Other	11,451	19,480	1,724	27,139	17,745	83
<b>TOTAL</b>	<b>148,572</b>	<b>386,171</b>	<b>10,814</b>	<b>191,362</b>	<b>259,255</b>	<b>4,682</b>

Amounts stated in millions of Colombian pesos



## Transactions with related parties - Income statement



Company	Diciembre 2013			Diciembre 2012		
	Income for sale of goods and services	Other income	Costs and expenses	Income for sale of goods and services	Other income	Costs and expenses
Área Metropolitana del Valle de Aburrá	-	-	7,777	1	48	5,903
Centrales Eléctricas de Nariño S.A. E.S.P.	2,217	-	5,452	2,351	-	5,940
Comisión de Regulación de Energía y Gas	-	-	-	-	-	3,223
Corporación Autónoma Regional del Centro de Antioquia	-	-	11,921	-	-	20,835
Departamento de Antioquia	-	-	-	2,474	-	441
E.S.P. Empresa de Energía de Pereira S.A.	2,007	-	1,401	1,988	-	1,346
E.S.P. Empresa de Energía del Casanare - Enerca S.A.	1,299	-	2,060	19,311	-	2,055
E.S.P. Empresa Distribuidora del Pacífico S.A.	25,800	-	2,572	632	-	2,879
E.S.P. Generadora y Comercializadora de Energía del Caribe S.A.	3,497	-	-	58,093	-	-
E.S.P. Transportadora de Gas Internacional S.A.	-	-	17,196	17	-	55,589
E.S.P. XM Compañía de Expertos en Mercados S.A.	335,535	-	13,471	-	-	12,039
Ecopetrol S.A.	796	-	16,999	807	676	105,354
Electrificadora del Huila S.A. E.S.P.	13,592	-	4,862	5,793	-	4,982
Electrificadora del Meta S.A. E.S.P.	54,690	-	3,949	37,327	-	2,473
Empresa de Energía de Cundinamarca S.A. E.S.P.	2,230	-	2,730	2,216	-	2,818
Empresa de Energía Eléctrica de Arauca	19,938	-	1,002	7,396	-	1,373
Empresas Municipales de Cali E.I.C.E. E.S.P.	183,314	4	7,704	51,536	10	5,189
Empresas Municipales de Cartago	15,242	-	87	-	-	-
Empresas Varias de Medellín	-	-	-	6,153	-	26

Instituto Colombiano de Bienestar Familiar	-	-	-	138	-	3,392
Isagen S.A.	24,705	20	57,267	37,892	22	42,394
Municipio de Amalfi	134	28	4,715	9	14	3,200
Municipio de Bello	287	770	2,895	1,055	-	2,825
Municipio de Carolina del Príncipe	-	-	-	9	5	2,797
Municipio de Itagüí	1,630	602	1,959	1,570	140	1,794
Municipio de Medellín	12,153	58	64,184	10,008	223	57,794
Municipio de Santa Rosa de Osos	-	-	-	52	-	2,809
Superintendencia de Servicios Públicos Domiciliarios	-	-	5,649	-	-	9,624
Universidad de Antioquia	5,479	218	5,307	3,404	17	3,464
Others	34,493	5,578	67,082	18,104	1,151	51,937
<b>Total general</b>	<b>739,038</b>	<b>7,278</b>	<b>308,241</b>	<b>268,336</b>	<b>2,306</b>	<b>414,495</b>

Amounts stated in millions of Colombian pesos



Transactions with related parties - Income statement



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