

HOW TO UNDERSTAND GRUPO ARGOS



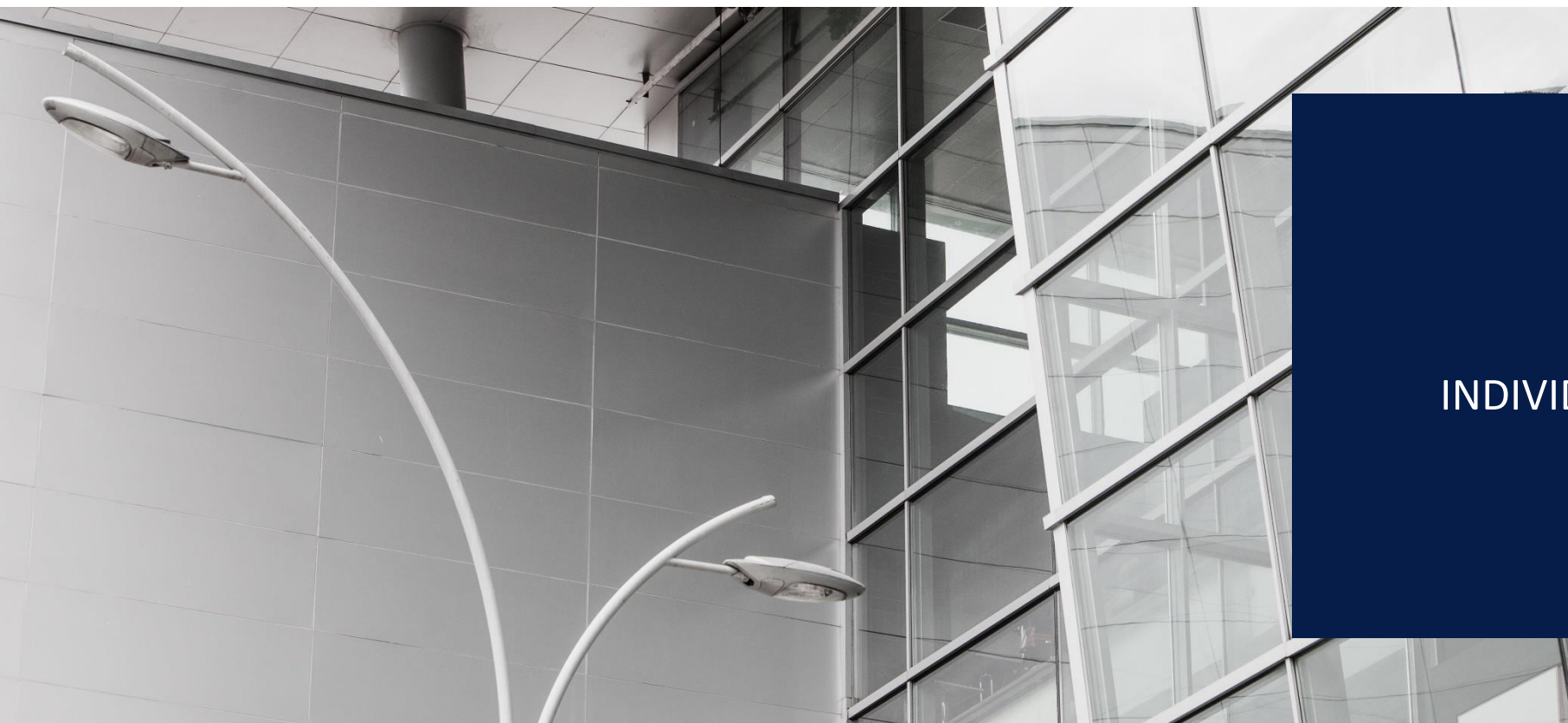
GRUPO ARGOS

Investments that transform



IMPORTANT NOTE

- This presentation contains certain forward-looking information and statements related to GRUPO ARGOS and its subsidiaries that are based on knowledge of current events, expectations and forecasts, circumstances, and assumptions of future events. Many factors could cause the future results, performance or achievements of GRUPO ARGOS and its subsidiaries to be different to those expressed or assumed herein.
- If an unforeseen situation occurs, or the premises or estimations are shown to be incorrect, the future results may be considerably different to those stated herein. The forward-looking statements are made to this date, and GRUPO ARGOS and its subsidiaries do not claim nor assume any obligation to update these forward-looking statements as a result of new information, future events or any other factor.



PORTFOLIO

INDIVIDUAL AND CONSOLIDATED INCOME STATEMENT

PORTFOLIO

STRATEGIC PORTFOLIO FOCUSED IN INFRASTRUCTURE

STRATEGIC
In Infrastructure



USD **4.2** bn
MARKET CAP^{*1}

USD **4.8** bn
REVENUES^{*2}

USD **1.3** bn
EBITDA^{*2}

CEMENT



^{*3} **58.0%**

^{*7} Revenues: USD 2.6 bn
EBITDA: USD 0.5 bn

ENERGY



52.9%

^{*7} Revenues: USD 1.1 bn
EBITDA: USD 0.4 bn

CONCESSIONS



^{*8} **99.9%**

^{*7} Revenues: USD 0.6 bn (+0.3 bn of Opaín7)
EBITDA: USD 0.3 bn (+0.1 bn of Opaín7)

PORTFOLIO of USD 2,9
billions⁶ composed by:



^{*4} **37.2%**



Desarrollo
Urbano

100%



^{*5} **27.7%**



Grupo
nutresa

9.8%

¹ Mkt Cap in USD as of 30/09/2019 (1 USD = 3,462COP) ² Revenues & EBITDA LTM Sept 2019 in USD ³ Cementos Argos 58% ordinary shares and 49.1% of outstanding shares ⁴ 50% participation in the managing vehicle, 27,5% Economic right with the entrance of Protección Pension Fund ⁵ Grupo Argos and its related companies adds to 35.9% ⁶ Portfolio valued at Market prices for Grupo Sura and Nutresa, unit value for Pactia as of Sept 2019 and book value for urban development ⁷ Corresponds to recurrent revenues and Ebitda for 2019 Sept YoY ⁸ Grupo Argos and its related companies adds to 99.9%

DIFFERENCE BETWEEN CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENT

- Set of financial statements of two or more entities controlled by a holding company
- Balance sheet and financial statements of the parent company and subsidiaries **are presented as if it were a single economic entity**
- **Control** is defined when **there is economic and political power over subsidiaries**
- Each subsidiary must have its own accounting
- At the end of the period, all individual statements are combined and the transactions between the related parties are deleted

INDIVIDUAL FINANCIAL STATEMENT

- They are presented by the Holding Company
- The corresponding investments are accounted as the amounts directly invested, and not based on the results obtained or the net assets owned by the entity in which it has been invested
- **Investments in subsidiaries are measured at fair value**
- Depending on the participation in each subsidiary there is a different financial treatment
- **Reflects the financial reality of the Holding company**

HOW DO WE CONSOLIDATE THE PARTICIPATION IN OUR INVESTMENTS

According to IFRS, the decision to consolidate depends in the participation and/or the power to decide over the investment. In the case of Grupo Argos has been determined:

CONTROLLED PARTICIPATION > 50%



- ▲ **OPAIN is consolidated by Grupo Argos since the sum of Odinsa and Grupo Argos participation is 65% therefore the equity method of OPAIN in Odinsa must be subtracted to consolidate Opain**

SIGNIFICANT INFLUENCE 50% > PARTICIPATION > 20%



- ▲ They must be taken to the Income Statement through the equity method
- ▲ The equity method is an accounting technique used to record the profits of an investment in other company, where it's recorded proportionally to the percentage of its equity investment in the other company

FINANCIAL INSTRUMENT PARTICIPATION < 20%



- ▲ The cost of capital is considered
- ▲ **Only dividends paid are considered**
- ▲ **Dividends directly enter the income statement of the Holding**

HOW TO UNDERSTAND THE CONSOLIDATED RESULTS

RELEVANT FIGURES

COP bn	dec-18	dec-17	Var.(%)
1 Revenues	14,314	14,574	-2%
Cost, expenses & other revenues	11,695	12,053	-3%
Operating profit	2,619	2,521	4%
EBITDA	3,966	3,905	2%
<i>Ebitda margin</i>	<i>28%</i>	<i>27%</i>	<i>91p</i>
Pre – tax profit	1,537	1,441	7%
Taxes	343	535	-36%
<i>Current</i>	<i>419</i>	<i>471</i>	<i>-11%</i>
<i>Diferred items²</i>	<i>-76</i>	<i>64</i>	<i>219%</i>
Net profit	1,194	907	32%
Net profit of the controlling company	671	611	10%
<i>Net margin of the controlling company</i>	<i>5%</i>	<i>4%</i>	<i>50p</i>

1. Revenues:

- ▲ **Good and services revenues** – the revenues of the controlled companies are combined eliminating cross operations between them
- ▲ **Financial activity revenues** – Dividends received from not consolidated investments or are accounted by equity method (ex. Grupo Nutresa) + revenues from divestments
- ▲ **Real Estate revenues** - They correspond to revenues from constructions in buildings and civil works, sale of lots, leases, returns from the Pactia Private Capital Fund, and adjustment for fair value of the associated investment in Pactia
- ▲ **Equity method revenues**- Equity method from the subsidiaries (Grupo Sura and Pactia)

Additional notes:

- ▲ The combination of controlled businesses is made line by line, which implies that revenues from financial activity includes both dividend income received by Grupo Argos from its uncontrolled investments, as well as dividends received by any controlled investment that it owns, additional to the revenue of any controlled that has been classified in the same line (Example: Odinsa – revenues for interests of the financial asset)
- ▲ The **revenues received by the divestment are registered as a financial revenue**
- ▲ Pactia private equity fund is measured through the fair value of the investment and is updated monthly with by the unit value. Pactia management is valued by equity method

HOW TO UNDERSTAND THE CONSOLIDATED RESULTS

RELEVANT FIGURES

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2. Costs:

- ▲ The costs, as the revenues, are the combination of the records carried out by controlled businesses
- ▲ **Grupo Argos for having embedded an urban development business, records the book value of the lots sold during the period as cost**

3. Net profit of the controlling company:

- ▲ The net profit of the controlling company shows the consolidated profit that belongs to Grupo Argos
- ▲ **These profit is different from the profit from the individual statement since they have different accounting policies**

Additional notes:

- ▲ Due to the fair value policy of the Real Estate business, there should not be a significant difference between the income and the cost of the disinvested lots, therefore there should not be an impact on the operating profits accountant

THE CONSOLIDATED RESULTS STATEMENTS ALLOW:



- ▲ Analyze the performance and **contribution of each of the strategic businesses and the variation in their contribution to the consolidated results in all lines**
- ▲ Performance as a whole, which reflects **the benefits of having a balanced portfolio**
- ▲ **Net consolidated result**
- ▲ **Managed portfolio size**

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HOW OUR INVESTMENTS ARE ACCOUNTED IN THE SEPARATED RESULTS STATEMENT:

CONTROL PARTICIPATION > 50%



- ▲ If the subsidiary's share is greater than 50%, it's account in the Income Statement through the **Equity Method**
- ▲ As in the consolidated statements of income, OPAIN, being 65% owned by Grupo Argos + Odinsa, enters the separate income statement of Grupo Argos through the Equity Method. The Equity Method of Odinsa excludes its participation in Opain, since it has already been reflected in the financial statements of Grupo Argos

NON CONTROLLER PARTICIPATION < 50%



- ▲ Non-controlling interest or participation under 50% only considers the dividends received from each subsidiary
- ▲ The dividends are accounted as revenues in the income statement

HOW TO UNDERSTAND THE INDIVIDUAL STATEMENT

RELEVANT FIGURES

COP bn	dec-18	dec-17	Var.(%)
1 Revenues	1.380	1.190	16%
Cost, expenses & other revenues	281	417	-33%
GA expenses	141	165	-14%
Operating profit	958	608	58%
EBITDA	980	630	56%
<i>Ebitda margin</i>	<i>1</i>	<i>1</i>	<i>1811p</i>
Pre – tax profit	847	491	72%
Taxes	35	39	-9%
<i>Current</i>	<i>17</i>	<i>53</i>	<i>-69%</i>
<i>Diferred items²</i>	<i>18</i>	<i>-15</i>	<i>222%</i>
Net profit	812	453	79%
Net profit margin	1	0	2078p

1. Revenues:

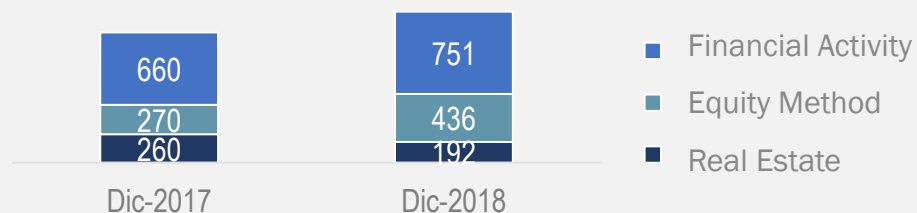
- ▲ **Financial activity revenues** : Portfolio divestments + Dividend income from uncontrolled companies (Ex: Grupo Sura y Grupo Nutresa)
- ▲ **Real Estate revenues** : They correspond to Sale of lots + Pactia dividends + adjustment for fair value of the associated investment in Pactia
- ▲ **Equity method revenues** - : % of the net profit that corresponds to Grupo Argos from the controlled business (Ex: Cementos, Celsia, Odinsa y Opain).
 - The percentages for the Equity Method calculation as of sept 2019 are: Cementos Argos 49,1%, Celsia 52,9%, Odinsa (eliminating the net profit from the Equity Method of Opain) 99,9%, Opain 65%

Additional notes:

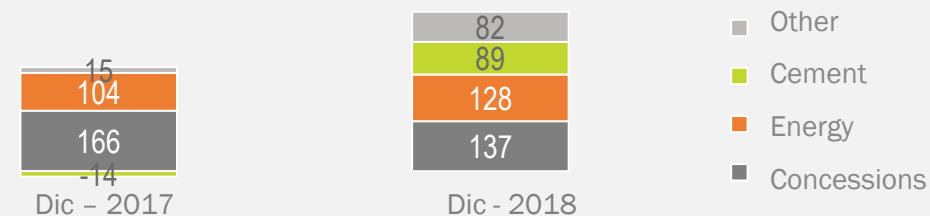
▲ The revenues explain:

1. The activity carried out by the holding company in a specific period, whether due to portfolio or land disinvestments
2. Contribution by core business Equity Method
3. Dividend income by investment is disclosed in the quarterly report

1. Revenue Distribution Example bn



2. Equity Method Distribution Example 2018 bn



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HOW TO UNDERSTAND THE INDIVIDUAL STATEMENT

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Net profit	812	453	79%
Net profit margin	1	0	2078p

2. Costs:

- ▲ **Cost of sales of financial activity:** Cost associated with portfolio disinvestments made by the holding company
- ▲ **Real Estate Cots:** Town planning costs

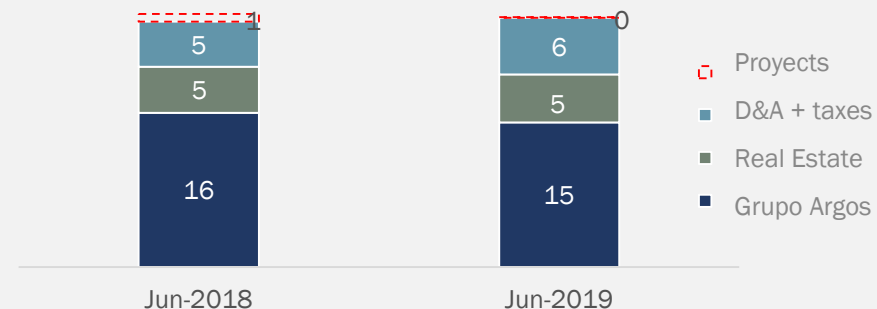
3. Management expenses:

- ▲ **Management Expenses include:** Operating expenses of the holding company + Operating expenses of the real estate business + property taxes of lots + Non-recurring expenses associated with investment and divestment projects

Additional notes:

- ▲ Grupo Argos does not operate as a normal holding company because of its Real Estate development business is embedded within its business
- ▲ The NPV of the expenses associated with the Real Estate is considered in the fair value of the land that is periodically adjusted by an independent firm
- ▲ The expenses associated with specific investment and divestment projects are not recurring and depend on the dynamics and magnitude of the projects. According to the activity of the holding company, these should be recorded as costs, but they are recorded as an expense
- ▲ Quarterly we reveal how the structural expenses are decomposed to be able to extract the pure expenses of the holding

Controllable Expenses example 2Q2019 bn



THE INDIVIDUAL RESULTS STATEMENTS ALLOW:



- ▶ Follow up on each of the activities of the holding: divestments, acquisitions, dividends, and their corresponding participation on the profits of the businesses it controls
- ▶ Better approach to the cash received by the holding company in a specific period
- ▶ Leverage at a separate level and interest expense

SPECIAL TREATMENT OF SOME OF OUR INVESTMENTS: GRUPO SURA Y PACTIA

CONSOLIDATED FINANCIAL STATEMENT

- ▲ Associates* (except Pactia that its recognized by dividends):
 - ▲ they are accounted by their equity
 - ▲ Investment its accounted in the financial statement through Equity Method
- ▲ Pactia investment it is at fair value and the changes in the unit price are reflected in results
- ▲ In the balance sheet the net assets of the subsidiaries are recognized line by line

INDIVIDUAL FINANCIAL STATEMENT

- ▲ Associates* (except Pactia) recognize dividends by:
 - ▲ Results
 - ▲ In the Balance Sheet Grupo Sura investment is accounted at cost
- ▲ Investment in Pactia is at fair value and changes in the unit price are reflected in results
- ▲ The subsidiaries are accounted by Equity Method

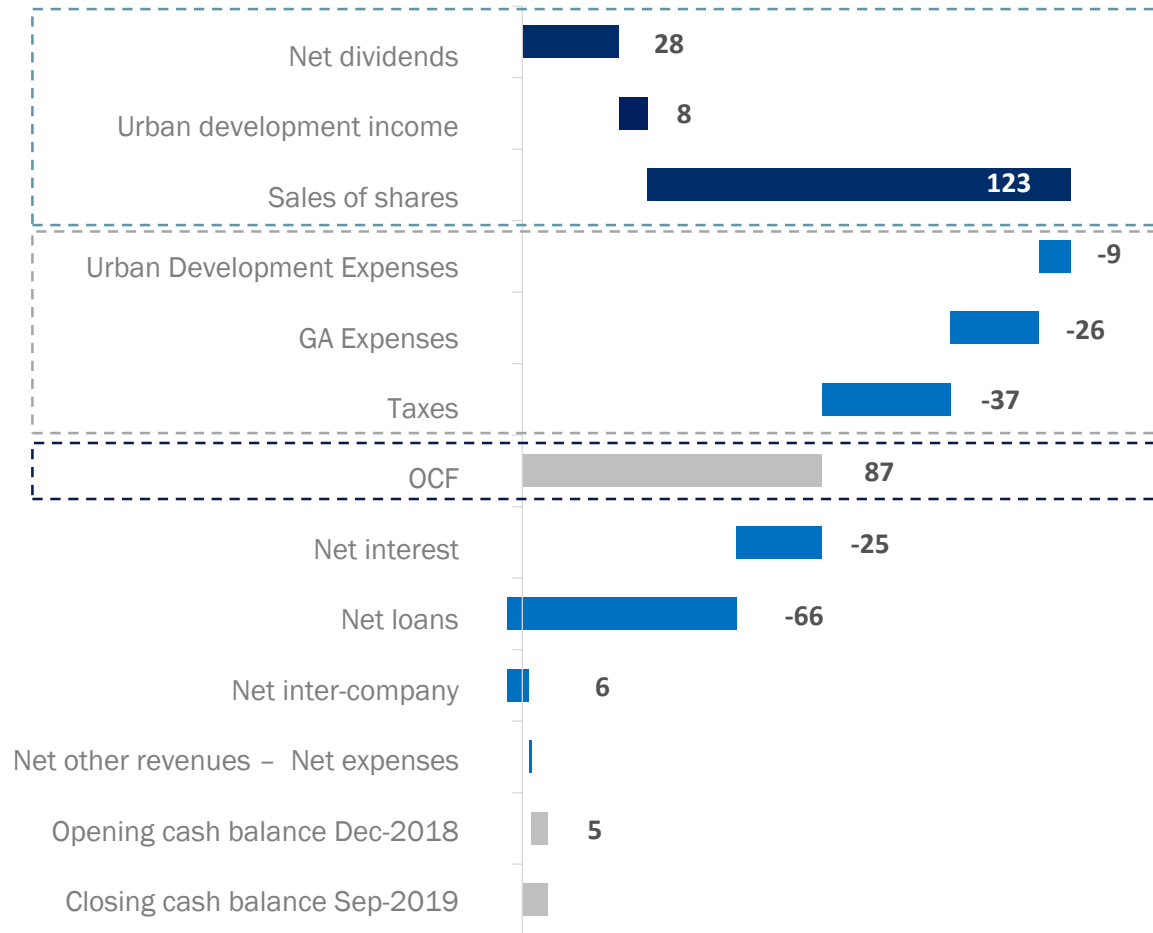
* Associates: Grupo Sura, Gestor de Pactia, Consorcio constructor Nuevo Dorado and Consorcio de mantenimiento de Opain



CASH FLOW

HOW TO UNDERSTAND GRUPO ARGOS CASH FLOW

Example: Individual Cash Flow COP bn



NET DIVIDENDS:

- Income received by subsidiaries minus those paid to our shareholders

URBAN DEVELOPMENT INCOME:

- Continuing with the divestment plan, revenue from sale of lots

INVESTMENTS OR DIVESTMENTS:

- In line with our holding role

URBAN DEVELOPMENT EXPENSES

- Management costs and taxes associated with lots

GRUPO ARGOS EXPENSES

- Management expenses and new projects
- TAXES**

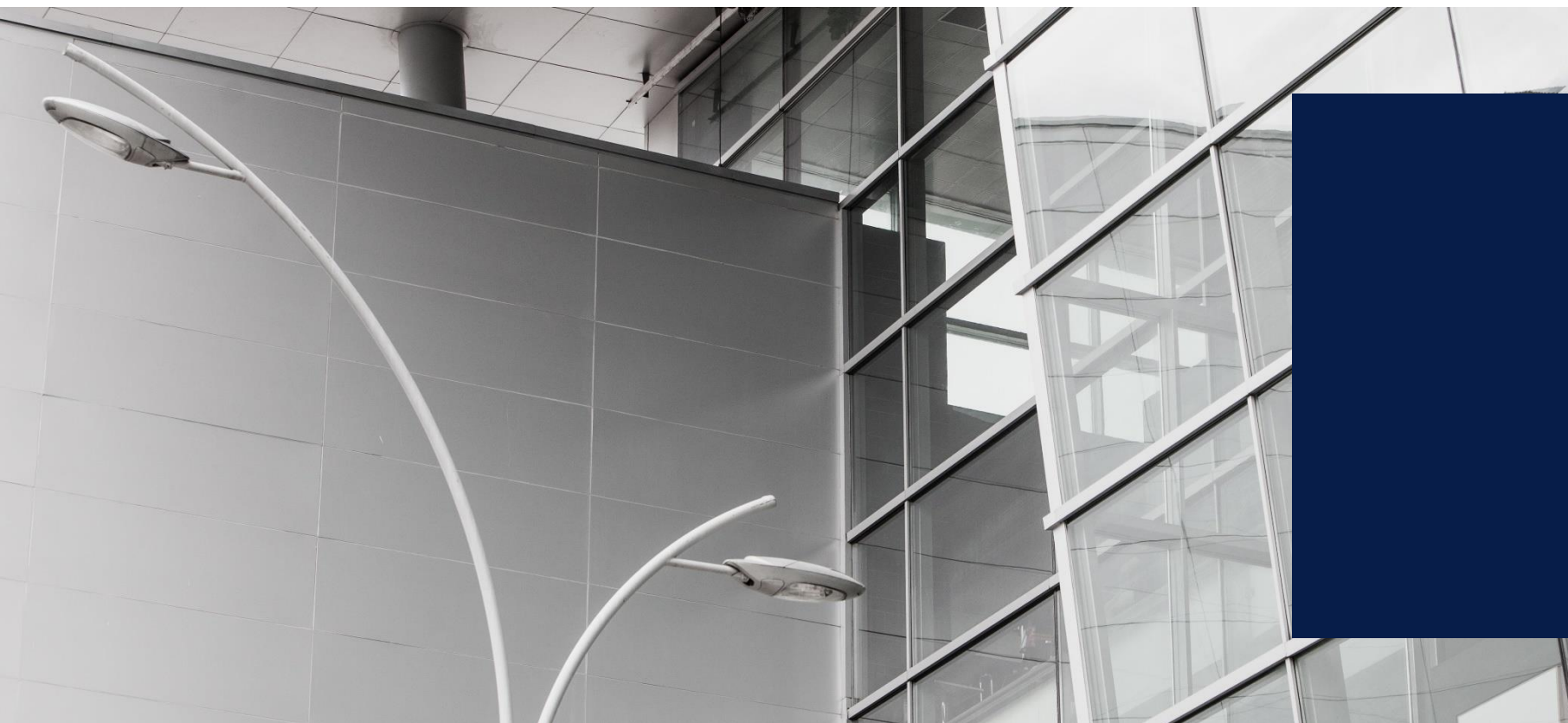
IF I AM AN ACTIVE HOLDING, THE INVESTMENTS AND DIVESTMENTS ARE PART OF THE OPERATION

*Unlike a normal holding company, Grupo Argos has an urban development business that consists of the divestment of lots over time and that is reflected as part of the operation

THE ARGOS GROUP CASH FLOW ALLOWS TO SEE:



- ▲ **Operation sustainability**
- ▲ Being an active holding company, the investment and disinvestment activity is part of the operation
- ▲ **Active management** (AUM CAGR 2015-2017 = 12%)
- ▲ **Ability to pay dividend to shareholders** (Spread between dividends received and paid increases 8x from 2015 to 2017)
- ▲ **Ability to continue growing** (dividend growth, decrease expenses, identified investment opportunities, leverage levels that provide flexibility)
- ▲ **Ability to pay debt** (Leverage indicators at minimum 1.8x net / Ebitda debt)

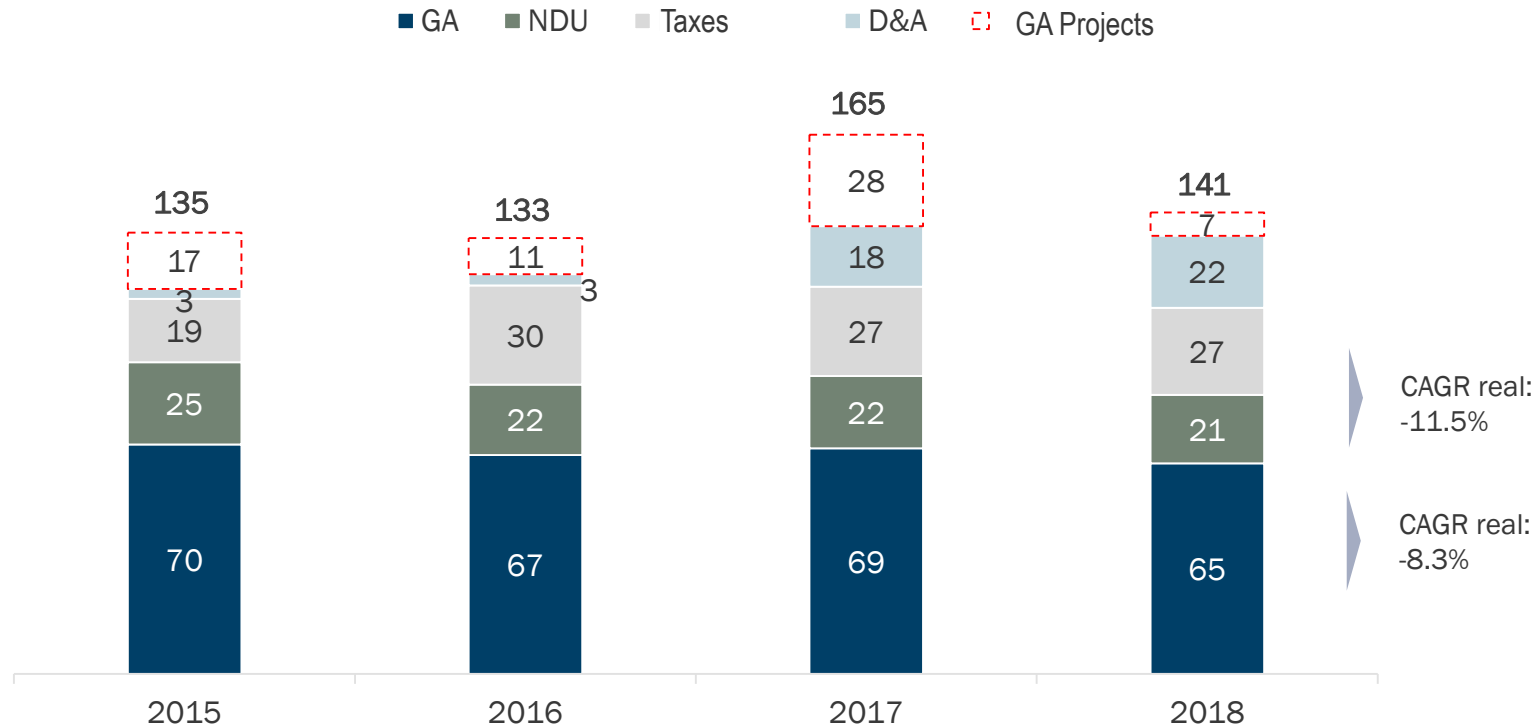


HOLDING MANAGEMENT

MANAGEMENT ON EXPENDITURE WITH FOCUS ON EFFICIENCY

Example : MANAGEMENT AND SELL EXPENSES GASTOS DE ADMINISTRACIÓN Y VENTAS COP bn

CAGR real: -4.0%



Manageable SG&A
of Grupo Argos

-8.3%

CAGR (2015 – 2018)

Real Estate
expenses

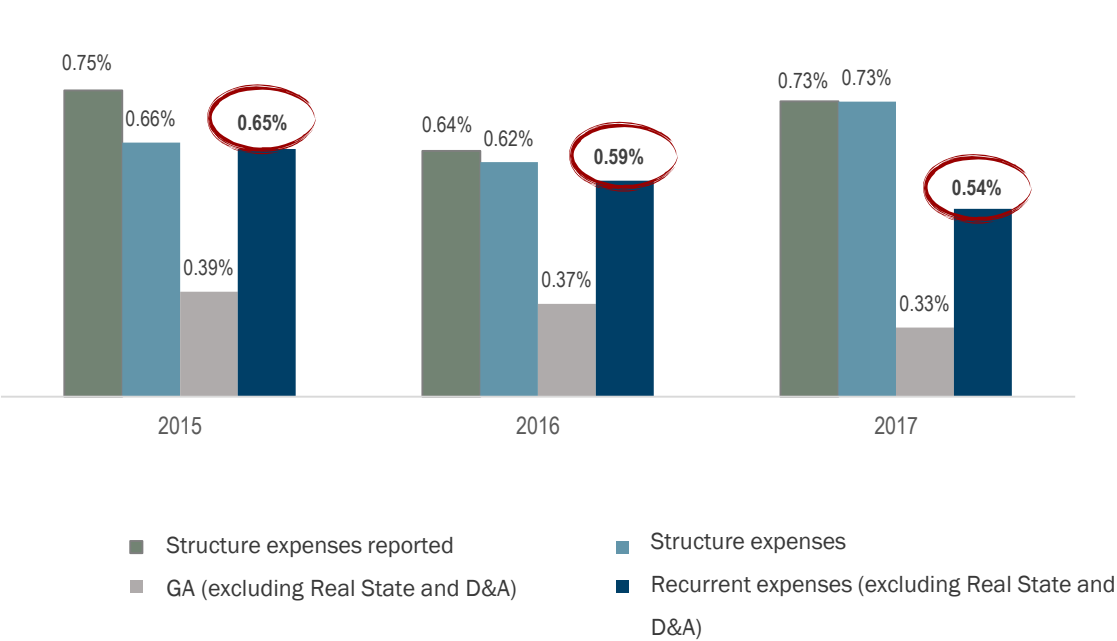
-11.5%

CAGR (2015 – 2018)

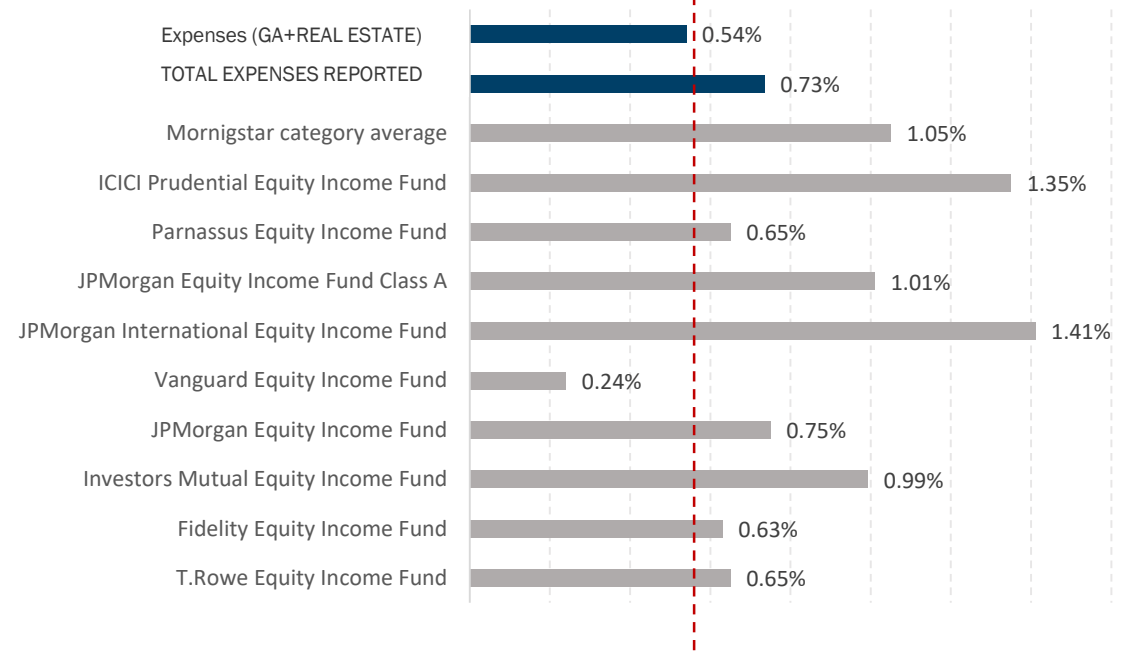
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HOW TO INTERPRET THE CASH FLOW

ESTRUCTURE EXPEND / AUM



FEES EQUITIES FUNDS - COMPARABLE 2018



EXPENSES: GA*/ AUM** 2018

0,5%

Vs. 0.82% average fee of international equities funds**

*Excludes depreciation and taxes
 ** AUM prom 2018 market prices and book value = COP 20,5 tn
 ** International equities funds: Morningstar, Prudential, Parnassus, JP Morgan, Vanguard, TRowe

STRUCTURE EXPENSES OF ARGOS GROUP AND ITS IMPACT FOR CALCULATION OF THE OVERHEAD



- ▲ From 2015 to 2017 the Real Estate expenses had been gradually incorporated
- ▲ The Holding expenses , excluding the Real Estate business, had sum up to COP 65 billion in 2018 (Projects and D&A)
- ▲ **In real terms**, discriminating expenses by business, the expenses of Grupo Argos and the Real Estate business had decreases
- ▲ Expenses associated with specific investment and divestment projects are excluded, which are not recurring and depend on the dynamics and magnitude of the projects, and which according to the activity of the holding company should be recorded as costs, but which are accounted for as accounting expenditure
- ▲ **The NPV of the expenses associated with the Real Estate business is considered in the fair value of the land that is periodically adjusted by an independent firm. It is for this reason that it must be subtracted from recurring expenses to calculate the perpetuity of the overhead**

LEVERAGE RATIOS EVOLUTIONS IN LINE WITH EFFICIENT CAPITAL ALLOCATION STRATEGY



From 2015 to 2018 Grupo Argos has:

INVESTED + COP 3.1 TN

DIVESTMENTS
FOR COP 2.4 TN

Efficient debt management,
supporting its growth

Ends 2018 with the lowest
debt multiple

Adjusted EBITDA

+	EBITDA
-	Equity Method
+	Dividends received
+	Divestments income
=	Adjusted EBITDA

HOLDING LEVERAGE



- ▶ Grupo Argos Debt has enabled the Holding to consolidate a robust portfolio and the has given the flexibility to take investment opportunities in its strategic business
- ▶ Although there are no covenants our goal is to have a leverage indicator below 3.5x net debt / Dividends
- ▶ **Our minimum cash policy implies that any cash surplus is used to amortize debt**

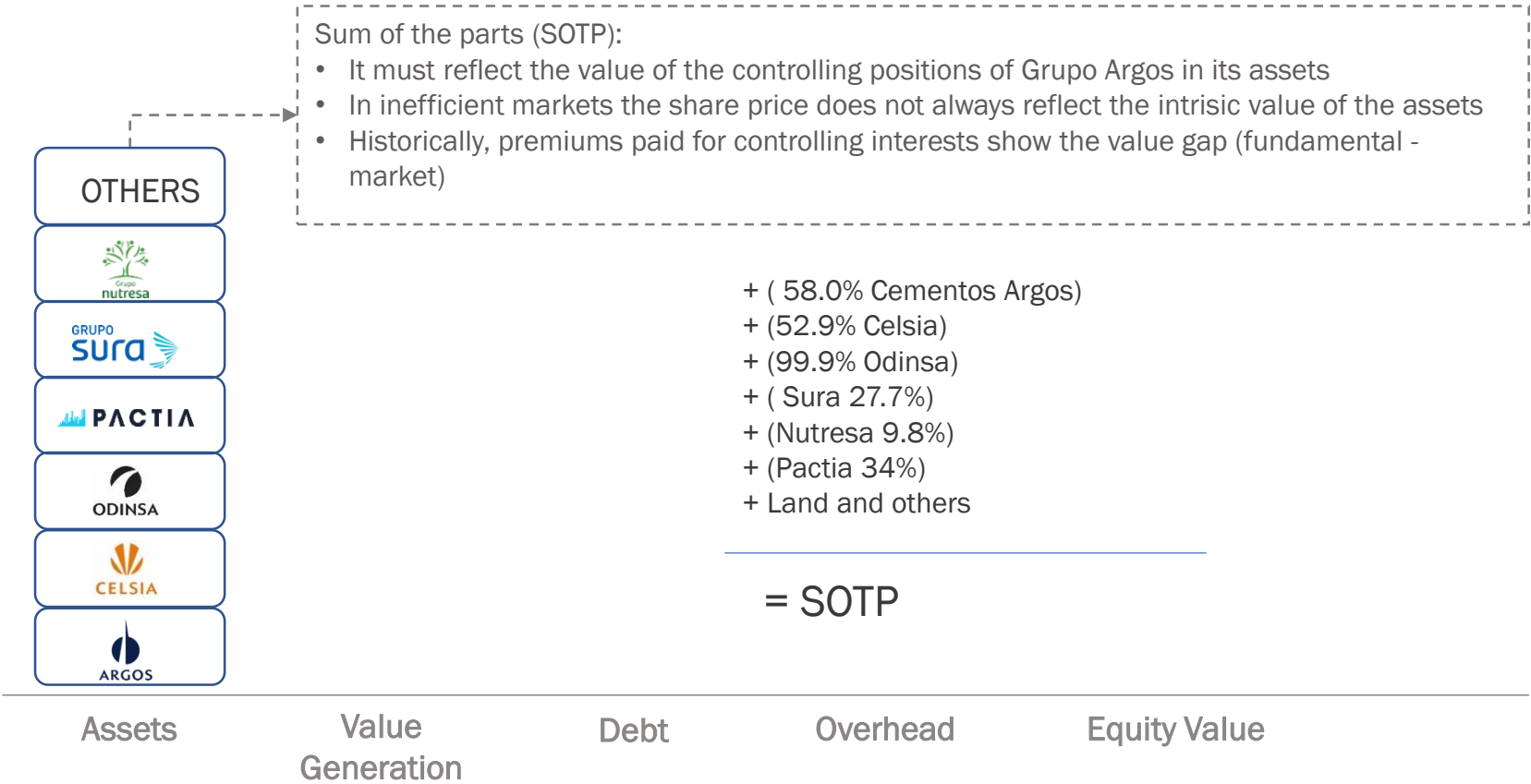
¿CÓMO VALORAR GRUPO ARGOS?

VALUE BUILDING BLOCKS

MARKET VALUE CONSTRUCTION VS POTENTIAL

Current Development

* Block size does not represent value

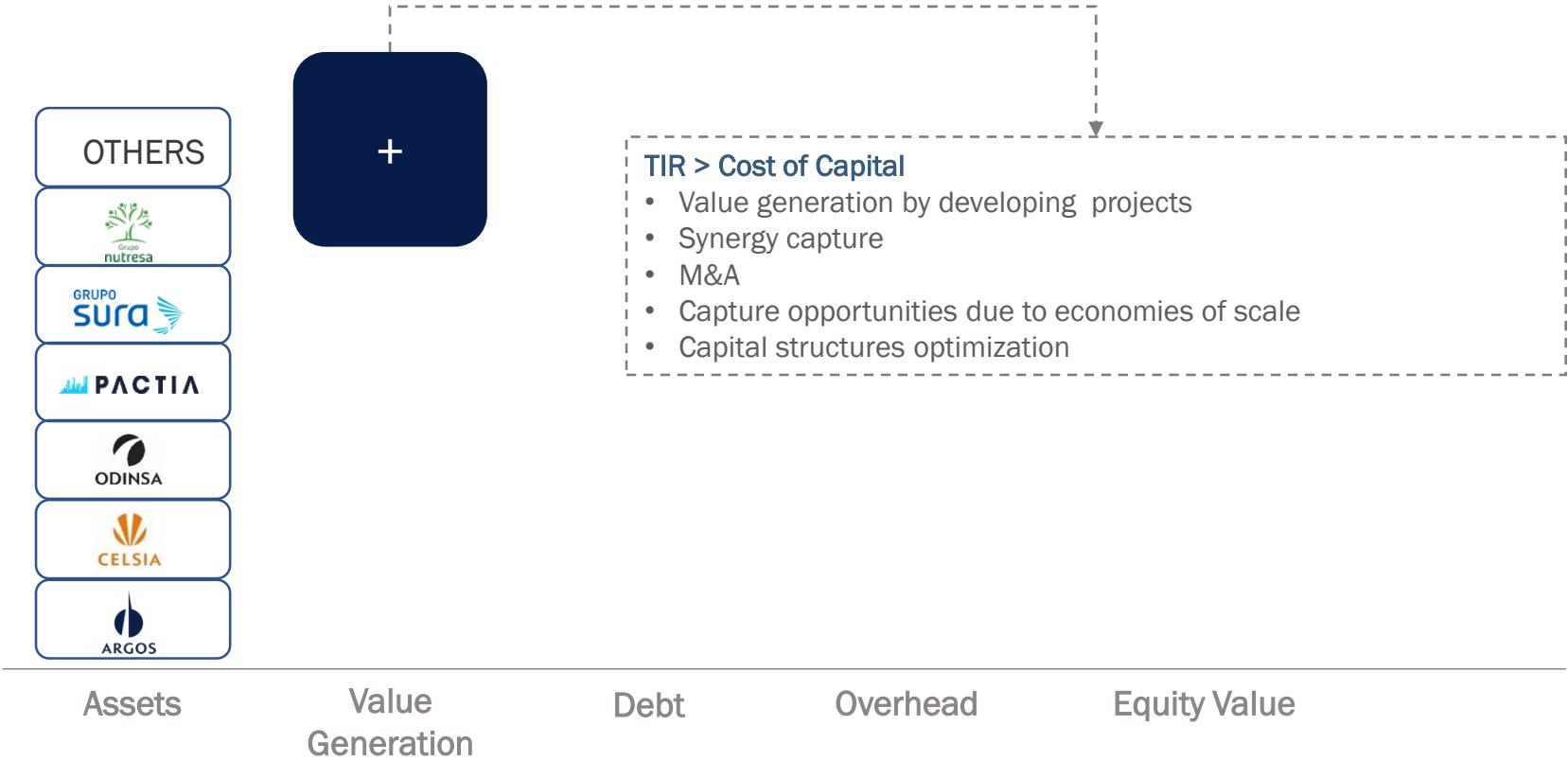


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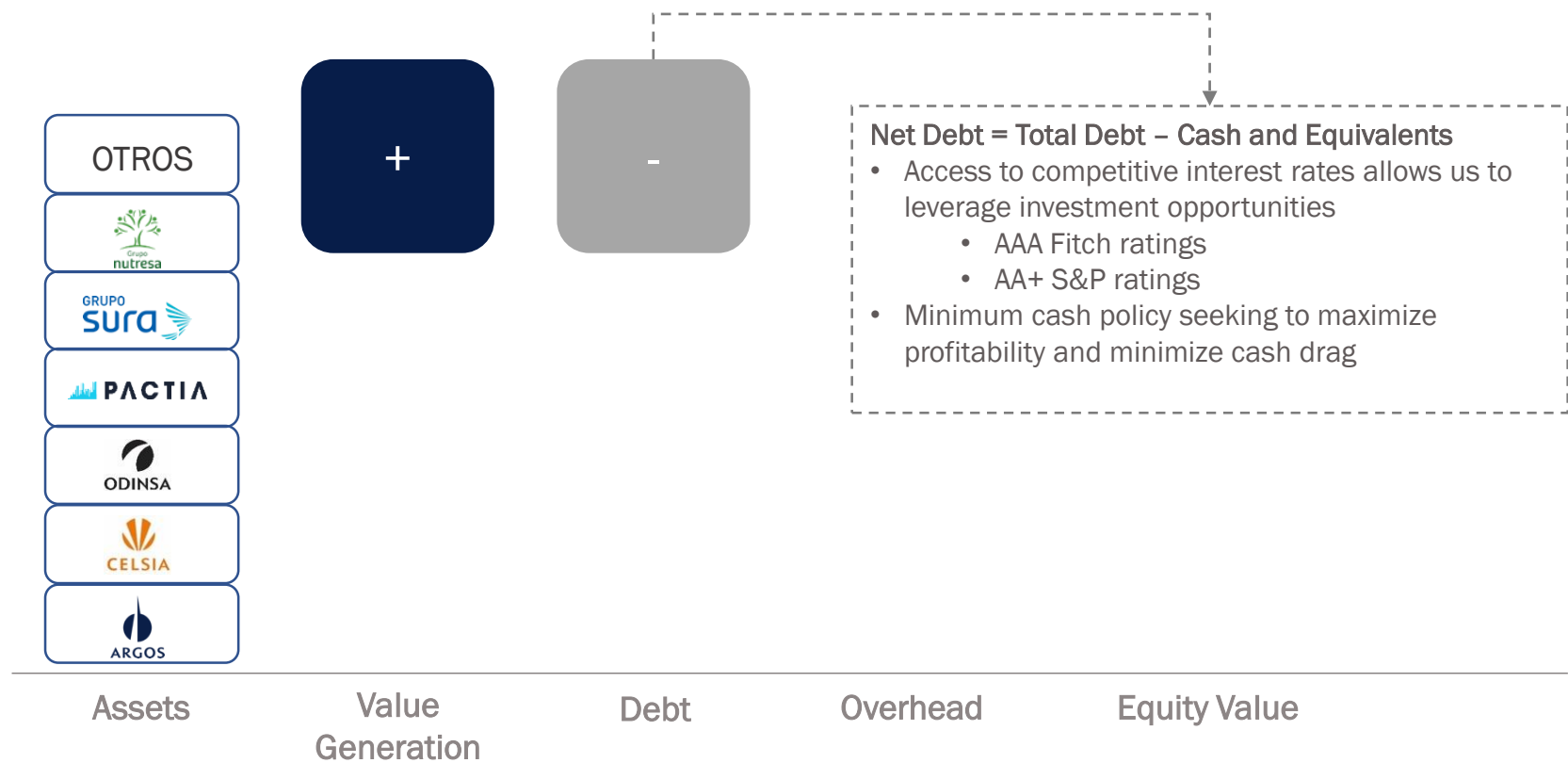


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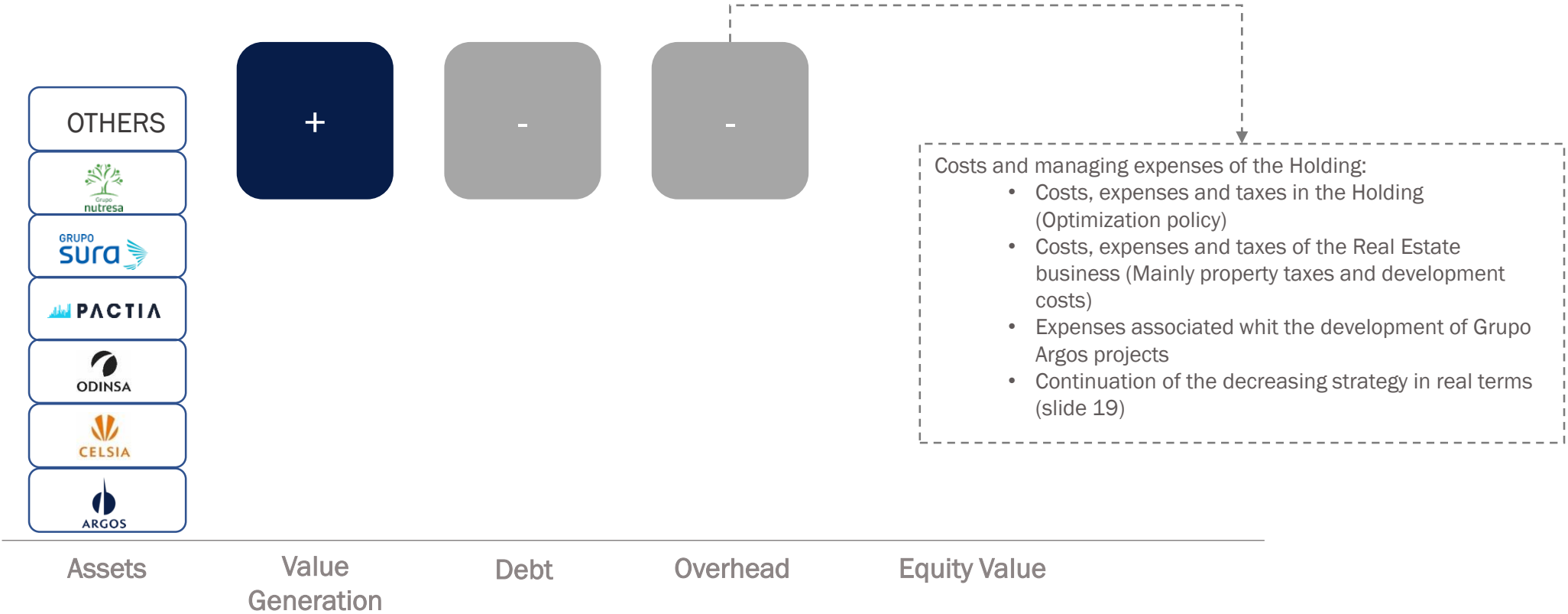


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Our role as a holding company implies that we have the capacity to generate more value than the perpetuity of our expenses