



Grupo Energía Bogotá

## **External Assessment of the Board of Directors 2023**

## Relevant Corporate Governance Elements and Best Practices

1. Corporate Governance goes far beyond providing **transparency in management** or balancing the interests of stakeholders; one can be transparent while still being inefficient and/or ineffective.

2. Primary Responsibilities in Corporate Governance

**"Owners"** : Fulfill the fiduciary duty of a "good businessman" and ensure that **the Board performs well.**

**"Board"**: Fulfill the same fiduciary duty and ensure the **proper performance of management.**

## Relevant Corporate Governance Elements and Best Practices

3. A Board of Directors is an **agent of the owners**, and to be effective, it must not only promote the comprehensive sustainability of the organization and support Management but also consider all stakeholders and exercise its authority and competence to:

Appoint the **right leader (CEO)** and be able to **guide, stimulate, question, and challenge them**.

Decide on the appropriate **strategy**.

Validate **succession plans** for critical roles.

Define **compensation and incentives** for the leader and their team.

# Relevant Corporate Governance Elements and Best Practices

3. A Board of Directors is an **agent of the owners**, and to be effective, it must not only promote the comprehensive sustainability of the organization and support Management but also consider all stakeholders and exercise its authority and competence to:

Promote the organization's **Values** and **leadership style**.

Exercise proper **oversight**: achievement of goals, financial situation, management effectiveness, accepted risk levels, and ways to mitigate risks, etc.

Exercise power **collectively, not individually**.

Take advantage of the **diversity** and potential differences of opinion among its members.

# Relevant Corporate Governance Elements and Best Practices

4. The best boards agree with Management on the "**boundaries of the playing field**" and ensure that these management guidelines are respected.
5. On boards, **generalists with knowledge of the organization's Corporate Purpose** are usually more valuable than specialists.
6. The results of institutional management are the **responsibility of everyone**, both the Board and Management.
7. The **real independence** of a Director comes from their behavior, not just from meeting formal requirements.
8. A good Director should **have the organization's best interests in mind**, not those of their nominator or other stakeholders.

## Relevant Corporate Governance Elements and Best Practices

9. There are **real conflicts of interest that arise from non-formal aspects**, such as emotional ties between people; conflicts of interest cover more than just contracting or competition situations.
10. In a **parent-subsidiary structure**, the parent company usually sets the corporate strategy, while each subsidiary handles its competitive strategy.
11. The institution's "navigational plan" is **determined by the Board**, based on proposals and initiatives from Management.
12. Asymmetry of information between Management and the Board is a general rule.  
**Time commitment and the relative size** of teams are often very different.  
The Board usually relies on **information provided by Management**.

## Relevant Corporate Governance Elements and Best Practices

13. The best Boards focus on core business/activity issues and, **together with Senior Management**, decide on the content, quality, format, and frequency of the information they exchange.
14. The best Board members **don't just receive** information;  
they **ask** for relevant and necessary information to make informed decisions and **validate it**.  
-----→ **Asking and inquiring** thoroughly is the duty of every Board member.
15. The **quality of the Board Committees' input** largely depends on the quality of work from the respective area of Management.

# Relevant Corporate Governance Elements and Best Practices

16. Organizational structuring **"follows"** the strategy.

-----→ Coherence and consistency between the two.

Include **Board structure**; 'owners' must **ensure that this occurs**.

17. The true organizational culture is one of everyday collective behavior, not statements and announcements; the **Board shapes that culture**.



# Relevant Corporate Governance Elements and Best Practices

## 18. Role of a Board Chairperson includes:

Providing input into and approving the **Annual Agenda**, ensuring its timely communication.

Promoting **good relations** within the Board and with Management.

Facilitating the **running of the Meetings**.

Encouraging **discussions and the search for agreements**.

Ensuring a **sound decision-making process**.

Summarizing **the proceedings** of the Meetings.

Monitoring **the progress** of decisions.

Promoting the Board's **performance assessment**.

Acting as a spokesperson for the Board.



Not every good Director makes a **good Chairperson**.

## About GEB and Corporate Governance

1. GEB's Corporate Governance model has been strengthened in recent times.
2. As a holding company, GEB assesses the management of its subsidiaries, and they should, in turn, evaluate the contribution made by their parent company.
3. Attention must be paid to the risk of "macrocephaly" inherent to many holding companies.
4. GEB is the "crown jewel" of the Capital District.

## About GEB and Corporate Governance

5. GEB is, at the same time:
  - A veteran of over 120 years of existence.
  - A young holding company of 8 (?) years.
6. GEB is governed by private law, subject to the supervision of the District Comptroller's Office, which conditions the Board and the company in certain "risky" decisions.
7. The Board proved to be above certain common fears when confronting and deciding on the resolution of conflicts with Enel (33 arbitration tribunals).

## About GEB and Corporate Governance

8. The fact that the Board has appointed the CEO strengthens the CEO's loyalty to the Board and

establishes the hierarchical dependence.

9. Executives of GEB or its subsidiaries receive fees for their participation on boards

and Committees.

# Findings/Conclusions

**Thanks to 3\* Shareholders, 9 Directors, and  
11 Executives.**

## Board Structure

- 9 Directors seem excessive; 7 would be better. However,..... having 9 hasn't hindered deliberations and has made shareholder representation easier.
- 12 Ordinary Sessions may not be necessary if the Board has a good understanding of GEB and its composition remains stable.
- The Audit and Risks Committee handles conventional risks but seems to lack the scope to incorporate broader business risks and move away from an 'inertial' approach. It should focus on 'strategic' risks while addressing gaps in process and non-conventional risks.
- Except for the Audit Committee, other Committees are overstaffed.

## Board Structure

- The Investments Committee is quite large, and its analysis is very thorough. However, the Board often repeats much of its work ..... because the Committee lacks sufficient decision-making power.
- The name of the Compensation Committee conveyed a limited scope; its approach was transactional rather than strategic and didn't treat talent as a system.
- The Corporate Governance and Sustainability Committee makes significant contributions and has put the issue at the forefront.
- Some Directors are unaware of the terms of the Directors and Officers Liability Policy.

## Role of the Board

- Focuses on what is relevant to GEB and serves as an informed and thoughtful supporter of Management.
- Management proposes, and the Board decides.
- Supportive, constructive, and diligent, its members are recognized for their vast knowledge.
- The Board can ask more in-depth and challenging questions to Management.
- Dedicates ample time, both in quantity and quality, to strategic analysis and evaluating new opportunities (Brazil, ISA, etc.).
- However,..... as a multi-Latin holding company, the Board needs to enhance its understanding of Brazil and Latin America in general.



## Role of the Board

- The level of political engagement required by GEB is very high, and the Board has the capacity to offer more support to Management in this area.
- Delves deeply into the issues.
- Does NOT co-manage.
- Ratifies the members of the subsidiary boards; it is essential to maintain a detailed and up-to-date profile of each role on those boards.
- The GEB Board stepped back in ratifying Board members for TGI; it failed in its role as an 'owner'.
- Talent issues still aren't being addressed with enough depth and coverage; the main focus remains transactional.

## Characterization of the Directors

- They are well-qualified to analyze issues in Colombia but may lack expertise in Peru, Brazil, Guatemala, and other regions of potential interest to GEB.
- There is a good internal age balance, as there is with Management.
- The composition should consider GEB's status as a multi-Latin holding company.
- Partial renewal of the Board can be healthy, but a complete overhaul is undesirable.
- It is crucial to have members with experience in managing state-owned entities.

# Financial Compensation

- Compensation per Meeting attended is generally not the best practice for boards of GEB's hierarchy.

# Board and Committees Work Agendas

- Follows the structure defined by GEB, with clear presentations that include the purpose of each agenda item.
- The annual work agenda is established with detailed and sufficient information.
- Agendas are structured by Management, with little input from the Board; they are well-defined, detailed, and clear.

## Internal Board Dynamics

- Excellent follow-up on pending issues.
- Opinions are divided on the impact of the Audit Committee's work, ranging from very good to insufficient.
- There is a perception that not all Directors act with full independence from shareholders; this is NOT the case for the Secretary of the Treasury.
- Consensus is desired by the Board, but not mandated; no one is upset when their views are not accepted.
- The Board has a well-defined scope of action and usually does not interfere with Management matters: "it draws the line but does not intervene."

## Internal Board Dynamics

- The Board has little direct contact with the subsidiaries, particularly those in Perú, Brazil, and Guatemala.
- The Auditor is not present in Board Meetings when the Audit Committee presents its report.
- In-person Meetings are desirable, almost necessary; the lack of physical presence affects interaction and contribution levels.
- The actual Meeting duration has improved in recent times, but they are still perceived as very long; the start time significantly influences this perception.
- Conflicts of interest are managed transparently and promptly.

## Internal Board Dynamics

- Meetings still spend more time looking backward (60-70%) than forward (30%).
- Executives who have prepared solid documents feel frustrated when the Board cuts the time allotted for their presentation.
- Some Directors do not appear to have adequately prepared for their participation in the sessions, which affects the flow of certain topics during the Meetings.
- The CEO left the strategy-setting session before it was concluded, and sometimes he does not attend the Meetings in person, which is not well regarded by the Board.
- The Board claims to have confidence in the work conducted and presented by the Committees; however, .... for some topics, they request repetition of analyses already done in Committees, diminishing the value of their contributions.

## Role of the Chairpersons

- The Chairperson of the Board is unanimously praised, "... he brings people together, does not polarize, is fair and balanced, has people skills, respects, is constructive, organized, and determined...", "... Andrés could improve his time management...".
- Positive opinion on the tasks of the Committees' Chairpersons, who fulfill their roles well; Rafael's efforts are particularly valued.



## Role of the Board and Committee Secretariats

- The Board and Committee Secretariats function exceptionally well, their management is highly regarded, “... Néstor is excellent on the Board and in Committees...”

## Internal Climate

- Members always "listen to one another," no one seeks to impose their point of view, and they are united by the purpose of benefiting GEB.
- Meetings are well-deliberated, members say what is necessary and listen carefully.
- The Board contributes more than the sum of its members; valuable individual experiences are harnessed.
- Despite the presence of many prestigious and recognized members, there is NO 'competition of egos.'
- A clear overall view of the Board's decision-making process: timely and relevant.

## Information

- Many good reports do not justify using collective time; individually, they can be reviewed on the Board platform, reserving collective time only for questions and comments.
- For reports containing operational data, only specific questions should be answered without presenting the entire document.
- Some reports originating from Management are too detailed and do not encourage prior reading; they are perceived as "heavy."
- The CEO has taken an active role in reviewing Management documents reaching the Board, and the benefits of this task are well recognized.
- Reports are not always available sufficiently in advance of the Meetings; this can contribute to the perception that several Directors attend without fully reviewing them.

## Relationship with Shareholders and Other Stakeholders

### ➤ Relationship with Shareholders and Other Stakeholders

Directors linked to shareholders act as Directors, not as representatives of the shareholders themselves.

### ➤ Communication and Interaction with Management and the Executive Team

The Board trusts Management, viewing them as serious, reliable, and competent. Management feels that the Board adds value to their work, providing constructive challenges.

The President of GEB is considered a reliable, competent, and knowledgeable executive.

However, some members perceive that certain executives “... look down ...” on the Board, treating them with disregard.

## Impact and Actions on Core Issues

- The Board has made significant contributions to comprehensive sustainability and organizational culture.
- The Board enriches Management's proposals (e.g., the recent entry into Meta and Casanare, and the attempt to purchase ISA).
- The Board challenges ideas of expansion and growth for growth's sake.

## Actions on Core Issues

- Business risks in new ventures require more rigorous and in-depth analysis.
- When it comes to risk issues involving communities, the Board seems to be playing catch-up.
- The risk policy and attitude towards risks need strengthening; many probabilistic situations are given deterministic weight without proper statistical tools to support them.
- Overall, Directors' and Management's opinions diverge significantly regarding the approach and depth of risk analysis.

# RECOMMENDATIONS

# Recommendations - Structure

- Set a maximum of 4 members for any Committee; if more than four candidates express interest in a particular Committee, the Chairperson of the Board will decide the final composition.
- Appoint at least one 'non-resident' Director with knowledge of the "cables and pipes" business and/or recognized strengths in multi-country holding management, particularly in relevant Latin American markets.
- Evaluate whether the fees received by GEB executives for participating in subsidiary boards and Committees are sufficient to align their salaries with market levels.
- Schedule six Ordinary Sessions per year, one of which should focus specifically on corporate strategy.
- Ensure that all Meetings are conducted in person.



# Recommendations - Structure

- Maintain the practice of appointing an independent Chairperson to lead the Board.
- Consider scheduling Meetings in the early morning rather than late afternoon.
- Adjust Directors' fees so that they are based on annual membership rather than attendance at individual Meetings.
- Ensure the CEO always participates in Board and Committee Meetings in person.
- Update the scope and coverage of the Directors' and Officers' liability policy and share it with the entire Board.

# Recommendations - Role

- Incorporate climate change as a key factor in the comprehensive assessment of risks.  
risks
- Review the concept of risks relevant to GEB from a holistic perspective; analyze them from right to left (tracing effects back to their possible causes) rather than from left to right (examining possible effects of certain causes).
- Ensure that, at least once a year, subsidiary leaders and country managers have an in-person session with the Board.
- Plan at least one annual visit to operations in each country to gain a better understanding through 'on-site' visits.
- Review the 'efficiency' of GEB as an organization and assess the impact of its contributions to subsidiaries.
- Support Management with 'enlightened lobbying' to national and local authorities.

# Recommendations - Role

- Schedule an annual meeting with the External Directors of subsidiaries to update them on GEB policies and priorities.
- Establish formal general induction programs for new Board members and training programs for interested parties.
- Consolidate the Talent, Culture, and Innovation (formerly Compensation) Committee theme to treat talent as a system and move beyond a transactional approach to compensation, which is just one component of the system; incorporate development and succession planning issues.
- Agree on and implement the degree of autonomy of Committees' decision-making.

# Recommendations - Dynamics

- Allocate collective time primarily for discussions, deliberations, and decision-making processes, rather than for presentations.
- Make an individual and collective commitment that all Board members come to the Meetings fully prepared.
- Aim to spend around 60% of session time looking forward and building the future, rather than reviewing the past.
- Establish dedicated conversation spaces where the Board meets only with the GEB President, without any members of Management.
- Invite the auditor to the Board session when the Audit Committee presents its report.
- Reassess the necessity of the Compliance Director's permanent presence at all Meetings.

# Challenges 2024

- Ensure that the change of mayor causes minimal disruption to GEB.
- Keep the strategic plan on track; frequent substantial changes are not advisable.
- Take the initiative to propose alternative synergies with Bogotá as both a city and a metropolitan area.

# Challenges 2024

- Evaluate potential divestitures to improve the portfolio's characteristics.
- Maintain a comprehensive balance among shareholders.
- Reduce reliance on income from 'pipes' and increase dependence on 'cables.'
- Review the summaries of the evaluations of the Board of Directors of the six subsidiaries.
- Determine the best use of the property on Avenida El Dorado.