

Qualification report

GRUPO ARGOS S.A. REGULATORY BONDS AND / OR COMMERCIAL PAPERS ISSUANCE PROGRAM

Technical committee: May 8th, 2018

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Rating Action

Bogota, May 8th, 2018.- The BRC Investor Services S.A. SCV Technical Committee in a periodical review has granted the issuer the rating of 'AA' + to Grupo Argos S.A.

CHARACTERISTICS OF THE BONDS

Securities:	Regulatory Bonds						
Issuer:	Grupo Argos S.A.						
Qualified amount:	One trillion Colombian pesos (COP1.000.000.000.000)						
Amount placed:	One trillion Colombian pesos (COP1.000.000.000.000)						
Date of issuance and placement:	September 10th, 2014						
Characteristics of the bonds:	<table border="1"><thead><tr><th>Term (years)</th><th>Amount(Billions)</th><th>Interest- Rate</th><th>Interest payment</th><th>Expiration date</th><th>Capital payment</th></tr></thead></table>	Term (years)	Amount(Billions)	Interest- Rate	Interest payment	Expiration date	Capital payment
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	2	\$ 108.366	DTF + 0,87%	After a month	Sept/10/16	Paid
	3	\$ 135.250	IBR + 1,18%	After a quarter	Sept/10/17	Paid
	5	\$ 114.963	IPC + 3,10%	After a quarter	Sept/10/19	Expiration
	10	\$ 254.318	IPC + 3,95%	After a quarter	Sept/10/24	Expiration
	15	\$ 390.104	IPC + 4,24%	After a quarter	Sept/10/29	Expiration
	Total	\$ 1.000.000				
	Current Balance	\$ 769.386				
Guarantees and priorities:	The bonds are not backed by any real guarantee; therefore, they constitute unsecured liabilities of the issuer.					
Administrator:	Deposito Centralizado de Valores S.A.					
Legal Representative of the Holders:	Alianza Fiduciaria S.A.					
Structuring agent:	Banca de Inversion Bancolombia S.A.					
Stock broker:	Valores Bancolombia S.A.					

Basis of the qualification:

GA maintains relevant market positions in the cement and energy segments in the countries where it operates. This is the result of a consistent implementation and of a clear and defined long-term strategy, which contemplates permanent investments to increase its organic and inorganic growth and the continuous generation of efficiencies, synergies and operational savings. During 2017, the strategy that had been applied for the concessions business was consolidated, which focused Odinsa's investment portfolio on road and airport concessions and on acquiring control in those projects considered key.

In 2017 Grupo Argos faced important milestones. On the one hand, the cement segment faced strong competition in the local market; On the other hand, Odinsa consolidated its operation as an important player in terms of infrastructure, properly operating the existing concessions and defined a new strategic plan in order to consolidate its growth. And last, the great financial results of Celsia, the energy company, in operating terms, allowed it to significantly reduce its leverage level.

In aggregates, the group's net debt to EBITDA ratio reached 3.6 times, like that recorded at the end of 2016. Although this indicator continues to be higher than that of companies with higher rating, we consider that the result is still good considering the high number of investments that the issuer and its subsidiaries executed in previous years and some adverse conditions that their businesses had to face.

Based on the strategy defined for the operations and assets that the group currently has, we estimate that its consolidated net debt / EBITDA ratio would reach a maximum of 3.85 times in 2018, to gradually start decreasing in the next three years to 2.7 times by 2020. This would occur under a scenario where operations are maintained in accordance with current market conditions. The group faces specific challenges in each of its strategic businesses. In the case of cement, we expect a recovery of the Colombian market since in the last quarter of 2017 the price stabilized. Additionally, we expect to start the 4G projects that will represent between 200,000 and 500,000 tons from 2018 to 2020. The EBITDA margin of sales in the United States could increase in the next 3 years to reach 18 percent which responds to the sale of a greater volume of concrete, while the price remains stable. The latter is under the assumption that the government of the United States complies with the construction plans in the states of Houston and Florida. In Central America we are forecasting a growth of 6.5 percent, based on the development of infrastructure projects, especially in Panama and Honduras.

In the energy business, we expect the margin to show a slight annual increase due to the consolidation of the Plan5Caribe projects, the start-up of the small hydroelectric power station (PCH) San Andres and the new projects in 2020. Also, the EBITDA would improve to the extent that the expenses associated with the implementation of new businesses and the start of projects that would represent greater efficiencies for the operation are reduced.

Odinsa will continue to operate its concessions which are currently in operational stage. However, investment decisions made by the company in the short and medium term, as well as how it finances them, will be a permanent monitoring factor on the part of the rating agency. At the end of 2017, Grupo Argos had a consolidated debt of COP 16,731,876 billion (COP), an increase of 10.3 percent compared to 2016, which corresponds mainly to the consolidation of Opain's debt. It is worth noting that in 2017 the company acquired 30 percent of the shares of this concession, which, along with the 35 percent that Odinsa already had, made it the controller of this asset.

Argos maintained its level of debt, similar to the one registered last year, which responds mainly to the purchase of the Martinsburg cement plant in the United States. However, its level of leverage increased to 4.8 times in 2017, from 4.2 times in 2016 due to the reduction in EBITDA, as a result of the Colombian market. For the next two years, we forecast a slight recovery of the indicator in 2018, returning to regular levels, as the company manages to consolidate the BEST strategy (Building Efficiency and Sustainability for Tomorrow) in the country and the North American market recovers.

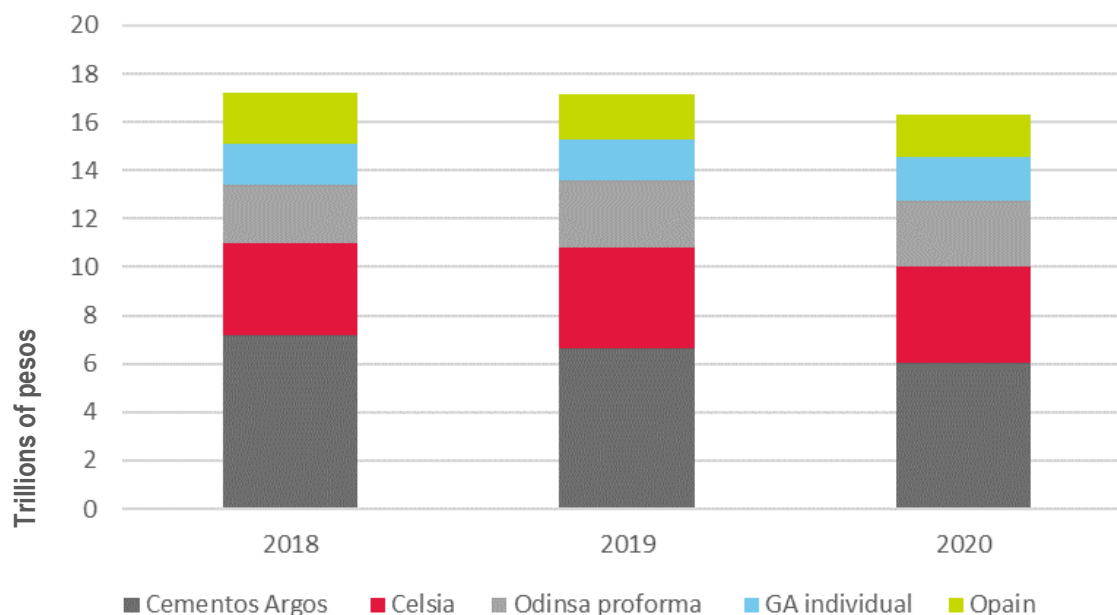
Celsia, on the other hand, paid several of its liabilities, which reduced its level of leverage from 3.4 times its EBITDA to 3.03 times, a reduction much better than what we had expected in the last rating review.

For the next three years, we estimate a consolidated indicator of net debt to EBITDA that would reach a maximum of 3.85 times in 2018, and then record a gradual reduction to 2.7 times by 2020. The estimated maximum level is higher than calculated in the last periodic review (3.53 times), since it is including the Opain debt which had not been previously consolidated and some adjustments in EBITDA.

Details of each company's level of debt can be seen in the following graph. It is worth highlighting the increase that Odinsa will have in 2019 given the capital contributions that the company must make for the Pacifico 2 4G road project.

Graph 1

Details of the Grupo Argos Debts



Source: Grupo Argos

Financial Liquidity

GA's liquidity analysis allows us to conclude that historically the operating cash flow has been enough to cover its liabilities. For the next 3 years, we estimate a ratio of sources to use greater than 1.18 times, adjusted in 2018 by the capex related mainly to some investments that the group has already done. For the following years, the ratio is greater than 1.5 times, which we consider appropriate.

Opportunities and threats

What can lead us to raise the rating

BRC identified the following opportunities that could improve the current rating:

- Using alternative and stable financing sources by the group and its subsidiaries to leverage its expansion plan without generating pressure on its debt indicators.
- Achieving reductions in the group's consolidated leverage level so that its net debt / EBITDA ratio remains sustained below 3 times over the next three years.
- Consolidating strategic projects that each of the group's companies has started and the stabilization of their results.
- Strengthening the group's growth in its three strategic axes (cement, infrastructure and energy).

What could lead us to a lower rating

BRC identified the following aspects for improvement and / or monitoring of the company and / or the industry that could affect the current rating:

- Increase in consolidated liabilities so that the net debt / EBITDA ratio exceeds 4 times in a sustained manner.
- Delays in the development of 4G projects that significantly impact the fulfillment of the revenue and EBITDA projections of Argos.
- Deterioration of the liquidity level of the organization.
- Deceleration of the American economy that affects the countries of Central America and, therefore, has a negative impact on the operations that the group has in these regions.

- Consolidation of some plans that have been established without achieving the planned funding sources.

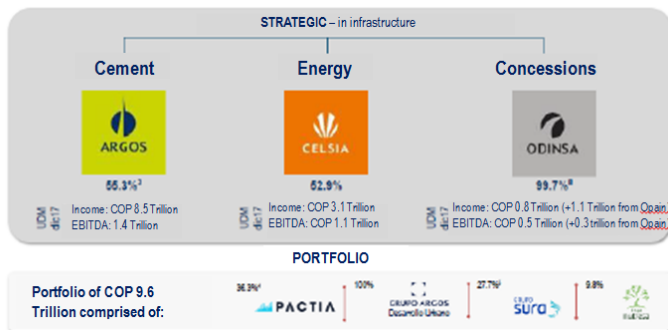
Issuer and its activity

Grupo Argos (GA) is a conglomerate with strategic investments in the infrastructure sector in the following industries: cement (Cementos Argos - CA), energy (Celsia) and road and airport concessions (Odinsa and Opain). In addition, it is a partner in a real estate fund (Pactia). It owns land for urban development (Grupo Argos Urban Development) and has a solid investment portfolio in the financial and food sectors (see Chart 2).

Its headquarters is in Medellin, Colombia. Through its businesses, it is present in 18 countries and territories: Colombia, United States, Panama, Honduras, Dominican Republic, Haiti, French Guiana, Suriname, Antigua, Sint Martin, Saint Thomas, Curaçao, Puerto Rico, Venezuela, Costa Rica, Chile, Ecuador and Aruba.

Of the group's main subsidiaries, BRC only qualifies Celsia ('AA +', confirmed in June 2017).

Graph 2 Composition of the investment portfolio of Grupo Argos at the end of 2017



Source: Grupo Argos.

Grupo Argos maintains:

- Active participation of the conglomerate in the strategic decision making and indebtedness of each of the businesses, especially under the new strategic architecture scheme.
- A clear definition of strategic businesses in cement, concessions and energy, so that the credit quality of the conglomerate is directly related to these subsidiaries.

Portfolio investments could be a source of capital in case of financial stress. However, in our opinion, the group would not fully sell its shares in Sura and Nutresa given that it is part of the cross-shareholding composition it maintains with Grupo Empresarial Antioqueño (GEA).

The technical inspection for the qualification process was carried out with an opportunity for the availability of the qualified company and the delivery of the information fulfilled in the foreseen times and the requirements of BRC Investor Services S. A. SCV.

The financial information included in this report is based on the audited financial statements of the last 4 years (2014-2017).

BRC Investor Services S.A. SCV does not perform audit functions, therefore, the administration of the company takes entire responsibility for the integrity and authenticity of all the information provided and that has served as the basis for the preparation of this report. On the other hand, the rating agency reviewed the available public information and compared it with the information provided by the rated company / qualified issuer.

A risk rating issued by BRC Investor Services S.A. -Securities Rating Company- is a technical opinion and at no time is it intended as a recommendation to buy, sell or hold a certain investment and / or a security, nor does it imply a guarantee of payment of the security, but rather an evaluation of the probability that the capital of the company and its yields are paid in a timely manner. The information contained in this publication has

been obtained from sources that are presumed reliable and accurate; Therefore, we take no responsibility for errors or omissions or for results derived from the use of this information.

If you have any concerns regarding the indicators included in this document, you can consult the glossary at www.brc.com.co

To see the definitions of our qualifications, visit www.brc.com.co or click here.

III. MEMBERS OF THE TECHNICAL COMMITTEE

The resumes of the Technical Qualification Committee members are available on our website www.brc.com.co