



## **Management Report 2013:**

### **TERPEL KEEPS ITS PROMISES**

During 2013 we undertook with firm determination, taking the lead as number one brand in the hearts of consumers and consolidating our new competitive strategy. Within the premise “We tend to people not vehicles” we advanced without pause and according to plan, in renovating, and changing the image of the service stations network. We also launched innovative complementary services for our consumers and for service station owners in our network, the biggest in the country. We have jointly worked with service stations of our own and those of affiliates to avoid differences between them and to give the consumer an efficient management environment, best service, best infrastructure and all round most competitive price, in order to provide a memorable experience at our service stations and the best option for our customers.

The above has helped consolidate our leadership and growth in market share of our lines of business: liquid fuels, vehicular natural gas, aviation, lubricant production and distribution, among others.

At Terpel, we want to be recognized as the number one brand in service, and for our commitment within the communities and countries where we operate. During 2013 we consolidated our positioning as country ally, contributing in a decisive manner for the solution of one of the greatest social challenges faced in Colombia, low quality education, through the programs offered by Fundación Terpel. We are proud to know that we have reached out to where others cannot, by means of our educational programs.

We also played a leading role by being respectful with the environment and the communities. It should be noted that during 2013 we were active in searching for opportunities of dialogue and communication with our interest groups. We toured with our affiliates seeking suggestions, provided explanations when necessary, and in this way share the different initiatives of social responsibility and sustainable management, developed in several businesses.

In this way we continue to deliver and show that Terpel changed not only to be more profitable but to be more trustworthy and sustainable; not only to contribute to the country's mobility but to ensure better education. In other Latin American



countries where we are present, 2013 was a year of competitive challenges and of institutional regulation adjustments. We continue to expand in Panama, consolidating our investment in Mexico, we completed our process of demerger in Peru, and achieved results above expectations in Dominican Republic and Ecuador among other achievements. As for Chile, the assets sales process was properly resolved.

## **Colombia**

Terpel's new competitive strategy that strives to offer memorable experiences to Colombians under the three fundamental pillars, renovated, and modern infrastructure; new, and innovative services; and most competitive prices in the market; has given fruit in 2013.

Last year, Terpel's sales reached \$12.084.549 millions, which represents a growth of 14,53% over the previous year, while market share in liquid fuels grew two percent from 41,2% to 43,2%, vehicular natural gas had a growth of 1% in market share achieving 47,1% of the market, thanks to a 9,4% growth in sales over the previous year.

As a result of this growth, EBITDA reached \$468.277 million, while net profit positively impacted by Terpel Chile's sale, reached \$166.073 million, a growth rate of 8% and 28,8%, respectively, confirming market acceptance of the new approach to service and people.

Commercial and financial results were accompanied by the successful bond issue, which by a demand three times larger than the initial offer became the third largest issue in Colombian stock market history, clearly showing trust in our company, permitting us to issue \$700.000 million that was used to substitute bank debt and improve our capital structure.

Service station renovation advanced as planned. By the end of the year 10% of the network was in use of better lighting (LED), renovated restrooms, carwash services and convenient stores, among other changes that are being implemented to provide a memorable experience for our customers.

The new age of "Terpel, at your service." has been noted for offering innovative and quality services to the public we relate to. During 2013 we launched the



Terpel-Colpatria credit card, with which, today, 15,000 customers not only fill-up cheaper by receiving a 2% back on purchases made at Terpel, but also providing great benefits like discounts and special offers at other ally establishments. Additionally this year, we achieved the IR (Investor Relations) recognition from Bolsa de Valores de Colombia (BVC), due to good practices in information disclosure and investor relations within Terpel.

Another proof of our innovative character was the first flight in alliance with LAN using biofuels; as well as the presentation of our new image for lubricants among other achievements during this year.

At Terpel we not only want to be the best option for our customers and an efficient and sustainable company, but we look to contribute to the well being of society and the communities where we operate. As country allies, we are convinced that education transformation is one of the greatest challenges that Colombia faces to build a more egalitarian and peaceful country. It is because of this that our foundation is dedicated to improve the basic competences in mathematics, and language, and develop leadership among the children of Colombia. Through the three programs lead by the foundation, "Design Change", "The Leader Within Me", and "Schools That Learn", we were able to benefit more that 130 thousand people this year.

Additionally, during 2013 more than 400 Terpel team members were involved with the Colombian educational programs as volunteers, contributing to the refurbishing of nine educational institutions of scarce resources in Bucaramanga, Barranquilla, Neiva, Manizales, Buga, Cali, Medellín, Armenia and Villavicencio. The activities held contributed to the well being of more than 8.500 students, as well as teachers, parents and neighbors.

Last, concerning work environment, not only did we develop our productive processes with the highest quality standards, but introduced reforestation, and carbon footprint calculation programs, confirming our commitment with the ecosystem. Additionally, we managed our processes by using natural resources rationally in order to benefit the environment and our clients by using tools such as comprehensive residue management; spillage, and natural resources control by optimizing water, and energy consumption using energy efficient equipment.



## **Panama**

Since Terpel's arrival in Panama seven years ago, we have completed satisfactory results. We have achieved our goal of having 100 service stations, practically duplicating our network, and a market share of 20.6%, an increase of 7.4% of market share since Terpel's arrival in Panama; all this makes us the second most relevant player in the market and catching up on the market leader.

In 2013 we sold 188 million gallons, an 18% over the previous year, the EBITDA reached US \$27 million, exceeding 53% the results of 2012, and net profit was US \$13,5 million, an 107% greater than that of 2012.

## **Ecuador**

Despite the difficulties in the Ecuadorian regulatory system – that brought the closure of 62 domestic service stations – 2013 was a good year for our business in this country. Not only did we maintain our market share at service stations, but we also grew above the industry market segment.

In 2013 we sold 129 million gallons, increasing sales a 4% over the previous year, the resulting EBITDA was US \$2,4 million, 2% below 2012, and net profit was US \$0,73 million, 2% over that of 2012.

## **Mexico**

Operations in this country, where we only market vehicular natural gas with the brand name Gazel, as predicted shed a net loss due to the growth, and investment stage Terpel is in. However, initial budget plans were surpassed and results were better than those achieved in 2012.

This was made possible thanks to the activation of 1.777 new clients, ending the year with 3.836, including two new industrial clients with consumption over 1 million cubic meters.

Moreover, in terms of network expansion, we opened a new service station in Mexico City and won the tender to build two more and supply vehicular natural gas to Monterrey's Mass Transport System.

In 2013, we sold 38,3 million m<sup>3</sup> of vehicular natural gas, exceeding 2012 sales in 68%, EBITDA was US \$2,7 million, surpassing 2012 EBITDA in US \$3,2 million,



and the net loss was US \$0,26 million, compared to a net loss of US\$ 0,15 million in 2012.

## **Peru**

Both the process of demerger between Peruana de Gas Natural (now Gazel Peru) and its partner PECSA Group, as well as the subsequent brand change process ended satisfactory. We advanced in due time with these processes and improved our service station image by changing price electronic boards, an innovative move in the vehicular natural gas segment in Peru. Since the demerger we have 100% company share, which will permit us to apply our service strategy, and take advantage of the synergy with Colombia.

Progress in operations were possible thanks to the consumption of fleet and large vehicles as buses and trucks that doubled in our network, due to a better station coverage with 14 turning radius (turning radius for large vehicles), which have been set up allowing these vehicles access to service.

The following results include Gazel Peru share in PGN Gasnorte and PGN Gasur, operators of Lima's mass bus transport system, and compares the company in its actual state of 22 stations, with the 2012 results before the demerger that included 40 stations:

In 2013 we sold 52,2 million m<sup>3</sup> of vehicular natural gas, EBITDA reached USD \$2,5 million, and the net profit reached USD \$0,58 million.

## **Dominican Republic**

We participated in the aviation segment by means of an agreement with Aerodom, licensed company with 4 airports in Dominican Republic. Leveraged by satisfaction of both licensee and clients, we were able to extend our operations agreement eight years longer, that is til 2029.

In 2013 we sold 48,5 million gallons, increasing sales 6% over the previous year, EBITDA reached US \$3,8 million, 6% over 2012, and net profit was US \$1,6 million, 85% higher than 2012.

## **Legal Aspects**

On a monthly basis, the Manager for Corporate Aspects prepares for the Board of Directors a report of agreements with related parties, through which any agreement held by Organización Terpel S. A. and/or its related companies with the company managers and/or its related companies are revealed. The definition of managers is taken from the



legal definition established in article 196 of the Code of Commerce, modified by article 22nd of the 222nd Law of 1995: “Managers are, the legal representative, the liquidator, the factor, members of board of directors or council and those that in accordance with the by-laws exercise or hold these functions.” Moreover, it is considered that two or more individuals or legal entities are related parties when one of them participates directly or indirectly in management, control or capital of the other. It can also include an individual, who within the exercise of his or her functions, exercises control, significant influence or is member of key management personnel of the company that provides information.

In this way and for the year 2013, Organización Terpel S.A. celebrated agreements with affiliates, subsidiaries, shareholders and related entities, which were accomplished within the framework of current regulation.

As for its managers, we held up to legal employment-related duties towards the persons binded by work contracts. Likewise, the members of the Board of Directors were paid their fees for their participation of sessions and committees summoned during 2013.

The consolidated operations report refered to in the 3rd numeral of article 446 of the Code of Commerce is available in the financial statements at the close of December 31st, 2013, published on our web page ([www.terpel.com](http://www.terpel.com)), and the details of each of these operations were part of the information available to shareholders during the time foreseen by the Law to excercise the right of inspection, before the Shareholders General Ordinary Meeting

Likewise, we have proceeded to verify control operations established in the organization, and the existing systems have been found satisfactory for the revelation and control of financial information, concluding that these work adequately.

During 2013, Organización Terpel S.A. fulfilled regulations concerning Copyright and Intellectual Property Rights within Colombian Law. In accordance with the above, the brands are duly registered in compliance with law requirements and the contracts are in compliance with Copyright and Intellectual Property Rights Law requirements.

The company watches over the observance, and due protection of Copyright and Intellectual Property Rights of third parties.