



MANAGEMENT REPORT 2014

A YEAR OF CONSOLIDATION

2014 was a year of consolidation and great progress in our goal of being the No. 1 brand in the heart of Colombians. The corporate reorganization process that began more than 10 years ago that culminated with the merger of Proenergía Internacional S.A., Sociedad de Inversiones en Energía S.A., Terpel Centro S.A. and Organización Terpel, as well as with the registration of Terpel's stock in the Colombian Stock Market, enabled a more efficient corporate structure that generates higher profits for our shareholders. Also, 2014 was a year in which the new competitive strategy of the company, which started to be implemented in 2012 and places people at the center of our decisions, began to materialize and became even more visible for most of our groups of interest. Let's see what these advances were in our corporate purpose.

We merged and went to the stock market: The registration of our stocks in the Colombian Stock Exchange (BVC) meant the end of a process of reorganization and integration of "the Terpeles" which we began over 14 years ago and which imposes us greater formalization of corporate governance.

In parallel, we received the annual renewal of Issuers Recognition IR (Investor Relations), awarded by the BVC to companies that stand out for their high standards on disclosure and transparency.

Today we are better prepared to further strengthening the new era of "Terpel, at your service", being a stronger and more efficient company and a better market position to continue projecting its growth and future.

Our strategy progressed like this: This year we completed the renovation and change of image of 400 Service Stations (EDS) in all regions of the country. This means that about 20% of our network already has an image fully differentiated from the competition, where in addition to the design of the station itself, consumers are benefited by LED type lighting, landscaping adapted to space and environment and among others, service promoters with new uniforms and trained in providing a memorable service. This, in addition to the renovation of more than 200 bathrooms that have become our focus on serving people.

Furthermore, and surprising Colombians with new store formats, we completed an unprecedented year for this service in the country: 14 large format stores (**altoque**), 6 small format stores (**deuna**), 5 car washes (**ziclos**) and 2 vending machines (**toque**) to fulfill our purpose of serving people according to their needs and the space available at the EDS Terpel nationwide. We complemented this offer of new services, with the help of our affiliates, with two promotions (towels and crayons) in 73% of the network of stations.

All this we have done, positioning the EDS with Terpel brand in the minds and emotions of the consumer, as the best alternative in infrastructure, service and price.

We strengthened ties with our affiliates: 90% of our EDS network is owned by third parties who join our flag, which makes them our main strategic partners. To strengthen working relationships with them and show them added values, in addition to having the market's leading brand in their stations, we created a training program for our Network of Terpel Entrepreneurs (RET) and held, for the first time in Colombia, a convention of affiliates giving it a much more entrepreneurial and



managerial approach. More than 300 affiliates (who produce 60% of company sales) attended this convention.

Partner Country: We know that to fulfill our dream of being the No. 1 brand in the heart of Colombians, we must generate progress in the regions where we operate. In this purpose in which we constantly work, this year gave us a unique chance to take advantage of the ambitious plan for the expansion and renovation of EDS, stores and bathrooms to favor hiring local suppliers. We also took this opportunity to formalize and train them to develop all our value chain in the future.

Moreover, the Terpel Foundation turned 10 years helping to improve the quality of education in the country and promoting leadership among children in the most remote regions. It has been a task that each time, becomes more visible and that positions the brand in a more comprehensive level. We cannot fail to mention at this point the participation of Terpel in the Medical Brigade for the children of La Guajira, "Not one more", thanks to a partnership between The Civil Air Patrol of Colombia, Juan Felipe Gomez Escobar Foundation, Terpel Foundation Avianca and Expreso Brasilia which united emblematic organizations in a common purpose in this beautiful place of our country where we are present today.

It should be highlighted, finally our active participation in the campaign *Soy Capaz*, as another example of our commitment, as a private company, with reconciliation.

Terpel Team: To *serve people, not vehicles* and seek that our customers have memorable experiences when visiting our stations, our employees are essential piece. Therefore in 2014 we continued encouraging internal communication and accompaniment processes that seek for the service attitude to crosscut our entire organization.

We continue with the expeditions by the workplace to promote opportunities for dialogue and communication with our people. We made more than 58 visits attended by over 600 collaborators who expressed their needs and concerns to which we have been responding insofar as they contribute to our strategic objectives. In this regard, we have been becoming an innovating company in emotional benefits for our staff.

Environmental Commitment: We are a company committed with environmental protection. We lead the marketing of friendlier fuels such as oxygenated gasoline, biodiesel and Natural Gas Vehicle (NGV); we perform the calculation of our environmental footprint and implement permanent programs in pursuit of environmental actions in our daily behavior. However, our greatest commitment is shown in EDS increasingly friendlier with the environment, with a modern infrastructure, with gardens and more efficient LED lightning system and that allows significant energy saving; in our program -Clean Industry- where we train companies in a better environmental management of the supply process and treatment of lubricating oils and fuels; in the demanding standards of safety and quality in handling our fuels in supply plants and in the transportation process. Our commitment derives from our daily care of the environment in an industry that involves procedures that require high operating standards.

However, we cannot finish this point without mentioning an important contribution of the company to the environment, carried out in the tropical forest of 80 hectares we have in our supply plant of Baranoa: during the second half we planted over 10,000 trees native to the area in one of the most threatened ecosystems in Colombia according the study Tropical Dry Forests in Colombia, by the Alexander Von Humboldt Research Institute of 2014.



All these advances are reflected in the consolidation of the results of the company, which has enabled us to maintain our leadership in the fuel distribution sector in the country and increase the share in the various markets we serve.

Colombia

During 2014, sales of the company and its affiliates totaled \$12.7 billion, representing an 5.4% growth compared to the year 2103, reinforcing our position as one of the two largest private companies in the country and leader in the fuel distribution sector in Colombia.

In the segment of **liquid fuels**, which includes the sale of gasoline and diesel in stations and businesses, and sales of AV GAS and Jet at airports, the company ended with shares of 44.6% and 74.4% respectively. It is noteworthy, in the aviation sub segment, we obtained for the fifth consecutive year the recertification of the ISO 9001, 14001 and OHSAS 18001 standards and the Norsok standard in health, safety, quality and environment subjects. In the overall volume of the liquids segment, although we experienced a fall in consumption in clients from the mining and energy sector, Terpel registered a 2.8% growth in volume.

In the segment of **Natural Gas Vehicle (NGV)**, the country reached the figure of 500,000 vehicles converted to gas, of which our company has contributed with more than half. This year, the business line NGV closed with a market share of 46.5%, lower in 0.9% than for 2013 due to the loss of a significant customer of the transport sector. It is important to note here that we continue to promote the adoption of this fuel in mass transit and freight transport, through programs such as Rumbo Terpel, formerly associated only to liquid fuels. 2014 represented a milestone in this company with the inauguration of the first service station of gas vehicles in the city of Riohacha, Guajira.

In the segment of **lubricants**, this year was especially dedicated to advancing in the quality and technology recognition processes, which enabled us to continue fulfilling the promise of value to our customers. In official authorizations with manufacturers of OEM engines, we accomplished emblematic international companies: CUMMINS for the industry segment, General Electric and Electromotive for the rail segment and Mercedes Benz for heavy vehicles. Achieving this certificates is a guarantee for the quality of our lubricants and a guarantee of security and reassurance for the industry.

In financial terms EBITDA was \$455,927¹ million, while net profit reached \$125,422 million, with a decrease of 3.3% and 24.5% respectively compared to 2013. In contrast to the overall good commercial results, these decreases are explained mainly by the following factors: (i) the impact of falling oil prices on our inventories (ii) market performance during 2014 which led to lower margins in the **NGV** business and (iii) loss of volumes in industry as a result of specific situations in the mining and oil sectors, among which are the loss of large non-broker consumers for regulatory purposes and the fall in the prices of coal and oil in the international market.

Finally, it is emphasized an important event which occurred after the accounting closing, the issue of ordinary bonds in the public market on February 18, 2015, for \$400,000 million and whose

¹ **This is the consolidated EBITDA of the operation in Colombia and includes adjustments for: (i) Financial Leasing, (ii) Inter-company charges (Royalties affiliates abroad and recovery with OPESE S.A.S.).



demand reached the sum of \$830,000 million. This shows the confidence of investors in Terpel and allows us to continue growing and consolidating our position as a leading company in Colombia.

Ecuador

In Ecuador we closed the year 2014 with a sales increase 1% higher than the market growth. Due to the stability of regulation we did not have negative effects due to the fall of WTI in the international market. Our network currently has three new point of sales, with which we reached 56 service stations at year end.

In 2014 we sold 135 million gallons, exceeding in 5% the sales of the previous year. For its part, the resulting EBITDA was US \$3.1 million and net income of US\$0.7 million, representing an increase of 5% and 2% respectively compared to 2013.

Mexico

During this year we began operating in the city of Monterrey, the third-largest metropolitan area of the country, where we opened two new EDS that supply natural gas to the mass transport system of the city, each with a capacity to serve more than 300 buses and 1,000 light vehicles.

In 2014 we sold 39.5 million m3 of natural gas vehicles, NGV, exceeding in 3% the sales of the previous year. For its part, the resulting EBITDA was US \$2.2 million decreasing in US\$0.5 million compared to 2013 (end of spot contract in the industrial sector) and net income was US \$0.16 million, higher in US\$ 0.42 million to the loss of US\$ 0.26 million in 2013.

Panama

The strengthening of our point of sales network (EDS and convenience stores) in the Panamanian market, allowed us to consolidate as the second company of the country's fuel sector and increase our market share to 21%.

At year end we had a network of 109 EDS and 17 convenience stores that allowed a remarkable growth in our sales. However, the sharp fall of WTI prices in the worldwide, hindered us from meeting the target in profit as we will show below.

In 2014, we sold 205 million gallons, exceeding in 9% the sales of the previous year. For its part, the resulting EBITDA was US\$16 million and net income, of US\$5.2 million. These values are compared with an EBITDA of US\$25.8 million and Net Income of US\$13.5 million in 2013. The fall in both indicators, as already mentioned, is the direct consequence of the effect of the falling of oil prices on our inventory.

Peru

2014 was an important year for the consolidation of our business in Peru because not only did we strengthened the operation of Natural Gas Vehicle, but by mid-year, we began operating the first station of liquid fuels with Terpel brand. Likewise, this year we opened the first **Alto** store in the country. With this we expanded our customer service offer and continued growing our network, which today has 27 Gazel brand stations in Peru.



During 2014 we sold 21.7 million gallons between NGV, LPG and liquid fuels, exceeding in 22% the sales of the previous year. For its part, the resulting EBITDA was US \$2.6 million and net income of US \$0.9 million, which represents an increase of 8% and 7% respectively compared to 2013.

Dominican Republic

During this year we remained in the aviation segment by the agreement with Aerodom, company concessionaire of State-owned airports, which was extended until 2029. In addition, we entered the industry segment through the supply of diesel and gasoline to a marketer in the north area of the country.

In 2014 we sold 51.1 million gallons of liquid fuels, exceeding in 5% the sales of the previous year. For its part, the resulting EBITDA was US \$3.4 million and net income of US \$1.5 million which represents a decrease of 12% and 2% respectively compared to 2013, reflecting the impact of the fall of oil price in our inventory.

Legal Aspects

Monthly the Direction of Corporate Affairs makes a report on the transactions with related party addressed to the Board of Directors, whereby it reveals any transaction between Organization Terpel S.A. and/or its related companies, with company officers and/or their related companies. Is understood by officers, the legal definition established in article 196 of the Code of Commerce amended by article 22 of law 222 of 1995: "Are officers, the legal representative, the liquidator, the factor, the members of boards of directors or councils and who according to the bylaws exercise or hold, these functions." On the other part, it is considered that two or more natural or legal persons are related parties, when one participates directly or indirectly in the management, control or capital of the other. It can also be a natural person, if he/she, in the exercise of their functions, exercises control or significant influence or is a member of key management personnel of the company that reports.

Thus, and for the year 2014, Organización Terpel S.A. entered transactions with affiliates, subsidiaries, shareholders and related entities, which were carried out within the framework of the regulations in force.

As for its officers, we complied with labor obligations regarding the people engaged by employment contract. Similarly, fees were paid to the members of the Board of Directors for their participation in meetings and committees convened for 2014. In addition, the Code of Corporate Governance was modified to update the rules for trading stocks by officers of the company, pursuant to legal provisions in matters for issuers of securities and best governance practices.

The consolidated of operations referred to in number 3 of article 446 of the Code of Commerce Code is available in the financial statements at December 31, 2014, published in our website (www.terpel.com), and the detail of each one of these operations was part of the information available to shareholders during the period provided by law for the exercise of the right of inspection, prior to the Annual General Shareholders' Meeting. Notwithstanding the above, following are listed the main expenditures related to salaries, fees, travel expenses, hospitality expenses, bonuses, benefits in money and in-kind, expenditures for transportation and any other kind of remuneration each one of the directors of the company may have received and in favor of advisors



or promoters engaged to the company or not through employment contract, when the main function consists in handling proceedings before public or private entities, or advise or prepare studies to pursue such proceedings; also, the cost of advertising and public relations; monies or other assets that the company owns abroad and liabilities in foreign currency and investments in other companies, domestic or foreign, as follows:

- a) In 2014, expenditures for travel expenses and hospitality expenses for members of the Board of Directors amounted to \$47.8 million. The fees paid for attendance to the Board of Directors during 2014 amounted to \$511.3 million.
- b) Fees paid in favor of advisers during 2014 amounted to \$13,352.5 million. Among them Legal Counsel \$2,157.8 million, Financial Advisory \$2,908.5 and Technical Advisory \$8,286.2 million.
- c) Transfers of money and other property, without valuable consideration for legal entities was (millions of pesos):

IDENTIFICATION	NAME	SUM	DONATION
8301327692	Terpel Foundation	\$4.000,0	Money
8600760125	Barranquilla Civil Association (Asociación Cívica Barranquillera)	\$7,0	Money
9007536646	Foundation for the Progress of the Region (Fundación para el Progreso de la Región)	\$304,2	Money
		\$4.311,2	

- d) The expenses for advertising and publicity in 2014 amounted to \$40,100.5 million.
- e) The monies and liabilities of the company abroad are listed below:

Accounts abroad (millions of pesos):

IDENTIFICATION	ENTITY	SUM
133379014	JP Morgan N.Y.	\$15.998,9



At December 31, 2014 the company has no liabilities abroad.

f) Investments of the company as of December 31, 2014, amounted to \$359,910.3 million:

IDENTIFICATION	NAME	INVESTMENT SUM	% SHARE
760042617	ORGANIZACIÓN TERPEL CHILE S.A.	\$1.426,7	99,99
1019225108400	PETROLERA NACIONAL S.A.	\$239.529,0	100,00
9000365991	GNC INVERSIONES S.A. EN LIQUIDACIÓN	\$15.953,7	100,00
130780331	ORGANIZACIÓN TERPEL DOMINICAN REPUBLIC	\$22.204,0	99,99
761276123	INVERSIONES ORGANIZACIÓN TERPEL CHILE LTDA	\$71.997,8	99,99
9004330329	TERPEL COMBUSTIBLES S.A.S EN LIQUIDACIÓN	\$502,6	100,00
9004918890	OPERACIONES Y SERVICIOS DE COMBUSTIBLE S.A.S	\$1.569,9	48,38
9709053	ECOLOGICAL FUELS	\$1.765,0	14,46
20521921618	PGN GASNORTE SAC	\$1.290,0	25,00
20521921880	PGN GASUR SAC	\$1.034,9	25,00
8060018226	SOCIEDAD AEROPORTUARIA DE LA COSTA S.A.	\$615,8	10,06
8902061329	TERMINAL TRANSPORTES DE BUCARAMANGA S.A.	\$614,8	10,12
	OTHER NOT CONTROLLED INVESTMENTS	\$1.406,1	
		\$359.910,3	

Similarly we proceeded to verify the operability of the controls established in the organization: the risk matrix has been updated and the comprehensive prevention systems and risk management of money laundering and terrorist financing has been unified and strengthened, at the same time existing systems for disclosure and control of financial reporting have been successfully assessed, concluding that they function properly.



During 2014, Organización Terpel S.A. complied with the regulations of copyright and intellectual property established in Colombian law. In accordance to the foregoing, the brands have been duly registered in accordance to the requirements of law, and the contracts comply with the requirements regarding copyrights and intellectual property.

The company ensures compliance and adequate protection of intellectual property and copyright of third parties."
