

## **PRESENTATION OF RESULTS - 1Q2017**

**Operadora:** Welcome to the presentation of Corficolombiana's 2017 first quarter results. My name is Silvia and I will be the conference operator today. At this moment, all participants are in a listen-only mode. Later there will be some time for questions and answers. Please keep in mind that this conference is being recorded. I will now turn the call over to Corficolombiana's President, Mr. Bernardo Noreña Ocampo.

**Bernardo Noreña Ocampo:** Good morning everyone. Thanks for being part of this call where we present our 2017 first quarter results. The presentation will have three different parts. I will tell you about some relevant facts for our corporation during the first quarter. Next, Mr. Juan Carlos Paez, the company's Executive VP will tell you about our specific financial results and then Mr. Gustavo Ramirez will tell us about our company's investment portfolio.

On top of page 3 you can see the consolidated results for 2017 first quarter. Our total assets are COP \$19 trillion, our equity is COP \$5 trillion, our net profits amount to COP \$83,000 million, our return on equity is 8.5% and we have a 41% solvency rate.

As of March 31, 2017 the company's disaggregated balance is as follows: assets amount to COP \$8.5 trillion, our equity is COP \$3 trillion and our net profit is COP \$83,000 million, which implies a 9.4% return on equity and a 46% solvency rate.

The company's rating has not had any significant changes. We maintain our investment grade rating at the international level and our local AAA.

Some of the highlights for the first quarter were: The Board approved the strategy for the following five years. I will give you further details about it later. Our equity is strengthening through capitalization. 62.5% of dividends declared in March were paid in shares, which implies a 97.2% capitalization of the profit earned in the second semester of 2016.

Despite the impact caused by Ruta del Sol, the corporation's consolidated EBITDA amounts to COP \$479,000 million. We have been working on having a good funding structure. The tenor of Corficolombiana's certificates of deposit (CDs) have been increased. Also, the average cost of CDs has decreased.

Gustavo will give you further details later, but it is important to mention that Promigas had a 100% operating capacity in the Canacol and Hocol plants. The international terminal of Alfonso Bonilla Aragon airport was opened on May 8 and our country's President was present. As of March 31, 2017 the four 4G projects have received equity contributions amounting to COP \$568,000 million.

On page 4 you can see a summary of our company's strategy in terms of variable income investments, which is the most important for us. We are going to keep our investment policies. We are a long-term strategic investor in capital intensive sectors and we want to have control and an important influence on our investments and a stable cash flow generation of those investments.

We also want to have a significant presence in the sectors where we participate and that is reflected on our current investment portfolio, which includes road concessions, hotels, agro industry and energy and gas sectors. We want to generate synergies between companies in

each sector and transfer best practices among sectors. Our target market is Colombia, Peru, Central America and the Caribbean. I must clarify that for the coming five years significant changes in terms of the company's investments are not expected, but we want to execute our investments on 4G roads, which will keep us busy. Those 4G projects will have an important impact on the company's results.

Concerning our treasury management, we are focusing on strengthening our customer business. Our treasury has a very good trading business and now we want to expand it through customers, because it will provide stable treasury results.

In regards to investment banking, which is also an important business for our company, we expect to grow in Colombia leveraging on our know-how in project finance, M&A and capital market and syndicated debt. We hope to access the Central American and Peruvian markets. In the Central American case, we will work based on Grupo Aval's presence in the region. Our customer base will be expanded by focusing on corporate customers, and of course by supporting Corficolombiana and Grupo Aval's investment strategy.

As for commercial banking, we want to see a clear approach in terms of corporate banking customers. Commercial banking is expected to support investment banking and treasury businesses.

I will now turn the call over to Mr. Juan Carlos Paez, who will talk about the corporation's results for the first quarter of 2017.

**Juan Carlos Paez:** Thank you. Good morning. The company's financial results presentation will be based on consolidated figures. As you saw in one of the slides shown by Bernardo, having adopted a participation method on controlled, associate and joint businesses allows our income structure, in general the loss and profit structure of our separate financial statements reflect basically the same that happens in the consolidated financial statement.

In that order of ideas, let's go over our balance. As you can see, the first quarter of 2016 closed with total assets amounting to COP \$20.6 trillion. Those figures decreased to COP \$19.8 trillion at the end of the first quarter of 2017. This is basically related to the strategy described in our last meeting and stressed today, which is disinvestment of fixed-income portfolio. There is a decrease of about COP \$2 trillion in that fixed-income portfolio. However, that significant decrease is not reflected in total assets because the business evolution of the Spec regasification plant, which is an affiliate of Promigas, generated assets and liabilities for about COP \$1.1 trillion. The structure of those assets has evolved accordingly to the evolution that I just mentioned. As you can see, the largest weight is for investments in debt instruments, which amounted to 23% in the first quarter of 2016 and now in 2017 has decreased to 13%. The most important asset, given the energy and oil businesses and infrastructure concessions is the concession agreements, they amounted to 22% in the first term of 2016 and now they represent 26% of total assets in the first quarter of 2017, for a total of COP \$5.1 trillion.

Concerning each sector's participation in total assets, slide 7 shows its evolution throughout the year. 32% of consolidated assets comes from the financial sector. 47% comes from gas and energy, which is the most important in this asset structure. 17% corresponds to

infrastructure. This evolved 13%, from COP \$2.7 trillion in 2016 to COP \$3.4 trillion in 2017. The participation of the other sectors, as you know, is lower (4% for the hotel sector and 4% for the agro industrial sector). The financial sector, which had a 45% participation in the first quarter of 2016 (COP \$9.2 trillion) has a decrease, as we mentioned at the beginning of the presentation on consolidated balance. Portfolio disinvestment and money market participation show a reduction of about COP \$2.5 trillion.

Concerning consolidated equity and liabilities, which are shown in the next slide, they are relatively stable. Deposits, which are mainly from Corficolombiana, have a 27% participation of total liabilities. Securities issued increase slightly (about COP \$330,000 million) and their participation changed from 13% to 16% of total liabilities. Financial obligations, which basically correspond to funding and financial structure of our affiliate companies, increased from 15% to 25% of total liabilities. This means an increase of COP \$2.3 trillion to COP \$3.7 trillion, basically explained by assets and liabilities of the Spec regasification plant after it started operations.

Equity has increased 5.5%, as you can see at the bottom of the slide, from COP \$4.7 trillion to COP \$5 trillion. 38% of this amount is minority interest and the rest is controlled equity. Let me remind you that such controlled equity is similar to the equity of the company's separate financial statements.

Concerning the structure of results, the next slide shows that our profits decreased from COP \$218,000 million to COP \$181,000. Let's analyse that structure. Both operational income and expenses have decreased by COP \$130,000 million, basically due to the accounting dynamics of the SPEC plant construction. Obviously, when it started operations the accounting dynamics changed. The evolution of that business is reflected both on its income and expenses, rather than the construction of the financial asset as such. Therefore, the COP \$349,000 million operational margin remains unchanged. The financial margin has a 38% increase of COP \$47,000 million, mainly related to the company's treasury evolution.

The carry effect mentioned in previous presentations continues having a lower than expected outcome but it has been better than the one experienced by the surrounding market in the first quarter of 2016. Financial instruments valuation has evolved accordingly.

In terms of income from dividends and participations, we have a stable amount of COP \$81,000 million in 2016 and COP \$82,000 million in 2017. It is worth noting that we have seen an income substitution. Dividends declared by the companies where we have a participation lower than 20%, have doubled. This offsets the income reduction caused by the participation method of subsidiary and joint businesses that contribute to our consolidated financial statement.

Finally, thanks to the evolution that I just mentioned, there is a 2% EBITDA growth. Profits have decreased by 17% and controlling net income is reduced from COP \$125,000 million to COP \$83,000 million, which represents 46% of the company's total profits.

We shared with you how the different sectors contribute to that EBITDA. It generates COP \$479,000 million to the company, as mentioned by Bernardo in the introduction. The

energy and gas sector is the largest contributor, with COP \$354,000 million. Followed by infrastructure with COP \$93,000 million, the financial sector with COP \$31,400 million and a participation of less than COP \$10,000 million from the hotel and agro industrial sectors. The aggregation process of each separate financial statement into the combined financial information implies some adjustments and eliminations that finally constitute the consolidated financial statement. It includes the elimination of amounts which are not very relevant to express our company's capacity to generate that COP \$479,000 million EBITDA this quarter.

Concerning the corporation's funding, as you can see in the slide, required resources were reduced by COP \$1.8 trillion between 2016 and 2017. Within that structure, funding through CDs remains stable. No important variations can be seen among those two figures (over COP \$80,000 million). There is a significant decrease of interbank funds, which basically behave as the treasury requires given the company's need for temporary funding. In this sense, there is a reduction in interbank funds or there are COP \$1.7 trillion less required to keep the company's balance.

Average tenor of CDs in the market are relatively stable, although their structure has changed significantly. As you can see, the average tenor of CDs increased from 2.5 to 3.6 years. It is important to compare this to the average cost. At the bottom you can see the weighted cost of CDs and savings accounts. If you compare this to the central bank's average intervention rates, that 8.1% CD rate in 2016 is equivalent to the central bank's intervention rate plus 205 basis points. Although tenors increased on average from 2.5 to 3.5 years in the first quarter of 2017, a 7.38 central bank intervention rate means an average rate equivalent to the central bank's intervention rate plus 162 basis points. We believe that this demonstrates our strength and the interest of the market for certificates issued by our corporation, which supports our company's businesses.

I will now turn the call over to Mr. Gustavo Ramirez, who will tell us about our portfolio.

**Gustavo Ramirez:** Thank you, Juan Carlos. We will now go over portfolio management and the behavior of our companies in the first quarter of 2017. Three aspects are worth mentioning, since they affected some of the results of our investments in comparison with the first quarter of 2016.

The first aspect is that we have noticed reduced economic growth in general. Second, there is a statistical effect that we will see when comparing this quarter and the previous one. In 2016, Holy Week was in March and this year it was in April (second quarter of the year), so some of the comparisons will have that statistical effect. The third circumstance is, as you may remember, the first quarter of 2016 was a period of drought, while the first quarter this year has been quite rainy, which has an impact on some of our investments. Having these elements in mind, let us look at each sector in detail.

The general results of the gas sector are driven by Promigas. As you know, by the end of last year a significant part of its investment projects started operations, mainly the Spec regasification plant in Cartagena. That explains largely the increase of the company's consolidated assets. Most of the income from those new projects is being obtained this year,

which also explains the increase of the consolidated EBITDA for the first quarter of this year in comparison with that of last year.

Similarly, the other important project for Promigas, which is the gas pipeline expansion in the South region of the Colombian Northern coast (Cordoba and Sucre departments), started operations at the end of last year and was 100% available in the first quarter this year.

In particular, in the transportation and distribution businesses we can see that volumes of gas transported did not grow significantly. This is largely explained by the weather differences from last year and this one. Last year, the dry season required significant thermal generation in the Northern coast and consequently important volumes of gas transported. This year we saw the opposite situation and transported gas volumes were basically the same as last year. In some of the Promigas pipelines these volumes even decreased. The distribution business continues to grow in terms of users connected and the number of companies where Promigas participates both in Colombia and Peru reached a total number of users over 3.7 million, compared to 3.5 million last year.

Regarding infrastructure, our consolidated assets continue to grow basically because of our investments in new 4G concessions. These investments are not generating profits yet; therefore, our EBITDA does not grow simultaneously with our investments. On the other hand, this year we don't have EBITDA generation from Ruta del Sol, which we had last year. That explains largely the fall of this sector's EBITDA.

In regards to the performance of our road concessions, we divide them into two groups for this analysis. Old concessions (operating ones) have the same traffic as last year. Some of them have changes close to 0 and there are even some slight decreases. There are two effects on this. First, we have experienced a period of reduced economic activity. Also, traffic volume in general is not growing at the same pace of previous years and it has even diminished in some roads. Additionally, for comparison effects, as you can see in the chart below, we must keep the effects of Holy Week in mind. It had an effect on the figures of 2016 first quarter, but not this year. Therefore, we must also take into account that statistical effect. However, it is true that in general terms, not only in our concessions but in all the country's roads, traffic volume has been slowing down and this has an impact on tolls.

Slide 16 shows a chart with a summary on the progress of our four 4G concessions. They are just starting. Quarterly progress is not very significant. However, we tried to include some of the milestones in order for you to see how they are advancing. The ones with best progress are Covipacifico in Antioquia and Coviandina in the Bogota-Villavicencio road. Those two are under construction. From the other two, Covioriente is far along in its development as construction is expected to start in the coming weeks and Covimar is expected to start construction in first or second quarter 2018. The good news about it is that consultation with the Mulalo community has finished. This consultation demanded a long time, but it has now finished. From now on, we are working on construction preparation. Obtaining the environmental license comes next and consultation with the Mulalo community was essential for this. That aspect, which was uncertain, has been solved.

It is worth mentioning that as of March 31, 2017 the corporation's equity contributions have been almost COP \$600,000 million. As we have seen, our total equity contribution for the next five years amounts to COP \$2.9 trillion, for a total CAPEX of COP \$9 trillion. As we have mentioned before, that is our main investment in our portfolio in the coming years. Moving on to the hotel sector, formal operations of the hotel in Cartagena started this quarter. It was inaugurated in December and it has been very well received. As you know, the hotel focuses on corporate customers and conventions rather than on tourists. In fact, during the first quarter over 60 events with more than 6,000 attendants were carried out there. These numbers are remarkable for a new hotel. As you know, that hotel has more than 300 rooms, which increases Estelar's installed capacity by almost 10%. That explains the fall in occupancy levels. It is rather a statistical effect. In the first quarter of 2016 those 300 rooms were not available yet. However, the first quarter of 2017 is affected by those figures. Also, since it is a new hotel, it has a booking curve which makes the total occupancy of Estelar decrease. Despite this, the number of rooms sold increased by 3.4%. We also need to keep in mind the statistical effect, because the effect of Holy Week was felt in the first quarter of 2016, while this year it was not. Obviously, hotels behave differently in Holy Week.

Finally, concerning the agro industrial sector we have to mention that due to weather differences between this and last year, Pajonales is having a different sowing cycle from last year. Heavy rains this quarter have delayed rice sowing and that has generated a lower EBITDA in comparison to last year, but it must be offset throughout the year, when we analyse aggregate figures for the coming months.

In regards to the financial sector, we see an increase in operating profit. We won't refer to EBITDA but to operating profit of the financial entities. We must mention that the results of our fiduciary have been very positive in comparison with last year. Our leasing company, as you may remember, did not have good results in 2016 but it is now stabilizing in 2017. Therefore, when comparing to last year there is a significant increase, not because this has been a great year but because 2016 was remarkably low. Those are in general the most remarkable facts of our portfolio for the first quarter of 2017. This concludes our presentation.

**Bernardo Noreña Ocampo:** Thank you, Gustavo. Our question and answer session can start then.

**Operator:** Thank you. The question and answer session will begin now. If you have a question, please dial \*1 on your phone. If you want to withdraw from the waitlist, please dial the # key. Remember, if you have a question, please press \*1.

We have Katherine Ortiz.

**Katherine Ortiz:** Good morning. First of all, thanks for the presentation. I have several questions. First, I would like to know if the COP \$76,000 financial margin... The thing is that quarterly results were presented differently. Is that amount calculated in the same form as it was in the fourth trimester of 2016, when you had a COL \$9,000 million loss? I would like to understand the reason for that loss in the first quarter. Second, I would like to have further details on investment profit by segment, because I can't find that information. I

would like to know more about income and profits to be able to understand that 17% decrease in net profits. Why did it happen?

**Juan Carlos Paez:** Yes, the presentation was changed. We used to show you a structure that was similar to our separate financial statements and the overall participation of each sector in that consolidated financial statement, basically for comparison purposes.

Concerning the reasons for the increase from COP \$-123,000 million to COP \$-76,000 million, the corporation's structure is an important aspect to consider. We had mentioned before that our portfolio basically had a negative carry. In 2016 our available for sale portfolio accumulated the evolution of 2015. That figure was about COP \$270,000 million in unrealized losses. Fortunately, that amount evolved because of treasury management throughout 2016. In 2017, our portfolio is reduced in comparison to what we mentioned before, even though we still have a low carry, but we are not having profits or unrealized losses as in 2016.

It is also worth mentioning that the accounting treatment to investment portfolios in the separate statement is different from the consolidated. While the separate statement shows those results as part of a total available for sale, in the consolidated statement they affect financial results directly.

Your other question was about profits by segment. The energy and gas sector has had a stable performance and the performance of the agro industrial and hotel sectors is slightly lower this quarter than in the first quarter of 2016.

When comparing those two quarters, the energy and gas sector is stable. I'm taking this information from the presentation that we used to show you about the participation of each sector in the income statement. Energy and gas contributed to profit generation with COP \$78,308 million, which increased to COP \$81,000 million in the same period. We can see a COP \$3,000 million difference there.

Infrastructure has the impact of non-recording the equity method in Ruta del Sol. While in 2016 infrastructure contributed with COP \$52,000 million to profit, in 2017 this amounts to COP \$30,000 million. The difference is over COP \$22,000 million. Out of those COP \$22,000 million, about COP \$25,000 are attributed to Ruta del Sol. We have a lower effect because the other roads have had a stable performance, although better than expected.

Concerning the financial sector, as mentioned by Gustavo when he showed you the EBITDA of the financial sector or the financial operational margin, it increased from COP \$3,292 million to COP \$5,314 million.

The hotel sector decreased from COP \$2,500 million to COP \$1,800, which I would say is stable given the contextual elements mentioned by Gustavo. The most important impact is experienced by the agro industrial sector. Its participation was COP \$2,164 million and in this first quarter it has a negative figure of COP \$1,579 million.

**Katherine Ortiz:** Perfect. I have one more question concerning the Mulalo-Loboguerrero concession. During the presentation about the fourth quarter of 2016 it was mentioned that construction was expected to begin during the fourth quarter of this year. However, this presentation talks about the second semester of 2018, which means a one-year delay. I would like to know what caused that delay.

**Gustavo Ramirez:** The delay of this project, not only between those two periods you mentioned, but from the start, has been caused by consultations with communities, which have taken longer than expected. In fact, total delay of project construction has been 18 months. Most of this has been caused by delays in consultations with the Mulalo community, which finally concluded one month ago. When it finished, timetables were made again and the latest is the one we showed you. The most critical part, which was consultation with the community, has been overcome, which gives us peace of mind. It is worth noting that these contracts establish that delays do not have a negative economic impact, basically because most of the investment will not be done until all the pre-construction process finishes and the construction period starts. Therefore, this delay, which is has been the longest we have experienced so far, has not affected the project's profitability in negative terms.

**Katherine Ortiz:** Alright. Thank you very much.

**Operator:** We have Carlos Rodriguez.

**Carlos Rodriguez:** Good morning, gentlemen. Thanks for the presentation. I have several questions. The first one is about slide 14. Concerning the distribution of volumes sold and Calidda users, why the change between industrial and residential information? In the first quarter of 2016 it was 1,241 for residential and 0 for industrial. In the first quarter of 2017 we see a big change.

**Gustavo Ramírez:** There's a mistake there. That 1,241 is the total. It is not well distributed between the residential and industrial sectors. We are going to correct it. It's just an error.

**Carlos Rodriguez:** Okay. My second question is about the progress of Pacifico 1. Could we know something about its progress for the first quarter?

**Gustavo Ramírez:** Construction work in that concession started some months ago. It is within the established timetable. You may remember that it was the first 4G concession we were granted, so its preconstruction and construction processes are the most advanced. It is followed closely by Coviandina. We don't have any relevant community or technical issues there. The pace of construction work is picking up. As you know, this kind of constructions has a mobilization and construction rate curve that requires some months. Pacifico is experiencing that period. Equipment is mobilized first. It is a mountain road and the first and most intense activity in that type of roads is to construct the industrial access roads to the entrance of tunnels. The most critical part of this project is the Amaga tunnel, which is 4 kilometers long. Excavation is about to begin. But before that, during the last months after operations started it was necessary to open access roads for taking equipment and materials to the tunnels. Construction pace is therefore speeding up and construction is expected to continue successfully.

**Carlos Rodriguez:** Okay. My third question is related to the new presentation of results, which is now focused on consolidated figures and we were used to separate results. In terms of separate results, please tell us about the behavior of the net financial margin, investment banking fees, Opex and the participation method this quarter.

**Gustavo Ramírez:** Before answering, I would like to make a general comment. We decided to show you consolidated results considering the implementation last year of the

NIIF 27, which gives us a more general overview of the group of companies owned by Corficolombiana and makes them more consistent with the numbers you see in our holding. It is a change from what we saw before, but I think it shows more clearly the impact of our companies' performance on our results. As you know, Promigas has a very important impact on our results and we are also showing consolidated results for that company, so we believe that this change shows our figures in a more consistent way. Juan Carlos can answer your specific questions now.

**Juan Carlos Paez:** Thanks. Concerning the performance of the most important source of income, which is our equity method, while in the first quarter we had a COP \$133,000 million income, in the first quarter of 2016, in 2017 it has been COP \$10,000 million less. This is affected by the income that we no longer receive from equity method in Ruta del Sol. It was about COP \$25,000 million in the first quarter of 2016. The performance of the other companies has allowed us to offset almost entirely that deficit. The other sources of income for the corporation are basically dividends and some fees. The second most important source of income was, as you may remember, our treasury management, shown to you as financial margin.

The market situation and the expectations about public debt and fixed income have not allowed us to have a good performance. The funding structure of these investment portfolios, which are basically sovereign debt, led to constant negative carry indices. That carry index has evolved. It is a standard situation in all the Colombian financial sector. As you know, after the quarter closed, the central bank's rate movements supported the evolution of the carry indices of all the treasuries and the same has happened in the corporation. We expect a positive second quarter in terms of treasury. Concerning the corporation's operation, management expenses, which are COP \$18,000 million quarterly, remain stable. They have only increased by 3%. In consequence, the corporation's profit amounts to COP \$83,000 million this quarter. Keeping in mind the aspects previously mentioned, there is in fact a reduction compared to COP \$132,000 shown in the first quarter of 2016.

**Operator:** We have Esteban Quintero, from Bancolombia.

**Esteban Quintero:** Good morning. Thank you. I have one question. Please give us some information about the press release by the Comptroller General requesting the Attorney General to investigate a vacant lot issue that involves Pajonales and the sale of 22,800 hectares in Puerto Lopez.

**Gustavo Ramirez:** That topic is not new. The Comptroller's press release states that they did not find any problem concerning those lands. The amount is incorrect because the lands owned by Pajonales as part of its rubber project in the eastern plains region does not correspond to that figure. It is about 5,000 hectares. The total rubber-producing lands owned by the corporation in the eastern plains is 13,000 hectares, so that 22,000 figure is by no means right. As you may remember, some time ago there was a debate that still exists about accumulation of lands that were once vacant. In that regard, the corporation's lands through its companies have not been questioned. That issue is related to a law from 1994, which states that nobody can accumulate lands that were once vacant beyond a certain

given area which is different in every part of the country. In the case of the land owned by Corficolombiana's companies especially in the eastern plains for natural rubber, all of them were assigned as vacant before 1994, when that law came into effect. Therefore, we have never been questioned about the validity of the property deeds owned by our companies.

**Operator:** At this moment, there are no further questions.

**Bernardo Noreña Ocampo:** Thank you everyone. We will see you in our next conference. In the meantime, if there are any other questions, Adriana Gonzalez is available for answering them. Thank you.

**Operator:** Thank you everyone. This is the end of today's conference. If you want to listen to this conference, it will be available shortly on our website. Thanks for participating. You can hang up.