

## RESULTS PRESENTATION - 2Q-2017

**Operator:** Welcome to Corficolombiana's second quarter 2017 results presentation. My name is Hilda and I will be your operator for today's call. At this time all participants are in a listen-only mode. Later, we will conduct a question and answer session. Please note that this conference call is being recorded. I will now turn the call over to Corficolombiana's President, Mr. Bernardo Noreña Ocampo.

**Bernardo Noreña:** Thank you and good morning. Good morning everyone and welcome to this conference call.

Before we start the presentation, I would like to make a couple of important announcements. In this presentation, we will continue with the same methodology used in the previous presentation. We will review the corporation's consolidated financial statements, but today we will publish a more extensive report for the first time. It is about 20 pages long and it will include not only our consolidated results, but also our separate results and how we reconcile those two sets of figures, so that you can understand clearly the corporation's results. We think this will provide more detailed information. If you have any doubts, we are available to answer them.

You will also see some methodological changes in the consolidated Ebitda's calculation, which we believe represents more accurately the corporation's results. You can also find a conciliation between the information you saw before and what you are going to see from now on. As I said three months ago, we will focus on consolidated results rather than on separate results, which is more consistent with how the industry reports its results. This kind of report is aligned with what the other companies at Grupo Aval do and we hope that this provides more consistent results among the companies.

After that clarification, we will go over our results. Basically in the second quarter 2017 our consolidated assets were about COP 20 trillion, our equity was COP 5 trillion and our net profit was COP 44,274 million. Our return on equity is about 8.37% and our solvency ratio is 30.1%. In terms of our investment grade, Fitch Rating ratified our local AAA rating and our international BBB rating.

Some of the highlights for the second quarter. On May 5<sup>th</sup> we finished the payment of dividends corresponding to \$396 per share. A total of \$57,000 million were paid in shares and COP \$34,438 were paid in cash. This dividend corresponds to 155% of the profits of second semester 2016, but you have to keep in mind that we are changing our reporting period from six months to a year. Therefore, those dividends correspond to the amount to

be received in a whole year, until we have a new shareholders' meeting at the beginning of 2018.

As we had previously announced, the average tenor of Corficolombiana's CDs has increased in line with the maturities of Corficolombiana's assets, which are basically equity investments. Therefore, the average tenor has increased from 2.6 years in 2Q-16 to 3.7 years in 2Q-17. Here I am referring to CDs that are funding not only treasury operations, but also our equity investments. Our consolidated Ebitda in the second quarter reached COP 538,000 million, with a 5.6% year-on-year drop that will be explained during the presentation.

The following are some of the most relevant events related to our subsidiaries. On May 11<sup>th</sup>, the first regasification in the SPEC plant was carried out. 60 million cubic feet per day were injected into the National Transportation System and this is an important milestone because it is the first import of natural gas done through this mechanism.

The average daily traffic on our road concessions grew by 2.5% during the first half of 2017. Between January and June 2017 we made equity contributions of COP 187,000 million to the four new concession projects. We will explain later in more detail how these 4G projects are doing.

As you remember, at the end of 2016 we opened Hotel Cartagena Estelar in Cartagena de Indias and we are about to open Hotel Square in Medellin, which will be operated by Hoteles Estelar.

On the next page, a quick update on Ruta del Sol. Although it represents a small percentage of Corficolombiana's operations, it is on the media every day. As you probably remember, the reversion period and the subsequent payment to the banks was subject to the payment to 70% of employees and 70% of suppliers. We have already paid more than 70% of the concession and the construction company's employees and we are close to paying 65% of suppliers. The remaining 5% must be paid in the coming weeks. That is good news, but on the other hand during the arbitration hearing held on August 3 the ANI disregarded the liquidation formula included in the termination agreement, despite having been signed by them on February 22<sup>th</sup>. Therefore, we are trying to understand what would be the next steps in the process. The fact that the ANI disregarded the liquidation formula does not have any effect on the reversion period stipulated in the termination agreement and such period continues under execution.

Finally, on August 23<sup>th</sup> a measure of preventive detention was placed against the former president of Corficolombiana who held this position for eight years and resigned at the

beginning of last year. He worked at Corficolombiana until May 16<sup>th</sup>, 2016. It is very important to say that Mr. Melo did not accept the charges alleged and the judge's decision to send him to jail came as a surprise to us. We must reiterate that our internal investigations showed that neither Corficolombiana's board of directors nor the executive board of any of our subordinates participated in or was aware of the alleged actions that Mr. José Elías Melo was accused of. Grupo Aval's policies effective today at Corficolombiana and its subsidiaries, were also applicable at that time and they are very strict and at the level of any international company. This concludes our introductory section.

Mr. Juan Carlos Paez will continue with the financial results.

**Juan Carlos Páez:** Thank you. Good morning. The following slide shows some aspects of our consolidated balance sheet. As the figures and graphs indicate, between 2Q-16 and 2Q-17 there is a small growth in total assets, despite the fact that we have reduced our fixed income portfolio by COP 2 trillion in response to a risk-reduction strategy for our treasury business. This reduction is offset, to reach those COP 20 trillion in total assets, by the inclusion of the SPEC operation, the regasification plant that represents COP 1 trillion, into our assets. Other amounts that also offset this figure are a higher value of the concession assets, which reached COP 700,000 million, and the growth of variable income investments that are still reflected in the Equity Method in the consolidated financial statement.

On the other hand, we have the Corporation's assets. As you can see, the big difference is in terms of fixed income instruments, whose participation went down from 22% to 11% in relation with the COP 2 trillion decrease. In addition, we have a loan portfolio and accounts receivable also grow, given the incorporation of COP 1 trillion related to SPEC's leasing. You can also see that concession agreements went up from 23% to 27% and it is related to the organic growth of concession assets, both intangible and financial.

What is the participation of the different sectors in the consolidated assets? It is worth recalling that the consolidation methodology, in contrast to that of the separate financial statements, incorporates all the assets of the entities that the Corporation controls which explains those COP 20 trillion in Assets. We had mentioned that out of these COP 20 trillion, the financial sector has six and continues to be the most important sector and the one related to the holding company. From the point of view of the companies where we have investments, such as gas and energy, which are mainly Promigas and its subsidiaries, they participate with COP 9.5 trillion. Infrastructure, according to the corporation's medium and long-term plan, continues to grow. You can see that it went from COP 2.9

trillion to about COP 3.5 trillion of total assets, associated to the growth of some concession assets and some capitalization processes over the year.

We also have the growth of the hospitality and agroindustry sectors and other small entities where we have some participation. On the other hand, in terms of funding of those assets, the slide on liabilities and consolidated equity shows the corresponding percentages. Securities issued, which were 13% in the previous quarter and corresponded to COP 1.9 trillion, grew due to a greater participation of Promigas in the Colombian debt issuance market, amounting to COP 2.3 trillion. The deposits, which are mainly related to the Corporation, remain relatively stable. The participation of interbank funds, which correspond to the corporation's treasury, decrease from 26% to 15% given our reduction of the fixed income portfolio. These represents a reduction of COP \$3.8 to COP \$2.1 trillion. However, the treasury maintains an important participation in the Colombian money market.

Finally, concerning the breakdown of that funding, the financial obligations increased from COP 2.6 trillion to COP 4 trillion. Again, Promigas has an important participation in this aspect. The equity, as you will see in the report that as mentioned by Bernardo at the beginning of this presentation will be uploaded to our website, out of the COP 5.1 trillion in equity, COP 3.1trillion correspond to controlled equity and almost COP 2 trillion correspond to uncontrolled equity or minority interest of the corporation.

Our income statement, shown in the following slide, had a methodological change. The next slide shows the one we had seen in the previous conference call, but it is worth saying that we tried to show you before the real sector's participation in these consolidated results always maintaining the same numbers from the Corporation's separate, so that you could compare the financial sector and the real sector where we are invested. These financial statements are now very similar. They are based on the accounting information disclosed by the corporation. This will also allow you to see in the report the evolution of each sector where we have investments, with this same structure.

There are some important differences in the equity method and dividends shown in these financial statements. This figure corresponds to the corporation's investment in entities that we have no control over and it looks substantially different because in 2016 those COP 79 trillion included COP 33 million coming from Ruta del Sol. Therefore, without Ruta del Sol we should be comparing the evolution of dividends received by the corporation, which is COP 46 trillion against COP 47,292, which is the amount recorded in 2Q-17.

I would like to move on to our consolidated Ebitda. Its behavior is very similar to that shown in the assets composition. In terms of asset profitability and cash flow, energy and

gas continues to be the largest contributor to our consolidated Ebitda of COP 538 trillion in the second quarter, with COP 362 trillion. It is followed by infrastructure, which has a significant decrease in comparison to the previous quarter, something that is related to not recording Ruta del Sol's contribution. Finally, we have the hospitality and agroindustry sectors, whose participation is relatively lower compared to the previous sectors. The financial sector participates with almost three times as much as last quarter. We have to say that this line has performed much better than in the previous quarter and even in the previous semester, with a very good performance of the fiduciary. These are the contributors to our consolidated Ebitda.

From the point of view of funding, beyond the consolidated financial statements previously seen, we can say that Bernardo's assertion that we continue to increase the average tenor of our certificates of deposit is very important. You can see that the average tenor has progressively switched from 4 to 4.2 years in the last quarter and 4.5 in this one. At the bottom left, you can see the average rates of these certificates of deposit: 9.2, 9.0, and 8.0. If we compare them to the Central Bank (CB) intervention rate, they could be expressed as CB plus 315 basis points in 2Q-16, CB plus 162 basis points in 1Q-17 and CB plus 164 basis points in 2Q-17. This shows the interest of the Colombian financial market in CDs issued by the corporation.

That was our presentation on the corporation's financial statements. I will now give the floor to Gustavo Ramírez, Vice President of Investments.

**Gustavo Ramírez**, Juan Carlos, thank you very much. Good morning everyone. Starting on page 14, we will briefly go over the performance of our investments this quarter. As an introduction, I would like to mention some important facts. As we said last quarter, we continue to perceive an economic slowdown that is reflected in the behavior of the demand for some of our investments.

Hotel occupancy is still down. Road traffic in general has stabilized and in the last two months of the quarter showed a change of trend that we hope will continue over the year. As we will see later in more detail, commodity prices of some of our agricultural companies have affected their results in the second quarter.

Broken down by sector on page 15, we see the energy and gas sector. An important landmark, as mentioned at the beginning, is that Promigas imported gas for the first time through the SPEC terminal, which began operations in December. This plant is available to cover the demand when required and the first time that was needed and it gasified liquid gas was this quarter.

Concerning the results, we see a stable Ebitda behavior compared to last year, something that we had mentioned in the first quarter as well. As you remember, during the first semester last year we experienced some drought and therefore a large amount of gas was transported by Promigas, while that did not happen this year. Despite that lower gas transportation, Promigas' other revenues offset this situation and therefore its Ebitda was stable compared to last year.

We included some operational figures in the table at the lower right. In terms of the distribution business, in each of Promigas' distribution companies both in Colombia and abroad the number of users increased by almost 10%, from 3.5 million users to 3.8. Also, there was an overall increase of volumes, except in the industrial sector, which includes gas for thermal generation. This sector was especially large in 2016 given El Niño Phenomenon and it was not that large this year. The same effect is also reflected on the table at the bottom left, where the volume of gas transported shows a very stable performance given the same effect.

On the following page we can see our infrastructure sector, very much consistent with what we showed you last quarter. Two things can be seen there. First, the decrease in Episol's Ebitda, mainly because Ruta del Sol's Ebitda is not there anymore, while last year it was taken into account. That is why Episol's Ebitda diminished from COP 68,000 million in 2016 to COP 35,000 million this year. We saw this behavior in the first quarter and it will continue over the year.

In addition, in the case of Epiandes, which is the company where we have a participation in the Los Llanos concession, this concession is ending and its results are lower because of that. The table below shows road traffic, where we can see as I mentioned before a small decrease compared to the previous one. Some show a small increase and in general traffic is growing on average at 2.5%, which is lower than in recent years, but which shows some stability in comparison to what we saw during the first months of this year, where we even saw a decrease. From our experience, we know that road traffic is a good predictor of the economic situation, so we believe that the second semester is likely to perform a little better.

Slide 17 shows the updated chart that we have shown you in our previous conferences about the status of our four 4G concessions. There is not anything very significant to mention in comparison to what we showed you three months ago. Perhaps the only one with a small extra delay is Villavicencio-Yopal, whose construction work and bank negotiation closure was expected to take place in the second quarter, something that was not possible. However, we are working on it and we believe that in the third quarter or before the end of the month that starts today we should be able to do so.

As far as figures, they have not changed much from what we showed you last time. As of June we have contributed COP 600,000 million in equity out of the COP 2.9 that we are committed to make during the next five years and our total capex has been reviewed tot COP 8.8. The last figure we showed you was a little higher, but this is normal as designs are fine tuned in the concessions and this number tends to be lower. Of course, this shows an efficiency in final designs with respect to the ones we had at first.

On page 18 we see the performance of the hospitality sector. It is worth noting that Estelar, which is the largest part of our hospitality sector, continues to invest. As mentioned at the beginning, after starting operations in Cartagena at the end of last year we are in the process of opening a new operation in Medellin, probably early next year. You can see here a picture of the hotel construction progress in El Poblado area.

As for the results of this second quarter, as we have seen since the first quarter, occupation has been lower. Estelar has a 53% occupancy level compared to last year's 56%, even though the rooms sold have increased by 5%. Conventions and other events were less dynamic and as you know they are an important source for Estelar's business. Therefore, this second quarter, just as in the first one, there was a smaller consolidated Ebitda in the sector.

Finally, slide 19 shows the agroindustry and financial sectors. On the one hand, the agroindustry sector has a lower Ebitda given the economic slowdown experienced in particular by Pizano. Pizano has had a bad quarter and a bad semester. Fortunately, in July we started to see a more stable behavior and at least results not falling any further. Also, the price of rice in Pajonales affected us during this second quarter. Although some believe it will increase in the second half of the year, we believe it won't reach last year's levels. In contrast, our companies from the financial sector had a very good performance. All of them showed better results in comparison to the same period last year. The fiduciary had a good 2016 and it has had an even better 2017. Our leasing company had low periods last year and it even had operational and net losses last year, but this year it has had positive operational income and we believe it will do even better over the year. This was our summary about the situation of the portfolio in this second quarter.

**Bernardo Noreña:** Thank you Gustavo. We are ready for our question and answer session, operator.

**Operator:** Thank you. Our question and answer session will begin. If you have a question, please press \* 1 on your phone. If you want to withdraw from the waiting list, please press

the # key. You can also submit your questions via webcast. Remember, if you have any questions, please press \* 1.

Angie Rodriguez from Davivienda Corredores is on the line.

**Angie Rodríguez:** Good morning, thank you for the presentation. I have a question related to the recent news about the precautionary measure taken by the administrative court of Cundinamarca to freeze Episol's accounts. I wonder if this is true, if it has any impact on the financial closures of Episol's concessions and what consequences this could have. Thank you very much.

**Bernardo Noreña:** The administrative court of Cundinamarca issued in fact some precautionary measures basically as a measure to support the process carried out by the general attorney. The judge said clearly that these precautionary measures should not affect the execution of other 4G projects. It affects Episol, but it does not affect the execution and progress of the other 4G projects.

**Operator:** Thank you. The next question comes from Mr. Diego Buitrago, from Bancolombia.

**Diego Buitrago:** Good morning. Thank you very much for the presentation. I have two questions related to Promigas. First: what are your expectations regarding the tariff revision by the CREG on the natural gas distribution and transportation business? Have they made sensitivity analyses about the regulatory WACC or about the impact on Promigas' revenues? It would be great if you could tell us something about it.

The second question is related to UPME's projects for the natural gas supply plan in Colombia, particularly for the regasification plant on the Pacific. Would Promigas be interested in participating in this project? Thank you very much.

**Gustavo Ramirez:** Thank you. About your questions, I can tell you the following: a tariff revision is in fact expected both for the gas distribution and transportation sectors. There is a long discussion with the government about it. There might be some downward-rate impacts, which are fully anticipated by Promigas. In fact, our biggest concern is not so much about the effect on Promigas's revenues, but about the impact this may have on the expansion of the system. As we can see, the importance of the new tariff revision has to do more with how much the investment in new infrastructure is stimulated, both in terms of transport and distribution. Will that affect Promigas' remuneration of its existing assets? Probably, and that has been anticipated by us. Promigas will experience a reduction in the regulatory WACC, but precisely because of that in recent years Promigas

has made investments in order to get increased revenues to offset any effect of a lower transportation and distribution tariff, so we do not expect to see anything new in this regard affecting Promigas' current results and growth of current assets.

As we have mentioned in previous conferences, that is one of the reasons why Promigas has analyzed different ways to diversify its investments both in Colombia and abroad. As you know, its incursion in Peru has advanced a lot and it is entering other sectors in Colombia, such as gas regasification. We have often mentioned our gas plant in Cartagena and we will of course pay attention to other similar investment opportunities. Promigas is aware of the plant project in the Pacific and it will of course be evaluated. However, some regulatory decisions are still pending to establish business conditions and although it seems interesting, a possible participation or investment will depend on an analysis that cannot be done yet, because conditions and rules have not been established.

**Operator:** Thank you. Our next question comes from Katherine Ortiz from Davivienda.

**Katherine Ortiz:** Can you hear me?

**Bernardo Noreña:** Yes, go ahead.

**Katherine Ortiz:** Good morning. I would like you to clarify the contradictory information given by the media about the Arbitration Tribunal's decision that states that the contract termination agreement is obsolete. If that is true, it was said at the beginning that the payment to the banks would not be affected because employees and suppliers are being paid, but does this have any other implications at this moment?

It is also said that the concession once again gets in charge of the road, so I would like to understand the latest news and what is going on with this process.

**Bernardo Noreña:** Of course. We must remember that the termination agreement had two parts. The first part was called the reversion agreement, which includes the payment to suppliers and employees and the first payment to the banks. The agreement also had a second part, a second chapter we could say, which included the termination value based on a formula. The termination agreement stated that for this second part to be enforced, it required authorization from a competent judicial authority, which was later determined to be the Arbitration Tribunal acting as the judge of the contract.

After signing the termination agreement, the ANI decided that it was not satisfied with the formula, so basically, they disagreed with the second chapter of the termination agreement.

The first chapter continues as agreed and it did not require any approval from a competent judicial authority. Therefore, it has nothing to do with the tribunal and our latest conversations with the ANI are clear about it. Even after the last tribunal hearing, suppliers have continued to be paid and as soon as the 70% is reached, payments to the banks should be next. So we must differentiate between those two chapters.

With regard to the road, it is controlled by the concession. That road has not been returned to the Colombian state basically because its evolution depends on the approval of that second chapter by a competent judicial authority. Stating that control of the road went to the government and then to the concession is simply misinformation. That road has never been under government control. It is controlled by the concession.

**Operator:** Once again, if there is any question, please press \* 1 or send it via webcast. The next question comes from Mr. Germán Cristancho, from Davivienda.

**Germán Cristancho:** Good morning and thank you for the presentation. I have three questions. The first one has to do with the active and passive operations that you perform in the money market. We have seen since last year that these operations usually have a 1:1 ratio and the size of active and passive operations was very similar. Since last year the size of passive operations has increased in comparison to that of active operations. So my first question is: what do you expect to happen to the size of those active and passive operations? Will they be similar in size or amount? Or will passive operations continue to be larger?

Second, I understand the uncertainty related to Episol and Ruta del Sol II. I would like to know your perspective on the relationship between Corficolombiana and the financial system right now in terms of 4G funding. At the country level, projected disbursements for the infrastructure segment were expected to reach nearly COP 5 to COP 6 trillion, but over the year those disbursements have been close to COP 1 trillion. What is the relationship of Corficolombiana today with the financial system, in relation with the uncertainty regarding Ruta del Sol II?

My third and final question has to do with Ruta del Sol, because as far as I understand the financial system is expecting a law that regulates the liquidation of 4G contracts in case of annulments for corruption, collusion or the like. What do you know about this law? Thank you.

**Bernardo Noreña:** Well, about the first question concerning treasury operations, Corficolombiana's strategy has been clear for about three quarters. We have said that we have lowered our level of risk appetite compared to the one we had in 2015. We have kept that risk appetite and in general terms we have lowered our exposure to the money market. Now, the composition of active and passive operations is part of the treasury strategy and I cannot disclose it. However, we continue following a strategy of de-risking, a decrease in risk appetite in the currency market and this is reflected in the company's financial statements.

The second question was regarding our relationship with the financial sector. It remains unchanged. We talk to local and international banks to finance our projects. It is clear however that for the market in general, not for Corficolombiana in particular, approvals have slowed down basically given the uncertainty level caused by a situation like that of Ruta del Sol, but at this time there are no concerns about the financing of projects and we think they are advancing, although a little slower than before. However, our relations with the market in general and both with local and international banks are excellent.

Finally, the government wants to enact a law concerning the treatment of contracts in case of invalidity. Asobancaria, the Chamber of Infrastructure Commerce and us as a financial institution and sponsor are participating in the discussion. That law is very much consistent with what we have been discussing with the ANI. We think that it is a necessary law and that it will bring more clarity to the market. Now, about each bank's opinion on the law, we would have to ask each of them about it.

**Operator:** The next question comes from Mr. Diego Buitrago, Bancolombia.

**Diego Buitrago:** Good morning again. Excuse me, but I would like you to clarify your answer about regulation of natural gas distribution and transportation. I would like to know if that tariff revision will not have an impact on Promigas' current assets and projects. Basically, I would like to understand why Promigas will be benefited with the strategy of making earlier investments or why that strategy will offset the effects of a tariff revision. It is only through higher incomes? Or is it because if investments are made before they would not be subject to the conditions of the new regulation? Thank you.

**Gustavo Ramirez:** I meant that we are talking about possible regulatory changes in the transportation and distribution business in Colombia, which are only one part of Promigas' business. Clearly, its investments abroad are not affected by that regulatory change. What I meant with my previous answer is that Promigas' dependence on regulatory changes to the transport and distribution sector in Colombia is increasingly lower.

**Operator:** Thank you. We do not have any other questions. I give the floor to Mr. Noreña Ocampo for final comments.

**Bernardo Noreña:** Thank you very much, operator. I basically want to say that we continue to work hard on issues related to roads and financial closures. We remain optimistic about the future of 4G. We have to turn on the page and this difficulty we had on the road as a country, not just as a company. Corficolombiana is much more than the Ruta del Sol highway. I think it's important for investors to know that. Also, we recognize that we are making some methodological changes but we think that they will give the market greater visibility and transparency. It is a transition and we are available to clarify these methodological changes if required. I think the written report we are publishing today will help you a lot, but if you have any questions, we will gladly answer them through Adriana and our team. Thank you very much.

**Operator:** Thank you. This is the end of our conference today. If you want to hear this conference again, it will be available on Corficolombiana's website soon. Thank you for participating. You may disconnect.