

Corporate Government Annex  
**2017 Integrated Management Report**

*isa*

## Corporate government

In ISA, the corporate governance is the set of values, principles, policies, rules, means, practices, and processes, through which ISA is directed, operated, and controlled, looking for business efficiency, growth enhancement, encouragement of the investors' confidence in national and international contexts by means of practices aimed at transparency and coherence of ISA actions. In addition, ISA looks for obtaining better funding conditions by the perception of lower risk by creditors and investors, the respect of those who invest in the Company and the fulfillment of the commitments with its various stakeholders.

By complying with the provisions of the Bylaws and the new Corporate Good Governance Code, ISA's Board of Directors presents the Corporate Governance Committee for 2017, which describes how corporate government practices adopted by the Company were fulfilled during the year, in accordance with the structure recommended by Country Code.

Additionally, ISA timely reported and submitted before the Financial Superintendence the [implementation report for corporate best practices](#) corresponding to 2017, which is published in the corporate website.

In the last year, the Company carried out various managements to strengthen corporate governance and maintain the highest standards on this matter. Consequently, the Board of Directors approved Agreement 110 of March 31, 2017, whereby the guidelines for the composition and remuneration of the business group's Board of Directors are established, which include the elaboration of a competence matrix that constitutes the parameter to nominate candidates for the board of directors, considering the social purpose and the strategic goals defined for each company. Likewise, an external consultant was hired to assess the methodology used by ISA's Board of Directors to contribute to a better functioning and dynamics, to achieve a more strategic Board that can envision the future without losing its follow-up and control functions related to key decisions.

It is worth mentioning that, for the third consecutive year, ISA won the ALAS20 award in the category of Leading Company in Investors Relations and by the first time the 2017 ALAS20 Colombia Company Award. ALAS20 promotes and recognizes companies, investors and professionals who stand out for their leadership and actively contribute to sustainable development regarding 2020.

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### PROPERTY STRUCTURE

ISA is a Public and Private Utility Company with state and private shareholders. The Nation, through the Ministry of Mines and Energy, is the major shareholder of ISA, as it holds 51,41% of the share capital.

#### → Shareholder Structure

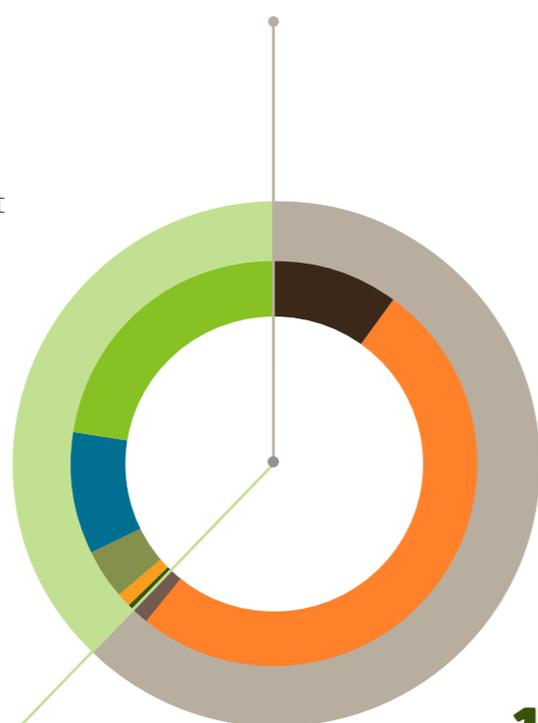
Dec. 31 - 2017 Figures expressed in shares

**38,42%**

PRIVATE INVESTORS

**425.599.786**

- Institutional **23,13%**  
256.216.437
- Foreign Investment **9,81%**  
108.625.841
- Natural persons **4,25%**  
47.120.998
- Corporate entities **1,20%**  
13.251.685
- ISA ADR Program **0,03%**  
384.825



**61,58%**

STATE INVESTORS

**682.078.108**

- The Nation **51,41%**  
569.472.561
- Empresas Públicas de Medellín **10,17%**  
112.605.547

**1.107.677.894**  
SHARES

ISA's website has published the [list of the main 25 ISA's shareholders.](#)

### Share Capital

Authorized Capital	<b>\$45.000.000.000</b> divided into 1.371.951.219 shares
Subscribed Capital	<b>\$36.916.334.931</b> divided into 1.125.498.016 shares
Paid-In Capital	<b>\$36.916.334.931</b> divided into 1.125.498.016 shares
Repurchased Shares	<b>\$584.500.002</b> divided into 17.820.122 shares

All outstanding shares are ordinary, nominative, and dematerialized.

### Business group property structure.

Interconexión Eléctrica S.A. E.S.P. is the parent company of ISA's corporate group, made up by affiliates and subsidiaries in Colombia and abroad, which mainly develops business units related to Energy Transmission, Road Concessions, Information and Communications Technologies, and Real-Time Systems Management.

For further details of each company, please consult [Chapter 7 - Corporate Government of 2017 Integrated Management Report.](#)

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### Information of shares owned by Board members and voting rights represented by them

None of the Board members holds ISA's shares.

### Family, commercial, contractual, and corporate relationships existing between the holders of significant shares and the company, or among holders with significant shares.

At the end of 2017, the Inter-Administrative Contract GSA 57 of 2009 - ISA 4000763, between the Nation (Ministry of Mines and Energy) and ISA, which includes technical assistance for general management and execution of resources of the Financial Support Fund for Energizing Non-Interconnected Zones –FAZNI– for the construction of the Cauca - Nariño Interconnection at 115 kV and its related substations, signed on October 13, 2009 and extended until March 31, 2018 through Addendum 16, for a total of 305.622 million.

### Negotiations made by Board members, Senior Management, and other Managers in relation to shares and other values issued by the company.

ISA's managers are prohibited from negotiating, on their own or through a third party, Company shares for speculation and, in any case, they require authorization of the Board, granted with the favorable vote of two thirds of its members, excluding the requestor, or of the General Shareholders' Meeting, with the favorable vote of the ordinary majority

provided in the Bylaws, excluding the requestor, according to the Corporate Good Governance Code and Agreement 60 of 2006 of the Board.

During the period, the following administrators requested authorization to negotiate ISA's shares.

- Olga Lucia López - Chief Information and Technology Officer
- Jaime Enrique Falquez - Financial Resources Manager
- Carmen Elisa Restrepo - Corporate Communications Manager

### Summary of reported agreements among shareholders

The Company has not been notified of any agreement among shareholders.

### Own shares held by the Company

The number of own shares held by ISA is 17.820.122.

## ADMINISTRATION STRUCTURE

### Composition of the Board of Directors

ISA's Board of Directors is elected annually at the General Shareholders' Meeting and is made up of nine main members, of whom seven are independent, pursuant to the provisions of Law 964 of 2005 and the Company Good Governance Code.

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No member of the Board may hold executive positions in the Company and to do a better job as managers of the parent company, some members of ISA's Board are involved in the subsidiaries' Boards. Likewise, no employee of ISA may be a member of the Board of Directors and may not exist labor relationships between the Board members and the Company.

### → ISA's Board of Directors

Members	Nominated by
Carlos Caballero Argáez (*)	Ministry of Finance and Public Credit (MHCP)
Ministry of Finance and Public Credit (MHCP) General Deputy Minister	Ministry of Finance and Public Credit (MHCP)
Ministry of Finance and Public Credit (MHCP) Director of Public Credit and National Treasury	Ministry of Finance and Public Credit (MHCP)
Carlos Mario Giraldo Moreno (*)	Ministry of Finance and Public Credit (MHCP)
Carlos Felipe Londoño Álvarez (*)	Ministry of Finance and Public Credit (MHCP)
Jesús Aristizábal Guevara (*)	Empresas Públicas de Medellín
Henry Medina González (*)	Pension and Severance Funds
Santiago Montenegro Trujillo (*)	Pension and Severance Funds
Camilo Zea Gómez (*)	Pension and Severance Funds

(\*) Independent Members, as per provisions of the Good Governance Code and Law 964 of 2005.

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Description	Item N° 1	Item N° 2	Item N° 3	Item N° 4	Item N° 5	Item N° 6	Item N° 7	Item N° 8	Item N° 9
Name	Carlos Caballero Argáez	Paula Ximena Acosta Márquez	Luis Eduardo Arango Varón	Carlos Mario Giraldo Moreno	Carlos Felipe Londoño Alvaréz	Jesús Aristizábal Guevara	Henry Medina González	Santiago Montenegro Trujillo	Camilo Zea Gómez
Company	Universidad de Los Andes	Ministry of Finance and Public Credit (MHCP)	Ministry of Finance and Public Credit (MHCP)	Grupo ÉXITO	Antioquia's Engineering School	Independent/Business Consultant	Vitol Inc	Colombian Association of Administrators for Pension and Severance Funds	Pronus
Position	Professor	General Deputy Minister	Director of Public Credit and National Treasury	CEO	University President		Colombia's CEO and Latin American Development	CEO	Partner
Board Seniority	Desde 2016	Desde 2017	Desde 2017	Desde 2013	Desde 2011	Desde 1999	Desde 2014	Desde 2007	Desde 2013
Competences and experience related to economic, environmental, and social impacts	YES	YES	YES	YES	YES	YES	YES	YES	YES
Competences and experience related to risk management	YES	YES	YES	YES	YES	YES	YES	YES	YES
Participation in other Boards	4	1	1	4	4	4	1	2	4
Shareholder of an important supplier or client	NO	NO	NO	NO	NO	NO	NO	NO	NO
Member or affiliate to social groups with under-representation (minorities)	NO	NO	NO	NO	NO	NO	World Economic Forum's Global Agenda Council on Responsible Mineral Resources Management	Advisory Council for Science, Technology, and Innovation (Colombia), Superior Council of Universidad de Los Andes	NO

The following Board members carry out public offices within the central administration, therefore, they are related to The Nation, ISA's major shareholder:

- Deputy Minister General for the Ministry of Finance and Public Credit.
- Director of Public Credit and National Treasury of the Ministry of Finance and Public Credit.

When Board members consider that a conflict of interest for a specific topic can exist, they should express it to other members and refrain from participating in the discussion and decision-making process. During this period, there were no conflict of interests.

The definition of conflict of interest is present in the Bylaws, the Good Governance Code, and the Code of Ethics. For managing conflicts of interest of the Board members and other ISA's administrators, the Board approves the procedures to be complied with.

As of December 31, 2017, there were no trade links between the Company and the Board members, their relatives to the second degree of kinship, affinity or the first degree of civil relationship, neither their spouses or permanent companions.

### **Changes to the Board of Directors during the period**

From April 2017 to March 2018 there were no changes to the Board of Directors.

### **Policies approved and reported by the Board of Directors during the period**

In 2017, no new policies were approved. However, the Board approved Agreement 110 of March 31, 2017, whereby the guidelines for the composition and remuneration of the business group's Board of Directors are established, which include the elaboration of a competence matrix that constitutes the parameter to nominate candidates for the board of directors, considering the social purpose and the strategic goals defined for each company.

### **Nomination process of the candidates to integrate the Board**

For the nomination of candidates to integrate the Board and seeking a reasonable balance, complementarity and diversity is considered, in the interests of proper performance, considering that applicants are not involved in any disqualifications and incompatibilities of legal nature and that they have sufficient knowledge, experience, educational background, qualities, skills, independent judgement, and availability to be a candidate member for the Board. In the Board's Policy of Succession approved by the General Shareholders' Meeting, the principles applied to nominate the best candidates to integrate ISA's Board are established, as well as the knowledge and experience required to guarantee their effective operation and contribution to the achievement of goals. [ISA's website includes the full text.](#)

Before the General Shareholders' Meeting in which the Board was appointed, it was published on ISA's website the respective proposals that included the list of candidates and their resumes, indicating the shareholder that nominated each of the candidates and their independent or non-independent nature.

In Extract of Minutes 107 of the Ordinary General Shareholder's Meeting of March 31, 2017 published on ISA's website, the list sent by the Ministry of Finance and Public Credit to ISA's Chief Legal Officer for the Board election, can be consulted.

The Board was elected by means of the electoral quotient system, considering professional competence criteria, adequacy, and recognized moral solvency, according to the provisions of the Board's Policy of Succession. Member's resumes could be consulted on [ISA's website](#).

After the election of members, they expressed in writing their acceptance and not to be involved in disqualifications or incompatibilities to be a member of the Board. This event was registered at the Medellín's Chamber of Commerce for Antioquia, where ISA's headquarters is located. Independent candidates responded to the questionnaire attached to Decree 2555 of 2010, previously issued to Pension Funds, ISA's shareholders.

The Board members that were elected for the first time were given an adequate orientation by which they received sufficient information to obtain a specific knowledge of ISA, its business, and sectors where it participates; as well as training regarding responsibilities, obligations, and attributions as Board members, and documents of the Company whose knowledge is required to hold their positions.

### **Board's Remuneration Policy**

The Board's Remuneration Policy approved by the General Shareholders' Meeting, which is checked each year and published on [the website](#), establishes the criteria for adequate remuneration of its members. In addition, the Ordinary General Shareholder's Meeting approves the fees expressed each year in terms of Tax Value Units -UVT-, consistent with the duties and responsibilities of the members, characteristics of the Company, among other criteria.

### **Remuneration of the Board and Senior Management**

ISA does not use special payment or remuneration mechanisms in the Company's shares for Board members. Also, for negotiating these shares, they require Board's authorization. In 2017, Board members received a remuneration equivalent to 103 UVT per meeting, equivalent to COP 3.281.477, due to their attendance to the Board and its committees.

The remuneration of the Senior Management members is disclosed in the Financial Statements, in accordance with the provisions of the Code of Commerce and the applicable accounting standards.

ISA does not use special payment or remuneration mechanisms in the Company's shares or share option for members of the Board and Senior Management.

### Board Quorum

To validly deliberate, the Board requires a quorum of at least five members (deliberative quorum) and decisions are made by most of the votes present (decision-making quorum). All meetings included a deliberative quorum and a decision-making quorum.

### Attendance data related to meetings by the Board and its Committees

From April 2017 to March 2018, the Board met 15 times: 12 ordinary meetings, 1 extraordinary meeting, and 2 voting-by-writing meetings. Each meeting had an average time of 5 hours, always complying with the agenda agreed for each meeting.

Members	Nominated by	Attendance
Carlos Caballero Argáez (*)	Ministry of Finance and Public credit	14/15
Ministry of Finance and Public Credit (MHCP) General Deputy Minister	Ministry of Finance and Public credit	13/15
Ministry of Finance and Public Credit (MHCP) Director of Public Credit and National Treasury	Ministry of Finance and Public credit	12/15
Carlos Mario Giraldo Moreno (*)	Ministry of Finance and Public credit	14/15
Carlos Felipe Londoño Álvarez (*)	Ministry of Finance and Public credit	15/15
Jesús Aristizábal Guevara (*)	Empresas Públicas de Medellín	15/15
Henry Medina González (*)	Pension and Severance Funds	14/15
Santiago Montenegro Trujillo (*)	Pension and Severance Funds	13/15
Camilo Zea Gómez (*)	Pension and Severance Funds	15/15

(\*) Independent Members, as per provisions of the Good Governance Code and Law 964 of 2005.

Composition of the Board of Directors and Board Committees			
Board of Directors	Board Committees		
	Board and Corporate Governance	Business Units	Corporate Audit
Carlos Caballero Argáez (*)			
Ministry of Finance and Public Credit (MHCP) General Deputy Minister			
Ministry of Finance and Public Credit (MHCP) Director of Public Credit and National Treasury			
Carlos Mario Giraldo Moreno (*)			
Carlos Felipe Londoño Álvarez (*)			
Jesús Aristizábal Guevara (*)			
Henry Medina González (*)			
Santiago Montenegro Trujillo (*)			
Camilo Zea Gómez (*)			

(\*) Independent Members, as per provisions of the Good Governance Code and Law 964 of 2005.

Board Committee and Corporate Governance	Attendance	Business Committee	Attendance	Audit Committee	Attendance
Ministry of Finance and Public Credit (MHCP) - General Deputy Minister	7/8	Carlos Caballero Argáez	11/11	Carlos Felipe Londoño Álvarez	9/9
Ministry of Finance and Public Credit (MHCP) - Director of Public Credit and National Treasury	8/8	Ministry of Finance and Public Credit (MHCP) -General Deputy Minister	10/11	Jesús Aristizábal Guevara	9/9
Carlos Mario Giraldo Moreno	7/8	Ministry of Finance and Public Credit (MHCP) - Director of Public Credit and National Treasury	10/11	Camilo Zea Gómez	9/9
Carlos Felipe Londoño Álvarez	8/8	Henry Medina González	7/11		
Jesús Aristizábal Guevara	6/8	Santiago Montenegro Trujillo	9/11		

### Agreements, policies, and procedures approved by the Board of Directors during the period

In the updating of ISA standards and good corporate practices, the Board of Directors approved the following agreement:

- ➔ Agreement 110 of March 31, 2017, by which the guidelines for the constitution and remuneration of the corporate group's Boards are established.

During the Board's meetings, priority was given to topics related to comprehensive risk management, corporate strategy, sustainability, financial results, share behavior, growth opportunities, innovation issues, human talent management and its remuneration, among others.

### Board's President

The Board, at meeting 789 of April 28, 2017, appointed Santiago Montenegro Trujillo, an independent member, as the Board's President.

The President's duties are provided in Article 28 of the Bylaws and Agreement 105 of November 25, 2016, which regulate [the Board's functions](#). These can be consulted on [ISA's website](#).

### Board's Secretary

According to the Bylaws, ISA's Chief Legal Officer is the Board's Secretary.

The [Secretary's duties](#) are provided in Article 28 of the Bylaws and Agreement 105 of November 25, 2016, which regulate the Board's functions. These can be consulted on [ISA's website](#).

### Annual relations of the Board with the Statutory Auditor, financial analysts, investment banks, and rating agencies.

During the last period, the Statutory Auditor submitted to the Corporate Audit Committee the results of the revision related to relevant controls for the preparation and presentation of the financial statements, as well as his opinion on the reasonableness of these financial statements.

### External consultancy received by the Board

During the Board of Directors held on July, September, and December 2017, international experts on global trends regarding energy, mobility, and Information and Communications Technologies participated to foster decision-making for the new company's strategy, ISA 2030.

### MBoard's Information Management

The Board's Secretary, with no less than five days in advance, notified through a server of exclusive access for the Board members, the documentation related to issues for discussion in the Board meetings and the additional information requested.

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### **Board Committees**

In accordance with the Board's Operating Regulation, the Corporate Board and Governance Committee, the Business Committee, and the Corporate Audit Committee, operate in ISA institutionally.

### **Corporate Board and Governance Committee**

Its main responsibilities are: to accompany the Administration on strategic issues, sustainability, risks, human talent and matters regarding corporate governance, reforms to the bylaws and recommend on the appointment and remuneration of the members of the Board and Senior Management; and to ensure compliance with the Good Governance Code, the framework for action and assess the Company's CEO.

The main issues covered were: sustainability, strategy, risk management, follow-up to recommendations of the Best Corporate Governance Practices, human talent, and its remuneration.

### **Business Committee**

Its function is to analyze, recommend or decide on investment initiatives considered in the growth strategy of ISA and its companies, as well as monitoring businesses under execution.

### **Corporate Audit Committee**

This is the guiding and facilitating internal control body. Its role is to ensure that the Organization has an effective system of corporate control, including evaluation of accounting procedures, the relationship with the Statutory Auditor, the audit to the risk management system, among

others. Its recommendations are related to the improvement of controls established on government, financial, technical, and computing matters; as well as issues regarding ethics management and risk management system of money laundering and financing of terrorism.

The main issues covered are related to the evaluation held by the statutory auditor in ISA and its companies, analysis of reports of financial results and financial statements according to IFRS (International Financial Reporting Standard), and the analysis of reports issued by external control entities, management of the risk management system of money laundering and financing of terrorism and of the SARLAFT internal committee, ethics management, compliance and measurement of business transparency, and follow-up of audit management in the business group.

### **Information about the execution of assessment processes of the Board and Senior Management, as well as the synthesis of results**

The Company conducts an annual evaluation of the Board to measure its effectiveness as a collegiate body and complying with the recommendation of best practices on this matter, to alternate between methodologies such as self-assessment and evaluation made by external consultants. In 2017, a qualitative self-assessment was applied, and an external consultancy was hired to implement a methodology that contributes to the proper functioning of the Board, aligned with the best international innovative practices that increase the impact on the fulfillment of strategic and growth goals of the corporate group.

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The self-assessment included a sample of eight persons, obtaining the following results:

- Individual performance of the Board members, 95%.
- Individual performance of the Committee members, 97%.
- Group performance of the Board, 96%.
- Group performance of the committee, 95%.
- Performance and participation of the Administration, 93%.

In relation to individual and group performance, the following strengths are highlighted: A very strategic Board, developer of policies, with greater group follow-up, with knowledge, rigor, and commitment of its members, with different opinions and knowledge, with capacity to enter into agreements, impartial, objective, with adequate spaces for participation of independent members, and with committees that contribute to the efficiency and effectiveness of the Board.

In relation to improvement opportunities, it is highlighted the need of improving the previous preparation and the participation in meetings according to the new methodology proposed by the external consultant, managing innovation topics with greater frequency, including in the agenda succession topics of the Board and Senior Management, as well as carrying out a follow-up of the decisions made by the Board and the topics of the business group.

The external consultancy was made with ADVISORY BOARD ARCHITECTS LLC - ABA, selected by the Corporate Board and Governance Committee, which emphasized the professionalism of the Board, the level of participation, the contribution, and the commitment of the members, as well as their desire for continuous improvement.

Regarding the new methodology proposed by the Board, the following recommendations are highlighted:

- Defining well in advance the goals and results required in each meeting. When a goal is clearly defined, the executive team and the Board members are aligned to the result of the meeting.
- Clearly defining the strategic expectations of the Board members to develop skills and trainings to meet these expectations.
- Knowing in greater depth topics such as succession and development of human talent, innovation, energy transmission and, in general, ISA's business units.
- Supporting ongoing development of leadership skills of the executives.
- Before meetings and for each topic, elaborating context documents that explain the strategy or opportunity to be discussed, clearly defined goals, relevant context information, and options considered to address the problem or the opportunity.



According to the Bylaws, the CEO and first-level executives integrate the Senior Management. ISA's website informs the professional quality and labor history of ISA's senior managers

Senior Management	
Position	Name
CEO's Office	Bernardo Vargas Gibsone
Chief Energy Transmission Officer	César Augusto Ramírez Rojas
Chief Financial Officer	Carlos Alberto Rodríguez López
CSO – Chief Strategy Officer	Olga Patricia Castaño Díaz
CLO – Chief Legal Officer	Sonia Margarita Abuchar Alemán
CAO – Chief Audit Officer	Carlos Ignacio Mesa Medina
CTO – Chief Talent Officer	Carlos Humberto Delgado Galeano
CIO – Chief Technology and Information Officer	Olga Lucía López Marín
CIRO – Chief Institutional Relationship Officer	Guillermo González Rodríguez *
Corporate Road Concession Direction	Jorge Iván López Betancur
Corporate Communication Direction	Carmen Elisa Restrepo Vélez
CGBDO – Chief Growth and Business Development Officer	Andrés Baracaldo Sarmiento**

\* Become part of the company 18th september 2017

\*\* Left the company 15th December 2017

### ISA's CEO Evaluation

According to Regulations of the Corporate Board and Governance Committee, this committee is responsible for annually evaluating the CEO's performance. This evaluation took place during a meeting held on February 22, 2018 and it was approved by the Board of Directors in meeting 801 on February 23, 2018.

This evaluation considered various aspects that marked the results and evolution of the Company during 2017, in which the leadership of ISA's CEO, Bernardo Vargas and his work team, have been a key factor.

Last year was a memorable year for the Company, not only because ISA celebrated its 50 years, but due to the achievement of goals and the consolidation of an organizational change expressed in the new manifesto: CONNECTIONS THAT INSPIRE, which also enunciates the commitment and only way of relationship between ISA and its different stakeholders.

Generating relevant and close connections involves re-evaluating ISA's internal operation. In this sense, under the CEO's leadership, it has been possible to foster cultural change processes towards a more dynamic and less hierarchical organization, which also promotes innovation. In other words, a new human talent management model and a succession plan were defined, whose result in the company and affiliates provided the higher scores achieved in the employment climate survey, thus ratifying the collective leadership in the group.

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Likewise, regarding ISA's relationship with the environment, the company has been able to understand the concept of environmental sustainability, assuming an active role as administrator and protector of the environment, through the participation in relevant scenarios worldwide, such as the Global Compact and the promotion of the Agenda 2030; the Presidential Commission of Paraguay and Canada; and the execution of the program for the restoration and protection of degraded areas: Conexión Jaguar.

In 2017, decisions and operations aimed at continuing strategic selections of ISA2020 vision: focus on countries by means of current presence, on current ISA's businesses, and aspirations in the search of growth with profitability and sustainable businesses.

We highlight the commissioning of projects for Electric Energy Transmission and Road Concession Business Units; as well as the participation and awarding of projects in Colombia, Brazil, Peru, and Chile.

In addition, financial management in terms of capital contributions (IENNE, TAESA, and ATP) and the benefits obtained before regulatory and tax entities in various countries where present, generated a sustainable increase in ISA's value.

All these important events had an impact on share valuation, achieving a maximum historic price on December (COP14.320), and ranking second in terms of the higher share valuation in the Colombia Stock Exchange during 2017, with an increase of 30,3% above the COLCAP index.

Operational and financial indices presented higher values than budgeted. In 2017, ISA's consolidated net income was COP1,4 trillion

with a net margin of 20,7%. This income included positive impacts on two extraordinary events: the accounting by ISA CTEEP in 2016 and June 2017 of the value adjustment of the Basic Network of the existing System –RBSE–; and the use of the Special Tax Regularization Program –PERT– by ISA Capital do Brasil and ISA CTEEP, in September 2017.

Excluding these effects, net income added COP1,1 trillion, which represented a compliance of 108% of the goal and an increase of 44,5% regarding 2016. Net margin was 16,7% compared with 12,2% in 2016. 2017 EBITDA accumulated COP4,1 trillion, 24,9% more than last year. EBITDA margin was 62,1% in 2017, and 52,5% in 2016. Excluding construction activities, which have no impact on EBITDA given the construction costs have the same related revenues, EBITDA margin is 70,0% in 2017, and it was 65,5% in 2016.

Excellent financial results have been a platform so that increasingly innovation and knowledge management become growth drivers of the company.

From this perspective, it is worth mentioning the consolidation of scientific networks, the creation of thematic committees and the Innovation Council, as well as the consolidation of the alliance with the Massachusetts Institute of Technology –MIT–. In this context, ISA and its affiliates achieved important benefits from COLCIENCIAS' calls. XM consolidated as the 4th national company that received the greater volume of tax benefits, and the alliance between Government, universities, and ISA's group won 22 proposals of the Colombia Científica call.

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In relation to innovation, ISA REP also stood out. It currently has three patents in process. Amaru, Scout and Siser. ISA CTEEP received the Innovation Award for the Photovoltaic Solar Plant, and ISA INTERCOLOMBIA managed in 2017 the patent of the “Security System for Winch.”

As part of the strategy for innovation and knowledge management part of ISA’s DNA, the 7th edition of the Knowledge Days was carried out, an event that represent the most important platform to improve exchange inside the group. 144 works were presented; 500 attendants from all the companies were mobilized. In addition, 25 lecturers and 22 external juries participated.

It was also important the management of corporate sustainability and reputation. During the past year, the -CIRO- Chief Institutional Relationship Officer entered operation. The recognition as sector leader by RobecoSAM was received and for the third consecutive year, the Company was included in the Dow Jones Sustainability Index.

Individually, the excellent management by Bernardo Vargas as ISA Group’s CEO awarded him the award as the “Best Business Leader of the Year”, granted by Portfolio newspaper, in which he is recognized by his relevant management, ethics, and social responsibility.

In short, the compliance with the strategy, the vision of business development, the impact on people, and the financial results show the

management capacity, the success orientation, the strategic vision, and the leadership of Bernardo Vargas, who with energy, proactivity, and engagement leads ISA Group.

The Board acknowledges his management and the entire teamwork due to its commitment, dedication, and sense of co-responsibility. Also, the Board invites them to continue their contribution to the compliance with the new challenges posed by the organization.

ISA’s DNA continuously drives it to define new challenges. In this sense and in parallel with the purpose, a strategic updating process was developed with the support of external consultants and the Board. This process has led the understanding of environment signals and to adjust the growth to the local, regional, and global dynamics, focusing on disruptive aspects that connect us to stakeholders aiming at making a reality the connections that inspire.

The outstanding results obtained by ISA in 2017, in the various aspects of the business organization, also emphasize the need of keeping alive the teamwork spirit to face the increasing challenges and look for changing opportunities for a business group to exercise a regional leadership that goes beyond the countries in which it operates.

### TRANSACTIONS WITH RELATED PARTIES

#### Attributions of the Board of Directors about this type of transactions and conflicts of interest situations

Title 6 of the Corporate Good Governance Code defines the parties related to ISA in accordance with international standards and regulations applicable to ISA. Likewise, transactions that require approval by the Board of Directors are defined.

#### Description of transactions with the most relevant Related Parties for the Company, including operations among the Group's companies.

Transactions description with ISA's Related Parties is included in the Financial Statements.

Due to the legal nature as a Public and Private Utility Company, ISA is subject to the regime of disqualifications and incompatibilities applicable to state contracting, which prohibits to enter into contracts between the Company and the Board members, their relatives to the second degree of kinship, affinity or the first degree of civil relationship, their spouses or permanent companions, and the legal corporate entities where they participate or carry out management positions, according to the provisions of Law.

#### Conflicts of interest presented and behavior of the Board members.

There were no conflicts of interest within the operation framework with Related Parties.

### RISK MANAGEMENT SYSTEM

#### Explanation of the Internal Control System (SCI) of the company or Group and its modifications during the period

The Company, in its permanent surveillance and control process, efficiently and timely responded to provide information and/or documents to the government control entities, and it maintained credit ratings by the authorized companies. During the last period, the organization has strengthened its Internal Control Center with the incorporation of new government practices, which were implemented in the adjustment of corporate policies and the definition of guidelines for the new corporate audit model.

#### External control entities

ISA delivered reports requested by the following external entities:

- General Accounting Office.
- Comptroller General of the Republic
- Financial Superintendence of Colombia
- Superintendence of Household Utilities
- Ministry of Finance and Public Credit (MHCP)
- National Administrative Department for Statistics (DANE)

The Gestión y Auditoría Especializada company was the external auditor of management and results for the period and its report, published in national press on June 29, 2017, expressed: "The Internal Control System rated as low-risk for the period between January 1 and December 31, 2016, effectively complied with the control goals

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established by Management and fulfills the provisions of Law 142 of 1994 and Resolution 053 of 2000, issued by the Energy and Gas Regulatory Commission.” Such report was presented to the Superintendence of Household Utilities.

Between April 2017 and March 2018, Ernst & Young firm carried out the statutory audit. By complying with its legal duty, the firm will present to the General Shareholders’ Meeting an opinion on management, financial statements, and administration of the Company.

In 2017, ratings for corporate risk and local and international bonds issuance granted by specialized agencies, ratified the strength and financial soundness of ISA and its companies, the stability and predictability of its cash flows, its outstanding position as energy transmission carrier in Latin America and its role as a player of the road concessions business in Chile. In Colombia, ISA’s securities program has the highest credit risk rating AAA for bonds and F1+ (col) for commercial papers.

Notwithstanding the foregoing, ISA’s international rating has been affected by a decrease in the sovereign risk rating of Colombia. In December 2017, Standard & Poor’s –S&P– reduced the rating of The Nation to BBB- from BBB, which had an impact on ISA’s rating with this rating agency.

On December 2017, ISA maintains its investment grade in the three most renowned international agencies:

	S&P	MOODY’S	FITCH
<b>ISA S.A.</b>	BBB- (Stable)	Baa2 (Stable)	BBB+ (Stable)
<b>E.S.P</b>	Dec 2017	Dec 2017	May 2017

For information purposes and analysis of shareholders and investors, the Statutory Auditor’s Report, the opinion of the External Auditor, and the evaluation of rating agencies, are published on the Company’s website.

The following procedures were carried out before the Medellin’s Chamber of Commerce: the financial statements were submitted; the commercial register and unique register of proponents were renewed; the minutes of the ordinary meeting, the election and acceptance of the Board members, Statutory Auditor, legal representatives, and their deputies were registered; and the stake of ISA and its companies was updated.

In addition, during the period, no requests by shareholders or investors to conduct specialized audits were submitted, nor investigations by surveillance and control entities that would compromise ISA.

### Internal Control Entities

The Internal Control System of ISA and its companies is based on the international standard Committee of Sponsoring Organizations of the Treadway Commission –COSO–. This standard seeks to reasonably ensure the achievement of corporate goals; strengthening confidence in data integrity delivered to various shareholders; the proper monitoring and timely response to business risks, as well as corporate government instruments and transparency practices.

According to the annual plan, the Chief Audit Office performs assessments to controls in prioritized processes, keeping the principles of impartiality, objectivity, and independence required for fulfilling its function, in accordance with the provisions of the international audit principles and practices. For such purpose, the Chief Audit Officer establishes work plans with the audit committees of each company, which according to their risk levels and particularities, provide guidelines and strategies to pursue.

In 2017, audits to operation processes of businesses were conducted, as well as evaluations to administrative, technology, and financial processes that support them. The evaluations carried out by the Corporate Audit confirmed the fulfillment both internal and external regulatory framework, without presenting significant or relevant diversions that jeopardize the continuity of ISA's business; an assessment consistent with evaluations conducted by external control entities, which issued favorable concepts of the Internal Control System.

Furthermore, and in accordance with the Company's principles, the

ethical culture has been strengthened as a fundamental part of the control environment, supported among others, on the management of risk fraud, corruption, and bribery. For such purpose, a compliance program was applied, which has been evolving, to keep it in line with the guidelines of Senior Management, the business development, and the laws of the countries where we operate.

### Description of the risk policy and its application during the period

ISA and its companies comply with the Corporate Policy for Comprehensive Risk Management, through the identification, assessment, and implementation of measures for the management of risks to which they are exposed.

Each company has its own risks map and carries out an assessment of them, from the probability of occurrence and the severity of their consequences on financial and reputational resources, prioritizing the most relevant for the development of its operations and the achievement of the strategy. Likewise, it monitors its status and defines and implements measures to improve its management. Periodically, the companies present advances in their management and the major events that have been materialized.

On the website and in the [2017 Integrated Management Report](#), ISA publishes the risks map, the most significant events and the main management measures implemented to prevent and mitigate their impact.

### Materialization of risks during the period

This information is described in [Chapter 5 – Strategy, subparagraph Comprehensive Risk Management](#) - of the 2017 Integrated Management Report available on ISA's website.

### Response and supervision plans for main risks

This information is described in [Chapter 5 – Strategy, subparagraph Comprehensive Risk Management](#) - of the 2017 Integrated Management Report available on ISA's website.

## GENERAL SHAREHOLDER'S MEETING

### Differences in the functioning of the Meeting between the minimum regime of the current regulation and the regime provided by the Bylaws and the regulation of the Shareholder's Meeting.

In two newspapers, a widely circulated newspaper and other local newspaper, on February 26, 2017, the call for the Ordinary General Shareholder's Meeting of March 31, 2017, was published, including a term longer than the one provided by Law.

In addition, to facilitate the exercise of the shareholder's right to information and foster their participation, ISA disclosed on its corporate website the call notice, the agenda, the proposals submitted for consideration of the Meeting, as well as the lists and resumes of the candidates to integrate the Board of Directors. Likewise, the information related to the grant of powers to be represented by, was published.

On March 26, 2017, through national press, the Company informed shareholders again, about the date established for the Ordinary Meeting.

For the Ordinary Meeting, shareholders received the documents established by the Bylaws and the Law for exercising the inspection right during a term of fifteen (15) business days.

The Ordinary Meeting had the quorum demanded by Law. The issues approved in the agenda were submitted for the shareholder's consideration, and decisions were made according to the majority vote demanded by the Bylaws. Attendance data of each meeting of the General Shareholders' Meeting are included in the excerpts from the Minutes referred to below. The Ordinary General Meeting was broadcasted via streaming, in real time, via internet.

The Bylaws, the Operating Regulation of the General Shareholders' Meeting, and the Corporate Good Governance Code set out best practices aimed at consolidating and facilitating the right to information and the participation of shareholders in the Meetings, such as:

- For Ordinary Meetings, the General Shareholders' Meeting should be convened not less than thirty (30) calendar days in advance, and Extraordinary Meetings should be convened not less than fifteen (15) calendar days in advance.
- Using electronic media such as the corporate website and sending messages, among others, to disclose all information related to the General Shareholders' Meeting, from the call to the Agenda, proposals, and decisions once it is carried out.

- The Agenda items shall be expressed in a clear and precise manner to facilitate their understanding and analysis by shareholders. Efforts will be made to make a joint vote on issues or proposals only if there is unity of matter and if they are directly related.
- The shareholder's right, regardless their stake, to request not less than five (5) business days prior to the execution of the General Shareholders' Meeting the information or clarifications deemed relevant, through the traditional channels and/or where appropriate, in relation to new technologies, and to develop in writing the questions deemed necessary concerning the issues included in the agenda of the General Shareholders' Meeting.
- The shareholder's right, regardless their stake, to propose the introduction of one or more points to discuss in the agenda of the General Shareholders' Meeting, within the five (5) calendar days following the publication of the call and provided that the request of the new issues is supported by a justification.
- To reduce the use of blank vote delegations, without voting instructions, ISA promotes the use of power templates available at ISA's website. This template includes items of the agenda and the corresponding

Agreement proposals that will be submitted for consideration by shareholders, with the aim that the shareholder (if he deems appropriate) indicates the reason of his vote to his agent or representative.

- Board members and ISA's CEO will attend the Meeting to answer to shareholders' concerns.
- The right for shareholders representing at least twenty percent (20%) of the total number of subscribed shares in the Company requests the Company's CEO or the Fiscal Auditor to convene extraordinary meetings of the General Shareholders' Meeting.

### Information to shareholders and communication

The Good Governance Code adopted by the Board of Directors establishes communication channels dedicated to the attention of its shareholders, through which it resolves requests and requirements, such as the support line and the shareholder attention office. Additionally, on the web page [www.isa.co](http://www.isa.co) Relación con Inversionistas (Investor Relations) section, it could be found everything related to the mechanisms of relations with shareholders and investors.

### Number of requests and aspects upon which shareholders have required information to the company

Requirements of the management unit and call center from 01-01-2017 to 31-12-2017		
Source	Cases	%
Service Line	11.626	82,71%
E-mail	976	6,94%
Chat	985	7,01%
Visit to Medellin's office	139	0,99%
Outbound call	48	0,34%
Call to Medellin's Office	85	0,60%
Internet	57	0,41%
Voice mail	68	0,48%
Fiduciary contact	7	0,05%
Letter-fax	45	0,32%
ISA's contact	2	0,01%
Right to petition	18	0,13%
<b>General Total</b>	<b>14.056</b>	<b>100%</b>

### Attendance data to the General Shareholders' Meeting

In the Ordinary General Shareholder's Meeting, the attendance was 89.21%.

### Description of the main agreements

Besides considering and deciding the issues of the ordinary meetings indicated in the Bylaws and in the Law, the Ordinary General Shareholder's Meeting approved the change of destination of the reserve for the repurchase of shares to reserve for equity strengthening, the Board's Remuneration Policy, and its fees. Consequently, adopting Country Code recommendations regarding corporate governance best practices addressed to generate value and foster investors' confidence.

The President and Secretary signed the Minutes of the Ordinary Shareholder's Meeting as well as the corresponding committee. This minutes included the topics discussed, approvals and authorizations granted by the Meeting, as well as the observations and comments of shareholders. In addition, the Minutes was registered before the Medellin's Chamber of Commerce, and one copy of it was sent to the Financial Superintendence of Colombia and to the Superintendence of Household Utilities.

For shareholder's information, ISA's website includes an excerpt of Minutes 107 corresponding to the Ordinary General Shareholder's Meeting of March 31, 2017.

During the Ordinary General Shareholders Meeting held on March 31, 2017 the Board of Directors for the April 2017 - March 2018 period was appointed.

### STAKEHOLDERS

ISA publishes its commitments with stakeholders and presents the mechanisms for their fulfillment and the key aspects of the relationship, within this management report. On ISA's website, news and relevant events for these groups are published.

To maintain trusting relationships with shareholders and investors, based on the supply of timely and reliably information, ISA carried out the following activities:

- ➔ General Shareholders Meeting: 907 represented shareholders for a total stake of 89,2%, of which 541 were natural people.

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- Quarterly, it published the financial statements, which through face-to-face meetings and webcast were presented to the market.
- It participated in eight national and international events organized by third parties.
- It carried out two face-to-face meetings with market analysts in Bogotá and Medellín.
- It used relationship marketing strategies: e-mails, newsletters, and deliveries of tax certificates and excerpts.
- It received 14.056 requests in the shareholder attention office, which were 100% addressed, between 3 and 5 business days.
- It conducted a compliance survey with this stakeholder obtaining 98,3%.

### Relations to the Major Shareholder

At the end of 2017, the Inter-Administrative Contract GSA 57 of 2009 - ISA 4000763, between the Nation (Ministry of Mines and Energy) and ISA, which includes technical assistance for general management and execution of resources of the Financial Support Fund for Energizing Non-Interconnected Zones –FAZNI– for the construction of the Cauca - Nariño Interconnection at 115 kV and its related substations, signed on October 13, 2009 and extended until March 31, 2018 through Addendum 16, for a total of 305.622 million, was in force.

### DEVELOPMENT OF THE GOOD GOVERNANCE CODE

During 2017, the company monitored compliance. The verification main pillars of this code are the supply of information through the website, the report to surveillance and control agencies, and the reports presented to the Board of Directors and the Shareholders' Meeting. In addition, through external and internal evaluations, the monitoring of commitments included in the Code is executed.

Likewise, shareholders and the public do not report any non-compliance to the Code through available telephone lines or e-mails:



#### Free Ethics Line:

→ **01 8000 941341**

[lineaetica@isa.com.co](mailto:lineaetica@isa.com.co)

#### Service Line to Shareholder (free):

→ **National: 01 8000 115000**

→ **Medellín: (574) 4442555**

[accionesisa@isa.com.co](mailto:accionesisa@isa.com.co)

It must be pointed out that in addition to the above, the Financial Superintendence of Colombia is available for shareholders, particularly minority shareholders. This entity has the power to implement measures to adopt relevant measures that avoid the violation of rights, the restoration of balance, and the principle of equal treatment to all shareholders.

**Santiago Montenegro Trujillo**

Board's President