

**Empresas Públicas de Medellín E.S.P.
Consolidated Financial Statements
As of September 30, 2012**

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Empresas Públicas de Medellín E.S.P.
Consolidated Balance Sheet
As of September 30, 2012 and December 31, 2011
(Figures in millions of Colombian pesos)

Assets	Misc.	2012	2011	Liabilities	Misc.	2012	2011
Current		5.411.397	5.945.119	Current		3.166.982	3.438.745
Cash	10	937.520	961.755	Public credit operations	20	505.466	452.508
Investments for the management of liquidity	11	1.807.185	2.218.248	Hedging transactions	21	72.594	58.930
Receivables, net	12	2.415.803	2.525.247	Accounts payable	22	1.487.033	1.865.739
Inventory, net	13	200.077	205.824	Taxes, assessments, and fees payable	23	558.578	677.399
Expenses paid in advance	14	50.173	32.394	Labor obligations	24	186.308	125.950
Other Assets	18	639	1.651	Pension obligations and pension switching	25	139.081	68.940
				Estimated liabilities	26	15.065	8.954
				Other liabilities	27	202.857	180.325
Non-current		28.487.669	28.090.774	Non-current		9.320.385	9.596.112
Investments for the management of liquidity	11	61.768	66.516	Public credit operations	20	6.426.766	6.522.385
Equity investments, net	15	505.643	505.917	Hedging transactions	21	82.705	124.768
Receivables, net	12	757.110	727.129	Accounts payable	22	211.239	200.731
Property, plant, and equipment, net	16	13.796.816	13.489.367	Taxes, assessments, and fees payable	23	212.437	323.604
Actuarial financial reserve	17	735.990	716.148	Labor obligations	24	66.942	67.379
Other Assets	18	2.491.020	2.329.945	Pension obligations and pension switching	25	1.184.298	1.225.010
Valuations	19	10.139.322	10.255.752	Estimated liabilities	26	302.963	325.999
				Other liabilities	27	833.035	806.236
				Total Liabilities		12.487.367	13.034.857
				Minority Interest	37	1.066.449	1.107.612
				Equity (see attached financial statements)		20.345.250	19.893.424
Total Assets		33.899.066	34.035.893	Total liabilities and equity		33.899.066	34.035.893
Memorandum accounts receivable	30	8.330.928	8.546.660	Memorandum accounts receivable	30	6.481.525	6.028.541

JUAN ESTEBAN CALLE RESTREPO
 General Manager
 Certification attached

DIANA RUA JARAMILLO
 Institutional Finance Director(E)

CARLOS MARIO TOBÓN OSORIO
 Accounting Sub-director
 P.C. 62449-T
 Certification attached

Empresas Públicas de Medellín E.S.P.
Consolidated Statement of Financial, Economic, Social, and Environmental Activity
For the period between January 1 and September 30 of 2012 and 2011
(Figures in millions of Colombian pesos)

	Misc.	2012	2011
Operating Revenues, Net	31	9,404,653	8,505,445
Costs for providing services	32	(5,765,402)	(5,097,422)
Costs for depreciation, allowances, and amortization	33	(812,410)	(585,982)
Gross surplus		2,826,841	2,822,041
Administrative expenses	34	(713,060)	(657,549)
Expenses for depreciation, allowances, and amortization	33	(240,349)	(257,745)
Operating surplus		1,873,432	1,906,747
Non-operating revenue, net	35	625,248	421,448
Non-operating expenses, net	35	(659,840)	(574,774)
Non-operating surplus		(34,592)	(153,326)
Surplus before taxes		1,838,840	1,753,421
Allowance for Income Tax	23	(455,924)	(498,469)
Net surplus before minority interest		1,382,916	1,254,952
Minority Interest		(67,116)	(70,658)
Net surplus		1,315,800	1,184,294

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Empresas Públicas de Medellín E.S.P.
Consolidated statement of changes in equity
As of September 30, 2012 and December 31, 2011
(Figures in millions of Colombian pesos)

	Capital City	Surplus for donations	Reserves (Note 28)	Retained utilities not appropriated (Note 29)	Revaluation of Equity	Adjustment for conversion	Surplus from Valuations	Total
Balance as of December 31, 2010	67	113.392	3.193.028	3.824.179	2.963.843	(171.216)	8.452.066	18.375.359
Appropriation of reserves			376.985	(376.985)				-
Increase of valuations							(263.427)	(263.427)
Surpluses delivered to the Municipality								-
Special paid surpluses								-
Changes during the year					(159.022)			(159.022)
Net surplus for the year				901.450				901.450
Balance as of September 30, 2011	67	113.392	3.570.013	4.348.644	2.804.821	(171.216)	8.188.639	18.854.360
Balance as of December 31, 2011	67	114.319	3.570.014	4.915.872	2.437.797	55.908	8.799.447	19.893.424
Appropriation of reserves			9.626	(9.626)				-
Increase of valuations							(76.156)	(76.156)
Surpluses delivered to the Municipality				(738.095)				(738.095)
Changes during the year						(49.723)		(49.723)
Net surplus for the year				1.315.800				1.315.800
Balance as of September 30, 2012	67	114.319	3.579.640	5.483.951	2.437.797	6.185	8.723.291	20.345.250

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Empresas Públicas de Medellín E.S.P.
Consolidated cash flow statement
For the period between January 1 and September 30 of 2012 and 2011
(Figures in millions of Colombian pesos)

	2012	2011
Cash flows from operational activities		
Surpluses for the period	1.315.457	1.184.294
Changes in items that do not involve cash		
Deferred income tax	(38.692)	52.743
Depreciation, amortization, and allowances	950.800	669.518
Actuarial Valuation	101.954	122.112
Adjustments for conversion	(49.723)	-
Minority Interest	67.116	51.721
Other non-cash revenues and expenses	(354.381)	(112.743)
Changes in operating items		
Changes in accounts receivable	29.454	(536.113)
Changes in inventories	3.263	(22.508)
Changes in other assets	(16.767)	412.950
Changes in accounts payable	(665.713)	172.392
Changes in third-party collections and other liabilities	1.039	383.858
Changes in labor obligations	37.120	67.024
Net cash flows from operating activities	1.380.927	2.445.248
Cash flows from investment activities		
Investments in assets and infrastructure	(1.127.761)	(907.737)
Investment in subsidiaries and associated companies	-	(496.784)
Other Assets	(118.822)	(551.637)
Net cash flows from investment activities	(1.246.583)	(1.956.158)
Cash flows from financing activities		
Disbursements of public credit and treasury	1.047.327	1.103.280
Capital amortizations	(828.874)	(708.886)
Payments of surpluses to the Municipality of Medellín	(788.095)	(747.500)
Net cash flows from financing activities	(569.642)	(353.106)
Net (decrease) increase of cash and cash equivalents	3.180.003	2.609.435
Cash and cash equivalents at the beginning of the period		
Cash and cash equivalents at the end of the period	2.744.705	2.745.419

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Empresas Públicas de Medellín E.S.P.
Notes to the Consolidated Financial Statements
At September 30, 2012 and 2011
Amounts expressed in millions of Colombian pesos

General notes

Note 1 Legal nature, corporate objective and business activities

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

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

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

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

The Company may also:

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

- In general, perform the activities that comprise its corporate objective or any others that are considered necessary to achieve its purpose.

Grupo EPM provides its services through three Strategic Business Groups:

- Water Strategic Business Group
 - Water services
 - Wastewater services
- Energy Strategic Business Group
 - Energy generation
 - Distribution and commercialization of electricity to end-users (including ownership of part of the Colombian high-voltage electrical system)
 - Distribution and commercialization of natural gas
- Telecommunications Strategic Business Group
 - Voice
 - Connectivity
 - Internet
 - Professional services
 - Data center
 - Active Service Pages -ASP-
 - Training
 - Government solutions

EPM Group Structure

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

Company	Location	Social purpose	Percentage participation		Creation date
			2012	2011	
EPM Inversiones S.A.	Medellín	To invest capital in domestic or foreign public utilities companies.	99.99%	99.99%	August 25, 2003
UNE EPM Telecomunicaciones S.A.)	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.99%	99.99%	June 29, 2006
UNE EPM Bogotá S.A. (e)	Bogotá	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.88%	99.88%	June 11, 1997
Emtelco S.A.	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.93%	99.93%	July 21, 1994
EdateL S.A. E.S.P.	Medellín	To provide telecommunications, information technology and communications services; information services and complementary activities.	56.00%	56.00%	December 17, 1969
Empresa de Telecomunicaciones de Pereira S.A. (ETP)	Pereira	To provide telecommunications, information technology and communications services; information services and complementary activities.	56.14%	56.14%	May 16, 1997
Cinco Telecom Corporation (CTC)	Miami	To provide telecommunications, information technology and communications services; information services and complementary activities.	100.00%	100.00%	December 24, 2001
Orbitel Comunicaciones Latinoamericanas S.A.U. (OCL)	Madrid	To provide telecommunications, information technology and communications services; information services and complementary activities.	100.00%	100.00%	July 22, 2003

Company	Location	Social purpose	Percentage participation		Creation date
			2012	2011	
Orbitel Servicios Internacionales S.A. (OSI)	Rionegro	To provide telecommunications, information technology and communications services; information services and complementary activities.	99.99%	99.99%	June 27, 2003
Aguas Nacionales EPM S.A. E.S.P.	Medellín	To provide services of residential public utilities of water, sewage and cleaning, and treatment and use of wastes, complementary activities, and engineering services corresponding to the aforementioned public utilities.	99.99%	99.99%	November 29, 2002
Aguas de Urabá S.A. E.S.P.	Apartadó	To ensure the provision of public utilities of water, sewage and cleaning, and offset the lag of the infrastructure of these services in partner municipalities.	63.42%	66.55%	January 18, 2006
Empresas Públicas de Oriente S.A. E.S.P.	Rionegro	To provide water and sewage services to rural and suburban areas in the Municipalities of Envigado, Rionegro and El Retiro, in Valle de San Nicolás.	58.33%	58.33%	November 12, 2009
Empresa de Aguas del Oriente Antioqueño S.A. E.S.P.	El Retiro	To provide residential public utilities of water and sewage, as well as other complementary activities particular to each of these public utilities.	56.01%	56.00%	November 22, 1999
Regional de Occidente S.A. E.S.P.	San Jerónimo	To provide residential public utilities of water, sewage and cleaning, as well as other complementary activities particular to each of these public utilities, and the treatment and use of wastes.	62.11%	62.01%	December 26, 2006
Aguas de Malambo S.A. E.S.P. (C)	Malambo	To ensure the provision of the public utilities of water, sewage and cleaning in the jurisdiction of the Municipality of Malambo, in the Department of Atlántico.	83.72%	47.77%	November 20, 2010
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	Armenia	To provide public utilities of electricity; purchase, sale and distribution of electricity; activities to be developed through the implementation of policies, plans, programs and projects related to power distribution and commercialization, and its administration, management and use, pursuant to regulations, standards and guidelines issued by the MME, thus primarily complying with the social function comprising such activity.	92.85%	92.85%	December 22, 1988
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)	Manizales	To provide essential public utilities of energy, mainly the exploitation of electric generating plants, transmission and sub-transmission lines, and distribution networks; purchase, sale and distribution of electricity; construction or acquisition of electric power plants, substations, transmission lines, distribution networks and, in general, all kinds of facilities related to the production, purchase and sale of electricity, and the commercialization, import, distribution and sale of electricity.	80.10%	80.10%	September 9, 1950
Electrificadora de Santander S.A. E.S.P. (ESSA)	Bucaramanga	To provide public utilities of electricity; purchase, sale and distribution of electricity; activities to be developed through the implementation of policies, plans, programs and projects related to energy distribution and commercialization, and its administration, management and use, pursuant to regulations, standards and guidelines issued by the MME, thus primarily complying with the social function comprising such activity.	73.86%	73.77%	September 16, 1950
Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS)	Cúcuta	To provide public electricity by developing, among other operations, those as follows: purchase, export, import, distribution and sale of electricity and other power sources; construction and operation of central power stations, generating plants and energy substations; and construction and operation of transmission and sub-transmission lines, and distribution networks.	91.52%	91.52%	October 16, 1952
EPM Ituango S.A. E.S.P.	Medellín	To fund, build, operate, maintain and exploit the Ituango hydroelectric plant and its return to Sociedad Hidroeléctrica Ituango S.A. E.S.P. to terminating the contracts entered into with it.	99.56%	-	March 31, 2011
Comercializadora Energética Nacional Colombiana S.A. E.S.P. en Liquidación (CENCOL) (a)	Bucaramanga	To commercialize the electric power public utility.	95.00%	95.0%	November 26, 2004
Hidrocológica del Teribe S.A. (HET)	Ciudad de Panamá	To fund the construction of the Bonyic hydroelectric project to meet the growing demand of power from the Isthmus of Panama.	96,63%	96.63%	November 11, 1994

Company	Location	Social purpose	Percentage participation		Creation date
			2012	2011	
Maxseguros EPM Ltd. (antes EPPM RE Ltd)	Bermudas	To negotiate, contract and manage reinsurances for policies protecting equity.	100.00%	100.00%	April 23, 2008
Panama Distribution Group S.A. (PDG) (b)	Ciudad de Panamá	To invest capital in companies.	100.00%	-	October 30, 1998
Elektra Noreste S.A. (ENSA) (b)	Ciudad de Panamá	To acquire energy in blocks and transport it to customers through the distribution networks; transform related voltage; deliver energy to consumers; install, operate and maintain street lighting in the concession area. In addition, the Company is authorized to conduct activities of energy generating to a limit of 15% of the peak demand, and energy in the concession area.	51.00%	-	January 19, 1998
Gestión de Empresas Eléctricas S.A. (GESA)	Ciudad de Guatemala	To provide advice and consultancy to distribution, generation and transmission electricity companies.	100.00%	100.00%	December 17, 2004
Distribución Eléctrica Centroamericana DOS S.A. (DECA II)	Ciudad de Guatemala	To invest capital in companies engaged in the distribution and commercialization of electricity, and in the provision of telecommunications services.	100.00%	100.00%	March 12, 1999
Empresa Eléctrica de Guatemala S.A. (EEGSA))	Ciudad de Guatemala	To distribute power.	80.90%	80.90%	October 5, 1939
Almacenaje y Manejo de Materiales Eléctricos S.A. (AMESA)	Ciudad de Guatemala	To provide outsourcing services to the materials administration area.	100.00%	100.00%	March 23, 2000
Inmobiliaria y Desarrolladora Empresarial de América S.A. (IDEAMSA)	Ciudad de Guatemala	To invest in real state.	80.90%	80.90%	June 15, 2006
Comercializadora Eléctrica de Guatemala S.A. (COMEGSA)	Ciudad de Guatemala	To commercialize energy.	80.90%	80.90%	November 5, 1998
Transportista Eléctrica Centroamericana S.A. (TRELEC)	Ciudad de Guatemala	To commercialize energy.	80.90%	80.90%	October 6, 1999
Enérgica S.A. (ENÉRGICA))	Ciudad de Guatemala	To build and maintain projects and goods for energy sector.	80.90%	80.90%	August 31, 1999
Crediegsa S.A. (CREDIEGSA)	Ciudad de Guatemala	To provide personnel hiring and other administrative services.	80.88%	80.88%	December 1, 1992
Generadores Hidroeléctricos S.A. (Genhidro)	Ciudad de Guatemala	To develop, design, build, operate and maintain hydroelectric projects.	51.00%	51.00%	November 20, 2006
Hidronorte S.A.	Ciudad de Guatemala	To generate and transmit electricity.	97.00%	97.00%	October 2, 1992
Mano de Obra S.A. (MOSA)	Ciudad de Guatemala	To provide personnel hiring and other administrative services.	100.00%	100.00%	June 8, 1992
Hidroeléctrica del Río Salá (HIDROSALA)	San Pablo	Hydroelectric project under development.	100.00%	100.00%	June 24, 2008
AEI Holding (b)	Caimán	To invest capital in the companies.	100.00%	-	May 17, 2007
Distribuidora de Electricidad del Sur (Delsur) (b)	El Salvador	To transform, distribute and commercialize electricity, supplying energy to the Center-South of El Salvador, in Central America.	86.41%	-	November 16, 1995
Electricidad de Centroamérica Ltda. de C.V. (ELCA) (b)	Santa Tecla	To invest in shares and other securities, and provide advice to Delsur.	100.00%	-	December 9, 1997
PPLG El Salvador II (b)	Caimán	To invest capital in the companies.	100.00%	-	April 9, 1999
Innova Tecnología y Negocios S.A. de C.V. (b)	El Salvador	To provide services specialized in electric engineering and electrical appliances sale to electricity users of Delsur.	100.00%	-	October 19, 2010
EPM Capital México S.A. de C.V. (d)	México	To develop infrastructure projects related to energy, electricity, gas, telecommunications, water treatment plants, sewage treatment plants, and the operation, studies and services related with utilities.	100.00%	-	May 4, 2012
CENS Inversiones S.A. (f)	Cúcuta	To invest in companies organized as utilities in the energy sector, as well as those entities that have their object related to the complementary activities identified in Act 142 of 1994, or in the rules that complement it.	91.52%	-	August 24, 2012

(a) Company in liquidation since October 2010; therefore, it is not consolidated since such date.

(b) Company acquired in February 2011, see [Note 8 - Section 8.1.1.](#)

- (c) Company on which a shareholders' agreement was signed with the purpose of capitalizing 84.99%, see [Note 8 – Section 8.1.2.](#)
- (d) Company created in May, 2012 in Mexico, see Note 8 – Section 8.1.3
- (e) Company was merged by UNE Telecommunications as of June 30, 2012, see Note 8 – Section 8.1.4.
- (f) Company created in August, 2012 by the split up of Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS), see Note 8 – Section 8.1.5.

Note 2 Legal framework and regulation

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

2.1 Regulations for Colombia

2.1.1 General aspects

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

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

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

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

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

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

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

Furthermore, Act 489 of 1998 included public utilities state companies as decentralized entities, and noted that such entities were subject to this Act and provisions of Act 142 of 1994 and the regulations complementing, replacing or adding them.

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

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

2.1.2 Regulatory commissions

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

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

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

2.1.3 Tariff system

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

Entities that provide public utilities must adopt the formulas defined from time to time by the corresponding Regulatory Commission in order to establish the tariffs for their

specific situation. The Regulatory Commission may establish tariff limits that are mandatory for the companies, and the methodologies to determine the tariffs and convenience to apply the autonomous or the regulated freedom system, according to the market conditions.

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

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

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

2.1.4 Regulation by sector

2.1.4.1 Potable water and basic sanitation

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

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

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

For each utility, pricing includes the following components:

2.1.4.1.1 Water supply

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

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

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

2.1.4.1.2 Basic sanitation service

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

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

2.1.4.1.3 Subsidies and contributions

In the potable water and basic sanitation services, the balances between contributions and subsidies are computed according to Decrees 1013 of 2005 and 4715 of 2010, which defined, on the hand, the methodology for the balance between the contributions from different sources and the subsidies for socioeconomic levels 1, 2, and 3; and, on the other hand, the creation of a common pool of contributions for the municipalities that are served by the same service provider. According to the latter, these contributions are distributed among the municipalities according to the percentage that each municipality assigns to cover the subsidies, and to the demand for total resources required to cover the subsidies.

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

2.1.4.2 Electricity sector

2.1.4.2.1 General considerations

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

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

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

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

2.1.4.2.1.1 Activities of the electricity sector

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

Generation: production of electrical energy by using a hydraulic plant or a thermal unit connected to the SIN, whether that activity is exclusive or is combined with other activities in the electricity sector, no matter what the company's main activity is.

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

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

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

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

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

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

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

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

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

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

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

2.1.4.2.2 Energy generation

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

The following are also part of the system:

1. **Smaller plants:** those with installed capacities less than 20 MW. The regulations applicable to commercial transactions carried out by these agents are found in Resolution CREG 086 of 1996.
2. **Self-generators:** individuals or legal entities that produce electricity only to meet their own needs. They use the public network only to obtain backup from the SIN (Resolution CREG 085 of 1996).
3. **Co-generators:** individuals or legal entities that produce energy using a cogeneration process (Resolution CREG 05 of 2010).

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

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

The implementation of Resolution CREG 71 of 2006 includes a transition period between December 1, 2006 and November 30, 2012. During this time, both the mechanism to assign the reliability charge and the definition of price are centrally managed. During this transition the price of OEF is 13.045 USD/MWh (USD of 2006) both for existing plants and the allocations made to special plants or existing with works during this period. Such price is updated every year according to the Producer Price Index of the United States for capital goods.

Between November 30, 2012 and November 30, 2015, the OEF price will be 13.99 USD/MWh (USD of 2008) and correspond to the OEF assigned through the first auction that took place on May 6, 2008. This value applies both to existing plants and OEF assigned by this auction on new plants. As from December 1, 2015, the reliability charge will amount to 15.7 USD/MWh (USD of 2011), and will be applied both to existing plants and OEF assigned by the auction held on December 27, 2011.

2.1.4.2.3 Energy transmission

2.1.4.2.3.1 General aspects of current regulations

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

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

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

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

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

2.1.4.2.3.2 Expansion of the STN

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

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

2.1.4.2.4 Distribution

Distribution corresponds to the transportation of electricity over the Local Distribution System (from the Spanish *Sistema de Distribución Local - SDL*) or the Regional Transmission Systems (from the Spanish *Sistema de Transmisión Regional - STR*). This activity is carried out by Network Operators (from the Spanish *Operadores de Red - OR*), who are in charge of planning the expansion, investments, operation and maintenance of

all or part of a STR or SDL. Although ORs have priority in the system expansion, assets may be owned by them or by third parties.

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

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

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

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

- The remuneration methodology for voltage level 4 corresponds to regulated revenue; for levels 3, 2 and 1, the methodology corresponds to a maximum price. In the first case, certain revenue is guaranteed to the OR, regardless the demand's behavior; in the second case, a maximum charge is guaranteed but with the associated demand risk.
- Distribution charges for each voltage level are computed as the quotient between the annuity of the assets and AOM, and the energy transported of the base year (which is 2007 for the current tariff period). For assets, the regulator defines construction units (physical quantity) and values them at new replacement costs; the AOM are computed by taking into account the actual AOM of the company and the service quality evolution of the preceding year. The regulator also defines the value of the WACC, which is a discount rate used to determine assets annuity. The energy transported includes some efficient energy losses which are also defined by the regulator.
- Once the methodology has been defined, the distribution charges by voltage level of each OR receive approval through an independent resolution. EPM's distribution charges were approved through Resolutions CREG 105 of 2009 and 026 of 2010 (the latter Resolution was the result of an appeal filed by EPM).

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

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

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

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

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

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

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

2.1.4.2.4.2 Quality of the electrical energy service

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

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

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

- If the OR fails to reach the goal, that is, performs worse than expected, its distribution charge is decreased (negative incentive).

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

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

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

2.1.4.2.5 Commercialization

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

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

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

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

2.1.4.2.5.1 Tariff structure

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

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

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

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

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

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

- Tariffs for users in socioeconomic levels 1 and 2: according to the provisions of Act 1117 of 2006, prorogated by Act 1428 of 2010, tariffs for subsistence consumption (users less than 131 kWh per month) can have a maximum monthly increase equal to inflation. This means that when the cost of providing the service increases more than inflation, the difference becomes a greater subsidy for the users. The percentage of subsidy is limited to 60% and 50% for socioeconomic levels 1 and 2, respectively.
- Tariff for users in socioeconomic level 3: users receive a subsidy equivalent to 15% of the cost of the service provision.
- Tariffs for socioeconomic levels 5 and 6, industry and commerce: users pay a contribution of 20% above the cost of providing this service which goes to pay for the subsidies given to socioeconomic levels 1, 2, and 3.

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

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

may take any steps necessary to have the users pay for the total cost of providing the service.

2.1.4.3 Natural gas sector

2.1.4.3.1 General considerations

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

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

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

2.1.4.3.2 Activities of the sector

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

2.1.4.3.2.1 Commercialization starting with production - supply of natural gas

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

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

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

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

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

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

The commercialization of gas during the transition period, 2012 and 2013, is made by using two allocation mechanisms: auctions and bilateral negotiations for the gas coming from free-price fields, depending on the relationship between supply and demand. In the case of gas from fields with regulated maximum price, the allocation is done by following the priority order established in Decree MME 2100 of 2011.

2.1.4.3.2.2 Transport of natural gas

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

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

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

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

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

Natural gas transport contracts are governed by different types of agreements, such as: Firm contracts (take or pay), interruptible contracts, and occasional contracts. The

natural gas transport market is a bilateral market characterized by direct negotiations between the parties –the transporter and the sender- and transactions autonomous completion.

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

Transport charges applied to carry the gas to Valle de Aburrá are established in Resolutions CREG 114 of 2001, for the gas pipeline of Transmetano S.A., and 125 of 2003, for the gas pipelines of TGI S.A. These are expected to change soon, after the Commission approves the transport charges for these pipelines as provided in Resolution CREG 126 of 2010.

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

2.1.4.3.2.3 Distribution and commercialization of natural gas through pipelines networks

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

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

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

For areas with nonexclusive service, as is the case for EPM, the CREG defined in Resolution CREG 011 of 2003 the general criteria to remunerate the fuel gas distribution and commercialization activities, and the general tariff formulas for the provision of the residential public utility of fuel gas distribution over pipelines. That Resolution was updated by the CREG according to the methodology basis published in Resolution CREG 136 of 2008, and projects of Resolution CREG 178 of 2009 and 103 of 2010.

Natural gas distribution is considered a natural monopoly with regulated price, quality and access. The methodology corresponds to a maximum price remunerated by using a tariff basket applied, based on the charges approved with average costs computed in the medium term, which take into consideration: basic investment, projected five-year expansion, AOM expenses, and associated demand. A rate for the cost of capital invested is also included.

The average distribution charge (Dm) is transferred to the market using the Tariff Basket method, applied according to six usage ranges, with a ceiling price of 110% and a floor charge equal to the average cost of the intermediate pressure network.

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

- Resolution CREG 087 of 2004 for the relevant market comprised by the ten municipalities located in Valle de Aburrá.
- Resolution CREG 126 of 2008 for the relevant market comprised by the Municipality of La Ceja del Tambo.
- Resolutions CREG 055 and 080 of 2009 for the relevant market comprised by the Municipality of El Retiro.
- Resolutions CREG 054 and 079 of 2009 for the relevant market comprised by the Municipality of La Unión.
- Resolutions CREG 055 and 080 of 2010 for the relevant market comprised by the Municipalities of El Peñol and Guatapé.
- Resolution CREG 074 of 2011 defined the distribution and commercialization charges applicable to the relevant market comprised by the municipalities of Yarumal, Santa Rosa de Osos, Donmatías, Entreríos and San Pedro de los Milagros.
- At present, the publication of the Resolution CREG that adopted commercialization and distribution charges applicable to the relevant market comprised by the Municipality of Sonsón, in Antioquia, is outstanding.
- Resolution CREG 052 of 2007 for the users served in the relevant market comprised by the Municipalities of Guarne, Rionegro, Marinilla and El Santuario.

The commercialization charge (Co) is an amount in pesos per invoice (\$/invoice) which pays for the costs of metering, invoicing, collection, customer service, commercialization margin, and accounts receivable in arrears, among others. Its definition takes into consideration the annual efficient expenses for AOM and the depreciation of the assets associated with the commercialization activity, computed by using the relative efficiency DEA method, a commercialization margin of 1.67% of the gross yearly revenue obtained by the commercializing agent in the regulated market, and the number of invoices per year for which the parameters to compute the AOM and equipment depreciation are used.

The authorized 1.67% commercialization margin is intended to remunerate the operational part of the activity with 1.60% plus a premium of 0.07% for accounts receivable risk.

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

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

Currently, the retail commercialization activity to regulated users in a relevant commercialization market can only be developed by the commercializing agent established, understood as the natural gas distributor who simultaneously develops the commercializing activity of natural gas to regulated users in the same commercialization market.

2.1.4.3.3 Tariff structure

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

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

2.1.4.3.4 Subsidies and contributions regime

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

The provisions that refer to subsidies and contributions are summarized as follows:

- The tariffs for users in socioeconomic levels 1 and 2, according to the provisions of Act 1117 of 2006, prorogued by Act 1428 of 2010, for subsistence usage (usage less than 20 m³ per month), cannot be subject to monthly increases greater than the rate of inflation. This means that when the cost of providing the service increases more than inflation, the difference represents a greater subsidy for the users. The Act set the maximum percent subsidy that can be given to socioeconomic levels 1 and 2 at 60% and 50%, respectively.

- It is important to note that the users of fuel gas in socioeconomic levels 3 and 4 are not eligible for subsidies and, at the same time, are exempt by Law from paying any contribution.
- Socioeconomic levels 5 and 6 contribute with 20% of the cost of the service.
- Commerce and industry contribute with 8.9% of the cost of service, except for the gas-based power generation, the petrochemical industry, and the Natural Vehicular Compressed Gas (from the Spanish *Gas Natural Comprimido Vehicular - GNCV*), whose contribution is 0%.
- Act 1450 of 2011, National Development Plan Act 2010 - 2014, established, in Article 102, that in 2012 industrial users of residential natural gas will not be subject to pay the contribution referred to in paragraph 89.5 of Article 89 of Act 142 of 1994 and that, for purposes of the provisions set in that Article, the National Government will regulate the conditions for providers of residential natural gas to properly control different classes of users. Such regulation was implemented through Decree 4956 of December 30, 2011.
- Act 142 of 1994 made it mandatory to create within the MME a FSSRI that is funded with resources taken from the surplus of commercialization companies after offsetting subsidies and contributions in their own markets. In addition, if the resources from the companies' surplus are not enough to cover the total subsidies granted, the national government puts up the rest from its own budget. Otherwise, public utilities companies may take any steps necessary to have the users pay for the total cost of providing the service.

2.1.4.3.5 Integration of the natural gas sector

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

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

- When these companies, their parents, subordinates or economically related parties are party to a contract to share profits or reduce cost, or in any joint venture with natural gas production, commercialization or distribution companies.
- When the production company owns more than 25% of the capital in the transport company and more than 30% of the capital in a distribution company.
- When the transport company owns more than 25% of the capital in a commercialization or distribution company or in a major consumer of natural gas.

- The transport company may not participate in natural gas commercialization activities, except when it owns shares in a natural gas distribution-commercialization company.

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

2.1.4.3.6 Quality of the natural gas service

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

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

Similarly, in Resolution 100 of 2003, the CREG established the criteria, indicators and targets to measure this quality, and determined the responsibilities and compensations for their non-compliance.

2.1.4.4 Telecommunications sector

The Ministry of Information and Communications Technologies is the body in charge of establishing policies, plans and projects for this sector, as well as managing control and supervision functions on technology networks and services, TIC.

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

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

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

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

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

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

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

2.2 Regulations in Guatemala

2.2.1 General considerations

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

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

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

The principles of the General Electricity Act are as follows:

- The generation of electricity should not be regulated and the generation companies will not be required or have special permits or meet conditions imposed by the government, except for hydroelectric, geothermal and nuclear plants.

- The transmission of electricity should be deregulated, except if the companies have to use public facilities or public roads to carry out the transmission and distribution of the service; and
- The prices of electricity must be freely determined, except for those transmission and distribution services that are subject to regulation.

2.2.2 Regulatory authorities

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

Ministry of Mines and Energy

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

National Electrical Energy Commission (CNEE)

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

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

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

- Define technical rules and performance standards for the electrical sector and ensure compliance with internationally accepted practices.
- Create regulations and rule to guarantee access and use of the transmission lines and distribution networks.

Administrator of the Wholesale Market (AMM)

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

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

The AMM is responsible for:

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

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

2.2.3 Tariff system

2.2.3.1 Distribution tariffs

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

2.2.3.2 Regulated Tariff

Every three months, the CNEE publishes a chart with the tariffs for regulated clients. At present, those tariffs include:

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

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

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

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

capacity on the basis of the maximum amount of capacity demanded during any billing cycle.

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

2.2.3.3 Tariff adjustments

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

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

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

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

After submitting the VAD computed by the consultants to the CNEE, this body decides whether it approves the VAD computed by the consultants. In the event that the VAD is not approved, the controversy is submitted to an arbitration panel that consists of three individuals, one appointed by the distribution company, one appointed by the CNEE, and another appointed by the first two arbitrators. The arbitration panel must decide within the following 60 days.

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

The electricity charge is used to reimburse the distribution company for the cost of electricity that it buys. The electricity charge component in the regulated tariffs consists

of a base tariff and an electricity adjustments surcharge. According to the General Electricity Act and the CNEE regulations, the base tariff is adjusted on a yearly basis to reflect the expected changes in the cost of electricity to be purchased by the distribution company over the following year. The electricity adjustment surcharge is adjusted every quarter to reflect variations in the actual costs of the electricity purchased by the distribution company with respect to the projected cost.

2.2.3.4 The social tariff

In 2001, Guatemala enacted the Social Tariff Act. This is an Act that requires that a special tariff be available for clients who use less than 300 kWh per month. According to the regulations adopted by the CNEE, distribution companies requested their participation in bids for the contracts to purchase electrical energy to provide electricity to customers eligible for the social tariff. The Electrification National Institute (from the Spanish *Instituto Nacional de Electrificación INDE*) has been the only offeror for these market rates, which effectively reduces the base tariff applicable to these customers. In addition, the VAD applicable to customers who are eligible for the social tariff is less than the VAD that is part of the simple tariff as a result of the technical characteristics that have to do with the computation of the VAD applicable to these customers.

As a result of the obligation to provide electricity at lower market rates, the INDE incurred in severe financial losses. On February 26, 2004, the CNEE issued regulations aimed at reviewing the application of the social tariff.

According to the revised regulations, as of May 1, 2004 customers eligible for the social tariff were able to receive up to 100 kWh per month under the social tariff, but it was decided that they had to pay the simple tariff for any electricity consumed in excess of 100 kWh per month. Distribution companies requested new offers for energy purchase contracts to promote the electricity that would be sold at the social tariff to eligible customers. The INDE was the only offeror for these energy purchase contracts.

On November 9, 2004, the Guatemalan Constitutional Court (from the Spanish *Corte de Constitucionalidad de Guatemala*) issued a resolution that temporarily prohibited distribution companies from charging this simple tariff to customers eligible for the social tariff for the electricity that they were using in excess of 100 kWh per month. In response, distribution companies requested new bids for contracts for the purchase of electricity to be delivered to customers eligible for the social tariff. The INDE was the only offeror for these electricity purchase contracts and on November 24, 2004 the CNEE approved a new tariff chart for social tariff eligible customers which set the electricity charges for social tariff customers as the price equal to the cost of electricity according to the new energy purchase contracts.

2.2.3.5 Transmission tolls

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

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

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

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

The transmission fees for the primary transmission system must be reviewed every two years and every time that a new generation capacity is connected to the national electricity system, or a portion of the secondary transmission system is updated to become part of the primary transmission system. However, the transmission fees for the primary transmission system have not been reviewed since 1998.

The increased fees for the primary transmission system were proposed by the AMM, but the CNEE has not approved the revised fees. The transmission fees for the secondary transmission are negotiated between the owners of the transmission facilities, the generators and the electricity agents who use their transmission facilities; if these parties do not reach an agreement, the fees are established by the CNEE. Transmission fees for the distribution facilities are equal to the VAD charges.

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

2.2.3.6 Wholesale electricity and capacity market

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

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

- The variable costs (price of fossil fuel) of electricity offered by thermoelectric generators.
- The future replacement costs (cost of water) of the reserves for electricity offered by hydroelectric generators.
- The opportunity cost for electricity offered by generators in other countries through international connections.

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

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

2.2.3.7 Operation of the national electricity system

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

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

2.3 Regulations in El Salvador

2.3.1 General considerations

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

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

2.3.2 Regulatory framework

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

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

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

The Wholesale Electricity Market (MME) of El Salvador, through the national transmission system (voltage network equal to or greater than 115,000 volts), allows all market agents and participants (from the Spanish *Participantes del Mercado - PM*) having a direct connection to the transmission system to have direct participation in power transactions. These PM may be generators, distributors or end users. There is also the option for other agents not having connection to the transmission network to indirectly participate in the market, under the traders status, according to special regulations developed by the regulator, SIGET, in this regard.

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

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

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

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

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

2.3.3 Regulatory authorities

2.3.3.1 National Electrical Market

Ministry of Economy (MINEC)

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

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

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

General Superintendency of Electricity and Telecommunications (SIGET)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3.4 Tariff Regime

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

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

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

- Distributors should cover a minimum percentage of long-term contracting equal to 70% no later than February 1, 2012, with contracts lasting less than or five years.

- Distributors should cover a minimum percentage of long-term contracting equal to 80% no later than July 1, 2016:
 - No more than 50% on contracts lasting less than five years.
 - At least 30% on contracts lasting more than five years.

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

2.3.5 Grants and contributions system

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

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

According to information provided by distributors, at December 2010, 963,450 customers, representing 65.3% of customers connected to the distribution network and corresponding to users consuming up to 99 kWh, were subsidized. In terms of energy consumption, these subsidized users demanded, in 2010, a volume of 574,003.1 MWh, equivalent to 12.7% of energy demand at the distribution level.

2.3.6 Specific Regulations

- Creation Act from the Superintendency of Electricity and Telecommunications.
- Creation Act Regulation from the Superintendency of Electricity and Telecommunications.
- General Electricity Act.
- General Electricity Act Regulation.
- Standards for determining the charges on account of the use of distribution networks: methodology for computing the distribution charges of distribution companies acting as traders in the geographic area where their networks are located.
- Methodology for computing customer service: methodology for computing commercialization positions.
- Quality standards of the distribution systems service: these have to regulate quality reference indices and indicators used by energy distribution companies to provide energy services to the distribution network users.

- Regulations for the transmission system and wholesale market operation: standards and procedures for the transmission system and energy wholesale market transactions in El Salvador.
- Regulations for the operation of the transmission system and the wholesale market based on production costs: these comprise standards and procedures for the transmission system operation and energy wholesale market transactions in El Salvador.
- Regulations applicable to commercialization activities: these regulations aim at developing standards to promote competition for commercializing electricity.

2.4 Regulations in Panama

2.4.1 General considerations

After the privatization taking place in 1998, the sector resulted divided into three activity areas: generation, transmission and distribution. According to the law, companies of each activity have the restrictions as follows:

Distribution:

- To participate, directly or indirectly, in controlling generating energy plants when the equivalent added capacity exceeds 15% of the demand of their concession area.
- To request new concessions if, when doing so, they serve, directly or indirectly through shareholding control of other distribution companies or other means, more than 50% of the total number of customers in the domestic market. The National Authority for Public Utilities (from the Spanish *Autoridad Nacional de los Servicios Públicos - ASEP*) may authorize to exceed that percentage when considered it necessary to expand the concession area or expand the energy system of the country.

Generation:

- To participate, directly or indirectly, in controlling distribution companies.
- To request new concessions if, when doing so, they serve, directly or indirectly through other generation companies or other means, more than 25% (amended to 40%) of the domestic market energy consumption.

Transmission:

- 100% controlled by the State.

2.4.2 Regulatory framework

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

According to the Electricity Act, energy rates are effective for 4 years (Article 100) and, during this period, may be updated based on changes in the consumer price index and to reflect the actual cost of energy purchases. For this purpose, the regulator should define the tariff system (Article 96), which must comprise the procedures for computing, updating and implementing energy rates. The tariff system must meet the following criteria in order of importance: i) Financial sufficiency, ii) economic efficiency, iii) equity, iv) simplicity, and v) transparency.

According to Article 103, the Value Added Distribution (VAD) comprises those costs a distribution company would have to provide distribution services efficiently in its concession areas. Such costs include: administrative costs; distribution system operation and maintenance costs, excluding metering, billing and customer service costs; standard losses cost in distribution networks; property depreciation cost; and the cost corresponding to the opportunity the distributor must have to obtain a return reasonable rate on investments.

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

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

2.4.2.1 Regulatory system

- Act 6 of February 3, 1997 establishes the regulatory and institutional framework for rendering the energy public utility. It sets the regime which the energy distribution, generation, transmission and commercialization activities will be subject to.
- Act 6 of February 3, 1997 establishes the regulatory and institutional framework for rendering the energy public utility. It sets the regime which the power distribution, generation, transmission and commercialization activities will be subject to.

- Executive Decree 22 of June 19, 1998 regulated Act 6 of 1997.
- Act 57 of October 13, 2009 amends Act 6 of 1997. Such amendments include: the requirement of generators to participate in energy or energy procurement processes, the obligation of Empresa de Transmisión Eléctrica S.A. (ETESA) to purchase energy on behalf of the distributors, the increase in fines that can be imposed by the regulator -up to \$20 million balboa, and the customers right to refrain from paying for the portion claimed, while giving a 30-day term to complain before the regulator in case of not being dissatisfied with the response provided by the distributor.
- Act 51 of September 29, 2010 creates the urban and residential authority, and amends certain articles of Act 6 of 1997 in order to make mandatory the collection of the cleaning rate by means of energy bills.
- Act 65 of October 26, 2010 adds two articles, 140-A and 140-B, to Act 6 of 1997. Such articles state that if the State requires the removal or relocation of energy infrastructure, companies shall proceed with the request within the period established in such article regulations. Article 140-B indicates that if the company fails to comply with the timely relocation, the infrastructure may be removed at the company's expense.
- Act 58 of May 30, 2011 amends articles related to rural electrification. These include the change in computing subsidies payable by the Rural Electrification Office (from the Spanish *Oficina de Electrificación Rural - OER*) to distributors for a 4-year period (it was previously paid after 20 years), and the creation of a rural electrification fund for 4 years, which will be comprised by contributions from market agents selling energy not exceeding 1% of its total net profit prior to taxes.
- Act 68 of September 1, 2011 establishes the obligation of distributors to answer claims within 15 calendar days. It also provides, as an ASEP function, to develop and approve a compensation chart applicable to cases of damages to customers. In addition, it establishes that ASEP will have 30 calendar days to resolve customer complaints, and 15 days to resolve appeals for reconsideration and appeal. On the other hand, it adds a paragraph to Article 95 of Act 6 on rural electrification, which defines "non-concession area" as the distance exceeding one kilometer, in a straight line, from the last post of the concession a.

2.4.2.2 Regulation of the distribution sector

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

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

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

2.4.3 Subsidies and contributions regime

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

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

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

2.4.4 Regulatory Entities

The Secretary's Office of Power

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

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

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

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

ASEP is responsible for controlling and supervising the provision for telecommunications, energy, potable water, sanitary sewage, radio and television, and natural gas transmission and distribution public utilities.

ASEP's responsibilities include to:

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

ASEP operating costs are covered with several sources, including a control and monitoring rate charged to all energy sector participants. This rate cannot exceed 1% of gross revenues generated in the sector during the previous year, and it cannot be

transferred to consumers. This fee collection is done on a monthly basis, and each company pays the percentage defined by ASEP on regulated and non-regulated customers' revenues, less the amounts paid by the company to other service providers to cover energy and transmission costs. In 2011, this percentage was fixed at 0.59%, and it will be 0.73% for 2012 (2010 - 0.47%).

Planning Unit of Empresa de Transmisión Eléctrica - ETESA

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

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

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

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

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

Note 3 Statutory audit

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

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

Note 4 External audit

On January 16, 2006, the Board of Directors approved a Corporate Governance activities plan comprising the mandatory existence of an external auditor, and the financial information management in charge of the General Manager.

Through a public bid, PricewaterhouseCoopers Ltda. was hired to conduct the financial external audit on the individual financial statements of Empresas Públicas de Medellín E.S.P., to the consolidated financial statements of Grupo Empresarial EPM, and to the financial reports of projects to be submitted to Inter-American Development Bank (IDB) and Corporación Financiera Internacional (IFC).

Note 5 Accounting practices

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

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

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

- Resolution 354 of 2007 adopted the RCP, established its structure, and defined the scope.
- Resolution 355 of 2007 adopted the Public Accounting General Plan (from the Spanish *Plan General de Contabilidad Pública - PGCP*) comprising general public accounting regulations and the basis for recognizing and disclosing transactions, events and operations.
- Resolution 356 of 2007 adopted the Procedures Manual of the public accounting regime integrated by the general chart of accounts, accounting procedures and financial instructions.
- Resolution 357 of 2008 established the procedure on accounting internal control and delivery of the internal control assessment annual report to the CGN.

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

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

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

- b) **Estimates and accounting judgment:** in preparing financial statements, estimates are used to quantify some of the assets, liabilities, revenues, expenses and obligations recorded. Basically, estimates refer to:

- The appraisal of assets to determine the existence of their losses due to impairment.
- The useful life of property, plant and equipment, and intangible assets.
- The assumptions used to compute the fair value of property, plant and equipment.
- The public utilities provided to customers, corresponding to certain billing cycles with consumptions of December, but whose invoices are issued in January and February of the following year. Records are made globally and the respective rates of specific income are taken into consideration since their right gave rise.
- Some variables, particularly costs from the electricity sector.
- The assumptions used in the actuarial computation of liabilities for pension retirement.
- The amount of liabilities associated with probable contingencies, which leads to recognize provisions.
- The determination of the fair value in certain investments not listing in the securities public market.

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

- c) **Concept of materiality:** the recognition and disclosure of economic events take place in accordance with their relative importance. An economic fact is material if its nature or amount, knowledge or ignorance, considering the circumstances, may significantly alter the economic decisions of information users. In preparing the financial statements, materiality for disclosure purposes was determined on a 5% applied basis to each group of accounts.
- d) **Classification of assets and liabilities:** assets and liabilities are classified according to their use or to the degree of realization, payability or liquidity, in terms of time and value. Current assets and liabilities are defined as those which are realizable or payable in a period of not more than one year.
- e) **Cash and cash equivalents:** cash or cash equivalents are defined as the money in cash and banks and highly liquid investments. For resources intended for specific purposes, programs motivating their creation are disclosed.
- f) **Investments for liquidity administration:** these are the investments made to optimize surplus liquidity, that is, all those resources which are not immediately applied to carry out the activities that come from the companies' corporate objective. Surplus liquidity is invested using the transparency, security, liquidity and profitability criteria, following proper control guidelines, and under non-speculative market conditions (General Management Decree 1651 of 2007).

Considering the provisions of Decree 1525 of 2008 from the Ministry of Finance and Public Credit (from the Spanish *Ministerio de Hacienda y Crédito Público*), amended by Decrees 2805 and 4471 of 2009, and 4686 of 2010, temporary investments in EPM may be constituted as Class 'B' treasury securities (from the Spanish *Títulos de Tesorería - TES*) with fixed-rate or indexed to the Representative Value Unit (from the Spanish *Unidad de Valor Real - UVR*), and as fixed-term deposit certificates (from the Spanish *Certificados de Depósitos a Término - CDT*), in current account deposits, savings accounts deposits or fixed-term deposits in banking institutions monitored by the Colombian Financial Superintendency or in entities with special regimes described in Section 10 of the Organic Statute of the Financial System, and in collective accounts receivable of the money or open market without a permanence clause in institutions with the highest rating in terms of soundness or quality in portfolio management that meet the investment criteria established for EPM.

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

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

The portfolio of temporary investments is valued daily at market prices, as required by current regulations. The reference rates and margins used for the various categories of securities are as follows: for local currency, those published by the Colombian Stock Exchange in its page of information for valuation, Infoval, and for foreign currency, those published by Bloomberg.

Purchase of investments (management of fixed income liquidity) is recorded at the purchase price, which is the same reasonable value. The cost of these transactions is recorded as an expense when they are incurred in. After the initial record, they are valued at a reasonable value taking into consideration the market value established by the stock exchange where the security is traded. Any future changes in valuation increases or decreases the costs, against revenue or expenditure accounts in the income statements, as appropriate.

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

The following conditions should be met for their recognition:

- That the service or good has been satisfactorily delivered.

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

Doubtful accounts: debts with more than six months overdue or sent to legal collection, thus generating the reclassification of the respective amount of accounts receivable into doubtful accounts are considered doubtful accounts. Debtors classified as government agencies are not included in this reclassification.

A management provision charged to the accounts receivable provision expenses account is established for protecting accounts receivable. Accounts receivable are not provisioned when covered in guarantees. The provision amount to cover the non-collectability risk is determined generally in accordance with the following ranges:

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

The provision amount to cover the uncollectibility risk of accounts receivable in companies providing telecommunications services is determined, in general terms, according to the following ranges:

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

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

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

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

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

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

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

- i) **Inventories:** inventories are defined as the assets acquired with the intention of selling them or consuming them in the process of providing public utilities.

They include the stock of merchandise that does not require transformation, such as meters for electricity, gas and water, and supplies, including material such as spare parts and accessories for providing services, and goods in transit and held by third parties.

They are valued by the weighted average method.

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

Physical or monetary decreases, such as shrinkage, impairment, obsolescence or decrease in the selling price of inventories are taken into account in computing the provision that protects such events. The computation of the provision is performed by technical criteria that allow determining its reasonableness, according to the nature of the inventory.

Physical counts of inventories are performed on a rotating basis throughout the year in order to cover all items listed in the inventory.

Inventories, whether by exogenous factors specific to the economy or natural conditions inherent to business conditions rotate slowly, maintain their inventory-nature. This condition of low turnover makes them “immobilized assets” in EPM; however, they remain being inventories.

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

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

As stated in Resolution 356 of September 2007, issued by the CGN, the company updates the value of property, plant and equipment through technical appraisals with the application of recognized technical value methodologies, which consider, among other criteria, its useful life, economic life, residual life, location, status, productive capacity, market position, degree of marketability, obsolescence, and impairment suffered by goods.

The updating process of property, plant and equipment is performed every three years as from the last updating process, and the record remains in the respective accounting period. However, if prior to this deadline the value of property, plant and equipment recorded in the accounting books experience significant changes with regard to the replacement cost or realizable value, a new updating process is conducted, thus recording its effect on the corresponding accounting period.

The useful lives of fixed assets in EPM are defined taking into account technical criteria, according to the characteristics of the asset, considering future economic benefits or the asset service potential, and physical and environmental conditions.

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

General useful lives per type of asset:

Type of assets	Useful life in years
Constructions	
Dams, relay stations	50
Buildings, houses, offices, stores, posts, campsites, parking lots, garages, shops, sports facilities	30 - 50
Storage tanks	20
Plants, pipelines and tunnels	
Generation and treatment plants	50
Conduction plants	47
Regulation stations and substations	25
Water systems and pipelines	30
Pumping stations	20
Telecommunications plants	15
Networks, lines and cables	
Distribution networks	25
Water collection networks	30
Transmission lines and cables	40
Telecommunications lines and cables	25
Machinery and equipment	
Construction equipment, industrial machinery, music equipment, recreation equipment, and sports equipment	7
Tools and accessories	7 - 10
Pumping station equipment	7
Control center equipment, machinery and equipment for dredging and cleaning	5 - 10
Medical and scientific equipment	
Research equipment	5
Laboratory, medical and scientific equipment	7 - 10
Furniture, mixtures, and office equipment	7 - 10
Communications and computer equipment	5 - 10
Transportation, traction and lifting equipment	5
Dining, kitchen, and hotel equipment	7 - 10

Among the classifications are:

- **Constructions in progress:** these represent all expenses incurred in by the company in order to improve or increase the operating capacity, reduce operating costs, or increase service coverage, as well as for the expansion and sustainability of infrastructure to meet the services offered by the construction, expansion, modernization, rehabilitation or replacement of networks, plants and equipment, among others, until they are able to be used in developing the operation.

The value by which the constructions in progress are recognized is given by all the necessary expenses directly associated with the acquisition or construction of the good from the execution starting date until the date the asset is ready for being used.

Fees, financing costs, interests and exchange difference of interest arising from loans obtained to finance construction sites are capitalized until the time they are in operating conditions.

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

Investments in infrastructure for the expansion and replacement of transmission and distribution networks in different voltage levels aim at building networks commonly used in order to meet the needs for growth of energy demand and meet the work towards the reliability of the system; as well as for meeting regulatory requirements, service quality improvement, network shielding to reduce illegal connections, and change of elements with a high level of impairment.

In the gas distribution business, on the other hand, investments are made to address the non-residential market and the expansion outside Valle de Aburrá through the GNC system in the municipalities not accessible by using conventional pipelines.

Investments aimed at modernizing and replacing water supply networks and sewage in the different circuits, expanding pipes, and acquiring equipment for treatment plants and pumping stations are made in the Water Strategic Business Group. The replacement of equipments in wastewater treatment plants is added to this, as well as the construction, replacement, optimization and expansion of secondary networks and collectors as part of the "Medellín River and Its Tributaries Cleaning Program."

- **Movable goods in warehouse:** these correspond to goods acquired as any security, classified as permanent because they will be used in production or management activities in EPM. While they keep this situation, they will not be subject to depreciation, as provided in paragraph 171 of PGCP.
- **Property, plant and equipment not used:** these include assets that, due to obsolescence, are not required for business operation, and those that are temporarily out of service, in rehabilitation process or waiting for a technical decision to be rehabilitated or terminated. Personal movable goods written off due to obsolescence or because they are not required by the company anymore are sent to the exploitation store, where they are offered in public auctions (under internal regulation). They are written off at the time they are returned, not including vehicles removed on an accounting basis once sold.
- **Buildings:** these represent the value of buildings and houses, offices, stands, parking lots and garages, warehouses, sports and recreational facilities, dams

and storage tanks, among others, acquired by the company to develop its functions and provide public utilities.

- **Plants, pipelines and tunnels:** these represent the value of plants, pipelines and tunnels made by the company for energy generation, transmission and distribution, gas distribution, water, and sanitation.

The operational infrastructure used by EPM in energy generation businesses, transmission and distribution of energy, natural gas, water and wastewater sanitation include, among others, civil works and plant equipment for generation, treatment, transmission, gas pipelines, energy substations, pipelines and pumping stations.

- **Networks, lines and cables:** these represent the value of energy distribution networks and water supply, wastewater collection, gas supply networks, transmission lines and energy distribution, used for the transmission and distribution of energy, gas distribution, water, and wastewater treatment.
- **Depreciation:** this is computed on the historical cost by using the straight-line method. The useful life determined is used as a basis, according to technical criteria such as additions or improvements, technological advancements, maintenance and repair policies, obsolescence, physical exposure of assets, or other factors.

The deferred depreciation reflects the value obtained by the excesses on tax depreciation expense against the accounting one, since the tax law provides the use of depreciation methods and useful lives other than those used on an accounting basis, which allows an asset to depreciate rapidly on a tax basis.

- k) **Actuarial financial reserve:** it is the set of assets that has been allocated by the public accounting entity to address legal provisions in force or on its own, with the purpose of meeting pension obligations. Such assets are recorded in accounts associated with autonomous equity and the payment of retirement pension and retirement bonds paid under this.
- l) **Expenses on payments in advance:** these are expenses paid prior to receiving the good or service required. They are amortized over the period in which services are received, or costs or expenses are accrued. Expenses on payments in advance are measured at their original cost, as set out in contractual agreements or fixed prices, and agreed with third parties. VAT not being discountable is higher than the deferred value, and is recognized when the payment is made or the invoice is accrued.

Items to be recorded should be analyzed for these expenses recognition, so that the concepts to be reported as assets are separated from those that are to be recognized as immediate expenses.

Their amortization is done by using the straight-line method during the period in which goods and services are estimated to be received, or costs and expenses accrued.

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

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

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

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

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

The following are intangible assets:

- **Goodwill:** it corresponds to the additional amount paid on the purchase of shares or partnership interest quotas, above the equity value, as recognition of attributes such as reputation, qualified personnel, privilege credit reputation or control of the economic entity. This credit becomes more involved in the business.

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

At the end of each accounting period, EPM assesses the goodwill in order to verify whether current conditions to generate future economic benefits are kept.

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

Rights are amortized in accordance with the agreed-upon time of enjoyment; if it is indefinite, it is not amortized. Software is amortized to the extent that generates the expected benefits. Licenses are amortized in the same period of the equipment useful life to which they are associated.

Software and operating licenses are amortized under the straight-line method.

- **Easements:** these are amortized in accordance with the act's provisions which gave them rise; that is, if the contract is for good, it will not be amortized; otherwise, if the contract is not for good, it will be amortized at the end of the expiration term agreed-upon in the contract.
- o) **Appraisals:** these correspond to the excess of the appraised value and the value of assets registered in books at the end of the period in accordance with current regulations.

Companies belonging to EPM Group compute and record appraisals related to:

- **Property, plant and equipment:** these are updated by comparing the amount in books with the replacement cost or realization value. These are set by means of technical appraisals considering, among other criteria, location, status, productive capacity, market position, degree of marketability, obsolescence, and deterioration.

In selecting and applying appropriate technical appraisals, the cost-benefit relation is taken into account for companies belonging to EPM Group.

The updating of property, plant and equipment is conducted every three years.

- **Investments in controlled entities:** they are subject to adjustments at the intrinsic value, in order to recognize the difference between the purchase price and the intrinsic value of shares, quotas or partnership interest quotas, at the purchasing time. If as a result of comparing the investment amount this is less than the intrinsic value, then the difference is recorded as appraisal. Otherwise, if as a result of comparing the investment amount this exceeds the intrinsic value, then the difference is recorded as a provision, thus affecting income. The adjustment to the intrinsic value is modified by new acquisitions.
 - **Investments in non-controlled entities:** if the intrinsic value exceeds the adjusted cost, then the difference is recognized as appraisal affecting equity as surplus. If the intrinsic value is below the adjusted cost, then the appraisal constituted is reduced until extinguishing it; beyond that value, provisions are recognized with charge to the income statement of the period as other non-operating expenses.
- p) **Public credit transactions:** they correspond to the acts or contracts that, in accordance with the legal provisions on public credit, are intended to provide companies funds for the purchase of goods or services with payment periods such as government loans, bonds issuance and placement, and public securities. They

are recognized for the amount paid. Bonds and securities are to be recognized at their nominal value, and supplier credits at the value of goods or services received.

Guarantees given to appraise debt payments are recognized at the value of capital payments that will be made.

Public credit transactions are classified as follows:

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

The agreed-upon public credit transactions in foreign currency must be recognized at the Representative Market Exchange Rate (from the Spanish *Tasa Representativa del Mercado - TRM*) on the transaction date. This value must be monthly restated by applying the TRM of the end of the month. Operations contracted in different value units or specific rates should be recognized by the unit price on the date of the obligation and must be regularly restated by applying the unit price or rate at the updating date. The greater or lesser value obtained as a result of the restatement must be recognized in the period balance sheets.

- q) **Hedging transactions:** these represent the value of financial transactions that are negotiated in order to manage risk of liabilities, and may be executed to purchase or sell assets such as currencies, securities or financial futures on exchange rates, interest rates, equity indices or any other agreed, which will be liquidated on the future date agreed.

They are recognized at the amount agreed in the contract. If they are agreed in currencies other than the Colombian peso, they are recognized at the TRM effective at the transaction's date. At the end of the month, they are restated at the TRM certified by the Financial Superintendency. The greater or lesser value obtained as a result of the restatement is taken to the income statement of the period.

- r) **Accounts payable:** These include payment rights to third parties arising from the provision of services received or purchase of goods, use of assets owned by third parties, and other obligations in favor of third parties. These obligations are recognized when the service or good has been satisfactorily received and in accordance with the agreed-upon value, thus fulfilling the following conditions:
- The good or service has been satisfactorily received, and its risks and benefits have been received.
 - It is likely that the outflow of resources carrying future benefits result from the payment of such obligation.
 - That the value can be determined on a reliable basis.

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

The rights in favor of the Nation, departments, municipal authorities and other active parties are recognized as payable amount once the conditions laid down in the corresponding guidelines issued are met. The following is a summary of the company's most important tax obligations:

- **Current income tax:** an income tax percentage determined for each period is required to be paid by companies belonging to EPM Group to the treasury of each country in which they conduct operations subject to such tax. The tax amount is recognized as an income tax expense in the current year, in accordance with the debugging made between taxable income and accounting profit or loss affected by the income tax rate of the current year, and in conformity with the tax regulation.

Its recognition is performed by recording an expense and a liability in accounts payable, taxes payable. An income tax estimate is recognized for interim periods based on the projection of the taxable year's results; therefore, a provision account is managed during the year. The deferred tax is recognized on a separate basis as income tax expense or recovery, as appropriate.

- **Deferred tax:** it is presented for temporary differences between taxable income and accounting profit or loss from expenses or revenues. The accounting recognition differs from the time it is recognized for tax purposes and generates a higher or lesser payment of the income tax amount for the current year. Such difference is computed at the rate applicable to the extent that there is reasonable expectation that such differences are reversed in the future.

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

If the time difference leads to a higher income tax payment, it is recognized as a deferred asset in the other assets-deferred taxes account, and its counterpart will be a lower value compared to the tax expense of the current year separated from the income tax.

If the time difference means a less payment of income tax, it is recognized as a liability in the other liabilities-deferred taxes account, and its counterpart is an expense, which is presented as a deferred tax separated from the current income tax.

- **Equity tax:** as established in Act 1370 of 2009, the equity tax should be paid to the National Government in eight installments during years 2011, 2012, 2013 and 2014. Its base is the net equity held by the entity at

January 1, 2011. According to provisions of Article 9 of Decree-Act 4825 of 2010, EPM has to pay 25% in addition to the 4.8% as equity tax surcharge.

This tax was computed with the methodology established by the CGN, debiting the revaluation of equity against total liabilities of payable tax for years 2011 to 2014, in accordance with the guidelines of Concept 20119-158027.

- **VAT:** Companies selling taxable goods or services are responsible for the common regime of this tax, as well as those receiving revenues from services exports. Energy, water, sewage and residential gas services are excluded from the tax.
- **Transferences Act 99 of 1993:** hydroelectric energy generating companies, whose total installed nominal power exceeds 10,000 kilowatts, will transfer 6% of gross sales of energy generation to regional autonomous corporations (from the Spanish *Corporaciones Autónomas Regionales - CAR*) and municipalities and districts where the reservoir or watershed is located, according to the block sales rate established by the CREG. 4% will be the transfer for thermal energy stations.

For settling transferences, Resolution CREG 135 of 1996 established the block sale rate of electricity at \$20.93/kWh (fixed in Resolution CREG 060 of 1995), which will be increased annually as from January 1, 1997, with a rate equal to the inflation target established by the competent authority for each term.

- **FAZNI (Fund for the Electrification of Non-interconnected Areas) Contribution**, established under Article 81 of Act 633 of 2000: for every kilowatt-hour delivered in the Stock Energy Market, ASIC collects one peso (COP1) to energy generators. The CREG, in Resolution 102 of December 2006, made adjustments pursuant to Article 1 of Act 1099 of 2006, which extended this contribution validity until December 31, 2014, thus updating the peso (COP1) one more time until January 1, 2007 with the Producer Price Index (PPI), computed by Banco de la República.
- **FAER (Fund for the Electrification of Interconnected Rural Areas) Contribution**, created by Article 105 of Act 788 of 2002 and regulated by Decree 3652 of December 17, 2003: it is managed by the MME. Its resources are used to fund investment projects for the construction and installation of new rural electricity infrastructure.

- **PRONE (Electrical Network Standardization Program) Contribution**, established by Acts 812 of 2003, 1112 of 2006 and 1151 of 2007: MME manages the fund having transport energy users as passive subjects. The taxable event is the transportation of energy, and the tax base is kWh at a COP1 rate per kWh-hour transported. With these program resources, Colombian Government seeks to legalize users, optimize the service and reduce non-technical losses through the installation or adequacy of the distribution networks, the connection to users houses and the installation of energy counters.
- t) **Labor and social security obligations:** these are the commitments EPM has acquired with its employees for the services rendered through an employment relationship established in accordance with labor legislation, agreements or collective conventions.
- u) **Estimated liabilities:** these are recognized when they meet the following conditions:
- EPM has obtained a benefit from the good or service, but has not received the supporting document from the supplier with the purpose of being recognized as true and valid.
 - Consistent with the provisions of the law, EPM is required to make payments or dispose assets in the future to address debts on a date established by the parties.
 - The value of resources to be delivered or payment to be made can be reasonably estimated at a value close to its actual value, due to a prior price agreement with the supplier or creditor.
 - **Contingencies:** the procedure established by the CGN in Chapter V is applied to recognize the contingencies associated with legal proceedings in the "recognition and disclosure of judicial proceedings, arbitration, extrajudicial reconciliations, and settlements ordered and executed on bank accounts." It states that the processes having a high probability of being lost should be recorded as a provision, while processes with less possibilities of being lost should be recorded in memorandum accounts as potential liabilities.
- The situations or set of circumstances generating uncertainty on potential losses and whose final result will be only known when one or more events occur or fail to occur and that are not classified within the procedure described are recognized taking into account the principle of prudence for recording expenses.
- v) **Pension liabilities:** these are computed based on the regulations currently in effect regarding pensions. For purposes of the actuarial assessment, the parameters established in Decree 2783 of 2001 from the National Government were followed.

As from 2010, the assessment was made taking into account the new mortality charts for annuity holders approved by the Financial Superintendency in its Resolution 1555 of 2010, according to which the life span of the annuity holders increased significantly with respect to previous charts, resulting in a longer pension payment period and great variation in the increase in pension liabilities.

The pension adjustment rate in 2011 was 3.53% (in 2010, it was 4.51%), in accordance with Paragraph 1, Article 1 of Decree 2783 mentioned above. The pension bonds were updated and capitalized in accordance with Decree 1748 of October 12, 1995, and Article 6 of Decree 4937 of 2009 from the Ministry of Finance and Public Credit, which established to assess all Type T bonds (non-issued bonds) at a 4% interest rate as from the cutoff date until the updating date. In 2009, these were part of Type B bonds, which corresponded to the half-premium regime and were valued at a 3% rate. The known values of the bonds as of the cutoff date were used as a base, after deducting interest paid during the year.

In the computation methodology, additional allowances in June and December were included for each year, as well as the current value of the funeral benefits for the group of retired workers whose pension is fully paid by EPM, pursuant to paragraph b), Article 2 of Decree 1517 of August 4, 1998.

In compliance with Resolution 356 of 2007, since 2009 pension payments are recorded affecting the liability account for companies that had amortized 100% of the pension liability.

- **Autonomous equity:** in accordance with provisions established in Decree 810 of 1998, trust agreement 090416150 was established in April 2003 for the administration of an autonomous equity in order to ensure payment of the obligations derived from pension bonds and quotas corresponding to EPM, as well as the alternative compensation payments arising from the risks covered by the general pension system.

The fund is projected to be extinguished by the time of the last pension payment performed by EPM (2065). With the establishment of this equity, the availability of resources is guaranteed on the long term in order to pay pension liabilities of companies, and their financial management becomes independent.

- **Pension commutation:** According to Act 1466 of December 4, 2006, in 2007, EPM assumed the pension liability of Empresa Antioqueña de Energía E.S.P. en Liquidación (EADE).

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

w) **Equity:** this is made up of accounts representing the tax capital, reserves, profits from previous years, income for the period, surplus, and revaluation of equity.

- **Reserves:** in compliance with tax provisions comprised in Articles 130 (70% reserve for tax depreciation in excess of accounting depreciation) and 211 of the Tax Code, the required reserves have been established as entitlement of a special tax treatment and streamline the payment of the income tax.

To comply with Decree 2336 of 1995, Article 1, a reserve was established for applying the equity participation method. The reserve corresponds to the utilities generated at the end of the accounting year following the implementation of special valuation systems at market prices and that have not been conducted by the partnership, according to the provisions of Article 27 (income realization) and other related provisions of the Tax Code.

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

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

- **Surplus on account of reappraisals:** it represents the value of the net increase of the assets value in books, determined as a result of the updating process, in accordance with technical standards. In EPM, the excess of the intrinsic value of investments is recognized as appraisal, in comparison with its amount in books and the excess of realizable value or replacement cost of assets on the value in books.
- **Reappraisal of assets:** it records the value of the inflation adjustment on equity balances conducted from 1992 to 2000; year in which they were written-off by the CGN. Under current rules, this balance may not be distributed as profit until liquidating the company or depriving it of capital.

- x) **Memorandum accounts:** credit and debit memorandum accounts represent the estimation of facts or circumstances that may affect the financial, economic, social and environmental position of the public accounting entity, as well as the value of the assets, rights and obligations needed to be controlled. It also includes the value originated in the differences between public and accounting information used for tax purposes.
- y) **Operating income:** these correspond to the flows received by EPM Group in the accounting period, coming from the ordinary course of its core business. Refunds and rebates on such concepts are recorded in separate accounts as a lower amount from income. The following requirements must be met for recognizing income:
- That the service was actually rendered
 - That the service can be reasonably quantified
 - That the product of the service provided is expected to be received
 - That the income is likely to increase net equity

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

- z) **Non-operating income:** it represents income from EPM's transactions other than the provision of public utilities, also including income from extraordinary items.

Each company will recognize as non-operating income the income not included within its corporate purpose and on which the risks and benefits have been transferred or the service has been effectively provided, whose value can be reasonably quantified, and that from which the product of the good or service delivered is likely to be obtained.

Similarly, if there are rights to submit claims by third parties that affect the income amount, these must be estimated and recognized in the consolidated financial statements.

- aa) **Cost of the service provision:** these are the expenditures required for the provision of public utilities; without them, it would not be possible to deliver the service or its quality may not be optimal. These costs are directly linked to the service provision; on the contrary, expenses are associated with administrative activities. The following provisions must be met for recognizing costs:
- That the good or service corresponding to the cost has been satisfactorily received or is being received (in the case of services being received at various times)
 - That the risks and benefits of the good or service have been received
 - That the cost might be reliably measured
 - It is likely that the outflow of resources carrying future benefits results from the payment of goods or services received
 - That the good or service corresponding to the cost is related to the provision of services and is a necessary element in such services

bb) **Expenses:** these are necessary expenses arising from the normal operation of the organization, which support the service provision.

EPM recognizes its expenses as they occur in the financial, economic, social and environmental facts for them to be systematically covered in the corresponding accounting period, regardless of the flow of monetary or financial resources. Therefore, that recognition will take place when:

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

cc) **Reclassifications:** in order to present the figures of both periods with the purpose of fostering their comparability, certain reclassifications of the figures from the previous year were made in a presentation.

Note 6 Effects on and significant changes to accounting information

Equity Tax

Act 1370 of 2009 re-established the equity tax as of taxable year 2001 at a rate of 4.8%. Unlike the previous rule, this compels for full tax accrual in 2011, providing the possibility to directly record it as an expense or apply it to the asset revaluation account. However, the payment will be performed in eight equal installments during years 2011, 2012, 2013 and 2014.

EPM analyzed the financial impacts, the allocation of surpluses to be distributed to the Municipality of Medellín, and the accounting position of companies from the public utilities sector, among others. On December 7, 2010, the Board of Directors established that as from year 2011 the equity tax would be accounted for against the revaluation of equity.

This tax was computed with the methodology established by the CGN in Concept 20119-158027 of 2011, where it was determined to accrue 100% of the tax payable liabilities at December 31, 2011 -amount corresponding to the payments of years 2011, 2012, 2013 and 2014- against the revaluation of equity of those companies belonging to the group having a balance in such account or with a deferred charge to be amortized in the payment periods, or in those where there was no balance or where this was not enough to cover the entire amount.

Note 7 Subsequent events having impact for 2012

Verdict on the Versailles - Riogrande II reservoir mine process

On January 17, 2012, EPM was notified of the unfavorable judgment on appeal of the High Court of Medellín regarding the involvement of the mining exploitation of Versailles mine with Riogrande II reservoir. The verdict condemned EPM to pay \$8,050 that, indexed since 2006, amount to \$10,065. This fact was recognized as a judicial proceedings provision.

Resolution CREG on Porce IV

On January 19, 2012, EPM was notified of Resolution CREG 184 of 2011, by which the appeal lodged by EPM against Resolution CREG 104 of 2011 was adversely decided.

In Resolution CREG 104 of 2011, the CREG considered the indefinite suspension of project Porce IV as a serious and insurmountable breach; therefore, the guarantee established in the auction for the allocation of firm energy obligations amounting to USD13,919,819 will be effective. This fact was registered in credit memorandum accounts as there is only a real obligation to EPM when the administrative decision becomes firm, that is, after having exhausted resources and notifications to the Company.

Note 8 Other significant aspects

8.1 Business combination

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

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

8.1.1 Acquisition of Panama Distribution Group (PDG), Elektra Noreste S.A. (ENSA), and AEI El Salvador Holdings Ltd., Distribuidora de Electricidad del Sur (Delsur), Electricidad de Centroamérica Ltda. de C.V., PPLG El Salvador II, and Innova Tecnología and Negocios S.A. de C.V. in 2011

On January 19, 2011, EPM agreed with AEI to purchase, for USD200 million, 100% of two major companies related to the electricity business in Central America: which holds 51% of Elektra Noreste S.A. (ENSA), and AEI El Salvador Holdings Ltd., which holds 86.41% of Distribuidora de Electricidad del Sur (Delsur).

The negotiation also included the control shareholding of the following companies created to serve the latter: Electricidad de Centroamérica Ltda. de C.V., PPLG El Salvador II, Innova Tecnología and Negocios S.A. de C.V.

In terms of customers and energy sales, ENSA is the second largest electricity distributor in Panama. It serves over 360 thousand customers and has an exclusive concession to serve the Northeast region of the country, including Colon Port and Panama Bay, and about 50% of Panama City, venue of the main business and industry activities in that country.

On the other hand, Delsur has 320 thousand customers. It is the second largest company of this sector in El Salvador, and is engaged in processing, distributing and commercializing energy in the South-central area of the country, mainly in the Departments of La Libertad, San Salvador, La Paz, San Vicente, and Cuscatlán.

The acquisition of these companies is detailed as follows:

	Amount paid	Net equity acquired
PDG	254,905	162,936
AEI El Salvador Holdings Ltd.	117,479	86,413
	372,384	249,349
Cash acquired	(29,690)	-
Payment on account of the companies' acquisition, net cash acquired	342,694	-

8.1.2 Acquisition of Aguas de Malambo S.A. E.S.P. in July 2011

On June 29, 2011, EPM entered into a capitalization agreement with shareholders of Aguas de Malambo S.A. E.S.P. Such transaction aims at contributing \$26,100 million pesos according to the scheme defined by the parties, which consists in carrying out annual contributions during 2011, 2012, 2013 and 2014. Then, EPM will reach an 84.99% participation.

Aguas de Malambo S.A. E.S.P. is a company that provides water, sewage and cleaning services in the Municipality of Malambo, Department of Atlántico.

The acquisition of this company is detailed as follows:

	Amount paid	Net equity acquired
Aguas de Malambo S.A. E.S.P.	4,213	4,213
	4,213	4,213
Cash acquired	(2,027)	-
Payment on account of the companies' acquisition, net cash acquired	2,186	-

8.1.3 It was created in May, 2012, in Mexico City, the society EPM Capital Mexico S.A. de CV.

EPM (the parent) and EPM Inversiones SA created, on May 4, 2012, in Mexico City, the society EPM Capital México S.A. de C.V. The main objective is to develop social

infrastructure projects related to energy, electricity, gas, telecommunications, water treatment plants, sewage treatment plants, and other services related to utilities.

8.1.4 UNE EPM Telecomunicaciones SA and UNE EPM Bogotá SA finished the merger process in June, 2012.

On June 30, 2012, UNE EPM Telecomunicaciones SA formalized the statutory reform of the merger absorbing its subsidiary UNE EPM Bogotá SA.

8.1.5 Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS) was splitted up to create the new society "CENS Inversiones".

As a result of the split up of Centrales Eléctricas del Norte de Santander S.A E.S.P. (CENS), on August 24, 2012, in Cucuta, it was incorporated CENS Inversiones SA. The objective is to invest capital in companies organized as utilities in the energy sector.

8.2 IFRS program

The International Financial Reporting Standards (IFRS) are a set of accounting rules and guidelines, which give a reasonable structure to the financial information and to the accounting structure of the Company.

These rules are becoming the universal accounting language that ensures that all countries talk in the same financial language, thus homogenizing information frameworks and facilitating markets interaction, then taking a step towards globalization.

These standards has recently become of greater importance in Colombia since the approval of Act 1314 of 2009, which establishes the Government guideline consisting on moving towards accounting and auditing international standards.

Grupo Empresarial EPM is implementing the "IFRS Program" to submit its financial information under these standards.

8.3 Accounting information consolidation process

In 2009, with the international bonds issuance for USD500 million, EPM made a commitment, before investors and international banks, to submit EPM's consolidated financial statements periodically. This exercise was being done in EPM for administrative purposes, but a formal obligation was acquired with this emission.

EPM consolidates its financial information with the companies in which it has participation on equity is equal to or less than 50%, directly or indirectly, or has management control.

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

Notes of a specific nature

Notes relating to valuation

Note 9 Conversion of values into foreign currency

Balances in banks, investments, accounts receivable, financial obligations, and accounts payable in foreign currency expressed in Colombian pesos with a basis in TRM certified by the Financial Superintendence of Colombia. At the close of September 30 and December 31 the values used were:

Currency	2012	2011	Prior %
American Dollar (USD)	1,800.52	1,942.70	(7.32%)
Pound Sterling (GBP)	2,907.48	3,019.15	(3.70%)
Yen (JPY)	23.14	25.26	(8.39%)
Euro (EUR)	2,316.37	2,521.92	(8.15%)
Swiss Franc (CHF)	1,915.86	2,077.52	(7.78%)
Quetzal (QGT)	225.56	248.67	(9.29%)

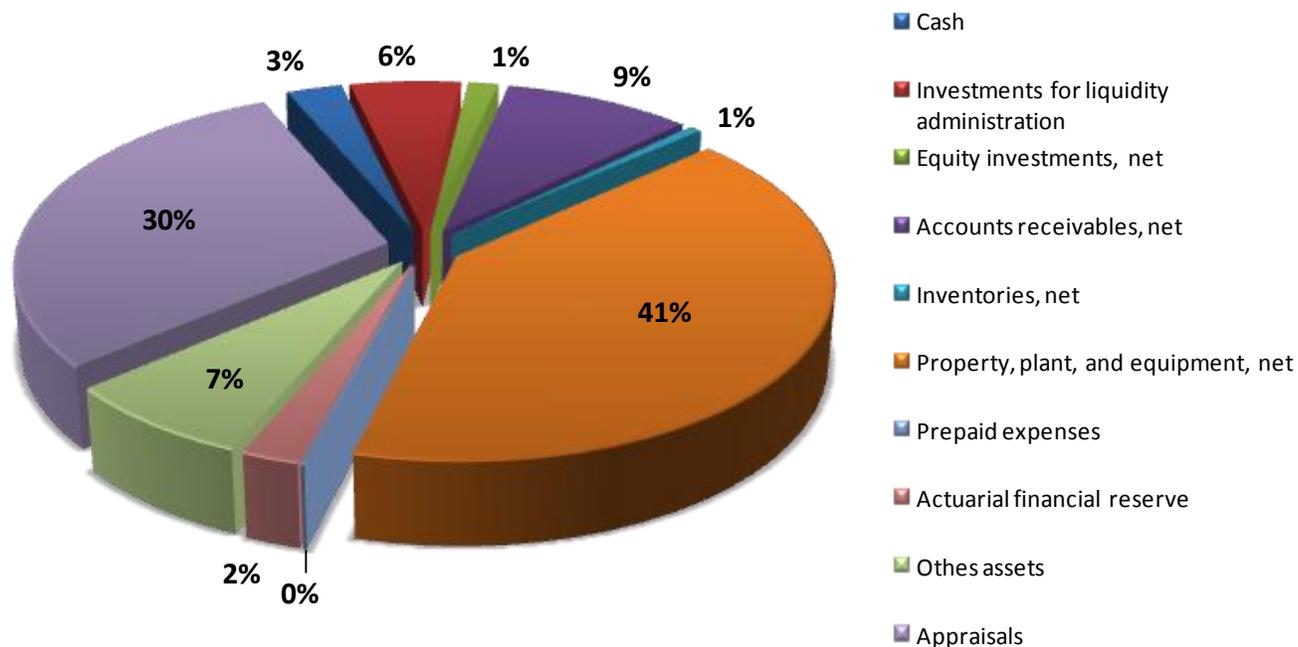
	2012	2011
Non-operating revenues for differences in exchange		
Cash	3,551	27,033
Acquisition of domestic goods and services	39,824	26,088
Investments	0	418
Receivables	10,859	25,514
Public credit operations	123,695	12,811
Other adjustments for differences in exchange	8,566	8,879
Total non-operating revenues for differences in exchange	186,495	100,743
Non-operating expenses for differences in exchange		
Cash	6,072	1,242
Acquisition of domestic goods and services	18,402	28,851
Receivables	31,847	23,877
Investments	6,257	3,208
External short-term public credit operations	7,107	7,051
Other adjustments for differences in exchange	12,799	5,546
Total non-operating expenses for differences in exchange	82,484	69,775

Figures in millions of Colombian pesos

Balance Sheet

Assets

The composition of the assets of EPM Group as of September 30, 2012 was:



Note 10 Cash

The cash balance as of September 30 and December 31 was:

		2012	2011
Cash		4,342	3,472
Banks		902,581	944,038
Other Available Resources	1	30,597	14,245
Total Cash		937,520	961,755
Including retained cash	2	30,396	50,678

Figures in millions of Colombian pesos

(1) Represents funds in foreign currency payable on sight made during overnight operations that generate a financial gain.

(2) Amount available in cash and banks includes the following accounts with special destination:

Agreement	Note	2012	2011
Municipality of Medellín – Moravia	2.1	1.450	4.354
Municipality of Medellín – Water	2.2	2.641	6.298
Municipality of Medellín – Miguel de Aguinaga	2.3	-	642
Municipality of Medellín – Lands	2.4	453	3.020
Department of Antioquia and IDEA – Program Antioquia Lighted	2.5	4.831	9.339
National Royalties Fund – Gas	2.6	-	11
"Small Villages" Program	2.7	1.667	4.723
Law 820 Deposits	2.8	48	34
Agreement 10000083 Profitability	2.9	21	16
Agreement 10000083 Sopetrán	2.9	228	405
Agreement 5847	2.9	3	143
Agreement – Santafé	2.9	2	2
Agreement – San Jerónimo	2.9	12	12
Public hearings	2.10	89	87
ESSA agreement – Governorship Phase I	2.10	791	779
Governorship agreement	2.10	548	851
ESSA Governorship agreement Phase III	2.10	172	1.619
ESSA Governorship agreement Phase IV	2.10	1.044	4.710
ESSA Governorship agreement Phase V	2.10	8.083	7.793
Prone 05 - ESSA	2.10	933	905
Faer 036 - ESSA	2.10	271	-
Faer 030 - ESSA	2.11	1.274	689
Faer 014 - ESSA	2.12	326	315
Public Lighting San Gil	2.13	228	253
ESSA agreement – Municipality of Charalá	2.14	268	327
National Royalties Fund. Jesús María - ESSA 2009		0	-
National Royalties Fund. Macaravita - ESSA 2009		0	-
Financial Support 10003713-49 Apartadó	2.15	0	36
Financial Support 10003713-49 Chigorodó	2.15	176	176
Financial Support 10005141-153	2.15	58	58
Financial Support 10005431-CF-12-4842	2.15	2.886	2.891
Puerto Wilches Barranca line		2	3
Domestic Calamity Fund	2.16	10	12
Dwelling Fund	2.16	674	772
Entirety of Agreement		29.187	51.275

Figures in millions of Colombian pesos

- (2.1) Resources destined for the construction, repair, and replacement of water lines and sewer networks and paving of the streets in the Municipality of Medellín affected by the works in the Moravia neighborhood, which has a population that is displaced principally from stratum 1 and 2. The execution of this project began in September 2010.
- (2.2) This project has as its objective the total handling of water for human consumption. Its implementation began in 2008.
- (2.3) These resources were jointly provided by the Municipality of Medellín and EPM for the maintenance of the Miguel de Aguinaga building. The settlement of this agreement will be carried out in 2012.
- (2.4) The resources of this project are earmarked for the acquisition of properties from the hydrographic watershed supply protection zones of the Municipality of Medellín.
- (2.5) It has as its objective to provide electric service to rural homes in the municipalities that make up the Department of Antioquia within a period of three years that began in 2009.
- (2.6) It has as its objective the construction of the compressed natural gas distribution infrastructure and subsidies for connection to the stratum 1 and 2 users from the municipalities of El Peñol and Guatapé in 2010.
- (2.7) The object of the program is to take advantage of the wood, which is completing its maturity cycle in the forests planted by EPM around its dams, to construct homes of community interest in the municipalities of Antioquia outward from Valle de Aburrá and give them to needy families, preferably those that are in a displaced situation whether forced or voluntarily.
- (2.8) The deposits received, in fulfillment of Article 15 of Law 820 of 2003 and the Regulatory Decree 3130 of November 4, 2003 corresponded to a guarantee demanded by the landlord (owner) to the renter equivalent to two months of revenue from the fixed charge and the charges for connection supplies and per unit of consumption so that the homesteads will not be affected in the event of a possible default on the part of the renter in the appropriate payment of public services.
- (2.9) Resources administered by Western Regional and that correspond to resources received in 2011 from the inter-administrative agreement 08-CF-124850 signed between the Department of Antioquia and the municipalities of Santafé de Antioquia and San Jerónimo as well as the resources received in 2011 under the inter-administrative agreement of financial support signed between the Ministry of Environment, Housing, and Territorial Development; the Department of Antioquia, and Western Regional whose object is the financial support of the regional frameworks for the supply of water and sewer services.

- (2.10) Corresponds to the construction of medium and low voltage grids, assembly of transformers, and internal installations for rural electrification of paths in the Department of Santander that are assigned to ESSA.
- (2.11) Corresponds to the technical service agreement between the Nation, Ministry of Mines, and ESSA for the management and implementation of the resources of the financial support Fund for electrifying the interconnected rural zones (FAER).
- (2.12) Corresponds to the management and implementation of the resources of the financial support Fund for electrifying the interconnected rural zones (FAER) assigned to the projects of rural electrification and to the normalization of electrical grids that ESSA serves.
- (2.13) Corresponds to the construction of medium and low voltage grids for the rural electrification user of ESSA.
- (2.14) Corresponds to the construction of medium and low voltage grids, assembly of transformers, and internal installations for rural electrification of the streets of the municipality of Charalá that ESSA serves.
- (2.15) Corresponds to the financial resources that Aguas de Urabá has generated for its own operation. These resources are found in banking entities such as Bancolombia, BBVA, and Banco Popular.
- (2.16) Corresponds to the financial resources to housing loans and domestic calamity of the workers.

Note 11 Investments for liquidity administration

The investments for management of liquidity balance as of September 30 and December 31 was:

		2012		2011	
		Value	Average profitability	Value	Average profitability
Rights in securities funds and investment trusts	1	588,637	4.39% E.A.	197,661	3.73% E.A.
Treasury Securities - TES	2	246,805	6.95% E.A.	938,438	4.80% E.A.
Certificates of Deposit at term	3	793,301	6.08% E.A.	888,548	5.67% E.A.
Bonds and securities issued by financial entities	4	162,109	1.90% E.A. en USD	107,702	2.19% E.A. en USD
Bonds and securities issued by the National General Government	5	44		26,219	3.89% E.A. en USD
Bonds and securities issued by the private sector		16,048	7.09% E.A.	46,811	5.28% E.A.
Other investments for the management of liquidity		243		12,869	
Current investments for the management of liquidity		1,807,187		2,218,248	
Deposits from external borrowing operations		2,602		2,807	
Bonds and securities issued by financial entities		59,166	8.63% E.A. en GTQ	63,709	8.63% E.A. en GTQ
Other investments for the management of liquidity		0		0	
Non-current investments for the management of liquidity		61,768		66,516	
Total investments for the management of liquidity		1,868,955		2,284,764	

Figures in millions of Colombian pesos

- (1) Short-term investments made with own money in collective portfolios. They are treated as a checking account and are investments that are carried out to obtain a return on the surpluses of cash.

- (2) Internal public debt securities issued by the National Government and administered by the Banco de la República. These instruments are valued by price.
- (3) Savings collection financial instruments the interest rate of which is determined by their face amount, maturity period, and market conditions at the time of issue. Their value is set with current rate and margin.
- (4) Corresponds to investments in fixed deposits entered into with international financial institutions with a minimum rating of A+ for long-term and A-1+ for short-term, and subsidiaries outside of banking establishments overseen by the Financial Superintendence of Colombia with the highest current rating at long and short term.
- (5) Corresponds to investments in "Yankee Bonds", securities issued in dollars by the National Government and expressed in Colombian pesos, and "Treasury Bills", securities issued by the U.S. Treasury with maturity of less than one year.

Note 12 Accounts receivables, net

The receivables balance as of September 30 and December 31 was:

Borrowers		2012	2011
Loan of public services			
Energy service		1,285,412	1,230,003
Fuel service		51,517	53,999
Sewer service		50,088	41,792
Water service		48,565	41,917
Telecommunication service		342,574	421,284
Restroom Service		159	187
Water service subsidy		8,328	4,124
Sewer service subsidy		2,357	168
Energy service subsidy		75,652	74,564
Fuel service subsidy		54,275	49,689
Telecommunication service subsidy		4,241	0
Deposits and prepayments delivered	1	86,434	88,295
Prepayments or credit balances for taxes and assessments		177,285	157,858
Administration health system resources		9,838	11,452
Resources delivered to administration		13,732	10,875
Other receivables			
Leases		6,240	5,214
Pension item payments		18,803	18,219
Collection guidelines		10,791	27,703
Dividends and shares receivable		6	5,012
Fees and commissions		3,315	2,149
Sales of Assets		4,224	4,571
Loans to employees		13,261	37,029
Payments made by third-parties		14,322	18,955
Interest		3	36,456
Other small debtors		76,985	97,715
Debts that are difficult to collect			
Energy service		169,103	156,154
Water service		76,491	75,650
Sewer service		52,592	51,383
Fuel service		8,316	8,720
Telecommunication service		118,656	80,195
Other debts that are difficult to collect		89,906	87,658
Sales of property		14,545	21,997
Miscellaneous services provided to public services		190,833	216,637
Current receivables		3,078,849	3,137,624
Allowance current part	2	(663,046)	(612,377)
Net receivables current part		2,415,803	2,525,247
Loan of public services			
Energy service		74,975	64,867
Fuel service		189,163	170,270
Sewer service		25,551	25,995
Water service		43,391	42,642
Telecommunication service		(69)	(209)
Deposits and prepayments delivered		39,193	75,072
Other receivables			
Loans to employees		109,762	80,517
Collection guidelines		7,066	0
Interest		30,688	41,975
Payments made by third-parties		10,956	14,283
Other		198,702	200,957
Sales of property		5,070	8,983
Performance of Services		22,662	1,777
Resources delivered to administration		0	0
Receivables non-current		757,110	727,129
Receivables, net		3,172,913	3,252,376

Figures in millions of Colombian pesos

- (1) The growth of this heading is related to the accrual of prepayments to the Municipality of Medellín for Surpluses.
- (2) Net activity in the allowance for debtors:

	2012	2011
Starting balance:	612,377	548,810
Increase for the year	59,293	113,862
Expenses in previous business cycles	-	(5,635)
Conversion adjustment	(1,454)	-
Business mix	(3,135)	24,004
Recovery allowance	(619)	(16,105)
Use of the allowance	(3,416)	(52,599)
Total allowance for debtors	663,046	612,377

Figures in millions of Colombian pesos

Note 13 Inventories, net

The inventories balance as of September 30 and December 31 was:

Inventories		2012	2011
Materials for the providing of services		181,326	189,819
Goods in inventory	1	20,186	13,793
Goods in possession of third-parties		3,004	5,273
Goods in transit		2,414	2,628
Semi-finished goods		770	595
Total Inventory		207,700	212,108
Allowance			
Materials for the providing of services		(6,930)	(4,750)
Goods in inventory		(693)	(1,534)
Total allowance	2	(7,623)	(6,284)
Total inventory		200,077	205,824

Figures in millions of Colombian pesos

- (1) Includes elements of plots and ranches associated with the products sold in the EPM supply stores.
- (2) The activity of the allowance for the protection of inventories was:

	2012	2011
Beginning balance	6,284	4,392
Increase during the period	3,314	1,796
Use of allowance	(2,543)	(620)
Conversion adjustment	568	-
Recovery of allowances	-	(192)
Business mix	-	908
Ending Balance	7,623	6,284

Figures in millions of Colombian pesos

Note 14 Prepaid expenses

The prepaid expenses balance as of September 30 and December 31 was:

		2012	2011
Insurance		45,858	25,492
Leases		606	489
Other Prepaid Expenses		3,709	6,413
Prepaid Expenses – Current		50,173	32,394
Insurance		10,042	5,575
Leases		41,164	45,096
Other Prepaid Expenses	1	123,027	122,804
Prepaid Expenses – Non-Current		174,233	173,475
Prepaid Expenses – Non-Current		224,406	205,869

Figures in millions of Colombian pesos

- (1) Includes the rights of use of Cables referred to as IRUS, WIMAX, and Purchase of Domains among others (Irrevocable Right of Use (IRU) on dark fiber optics, purchase of domains, rights of enjoyment), terms used by the subsidiary UNE EPM Telecomunicaciones.

Note 15 Equity investments, net

The equity investments balance as of September 30 and December 31 was:

		2012	2011
In non-controlled entities		604,320	604,358
In entities being liquidated		1,049	1,049
Equity investments, net	1	605,369	605,407
Allowance	2	(99,726)	(99,490)
Equity investments, net		505,643	505,917

Figures in millions of Colombian pesos

(1) The investments registered under the cost method as non-controlled were:

Business	Street Address	Corporate Purpose	Share Percentage		Date Created
			2012	2011	
Isagen S.A. E.S.P.	Medellín	Generation and sale of electrical energy, natural gas by networks, as well as the sale of coal, steam, and other sources of energy for industrial use.	14.15%	14.15%	April 4, 1995
Interconexión Eléctrica S.A. E.S.P.	Medellín	Operation and maintenance of its own transmission grid, the expansion of the national interconnection grid, the planning and coordination of the operation of the resources of SIN	10.17%	10.17%	September 14, 1967
Hidroeléctrica Ituango S.A. E.S.P.	Medellín	Operation and maintenance of its own transmission grid, the expansion of the national interconnection grid, the planning and coordination of the operation of the resources of SIN	46.33%	46.33%	December 29, 1997
Gestión Energética S.A. E.S.P. (GENSA)	Manizales	Providing one or more of the public services dealt with in Law 142 of 1994 or the performance of one or several activities considered as complimentary.	1.38%	1.38%	May 4, 1993
Reforestadora Industrial de Antioquia (RIA)	Medellín	Produce, transform, and sell wooden and non-wooden products for forest plantations seeking high profitability and sustainability	7.34%	7.34%	February 28, 2003
Electrificadora del Caribe S.A.	Barranquilla	Distribution and sale of electrical energy in the Colombian Caribbean	0.05%	0.05%	June 6, 1998
Colombia Móvil S.A. E.S.P.	Bogotá	providing and commercializing personal communication services (PCS) within the national territory and outside of the country, and providing and commercializing basic public telephone services switched in locations defined by the Ministry of Communications	25.04%	25.04%	January 24, 2003
Transoriente S.A. E.S.P.	Bucaramanga	Transportation of gas by means of construction, operation, and maintenance of gas pipeline mains and branches	6.73%	6.73%	March 24, 1994
Gas Natural del Oriente S.A. E.S.P.	Bucaramanga	Providing the essential public service of home gas distribution in any part of the country.	10.00%	10.00%	August 30, 1997

The value of the investments registered under the cost method with details of the adjusted cost, the valuation, and the associated allowances were:

Entity	2012				
	Cost	Allowance	Net	Value	Dividends
Isagen S.A. E.S.P.	194,311	-	194,311	673,539	27,178
Interconexión Eléctrica S.A. E.S.P.	187,035	-	187,035	884,970	20,719
Colombia Móvil S.a. E.s.p.	152,073	(81,721)	70,352	-	-
Hidroeléctrica Ituango S.A. E.S.P.	28,025	-	28,025	5,929	618
Gestión Energética S.A. E.S.P.	12,700	(12,033)	667	-	-
Transoriente S.A. E.S.P.	8,633	-	8,633	3,175	1,158
Gas Natural del Oriente S.A. E.S.P.	7,651	-	7,651	9,530	-
Reforestadora Industrial de Antioquia (RIA)	5,076	(289)	4,787	-	-
Electrificadora del Caribe S.A. E.S.P.	1,398	(320)	1,078	-	-
Other	7,418	(5,363)	2,055	17,414	12
Total	604,320	(99,726)	504,594	1,594,557	49,685

Figures in millions of Colombian pesos

2011					
Business	Cost	Allowance	Net	Value	Dividends
Isagen S.A. E.S.P.	194,311	-	194,311	546,417	10,987
Interconexión Eléctrica S.A. E.S.P.	187,035	-	187,035	1,074,148	9,684
Colombia Móvil S.A. E.S.P.	152,073	(81,622)	70,451	-	-
Hidroeléctrica Ituango S.A. E.S.P.	28,025	-	28,025	6,202	-
Gestión Energética S.A. E.S.P.	12,700	(11,977)	723	-	1,625
Transoriente S.A. E.S.P.	8,633	-	8,633	2,404	-
Gas Natural del Oriente S.A. E.S.P.	7,651	-	7,651	9,199	7,103
Reforestadora Industrial de Antioquia (RIA)	5,076	(339)	4,737	-	-
Electrificadora del Caribe S.A. E.S.P.	1,398	(345)	1,053	-	-
Other	8,505	(5,207)	3,298	1,137	-
Total	605,407	(99,490)	505,917	1,639,507	29,399

Figures in millions of Colombian pesos

The principal financial information of the registered investments under the cost method as of December 31, 2011 was:

2011				
Business	Net Results	Assets	Liabilities	Equity
ISA S.A. E.S.P.	336,776	9,384,833	2,988,490	6,396,343
Interconexión Eléctrica S.A. ESP	479,112	5,882,447	2,507,569	3,374,878
Hidroeléctrica Ituango S.A. E.S.P.	1,481	92,672	18,848	73,824
Reforestadora Industrial de Antioquia (RIA)	(186)	69,591	3,847	65,744
Gestión Energética S.A. E.S.P. (GENSA)	24,131	564,076	183,880	380,196
Transoriente S.A. E.S.P.	4,267	448,489	316,404	172,085
Gas Natural del Oriente S.A. E.S.P.	12,966	245,044	76,483	168,561

Figures in millions of Colombian pesos

The following capitalizations or acquisitions of investments in non-controlled companies were performed.

	2012	2011
Hidroeléctrica Ituango S.A. E.S.P. (*)	-	(42)
Market Intelligence Focus	-	84
Total Capitalizations	-	42

Figures in millions of Colombian pesos

(*) Corresponds to the refund of the excess of the greater capitalization performed.

(2) The activity of the investments allowance was:

Item	2011	2011
Beginning balance	99,490	101,075
Increase for the year	2,196	11,226
Expense allowance previous years	-	-
Allowance reclassification	-	(230)
Recovery of allowances	(1,960)	(12,581)
Ending Balance	99,726	99,490

Figures in millions of Colombian pesos

Note 16 Property, plant, and equipment, net

The property, plant, and equipment balance as of September 30 and December 31 was:

		2012	2011
Plants, ducts, and tunnels	2	7,794,060	7,918,380
Networks, lines, and cables	2	7,173,851	6,916,110
Buildings	2	2,878,648	2,865,541
Construction underway	1	1,489,134	992,357
Communication and computer equipment		1,210,233	1,109,765
Machinery and equipment		469,299	460,579
Lands		224,211	219,859
Transportation, traction, and elevator equipment		142,562	138,812
Furniture, fixtures, and office equipment		131,741	95,612
Property, plant, and equipment not in use		113,896	118,911
Moveable property in warehouses		108,802	98,591
Machinery, plant, and equipment being assembled		64,218	134,948
Medical and scientific equipment		27,463	26,825
Property, plant, and equipment in transit		16,184	64,087
Property, plant, and equipment in maintenance		6,842	16,207
Investment Properties		5,200	5,200
Lunchroom, kitchen, dispensary, and hotel equipment		1,665	1,460
Livestock		2	2
Subtotal property, plant, and equipment		21,858,011	21,183,246
Accumulated Depreciation			
Plants, ducts, and tunnels		(5,241,117)	(5,069,011)
Networks, lines, and cables		(2,991,101)	(2,829,927)
Communication and computer equipment		(743,605)	(664,636)
Buildings		(640,959)	(604,249)
Machinery and equipment		(260,689)	(249,412)
Transportation, traction, and elevator equipment		(104,352)	(99,067)
Furniture, fixtures, and office equipment		(82,565)	(83,815)
Medical and scientific equipment		(16,346)	(15,191)
Lunchroom, kitchen, dispensary, and hotel equipment		(1,162)	(1,630)
Livestock		(2)	(2)
Accumulated Depreciation (cr)	3	(10,081,898)	(9,616,940)
Deferred Depreciation		2,160,788	2,025,290
Total Depreciation		(7,921,110)	(7,591,650)
Allowances for protection of property, plant, and equipment (cr)	4	(140,085)	(102,229)
Total properties, plant, and equipment, net		13,796,816	13,489,367

Figures in millions of Colombian pesos

- (1) The construction underway as of September 30, 2012 showed an 50.1% increase compared to December 2011. The power generation business has made investments primarily for the construction, rehabilitation and modernization of power generation plants.

The transmission and distribution business have made investments on infrastructure works to implement the expansion and replacement of networks at different voltage levels in order to fit the needs of growing energy demand and improving the quality of service and equipments.

The gas business has made investments to address the non-residential market and expansion in regions where they are not accessible with conventional pipelines.

The water business has made investments to the modernization and replacement of water supply networks and sewage in different circuits; pipeline expansion, the acquisition of equipment for water treatment plants and pumping stations.

The Telecommunications business has made investments to the expansion and replacement of networks and telephone plant modernization.

- (2) Corresponds to the components of the operational infrastructure of the business of Generation, Transmission and Distribution, Natural Gas, Aqueduct, Wastewater, and Telecommunications.
- (3) The changes in depreciation during 2012 are detailed below:

	2012	2011
Beginning balance	9,616,941	8,708,653
Increase during the period	593,944	716,727
Business Combination	133,122	407,623
Conversion adjustment	(55,064)	-
Deferred depreciation, net	137,865	156,951
Removals and moving of property, plant, and equipment	(138,202)	(373,013)
Prior period adjustments	66	-
Other adjustments and reciprocal operations	(201,590)	-
Others	(5,183)	-
Ending Balance	10,081,899	9,616,941

Figures in millions of Colombian pesos

- (4) The changes in the allowance for property, plant, and equipment was:

	2012	2011
Beginning balance	102,229	71,028
Increase during the period	43,133	26,162
Expense allowance previous years	1,810	(2,248)
Reclassification of the allowance	(6,867)	12,793
Removal of property, plant, and equipment	(211)	(5,506)
Translation adjustments	(2)	-
Business Combination	7,342	-
Others	(7,349)	-
Ending Balance	140,085	102,229

Figures in millions of Colombian pesos

Note 17 Actuarial financial reserve

The actuarial financial reserve balance as of September 30 and December 31 was:

Item		2012	2011
Trust commissions	1	735,990	716,148
Total trust commissions		735,990	716,148

Figures in millions of Colombian pesos

- (1) It is principally made up of the pensions that are the responsibility of EPM, who contracted with Fiduciaria Corficolombiana S.A., by means of trust contract CT-2010-1045 for the management of an independent patrimony made up of the resources that EPM will earmark for the payment of the pension allowances of EPM as well as those derived from the pension switching of EADE.

The fund is set up in such a way that it is extinguished at the moment of the payment of the last pension that is the responsibility of the companies of the EPM Group. With the setting up of this fund, the future availability of resources to meet the payment of pension liabilities for the pensions of the companies is guaranteed, and their financial management maintains its independence.

Note 18 Other assets, net

The other assets balance as of September 30 and December 31 was:

		2012	2011
Deferred Charges	1	639	1,405
Goods delivered to third-parties	2	0	246
Total current other assets		639	1,651
Goods and services paid in advance		174,233	173,475
Deferred Charges	1	544,853	432,221
Works and improvements in property of others	4	143,655	145,701
Goods delivered to third-parties	2	416,268	348,337
Rights in trusts	3	128,966	149,934
Goods received in place of payment		459	678
Goods acquired in financial leasing		3,480	3,483
Goods of art and culture		77	77
Intangibles	5	2,250,826	2,117,518
Subtotal non-current other assets		3,662,817	3,371,424
Amortization of goods delivered to third-parties	2	(266,387)	(211,475)
Amortization of intangibles	5	(902,099)	(826,844)
Depreciation of goods acquired in leasing		(3,102)	(2,951)
Allowance on goods delivered to third-parties	2	(209)	(209)
Total depreciation, amortization, and allowances other assets		(1,171,797)	(1,041,479)
Total non-current other assets		2,491,020	2,329,945
Total other assets, net		2,491,659	2,331,596

- (1) As of September 30 and December 31 the description of the balance of deferred charges was:

		2012	2011
Tax Deferred		346,950	228,467
Studies and projects	1.1	108,666	94,376
Tax to preserve democratic security		31,980	42,640
Discount in bonds and long-term external public debt securities		22,794	25,412
Other deferred charges		21,819	20,518
Development expenses		4,307	12,792
Premium for legal stability contracts		7,668	8,039
Expenses for organization and start-up		1,308	1,382
Total deferred charges		545,492	433,626

Figures in millions of Colombian pesos

The description of this heading is the following:

- 1.1 The studies associated with the Porce IV and deferred charges that correspond to the subsidiary UNE EPM Telecomunicaciones. S.A.
- (2) Goods delivered to third-parties corresponded to:

Item		2012	2011
Goods delivered in administration	2.1	289,361	245,949
Goods delivered in bailment		98,510	79,772
Other goods delivered in bailment		28,397	22,862
Subtotal goods delivered to third-parties		416,268	348,583
Amortization	2.2	(266,387)	(211,475)
Allowance		(209)	(209)
Total goods delivered to third-parties		149,672	136,899

Figures in millions of Colombian pesos

- 2.1 Showed an increase of \$ 43,412, which corresponds to goods delivered to customers by telecommunications UNE EPM Telecomunicaciones.
- 2.2 The changes in the accumulated amortization of other assets different from intangibles was:

	2012	2011
Beginning balance	211,475	128,366
Increase during the period cost	54,990	661
Increase during the period expense	316	92,041
Expenses previous financial cycles	-	(3)
Disposal	(12,790)	-
Translation adjustments	-	-
Business combination	7,422	-
Others increases(decreases)	4,974	(9,590)
Ending Balance	266,387	211,475

Figures in millions of Colombian pesos

- (3) Rights in trust are those resources delivered by the group's companies to companies assigned responsibility for the administration of independent patrimonies.
- (4) The works and improvements to property include \$1,693 million for works performed on the Modernization Project EPM Technology Building owned by the Municipality of Medellín. In addition, adjustments were made in some offices of customer service in different areas. Also, by affecting floors of the ways work and UNE EPM EPM Telecomunicaciones.
- (5) As of September 30 and December 31 the composition of intangibles was:

		2012	2011
Business credit	5.1	1,218,370	1,208,842
Software, licenses, rights		1,009,210	886,709
Trademarks, concessions, and franchises		2,068	2,068
Easements		12,031	10,750
Other Intangibles		9,148	9,149
Subtotal intangibles		2,250,827	2,117,518
Less commercial loan amortization		(303,825)	(271,380)
Less software, licenses, rights amortization		(562,632)	(539,196)
Less trademarks, concessions, and franchise amortization		(20,659)	(2,068)
Less easements and other amortization		(14,984)	(14,200)
Subtotal amortization	5.2	(902,100)	(826,844)
Total intangibles		1,348,727	1,290,674

Figures in millions of Colombian pesos

5.1 The composition of the business credit was as follows:

2012			
	Cost	Amortization	Net value
Distribución Eléctrica Centroamericana DOS (II) S.A.	336,140	(14,147)	321,993
EPM Ituango S.A. E.S.P.	177,667	0	177,667
Panama Distribution Group	109,883	(9,709)	100,174
Ertelsa S.A. E.S.P.	93,829	(34,115)	59,714
Promisión S.A. E.S.P.	85,513	(15,677)	69,836
Empresa de Telecomunicaciones de Pereira S.A. E.S.P.	79,081	(79,081)	0
Edatel S.A. E.S.P.	68,786	(49,299)	19,487
Costavisión S.A. E.S.P.	65,453	(12,000)	53,453
Orbitel S.A. E.S.P.	55,869	(22,993)	32,876
Delsur	40,915	(5,475)	35,440
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	23,923	(17,687)	6,236
Emtelco S.A.	20,929	(20,073)	856
Generadores Hidroeléctricos S.A. (Genhidro)	18,726	(6,443)	12,283
Gestión de Empresas Eléctricas S.A.	17,678	(669)	17,009
UNE EPM Bogotá S.A.	6,409	(6,361)	48
EPM Televisión S.A. E.S.P.	9,552	(9,552)	0
Hidroecológica del Teribe S.A.	6,032	0	6,032
Hidronorte S.A.	1,324	(204)	1,120
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)	592	(340)	252
Aguas de Malambo S.A. E.S.P.	69	0	69
Total business credit	1,218,370	(303,825)	914,545

Figures in millions of Colombian pesos

(*) In accordance with a description of CGN provided in December 2007, the goodwill generated by the highest price paid for a representative value of capital with relation to its intrinsic value can only be reported when the companies are effectively merged. In the case of Emtelsa, Promisión, and Costavisión the amortization generated began in January 2009.

5.2 The changes in the amortization are detailed below:

	2012	2011
Beginning balance	826,844	765,583
Increase during the year	204,515	80,439
Retirement of intangibles	(95,950)	(659)
Business combination	6,439	17,142
Translation adjustments	(36,866)	-
Others adjustments and eliminations	(3,974)	-
Other decreases	1,091	(55,490)
Ending Balance	902,099	826,844

Figures in millions of Colombian pesos

Note 19 Appraisals

The valuations balance as of September 31 and December 31 was:

Item	2012	2011
Equity investments, net	1,594,557	1,639,507
Property, Plant, and Equipment	8,477,093	8,537,759
Other Assets	67,672	78,486
Total valuations	10,139,322	10,255,752

Figures in millions of Colombian pesos

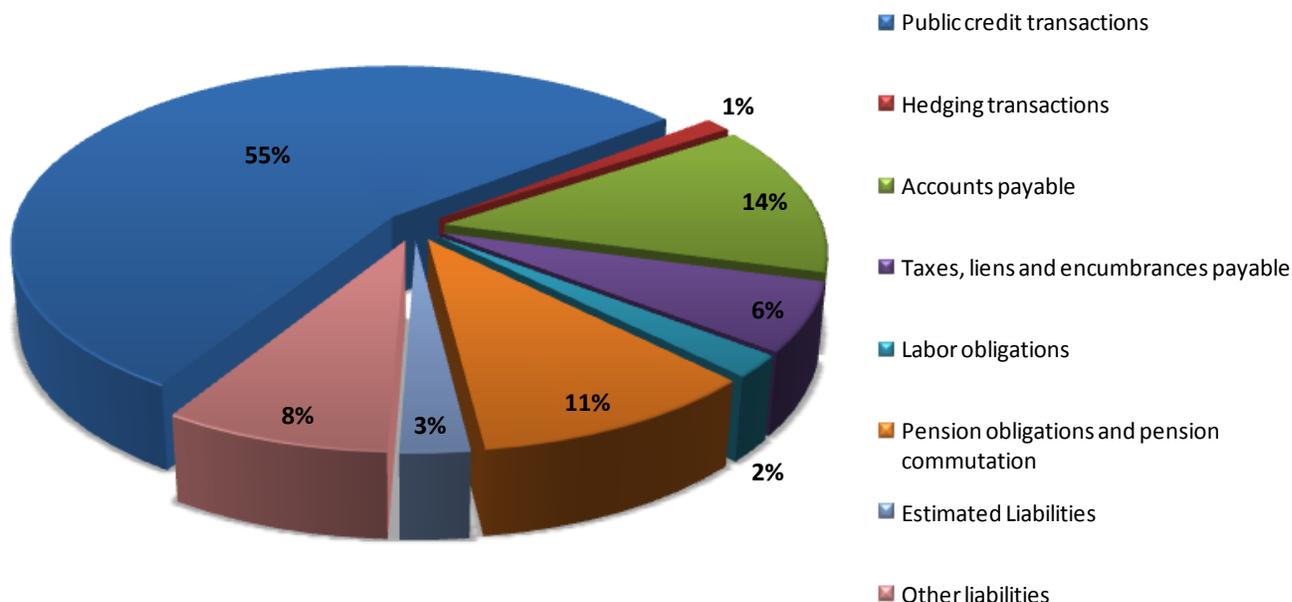
(1) As of September 30 and December 31 the following was included:

	2012	2011
Plants, ducts, and tunnels	3,178,519	3,075,887
Networks, lines, and cables	2,668,325	2,826,820
Buildings	1,304,304	1,316,785
Lands	1,192,412	1,181,442
Communication and computer equipment	46,685	48,890
Transportation, traction, and elevator equipment	34,851	35,137
Machinery and equipment	33,688	34,539
Moveable property and equipment	18,015	17,948
Medical and scientific equipment	254	270
Lunchroom, kitchen, dispensary, and hotel equipment	41	41
Total valuation of property, plant, and equipment	8,477,094	8,537,759

Figures in millions of Colombian pesos

Liabilities

The composition of liabilities of the EPM Group as of September 30, 2012 was:



Note 20 Public credit transactions

The public credit operations balance as of September 30 and December 31 was:

		2012	2011
Internal borrowing operations	1	93,283	206,779
External borrowing operations	2	412,183	245,729
Current public credit operations		505,466	452,508
Internal borrowing operations	1	2,551,076	2,523,519
External borrowing operations	2	3,875,690	3,998,866
Non-current public credit operations		6,426,766	6,522,385
Total public credit operations		6,932,232	6,974,893

Figures in millions of Colombian pesos

(1) Internal borrowing operations

Borrowing company	Kind	2012		2011	
		Interest Rate	Weights	Interest Rate	Weights
EPM (Empresas Públicas de Medellín)	Bonds *:	DTF + 1.49% to 2.59%, IPC + 3.25% to 7.12%, Fixed 10.80% to 13.80%	1,295,710	DTF + 1.49% to 2.59%, IPC + 3.25% to 7.12%, Fixed 10.80% to 13.80%	1,332,410
UNE	Bonds **	IPC + 3.67% to 5.10%	600,000	IPC + 3.67% to 5.10%	600,000
EPM (Empresas Públicas de Medellín)	Davivienda (Club Deal)	DTF + 3.4%	270,000	DTF + 3.4%	270,000
EPM (Empresas Públicas de Medellín)	BBVA (Club Deal)	DTF + 3.4%	180,000	DTF + 3.4%	180,000
UNE EPM Bogotá	Bonds:	IPC + 7.25% to 7.75%	0	IPC + 7.25% to 7.75%	120,000
ESSA	Banco de Bogotá	6.15 % EA	72,000		0
EPM (Empresas Públicas de Medellín)	Banco Santander (Club Deal)	DTF + 3.4%	80,000	DTF + 3.4%	72,000
CENS	Bancolombia	DTF + 3.3%	80,018	DTF + 3.3%	50,000
ESSA	BBVA			6.25% EA	40,000
EPM (Empresas Públicas de Medellín)	Helm Bank (Club Deal)	DTF + 3.4%	35,000	DTF + 3.4%	35,000
EDEQ, Aguas de Urabá, CHEC, Telefónica de Pereira	Other	DTF - 1.0% to 5.10%, Fixed 6.5%	31,630	DTF + 1.98% to 5.10%, Fixed 6.5%	30,887
	Total		2,644,358		2,730,297

(*) EPM bonds as of December 31, 2010 are not guaranteed and included: i) \$1,000,000 million whose auction was carried out between November 2008 and March 2009, with maturity between years 2011 and 2024, and ii) \$500,000 million whose auction was carried out on December 14, 2010 with maturity in years 2016, 2022, and 2030.

(**) This heading corresponds to bonds without a guarantee whose auction was carried out in the following manner: i) \$300,000 million on March 12, 2010 with maturity in 2015 and 2020, and ii) \$300,000 million on October 20, 2011 with maturities in 2016 and 2023.

(***) EPM Bogotá merged with UNE on July 1, 2012. UNE assumed the liabilities of the acquired company and paid the bonds on August 14, 2012.

(2) External borrowing operations

Borrowing company	Kind	Interest rate	2012			2011			
			Original Currency	Balance in original currency	Weights	Interest rate	Original Currency	Balance in original currency	Weights
EPM (Empresas Públicas de Medellín)	Bonds *:	7.63%	USD	500	900,260	7.63%	USD	500	971,350
EPM (Empresas Públicas de Medellín)	Bonds **	8.38%	COP	1,250,000	1,250,000	8.38%	COP	1,250,000	1,250,000
EPM (Empresas Públicas de Medellín)	Bank of Tokyo and BBVA Tokyo	Libor + 0,95%	USD	183	330,093	Libor + 0,95%	USD	200	388,540
EPM (Empresas Públicas de Medellín)	BID 1664	Libor + 1.05%	USD	200	360,104	Libor + 1.05%	USD	199	387,334
EPM	IFC ***	Libor + 1.875% - 2.15%	USD	149	268,277				
EPM (Empresas Públicas de Medellín)	BID 2120	Libor Rate %	USD	44	79,777	Libor Rate %	USD	44	86,077
UNE	Sindicado JPMorgan	Libor + 2%	USD	47	84,024	Libor + 2%	USD	93	181,319
EPM (Empresas Públicas de Medellín)	BID 792	Libor + 1.43%	USD	58	104,254	Libor + 1.43%	USD	87	168,729
ENSA	Bonds	7.60%	USD	100	180,052	7.60%	USD	100	194,270
EEGSA	Citibank	8.50%	USD	97	175,104	8.50%	USD	97	188,898
EPM (Empresas Públicas de Medellín)	BID 800	Libor + 1.43%	USD	57	102,045	Libor + 1.43%	USD	65	125,833
EEGSA	Banco Industrial	Active rate - 5.30%	GTQ	183	41,303	Active rate - 5.30%	GTQ	199	49,545
EEGSA	Banco Industrial	Active rate - 6.50%	GTQ	314	71,026				0
EEGSA	G&T Continental Bank			323	72,971	Active rate - 5.50%	GTQ	199	49,545
SOUTH	Bonds	Min 5% - Max 8%	USD	21	37,811	Min 5% - Max 8%	USD	21	40,797
EPM, HET, Genhidro, Hidronorte	Other	Libor + 0.4%, Fixed from 7% to 9.15%	USD	18	31,832	Libor + 0.4%, Fixed from 7% to 9.15%	USD	7	13,739
EEGSA	Other	Active rate - 5.30% and 6.60%	GTQ	338	76,532	Active rate - 5.30% and 5.80%	GTQ	99	24,581
SOUTH	Other	Min 4.5% - Max 6.5%, Fixed 6.50%	USD	31	55,789	Min 4.5% - Max 6.5%, Fixed 6.50%	USD	34	65,760
ENSA	Other	Libor + 1.25% to 2.375%	USD	37	66,619	Libor + 1.25% to 2.375%	USD	30	58,281
	Total				4,287,874				4,244,596

(*) Bonds without guarantee issued in July 2009, listed on the Luxembourg Euro MTF exchange, placed in the United States, Europe, Asia, and Latin America markets, with maturity in July 2019. They are exempt from the fulfillment of financial agreements because they have double investment grade ratings granted by Fitch Ratings and Moody's.

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

(***) It was disbursed USD 149 million of the credit signed for USD 349 million on December 29, 2011.

Covenants related to loans

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

- (Debt ratio against EBITDA) EPM should not allow the ratio of Total Financial Debt against EBITDA to be higher than 2.9 to 1.
- (Debt ratio against capital) EPM should not allow the ratio of Long-Term Financial Debt against Capital to be higher than 1.5 to 1.

2. Inter American Development Bank "IDB"

- Debt ratio against EBITDA of the EPM Group should be less than 3.5.
- The ratio between long-term debt and the assets of the EPM Group should not exceed 1.5 times their assets.

3. EPM Telecomunicaciones S.A. E.S.P Syndicated loan

- Leverage ratio not greater than 3.0
- EBITDA to interest ratio not less than 2.5

4. EGGSA loan with Citibank

- Ratio of total debt against EBITDA should be less than or equal to 5 times.
- Ratio EBITDA/Financial Expenses should be greater than 3 times.

As of September 30, 2011 the EPM Group was fulfilling these agreements:

The description of the maturity dates of financial obligations by year is as follows:

Year	American Dollars (thousands)	Quetzales (thousands)	Colombian Pesos (millions)	Equivalent in Pesos (millions)
2012	18,332	38,686	82,832	124,589
2013	122,042	776,371	17,230	412,582
2014	215,838	82,086	249,079	656,268
2015	106,458	82,086	250,400	460,647
2016	85,118	82,086	359,432	531,257
2017 and after	994,012	96,229	2,935,385	4,746,889
Total	1,541,800	1,157,544	3,894,358	6,932,232

Figures in millions of Colombian pesos

Note 21 Hedging transactions

The credit hedging operations balance as of September 30 and December 31 was:

	2012	2011
Obligations in derivative contracts	234,444	261,316
Rights in derivative contracts (Db)	(161,850)	(202,386)
Current hedging transactions	72,594	58,930
Obligations in derivative contracts	305,707	529,861
Rights in derivative contracts (Db)	(223,002)	(405,093)
Non-current hedging transactions	82,705	124,768
Total hedging transactions (*)	155,299	183,698

Figures in millions of Colombian pesos

(*) The details of hedging operations maturities for the year is as follows:

Year	Contractual Rights	Contractual Obligations	Net
2012	9,405	(10,289)	(884)
2013	182,454	(254,893)	(72,439)
2014	94,507	(133,940)	(39,433)
2015	46,270	(56,755)	(10,485)
2016 and after	52,215	(84,273)	(32,058)
Total	384,851	(540,150)	(155,299)

Figures in millions of Colombian pesos

Note 22 Accounts payable

The accounts payable balance as of September 30 and December 31 was:

		2012	2011
Acquisition of domestic goods and services		733,444	874,386
Acquisition of goods and services from other countries		338,761	405,834
Interest Payable		138,857	194,080
Accounts Payable	1	208,614	352,207
Other Accounts Payable		67,357	39,232
Current accounts payable		1,487,033	1,865,739
Acquisition of domestic goods and services		-21	15,630
Accounts Payable	1	100,000	50,000
Other Accounts Payable		111,260	135,101
Non-current accounts payable		211,239	200,731
Total Accounts Payable		1,698,272	2,066,470

Figures in millions of Colombian pesos

- (1) The Municipality of Medellín, by prior authorization of the Municipal Council, incorporated in Agreement 53 of 2010 (by which the dischargeable credits for matriculation and support in higher education for youth from stratum 1, 2, and 3 is established) special surpluses to be received from EPM for \$150,000. The Agreement established that these resources would be paid in three installments of \$50,000 during the periods 2011, 2012, and 2013.

Note 23 Taxes, liens and encumbrances payable

The taxes, assessments, and fees payable balance as of September 30 and December 31 was:

		2012	2011
Income tax		301,976	346,001
Retained at the source		29,857	56,782
Equity tax	1	120,187	161,775
Sales tax		15,611	25,565
Industry and commerce tax		37,269	39,601
Other taxes, assessments, and fees		53,678	47,675
Current taxes, assessments, and fees payable		558,578	677,399
Equity tax	1	177,906	285,365
Tax on Sales of temporary imports	2	34,531	38,239
Non-current taxes, assessments, and fees payable		212,437	323,604
Total taxes, assessments, and fees payable		771,015	1,001,003

Figures in millions of Colombian pesos

Income tax: the applicable and current tax dispositions establish the following:

- a. The nominal income tax rate is 33% for the main company and the domestic subsidiaries with the exception of Orbitel Servicios Internacionales which, being a company located in a *free trade zone* has a nominal tax rate of 15%. For subsidiaries in Guatemala the tariff is 31% and 5% respectively; 25% for subsidiaries in El Salvador; and 30% for those in Panama.
- b. Domestic public service companies are not subject to the presumptive income system, determined from the liquid tax equity from the previous year.
- c. During 2011, EPM submitted operations with its linked companies in other countries, which requires it to comply with regulations on transfer pricing. In the same manner UNE and OSI (Orbitel Servicios Internacionales S.A.) entered into operations with their related parties in other countries. For that reason, these companies of EPM Group are required to prepare a transfer price study and the individual informative declaration.
- d. The EPM Group uses the tax deduction referred to as "special deduction for investments in productive fixed assets", equivalent to 40% of the investments carried out during the fiscal year. This benefit continues for the parent company by reason of the legal stability contract signed with the National Government in 2008. Such a benefit entails the application of the straight-line depreciation method on assets subject to this deduction. If those assets are sold or cease to be used in the income producing activity before the expiration of their economic life, it will be necessary for the company to reimburse the value of the applied deduction in proportion to the remaining useful life of the asset in the tax return of the tax period in which such an event takes place. This benefit is transferred to the shareholders through an increase in the non-deductible dividends.

As of September 30 the ratio of taxable liquid income for the entire Business Group is shown below:

		2012	2011
	Earnings before the allowance for income tax	1.838.836	1.753.422
Less	Earnings before the allowance for income tax in Guatemala (*)	14.557	-
Plus	Items that increase income		
	Non-deductible expenses for tax on equity	12.417	11.684
	Appraisal of investments (straight line)	85.571	-
	Other non-deductible expenses	115.695	209.484
	Increase of non-deductible allowances	12.233	90.552
	Dividends received from companies where the company has control	410.134	-
	Costs and expenses from previous financial cycles	27.261	-
	Total items that increase taxable liquid income	773.408	311.683
Less	Items that decrease income		
	Special deduction of 40% of investment in the year	37.086	56.514
	Excess depreciation properties, plant, and equipment (*)	343.152	234.698
	Nontaxable income	348.327	105.925
	Non-constituent revenues of income – dividends	231.826	176.232
	Exchange difference on foreign Investment	56.727	-
	Total items that decrease liquid income	1.017.118	573.369
	Ordinary liquid income of the financial year	1.580.569	1.491.736
Less	Exempt income	50.176	2.207
Plus	Special liquid income	836	-
	Taxable liquid income	1,529,557	1,459,528

Figures in millions of Colombian pesos

Considering the different rates of income tax, the description of the liquidation of the allowance for this tax as of September 30, 2012 was as follows:

	Rate 33%	Rate 31%	Rate 30%	Rate 15%	Total
Liquid income	1.312.372	115.923	86.924	14.338	1.529.557
Allowance for current income tax before discounts	507.085	26.471	33.183	811	567.550
Taxpayer discounts – water and sewer lines/retention in the exterior source (**)	76.210	-	-	-	76.210
Allowance for current income taxes (1)	430.875	26.471	33.183	811	491.340
Charges to net results for deferred tax	(35.860)	-	(2.832)		(38.692)
Income tax allowance to results	395.015	26.471	30.351	811	452.648
(+) Income tax 5% on taxable income (***)					3.276
Total income tax					455.924

The description of the liquidation of the allowance for income tax in 2012 is the following:

Liquid income	1.459.528
Income tax	
33% Allowance for current income taxes before discounts	410.849
31% Allowance for income taxes before discounts	37.432
30% Allowance for income taxes before discounts	2.341
25% Allowance for income taxes before discounts	5.807
15% Allowance for income taxes before discounts	283
5% Allowance for income taxes before discounts	3.043
Tax discounts – water and sewer lines (**)	2.108
Allowance for current income taxes	457.647
Income from capital gains	8
Charges to net results for deferred tax	40.814
Income tax allowance to results	498.469
Figures in millions of Colombian pesos	

(*) The excess of tax over accounting depreciation corresponds to: (i) the utilization of different useful lives (accelerated for tax effects), (ii) the application of the declining balance depreciation method, and (iii) to the increase of the depreciation base by the addition of the cost of the adjustments for historical inflation (2001-2006), in all cases from that date they were suspended by legal provision.

(**) In Colombia, the discount for investment in regional water and sewer companies is set out in Article 104 of Law 788 of 2002, equivalent to 40% of the capital actually paid for the purpose of expanding the coverage of service.

(***) Tax calculated based on revenues.

The movements of the deferred tax during the year were as follows:

	2011	2010
Initial balance of the deferred tax assets	228,467	201,639
Initial balance of the deferred tax liabilities	(804,126)	(696,270)
	(575,659)	(494,631)
Net adjustment in the results of the period	38,693	(60,983)
Adjustment deferred tax with charge to prior financial years (2010 combination of businesses)	24,534	(20,045)
Final balance of the deferred tax assets	346,950	228,467
Final balance of the deferred tax liabilities	(859,383)	(804,126)
Total deferred tax, net	(512,433)	(575,659)

Figures in millions of Colombian pesos

- (2) Corresponds to the causation of the tax on equity payable corresponding to the installments from years 2012, 2013, and 2014.
- (3) Corresponds to the VAT payable on providing of services and sale of taxable goods.

In a general way, the income tax returns of the EPM Group for years 2010 and 2011 are open to review by the tax authorities. The Management of EPM and its subsidiaries, as well as its legal advisors, feel that the amounts shown are enough, and it is not probable that liabilities greater than those shown will arise.

Legal Stability Contracts

EPM entered into a contract of legal stability in Colombia based on Law 963 of 2005 (for the electric generating business). The contract protects EPM in the event of adverse tax changes and allows it to use the rules that are favorable to it. The principal established regulations are:

- Income tax rate of 33%
- Equity tax until 2010.
- Special deduction of 40% on the investment in real productive fixed assets (by legal stability contracts in the electric generating activity).
- Special deduction for investments in science and technology and environment.
- Other basic rules in the determination of revenue.

The contract has a term of 20 years starting in June 2008.

Note 24 Labor obligations

The labor obligations balance as of September 30 and December 31 was:

		2012	2011
Layoffs	1	47,532	44,519
Vacation Bonus	2	40,495	29,633
Vacations		27,610	20,802
Service bonus		2,213	0
Interest on severance pay		7,047	9,240
Payroll payable		8,621	7,813
Other bonuses		7,152	7,254
Other salaries and social benefits		45,638	6,689
Current labor obligations		186,308	125,950
Layoffs	1	31,332	34,912
Compensations		7,020	7,179
Other bonuses	3	28,590	25,288
Non-current labor obligations		66,942	67,379
Total labor obligations		253,250	193,329

Figures in millions of Colombian pesos

- (1) The current portion corresponds to the employee layoffs that are not affected by Law 50 of 1990 and that will be transferred to layoff funds before February 14, 2012. The non-current portion corresponds to employee layoffs from the prior regimen.
- (2) Corresponds to the bonus that is given to employees of EPM and UNE EPM Telecomunicaciones S.A. that enjoy vacations equivalent to 32 days of ordinary salary for each year of service and proportionally for a partial year. The June special bonus is taken into account, as a factor of liquidity, starting January 1, 2011.
- (3) Corresponds to the estimate, at present value, of the future payment known as a length of company service bonus of the official workers in EPM and UNE EPM Telecomunicaciones S.A., in which those with 5, 10, 15, 20, 25, 30, 35, 40, and 45 years of service in the company, whether continuous or not, have a right to be paid 12, 17, 23, 30, 35, and 40 days of basic salary, respectively.

Note 25 Pension obligations and pension commutation

The pension obligations and pension switching balance as of September 30 and December 31 was:

Item	2012	2011
Retirement Pensions	124,678	54,752
Pension bonds	2,994	4,340
Pension switching	11,409	9,848
Current pension obligations and pension switching	139,081	68,940
Retirement Pensions	670,147	722,439
Pension bonds	427,877	416,279
Pension switching	86,274	86,292
Non-current pension obligations and pension switching	1,184,298	1,225,010
Total pension obligations and pension switching (*)	1,323,379	1,293,950

Figures in millions of Colombian pesos

(*) The change in the actuarial calculation was:

	Actuarial Valuation	Balance to be amortized	Net liabilities
Balance as of December 31, 2010	1,353,758	(90,705)	1,263,053
Adjustments for actuarial calculations	116,952	(116,952)	-
Values paid for pension liabilities	(98,051)	-	(98,051)
Charges to profits – amortization	-	129,178	129,178
Net changes in pensions payable	(230)	-	(230)
Balance as of December 2011	1,372,429	(78,479)	1,293,950
Adjustments for actuarial calculations	(102,662)	102,662	-
Values paid for pension liabilities	131,133	-	131,133
Charges to profits – amortization	-	(101,955)	(101,955)
Net changes in pensions payable	251	-	251
Balance as of December 2011	1,401,151	(77,772)	1,323,379

Figures in millions of Colombian pesos

The principal factors in the actuarial calculations under the category of retirements from years ending September 30 were:

	2011	2010
Number of persons	6,445	6,511
Rate of technical interest	4.80%	4.80%
Rate of pension readjustment *	3.53%	4.51%

(*) The rate corresponding to the weighted average of inflation for years 2008, 2009, and 2010 was: 3 points for 2010, 2 points for 2009, and 1 point for 2008 in accordance with figures established in Paragraph 1 of Article 1 of Decree 2783 of December 20, 2001.

Note 26 Estimated Liabilities

The estimated liabilities balance as of September 30 and December 31 was:

		2012	2011
Allowance for contingencies		2,478	2,207
Other Allowances		12,587	6,747
Current estimated liabilities		15,065	8,954
Allowance for contingencies		183,149	188,800
Allowance for insurance and reinsurance		270	270
Other Allowances	1	119,544	136,929
Non-current estimated liabilities		302,963	325,999
Total estimated liabilities		318,028	334,953

Figures in millions of Colombian pesos

- (1) Includes the estimated value that EPM would pay for ceasing to honor contracts that have been signed with different contractors for carrying out the Porce IV hydroelectric project, which was declared to be indefinitely suspended in December 2010.

Note 27 Other liabilities

The other liabilities balance as of September 30 and December 31 was:

Item		2012	2011
Collections on behalf of third-parties	1		
Collections third-party portfolio		8,199	15,666
Public lighting		11,436	13,374
Taxes		17,004	18,314
Sales by third-parties		14,295	11,887
Sales of utilities and telecommunication services		24,449	27,915
Other collections on behalf of third-parties		8,866	8,248
Revenue received in advance			
Sales		35,094	22,405
Leases		16,829	18,311
Sales of utilities and telecommunication services		23,430	27,434
Other revenues received in advance		13,850	15,683
Tax Deferred	2	29,405	1,088
Other Current Liabilities		202,857	180,325
Tax Deferred	2	829,978	803,038
Other deferred loans		3,057	3,198
Other Current Liabilities		833,035	806,236
Total other liabilities		1,035,892	986,561

Figures in millions of Colombian pesos

- (1) Portfolio collection agreements signed with entities such as the Municipality of Medellín, several companies in Medellín, Publicar S.A., Telmex S.A., Comcel S.A., and Colombia Móvil among others.
- (2) Deferred tax is a credit by nature if the difference that brought it about included the payment of a lesser tax during the year.

Note 28 Reserves

The reserves balance as of September 30 and December 31 was:

		2012	2011
Legal reserves		2,305,062	2,439,435
Occasional reserves		574,008	1,117,368
Equity funds	1	7,591	9,023
Other reserves		-	4,188
Total reserves		2,886,661	3,570,014

Figures in millions of Colombian pesos

- (1) The equity funds as of September 30 and December 31 showed the following balances:

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

Figures in millions of Colombian pesos

- (2) The meeting of the Board of Directors on March 6, 2012 approved:
- To set up a reserve of \$130,121 on utilities for 2011 to fulfill Article 130 of the Tax Statute.
 - To set up a reserve of \$292,753 on utilities for 2011 to fulfill Decree 2336 of 1995 for the incorporated utilities to results in the application of the equity participation method.
 - To free up reserves of \$346,482, according to Article 130 of the Tax Statute.
 - To free up reserves consisting of \$67,467 for the utilities performed.

Note 29 Surplus

According to Agreement 05, 07 in May, 2012 of the Medellín City Council, it was accounted \$331,746 of extraordinary surpluses in 2012. The total surpluses paid during 2012 were \$788,095.

The value brought about during the two last periods as surpluses to the Municipality of Medellín was:

Year	Ordinary	Extraordinary	Total
2010	509,343	847,500	1,356,843
2011	747,500	50,000	797,500
2012	458,095	330,000	788,095

Note 30 Memorandum accounts

The memorandum accounts balance as of September 30 and December 31 was:

		2012	2011
Contingent rights	1	730,766	831,513
Tax liabilities	2	7,022,743	6,835,939
Control liabilities	3	577,419	879,208
Memorandum accounts receivable		8,330,928	8,546,660
Contingent Responsibilities	4	1,426,568	1,423,087
Tax creditors	5	3,788,187	3,604,765
Control creditors		1,266,770	1,000,689
Memorandum accounts receivable		6,481,525	6,028,541
Total memorandum accounts receivable		14,812,453	14,575,201

Figures in millions of Colombian pesos

- (1) The accounts for litigation and lawsuits correspond to the civil court cases in which the companies of the EPM Group sue third-parties usually contractors considered to be in nonfulfillment of the contractual obligations. These have a high probability of having a favorable result.
- (2) The tax memorandum accounts refer to the differences between accounting rules and tax rules. Principally they include the differences in depreciation, shares, and contributions. In general, differences in assets, costs, and deductions accounts.
- (3) Registers the operations that the companies from the EPM Group have with third-parties or for internal control without their nature affecting their financial situation. These accounts include assets that are completely amortized, obsolete inventories, and others. Corresponds to rights belonging to the Company.

As of December 31, 2011 there are \$44,307 (2010 - \$44,285) included, which correspond to the balance of the BBVA Fiduciaria-Empresa Antioqueña de Energía S.A. E.S.P. trust, formed by private document and signed on July 25, 2007 which has a period of 5 years and may be extended for equal or lesser periods without exceeding in any case a total period of 20 years. This independent equity was created as a commercial management, investment, and payment trust contract. These resources are earmarked to cover litigation obligations and contingencies in force as of the date of dissolution of the corporation, as well as the expenses that the liquidator should realize after the dissolution of the corporation. EPM is the beneficiary of the resources that are freed up from the independent equity or the remnant, if there be any, after having covered the totality of obligations whose payment is guaranteed by the independent equity.

Includes the loans and the payments from the EPM Dwelling Fund through the labor unions Sintraemsdes and Sinproepm.

- (4) Collateral to guarantee the debt of subsidiaries Colombia Móvil S.A., UNE EPM Bogotá S.A., and UNE EPM Telecomunicaciones S.A. as follows:

Body	Item	2011	2010	Term	Maturity
BBVA Colombia	Colombia Móvil S.A.	-	18,058	7 Years	2012
Public debt bonds	UNE EPM Bogotá S.A.	77,196	79,752	10 years	2012
Total collateral		77,196	97,810		

Figures in millions of Colombian pesos

Counter guarantee to the National Government related to the loans granted by the BID. The value of the guarantee corresponds to the pledge of the operating revenues, equivalent to 120% of the debt servicing of the semester following the BID loans.

- (5) The tax memorandum accounts payable are made up by the differences between accounting rules and tax rules. They made special reference to the reporting of the valuations of investments, the deferred monetary correction, and the accumulated depreciation of property, plant, and equipment.

Statement of Financial, Economic, Social, and Environmental Activity

Note 31 Operating income, net

The value of operating revenues during the period was:

		2012	2011
Performance of Services			
Energy service	1	6,759,907	6,074,996
Wastewater service	3	268,528	252,963
Water service	3	243,637	228,689
Fuel service	2	327,697	280,855
Restroom Service		1,970	1,835
Telecommunications service		217,899	172,339
Telecommunication service		1,358,178	1,284,224
Insurance and reinsurance services		3,419	2,585
Computer services		1,032	6,262
Other Services	4	189,328	157,133
Total performance of services		9,371,595	8,461,881
Sales of property		50,721	60,923
Total performance of services and sales of goods		9,422,316	8,522,804
Reductions and discounts			
In sale of services			
Energy service		(17,030)	(16,479)
Wastewater service		(138)	(21)
Water service		(312)	(133)
Telecommunication service		(1)	(600)
Other Services		0	(15)
Total in sale of services		(17,481)	(17,248)
In sale of property		(182)	(111)
Total reductions and discounts		(17,663)	(17,359)
Total operating revenue		9,404,653	8,505,445

Figures in millions of Colombian pesos

- (1) Energy services including the services of generating, transmission, distribution, and commercialization.
- (2) The growth in gas service followed mainly the increase in consumption and the increased rates due to the greater cost of gas during 2012.
- (3) The increase in water is explained by the increase in the number of users and the increase in rates applied in 2011.
- (4) Includes mainly sales for the vendor's services that EPM provides its officers and its group, which reached \$19,356 (2011 - \$19,150) in 2011.

Note 32 Services rendering cost

The value for the costs for providing services during the period was:

		2012	2011
Cost of goods and public services – Sales	1	3,932,972	3,453,861
Personnel costs	2	611,746	522,849
Maintenance and Repair		246,690	216,812
Materials and other operating costs		80,956	75,377
Licenses, assessments, and royalties		118,173	102,790
General costs		116,951	184,102
Orders and contracts for other services		307,199	293,272
Insurance		42,416	38,278
Taxes		33,410	24,326
Fees		39,267	31,503
Public services		32,738	27,341
Leases		87,030	56,115
Cost for the sale of goods		52,838	52,140
Direct supplies		60,496	16,708
Cost of losses in providing service		2,520	1,951
Total cost of providing services		5,765,402	5,097,425

Figures in millions of Colombian pesos

- (1) The increase in this category is explained below:

Generation

- ✓ Greater purchases of energy in the market by EPM due to the decrease of generation because of limitations in the facilities of EPM given that the Porce III-Cerromatoso and Porce III-San Carlos lines became unavailable.

Gas: presented an increase due to the greater quantity of gas purchased.

- (2) The increase is explained by the increase in salaries at EPM and UNE EPM Telecomunicaciones S.A., which was equivalent to the IPC of 2011 + 1.00%.

Note 33 Depreciations, provisions and amortizations

The value of depreciation, allowances, and amortizations during the period was:

	2012	2011
Depreciation		
Depreciation of grids and lines	242,277	160,509
Depreciation of plants, ducts, and tunnels	193,920	185,659
Depreciation of buildings	33,157	38,448
Depreciation of machinery and equipment	32,065	32,746
Depreciation of communication and computing equipment	72,115	32,398
Other depreciation	9,956	9,011
Total cost of depreciation	583,490	458,771
Costs for amortization		
Amortization of intangibles	148,402	61,747
Amortization of goods delivered to third-parties	50,169	55,212
Amortization improvements in properties of others	12,922	8,715
Studies and projects	12,938	1,537
Amortization of actuarial calculation	4,489	
Total costs for amortization	228,920	127,211
Total costs depreciation, allowances, and amortization	812,410	585,982
Depreciation		
Depreciation of communication and computing equipment	11,988	12,147
Depreciation machinery and equipment	2,653	1,644
Depreciation of buildings	3,795	3,926
Depreciation furniture and supplies and office equipment	3,621	3,349
Depreciation transportation equipment	1,671	1,683
Other depreciation	589	446
Total expenses depreciation	24,317	23,195
Actuarial Valuation		
Updating of retirement pensions	73,656	86,331
Updating of future pensions	1,016	1,016
Updating of pension fees	1,416	5,551
Updating of bonds and bond fees	13,992	25,877
Updating of pension switching	7,386	9,369
Total expense actuarial calculation	1	128,144
Amortization		
Studies and projects	315	489
Amortization of intangibles	10,855	12,423
Total amortization expenses	11,170	12,912
Allowances		
Allowance for industry and commerce tax	3	26,593
Allowance on receivables	59,293	63,523
Allowance on property, plant, and equipment	43,416	2,097
Allowance on inventories	3,314	936
Other Allowances	1,370	345
Total allowance expense	107,396	93,494
Total depreciation, allowances, and amortization expenses	240,349	257,745
Total depreciation, allowances, and amortization	1,052,759	843,727

- (1) The decrease in the actuarial calculation compared with the prior period followed that in the 2011 updating of the mortality of renters tables approved by the Financial Superintendence was applied. Additionally, the decrease in inflation in

the last years affected the personal readjustment rate, which went from 4.51% to 3.53%.

Note 34 Administrative expenses

The value of administrative expenses during the period was:

		2012	2011
Personnel expenses			
Wages and salaries		240,091	227,631
Imputed assessments		34,017	31,344
Effective assessments		41,692	38,845
Payroll contributions		9,489	8,028
Total personnel expenses	1	325,289	305,848
General expenses			
Commissions, fees, and services		51,161	44,760
Monitoring and security services		8,323	7,644
Maintenance		26,589	24,882
Public services		9,421	8,627
Rent		35,183	34,067
Publicity and advertising		13,395	14,109
Promotion and disclosure		12,134	12,993
Intangibles	2	30,716	32,697
Studies and projects		7,625	5,394
Materials and supplies		3,969	3,353
Communications and transportation		3,694	3,769
General insurance		5,809	6,622
Supplied for restrooms, laundry, and cafeteria		3,028	4,462
Other administrative expenses		34,666	32,977
Total general expenses		245,713	236,356
Auditing and taxation payments		19,715	17,949
Industry and commerce tax		39,602	16,911
Equity tax	3	12,410	11,648
Assessment for financial movements		33,910	32,616
Assessments		18,279	18,531
Other taxes		18,142	17,690
Total taxes, contributions, and fees		142,058	115,345
Total administrative expenses		713,060	657,549

Figures in millions of Colombian pesos

- (1) The increase is explained by the salary increase in 2012
- (2) Value of licenses and software of an administrative character used in support activities.
- (3) Corresponds to the tax on equity that the companies with no balance in the account "Revaluation of Equity" as of December 31, 2010 had posted (see note 23).

Note 35 Non-operating income

The value of non-operating revenues during the period was:

		2012	2011
Financial			
Interest from receivables		47,200	40,684
Interest from past due		20,442	20,898
Interest on deposits in financial institutions		26,185	24,417
Dividends and shares		49,685	50,220
Yield on deposits under management		15,922	34,519
Utility for valuating of liquidity management investments in debt securities		102,513	34,486
Other financial revenues		65,125	35,829
Adjustment for exchange differences		186,495	100,744
Other ordinary income		25,365	24,266
Extraordinary			
Recoveries		55,885	19,683
Exploitation		8,678	4,196
Compensations		11,605	22,574
Other extraordinary revenue		14,479	10,541
Adjustment for prior years		(4,331)	(1,609)
Total non-operating revenue		625,248	421,448

Figures in millions of Colombian pesos

Note 36 Non-operating expenses

The value of non-operating expenses during the period was:

Item		2012	2011
Interest	1		
Internal public credit operations		163,478	154,680
External public credit operations		145,325	130,250
Other Interest		78,128	76,815
Commissions		14,876	10,858
Adjustment for exchange differences		82,484	69,774
Finance Charges			
Administration and issue of securities		788	6,126
Discount of bonds and financing securities		2,151	2,066
Loss for the valuation of liquidity management investments		19,042	5,089
Other financial expenses		12,584	2,135
Other ordinary expenses		13,538	18,878
Extraordinary		47,078	37,336
Administrative expenses		0	0
Allowance for equity investments		2,896	380
Allowance for tax obligations		2,472	0
Allowance for contingencies			
Litigation	2	60,979	43,588
Other Allowances		684	822
Amortization of intangibles		28,419	22,692
Adjustment for prior years		(15,082)	(6,715)
Total non-operating expenses		659,840	574,774

Figures in millions of Colombian pesos

- (1) Interest presented an increase as compared to the prior period due to the fact that in 2011 there were greater internal and external credit obligations.
- (2) In 2011, court cases with the municipalities of Tuta, Caloto, and Yumbo associated with the industry and commerce tax cost EPM \$21,067; also includes \$10,065 from the court case of the Versalles miners from the Riogrande dam.

Note 37 Minority interest

The minority interest for each of the companies tied to the EPM Group as of September 30 and December 31 was:

	2012		2011	
	Percentage	Value	Percentage	Value
Electrificadora de Santander S.A. E.S.P. (ESSA)	26.14%	351,591	26.23%	345,388
Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC)	19.91%	160,341	19.91%	153,939
Elektra Noreste S.A. (ENSA)	48.84%	157,120	49.00%	137,040
Edatel S.A. E.S.P.	44.00%	119,337	44.00%	130,084
Empresa Eléctrica de Guatemala S.A. (EEGSA)	19.12%	48,243	19.12%	91,677
Empresa de Telecomunicaciones de Pereira S.A. E.S.P. (ETP)	43.86%	73,571	43.86%	72,595
Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS)	8.48%	45,739	8.48%	70,163
Transportista Eléctrica Centroamericana S.A. (TRELEC)	19.90%	21,160	19.90%	19,044
Generadores Hidroeléctricos S.A. (Genhidro)	49.00%	15,287	49.00%	15,987
Aguas de Urabá S.A. E.S.P.	36.58%	15,319	36.58%	15,791
Distribuidora de Electricidad del Sur (Delsur)	13.59%	9,398	13.59%	12,027
Comercializadora Eléctrica de Guatemala S.A. (COMEGSA)	19.90%	8,444	19.90%	11,187
Empresa de Energía del Quindío S.A. E.S.P. (EDEQ)	7.15%	8,540	7.15%	8,404
Aguas de Malambo S.A. E.S.P.	16.28%	3,270	52.23%	4,522
Regional de Occidente S.A. E.S.P.	38.31%	4,186	38.31%	4,085
EPM Ituango S.A. E.S.P.	0.44%	4,166	0.44%	3,481
Hidroecológica del Teribe S.A. (HET)	3.37%	2,711	3.37%	2,949
Enérgica S.A. (ENÉRGICA)	19.90%	2,092	19.90%	2,703
Empresas Públicas de Oriente S.A. E.S.P.	41.67%	2,272	41.67%	2,350
Inmobiliaria y Desarrolladora Empresarial de América S.A. (IDEAMSA)	19.12%	1,737	19.12%	2,092
Empresa de Aguas del Oriente Antioqueño S.A. E.S.P.	44%	1,208	44%	1,101
Crediegsa S.A. (CREDIEGSA)	19.12%	1,371	19.12%	600
CENS Inversiones	8.48%	8,499	-	-
Others (*)	-	847	-	403
Total minority interest		1,066,449		1,107,612

Figures in millions of Colombian pesos

- (*) Includes the minority interest of UNE EPM Bogotá, S.A., Emtelco S.A., Aguas Nacionales S.A. E.S.P., AMESA, UNE EPM Telecomunicaciones, S.A., GESA, and Hidronorte S.A.

Note 38 Transactions with related parties

The balances of transactions with related parties as of September 30 and December 31 were:

Entity	As of September 30, 2012			As of December 31, 2011		
	Accounts Receivable	Accounts payable	Other liabilities	Accounts Receivable	Accounts payable	Other liabilities
DIAN - recaudador	15,388	217,983	1,654	14,669	636,617	1,921
Municipio de Medellín	6,574	105,708	2,241	25,145	126,356	5,756
U.A.E. de la Dirección de Impuestos y Aduanas Nacionales -DIAN	1,792	108,810	911	518	176,182	946
Ministerio de Minas y Energía	55,097	0	0	63,102	4,620	2,381
Fondo de Tecnologías de la Información y las Comunicaciones	26,313	5,446	0	17,129	7,708	11,274
Ministerio de Tecnologías de la Información y las Comunicaciones	24,739	0	0	19,329	0	0
Isagen S.A.	3,398	19,546	0	6,905	9,866	0
Gobernación de Antioquia	8,498	4,936	0	14,962	16,761	7,626
Generadora y Comercializadora de Energía del Caribe S.A. E.S.P.	10,890	4	0	6,886	3,591	0
Caja Nacional de Previsión Social	9,894	54	0	9,185	35	0
Universidad de Antioquia	7,137	1,000	855	7,802	1,734	1,647
Fundación EPM	5,778	2,435	0	4,553	90	0
Empresas Públicas Municipales de Cali - EMCALI	6,226	1,269	4	17,463	1,962	386
Electrificadora del Meta S. A. - E.S.P.	5,503	347	0	9,401	337	0
Empresa Metro de Medellín Ltda.	4,494	2	0	4,357	200	0
Empresa Colombiana de Petróleos - Ecopetrol	3,923	17	-27	2,190	13,257	27
Corporación Autónoma Regional del Centro de Antioquia	0	3,504	0	0	4,127	0
Área Metropolitana del Valle de Aburra	2,593	716	0	3,997	3,924	0
Municipio de Envigado	359	1,397	584	1,597	1,596	509
Corporación Autónoma Regional de las Cuencas de los Ríos Rionegro y Nare - CORNARE	2	1,426	0	2	2,393	0
Interconexión Eléctrica S.A. - ISA	343	809	0	5,356	2,198	0
XM Compañía de Expertos en Mercados S.A.	23	918	22	34,661	16,955	124
Municipio de Rionegro - Antioquia	67	312	469	394	661	627
Municipio de Yolombó	422	161	0	574	315	18
Municipio de Amalfi	2	500	34	5	679	55
Empresas Varias de Medellín	138	35	0	65	35	5,821
Empresa de Energía de Cundinamarca s. A. - E.S.P.	0	63	0	500	458	0
Empresa Distribuidora del Pacífico S.A. E.S.P.	0	47	0	308	22,541	0
Gestion energética S.A. E.S.P.	30	9	0	57	10,106	0
Electrificadora del Caquetá S.A. E.S.P.	6	9	0	4,058	46	0
Chivor	1	0	0	0	11,355	0
Transportadora de Gas Internacional S.A. E.S.P.	0	0	0	0	5,307	0
Others	135,741	39,930	2,342	95,344	40,112	16,945
TOTAL	335,371	517,393	9,090	370,513	1,122,123	56,063

Figures in millions of Colombian pesos

Transactions with related parties as of September 30 and December 31 were:

Entity	As of September 30, 2012			As of December 31, 2011		
	Revenue from the sale of goods and services	Other revenues	Costs and expenses	Revenue from the sale of goods and services	Other revenues	Costs and expenses
Municipio de Medellín	11,278	43	60,880	22,295	564	75,638
Empresa Colombiana de Petróleos - Ecopetrol	8,692	128	57,136	16,610	4	92,674
Isagen S.A.	23,602	216	38,318	31,784	21,182	40,199
Empresas Públicas Municipales de Cali - EMCALI	35,494	6	12,412	87,858	30	9,863
Gestion Energética S.A. E.S.P. - GENSA	0	0	0	3,232	2	56,617
Generadora y Comercializadora de Energía del Caribe S.A. E.S.P.	39,178	0	248	59,390	1	0
Transportadora de Gas Internacional S.A. E.S.P.	2	0	36,668	6	0	48,538
Empresa de Energía de Boyacá S. A. - E.S.P.	0	0	0	48,731	0	6,246
U.A.E. de la Dirección de Impuestos y Aduanas Nacionales -DIAN	43	0	34,284	81	0	52,862
Fondo de Tecnologías de la Información y las Comunicaciones	477	0	28,844	847	545	38,475
Electrificadora del Meta S. A. - E.S.P.	15,222	0	3,613	33,888	0	3,759
Electrificadora del Huila S. A. - E.S.P.	10,635	0	3,860	7,299	0	5,158
Corporación Autónoma Regional del Centro de Antioquia	169	0	14,292	319	0	10,339
E.S.P. Empresa de Energía del Casanare - ENERCA S.A.	11,422	0	1,598	2,125	0	2,115
Instituto Colombiano de Bienestar Familiar -ICBF	213	0	11,894	332	0	11,197
Empresa de Energía de Pereira S.A. E.S.P.	9,918	0	2,063	11,190	78	2,856
Superintendencia de Servicios Públicos Domiciliarios	0	0	11,179	0	53	13,616
Instituto de Seguros Sociales -ISS	40	0	9,042	64	217	15,701
Empresa de Telecomunicaciones de Santa Fé de Bogotá E.S.P.	716	0	7,762	76,163	99	3,463
Comisión Nacional de Televisión - En Liquidación	0	0	8,355	0	0	16,263
Servicio Nacional de Aprendizaje -SENA-	119	0	7,923	212	3	7,472
Centrales Eléctricas de Nariño S. A. E.S.P.	2,798	0	4,779	3,562	0	6,450
Internexa S.A.	75	0	7,310	49	0	7,218
Ministerio de Educación Nacional	7,079	0	0	4,077	0	0
DIAN - recaudador	148	0	6,908	299	496	63,623
Interconexión Eléctrica S.A. - ISA	1,104	0	5,768	1,492	19,369	2,127
Corporación Autónoma Regional de las Cuencas de los Ríos Rionegro y Nare - CORNARE	10	0	5,829	44	0	7,542
XM Compañía de Expertos en Mercados S.A.	3	0	5,826	19,433	0	11,667
Empresa de Energía de Cundinamarca S. A. - E.S.P.	3,303	0	2,053	4,111	0	2,787
Área Metropolitana del Valle de Aburra	1	48	4,384	0	151	5,648
Municipio de Bello	1,375	0	2,816	2,214	7	3,832
Municipio de Itagüí	1,770	140	2,104	5,257	0	2,820
Universidad Nacional de Colombia	3,079	1	886	2,181	20	575
Comisión de Regulación de Energía y Gas - CREG	3	0	3,460	4	0	4,603
Municipio de Envigado	1,719	0	1,627	3,020	540	2,375
Empresa Distribuidora del Pacífico S.A. E.S.P.	624	0	2,593	710	0	3,413
Universidad de Antioquia	1,303	236	1,193	6,299	288	5,703

Entity	As of September 30, 2012			As of December 31, 2011		
	Revenue from the sale of goods and services	Other revenues	Costs and expenses	Revenue from the sale of goods and services	Other revenues	Costs and expenses
Fundación EPM	314	39	2,076	760	308	5,485
Municipio de Carolina del Príncipe	13	1	1,784	33	18	1,605
Electrificadora del Caquetá S. A. - E.S.P.	598	0	423	23,061	0	555
Empresas Municipales de Cartago	417	0	148	16,241	0	175
Ministerio de Defensa Nacional	474	0	0	820	17	0
Ministerio de Hacienda y Crédito Publico	87	0	371	0	48,795	673
Instituto para el Desarrollo de Antioquia - IDEA	265	0	11	2,772	0	570
Chivor	0	0	0	0	1	39,092
Others	47,343	1,738	55,255	97,497	6,643	68,420
Total general	241,125	2,596	467,975	596,364	99,434	760,006

Figures in millions of Colombian pesos