

## **DRAFT AGREEMENT**

"By means of which it is authorized to activate the clause of protection of the public patrimony in favor of EPM, in order to protect the value of the public investment that it has in UNE EPM Telecomunicaciones S.A. and in Inversiones Telco S.A.S., in defense of the public resources that said investment represents, and other provisions are dictated"

### **THE COUNCIL OF MEDELLÍN**

In use of its constitutional powers of article 313 of the Political Constitution of Colombia and legal conferred in Decree Law 1333 of 1986, of Laws 136 of 1994 modified by Law 1551 of 2012, and especially those conferred by Article 17 of Law 226 of 1995

### **AGREE**

**Article 1.** In order to protect the public assets represented in the investment in the companies UNE EPM Telecomunicaciones S.A. and Inversiones Telco S.A.S., Empresas Públicas de Medellín E.S.P. is authorized to dispose of the shares it has or may have in said companies.

**Article 2.** The sale of UNE will be subject to the following conditions:

- a. EPM shall properly structure a strategic investment project so that the entire price received for the sale is intended solely and exclusively for that investment project.
- b. No sum of money, which comes from the sale of UNE, will be transferred to the Municipality of Medellín.
- c. The objective of the strategic investment project is to make it an asset owned by EPM, in such a way that, it is absolutely clear, that one asset is being exchanged for another asset, so that the city of Medellín is calm of this decision.
- d. A special audit contracted with a specialized audit firm will be created to verify that the entire proceeds of the sale of UNE are destined for EPM's strategic investment project.

e. The academy, made up of Universities with High Accreditation, will be hired to verify for three years that all the money from the sale of UNE is destined solely and exclusively to a strategic investment project and that all the clauses prescribed here that condition the sale of UNE are complied with.

**Article 3.** To authorize the Institute of Sports and Recreation of Medellín - INDER to dispose of the shareholding it has in UNE EPM Telecomunicaciones S.A.

**Article 4.** The authorizations covered by this Agreement will be in effect until February 28, 2026.

**Article 5.** The disposal processes carried out by Empresas Públicas de Medellín E.S.P. and/or the Institute of Sports and Recreation of Medellín - INDER will be carried out in accordance with technical studies, and prior to the design of one or more programs that are subject to the principles of democratization, preference, protection of public heritage and continuity of service, in the terms and procedures required by Law 226 of 1995.

**Article 6.** Under the terms of article 4 of Law 226 of 1995, the resources that Empresas Públicas de Medellín E.S.P. obtains from the disposal will be incorporated into its budget and will be administered from one or more accounts of specific destination, so that they are destined to the fulfillment of its investment plan and to partially or totally cancel the debt service associated with it.

**Article 7.** This agreement applies from the date of its publication in the Official Gazette of the Municipality of Medellín and repeals the provisions that are contrary to it.

**Paragraph 1:** Subparagraphs *e*, *d*, *e*, *f*, and *g* of the first article of Agreement 17 of 2013 will remain in force until the same day that Empresas Públicas de Medellín E.S.P. will hold less than 50% of the shares in the company UNE EPM Telecomunicaciones S.A. The remainder of the rules of Agreement 17 of 2013 are expressly repealed as of the term of this agreement.

**Paragraph 2:** In any case, as of the validity of this agreement, Empresas Públicas de Medellín E.S.P. may be the sole public shareholder of UNE EPM TELECOMUNICACIONES S.A. without requiring a certain percentage of participation.

Given in Medellín, on the [\*] days of the month of [\*] of the year 202[\*]

The President,

The Secretary,

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## **1 Background**

### **1.1 UNE EPM Telecomunicaciones S.A.**

With the opening of the telecommunications market in Colombia and the arrival of competitors of international stature such as Movistar and Telmex (today Claro), Empresas Públicas de Medellín E.S.P. (hereinafter "EPM") decided in 2006 to spin off its strategic telecommunications business unit from the parent company, to form a new company focused exclusively on telecommunications, allowing you to face new competitive challenges more appropriately.

UNE EPM Telecomunicaciones S.A. (hereinafter "UNE" or the "Company") was born into legal life as a beneficiary company of the spin-off of EPM's Telecommunications business, according to the authorization of the Municipal Council granted by Agreement No. 45 of 2005. The Agreement ordered that it could not be transformed into another type of company, modify its shareholding composition or transfer to third parties the administration, management, or operation of its business, without prior authorization from the Council of Medellín.

In 2013, EPM defined that, in order to guarantee the sustainability of the business in the long term, it was necessary to manage the risks inherent in its holdings in companies in the ICT sector, that is, in UNE and its subsidiaries (Edatel, ETP, Orbitel, CTC and OCL), as well as in Emtelco S.A.S. (hereinafter "Emtelco"), which for that year was owned by UNE, and in Colombia Móvil S.A. E.S.P., where UNE had a 25% shareholding.

In line with the above, the decision was then made to seek a strategic partner for UNE and its investments.

To achieve this, one of the first steps that were carried out was to request authorization from the Council of Medellín to transform UNE into a mixed economy company, in which private capital could enter. Thus, in May 2013, the Council approved Agreement 17 of 2013 in which the transformation of the legal nature and modification of the shareholding composition of UNE was authorized, as well as the transfer to third parties of the administration, management, or operation of its business.

After multiple studies and analyses, the partner chosen as operator and controller of the telecommunications businesses, which best suited the need to face the challenges of competition and protect the public assets that EPM had invested directly in UNE and indirectly in Colombia Móvil S.A. E.S.P., it was Millicom International Cellular S.A., who decided to participate in the capital of UNE by integrating its assets with that of its subsidiary Millicom Spain Cable S.L., in turn owned by the intermediate company Millicom Spain S.L. The operation was structured as a merger by absorption where the acquiring company was UNE and the company absorbed was Millicom Spain Cable S.L. This merger was formalized on August 14, 2014.

The assets of Millicom Spain Cable S.L. were composed of assets represented in the shares of Colombia Móvil S.A. E.S.P. corresponding to a 50%+1 shareholding, and cash of USD860 million. From the merger, the company Millicom Spain Cable S.L. was dissolved without being liquidated, and its assets, with the aforementioned assets, were incorporated into the assets of UNE.

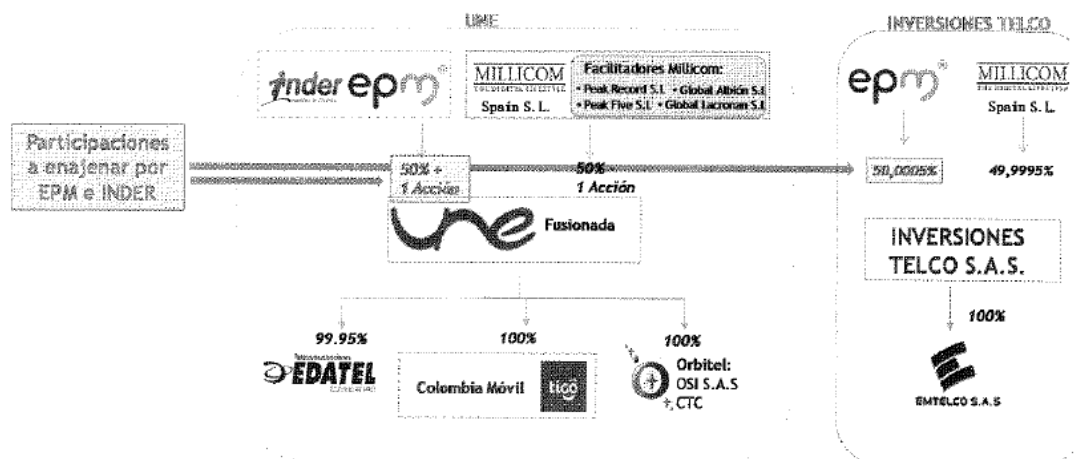
In accordance with the provisions of article one, letter b, of Agreement 17 of 2013, after the merger, Millicom was in charge of the administrative and operational control of UNE.

At the same time, a company called Inversiones Telco S.A.S. (hereinafter "INVERTELCO") was created that, upon receiving contributions from EPM and Millicom Spain S.L, became the owner of the shares of Emtelco, a contact center and services company BPO<sup>1</sup>.

The current corporate structure through which EPM and INDER participate as decentralized entities of the Municipality of Medellín in their capacity as public shareholders in UNE, and EPM as public shareholder in INVERTELCO, is as follows:

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<sup>1</sup> Business Process Outsourcing. BPO is the outsourcing of business process functions to service providers, whether internal or external to the company.



UNE's shareholders to date are:

Shareholder	Ordinary shares	Preferred shares	% Participation
Medellín E.S.P. Public Companies	4,223,309	3	50.000000%
Institute of Sports and Recreation (INDER)	1	0	0.000012%
Millicom Spain, S.L.	4,222,467	0	49.989996%
Peak Record S.L.	211	0	0.002498%
Peak Five S.L.	211	0	0.002498%
Global Albion S.L.	211	0	0.002498%
Global Locronan S.L.	211	0	0.002498%
<b>TOTAL</b>	<b>8,446,621</b>	<b>3</b>	<b>100.000000%</b>

The partners of UNE signed a Shareholders' Agreement whose subscribers on the one hand are EPM and the Instituto de Recreación y Deportes de Medellín - INDER (Public Shareholders), and on the other hand are Millicom Spain S.L., Peak Record S.L., Peak Five S.L., Global Albion S.L. and Global Locronan S.L. (Millicom Shareholders). Under this Agreement, control is exercised jointly by Millicom Shareholders.

In accordance with the previous shareholder composition and taking into account the provisions of the Shareholders' Agreement, Millicom exercises control of UNE and the following has been agreed:

- The composition of the Board of Directors will be seven members, where Millicom proposes four members and EPM proposes three members, giving Millicom a majority in decision-making.
- The President of UNE (CEO) and the Financial Manager (CFO) are appointed by the Board of Directors with a simple majority, a Board that has a majority of Millicom members.

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

## 1.2 Inversiones Telco S.A.S.

INVERTELCO was created in November 2013 by Millicom Spain S.L. who subsequently sold 50%+1 share to EPM. Its corporate purpose includes, among others, investment in companies whose objectives are based on the provision of outsourcing services of business processes (BPO) and Contact Center.

INVERTELCO owns 99.999985% of Emtelco's shares, whose shareholding composition is as follows:

Shareholder	# Of shares
Inversiones Telco S.A.S.	13,720,336
Colombia Móvil S.A. E.S.P.	1
Orbitel Servicios Internacionales S.A.S.	1
<b>Total</b>	<b>13,720,338</b>

Invertelco's current partners are:

Shareholder	Ordinary Shares	Preferred Shares	% Participation
Medellín E.S.P. Public Companies	7,363,126,367	147,265	50.0005%
Millicom Spain, S.L.	7,363,126,368	0	49.9995%
TOTAL	14,726,252,735	147,265	100.0000%

In INVERTELCO there is a Shareholders' Agreement signed between Empresas Públicas de Medellín E.S.P. and Millicom Spain S.L. on November 8, 2013, under which the latter exercises control.



## 2 Description of the Shareholdings to Be Disposed of

### 2.1 UNE EPM Telecomunicaciones S.A.

UNE is a mixed economy joint-stock company, with majority public participation, whose corporate purpose is the provision of telecommunications services, information and communications technologies, information services and complementary activities related and/or related to them. Its registered office is the city of Medellín, and its duration is indefinite. The Company operates its business in the Colombian territory and offers fixed telecommunications, internet, television, and satellite services.

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

Customers figures in thousands	December 2021
<b>Fixed-Total Users UNE consolidated</b>	<b>5,126</b>
TV	1,477
Telephony	1,754
Broadband	1,895
<b>Mobile-Total Users</b>	<b>14,517</b>
Prepay	11,696
Postpaid	2,821

Source: UNE 2021 management report.

Regarding the company's financial results, the following are the figures extracted from the consolidated financial statements as of December 2021:

Figures in COP Million	FY 2021
<b>UNE Consolidated*</b>	
Revenue	5,131,194
EBITDA	1,555,822
Total assets	<u>9,498,215</u>

\*Includes UNE, Colombia Móvil, Edatel and OSI, and CTC  
Source: OFFICIAL CONSOLIDATED FS of UNE 2021.

REGIONAL	COVERAGE		
	Une	COLOMBIA MOVIL	EDATEL
Center	Cundinamarca, Meta, Boyacá	Amazon, Casanare, Cundinamarca, Guainia, Guaviare, Meta, Putumayo, Vaupés, Vichada	
Costa	Atlántico, Bolívar, Cesar, Magdalena, Sucre, Córdoba	Atlántico, Bolívar, Cesar, Córdoba, Guajira, Magdalena, Sucre	Bolivar, Cesar, Sucre
Northwest	Antioquia	Antioquia, San Andrés Archipelago, Chocó	Antioquia, Caldas, Cordoba
Coffee Area	Caldas, Quindio, Risaralda, Tolima	Caldas, Quindio, Risaralda, Tolima, Huila, Caquetá	
East	Boyacá, Norte de Santander, Santander	Arauca, Boyacá, Norte de Santander, Santander	Santander
South-West	Cauca, Nariño, Valle del Cauca	Cauca, Nariño, Valle del Cauca	

- **At the end of 2021, UNE had a presence in 97% of the urban areas of the national territory and provided 4G network coverage to about 670 municipalities.**

Source: UNE 2021 Management Reports.

## 2.2 Inversiones Telco S.A.S. and Emtelco S.A.S.

INVERTELCO is a mixed economy company, decentralized by municipal services, with a public participation of more than 50%, whose corporate purpose is investment in telecommunications and BPO companies. Currently, it owns 99.999985% of Emtelco's shares.

Emtelco was established in July 1994 in the city of Medellín by EPM and Empresas Municipales de Cali E.I.C.E. E.S.P. - EMCALI-, as a telecommunications company that provided connectivity services and communication equipment, which was initially located in Bogotá.

In 2003, the company expanded its services to *Call Center and* began its operation from Medellín.

Later, in 2007, emtelco's telecommunications business was spun off, which was integrated into UNE's assets, and the company maintained the provision of call center services.

In 2009, Emtelco opened a new service line: business process outsourcing (BPO) and began to operate as a contact center and to integrate other communication and relationship channels that became part of its services.

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

From 2012 to 2021, the company has had an average year-on-year growth in sales of 15.3%, a result that is in line with the growth of the industry in Colombia (14%-16%).

INVERTELCO's consolidated financial results as of December 31, 2021, are as follows (figures in COP Million):

<u>Revenue</u>	<u>572,843</u>
EBITDA	<u>98,354</u>
Total assets	<u>350,665</u>

\* Includes Emtelco.

Source: Official consolidated FS of Invertelco 2021.

INVERTELCO is today a company of the type of Simplified Stock Company or S.A.S. For the temporary registration of its shares in the National Registry of Securities and Issuers - RNVE -, the company must be transformed to the type of Sociedad Anónima or S.A. as a condition to be able to make a public offer according to Law 226 of 1995, however, it will remain the same legal person.

### **3 Arguments for the Disposal of All Shareholdings**

#### **3.1 Arguments since EPM**

EPM is a company with positive operating results, has healthy indicators of profitability and liquidity that confirm the sustainability of the company over time. In order to maintain the same trajectory, and continue with the evolution

Positive of your portfolio, continuous analysis must be carried out and, taking into account the dynamics of the business, take actions if necessary, either to define what investments can be made to respond to the strategy drawn, or to consider which of the businesses in which you participate have ceased to meet the objectives from the strategic point of view, either by changes in the sector, by modification of long-term plans, by variations in the profitability or liquidity of the investment or, even, because it presents risks higher than those that the owner, taking into account his profile, would be willing to assume. Based on the above criteria, it was identified that UNE e Invertelco, are assets in which it should be disinvested, as evidenced in the following analysis.

**UNE** is the third largest telecommunications operator in the country by revenue, the Company has an adequate financial profile given stable leverage, a diversified service portfolio and constant cash flow generation. In this sense, a stable performance in revenues in the medium term and EBITDA margins of around 30% is expected even with competitive pressures and ongoing investments, which support the continued growth of subscribers and help maintain a stable credit profile in the short and medium term reflected by the stable outlook of its rating.

UNE is in a sector with a highly competitive intensity, in a regulated market although with free competition in prices, with strong players, with a high technological component that forces participants to be intensive in capital investments and therefore have a financial muscle that provides security in case a potential capitalization is required for the acquisition of equipment, software, network deployment and/or participate in tenders for electromagnetic spectra. Therefore, the potential investments that must be made, the level of technological obsolescence and the strong competitive intensity, create a high level of risk that leads to a greater demand in time for the recovery of investments and make it necessary to have an expensive and specialized staff in the business and its technical particularities, strategic and market. These capital-intensive trends are expected to continue in the future as new technologies would have to be implemented, such as 5G, and new competitors are entering the telecommunications market in Colombia.

As is well known, EPM is the first player in the field of public services in Colombia, with a relevant role in Latin America. It is also the matrix of a Business Group whose strategic direction, resources, capabilities, metrics, revolve around home public services<sup>2</sup>. However, and for this very reason, in the current environment EPM cannot cope with the imperative capital and resource requirements demanded by the telecommunications business.

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<sup>2</sup> Since the issue of Law 1341 of 2009 (Article 72), basic public switched telephony and local mobile telephony services in the rural sector ceased to be public household services and from that date are not governed by Law 142 of 1994 on Household Public Services.

On the other hand, in the affirmation of the rating issued by Fitch Ratings on September 14, 2021<sup>3</sup>, the agency states that the ratings reflect UNE's position as the third largest player in Colombia in an increasingly competitive market, as well as its strong capital structure and financial flexibility. It also states that UNE has managed to maintain a solid financial profile, evidenced by sustained low leverage and stable cash flow generation. Fitch expects the company to maintain relatively conservative leverage, with the debt-to-EBITDA and net debt/EBITDA ratio increasing slightly over the projection horizon to about 2.5 times(x) and 2.2 times(x), respectively, given increased competition and investment needs. These levels are relatively strong for a qualified operator in the AAA (col) category and compare favorably with peers in the region. UNE benefits from its long-term amortization profile with no significant maturities until 2024. The company has seen rapid growth in its HFC (Hybrid Fiber-Coaxial) network and in postpaid mobile subscribers in 2021 following significant investments in the network. In the long term, Fitch expects the company to maintain its strong position in the fixed business despite significant investments by its competitors in fiber deployment, and higher broadband penetration and higher average revenue per user (ARPU) would drive higher business-to-consumer (B2C) fixed revenues. These dynamics would help offset WOM's entry into the mobile market, likely leading to stagnant mobile revenues. UNE has responded to WOM's aggressive commercial offerings to maintain its growth in subscribers and Fitch estimates that the ARPU of mobile services will continue to fall. Fitch expects the company's EBITDA margins, which are in the mid-range of 20%, to decline by 1% to 2% over the medium term, as competitive intensity reduces ARPUs and increases subscriber acquisition costs. Fitch also expects the company to have neutral to slightly negative free cash flow (FFL) generation in the short term given the continuation of large network investments, which would entail financing.

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[https://assets.tigocloud.net/j1bxozgharz5/co2esnh77r5Tiipe1UUzh8Jt/d393ad5c926114fe977dcebeddbd968f/RAC\\_Tigo\\_UNE\\_Spanish.pdf](https://assets.tigocloud.net/j1bxozgharz5/co2esnh77r5Tiipe1UUzh8Jt/d393ad5c926114fe977dcebeddbd968f/RAC_Tigo_UNE_Spanish.pdf)

higher with debt in the coming years. Fitch expects capital investment intensity to remain above 20% over the projection horizon, an 18% average increase in capital intensity during 2015 and 2019. The company's profitability is in line with the median AAA(col) rated operators. UNE's ratings incorporate the link with Millicom, which holds the controlling majority of the company's shares. Despite the absence of protection mechanisms limiting cash distributions to its controlling shareholder, Fitch does not expect this link to restrict UNE's ability to continue executing its investment strategy, while maintaining a credit profile in line with its rating category. UNE is one of the largest contributors to Millicom's consolidated EBITDA, demonstrating its importance for its parent company's credit profile.

<b>Income Statement<sup>4</sup></b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	<b>5,131,194</b>	<b>4,843,434</b>	<b>4,927,143</b>	<b>4,810,880</b>
<b>EBITDA</b>	<b>1,555,822</b>	<b>1,622,042</b>	<b>1,626,135</b>	<b>1,430,277</b>
<b>Net income</b>	<b>-572,492</b>	<b>-212,543</b>	<b>519</b>	<b>-65,738</b>
<b>CapEx<sup>5 6</sup></b>	<b>1,199,327</b>	<b>1,023,887</b>	<b>941,379</b>	<b>941,560</b>

Figures in COP Million

Although net income is not the most important indicator to determine the value of an asset, it is the one that allows the distribution of dividends; that is why for an investor like EPM the indicator is key to be able to deliver year after year the surpluses that the municipality of Medellín requires. On the other hand, it is important to keep in mind that in the telecommunications industry, it is common that the value in companies is not necessarily generated by the ability to pay dividends but by the valuation of their shares as a result of growth, the reinvestment of profits, market share, among other aspects.

As can be seen in the table above, the net results obtained at UNE in three of the last four years have been negative and 2019, although positive, would represent an estimated ROE (return on equity) of 0.5%, which is lower than EPM's base businesses. Therefore, in relation to the expected dividends, EPM has the possibility of finding better

<sup>4</sup> Consolidated Financial Statements 2019 and 2018 UNE EPM Telecomunicaciones S.A. Excluding Emtelco.

<sup>5</sup> Capital investments for operation. It does not include spectrum.

<sup>6</sup> CapEx Source: Financial Statements with administrative view excluding Emtelco.

performance in their strategic businesses. Considering the challenges of the telecommunications industry, EPM does not expect to receive dividends from UNE in a near time horizon.

Below is the information of the assets of UNE<sup>7</sup> according to its financial statements, where it is observed that the value of the assets has been increasing, after the merger was carried out in 2014.

#### UNE Information

Separated FS Figures	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4.708.103	5.486.495	5.433.335	5.270.456	5.173.640	5.407.733	5.336.083	5.464.759

Consolidated FS Figures	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7.477.139	7.740.799	7.416.725	7.318.715	7.100.129	7.940.120	9.316.566	9.498.215

Figures in COP Million

Given the conditions of this sector as mentioned in terms of capital needs, EPM could be forced to make investments that are not present in its financial planning (this statement is supported by what Fitch expressed in its UNE rating made in September 2021) given that by Agreement 17 of 2013 of the Council of Medellín, EPM cannot be diluted<sup>8</sup>. Therefore, if such investments are required, it would be necessary to resort to additional credits (as long as the level of indebtedness allows it), because otherwise, that is, in the alternative scenario of not making the required capitalizations, EPM would generate a risk and a damage in the operation, continuity and competitiveness of UNE resulting in losses of the value of the investment, which is not a desirable scenario.

The situations described are exemplified in cases like that of the National Government with Colombia Telecomunicaciones (Coltel), which in 2017 had to invest COP 1.2 billion following the reversal of infrastructure ordered to the company and in 2018 it tried to sell its 32.5% stake without control, an effort that was unsuccessful. In fact, this investment in Coltel it has generated extremely low profitability for the country in recent years<sup>9</sup>. The Nation was left, therefore, with an investment that demands great efforts of

<sup>7</sup>Source: <https://www.ligo.com.co/legal-y-regulatorio/politicas-tigo#inversores-une-telco-asamblea-de-accionistas>

<sup>8</sup> Dilution is understood as the situation in which an undertaking makes a call to be capitalised and one of the shareholders does not accept it, so that its percentage share in the share capital of the undertaking decreases.

<sup>9</sup>Revista Dinero TELECOMUNICACIONES 110/25/2018 "A year later, the sale of Coltel is still waiting"

capital, but which has not been able to sell in optimal conditions that safeguard the public patrimony invested there.

In the case of INVERTELCO, it is also in a highly competitive industry for some of the services it provides in Colombia and abroad. Price is a determining factor for the success of this industry, and it is an important challenge in this sector to maintain in the long term the current contracts, considering that customers increasingly privilege the decrease in the price of services with an improvement in the quality of the provision of these.

Among other trends, the following are identified:

- ▶ Investment needs related to omnichannel platforms seeking to face the new challenges that the pandemic has brought and the improvement in the provision of services, expansion of the value offer (robotics, artificial intelligence, among others) and the reinvention of the solutions offered to customers at the level of customization and specialization of services.
- ▶ In the BPO industry, it has been observed that the value of contracts related to business process outsourcing (BPO) has been in decline due in part to process automation, which means that competition to access new customers or contracts will become more intense.
- ▶ The industry herself Has Come Specializing and Consolidating where the large players have been acquiring companies in regions or segments that leverage their growth and internationalization.
- ▶ Non-specialized players in this industry have sold their contact center and BPO businesses to concentrate all their efforts on their strategic and main businesses, as is the case of: Telefónica selling Atento in 2012, Bancolombia selling Multienlace in 2008, IBM selling its strategic BPO unit in 2013.

In addition to the above, the expert Altman Solon, identified as trends in the sector the following:

- As for Growth:
  - o Market growth expectations from 2021 in Latin America and Colombia, driven especially by the growth of contact center services.



- o Increased penetration of IT outsourcing services across industries.
- o Good post-COVID positioning, especially in the public, financial and e-commerce sectors, since BPO allows companies to scale their resources without Capex.
- In terms of Technology:
  - o Traditional outsourcing solutions on the decline, as customers request cloud-based microservices.
  - o Cloud and X-as-service models are on the rise, enabling enterprises to improve flexibility in integration and reduce infrastructure costs.
  - o Increased demand for automation through AI<sup>10</sup>, ML<sup>11</sup> and RPA<sup>12</sup> technologies, for better analysis and better customer experience:
    - AI/ML enables greater transparency and predictability.
    - RPA replaces manual tasks, freeing up employee time, increasing productivity, reducing costs and improving accuracy.
- As for Competition:
  - o Significant number of acquisitions and mergers of BPO companies in recent years, with growing interest in Latin America.
  - o BPaaS<sup>13</sup> adoption allows the emergence of smaller providers that compete with larger companies.
- As for Risk:
  - o The local BPO market continues to develop; Legal restrictions, global competitors and lack of reach to international customers could limit Emtelco.
  - o The pandemic caused a slump in the global BPO market coupled with increased concern about the use of outsourced services, their quality, and data protection.

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<sup>10</sup> AI: Artificial Intelligence.

<sup>11</sup> ML: Machine Learning.

<sup>12</sup> RPA: Robotic Process Automation.

<sup>13</sup> BPaaS: Business Process as a Service.

### **3.2 Arguments from INDER**

The Institute of Sports and Recreation of Medellín (INDER), is the decentralized entity of the Mayor's Office of Medellín, in charge of promoting sports, physical activity, recreation and the use of free time, through the offer of programs, in spaces that contribute to the improvement of citizen culture and the quality of life of the inhabitants of the municipality of Medellín. Consequently, the investment represented by its action in UNE is not a relevant asset, much less is it within its strategic objectives.

While it is true that INDER only has one action because its status was as a facilitating partner to allow the plurality of decentralized public shareholders of the Municipality of Medellín in UNE as required by Agreement 17 of 2013, it is also true that all the arguments expressed by EPM in the previous paragraph apply to INDER, to support that its stock is an asset susceptible to divestment.

As long as the sale of its share is enabled through the repeal of Agreement 17 of 2013 through the authorization of sale by the Council of Medellín, INDER would be interested in selling said share, therefore, it signed an inter-administrative agreement with EPM so that the latter acquires that share once the Council of Medellín authorizes the sale, in such a way that it would be EPM who would execute the process of alienation of all the shares of the public shareholders in UNE.

### **3.3 Particular situation of the business of UNE e Invertelco**

During 2017, EPM contracted a consultancy with the international firm Oliver Wyman, which aimed to maximize the value of EPM's investments in the ICT industry.

The consultancy highlighted different aspects of the business and the market, which today, complemented by the current situation in the sector, support the decision to dispose of the shareholding in UNE and INVERTELCO, as set out in the following paragraphs:

#### **3.3.1 Trends in Telecommunications**

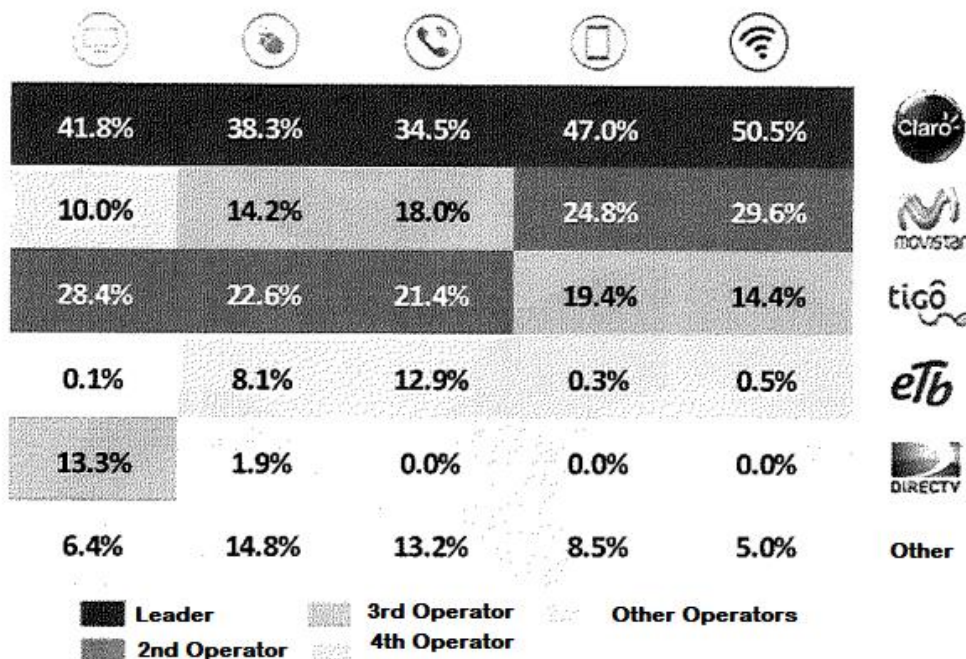
Global telecommunications trends indicate a strong transformation in the business that also affects this industry in the Colombian market. The most important telecommunications trends that are identified are:

- Migration of fixed voice service to mobile, and in turn, the migration of mobile voice to data, mainly affecting companies that are still strong in fixed voice.
- Value that migrates from the telecommunications industry to medium and OTT companies<sup>14</sup>, where the service of internet is enhanced to the detriment of the rest of the telecommunications offer.
- Change in the revenue composition of telecommunications companies, where data gains relevance over voice and OTTs takes a cut of revenue from fixed voice and television.
- Very significant increase in data traffic, which implies constant investments on the part of telecommunications operators to serve demand.
- The specialization of services is leading to a concentration of industry, and in the owners of such industries, creating greater risk in the business.

### 3.3.2 Colombian market

#### 3.3.2.1 Services

The composition of the market in Television, Data, Voice, and Cellular Telephony services is presented in the following table with cut to March 31, 2022:



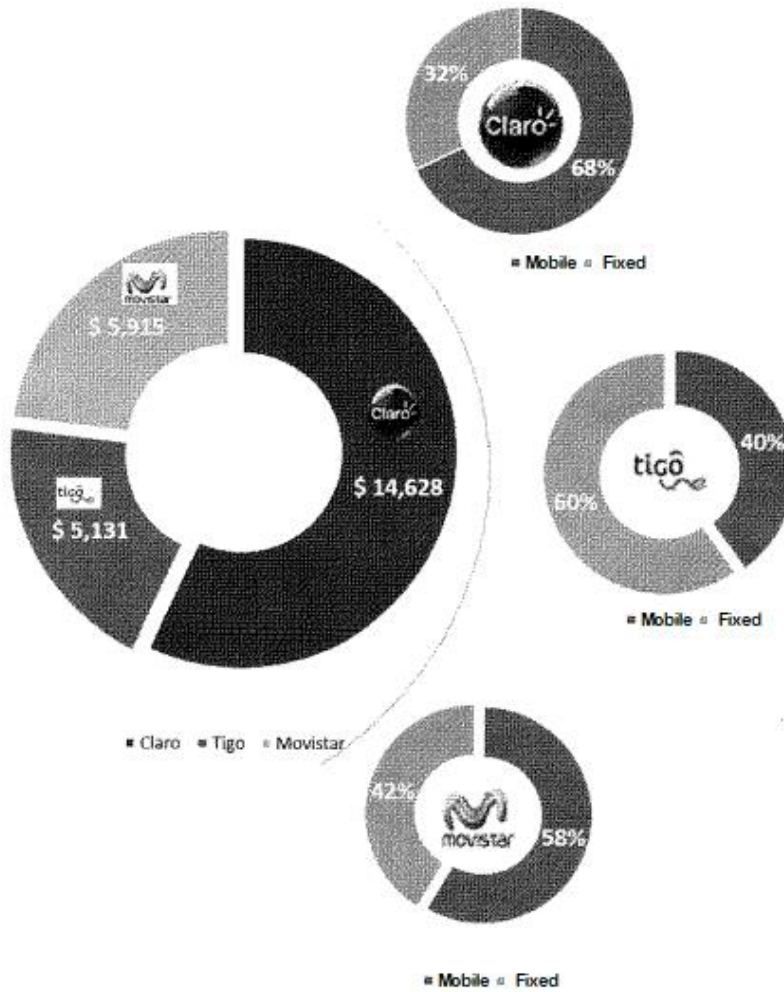
Source: MinTic Quarterly Report T-IV-21, MinTic TV Report Dec.21

<sup>14</sup> OTT - Over The Top. It refers to services that reach users over telecommunications networks but are provided by third parties, such as Netflix, Skype, among others.

Claro is the leading operator in all the services, followed by UNE that holds the second place in the fixed services (Television, Fixed Internet, and Voice), and the third mobile services (cellular telephony and mobile data); Movistar is the second operator in mobile communications, the third in Fixed Internet and Voice, and fourth in television.

### 3.3.2.2 Revenue and EBITDA

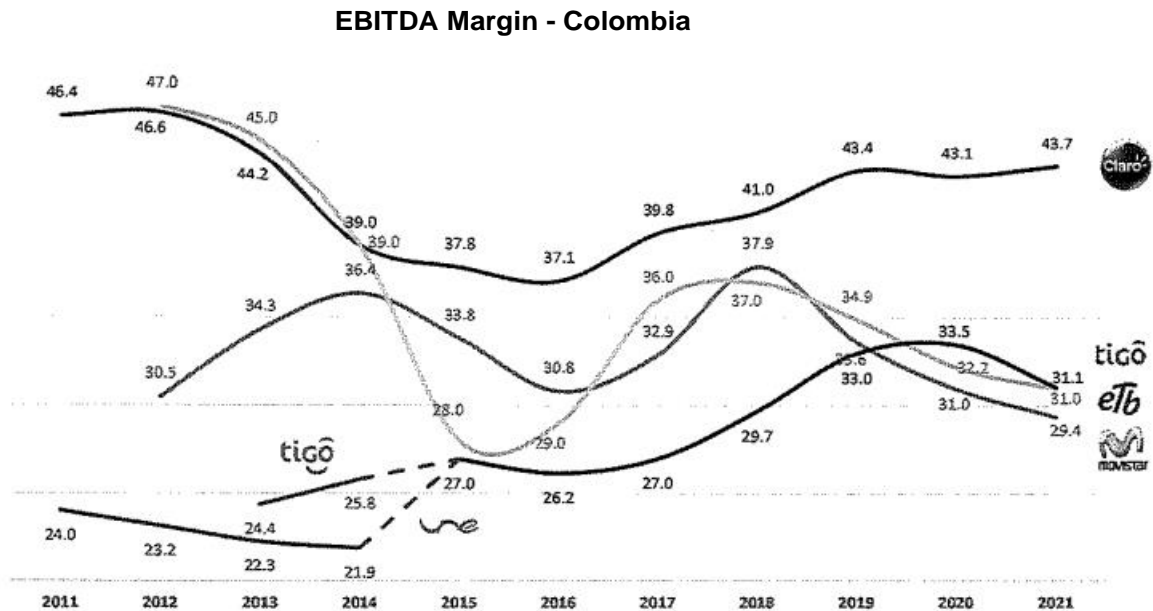
The telecommunications market in Colombia in the last 10 years has been led, in terms of revenue, by Claro:



Source:  
**Claro:** América Móvil financial statements year 2021  
**Movistar:** Financial Statements Colombia Telecommunications year 2021  
**Tigo:** UNE financial statements year 2021

After the merger of UNE with Millicom, the second place in the industry, in terms of revenue, has been disputed by Telefónica-Movistar and UNE. At the end of 2021, the second place is held by Movistar, followed by UNE.

Of course, in its effort to maintain its competitive position as a leader it has forced a price reduction in the market, impacting the average EBITDA margin and the profitability of the industry as a whole:



UNE's EBITDA margin is lower than that presented by Claro as an industry leader, a situation that is in line with the findings of the consultancy with Oliver Wyman in terms of telecommunications markets with a structure similar to the Colombian one. This topic is presented in greater depth in the following numeral.

In addition to the above, WOM, a trademark of the firm Novator Partners, is the new competitor in Colombia and began offering its mobile services as of April 5, 2021. It acquired spectrum in the December 2019 auction and in early 2020 acquired a controlling position in Avantel S.A.S., thus starting as the fourth mobile operator in the country. What has been seen so far is that its entry is aggressive and is venturing into the market in a very similar way to how it did in Chile, using, among others, disruptive advertising, frontal attacks on its competitors, highlighting customer complaints, revolutionizing the mobile market with its value offer "you deserve more". They launched in Colombia postpaid offers of 15Gb at \$ 35 thousand pesos, opened 100 stores nationwide and 80 kiosks in 30 cities as the main asset of the brand to guarantee it. This new operator, since before the launch of its offers generated price decrease or reconfiguration of the offer in the other operators, which can generate a decrease in margins and also alter the market share (for example, in Chile in 5 years it went from having 3% of the market to 20%), in Colombia its objective is to have 25% of the market in 5 years. As a result of the aggressive action of WOM and any

other potential new competitors, UNE and the other current operators could lose customers and/or be forced to continue lowering prices.

### **3.3.3 References in countries with similar market structure**

The consultancy OliverWyman carried out an analysis in which it studied markets with a competitive structure similar to the Colombian one, that is, markets in which two large operators and one or more small operators compete.

The conclusions are as follows:

- Increased competitiveness among operators: the EBITDA margin of operators tends to decrease in this market structure, causing an intense dispute over capture of market share.
  - Anticipating the deployment of new technologies helps capture market share: leading operators in the deployment of FTTH<sup>15</sup> or 4G gained market share in services related to these new technologies, which implies that, in the future, companies that first invest in new technologies they will have a competitive advantage to gain participation.
- Small operators have lower EBITDA margins: historically, the third operator has much lower EBITDA margin than the first and second operators.
- Packaging services to increase EBITDA margin: more and more operators are offering integrated services as a way to build customer loyalty, gain market and protect EBITDA margin

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

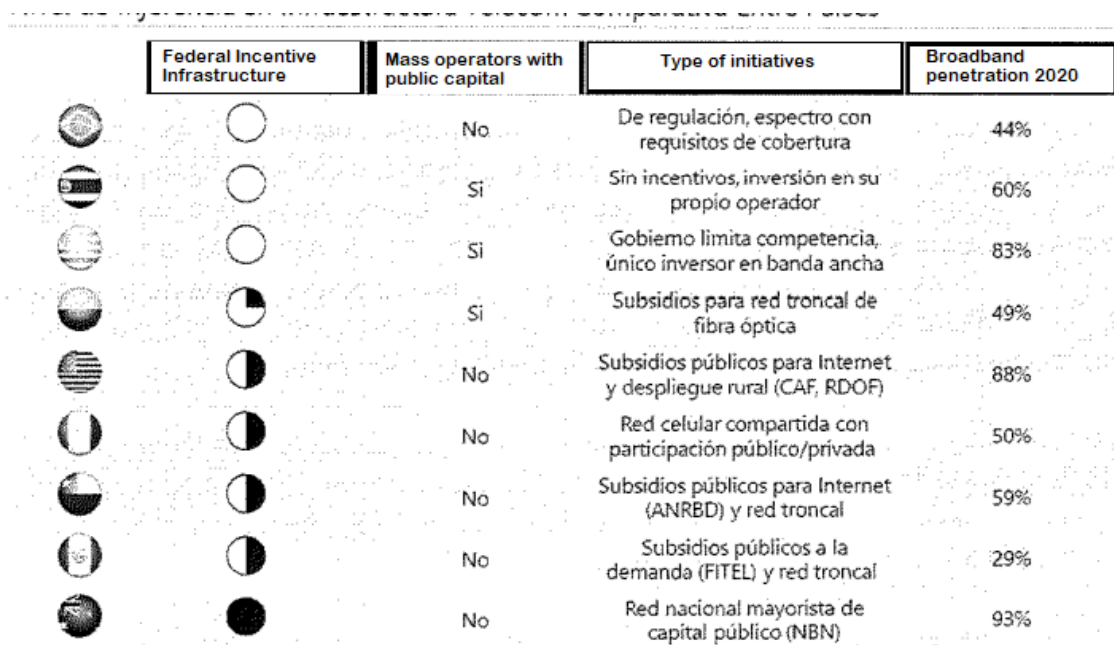
On the other hand, according to a presentation made at the Forum of Experts convened by the Council of Medellín on October 6, 2021, Altman Solon presented an analysis of the situation in relation to the participation of governments in closing the digital divide in their countries, which is summarized in the following slide:

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<sup>15</sup> Fiber To The Home. Fibra hasta el hogar.

## Some governments have combined infrastructure efforts to help bridge the digital divide in their countries

Level of Interference in Comparative Telecom Infrastructure Between Countries 



Fuente: Stu. Tigan, Altman Solon Investigación y Análisis

Confidencial



Octubre 6, 2021 17

Now, to achieve a high penetration in broadband Internet it is not an indispensable condition that the state is a shareholder in telecommunications companies, because clearly the closing of the digital divide is a task that must be developed jointly, the nation and the telecommunications operators, but for there to be success in that initiative, the state must create or generate sufficient conditions or incentives so that operators can enhance their initiatives and accompany the growth in coverage and in the provision of new and better services that facilitate access to the internet for all citizens. In the image above even countries with 100% private operators, have better indicators of broadband penetration than Colombia, and that really the most relevant issues that impact the closing of the gap are, among others, public policies, incentives, greater competition between operators (regardless of whether those operators are public or private) and the same geography of the countries and the urban/rural distribution of their population.

### Participation of states in the telecommunications business:

Taking as a reference the presentation made by Banca BTG Pactual in the forum of experts cited by the Council of Medellín on October 6, 2021, it can be observed that in the main countries of Latin America there is a marked presence of private telecommunications operators, and only in Colombia some of them have public participation.

An example in Colombia is given, as already indicated, with the participation of approximately 32% that the National Government has in Colombia Telecomunicaciones (Movistar), which it tried to dispose of in 2018, without success, through a process under Law 226 of 1995. As a shareholder of Colombia Telecomunicaciones, the Nation does not have - unlike EPM in UNE - an additional exit mechanism to try to sell its shares through the process regulated in said Law, with which the value of the public assets invested there cannot be maximized as required by adequate fiscal management.

In the next two slides, presented by the investment bank BTG Pactual contracted by EPM to assess its participation in the two companies, the details of the different telecommunications operators in Colombia, Mexico, Brazil, Chile, Argentina and Peru are presented.

It is highlighted that some operators have a presence in several of these countries, and even Claro has a presence in sludge. This confirms that the telecommunications business is essentially a business of economies of scale, due to the high levels of investment it requires, which means that operators that only have a presence in one country or a limited number of customers, are at a competitive disadvantage. In addition, it is clear that, given the risks of the sector, state capital does not participate in the telecommunications business in most Latin American countries, since except for Colombia, Costa Rica and Uruguay, there is no state capital in the leading telecommunications companies in the region.

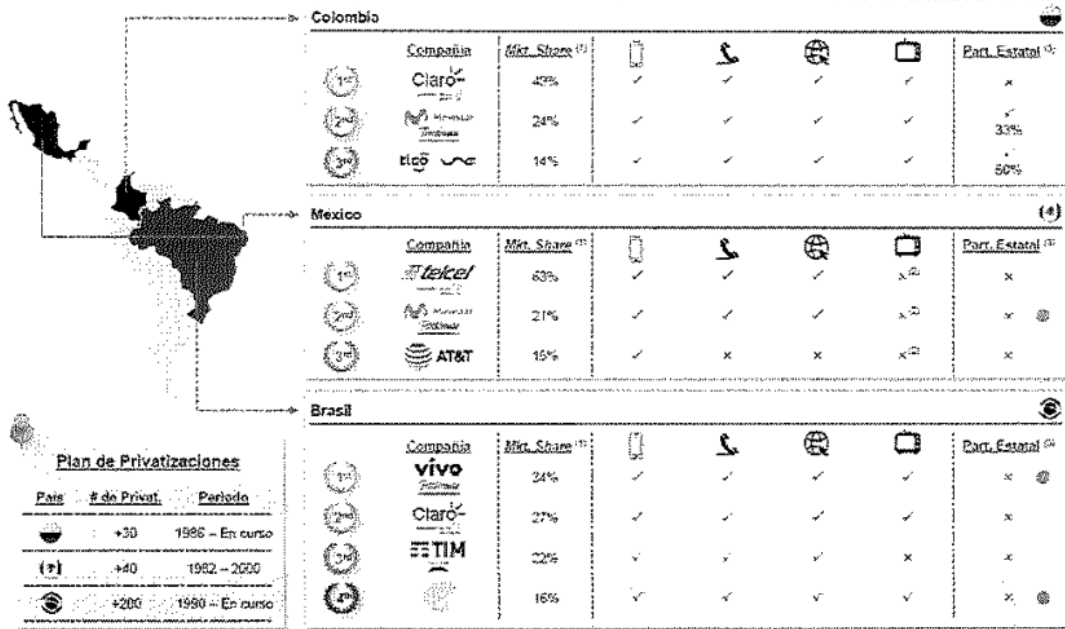


# Divestment Rationale

## Top TMT Companies in the Region (1/2)



The main states of the region do not have shareholdings in the main TMT players. They set out plans to dispose of their non-core holdings at the end of century 20.



Notas: Datos a Septiembre del 2009. (1) Basado en el número de suscriptores de líneas móviles. Participación restante distribuida entre otros operadores. (2) Imposibilidad regulatoria para ofrecer servicios de televisión. (3) Incluye participaciones directas e indirectas. Fuente: Fitch Soluções – Telecommunications Report, E.MIS, Página web de las compañías, Congreso de cada país.


Ⓢ Empresa Completamente Privatizada

# Divestment Rationale

## Top TMT Companies in the Region (2/2)



The main states of the region do not have shareholdings in the main TMT players. They set out plans to dispose of their non-core holdings at the end of century 20.



Chile							
Rank	Compañía	Mkt. Share (%)	Mobile	Landline	Internet	TV	Part. Estatal (%)
1 <sup>o</sup>	entel	35%	✓	✓	✓	✗	✗
2 <sup>o</sup>	Movistar Chile	30%	✓	✓	✓	✓	✗
3 <sup>o</sup>	Claro	26%	✓	✓	✓	✓	✗

Argentina							
Rank	Compañía	Mkt. Share (%)	Mobile	Landline	Internet	TV	Part. Estatal (%)
1 <sup>o</sup>	Claro	36%	✓	✓	✓	✗	✗
2 <sup>o</sup>	Telefónica	33%	✓	✓	✓	✓	✗
3 <sup>o</sup>	Movistar Argentina	29%	✓	✓	✓	✓	✗

Peru							
Rank	Compañía	Mkt. Share (%)	Mobile	Landline	Internet	TV	Part. Estatal (%)
1 <sup>o</sup>	Movistar Peru	25%	✓	✓	✓	✓	✗
2 <sup>o</sup>	Claro	26%	✓	✓	✓	✓	✗
3 <sup>o</sup>	entel	22%	✓	✓	✓	✓	✗
4 <sup>o</sup>	Wanac	18%	✓	✗	✗	✗	✗

País	# de Privat.	Periodo
🇨🇱	+250	1991 - 2014
🇦🇷	+300	1973 - 1990
🇵🇪	+60	1975 - 2001

Notas: Datos a Septiembre del 2016. (1) Basado en el número de suscriptores de líneas móviles. Participación restante controlado entre otros operadores. (2) Incluye participaciones directas e indirectas.  
Fuente: Fitch Solutions - Telecomunicaciones Report, EMIS, Página web de las compañías, Congreso de cada país

This does not mean that the state should not participate in some businesses. Before, on the contrary, there is evidence of state participation in industries such as utilities, energy (mainly oil) and financial services, but it is clear that in telecommunications state capital is absent, except in the aforementioned countries.

This is because the state can generate more social and economic value in the aforementioned industries, either because some of the services provided are monopolies (as in the case of the oil industry and public services) or because they provide welfare to areas or users who otherwise would not have access to certain services (for example financial services and health).

## **Relevant State Participations in the Region**

Sectors with state participations by country (LatAm)



The countries of the region have concentrated their shareholdings in the energy, utilities, and financial sectors.

Compañía	Sector	Participación (%)
PETROL	Petróleo	88.5%
isa	Servicios Públicos	60.2% <sup>(1)</sup>
epm	Servicios Públicos	100.0%
Instituto de Seguros Sociales	Servicios Públicos	65.7%
FDN	Financiero	73.4%

Compañía	Sector	Participación (%)
PETROBRAS	Petróleo	36.6%
Eletrobras	Servicios Públicos	58.7%
BANCO DO BRASIL	Financiero	50.0%
BNDES	Financiero	100.0%

Compañía	Sector	Participación (%)
PEMEX	Petróleo	100.0%
CFE	Servicios Públicos	100.0%

Compañía	Sector	Participación (%)
Petroperú	Petróleo	100.0%
ETEBE	Servicios Públicos	100.0%
SEAL	Servicios Públicos	100.0%
EsSalud	Salud	100.0%

Compañía	Sector	Participación (%)
ENAP	Petróleo	100.0%
ECONSSA Chile	Servicios Públicos	100.0%
Bank of State	Financiero	100.0%
COPELCO	Minería	100.0%

Compañía	Sector	Participación (%)
YPF	Petróleo	51.0%
ieasa	Petróleo	53.0%
UDELCO	Servicios Públicos	100.0%
Aerolíneas Argentinas	Transporte	100.0%

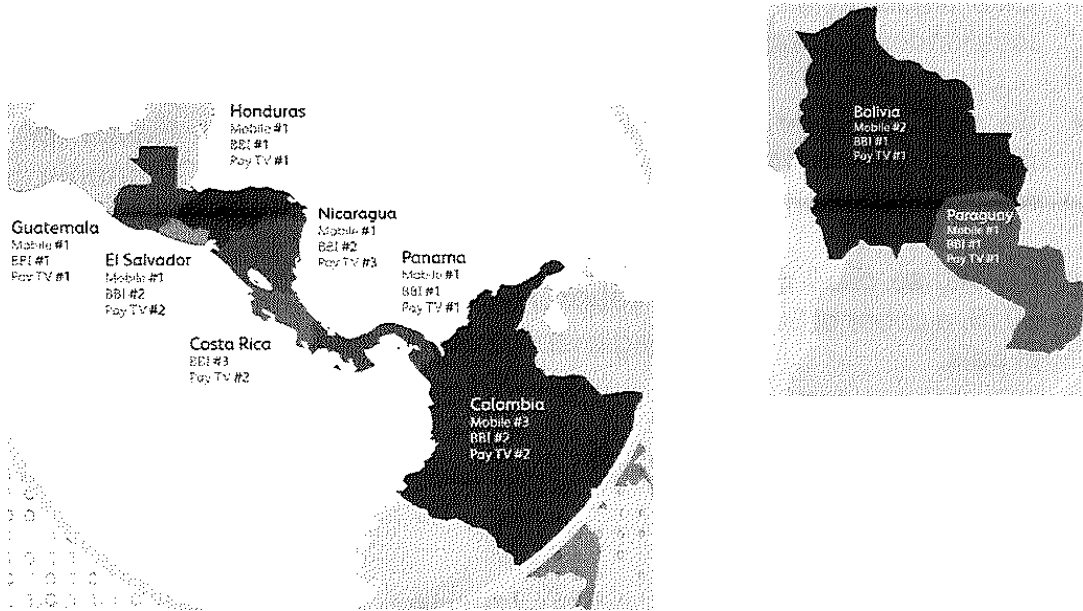
Notas: (1) Tiene en cuenta la participación indirecta en la compañía mediante Ecopetrol - 51.4% y EPM - 3.3%  
Fuente: EMIS

### 3.3.4 Diagnosis of UNE

UNE is one of millicom's most representative markets worldwide. The following figures are highlighted below with respect to the year 2021<sup>16</sup>:

- Mobile customers in Colombia account for 25% of Millicom's mobile customers in Latin America.
- Fixed customers in Colombia represent 39% of Millicom's fixed customers in Latin America.
- Colombia contributes 23% of Millicom's revenues in Latin America.
- Colombia contributes 17.7% of Millicom's EBITDA in Latin America.

Millicom's position in the markets where it has presence 17:



Under Millicom's operational and financial control, the Company has made the following progress:

- Prior to the UNE - Millicom merger, EBITDA synergies worth COP 715 thousand million had been estimated as of 2019 and COP 751 thousand million were achieved as of December 2017 in EBITDA. Synergies were expected

<sup>16</sup> <https://www.millicom.com/results/q4-2021-results/>

<sup>17</sup> Source: Millicom Annual Report 2021.

worth COP 723 thousand million to 2019 in cash flow and COP 1 billion was achieved as of December 2017.

Many of the synergy projects performed better than expected, therefore, the plan was two years ahead of the savings schedule. In this way, one of the positive effects of the merger carried out in 2014 is verified, effects that could not have been achieved if EPM and the public shareholders that accompanied it had remained as sole shareholders of that company.

- In the spectrum auction held on December 20, 2019, UNE participated for 40MHz in the 700MHz band in which it invested a value of COP 2.45 billion, achieving its award.

This award generates a coverage obligation for UNE in 1,636 locations between 2021 and 2025.

- It went from having coverage, directly and/or through subsidiaries, in 773 municipalities in 2015 to 1,100 municipalities in 2019. In 2021, the Company covers more than 5.8 million households in Colombia.

In 4G, it went from having a coverage of 47% in Colombia by 2015, to covering 80% in 2021 reaching more than 97% of the urban population in the country.

- In the most representative services, the following changes were made between 2015 and 2021<sup>18</sup>:
  - o Broadband accesses grew by 490,010 to reach 1,895,259 accesses. In 2015 only 7% of customers had a speed greater than 10MB, and in 2021 the average speed of customers is above 65Mbps.
  - o Television services grew by 435,220 to reach 1,476,690 services.
  - o Fixed lines fell by 27,304 to 1,699,704 lines.
  - o Mobile lines grew by 3,603,008, reaching 14,517,046 lines.

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<sup>18</sup> Source: Management and Sustainability Report UNE EPM Telecomunicaciones S.A. years 2015 and 2021.

In January 2021, Opensignal<sup>19</sup> published the results on mobile network experience, where Tigo won 6 of the 7 categories and on March 11 Ookla, published the results of its study, where it recognized Tigo's mobile network as the fastest in Colombia (754,191 tests done by the same users during the second half of 2020).

- The offer of products and services has also grown, and the following can be highlighted:
  - o Offer of satellite television and OneTV.
  - o Broadband offerings with speeds up to 300MB in homes.
  - o Access to value-added apps like Amazon Prime and HBO Max.
  - o Postpaid plans for mobile telephony to be always connected and with unlimited voice.
  - o In the line of companies and government, offers related to cybersecurity, Internet of Things (IoT), services and applications in the cloud, among others, have been created.

Within the consultancy carried out by Oliver Wyman, an analysis of the Company's strategy in the medium term, 5 years, was also carried out. The consultant found it, in general terms, coherent and self-financing, but limited in scope by the cash generation capacity of the business. Some specific and impact issues are:

- **Strategy:** in general, there is a focus on the Digital Lifestyle, which in operational terms implies in turn expansion of the fixed network, profitability of the mobile network and digitalization of services.

Consultant's Opinion: Coherent strategy considering cash constraints.

- **Income:** Growth of 4% per year focused on households and B2B<sup>20</sup>. Strong expansion (2x) in broadband and TV (2.6x).

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<sup>19</sup> Opensignal and Ookla are independent analytics companies that specialize, among others, in "quantifying the mobile network experience." Source: Wikipedia.

<sup>20</sup> Business to Business. Corresponds to the Corporate business unit.

Consultant's opinion: In general, revenues are consistent with investment levels, although for the TV business specifically, revenues are overestimated.

- **Costs and EBITDA:** cost reduction based on increased operational efficiencies (digitalization) and EBITDA growth of 8% per year on average, leading to EBITDA margin increasing from 26% in 2016 to 31% in 2021.

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

- **Network and CAPEX:** Installation of approximately 800,000 new HP<sup>21</sup> and 200 mobile sites per year through 2021. The cash generation of the mobile business is expected to support the investment of the fixed business. In general, the plan is self-financing, that is, it does not require contributions from partners.

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

- **Debt and Dividends:** A continuous reduction in the company's indebtedness and financial leverage is estimated, and a distribution of dividends was not expected until at least 2020.

Consultant's opinion: The plan is conservative in debt and dividends, and with some margin for error.

Finally, it is important to clarify that, although EPM does not hold the administrative, operational and financial control of UNE, through the Board of Directors it has contributed and contributed to the decision-making and protection of public assets, since the Shareholders' Agreement gives it the possibility that some key decisions must be voted favorably by the members appointed by EPM.

This situation does not leave aside the considerations for EPM to have taken, as has been indicated, the decision to proceed with the process of disposal of its shareholding in this company, since the level of risk of the industry (originated especially in factors such as competitive intensity,

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<sup>21</sup> Home Passed. Past Houses.



high investments, changes in habits and greater demand from users), technological obsolescence and short payback cycles, mean that the risk profile is not adequate for EPM.

Although the final results of Oliver Wyman's consultancy were delivered to EPM in February 2018, from this date until today it is possible to affirm that the consultant's opinion regarding the UNE Business Plan provided in 2017 has been correct for the most part.

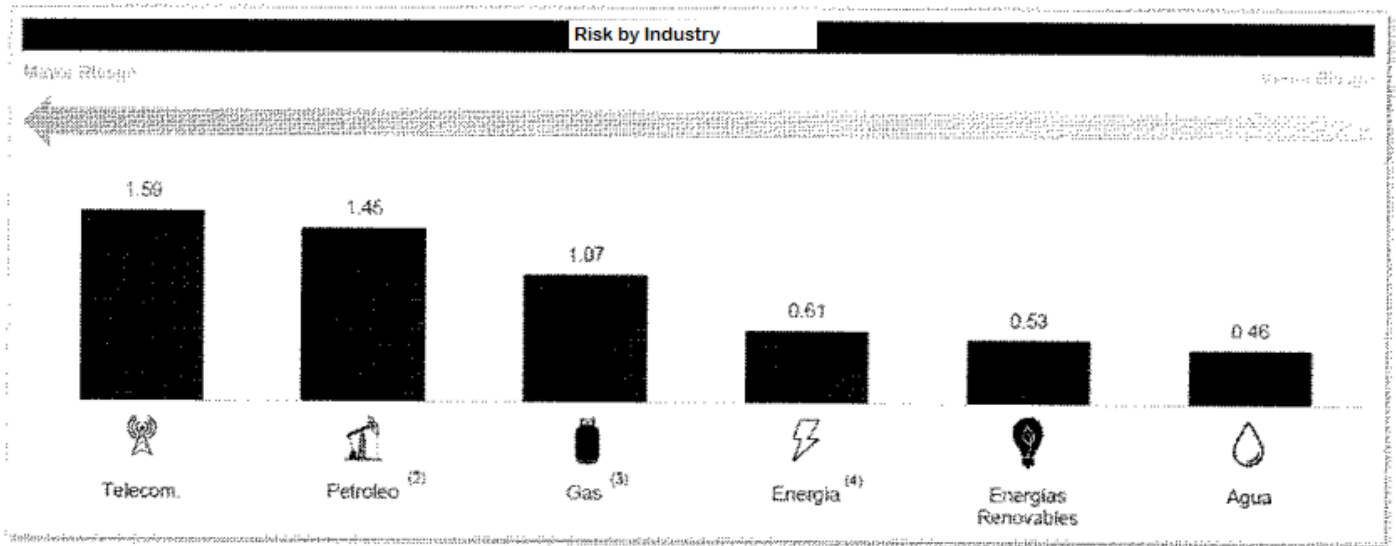
It is noteworthy that the consultant opined that the EBITDA margin target for 2021 was optimistic, but **UNE**, by 2020, has already managed to meet it.

As a complement to the above considerations, a slide presented by the investment bank BTG Pactual is attached, which shows a comparison of the level of risk that the telecommunications industry has vs. the industry of provision of domestic public services of electricity, water, gas (among others), sectors that are strategic for EPM and in which it has a relevant presence nationally and internationally. It can clearly be seen that the risk level of the telecommunications industry is much higher than the risk of the home utility sector.

# Divestment Rationale

## Risk level of TMT companies

For the market, the telecommunications sector presents a higher level of risk than the energy and water sectors, strategic sectors for EPM



### Comments:

The telecommunications sector is riskier compared to other sectors with state participation.

This is due to i) the constant technological innovation, ii) a change in consumption habits and iii) the modifications to the applicable regulatory frameworks.

EPM has a non-controlling interest in UNE and the controlling third party has the right to manage the risk of the sector according to its criteria

EPM has other strategic businesses where it has competitive advantages and that are more in line with the acceptable level of risk for a residential public utility company.

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### 3.3.5 Recommendation of consultant Oliver Wyman

The consultant recommended to the shareholder EPM that, considering the context and the associated risks, the disposal of its 50% stake in UNE (exit the business completely). Below is an image of the recommendation according to the consultant's final report:

Recommendation:

. Considering the context and the associated risks, our recommendation for the EPM shareholder is the sale of its 50% stake in Tigo UNE (initially exit the business)

The time to start the sales process depends on:

- Make the structuring of the strategy policy
- Sales process to be accelerated in case of poor performance of Tigo UNE in Q1/2 2018
- The opportunity to buy ETB should be analyzed in detail, and if feasible, the sale should be reassessed

after reasons to divest in the telecommunications sector

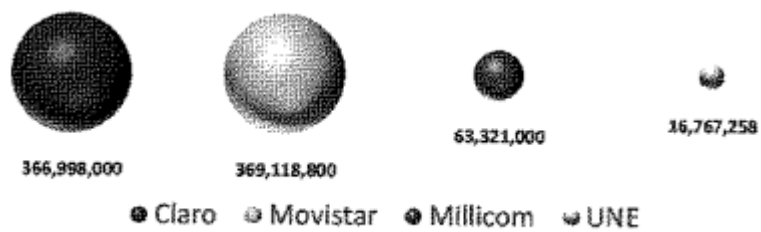
### 3.3.6 Other reasons to divest in the telecommunications, contact center and BPO sector

- The telecommunications sector presents a different and higher level of risk than the energy sector, the water sector, the gas sector, and others in which EPM is located.
- EPM does not control UNE or INVERTELCO and, as indicated, does not have extensive experience in the challenges and challenges that the telecommunications, contact center and BPO business impose today, so it has no impact on the operational management of UNE and INVERTELCO, since that knowledge remained in UNE at the time of the spin-off of the telecommunications business.
- The sale of EPM's stake would not generate changes in the operation and strategy of UNE and/or INVERTELCO because it does not change the controlling shareholder. Since 2014 Millicom has made different strategic and operational decisions and would continue to make them in the same way.
- UNE alone, that is, without being part of the Millicom Group, would not have the sufficient level to achieve the economies of scale that are required to be competitive in the telecommunications sector, especially when its

competitors belong to large multinationals with millions of customers competing in various geographies. That is why UNE must continue to belong to a strong multinational telecommunications group, which allows it to continue to have access to such economies.

Below is a comparative at the scale level to identify the size or magnitude of UNE's main competitors in Colombia considering their income, clients and assets. <sup>22</sup>

### Number of Income Generating Units



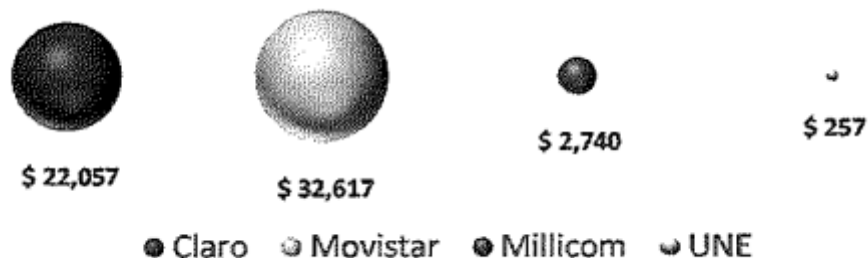
### Total Revenue

(Million USD)



<sup>22</sup> For Claro and Movistar information is presented worldwide. Millicom's information also corresponds worldwide and includes UNE. UNE's figures correspond to the company's operation only in Colombia.

## Equity (USD Million)



- UNE is considering investments and changes that will require more resources -as happened with the auction of 700MHz spectrum in 2019-, new projects of geographical expansion and increase of customers, which makes it more likely that obtaining the resources to finance these investments will be difficult, increasing the probability of capitalization demands in the future. It should be remembered that by Agreement 17 of 2013, public shareholders (EPM and INDER) cannot be diluted, which would force them to capitalize UNE. According to the presentation made by UNE on August 18, 2021, at the extraordinary sessions of the Council, some of its main challenges, typical of the industry, are: dynamism of the investment-intensive industry, fluctuations in the exchange rate, changes in competitive scenario (neutral network and new competitors), spectrum renewal, 5G auction and dominance in the mobile market by Claro.
- The 2025 consultancy carried out with McKinsey in 2017, which aimed to *"identify the actions that the EPM Group must undertake in the current and future businesses/lines of business to be ventured, as well as to design the action routes that allow executing its recommendation, to maximize the value of the Group by 2025"* he also recommended that EPM focus on the businesses of its business object (aqueduct, sewerage, energy and gas), and as one of the strategies to obtain financing for new projects was the divestment in non-strategic assets, and specifically mentions UNE. Attached is a slide where McKinsey's recommendation is evidenced:

To meet the strategic aspiration to 2025, it is proposed to carry out selective divestments

...By 2025

- Portfolio with -variable performance per cell. Some generating economical deficit without no explicitly defined role within the portfolio.
- High volume of non-operating capital that does not contribute or will contribute directly to the 2025 strategy (e.g. Tigo-Une, Isa, others).
- Portfolio with a higher proportion of generating economic benefit. The cells that do not generate economic benefit have an explicitly defined role aligned with the corporate name of EPM.
- Low volume of non-operating capital Projects under construction enter into operation (Ituango, Nueva Esperanza, others)
- Low investment in companies that do not contribute directly to the 2025 strategy (Tigo Une, Isa, others)

### 3.3.7 Other reasons related to EPM's position as a non-controlling shareholder of UNE and INVERTELCO

In addition to the reasons just stated, EPM is convinced that it is imperative to proceed with the disposal of these investments based on the following grounds:

- In the merger process of UNE, EPM negotiated with Millicom a Shareholders' Agreement in which a series of advantages were recognized despite its status as a non-controlling shareholder. These include the so-called *public asset protection clause*<sup>23</sup>, or Right of Exit, by virtue of which the company is given successive mechanisms for the sale of its stake, respecting the obligation to exhaust the procedure established by Law 226 of 1995, to which it is subject as a public entity.

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<sup>23</sup> The clause for the protection of public assets has no impact on the valuation of the company" This clause generates a greater probability of having a successful sale, greater liquidity of the asset and a greater number of interested investors" That is, the clause allows that if EPM fails to sell its stake in the two stages of Law 226 and Millicom does not exercise the right of preference, 100% of the shares owned by EPM and Millicom can be offered to a third party, generating greater attractiveness for investors and reducing the risk of EPM trapping public resources in the company"

The validity of this right goes until August 14, 2024, so it is imperative that EPM begins its sale process as soon as possible so that, before that period expires, it can exhaust the different stages in which it can exit its participation, as market conditions arise, and in this way you can increase the probability of executing a successful sale of the investments you have in UNE and INVERTELCO and thus maximize the value you receive for those investments.

- In other words, if you want to take advantage *of the clause for the protection of public assets* before August 14, 2024, you must have made the eventual joint offer of 100% of the shares owned by Millicom and EPM in UNE. But to reach this joint offer, the following stages must have been filled:
  - o Stage 1 of Law 226 of 1995 for the solidarity sector (recipients of special conditions).
  - o Stage 2 of Law 226 of 1995 for the general public.
  - o Once the stages of Law 226 of 1995 have been exhausted, if EPM continues to own any shareholding in UNE, it must offer it to Millicom, which has a Right of Preference agreed in the Statutes.

Not having these exit options is precisely what has not allowed the Nation and the Capital District to leave their stakes in Coltel and ETB, respectively.

- On the other hand, the fact that EPM has participation in UNE, does not guarantee the implementation of massive telecommunications programs that the Mayor's Office of Medellín intends to advance for the benefit of the city, such as the initiatives of the Medellín Futuro plan, which can be achieved through alliances and agreements with the UNE itself or other operators, without its shareholder being required to be EPM.

On the other hand, municipalities can generate schemes that allow and facilitate internet access to less favored or difficult to access communities, without the need for the municipality to be the owner or controller of any telecommunications company or operator. If this were the case, and EPM had control of UNE, the provision of the service should be given in conditions of cost efficiency for UNE or for any company (without there being any patrimonial detriments). Therefore, the municipalities - and in this case the municipality of Medellín - would be convenient, on the contrary, to put the operators of telecommunications to achieve the best offer and the best conditions for the provision of the service.

- Given the high leverage of the EPM Group, according to the Debt/Ebitda indicator, divesting in UNE avoids increasing these indicators and/or allows reducing the level of future indebtedness and its consequent interest payment, since, if the resources resulting from the disposals are used to finance the Investment Plan of the Business Group, this would allow fewer resources from additional debt to be required. In addition, it allows to reduce the risk of a

decrease in your credit rating due to exogenous or endogenous factors.

- It is preferable that EPM can manage by itself the assets it has invested in UNE and INVERTELCO, in strategic businesses where it has competitive advantages and that are more related to the level of risk acceptable to a home utility company and its owner, the Municipality of Medellín. The resources obtained as a result of potential disposals, where EPM is not controlling, could be redirected to initiatives that are managed by EPM and are part of its strategic businesses, as will be seen in the following paragraph.
- UNE and INVERTELCO are assets that do not consolidate in EPM's Financial Statements, do not contribute EBITDA or income and therefore their sale would not adversely affect the *covenants* or financial commitments of EPM's credit agreements and bonds, and on the contrary would benefit them by not having to increase debt, improve EPM's cash or generate higher EBITDA, to the extent that it is invested in strategic businesses for EPM.

#### **4 Destination and use of resources**

EPM defined that the resources obtained from these eventual disposals be reinvested in its strategic businesses, which are reflected in the investment plan of EPM Parent Company, which for the period 2022-2024 is estimated at a value of \$10.9 billion pesos.

This decision allows to increase the financial strength of the EPM Group by redirecting large resources invested in UNE e Invertelco towards initiatives that are managed by the same organization and are part of its businesses and strategic projects.

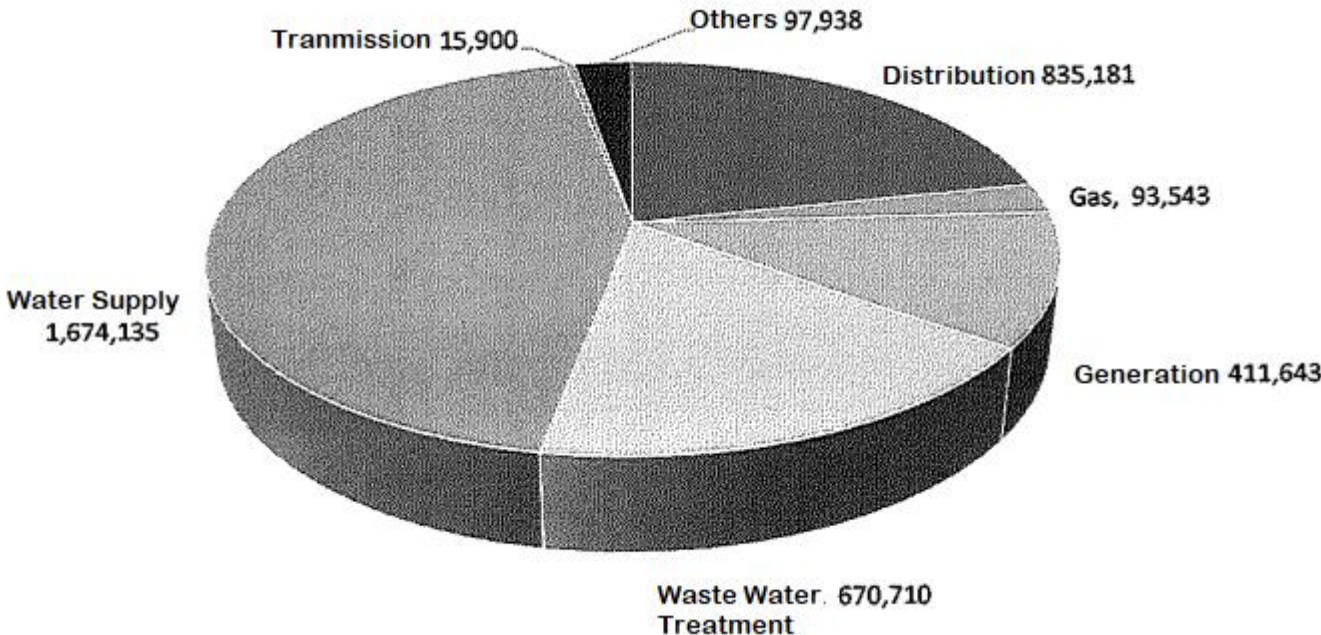


The investment plan of EPM Matriz includes important infrastructure works, vital to continue providing public services with quality, continuity and coverage to millions of people distributed as follows:

Projects	2022	2023	2024	Total
Ituango	1.87	0.73	0.30	2.90
Other Power Generation	0.59	0.26	0.49	1.34
Expansion and Replacement of Energy Networks	0.90	1.05	1.06	3.00
Gas Networks	0.05	0.05	0.04	0.14
POIR Water	0.98	0.97	1.16	3.11
Other investments	0.16	0.12	0.12	0.39
<b>Total Investments</b>	<b>4.55</b>	<b>3.17</b>	<b>3.16</b>	<b>10.88</b>

It is therefore very important and beneficial for EPM that the resources from this disposal are destined to reinvest in the strategic businesses of the company, since they not only have rates of return higher than the cost of capital, but also have risk conditions according to the investment profile of EPM and its owner, the Municipality of Medellín.

Of the total Investment Plan of EPM Parent Company, 35% has an impact on the Municipality of Medellín, that is, 3.8 billion. The following is the distribution by business (figures in millions of pesos):

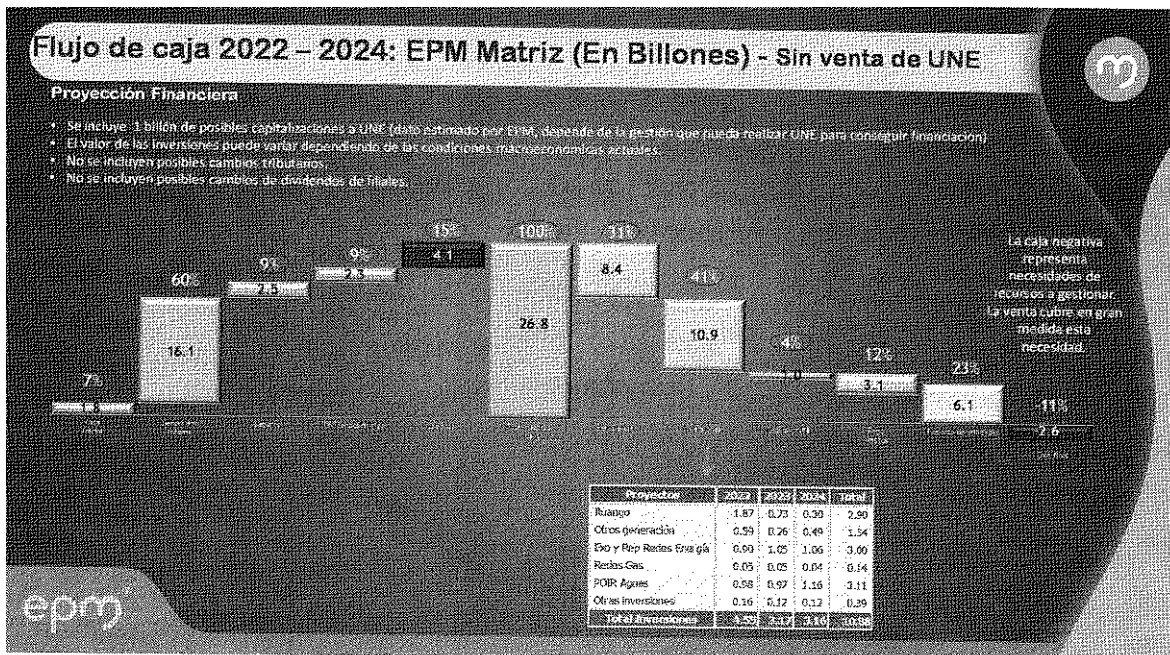


In addition to this, the decision demonstrates the commitment of EPM's management and Board of Directors to seek effective alternatives to strengthen the Group's financial capacity by allowing the company to have greater flexibility to make

the investments contained in the 2022-2024 plan, since the sale of these companies are an additional source that adds to those initially contained in the investment plan:

- The internal generation of funds from the parent company and national and international investments.
- Access to credit markets thanks to the financial strength and credit confidence of the EPM Group.
- Payment received for Hidroituango insurance claims.

Below is the cash flow of EPM Matrix that includes the sources and uses of the resources necessary to cover, among others, the requirements associated with the investment plan detailed above:



In accordance with the above, the cash flow of EPM 2022 to 2024, evidence resource needs to be managed that amount to \$7.3 billion corresponding to \$4.1 billion of credits, \$2.6 billion of negative cash and \$0.6 billion of minimum cash for operation, which in case of not being approved the sale of the shares in UNE e Invertelco, lead the company to search

financing alternatives that will generate greater pressure on the company's indebtedness and on the debt coverage indicator (Debt/EBITDA).

Therefore, achieving the incorporation of the resources of the sale of UNE e Invertelco to the cash flow, gives a higher level of security to the sources of resources and allows the indicators to be recovered quickly for compliance with the debt covenants.

As can be seen in EPM's cash flow, resources are contemplated by \$1 billion pesos for an eventual capitalization of UNE for the coming years, and taking into account that according to Agreement 17 of 2013, EPM cannot dilute its shareholding in UNE, it would be almost obliged to carry out such capitalizations to maintain the stability and competitiveness of the telecommunications business, which would generate that those resources necessary for UNE enter to compete with the requirements that are in the investment plan of EPM for the energy, water, gas and solid waste businesses.

## **5 Destination account(s)**

According to Article 5 of this Draft Agreement, the resources that Empresas Públicas de Medellín E.S.P. obtains from the disposals will be incorporated into its budget and will be administered from one or more accounts of specific destination, so that they are destined to the fulfillment of its investment plan and to partially or totally cancel the debt service associated with it.

They will be bank accounts that will be identified in the EPM accounts in order to allow the restrictions that are defined for said accounts to be applied, within which are:

- a. The resources will be used to reimburse, from the accounts with specific destination, the payments that have been made in the projects that are within the investment plan of EPM Parent Company.
- b. The resources will be used to reimburse or pay for the service of the debt that is associated with projects of the EPM investment plan.
- c. The refunded values will be applied only for payments of projects that have been carried out since the beginning of the first stage of law 226 of 1995.
- d. While the values entered in the earmarked accounts are exhausted by earmarking them for EPM's investment plan, as

described above, EPM policies will be applied for the management or investment of surplus liquidity, in such a way that the balance of these accounts is optimized from the financial point of view.

EPM will contract an audit service, which may have the purpose of validating, verifying and attesting that EPM is using the resources of the sales of its shares in UNE e Invertelco, in reimbursements of payments made to projects of the investment plan or to partially or totally cancel the debt service associated with it. The report or report that is periodically delivered by the contracted audit firm may be shared or presented to the commission referred to in the paragraph of Article 5 of this Draft Agreement.

## **6 Accounting record of the income of the resources from the disposals and settlement of surpluses to the Municipality**

In accordance with current regulations, EPM must record in its Financial Statements for the period those economic events that are generated derived from the transaction, once the sale of the assets that are registered as "non-current assets held for sale" is carried out. Depending on whether the value of the sale is greater or less than the value recorded as an asset available for sale, the company must recognize a profit or loss from such transactions.

Therefore, the value of the profit that would be recognized from the sale of this asset would be the one that results from the difference between the sale price, minus the associated costs (all the expenses necessary to carry out the sale and the taxes associated with it, for this case the tax to be paid is the tax on occasional profits with a fee of 10%) and minus the carrying value<sup>24</sup> (fair value calculated at the time of the merger under the methodology of valuing the business by future cash flows and which has not changed to date).

This result would be part of the net result of EPM of the term in which the sale is actually carried out, on which 55% is transferred as surpluses to the Municipality of Medellín, in the following year.

As an example, the following indicative exercise based on the high, medium and low value of the valuation range presented to the Council of Medellín on April 21, 2022, is considered, in which it was reported that the expected value of the resources of the sale could be between 2.3 and 2.8 billion pesos:

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<sup>24</sup> Separate EPM Financial Statements as of December 31, 2021: BOOK VALUE UNE \$2.34 billion, Book Value Invertelco \$ 55 billion.

<b>Assumptions</b>	<b>COP Million</b>	<b>COP Million</b>	<b>COP Millior</b>
Sale value - Sv	\$ 2,300,000	\$ 2,500,000	\$ 2,800,000
Tax amount - TA	\$ 55	\$ 55	\$ 55
Book value - BV	\$ 2,397,712	\$ 2,397,712	\$ 2,397,712
% Occasional profit tax (Sv - TA)*10%	10%	10%	10%
% Transfers on Net Income	55%	55%	55%
<b>Calculation on transfers to the Municipality</b>			
Sales income	\$2,300,000	\$ 2,500,000	<u>\$2,800,000</u>
Book Value - Bv	\$ 2,397,712	\$2,397,712	\$ 2,397,712
<b>Sales Net Income</b>	<b>-\$97,712</b>	<b>\$102,288</b>	<b>\$ 402,288</b>
Occasional income tax	\$ 229,994	\$ 249,994	\$ 279,994
<b>Net Profit/Loss on Sale</b>	<b>-\$327,706</b>	<b>-\$147,706</b>	<b>\$ 122,294</b>
<b>Value Transfers to the municipality</b>	<b>\$0</b>	<b>\$0</b>	<b>\$ 67,261</b>
%transfers/sales value	<b>0.0%</b>	<b>0.0%</b>	<b>2.4%</b>
<b>Net Profit/Loss on Sale</b>			
<b>Tax Reform Sensitivity</b>	<b>-\$ 787,695</b>	<b>-\$ 647,695</b>	<b>-\$ 437,695</b>

**Note 1:** Sale value of UNE+ Invertelco.

**Note 2:** Occasional Profit Tax is calculated on the difference between The Sales Value (Sv) and the Tax Value (Tv).

**Note 3:** Other costs associated with the sale that may be generated are not being included.

**Note 4:** The sensitivity corresponding to the tax reform is to assume a occasional income tax of 30%, instead of the 10% in force today.

As can be seen in the previous year, if EPM sells its shares at the average or low value of the valuation range presented to the Council of Medellín, there would be no place to make transfers to the Municipality for the sale of the shares in UNE e Invertelco. In addition, considering that it is most likely that the resources of the sales will enter EPM in the year 2023 or at the latest in 2024, in either of the two cases, the eventual transfer to the Municipality via profit from the sale, would not be part of the budget of the current administration.

With respect to the tax reform proposal, if it is assumed that the text is approved as it is published in August 2022, the occasional income tax would rise to 30%, which would cause a loss to occur under any of the three points of the valuation range in the sale of the asset, so no transfers would be generated to the Municipality of Medellín.

## **7 Assessment and Methodology Used**

For the valuation process, EPM contracted through an open process to the investment bank BTG Pactual, who carried out the valuation of UNE with the following methodology:

Discounted Cash Flow ("DFC") with sum of parts: Consists of the estimation of the equity values of i) UNE EPM Telecomunicaciones S.A. - Consolidated (includes subsidiaries) and ii) Inversiones Telco S.A.S. ("INVERTELCO") - Consolidated (collectively, the "Companies").

- Discounted Cash Flow: present value at the last available cut-off date of the projected cash flows for each asset, taking into account the characteristics of each business from the input data provided by the "Companies", the strategic advisor, legacy advisor and financial and tax due diligence advisor.

The valuation by DCF allows to model in detail the business plan of each asset, estimating the future behavior of each of the variables that impact the financial performance and valuation of each business.

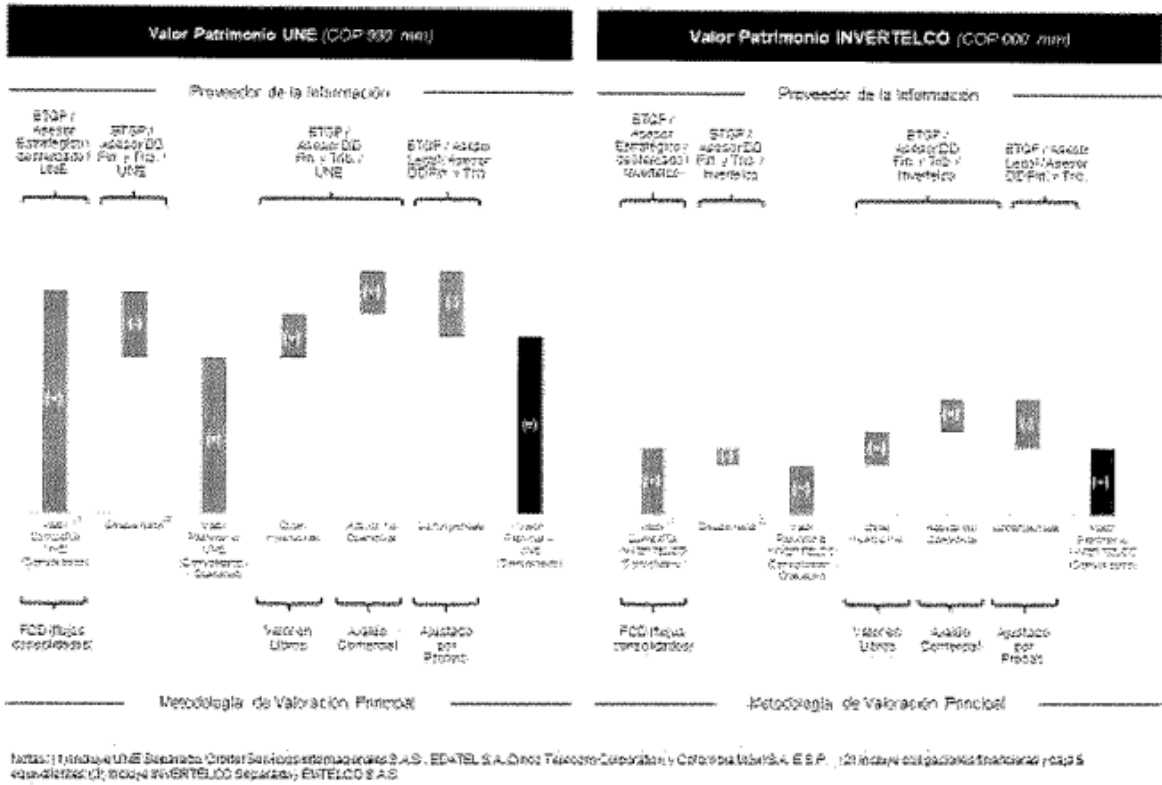
In this sense, for the valuation of the Companies, the sum of parts of the results obtained through the discounted cash flow was selected as the main methodology in order to reflect the particularities of the assets that make up the portfolio of the Companies.

Below is a slide <sup>25</sup> that graphically shows the valuation methodology for the two companies:

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<sup>25</sup> Source: presentation made by BTG Pactual in the Council of Medellín on August 12, 2021.

# Construction of the Heritage Value of The Companies



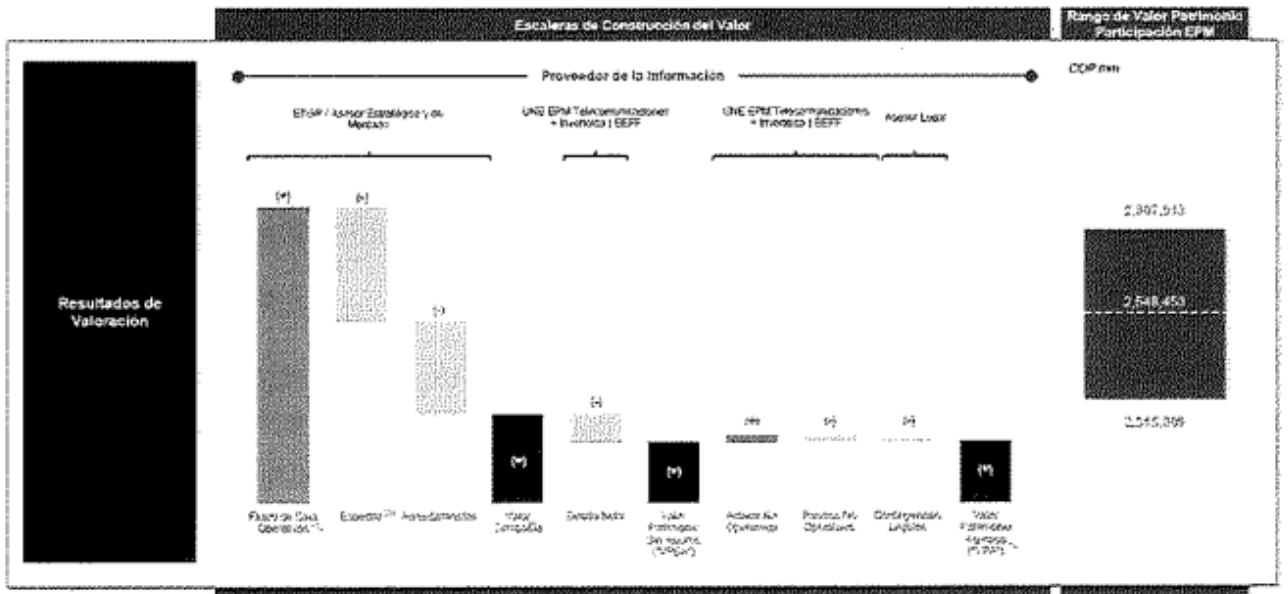
The range of value shown by the valuation exercise is as follows:

**Results**  
Value Range

Borrador para Clientes



El espacio gráfico en este documento es proporcional a un resultado porcentual y no necesariamente refleja los valores absolutos en millones de dólares, por lo que no debe considerarse como un resultado de inversión.



Nota: (1) Incluye Cable; (2) Servicios para UNE EPM Telecomunicaciones; (3) Incluye la información contingente; (4) IVA aplicable a la participación de EPM en las Computas



## **8 Effects for EPM for not selling its stake in UNE e Invertelco during the term of the clause for the protection of public assets**

Due to the importance of the decision that is at stake with this Draft Agreement for the city and its inhabitants, we want to make it clear what would be the consequences of EPM not being able to sell its shareholdings in UNE e Invertelco:

- It would continue to be exposed to the industry's own risks, considering the entry of new competitors and the concentration of the market in a single operator, which could put the value of the investment at risk.

Due to the high capital needs mainly resulting from the investments required for the renewal of spectrum in 2023 and the next auction to acquire spectrum in 5G, it is very likely that UNE will need capitalizations by its shareholders. EPM estimates that UNE would very soon require capitalizations worth close to \$1 trillion, possibly between 2023 and 2024. Taking into account that according to Agreement 17 of 2013, EPM cannot dilute its shareholding in UNE, it would be almost obliged to carry out such capitalizations to maintain the stability and competitiveness of the telecommunications business, which would generate that those resources necessary for UNE enter to compete with the requirements that are in the EPM investment plan for energy businesses, water, gas and solid waste.

- The opportunity to exercise the Right of Exit is lost, which, as already explained, expires in August 2024, decreasing the probability of achieving a successful sale. EPM could be left in a position where its shareholding in UNE loses interest from third party investors and, therefore, very important resources are trapped in a company that it does not control or manage, in addition to with few expectations of generating dividends in the future.

As long as a controlling shareholder does not have a motivation to acquire the remaining stake in a company, he would hardly make efforts to acquire it in any sale process carried out by his partner, since it is indifferent to his position as a controller to invest more resources to buy shares of the company. Now, I would only buy from you if the price were lower than its actual or market value. The *clause for the protection of public assets*

protects EPM in the sense that it can prevent its shareholding from being bought at a price below market value, therefore, if the deadline to execute it is allowed to expire, EPM would face a possible decrease in the value of its shares in UNE, limiting any possibility of future sale (after the clause expires).

With respect to the Investment Plan, in case of not achieving these disposals, EPM will have to rely more strongly on other sources of financing of the Plan, such as, for example, seeking greater indebtedness, which would generate greater pressure on the Debt/EBITDA ratio.

The fact that EPM faces scenarios of possible future capitalizations to UNE and that the book value of the investment recorded in its financial statements may be affected due to the impairment tests that it has to carry out periodically, thus affecting its profits for the year, the municipality of Medellín would receive fewer transfers from EPM due to its permanence as a partner in UNE.

## **9 About Law 226 of 1995**

Law 226 of 1995 (the "Law 226") contains the procedure and guidelines for the alienation of state shareholding property in development of Article 60 of the Political Constitution, which provides:

*Article 60. The State shall promote, in accordance with the law, access to property. When the State disposes of its participation in an enterprise, it shall take measures to democratize the ownership of its shares, and shall offer its workers, solidarity, and workers' organizations special conditions for access to such shareholding. The law shall regulate the matter.*

The elements that make up this procedure can be summarized as follows:

- It applies in the case of the total or partial alienation in favor of individuals, of shares in entities owned by the State in any of its forms or levels.
- The principle of democratization implies that, in accordance with the provisions of Law 226 in Article 2, "in the processes of alienation, mechanisms will be used that guarantee wide publicity and free competition and procedures that promote the massive participation in the shareholding property"; and Article 3 sets out everything related to what the

Norm calls as "preference", with which the necessary elements are created to allow the presentation of proposals for the purchase of sectors of citizens that have been called, from this legal instrument, object of the preferences, with respect to the entire process of alienation.

- **Additionally, Article 14 of Law 226 states that in the context of alienation, measures must be taken to avoid the violation of the principles of democratization, protection of public heritage, preference and free competition to which it refers.**
- **The alienation will be carried out under the framework of what the law calls "alienation program", article 6 "... designed for each particular event, which shall be subject to the provisions contained in this Law."**

**The disposal programs must contain the elements established in Article 7 of the same norm and those related in Article 11 of the Law 226:**

***Article 7.** The shareholding disposal program will be carried out based on corresponding technical studies, which will include the valuation of the entity whose shares are intended to be disposed of. This valuation, in addition to the conditions and nature of the market, must consider the technical variables such as the profitability of the institution, the commercial value of the assets and liabilities, the support of the Nation, which lead to the determination of the value for each case of disposal.*

***Article 11.** The disposal of shares that is approved for each case will include the following special conditions, of which those mentioned in article 3 of this Law will be exclusive recipients:*

- 1. They will be offered first and exclusively all the shares that it intends to dispose of.*
- 2. A fixed share price equivalent to the price resulting from the valuation provided for in Article 7 of this Law will be fixed, which will have the same validity as that of the public offer, provided that, within it, there have been no interruptions. In case of interruption or after the expiration of the offer period, the fixed price may be adjusted by the government following the parameters indicated in said article 7.*
- 3. The execution of the disposal program will begin when the holder, or one or more institutions have established credit lines or payment conditions to finance the acquisition of the shares for sale, which involve an available credit financing not less, as a whole, than 10% of the total of the shares subject to the disposal program, which will have the following characteristics:*

- a. The repayment term shall not be less than 5 years.*

*b. The interest rate applicable to the purchasers who are the recipients of the special conditions may not be higher than the current bank interest rate certified by the Banking Superintendence, in force at the time of granting the credit,*

*c. The period of grace to capital may not be less than one year. The interest caused during this grace period may be capitalized, for payment, together with the repayment installments to capital.*

*d. Shares acquired with the proceeds of the credit shall be eligible as collateral. The value of the shares, to determine the coverage of the guarantee, will be the fixed price, initial or adjusted, of sale of those.*

*4. When the acquirers are natural persons, they may use the severance payments they have accumulated, in order to acquire these shares.*

In addition, the rule indicates that the disposal program must relate all the elements containing the details of the procedure itself for the disposal.

## **10 Disposal Procedure indicated in Law 226 of 1995**

As indicated, Article 60 of the Constitution was developed by Law 226, which requires that the processes of alienation of the shareholding of State property conform to the principles of democratization, preference, protection of public heritage and continuity of service, principles that have the following basic content:

- **Democratization**

This principle establishes that all natural or legal persons - addressees of the Political Charter - may have access to the shareholding property that the State disposes of. Therefore, in the processes of alienation, mechanisms will be used that guarantee wide publicity and free competition and procedures that promote the massive participation in the shareholding property.

- **Preference**

It determines that, in order to guarantee effective access to State property, certain prerogatives (financing lines, terms, etc.) will be granted to the recipients of special conditions, aimed at facilitating the acquisition of the State social participation offered, in accordance with article 60 of the Constitution.

- **Protection of Public Heritage**

It establishes that the disposal of the state shareholding will be done under conditions that safeguard the public patrimony, in such a way that, with the alienation, there is no impairment in the financial conditions of the alienating entity.

- **Continuity of Service**

When the shareholding property of an entity providing services of public interest is disposed of, the necessary measures shall be taken to ensure the continuity of the service.

In Judgment C-037 of 1994, M.P. Antonio Barrera Carbonell, the Constitutional Court stated:

*"The obligation imposed on the State to promote access to property constitutes a specific task, which must lead to the terrain of realities; this is how the Constitution authorizes it to promote workers' access to business property (C.P. ar/. 60, inc. 2) or to agrarian property (C.P. ar/. 64), which undoubtedly corresponds to the phenomenon of economic democratization, whose scope has the meaning of a real option, of a serious and effective possibility for workers and workers to solidarity organizations manage to participate in the advantages that economic development offers to the members of a society 'founded on respect for human dignity, on the work and solidarity of the people who make it up and on the prevalence of the general interest' (C.P. ar/. 1o.).*

At the municipal or district level, the Councils, in accordance with articles 287.2 and 313.10 of the Political Constitution, must exercise the powers to authorize the disposal of shares assigned to them by article 17 of Law 226, as well as to guarantee the harmonious and integrated development of cities and municipalities and the efficient provision of services under their charge (art. 322 Superior).

Law 226 chronologically organizes the procedure for the disposal of shareholding property into four phases:

- a) Decide/authorize the disposal of a specific asset;
- b) Develop an alienation program;
- c) Approve and adopt the disposal program;
- d) Disseminate the disposal plan and execution of the disposal program that must be organized, at least in two stages, the first of them being the one corresponding to the offer to the solidarity sector.

In compliance with Law 226 of 1995 and the procedure, the necessary steps will be implemented to dispose of all the shares that EPM has or will have in UNE and INVERTELCO, and in the same

sense to dispose of all the shares that INDER has in UNE, all of which will be offered to the Solidarity Sector, in a first stage, for a term of two (2) months.

The Solidarity Sector for this democratization, in accordance with Law 226 of 1995, is composed of:

- Active and pensioned workers of the companies whose shareholdings will be disposed of, and of the entities where it has a majority stake, provided that they have not been disassociated with just cause,
- Former workers of the companies whose shareholdings will be disposed of and of the entities in which they have a majority stake, provided that they have not been disassociated with just cause,
- Associations of employees or former employees of undertakings whose shareholdings are to be disposed of,
- Workers' unions, federations of workers' unions and confederations of workers' unions,
- Employee funds, mutual investment funds, pension and severance funds,
- Cooperatives and
- Compensation funds, as established by paragraph 2 of Paragraph 3 of Article 16 of Law 789 of 2002.

The participation of the solidarity sector in the sale process is intended to satisfy one of the requirements established by the Political Constitution and by the Law, which is the democratization of shareholder ownership, for which mechanisms that grant wide publicity and free competition will be used.

In order to guarantee effective access by workers, measures can be taken to avoid actions by third parties through interposed persons, including, for example, at the time of formulating the purchase request, requiring the presentation of declarations of the groups that make up the Solidarity Sector, in which they state that they do it for their own benefit and not for a third party, and that if the false statement presented were established, they would be subject to criminal proceedings.

Likewise, the obligation not to dispose of the acquired shares for a period of up to two (2) years could be pointed out, imposing economic sanctions in cases of early resales or transfers of ownership over the acquired shareholdings.

The sales programs that are designed for the recipients of special conditions (solidarity sector) will be subject in any case to the aspects established in articles 10 and 11 of Law 226 of 1995 such as:

- The Solidarity Sector will be offered, first and exclusively, all the shares held by EPM in the companies whose shareholdings will be disposed of.
- A fixed share price equivalent to the price resulting from the valuation shall be fixed.

The estimation of the price at which the stake in the companies to be disposed of would be sold must have as a fundamental criterion to guarantee the protection of the public patrimony in such investments. As indicated, for this purpose, technical studies and recognized valuation methodologies and the disposal structure that optimizes the financial return of each operation will be available in each case.

Once the programs for the disposal of the shares in UNE and INVERTELCO have been approved, the offer would be made to the Solidarity Sector.

## **11 Requirements for the Disposal of Shareholdings Not Registered on the Colombian Stock Exchange**

By way of introduction, it should be noted that the offer of alienation of the Shareholding property of the State referred to in Law 226 of 1995, is part of the parameters that qualify it as a public offer, which is why it requires prior registration in the National Registry of Securities and Issuers (RNVE).

Thus, in order to carry out the public offer of the shares in UNE and INVERTELCO, it is required to carry out the Temporary Registration of the shareholdings in the RNVE since these shares are not registered in the Colombian Stock Exchange.

### **Of the Temporary Registration of Securities**

In accordance with the provisions of Article 5.2.2.2.1 of Decree 2555 of 2010<sup>26</sup>, public or official entities that own shares

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<sup>26</sup> By which the rules on the financial, insurance and securities market sectors are laid down and re-issued and other provisions are laid down.

or bonds convertible into shares that are not registered in the National Registry of Securities and Issuers -RNVE, may go to the Financial Superintendence of Colombia (hereinafter "SFC") to order their registration in the Registry temporarily, in order to be able to dispose of them by means of a public offer for sale in the secondary market.

The aforementioned rule provides as follows:

*"Article 5.2.2.2.1 (Amended by Article 1 of Decree 1523 of September 29, 2016). Temporary registration of securities.*

*Entities of a public or official nature and entities in bankruptcy processes, including those that are in liquidation processes, that own shares or bonds convertible into shares that are not registered in the National Registry of Securities and Issuers - RNVE, may go to the Financial Superintendence of Colombia to order their registration in the Registry temporarily, for the purposes of to be able to dispose of them by means of a public offer for sale on the secondary market.*

*Paragraph 1. In the case of privatization processes or bankruptcy processes, including liquidations, the order to register in the Registry on a temporary basis referred to in this article, will allow individual owners of shares or bonds compulsorily convertible into shares, to dispose of such securities by means of a public offer for sale in the secondary market, jointly within the process of privatization or disposal, as the case may be, in accordance with the regulation issued for that purpose.*

*Paragraph 2. The temporary registration of securities will have a maximum validity of six (6) months, **unless it is related to shares or convertible bonds in state-owned shares on which a privatization process has been initiated. that is, from the approval of the disposal program or the beginning of the sales plan that is established. case in which the registration will be in force until the end of the same, or until the expiration of the term that has been foreseen for the disposal in the respective program.***

*Paragraph 3. For the purposes of this article, the term privatization shall be understood as the alienation of state shareholding property in accordance with the provisions of Article 226 of 1995, as well as the alienation of*



*shares or bonds compulsorily convertible into shares of public financial institutions, in accordance with the terms of Title 1 of Book 36 of Part 2 of this Decree and, in general, shall be understood as the disposal of shares or bonds compulsorily convertible into shares through any other legally authorized procedure."* (Italics, bold, and underlined outside original text)

Once the observance of the criteria of preference that may arise is accredited, as prescribed in article 3 of Law 226 of 1995, and the ownership of the securities, the SFC will order the issuing entity (through the owner of the shareholdings in UNE and INVERTELCO) to provide the information that is necessary for the purposes of the registration of the respective securities in the National Registry of Securities and Issuers - RNVE.

Once the evaluation of the requirements for registration has been completed, the SFC will order the temporary registration of the securities in the National Securities and Issuers Registry - RNVE<sup>27</sup>, which will be understood to be carried out solely and exclusively for the purposes of carrying out the subsequent public offer of sale. Consequently, after the deadline to carry out the sale operation, the registration will be extinguished.

Finally, it should be specified that the temporary registration of shares or bonds convertible into shares in the RNVE will not imply their automatic registration on a stock exchange, without prejudice to the fact that they can be registered there to carry out the corresponding public offer for sale through the mechanisms authorized for this purpose, under conditions of free competition, publicity, transparency and adequate price formation.

## **12 Elements to be considered in the event of possible proposals to amend the Draft Agreement**

### **12.1 Against the allocation of resources**

Article 4 of Law 226 of 1995 orders that "... *The resource of the balance sheet in which the product of this disposal is constituted, will be incorporated into the budget to which the respective owner belongs to comply with the development plans ...*". Therefore, the resources for the disposal of the shares of UNE e Invertelco, which are in the assets of EPM, must be paid directly to the

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<sup>27</sup> Pursuant to paragraph 3 of paragraph A of Article 11.2.1.4.50 of Decree 2550 of 2010, it is the responsibility of the Delegated Superintendent for Issuers and Other Agents to authorize the registration of securities in the National Registry of Securities and Issuers, or RNVE.

budget of the company and it will be the latter who, in exercise of its autonomy, decides on the allocation of the resources received.

## **12.2 Against the use of EPM resources in projects other than the Investment Plan**

- a) Agreement 12 of 1998, by means of which the Statutes of EPM are adopted, prescribes that EPM is an entity with administrative and financial autonomy and its own assets, in line with the provisions of article 85 of Law 489 of 1998; additionally, article 27.5 of Law 142 of 1994 establishes as a rule that "The authorities of the territorial entities, without prejudice to the powers assigned by the Law, they will guarantee to the official companies of public services, the exercise of their administrative autonomy and the continuity in the managerial management that demonstrates effectiveness and efficiency... ". The Draft Agreement could not, therefore, instruct anything contrary to the autonomy of EPM, nor against its budgetary rules, much less instruct that its budget be allocated in projects or plans of the Mayor's Office of Medellín.
- b) As for the corporate purpose of EPM, the use of resources must comply with the provisions of article 18 of Law 142 of 1994, which establishes that "*The purpose of the Public Services Company is to provide one or more of the public services to which this Law applies, or to carry out one or more of the complementary activities, or one and the other.*" To this extent, EPM cannot allocate resources that are its own to run other programs, such as the Mayor's Office of Medellín.

## **12.3 Against subsidies or creation of tariff stabilization funds**

- a) It is important to bear in mind that any regulatory provision related to subsidies in public household services must be analyzed in the light of the prohibition brought by article 27.1 of Law 142 of 1994<sup>28</sup>. Similarly, articles 5 and 99 of the same law, which develop article 368

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### **2s ARTICLE 27. SPECIAL RULES ON THE PARTICIPATION OF ENTITIES**

**PUBLIC.** The Nation, the territorial entities, and the decentralized entities of any administrative level that participate in any capacity in the capital of the public service companies, are subject to the following special rules:

27.1. They may not grant or receive from companies' privileges or subsidies other than those specified in this Law.

(... )

of the COP, define the competence of the municipalities in terms of the provision of public services and the way of granting subsidies (ceilings, values and competences).

- b) Public service providers are prohibited from engaging in practices restricting competition, including the charging of tariffs that do not cover the costs of operating a service and the provision free of charge or at prices or rates below cost, of services additional to those covered by the tariff; this, in accordance with the provisions of article 34 of Law 142 of 1994, as well as those contained in article 98 of the same law 142. The Council should not propose measures to EPM that could make it incur legal risks.

#### **12.4 Faced with issues other than the subject matter of the Draft Agreement**

It is necessary that the Council of Medellín preserve the "Matter Unit" of the Draft Agreement and avoid risks of legality to it, that is, preventing it from referring to issues other than those regulated by it, such as the creation of funds for social programs of the Municipality of Medellín, or the allocation of the resources that the Municipality of Medellín will obtain via EPM transfers, or in general to budgetary issues or those of EPM's autonomy. All this in line with what is regulated in article 72 of Law 136 of 1994 and article 104 of Agreement 089 of 2018 (Internal Regulations of the Council of Medellín).

With regards to the Principle of Unity of Matter set forth in article 158 of the Political Constitution<sup>29</sup>, the Council of State<sup>30</sup> pronounced itself as follows: *"Let the principle of Unity of Matter be the first sign/arch, in its most general meaning, it means that all the provisions that make up a draft general, impersonal and abstract legal act (for example: the Law, the Departmental Ordinance or the Municipal or District Agreement) emanating from a collegiate corporation of popular election (Congress, Assemblies and Councils), must keep conceptual correspondence with its thematic nucleus, which, in turn, is deduced from the title of the same"*. For its part, the Constitutional Court<sup>31</sup> defines the Matter Unit as the principle

<sup>29</sup> Article 158: "Every bill must relate to the same subject matter and provisions or amendments that do not relate to it shall be inadmissible... " .

<sup>30</sup> Council of State, Administrative Litigation Chamber, First Section, Counselor Speaker: Maria Elizabeth García González, Bogotá, D.G., eighteen (18) of July of two thousand and thirteen (2013), file number: 70001-23-31-000-2005-00832-01, Actor: Enrique Carlos Román Estrada, Defendant: Municipal Council of San Benito Abad - Sucre.

<sup>31</sup> SENTENCE C-204 OF 2016 of the Constitutional Court, Full Chamber, Actor: José Alfredo Salamanca Avila. Judge Rapporteur: Alejandro Linares Cantillo. April 27, 2016

according to which all the provisions of a law are causal, teleological, thematic or systemic in connection with the main subject matter of the law.

### **13 Conclusion and Recommendation**

UNE e Invertelco are considered as non-strategic investments for the EPM Group, because the telecommunications, contact center and BPO business line does not belong, at present, to the strategic businesses of the EPM Group.

When EPM made the decision to merge UNE EPM Telecomunicaciones S.A. with Millicom, ceding operational and financial control, among the most important reasons was the level of risk of this business, which does not fit the current risk profile of EPM or its owner. This level of risk is reflected, among others, in high investment requirements, need for business and market knowledge, intensive competition against global players and the need for economies of scale for business competitiveness.

Different factors exposed above lead to the fact that, in the current state of the Company, the cash requirements are high, which directly affects the distribution of dividends, so the best way to recover the investment is through divestment in these assets. What is intended with the sale of the shares of UNE and Invertelco is precisely to recover the value invested in those companies, which are not controlled or managed by EPM, to reinvest the resources from the sale in the strategic businesses of EPM, therefore, the public patrimony is not the asset itself, but the resources that are invested in that asset, then, what we would be doing is changing the destination of those resources towards assets associated with the provision of household public services that have greater profitability for EPM.

EPM as a public company is not the best owner for a company in the conditions of competition, such as UNE and INVERTELCO, because it not only slows down its processes by keeping it public but in the event of requiring a capitalization, EPM may not have resources available to do so, and in the case of having them, nor would it be advisable to increase the exposure of more public resources in companies with the risk profiles of UNE or INVERTELCO, having the possibility of investing them in strategic businesses with the level of risk acceptable to EPM.

The authorization that is requested from the Honorable Council to activate the clause of protection of public assets in favor of EPM, in order to protect the value of the public investment it has in UNE EPM Telecomunicaciones S.A. and in

Inversiones Telco S.A.S., is based, in short, on the reduction of the exposure of public resources to the level of risk of the telecommunications industry, contact center and BPO, to the need to have financial resources to continue with the Infrastructure Investment Plan, cover part of the \$7.3 billion pending management in the cash flow of EPM Parent Company, and to guarantee the correct provision of public services and the sustainability of the company over time.

It is relevant to consider that the current Draft Agreement contains a regulatory proposal regarding the allocation of the resources that EPM would obtain from the disposal of its shareholdings in UNE e Invertelco, which, in the first place, gives development and compliance with the instruction of Article 4 of Law 226 of 1995 so that they enter the EPM budget; secondly, it raises the way in which EPM guarantees the monitoring and traceability of the use of resources; thirdly, it describes and commits the specific allocation that EPM could give to its resources, that is, its Investment Plan, since the objective of EPM is to be able to count on such resources without having to go out and look for them through debt, and invest them in what its corporate purpose allows; and finally, there is total transparency in the use of resources to the point of allowing a Council commission to receive the reports of the auditor in charge of certifying the use of the resources resulting from the sale of EPM's shareholdings in UNE EPM Telecomunicaciones S.A. and Inversiones Telco S.A.S.

EPM reiterates that it is and will be a 100% public company, and the sale of the shareholdings that is now proposed does not correspond to a privatization of EPM, which has not been considered by its owner (Mayor's Office of Medellín) and its Board of Directors.

In the same sense, it is also advisable to sell the Share held by INDER in UNE EPM Telecomunicaciones S.A., since its initial participation was as a facilitator to allow the plurality of decentralized public shareholders of the Municipality of Medellín, which makes such Action not strategic or relevant for INDER, and therefore EPM's arguments are also applicable to the divestment of INDER.

Finally, in coherence with the requested authorization, and based on the assumption that the company UNE EPM Telecomunicaciones S.A. will no longer have the *"majority participation of the decentralized entities of the Municipality of Medellín"* as required by Agreement 17, it is recommended that this Municipal Agreement be repealed considering the provisions of Article 5 of the Draft

Agreement, to the extent that this and the other criteria thereof would not make sense or be applicable to the Company.

Finally, it is appropriate to insist that the Municipal Administration is assisted by the deepest conviction that, if the sale is not given within the estimated period to exercise the Right of Exit, the consequences would be deplorable, and would be not only for EPM, due to the impacts that we have extensively exposed, but also for the city, because resources that by their nature are destined to improve the quality of life of its inhabitants, would be trapped, with the consequent demerit of the heritage that belongs to the citizens. To enable the timely sale of shareholdings is to materialize the principles of Planning, Efficiency and Economy, which must inspire all public action.

The responsible thing for us is, therefore, to go back to the Honorable Council with the draft agreement that will safeguard the public assets invested in these companies. This is the time to do it. Time is pressing and it is in favor of Millicom. With each passing day, it weakens EPM's position in companies. We do not want to go down in history as the municipal administration that did not realize this reality, but as the one that warned it with total conviction, thinking about the good of its citizens.

**ALEJANDRO ARIAS GARCIA**  
**Interim Mayor of Medellín**