

***Promigas S.A. E.S.P. and Subsidiaries***

***Consolidated Financial Statements***

***December 31 and June 30, 2016***

***With Statutory Auditor's Report***

**STATUTORY AUDITOR'S REPORT**  
**(Free Translation of a Report Previously Issued in Spanish)**

To the Shareholders  
Promigas S.A. E.S.P.:

I have audited the consolidated financial statements of Promigas S.A. E.S.P. and Subsidiaries, which comprise the consolidated statement of financial position at December 31, 2016 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the half-year then ended and their respective notes that include the summary of significant accounting policies and other explanatory notes.

**Management's responsibility regarding the consolidated financial statements**

Management is responsible for the fair preparation and presentation of these consolidated financial statements in accordance with Accounting and Financial Reporting Standards accepted in Colombia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Statutory Auditor's responsibility**

My responsibility is to express an opinion on the consolidated financial statements based on my audit. I obtained the necessary information and carried out my audit in accordance with international standards on auditing accepted in Colombia. Such standards require that I comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement in the consolidated financial statements. In making this risk assessment, the statutory auditor considers internal control relevant to the preparation and presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained provides a reasonable basis for my audit opinion expressed below.

**Opinion**

In my opinion, the above mentioned consolidated financial statements, present fairly, in all material respects, the consolidated financial position of Promigas S.A. E.S.P. and Subsidiaries at December 31, 2016, the consolidated results of its operations, and its consolidated cash flows for the half-year then ended, in conformity with Accounting and Financial Reporting Standards accepted in Colombia, applied on a consistent basis with previous half-year.

**Other matters**

The consolidated financial statements at and for the half-year ending June 30, 2016 are submitted only for comparison purposes and were audited by me and in my report, dated August 23, 2016, expressed an unqualified opinion thereon.

Carmen Rosa Campo Hernández  
Statutory Auditor of Promigas S.A. E.S.P.  
Registration 67994 - T  
Member of KPMG S.A.S.

February 21, 2017

**PROMIGAS S.A. E.S.P. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in thousands of Colombian pesos)

	Note	December 31, 2016	June 30, 2016
<b>ASSETS</b>			
<b>CURRENT ASSET:</b>			
Cash and cash equivalents	6	\$ 203,614,992	138,536,423
Financial assets at fair value			
Financial instruments at fair value through profit or loss		174,730,092	133,288,920
Other accounts receivable at fair value		8,800,251	22,710,531
	7	<u>183,530,343</u>	<u>155,999,451</u>
Financial assets at amortized cost			
Debt instruments	8	505,055	492,054
Commercial accounts receivable	9	821,580,011	654,851,581
Other accounts receivable	10	43,052,849	58,025,351
		<u>865,137,915</u>	<u>713,368,986</u>
Inventories	11	72,430,518	34,126,745
Other assets - Expenses paid in advance		99,031,138	91,754,539
<b>TOTAL CURRENT ASSET</b>		<u>1,423,744,906</u>	<u>1,133,786,144</u>
<b>LONG-TERM ASSET:</b>			
Financial assets at fair value			
Financial instruments at fair value through profit or loss		828,038	955,253
Financial instruments at fair value through OCI		5,696,476	5,710,112
Other accounts receivable at fair value		2,072,674,463	1,978,679,808
	7	<u>2,079,198,977</u>	<u>1,985,345,173</u>
Financial assets at amortized cost			
Debt instruments	8	47,228,435	48,770,643
Commercial accounts receivable	9	1,481,123,754	301,885,700
Other accounts receivable	10	23,134,208	21,061,081
		<u>1,551,486,397</u>	<u>371,717,424</u>
Inventories	11	10,313,197	8,178,754
Investment in subsidiaries	12	580,488,718	544,442,823
Tangible assets			
Properties, pipelines, plant and equipment	13	1,241,803,906	1,555,686,814
Biological assets		1,520	6,298,366
		<u>1,241,805,426</u>	<u>1,561,985,180</u>
Intangible assets			
Concessions	14	2,121,717,342	1,795,716,843
Goodwill	15	128,818,925	128,818,925
Other intangible assets	16	67,183,398	77,949,828
		<u>2,317,719,665</u>	<u>2,002,485,596</u>
Deferred tax asset	17	52,593,939	48,634,209
Other assets - Expenses paid in advance		7,793,854	341,227
Non-current assets held for sale		2,490	-
<b>TOTAL LONG-TERM ASSET</b>		<u>7,841,402,663</u>	<u>6,523,130,386</u>
<b>TOTAL ASSETS</b>		<u>\$ 9,265,147,569</u>	<u>7,656,916,530</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITY:</b>			
Financial obligations	18	\$ 517,464,771	413,456,026
Outstanding bonds	19	23,889,028	128,910,411
Accounts payable	20	705,169,877	480,406,178
Employee benefits	21	16,010,671	14,185,805
Other liabilities	22	36,427,969	39,146,284
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,298,962,316</u>	<u>1,076,104,704</u>
<b>LONG TERM LIABILITY:</b>			
Financial obligations	18	2,004,111,150	1,184,415,569
Financial obligations	19	2,216,842,560	1,717,392,860
Outstanding bonds	20	12,919,028	10,988,246
Employee benefits	21	4,250,612	3,404,048
Provisions	23	224,644,588	215,534,714
Deferred tax liabilities	17	548,133,539	570,340,711
Other liabilities	22	438,021	438,021
<b>TOTAL LONG-TERM LIABILITIES</b>		<u>5,011,339,498</u>	<u>3,702,514,169</u>
<b>TOTAL LIABILITIES</b>		<u>6,310,301,814</u>	<u>4,778,618,873</u>
<b>EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>			
Paid-in and subscribed capital	24	113,491,861	113,491,861
Premium in share underwriting		322,822,817	322,822,817
Reserves		289,427,102	217,092,345
Cumulative results		120,153,078	108,643,761
Period results		293,385,789	323,311,293
First-time adoption effects		1,505,786,626	1,505,786,626
Other equity transactions		(2,033,458)	(2,034,045)
Other comprehensive result		112,104,244	106,254,037
<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>		<u>2,755,138,059</u>	<u>2,695,368,695</u>
NON-CONTROLLING INTEREST	25	199,707,696	182,928,962
<b>TOTAL EQUITY</b>		<u>2,954,845,755</u>	<u>2,878,297,657</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 9,265,147,569</u>	<u>7,656,916,530</u>

The notes attached hereto are an integral part of the consolidated financial statements.

Antonio Celia Martinez Aparicio  
Legal Representative

John Jairo Rodriguez Benavides  
Public Accountant  
Professional License No.11628-T

Carmen Rosa Campo Hernández  
Statutory Auditor  
Professional License No. 67994-T  
Member of KPMG S.A.S.  
(Refer to my report of February 21, 2017)

# PROMIGAS S.A. E.S.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of Colombian pesos, except the net income per share which is expressed in Colombian pesos)

Six-month period ending on:	Note	December 31, 2016	June 30, 2016
Revenues of ordinary activities	26	\$ 2,068,311,465	2,010,614,816
Cost of Sales	27	(1,347,423,314)	(1,317,065,019)
GROSS INCOME		720,888,151	693,549,797
Operating expenses	28	(164,926,880)	(128,790,738)
RESULTS FROM OPERATING ACTIVITY		555,961,271	564,759,059
Dividends received		-	733,708
Financial revenues	29	32,922,628	56,350,792
Financial expenses	30	(196,281,743)	(161,984,071)
Others, net		25,851,882	(2,779,405)
EARNINGS BEFORE INCOME TAX		418,454,038	457,080,083
Income tax	17	(106,637,377)	(120,807,968)
PERIOD RESULTS		\$ 311,816,661	336,272,115
RESULTS ATTRIBUTABLE TO:			
Company shareholders		\$ 293,385,789	323,311,293
Non-controlling interest	25	18,430,872	12,960,822
		\$ 311,816,661	336,272,115
NET INCOME PER SHARE		\$ 258.52	284.89

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PROMIGAS S.A. E.S.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME  
(Expressed in thousand of Colombian pesos)

Six-month period ending on:	December 31, 2016	Junio 30, 2016
PERIOD RESULTS	\$ 311,816,661	336,272,115
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
OCI for currency conversion adjustment	5,404,848	(8,794,491)
OCI for Hedging transactions	(15,703,552)	34,699,085
OCI for employee benefits	2,190,930	-
OCI for deferred tax	6,079,284	(11,718,672)
	(2,028,490)	14,185,922
OTHER COMPREHENSIVE RESULT OF THE PERIOD IN ASSOCIATES		
OCI for currency conversion adjustment	9,425,492	(28,184,248)
OCI for Hedging transactions	534,237	(584,938)
	9,959,729	(28,769,186)
	7,931,239	(14,583,264)
TOTAL INCOME AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD	\$ 319,747,900	321,688,851
INCOME AND OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Company shareholders	\$ 299,235,996	310,516,984
Non-controlling interest	20,511,904	11,171,867
	\$ 319,747,900	321,688,851

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**PROMIGAS S.A. E.S.P. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(Expressed in thousand of Colombian pesos)

Six-month period ending December 31 and June 30, 2016	Notes	Paid-in and subscribed capital	Premium in share underwriting	Reserves	Cumulative results	Period results	First-time adoption effects	Other equity transactions	Other comprehensive income	Total Equity Attributable to shareholders	Non-controlling Interest	Total equity
<b>BALANCES AS OF DECEMBER 31, 2015</b>	\$	113,491,861	322,822,817	188,629,772	57,983,118	245,390,896	1,505,786,626	(2,034,045)	119,048,346	2,553,153,436	179,392,812	2,732,546,248
Acquisition of non-controlling shareholder interests	-	-	-	-	-	-	-	-	-	(2,034,045)	(1,835,955)	(3,871,000)
Creation of reserves	-	-	-	38,830,757	(38,830,757)	-	-	-	-	-	-	-
Declared cash dividends	-	-	-	-	(155,474,182)	-	-	-	-	(155,474,182)	(5,053,887)	(160,533,069)
Use of the Benefit and Citizenship Reserve in Associates	-	-	-	-	(425,314)	-	-	-	-	(425,314)	-	(425,314)
Transfers	-	-	-	-	245,390,896	(245,390,896)	-	-	-	-	-	-
Wealth tax	-	-	-	(10,368,184)	-	-	-	-	-	(10,368,184)	(739,875)	(11,108,059)
Income and other comprehensive income for the year	-	-	-	-	-	323,311,293	-	-	(11,794,309)	310,516,984	11,171,867	321,688,851
<b>BALANCES AS OF JUNE 30, 2016</b>	113,491,861	322,822,817	217,082,345	108,643,761	323,311,293	323,311,293	1,505,786,626	(2,034,045)	105,234,037	2,695,368,695	182,928,962	2,878,297,657
Capitalizations	-	-	-	-	-	-	-	-	-	-	705	705
Capitalization effect on non-controlling interests	-	-	-	-	-	-	-	587	-	587	(587)	-
Creation of reserves	-	-	72,343,769	(72,343,769)	-	-	-	-	-	-	-	-
Declared cash dividends	-	-	-	(239,452,937)	-	-	-	-	-	(239,452,937)	(3,732,300)	(243,185,237)
Use of the Benefit and Citizenship Reserve in Associates	-	-	-	(5,270)	-	-	-	-	-	(5,270)	-	(5,270)
Transfers	-	-	-	323,311,293	(323,311,293)	(323,311,293)	-	-	-	-	-	-
Wealth tax	-	-	-	(9,012)	-	-	-	-	-	(9,012)	(988)	(10,000)
Income and other comprehensive income for the year	-	-	-	-	-	293,385,789	-	-	5,850,207	299,235,996	20,511,904	319,747,900
<b>BALANCES AS OF DECEMBER 31, 2016</b>	\$	113,491,861	322,822,817	289,427,102	120,153,078	293,385,789	1,505,786,626	(2,033,458)	112,104,244	2,755,138,059	199,707,596	2,954,845,755

The notes attached hereto are an integral part of the consolidated financial statements.

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**PROMIGAS S.A. E.S.P. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Expressed in thousands of Colombian pesos)

Six-month period ending on:	December 31, 2016	June 30, 2016
Cash flow from operating activities:		
Period results	\$ 311,816,661	336,272,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,916,726	16,272,044
Amortization of intangibles	58,802,921	48,963,318
Income from equity method	6,311,030	5,874,972
Financial asset at fair value	(93,994,655)	(86,957,828)
Income from equity method	(49,586,541)	(76,309,024)
Impairment of:		
Investments	968,035	3,059,206
Inventories	464,352	(463,635)
Accounts receivable	15,238,251	10,831,051
Tangible assets	1,451,423	-
Exchange difference for transactions in foreign currency	2,450,874	(11,553,117)
(Profit) loss on the sale of:		
Goods held for sale	(16,000)	60,847
Loss for derecognition of:		
Tangible assets	3,304,838	4,409,317
Inventories	18,313	10,142
Concessions	2,648,384	192,987
Other intangible	18,466	-
Valuation of biological assets	911,573	(911,573)
Income and CREE Tax	106,637,377	120,807,968
Amortized cost of bonds	870,020	(2,326,599)
Changes in assets and liabilities:		
Accounts receivable	(139,614,549)	(94,616,749)
Inventories	(40,774,243)	(9,935,855)
Equity instruments through profit or loss	(37,576,166)	(70,654,573)
Accounts payable	219,210,561	143,282,323
Employee benefits	2,666,088	(1,180,517)
Provisions	13,004,987	13,150,545
Other liabilities	9,937,947	15,366,236
Paid wealth tax	(4,519,053)	(5,473,573)
Paid Income and Cree tax	(56,171,059)	(122,555,174)
Paid interests	(182,181,480)	(140,021,852)
Net cash provided by operating activities	<u>168,215,081</u>	<u>95,593,004</u>
Cash flow of investment activities:		
Acquisition of:		
Tangible assets	(216,094,179)	(245,502,825)
Biological assets	(970,417)	(25,892)
Equity instruments at fair value	-	(100,000)
Concessions	(191,331,949)	(212,984,298)
Other intangibles	(4,526,507)	(3,592,872)
Debt securities	(2,191,736)	3,506,394
Result from the sale of:		
Financial Instruments at fair value through OCI	13,636	-
Result from the sale of goods received as payment		
Goods held for sale	16,000	445,000
Investment in companies	-	4,389,043
Biological assets	-	50,209
Excess payment for acquisition of non-controlling shareholder interests	-	(2,034,045)
Dividends received from investments in companies	22,527,069	55,841,126
Net cash used in investment activities	<u>(392,558,083)</u>	<u>(400,008,160)</u>
Cash flow from financing activities :		
Paid dividends	(160,374,582)	(160,478,294)
Acquisition of financial obligations	493,423,016	575,930,727
Payment of financial obligations	(435,916,212)	(100,720,463)
Issue of bonds	500,000,000	-
Payment of bonds	(104,294,000)	-
Non-controlling interest	706	(1,836,955)
Net cash provided by financing activities	<u>292,838,928</u>	<u>312,895,015</u>
Net increase of cash and cash equivalents	68,495,926	8,479,859
Effect of conversion adjustment on cash and cash equivalents	330,975	(941,275)
Effect of exchange differences on cash and cash equivalents	(3,748,332)	9,704,192
Cash and cash equivalents at the beginning of the year	<u>138,536,423</u>	<u>121,293,647</u>
Cash and cash equivalents at the end of the year	<u>\$ 203,614,992</u>	<u>138,536,423</u>

The notes attached hereto are an integral part of the consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31 AND JUNE 30, 2016**

**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

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**1. REPORTING ENTITY**

Promigas S.A. E.S.P. (hereinafter Promigas S.A. E.S.P., Promigas or the Company) was incorporated in accordance with Colombian Law on December 27, 1974, and its corporate purpose is the purchase, sale, transportation, distribution, exploitation and exploration of natural gas, oil and hydrocarbons in general, and the gas and oil activities in all their forms. It can also sell or provide goods or services to third parties, either financial or non-financial, and finance the acquisition of goods or services from third parties with their own resources. As of December 31, 2016, it had 382 direct employees and 83 temporary employees and as of June 30, 2016, it had 339 direct employees and 84 temporary employees. According to the control assessment set out in IFRS 10 - Consolidated Financial Statements, Promigas S.A. E.S.P. complies with such condition to Corporación Financiera Colombiana S.A., whose parent company is Grupo Aval Acciones y Valores S.A. However, under Act 222/1995, Promigas S.A. E.S.P. is not subordinated, since the established budgets are not met. The corporate seat of the Company is in Barranquilla, its address is Calle 66 No. 67 – 123 and its term of duration expires on December 27, 2074.

In compliance with the legal requirements of constantly updating the National Register of Securities and Brokers (RNVI, for its Spanish acronym) and subject to control and supervision by the Colombian Financial Superintendence, in accordance with the provisions of Articles 5.2.4.1.2 and 5.2.4.1.3 of single Decree 2555/2010 of the Colombian Financial Superintendence and Regulation Letter 007/2015, Title Three, the Company is required to submit separate financial statements and consolidated financial statements, which shall include the interests in subsidiaries and investments in associates.

**Regulatory Framework**

Promigas is mainly governed by Act 142/1994, whereby the Public Utilities Regime is established; Act 689/2001 and CREG Resolution 071/1999, whereby the Single Regulation for Natural Gas Transportation (RUT, for its Spanish acronym) in Colombia is established, the industry's regulations, the concession agreements in force, its bylaws and other provisions contained in the Code of Commerce.

As a public utility, the rates the Company charges its customers for natural gas transportation and distribution services are regulated by the National Government through the Energy and Gas Regulatory Commission (CREG, for its Spanish acronym). The current distribution rates were revised in 2004 pursuant to CREG Resolution 86/2004. In August 2010, the CREG issued Resolution 126/2010, whereby the general remuneration criteria for the natural gas transportation service and the general pricing scheme of the National Transportation System for the tariff period were established. In September 2011, the CREG issued Resolution 117, whereby the transportation rate was fixed. This resolution was subject of an administrative appeal filed by Promigas, which was resolved by Resolution 122 of November 2012, and, consequently, the new rate for gas transportation was made effective and started being

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31 AND JUNE 30, 2016**

**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

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charged from December 2012. Given that the expansion of the infrastructure of the Cartagena-Sincelejo sector was subject to review by the CREG, a new administrative process, which ended with the issue of Resolution 68 of July 2013, the expected investment was determined, and therefore the transportation rates for this sector were established, which are being charged since August 2013.

CREG Resolution 018 of January 2014 resolved the requests made by Promigas S.A. E.S.P. with respect to the applicability of article 14 of CREG Resolution 126/2010 to pipelines that fulfilled the regulatory useful life in 2013 or earlier, and, consequently, CREG Resolution 082 of June 2014 adjusted the regulated charges for the transportation system of Promigas S.A. E.S.P. CREG Resolution 040/2015 resolved an administrative action officially initiated which reviews the indexation formulas of existing investments of Promigas S.A. E.S.P. and adjusted the regulated charges for the transportation system. These are the rates currently in effect. Through Resolution 84 of July 2016, the CREG adjusted the regulated charges for the Promigas transportation system, updating the value of the assets whose regulatory useful life expired in 2014; these are the charges currently in force.

The current distribution rates were updated in 2004, according to CREG Resolution 86/2004. On January 15, 2014, the new methodology for determining the natural gas distribution rates that will apply for the next five years was issued by CREG Resolution 202/2013. During October 2015, the natural gas distribution companies presented their rate requests to the CREG. On July 15, 2016, through CREG Resolution 93/2016, the CREG partially revoked CREG Resolution 202/2013 and ordered the filing of some rate requests. It subsequently published for comments CREG Resolution 95/2016, "whereby CREG Resolution 202/2013 is complemented and other provisions are ordered." Promigas and its related companies sent their comments and are still waiting for the final resolution.

**2. BASES FOR PREPARATION**

**2.1 Technical Normative Framework**

The consolidated financial statements have been prepared in accordance with the Accounting and Financial Reporting Standards accepted in Colombia (CFRS), set out in Act 1314/2009, regulated by Single Regulatory Decree 2420/2015, as amended by Decree 2496/2015, and by Decree 2131/2016. The CFRS are based on the International Financial Reporting Standards (IFRS), along with its interpretations, issued by the International Accounting Standards Board (IASB). The base standards correspond to the official Spanish translations by the IASB as of December 31, 2013.

The Company applies the exception of Act 1739 of December 23, 2014, article 10, which allows to recognize the wealth tax affecting equity reserves instead of recognizing the expense according to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31 AND JUNE 30, 2016****(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

For legal purposes in Colombia, separate financial statements are the main financial statements.

**2.2 Functional and Presentation Currency**

The items included in these financial statements are presented using “Colombian pesos”, currency of the principal economic environment in which the Company operates, which in turn is its functional currency. All information is expressed in thousands of pesos rounded up to the nearest unit.

The Company and its subordinates prepare their financial statements based on their accounting policies in accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates. Monetary items denominated in currencies other than the functional currency are translated at current exchange rates.

The following are the exchange rates used to convert foreign currency transactions:

		<b>December 2016</b>	<b>June 2016</b>
Closing	\$	3,000.71	2,916.15
Average		<u>3,009.53</u>	<u>2,992.86</u>

Assets and liabilities of foreign operations are converted into Colombian pesos at the exchange rate current on the closing date of the reported period, and the income statement is converted at the average exchange rate current at the date of the transactions. Equity is converted at its respective historical rate. The variations presented in the conversion are recognized as other comprehensive income, within Equity.

Below is a detail of the functional and presentation currency of the Company and its subsidiaries:

	<b>Functional Currency</b>
<b>Subsidiaries:</b>	
Surtidora de Gases del Caribe S.A. E.S.P. (Surtigas)	Colombian Peso
Transoccidente S.A. E.S.P.	Colombian Peso
Gases de Occidente S.A. E.S.P.	Colombian Peso
Transportadora de Metano E.S.P. S.A. (Transmetano)	Colombian Peso
Compañía Energética de Occidente S.A.S. E.S.P.	Colombian Peso
Promioriente S.A. E.S.P.	Colombian Peso
Sociedad Portuaria El Cayao S.A. E.S.P.	United States Dollar
Gases del Pacífico S.A.C.	United States Dollar
Gases del Norte del Perú S.A.C.	Peruvian Sol
Orión Contac Center S.A.S.	Colombian Peso
Promisol S.A.S.	Colombian Peso
Zonagen S.A.S.	Colombian Peso
Promisol Mexico S.A. de C.V.	Mexican Peso

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Associates:	Functional Currency
Gases del Caribe S.A. E.S.P. (Gascaribe)	Colombian Peso
Energía Eficiente S.A. E.S.P.	Colombian Peso
Complejo Energético del Este S.A.	United States Dollar
Antillan Gas Ltda.	United States Dollar
Gas Natural de Lima y Callao S.A.C.	United States Dollar
Concentra Inteligencia en Energía S.A.S.	Colombian Peso

### 2.3 Bases for Measurements

The consolidated financial statements have been prepared based on the historical cost, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments are measured at fair value through profit or loss.
- Financial assets under concession are measured at fair value.
- Financial instruments at fair value through other comprehensive income.
- Biological assets are measured at fair value less selling costs.

### 2.4 Bases for Presentation

#### *a) Consolidated Statement of Financial Position*

Promigas and its subsidiaries present their assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when:

- Asset realization is expected, or is intended for sale or consumption within the ordinary operating cycle.
- The asset is kept primarily for negotiation purposes.
- Asset realization is expected within twelve months following the reported period.
- The asset is cash or cash equivalent unless it is restricted and cannot be exchanged or used to settle a liability within twelve months after the reporting period.

All other assets are classified as non-current.

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A liability is current when:

- The settlement of the liability is expected within the ordinary operating cycle.
- The liability is kept primarily for negotiation purposes.
- The liability must be settled within twelve months of the reporting period.
- The Company does not have an unconditional right to defer the settlement of the liability within at least twelve months of the reporting period. The conditions of a liability that, at the choice of the counterparty, may lead to its settlement through the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current liabilities.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

***b) Consolidated Statement of Comprehensive Income***

The Company and its subsidiaries classify their costs and expenses per operation in the income statement according to the market practices where the companies operate.

***c) Consolidated Cash Flow Statement***

The Company's consolidated cash flow statement is presented using the indirect method.

**2.5 Use of Significant Accounting Estimates and Assumptions**

The Company and its subsidiaries make estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the book value of assets and liabilities in the following fiscal year. Judgments and estimates are continually evaluated and are based on the management's experience and other factors, including the expectation of future events that may be reasonable given the circumstances. The management also makes certain judgments different from those involving estimates in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that may cause a significant adjustment in the book value of assets and liabilities in the following year are the following:

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**a. Going Concern**

The Company prepares its consolidated financial statements based on going concern. In making this judgment, the Company's current financial position is considered, as well as its current intentions, the results of operations and the access to financial resources in the financial market, and the impact of such factors is analyzed for future operations of the group. As of the date of this report, the Company's management is not aware of any situation that would lead to think that Promigas and its subsidiaries fail to have the ability of continuing the going concern over the following year.

**b. Investments in Debt Securities Classified at Amortized Cost**

The Company and its subsidiaries apply judgments when evaluating whether in the financial statements the investments in debt securities may be categorized at amortized cost considering in particular its business model for managing financial assets and whether they meet the conditions for such financial assets to be measured at amortized cost. The Company and its subsidiaries may sell these assets only in limited circumstances, in rare and immaterial transactions in relation to the total portfolio, such situations as assets failing to meet the investment accounting policies of the Company, adjustments in the maturity structure of its assets and liabilities, the need to finance important capital disbursements and standing liquidity needs.

**c. Impairment for Doubtful Debts**

The provision for doubtful debts is reviewed and updated at the end of the reporting period based on aging analyses of balances and collectability evaluations of individual accounts conducted by the administration. Periodically, amounts considered uncollectible are debited from provisions.

**d. Impairment of Accounts Receivable Due to Non-bank Financing**

The method for calculating the provision made by the Company and its subsidiaries is based on the operation of the incurred loss model, which has the following premises:

- A reference point taken to start provisioning the portfolio by age, considered in 150 days; and
- A recovery rate, defined as a percentage of the value of a default age that does not pass to the following age, on the following month.

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The calculation is made based on a one-(1)-year behavior analysis of the portfolio. After completing the exercise, the values are taken by age of the month to be provisioned, minus the average recovery rate of the latest year in each default age, and the result is the money with which the incurred loss is expected. It also considers the portfolio in default age greater than 360 days, which is provisioned in its entirety, as it is a portfolio that has failed to recover and shall be offset.

**e. Fair value of Financial Instruments and Derivatives**

Information on the fair values of financial instruments and derivatives that were measured using assumptions not based on observable market data is provided in Note 5.

**f. Deferred Income Tax**

Deferred income tax is recognized using the liability method on the temporary differences between the tax bases of assets and liabilities and their corresponding carrying values as of the end of the reporting period, calculated with the tax rates expected to be applicable for the period when the asset is realized or the liability is paid off, based on the rates approved or once the approval process by the Government is practically over.

Liabilities for deferred taxes are recognized for all taxable temporary differences, except taxable temporary differences regarding investments in subsidiaries, affiliates and interests in joint ventures, when the reversal opportunity of temporary differences can be controlled and such temporary differences are unlikely to be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences and future compensation of tax credits and unused tax losses, to the extent there will likely be availability of future taxable income to offset against such tax credits or tax losses, except deductible temporary differences regarding investments in subsidiaries, affiliates and interests in joint ventures.

**g. Initial Recognition of Transactions with Related Entities**

In the ordinary course of business, the Company and its subsidiaries carry out transactions with related entities represented in financial instruments. The standards require an initial recognition of financial instruments based on their fair values and the applied judgment is to determine whether transactions are performed at market interest rate when no active market exists for such transactions. The bases for the judgment consist of measuring similar transactions with unrelated entities and analyzing effective interest rates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**h. Goodwill**

The Company performs biannual assessments of goodwill impairment based on internal studies conducted by professionals. These studies are performed based on valuations of cash generating units by the method of discounted cash flow, taking into account the following factors: The economic situation of the country and the sector where the company operates, historical financial information, and projected revenues and costs of the Company for the next five years and subsequently growth in perpetuity considering its profit capitalization rates, discounted at risk-free interest rates, adjusted by risk premiums required in the circumstances of each company. The following are the main assumptions used in the valuations:

Internal assumptions:

- Revenues (contracted capacities, volumes, rates, contracts)
- AO&M (Administration, operation and maintenance)
- Insurances and taxes
- Investments (Capex)

Macroeconomic assumption:

- Colombia inflation
- USA inflation
- PPI Colombia
- PPI USA
- Representative Exchange Rate
- DTF
- Libor (180 days)

Valuation assumptions CAPM model:

- Unlevered Beta
- Risk-free rate
- Market return
- Country risk premium
- Tax rate

Methodologies and assumptions used for the valuation of the different cash generating units that have allocated goodwill were properly reviewed by the Company and, based on this review, the Company concludes that as of December 31 and June 30, 2016, no provision for impairment was recorded.



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**i. Estimate for Contingencies**

The Company and its subsidiaries estimate and record a provision for contingencies in order to cover any possible losses due to, inter alia, labor cases, civil and commercial proceedings, and tax assessments, according to circumstances that, based on the opinion of external legal counsel, are likely to produce losses and can be reasonably quantified.

**j. Employee Benefits**

The estimate of pension obligations, costs and liabilities depend on a variety of long-term premises determined by actuarial bases, including estimates of present value of projected future pension payments for those participating in the plan, considering the probability of future potential events, such as an increase in legal minimum wages and demographic experience. These premises may have an effect in the amount and future contributions, should any variation occur.

The discount rate allows for future cash flows to be established at present value of the measurement date. The Company and its subsidiaries determine a long-term rate that represents the market rate for high quality fixed income investments or government bonds denominated in the currency in which the benefit shall be paid, and considers the opportunity and of payment amounts of future benefits, for which Government bonds have been selected.

Other key premises are used to measure actuarial liabilities, and are calculated based on the Company and its subsidiaries' specific experience combined with published statistics and market indicators.

**k. "Smart Pig or Smart Tool" Provision**

By regulation, the Company must perform inspections on the infrastructure to determine the maintenance plan to follow; therefore, the amount required for such inspection is annually estimated and debited from profit and loss account. The estimate is determined as follows:

- First, take the value paid under this item (part of this value is in dollars and another part in pesos).
- The part of the value paid in dollars is indexed with projections of the CPI (consumer price index) in the United States and then converted into pesos with the exchange rate projected for the date of the next inspection. The part payable in pesos is indexed with projections of the CPI in Colombia.
- Macroeconomic projections are reviewed at the beginning of each year, or at the Company's discretion if it determines any volatility in the variables used, to adjust the provision.

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**I. Determining Functional Currency**

The Company's functional currency was determined based on the correlative economic conditions of the country of operations. This determination requires judgment. Despite this judgment, the Company assessed, among other factors, the place of the activities, cash flows, sources of income, risks relative to these activities and the operating currency denomination of the different entities.

**3. MAIN ACCOUNTING POLICIES**

The main accounting policies applied consistently to the preparation of the consolidated financial statements under the International Financial Reporting Standards (IFRS) are mentioned below:

**3.1. Bases for Consolidation**

According to the Colombian Financial Reporting Standards, the Company must prepare consolidated financial statements. Separate financial statements are the basis for dividend allocation and other appropriations by the shareholders. Consolidated financial statements are presented to the General Meeting of Shareholders for information purposes only.

**a) Consolidation of Controlled Entities**

According to International Financial Reporting Standard (IFRS) 10 – Consolidated Financial Statements, the Company must prepare consolidated financial statements with controlled entities. The Company has control over another entity if, and only if, it meets the following elements:

- Power over the investee, giving the parent company current ability to direct any relevant activities of the former that may significantly affect its performance.
- Exposure or right to variable returns from its involvement with the investee.
- Ability to use its power over the investee to influence the amount of investor returns.

Such consolidated financial statements as of December 31 and June 30, 2016, include the financial statements of Promigas S.A. E.S.P. and its subsidiaries (hereinafter "the Companies"), understanding as subsidiaries the companies whose decision-making power is directly or indirectly subject to the will of Promigas.

In this process, the Company consolidates the assets, liabilities and results of the entities in which it determines control, prior homogenization of its accounting policies and conversion into Colombian pesos of foreign subsidiaries.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

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The consolidation process involves the elimination of intercompany transactions and unrealized profits between them. The stake of non-controlling interests in subsidiaries is presented in equity separately from the equity of the Company shareholders.

For the translating process of financial statements of foreign subsidiaries whose functional currency is the United States Dollar and are located in Colombia, the Company converts assets and liabilities into Colombian pesos at the exchange rate current on the closing date of the reported period; the income statement is converted at the average exchange rate for the half year; and equity at its respective historical rate. The resulting net adjustment is included in equity as "translation adjustment of financial statements" under "other comprehensive income".

The consolidated financial statements hereto include assets, liabilities, equity and income of the Company and its subsidiaries.

The consolidated financial statements hereto include the following companies:

*Gases del Pacífico S.A.C.* - The corporate purpose of the company is the purchase, sale, production and trading of energy in any form, including, without limitation, natural gas, electric energy, hydrocarbons derived from oil, coal and other fuels. The company is headquartered in the city of Lima, Peru.

*Gases del Norte del Perú S.A.C.* - The corporate purpose of the company is the purchase, sale, production and trading of energy in any form, including, without limitation, natural gas, electric energy, hydrocarbons derived from oil, coal and other fuels. The company is headquartered in the city of Piura, Peru.

*Surtidora de Gas del Caribe S.A. E.S.P. (Surtigas)* - The corporate purpose of the company is the purchase, storage, packaging and distribution of gases derived from hydrocarbons; the construction and exploitation of pipelines for industrial, commercial and household natural gas; and the purchase and sale of items, services and artifacts related to the sale and distribution of fuel gases and the like. The Company conducts its activities in the Departments of Bolívar, Sucre and Córdoba and in some towns of the Departments of Antioquia and Magdalena. It is headquartered in the city of Cartagena.

*Transoccidente S.A. E.S.P.* - Transportation of fuel gas by the construction, operation and maintenance of transport systems and subsystems. The assembly, construction, operation, maintenance and commercial exploitation of systems and subsystems anywhere in the country or abroad, on its own behalf or on behalf of others. Its activities are conducted in the city of Santiago de Cali.

*Sociedad Portuaria El Cayao S.A. E.S.P.* - The corporate purpose of the company is the investment in construction, maintenance and management of ports, loading and unloading,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

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storage in ports and other services directly related to the port activities. It is headquartered in the city of Cartagena.

*Gases de Occidente S.A. E.S.P.* - Provision of fuel gas distribution services. The purchase, storage, transportation, packaging, distribution and trade of natural gas or any other fuel, as well as hydrocarbons and derivatives in all their forms. Trade and/or finance of any kind of products directly or indirectly related to the activities or services provided. Such activities are conducted in the Departments of Valle del Cauca and Cauca.

*Gases de Occidente S.A. E.S.P.* consolidates with the following companies:

- *Compañía Energética de Occidente S.A. E.S.P.* - On June 28, 2010, the Company entered into a Management Agreement with Cedelca S.A. E.S.P., for the purpose of assuming at its own risk and expense the administrative, operational, technical and commercial management, the investment, expansion of coverage, reconditioning and preventive and corrective maintenance of the infrastructure and other activities required for the provision of electric power distribution and trading services in the Department of Cauca. The execution of the Management Agreement was on August 1, 2010, and has a 25-year term. The Management agreement is governed by the laws of the Republic of Colombia, particularly Act 142/1994, Public Utilities Regime, and Act 143/1994, Regime for the generation, interconnection, transmission, distribution and tradeoff electric power nationwide, whereby authorizations are granted and other provisions on electric power are established. It is headquartered in the city of Popayan.
- *Orion Contac Center S.A.S.* - Its corporate purpose is the provision of call center and contact center services; the provision of business process outsourcing; and the provision of personalized attention services for any type of business. It is headquartered in the city of Santiago de Cali.

*Promisol S.A.S.* - The corporate purpose of the Company is to provide natural gas compression and dehydration services and any other service related to the natural gas industry and any business directly related to these activities; implement energy management systems, develop energy diagnostics and prepare and implement on-site or distribution of energy generation projects; change or replace technology, predictive energy maintenance programs and comprehensive advisory in energy management; and purchase, sale, distribution, exploitation, trade of products and professional and technical services. In the course of fulfilling its corporate purpose, the Company has executed commercial offers to provide compression and dehydration services for natural gas from the Ballena and Chuchupa fields before being transported. It is headquartered in the city of Barranquilla.

*Promisol S.A.S.* controls the following companies:

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- *Zonagen S.A.S.* - The corporate purpose of the Company is the generation, transmission and distribution of energy to partner or affiliated companies members of or economically affiliated to it. It is headquartered in the city of Barranquilla.
- *Promisol México S.A. de C.V.* - Its corporate purpose is the implementation of energy management systems, development of energy audits, design and implementation of on site or distributed generation projects, change or distribution of technologies, predictive energy maintenance programs and comprehensive consulting on energy management, purchase, sales, purchase, distribution, exploitation, trade of products, professional and technical services. It is headquartered in Mexico City, Federal District.

*Transportadora de Metano E.S.P. S.A. (Transmetano)* - Transportation of fuel gas by the construction, operation and maintenance of transport systems. This activity is developed in the towns of Cimitarra, Puerto Berrio, Yolombo, Cisneros, Maceo, San Roque, Santodomingo, Barbosa, Girardota, Guarne and Rio Negro. It is headquartered in the city of Medellin.

*Promioriente S.A. E.S.P.* - The corporate purpose of the company is the transportation of gas fuel by the construction, operation and maintenance of main and branch pipelines. The assembly, construction, operation, maintenance and commercial exploitation of pipelines anywhere in the country or abroad, on its own behalf or on behalf of others. Its activities are conducted in the towns of Lebrija, Giron, Bucaramanga and its Metropolitan Area. It is headquartered in the city of Bucaramanga.

The Company's interest in its subsidiaries is as follows:

<u>Company</u>	<u>December 2016</u>			<u>June 2016</u>		
	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Surtigas S.A. E.S.P.	99.99%	0.00%	99.99%	99.99%	0.00%	99.99%
Transoccidente S.A. E.S.P.	69.00%	0.00%	69.00%	69.00%	0.00%	69.00%
Promioriente S.A. E.S.P.	73.27%	0.00%	73.27%	73.27%	0.00%	73.27%
Transmetano E.S.P. S.A.	99.67%	0.00%	99.67%	99.67%	0.00%	99.67%
Gases de Occidente S.A. E.S.P.	90.12%	0.00%	90.12%	90.12%	0.00%	90.12%
Compañía Energética de Occidente S.A. E.S.P.	49.00%	45.96%	94.96%	49.00%	45.96%	94.96%
Orion Contac Center S.A.S	0.00%	94.07%	94.07%	0.00%	94.07%	94.07%
Promisol S.A.S.	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%
Gases del Pacífico S.A.C.	75.00%	25.00%	100.00%	75.00%	25.00%	100.00%
Gases del Norte del Perú S.A.C.	75.00%	25.00%	100.00%	75.00%	25.00%	100.00%
Promisol México S.A. de C.V.	5.00%	95.00%	100.00%	5.00%	95.00%	100.00%
Zonagen S.A.S.	0.00%	99.95%	99.95%	0.00%	99.95%	99.95%
Sociedad Portuaria El Cayao S.A. E.S.P.	<u>51.00%</u>	<u>0.00%</u>	<u>51.00%</u>	<u>51.00%</u>	<u>0.00%</u>	<u>51.00%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

Below is the total value of assets, liabilities and equity of the companies included in the consolidation as of:

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
<i>December 2016</i>			
Surtigas S.A. E.S.P.	\$ 1,016,845,823	620,954,277	395,891,546
Transoccidente S.A. E.S.P.	14,390,259	4,235,413	10,154,846
Promioriente S.A. E.S.P.	663,857,076	329,721,699	334,135,377
Transmetano E.S.P. S.A.	272,022,965	117,420,925	154,602,040
Gases de Occidente S.A. E.S.P.	950,969,745	742,097,366	208,872,379
Compañía Energética de Occidente S.A.	522,360,573	407,097,469	115,263,104
Orion Contac Center S.A.S.	6,632,611	2,086,114	4,546,497
Promisol S.A.S.	302,111,527	237,824,614	64,286,913
Promisol Mexico S.A. de C.V.	8,398	6,534	1,864
Gases del Pacífico S.A.C	172,163,792	158,129,948	14,033,844
Zonagen S.A.S.	6,871,526	4,330,810	2,540,716
Sociedad Portuaria El Cayao S.A. E.S.P.	\$ <u>1,531,066,768</u>	<u>1,355,807,820</u>	<u>175,258,948</u>

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
<i>June 2016</i>			
Surtigas S.A. E.S.P.	\$ 950,208,581	578,804,832	371,403,749
Transoccidente S.A. E.S.P.	13,418,967	3,198,114	10,220,853
Promioriente S.A. E.S.P.	609,071,391	326,926,540	282,144,851
Transmetano E.S.P. S.A.	248,712,113	99,412,259	149,299,854
Gases de Occidente S.A. E.S.P.	916,725,748	710,577,476	206,148,272
Compañía Energética de Occidente S.A. E.S.P.	548,923,958	433,077,760	115,846,198
Orion Contac Center S.A.S.	5,824,089	1,829,929	3,994,160
Promisol S.A.S.	188,230,138	123,788,816	64,441,322
Gases del Pacífico S.A.C.	127,213,620	107,655,063	19,558,557
Zonagen S.A.S.	7,033,386	4,219,034	2,814,352
Promisol México S.A. de C.V.	7,902	-	7,902
Sociedad Portuaria El Cayao S.A. E.S.P.	<u>395,480,975</u>	<u>222,258,310</u>	<u>173,222,665</u>

Below are the revenues, income before taxes, income tax and results for the period of the companies included in the consolidation of the half-years ending:

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<u>Company</u>	<u>Revenues</u>	<u>Earnings before taxes</u>	<u>Income tax</u>	<u>Period Results</u>
<b>December 2016</b>				
Surtigas S.A. E.S.P.	\$ 433,615,687	42,546,357	(17,388,417)	25,157,940
Transoccidente S.A. E.S.P.	2,969,130	1,665,053	(498,778)	1,166,275
Promioriente S.A. E.S.P.	78,502,316	66,124,466	(12,898,372)	53,226,094
Transmetano E.S.P. S.A.	37,700,717	25,953,334	(6,286,416)	19,666,918
Gases de Occidente S.A. E.S.P.	545,564,415	55,215,539	(18,899,371)	36,316,168
Compañía Energética de Occidente S.A. E.S.P.	186,691,640	16,286,953	(7,306,148)	8,980,805
Orion Contac Center S.A.S.	4,209,056	897,304	(344,967)	552,337
Promisol S.A.S.	67,219,378	4,895,491	(3,557,902)	1,337,589
Promisol Mexico S.A. de C.V.	-	(5,742)	-	(5,742)
Gases del Pacífico S.A.C	32,303,295	(8,403,795)	2,359,677	(6,044,118)
Zonagen S.A.S.	3,154,780	(317,001)	42,660	(274,341)
Sociedad Portuaria El Cayao S.A. E.S.P.	<u>31,409,633</u>	<u>1,988,743</u>	<u>(1,979,806)</u>	<u>8,937</u>

<u>Company</u>	<u>Revenues</u>	<u>Earnings before taxes</u>	<u>Income tax</u>	<u>Period Results</u>
<b>June 2016</b>				
Surtigas S.A. E.S.P.	\$ 428,281,335	31,244,005	(11,132,918)	20,111,087
Transoccidente S.A. E.S.P.	2,986,810	2,013,313	(846,808)	1,166,505
Promioriente S.A. E.S.P.	70,725,191	40,872,335	(16,128,877)	24,743,458
Transmetano E.S.P. S.A.	35,568,759	27,540,101	(9,161,664)	18,378,437
Gases de Occidente S.A. E.S.P.	591,240,270	56,432,124	(20,544,307)	35,887,817
Compañía Energética de Occidente S.A. E.S.P.	219,409,569	19,211,610	(9,647,710)	9,563,900
Orion Contac Center S.A.S.	4,161,662	933,847	(370,342)	563,505
Promisol S.A.S.	48,520,051	8,198,945	(3,172,618)	5,026,327
Gases del Pacífico S.A.C.	12,589,661	(7,815,349)	2,028,395	(5,786,954)
Zonagen S.A.S.	3,111,591	(193,664)	(40,949)	(234,613)
Sociedad Portuaria El Cayao S.A. E.S.P.	<u>-</u>	<u>7,915,762</u>	<u>(3,064,820)</u>	<u>4,850,942</u>

b) Investments in Associates

If the Company holds, directly or indirectly, 20% or more of the voting power in the investee, it is presumed to have significant influence, unless it can be clearly demonstrated that such influence does not exist. If the Company holds, directly or indirectly, less than 20% of the voting power in the investee, it is presumed that the Company has no significant influence, unless it can be clearly demonstrated that there is such influence. Decisions about using the equity method in investees where the Company has less than 20% of the voting power requires a

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careful assessment of the voting rights and its impact on the ability of the Company to exercise significant.

The Company's management considers the existence of the following circumstances, which may indicate that the Company is in a position to exert significant influence over a company in which it holds less than 20% of the voting power:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in the process of setting policies, including decisions on dividends and other allocations;
- Material transactions between the Company and the investee;
- Exchange of executive personnel; or
- Supply of essential technical information.

Management also considers that the existence and effects of potential voting rights that are exercisable or convertible securities should also be considered when assessing whether the Company has significant influence.

The Company also evaluates the following indicators that provide evidence of significant influence:

- The Company's shareholding is significant with respect to other shareholding (i.e., minority of other shareholders);
- Major Shareholders of the Company, its parent company, subsidiaries or executives have additional investment in the investee; and
- The Company is part of the Board of Directors or important internal committees of the investee.

The Company uses the equity method, which is a method of accounting whereby the investment is initially recorded at cost and is adjusted periodically for changes in the investor's share in the net assets of the investee. The income of the investor includes its share in the profit or loss of the investee and in other comprehensive income of the investor; its equity includes its share in other comprehensive income of the investee.

**3.2. Transactions and Balances in Foreign Currency**



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Operations in foreign currency are translated into the Company and its subsidiaries' functional currency on the date of the operation. Monetary assets and liabilities denominated in foreign currencies as of the date of the report are translated into functional currency at the exchange rate of that date.

Gains or losses on translations of foreign currency in monetary items is the difference between the amortized cost of the functional currency at the beginning of the period, adjusted for interests and effective payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Foreign currency differences arising during the translation are recognized in income; however, foreign currency differences arising from the translation of qualified cash flow hedges are recognized in other comprehensive income, provided that the hedge is effective.

**3.3. Financial Instruments**

**Financial Assets**

The initial recognition of financial assets is at fair value; in the event of a financial asset not carried at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset are added.

Financial assets are classified as subsequently measured at amortized cost or fair value on the basis of:

- a. The business model of the entity for managing portfolios of financial assets.
- b. The characteristics of contractual cash flows of the financial asset

Purchases or sales of financial assets that require the delivery of assets within a period set out by a market standard or convention are recognized at the date of the purchase or sale, i.e., the date on which the Company commits to purchase or sell the asset.

Financial assets include cash and cash equivalents, debt securities, trade receivable and other receivables and derivative transactions.

***Financial Assets at Fair Value through Profit or Loss***

Financial Assets at Fair Value through profit or loss include financial assets not designated at the time of classification at amortized cost.

***Financial Assets at Amortized Cost***

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A financial asset is measured at amortized cost using the effective interest method and net loss for impairment if:

- The asset is kept within a business model in order to keep the assets to obtain contractual cash flows; and
- The contract terms of the financial assets produce, on specific dates, cash flows that are only capital payments and interests.

***Equity Instruments***

- Equity instruments are measured at fair value through profit or loss, except those designated through other comprehensive income considered strategic. However, in specific circumstances, cost may be an appropriate estimate of fair value. That may be the case if the recent information available is insufficient to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.
- Financial assets at fair value through other comprehensive income include equity instruments. Equity instruments designated at fair value through other comprehensive income are those that are neither classified as held for trading or as at fair value through profit or loss. This classification is irrevocable.

***Derecognition***

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- Contractual rights on the asset's cash flow expire;
- The contractual rights on the asset's cash flow are transferred, or an obligation is undertaken to pay a third party all cash flow without significant delay, through a transfer agreement
- Substantially all risks and benefits inherent to the property of the asset have been transferred;
- All risks and benefits inherent to the property of the asset have been substantially withheld, but the control thereof has been transferred.

***Financial Liabilities***

A financial liability is any contractual obligation to deliver cash or other financial asset to another entity or person or to exchange financial assets or liabilities under potentially unfavorable

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conditions for the Company, or any agreement that will or may be liquidated using equity instruments of the entity. Financial liabilities are initially recorded by their transaction value, unless otherwise determined, being similar to its fair value, less transaction costs directly attributable to their issue. Subsequently such financial liabilities are measured at amortized cost according to the effective interest rate method initially determined and recorded as debit to profit and loss under financial expenses.

Financial liabilities are only derecognized from the balance sheet when generated obligations are extinguished or when they are acquired (either with the intention of repaying them or reinvesting in them).

**Offset of Financial Instruments in the Balance Sheet**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legal right to offset such recognized amounts and the management intends to liquidate them on a net basis or realize the asset and liquidate the liability simultaneously.

**3.4. Transactions with Derivate Instruments**

A derivative is a financial instrument whose value changes over time based on an underlying variable, does not require an opening net investment or a small investment with respect to the underlying asset and is liquidated on a future date.

Forward contracts entered into by the Company and some of its subsidiaries to cover the fluctuation of exchange rates in revenues are considered a cash flow hedge, given that they cover a particular risk associated with a recognized asset or liability or a highly likely expected transaction, in which case the effective portion of the changes in the fair value of derivatives is recognized in the account other comprehensive income in equity. Gains or losses in the derivative relative to the portion that is not effective to the hedge or that does not correspond to the hedged risk is recognized immediately in the income statement. Hedge accounting is implemented while the forwards remain within the range of effectiveness (80% and 125%).

Derivative transactions are revealed at baseline. Subsequent changes in the fair value are adjusted by debiting or crediting profit and loss, as applicable, unless the derivative is defined as hedge, if so, the nature of the hedged item. Hedge derivatives are defined as the cumulative values in the account other comprehensive income transferred to earnings for the period where the hedged item is also carried to income.

The Company and its subsidiaries document at the beginning of the transaction the relationship between the hedging instrument and the hedged item and the risk objective and strategy for undertaking the hedge relationship. The Company also documents its assessments both at the

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date of the transaction and on the recurring basis that the hedging relationship is highly effective in offsetting changes in fair value or cash flows of hedged items.

Financial assets and liabilities by transactions with derivatives are not offset in the statement of financial position; however, when there is a legal and exercisable right to offset the recognized values and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously, they are then presented net in the statement of financial position.

Profits and losses for settlement of contracts are recognized at the end of each month.

**3.5. Cash and Cash Equivalents**

Cash and cash equivalents correspond to short-term assets presented in the consolidated statement of financial position and consist of cash, bank balances and short-term investments that meet the conditions of cash equivalents. Such investments are characterized by a high level of liquidity and an easy conversion into a determined amount of cash, being subject to an insignificant risk of change in value.

**3.6. Property, Pipelines, Plant and Equipment**

***(i) Recognition and Measurement***

Elements of property, pipelines, plant and equipment are measured at cost less cumulative depreciations and cumulative amounts and any impairment losses suffered.

Costs include expenditures that are directly attributable to the acquisition of the asset.

The cost of assets built by the Company and its subsidiaries includes the cost of materials and direct labor; any other costs directly attributable to the process of bringing the asset to a working condition for its intended use, costs of dismantling, removing and restoring the site where they are located.

***(ii) Subsequent Costs***

The cost of replacing part of an item of property, pipelines, plant and equipment is capitalized if future economic benefits are likely to be received and their cost can be measured reliably. The book value of the replaced part is derecognized. Daily maintenance costs of property, pipelines, plant and equipment are recognized in profit or loss when incurred.

***(iii) Depreciation***

The cost of assets is depreciated linearly based on estimated useful life, as detailed below:

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	<u>Years</u>
Constructions and buildings	50
Pipelines, plant and networks not under concession	70
Machinery and equipment	5 to 10
Transportation fleet and equipment	5
Computer and communication equipment	5
Furniture and fittings	10

Depreciation methods and useful lives are reviewed each year and adjusted if necessary.

***(iv) Disposals***

The difference between the proceeds of the sale and asset's net book value is recognized in the income statement under the item other revenues.

**3.7. Loan Costs**

The Company and its subsidiaries capitalize loan costs directly attributable to the purchase, construction or production of qualifying assets, as part of the cost of such assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

These loan costs shall be capitalized as part of the asset's cost, provided that such asset will likely result in future financial benefits for the entity and that it can be reliably measured.

**3.8. Leased Assets**

Leases in terms of which the Company and its subsidiaries assume substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at the lower of fair value and the present value of the minimum lease payments. After initial recognition, the asset is accounted for in accordance with the applicable accounting policy.

Other leases are operating leases, and the leased assets are not recognized in the Company's statement of financial position.

**3.9. Biological Assets**

According to IAS 41 – Agriculture, agricultural activities related to biological assets (animals or plants) are recorded separately in this account either at the time of initial recognition or at the end of the period in which its fair value is informed less selling costs, except for plant crops in growing phase for which fair value cannot be measured reliably for any given reason, in which case they are measured at cost less any accumulated impairment losses, or short-cycle crops whose fair value less selling costs are reflected in the results through their sale. Gains or losses

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arising on initial and subsequent recognition at fair value of agricultural products are included in net profit or loss for the period. Costs incurred in the process of agricultural production are also taken directly to the income statement.

**3.10. Intangible Assets**

The cost of intangible assets is recognized at the value of the transaction at the date of purchase. After the initial recognition, the intangible assets are accounted for at cost less any cumulative amortization and any cumulative impairment loss.

Intangible assets with finite useful lives are amortized over such financial useful lives and are assessed to determine whether impairment occurred, provided that there are signs that an intangible asset may have suffered such impairment. The amortization period and method for an intangible asset with finite useful life is reviewed at the closing of each reported period.

Intangible assets with indefinite useful lives are not amortized, but are otherwise subject to annual evaluations to determine whether they have suffered impairments, either individually or collectively in the cash-generating unit where they were assigned. An indefinite useful life is evaluated and reviewed annually to determine whether such useful life is still appropriate, and, if not, the change from indefinite to finite useful life is done prospectively.

The useful life of intangible assets are shown below:

	<u>Useful Life</u>
Goodwill	Indefinite
Software and Licenses	3 to 5 years
Rights	20 years

Gains or losses arising from derecognizing an intangible asset are measured as the difference between net income from the sale and the book value of the asset, and are recognized in the income statement when the asset is derecognized.

The Company and its subsidiaries record as expenses for the period all research costs, as well as any development costs where the technological and commercial feasibility thereof cannot be established.

**3.11. Concession Agreements**

The Company and its subsidiaries recognize the intangible asset arising from a service concession agreement when there is the right to charge for the use of concession infrastructure. On initial recognition, an intangible asset received as consideration for providing construction or improvement services in a service concession agreement is recognized at fair value. After initial

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recognition the intangible asset is measured at cost, including capitalized loan costs, less accumulated depreciation and accumulated impairment losses.

An intangible asset is recognized when there is no unconditional right to receive cash and the revenues are contingent on the extent of use of the asset under concession for the service provision. In some cases there may be mixed agreements, where part of the agreement is a financial asset and the other part is an intangible asset. In the case of Promigas, the financial asset is not for the remuneration of the transportation service, but for the obligation to sell the gas infrastructure by the end of the term of the agreement.

Based on the above, rights in concession agreements are recorded by the Company and its subsidiaries as follows:

- (a) Revenues from the construction and costs relative to the construction of concessions are recorded in the income statement after completing stages of the project in the reported period.
- (b) If the concession agreement qualifies as a financial asset, the asset arising in the agreement is included in the account "other accounts receivable at fair value" and recognized at the present value of future payments to which each Company is entitled, discounted using the effective interest rate, in the event they are financial assets with mandatory sale at fair price at the end of the agreement. These financial assets are designated at fair value through profit or loss.
- (c) In addition, cumulative disbursements during the construction phase of the project are recognized as intangible assets, and amortized over the term of the concession agreement, save for compressors, which are amortized over the shortest between the concession agreement and its useful life, in a straight line debited on profit or loss from the date when the construction is completed and the corresponding asset is put the service of the users. Compressor stations are amortized as follows:

Component	Years	Rate
Turbine (30,000 hours)	11*	
Compressor or motor-compressor (60,000 hours)	22*	
Skid Valves	20	5%
Ancillary Systems:		
Cooling Units	20	5%
Fire Protection Equipment	10	10%
Ancillary Equipment:		
Fuel Gas Skid	20	5%

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Air Compressor Skid	10	10%
Station Dashboard	5	20%
Motor Control Center	20	5%
Power Generator	10	10%
Valves and Accessories	20	5%

(\*) Equivalence is calculated with the percentage of each compressor stations' statistical use.

**3.12. Inventories**

Inventories are measured at the lower of either the cost or the net realizable value. The cost includes the purchase price of inventories and other direct costs required to make them available for use. The cost of inventories is determined by using the weighted average method and classified either as short- or long-term based on the item's rotation. The net realizable value is the estimated selling price in the ordinary course of business less trading and distribution expenses.

**3.13. Noncurrent Assets Held for Sale**

Non-current assets held for sale, which the Company and its subordinates intend to sell within a term not exceeding one year, such sale being considered highly likely, are recorded as "non-current assets held for sale". Such assets are recorded at the lower of either their carrying value at the time of their transfer to this account or their fair value less estimated costs of sale.

**3.14. Prepaid Expenses and Prepaid Assets**

Prepaid expenses mainly comprise insurance, services and leases paid in advance, amortized monthly at the contractual term, through profit or loss.

*Insurance* - Insurance is recognized at cost; depreciation is calculated using the straight-line method to allocate the cost to profit or loss at the end of the term of the policy, i.e., one year.

**3.15. Leased Assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at the lower of either fair value or the present value of the minimum lease payments. After initial recognition, the asset is accounted for in accordance with the applicable accounting policy.

Other leases are operating leases, and the leased assets are not recognized in the Company's separate statement of financial position.

**3.16. Employee Benefits**



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**(i) Defined Benefits**

The net obligation of the Company related to defined benefit plans is calculated separately for each plan, estimating the amount of future benefit that employees have earned in the current period and in previous periods, deducting that amount and deducting the fair value of the plan's assets.

The estimate of defined benefit obligations is performed annually by a qualified actuary, according to the parameters provided in Decree 2783/2001, as required by Decree 2496 of December 2015. The method used is the projected unit credit method. When the calculation results in a potential asset for the company, recognition of the asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to it. To calculate the present value of economic benefits, any minimum funding requirement must be considered.

For defined contribution plans, the Company pays contributions to public or private pension plan administrators on mandatory, contractual and voluntary bases. No additional payment obligations are considered once the contributions have been paid. The contributions are recognized as personnel expenses when expected. Prepaid contributions are recognized as an asset insofar as a cash reimbursement or a future payment reduction is available.

**(ii) Short-term Benefits**

Short-term employee benefits are measured on an undiscounted basis and are recognized as expenses when the related service is provided.

An obligation for the amount expected to be paid is recognized if the Company has a current legal or implied obligation to pay this amount as a result of a service provided by the employee in the past and the obligation can be estimated reliably.

**(iii) Long-term Benefits**

The net obligation of the Company regarding long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current period and in previous periods. The benefit is discounted to determine its present value. The new measurements are recognized in profit or loss for the period in which they arise.

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**(iv) Termination Benefits**

Termination benefits are recognized as an expense when the Company cannot withdraw the offer related to benefits or when the Company recognizes costs for a restructuring, whichever comes first. If the total benefits are not expected to be settled in full within 12 months after the end of the reporting period, these are discounted.

**3.17. Taxes**

**Income Tax**

The tax expense or income comprises the income tax and the current and deferred income tax for equality (CREE).

Current and deferred taxes are recognized as income or expense and are included in profit or loss, except when related to items recognized in other comprehensive income or directly in equity, in which case, the current or deferred tax is also recognized in other result comprehensive income or directly in equity, respectively.

**Current Taxes**

Current tax is the amount payable or to recover current income tax and current income tax for equality (CREE). It is calculated based on the tax laws enacted as of the date of statement of financial position. The Company and its subsidiaries periodically evaluate positions taken in tax returns with respect to situations where tax laws are subject to interpretation and, if necessary, makes provisions on the amounts expected to be paid to the tax authorities. As of reporting period closing, the companies have not identified any situations that require provisions under this item.

To determine the provision of income tax and income tax for equality (CREE), the Company makes its calculation based on the higher value between taxable income and presumptive income (minimum return on equity last year that the law presumes to establish the income tax).

The Company only compensates tax assets and liabilities to current earnings if there is a legal right to the tax authorities and it intends either to settle the debts resulting on a net basis or to realize assets and settle debts simultaneously.

**Deferred Taxes**

Deferred tax is recognized using the liability method, determined on temporary differences between the tax bases and the book value of assets and liabilities included in the financial statements.

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Deferred tax liabilities are the amounts payable in the future as income tax related to taxable temporary differences, while deferred tax assets are the amounts to be recovered by way of income tax due to the existence of deductible temporary differences, tax loss carryforwards or deductions pending application. Temporary difference is understood as the difference between the book value of assets and liabilities and their tax base.

**i. Recognition of Taxable Temporary Differences**

Deferred tax liabilities arising from taxable temporary differences are recognized in all cases except if:

- They arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a combination of business and that on the date of such transaction neither the accounting result or the taxable income is affected.
- They correspond to differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, when the reversal opportunity of temporary differences can be controlled and such temporary differences are unlikely to be reversed in the near future.
- In the case of the recognition of deferred tax liabilities for temporary differences related to investments in associates when the intention to sell the investment is not expected in the foreseeable future, only deferred tax liabilities will be recognized for the existence of undistributed earnings that may generate dividends taxed in the foreseeable future and for which there is no agreement that sets forth the non-distribution of taxed dividends.

**ii. Recognition of Deductible Temporary Differences**

Deferred tax assets arising from deductible temporary differences are recognized provided that:

- Future taxable incomes against which the temporary differences may be offset are likely to be available, except in those cases where the difference arise from the initial recognition of assets or liabilities in a transaction that is not a combination of business and that on the date of such transaction neither the accounting result or the taxable income is affected.
- Correspond to temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, when the temporary differences are likely to be reversed in the near future and positive future tax gains are expected to offset such differences.

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Deferred tax assets that fail to meet the above conditions are not recognized in the statement of financial position. The Company and its subsidiaries reconsider at the end of the reporting period whether the conditions are met to recognize deferred tax assets that had not previously been recognized.

Tax planning opportunities are considered in the recovery assessments of deferred tax assets only if the Company and its subsidiaries intend to adopt them or will likely adopt them.

**iii. Measurement**

Deferred tax assets and liabilities are estimated using the tax rates applicable for the period where asset realization is expected or liabilities are going to be paid, based on the regulations enacted or expected to be enacted, and after considering the tax consequences that arise from the way in which the Company and its subsidiaries expect to recover assets or settle liabilities.

The Company and its subsidiaries review at the end of the reporting period the carrying value of the deferred tax assets, in order to reduce such value so that it becomes unlikely that there will be sufficient future taxable income to offset them.

The Company and its subsidiaries' non-monetary assets and liabilities are measured in terms of its functional currency. If tax losses or profits are calculated in a different currency, exchange rate differences give rise to temporary differences and the recognition of a liability or a deferred tax asset and the resulting effect is charged or credited to profit or loss for the period.

**iv. Offset and Classification**

The Company and its subsidiaries offset deferred tax assets and liabilities over current income when there is a legal right with tax authorities and those assets and liabilities relate to the same tax authority.

Offset deferred tax assets and liabilities are recognized in the statement of financial position as noncurrent assets and liabilities regardless of the expected date of realization or settlement.

**Wealth Tax**

Article 1 of Act 1739 of December 23, 2014, creates as of January 1, 2015, an extraordinary tax called wealth tax, which will be temporary for taxable years 2015, 2016 and 2017. The tax will be accrued annually on January 1 each year.

The Company recorded the Wealth Tax against equity reserves (this Act provides that, for accounting purposes in Colombia, such tax may be recorded as mentioned). The Company and its subsidiaries decided to benefit from this exemption and recorded the wealth tax in 2016 and 2015 against reserves, except for Sociedad Portuaria El Cayao S.A. E.S.P., which recorded it through profit or loss, as it had no reserved for such record.

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**3.18. Provisions**

A provision is recognized if it is the result of a past event, the Company and its subsidiaries have a legal or implicit obligation that can be estimated reliably, and an outflow of economic benefits to settle the obligation is probably necessary. Provisions are determined by discounting the cash flow expected in the future from the pre-tax rate that reflects the current market assessment of the value of money over time and the specific risks of the obligation.

**Dismantling and Removal Costs**

The best estimate of the provision for the cost of dismantling and removing an item or restoring the site where it is located is recognized when there is an obligation. The estimate is based on a current obligation (legal or implied) arising from the purchase, construction or development of a long-term asset. If it is unclear whether a current obligation exists, the entity may assess the evidence under the most likely threshold. Such threshold is assessed in relation to the settlement risk of the obligation.

**“Environmental Obligations” Provision**

The Company and its subsidiaries must review at least once a year the existence of environmental obligations resulting from new and existing projects. The area responsible for providing such information is the Environment and Industrial Safety Management. The recorded estimate will be the best estimate of the disbursement necessary to settle the present obligation, which is updated.

Insofar as environmental costs are costs necessary for an asset to function as expected by management, they are recorded as greater than the asset that originates them.

The provision is updated periodically with the CPI certified by the DANE (the National Administrative Department of Statistics) and the effect of such update will be recognized as a cost for loan.

Each environmental provision should be used only to meet the disbursements for which it was originally recognized.

**3.19. Impairment**

**Financial Assets**

By the end of each reported period, the Company and its subsidiaries assess whether there is any objective evidence of an impaired financial asset or group thereof. A financial asset or group thereof is considered impaired only if there is objective evidence of impairment as a consequence of one or more events occurring after the initial recognition of such asset (an

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“event causing the loss”), and if such event causing the loss has an impact over future estimated cash flows of the financial asset, which can be reliably estimated.

Evidence of impairments may include signs of debtors or group thereof having significant financial difficulties, nonpayment of or default in principal or interest payments, the likelihood of entering bankruptcy or other form of financial reorganization, and when observable data indicate that there is a measurable decrease in future estimated cash flows, such as adverse changes in the status of overdue payments or in the financial conditions that correlate with defaults.

To determine the impairment of financial assets, the Company and its subsidiaries use the quantification of incurred losses, which considers three basic factors: exposure, probability of default and severity, as follows:

- Exposure is the amount of risk at the time of the counterparty default.
- Probability of default is the likelihood that the counterparty defaults on its obligations of principal and/or interest payments. Probability of default is associated with the rating/scoring of each counterparty/transaction.
- Severity is the estimate of the loss if default occurs. It mainly depends on the counterparty's characteristics and the appraisal of guarantees or collaterals associated with the transaction.

If in subsequent periods a recovery of the financial asset's value at amortized cost were evident, the loss due to impairment would be reversed. Such reversal will be limited to the book value the financial asset would have had should the loss due to impairment had not been recorded. The record of the reversal is recognized in the income statement.

**Non-financial Assets**

Impairment tests will be conducted when there are signs that the book value of an asset may exceed its recoverable amount. The recoverable amount of an asset is the higher of either its fair value minus disposal costs or its use value. The Company and its subsidiaries will assess at the end of the period whether there are any signs of impairment on the asset. If any, the Company and its subsidiaries would estimate the asset impairment.

Corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

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Impairment losses are recognized in profit and loss account. Impairment losses recognized in respect of cash-generating units are firstly distributed to reduce the carrying amount of any goodwill distributed to the units and then to reduce the carrying amount of other assets in the unit (unit groups) on a pro rata basis.

An impairment loss with respect to goodwill is not reversed. With respect to other assets, impairment losses recognized in prior periods are evaluated at the end of each reporting period, seeking any indication that the loss has decreased or disappeared. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been determined net of depreciation or amortization and if no impairment loss has been recognized.

**3.20. Revenues**

Revenues are measured at the fair value of the consideration received or receivable and represent amounts to be collected for delivered goods, net discounts, returns and value added tax, as follows:

***a) Transportation and Distribution of Natural Gas, Energy, Pipeline Operation and Technical Services***

Revenues from ordinary activities associated with the provision of services are recognized in the income statement when each and every condition below is met:

- The amount of revenue from ordinary activities can be reliably measured;
- The entity will likely receive the economic benefits associated with the transaction;
- The degree of completion of the transaction at the end of the reporting period can be reliably measured; and
- Costs incurred during the provision, as well as those to be incurred until completing the transaction, *can be reliably measured*.

***b) Non-bank Financing***

Revenues from financial interests are recognized in the income statement at amortized cost using the effective interest method.

***c) Construction Contracts***

Revenues from ordinary activities in construction contracts on networks under concession are measured at fair value of the consideration received or expected.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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Promigas and its subsidiaries recognize the revenues from ordinary activities and costs according to IAS 11 – Construction Contracts, considering the final construction phase. Revenues are measured at fair value of the consideration received or expected, which is close to the costs incurred considering that the projects do not exceed one year of construction.

***d) Sale of Assets***

Revenues from sale of assets are recorded when the significant risks and benefits pertaining to the ownership of the assets have been transferred to the buyer, generally when delivering such assets.

***e) Revenues for Connections***

Revenues for connections are recorded in the income statement of the period when the customer takes the delivery, considering that connections are transactions independent from the provision of gas, which is done after the installation.

**3.21. Financial Revenues and Costs**

The Company's financial revenues and financial costs include interest revenues and interest expenses. The interest revenue or expense is recognized using the effective interest method.

**3.22. Recognition of Costs and Expenses**

The Company and its subsidiaries recognize their costs and expenses as economic events occur in such a way that they are systematically recorded in the corresponding accounting period (accrual), regardless of the flow of monetary and financial resources (cash).

An expense is immediately recognized when a disbursement does not generate future economic benefits or when it fails to meet the necessary requirements for recognition as asset.

**3.23. Costs of Construction Contracts**

Costs related to construction contracts include costs that relate directly to the specific contract, costs that relate to contract activity in general and that can be allocated to the contract, and any other costs that can be charged to the customer, under the terms agreed in the contract.

**3.24. Earnings per Share**

Promigas presents information of basic earnings per shares of its common shares. Basic earnings per shares are estimated by dividing the result attributable to the Company's common shares by the weighted average of common shares outstanding during the period.



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**3.25. Operating Segments**

The information by segment is presented consistently with the internal reports provided to those responsible for relevant operating decision-making. The following segments are considered for the financial statements.

- Gas transportation
- Gas distribution
- Integrated solutions for the industry and power generation
- Power distribution
- Non-bank financing

Senior Executives regularly review the results of the segments and evaluate the results of each operation and the resources that must be allocated.

**3.26. Standards and interpretations with subsequent application issued by the Ministry of Finance and Public Credit and the Ministry of Trade, Industry and Tourism**

The Ministry of Trade, Industry and Tourism issued Decree 2131 of December 22, 2016, whereby Decree 2420/2015, as amended by Decree 2496/2015, is amended, modifying the technical regulatory framework, including changes to IAS 7, IAS 12 and clarifications to IFRS 15. The Company's Management is currently assessing the impact of these standards.

**Amendment to IAS 7 - Statement of Cash Flows**

Application from January 1, 2018, early application is permitted. An entity shall disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes resulting from cash flows and changes not in cash.

**Amendment to IAS 12 - Income Taxes**

Application from January 1, 2018, early application is permitted. Clarifies the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

**Modifications to IFRS 15 - Revenue from Contracts with Customers**

Application from January 1, 2018. Clarifies the accounting of contracts related to different goods and services, determining the nature of the commitments undertaken through contracts, among others.

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**IFRS 16 - Leases**

Issued in January 2016, it sets out the principles of recognition, measurement, presentation and disclosure for leases, i.e., from the point of view of landlord and tenant. This standard is effective from January 1, 2019, and allows early application only if it also applies IFRS 15 - Revenue from Contracts with Customers. This standard replaces IAS 17 Leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are measured as finance leases. If the lease term is greater than one year, a financial liability is recognized.

**3.27. New Accounting Promulgations Issued by the International Accounting Standards Board (IASB) still not adopted in Colombia:**

During the second half of 2016, the International Accounting Standards Board (IASB) issued the following new promulgations on amendments related to standards already issued or new issues of standards that may have an impact on the Company and its subsidiaries, which are:

**Annual Improvements IFRS 12 - Disclosure of Interests in Other Entities**

Establishes whether the disclosure requirements of IFRS 12 apply to interests in other entities when they are classified as non-current assets held for sale or discontinued operations in accordance with IFRS 5 Non-Current Assets Held for Sale or Discontinued Operations.

The Board published the amendment in December 2016.

**Annual Improvements IAS 28 - Investments in Associates and Joint Ventures**

The amendment clarifies that an investment fund or trust may choose to apply the exemption from recognition of the equity method and record its investments in associates or joint ventures at fair value under IFRS 9; however, such choice must be made separately for each associate or joint venture in the initial recognition of such investment.

The Board published the amendment in December 2016.

**Amendment to IAS 40 - Investment Property**

Clarifies the application of paragraph 57 of IAS 40 - Investment Property, providing guidance on transfers to, or from, investment property.

The Board published the amendment in December 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## IFRIC 22 - Foreign Currency Transactions and Advance Consideration

Provides requirements on what exchange rate to use when reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

The Board published the amendment in December 2016.

## Standards and Amendments Applicable from January 1, 2017

According to Decree 2496 of December 2015, the issued standards applicable from 2017 (except IFRS 15 and IFRS 9, applicable from January 1, 2018, though their early application is permitted) are listed below. The Company's Management is currently assessing the impact of these standards.

Financial Reporting Standard	Amended Issue	Detail
IAS 1 – Presentation of Financial Statements	Disclosure initiative. In regard to the presentation of financial statements, the amendment clarifies disclosure requirements.	Some relevant issues specified in the amendments are as follows: <ul style="list-style-type: none"> <li>• Materiality requirements IAS 1.</li> <li>• Indicates the specific lines in the income statement, comprehensive income and changes to financial position that may be disaggregated.</li> <li>• Flexibility regarding the order in which the notes to the financial statements are presented.</li> <li>• The entity does not need to disclose specific information required by an IFRS if the resulting information is not material.</li> </ul> The application of the amendments may not be disclosed.
IFRS 9 - Financial Instruments	Financial Instruments (revised version of 2014).	The replacement project refers to the following phases: <p>Phase 1: Classification and measurement of financial assets and liabilities.</p> <p>Phase 2: Impairment Methodology.</p> <p>Phase 3: Hedge Accounting.</p> <p>In July 2014, the IASB finished the reform to the accounting of financial instruments and issued IFRS 9 - Financial Instruments (revised version of 2014), which replaces IAS 39 - Financial Instruments: recognition and measurement after expiration of the previous valid term.</p>

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Financial Reporting Standard	Amended Issue	Detail
IFRS 11 – Joint Arrangements	Accounting for acquisitions of interest in joint arrangements.	Provides guidelines on accounting for the acquisition of an interest in a joint arrangement where the activities constitute a business, according to IFRS 3 - Business Combination. Entities should apply the amendments prospectively to the acquisitions of interests in joint arrangements (where the activities constitute a business, according to IFRS 3).
IFRS 10 - Consolidated Financial Statements IAS 28 - Investment in Entities	Application of the exception of consolidation.	Clarifies that the exception of preparing consolidated financial statements applies to a controlling entity subsidiary of an investment entity, when the investment entity measures all its subsidiaries at fair value pursuant to IFRS 10. The application of the equity method is allowed to an investor in an associate or joint venture if it is a subsidiary of an investment entity that measures all its subsidiaries at fair value.
IFRS 10 - Consolidated Financial Statements IAS 28 - Investment in Entities	Sale or contribution of assets between an investor and its associate or joint venture.	They deal with IFRS 10 and IAS 28 regarding the treatment of control losses of a subsidiary sold or contributed to an associate or joint ventures. It clarifies that the earnings or losses from the sale or contribution of assets represents a business, as defined in IFRS 3, between the investor and its associate or joint venture, and is recognized in full.
IFRS 14 – Regulatory Deferral Accounts	Deferral account a of regulated activities.	An optional standard that allows an entity whose activities are subject to fee regulation to continue applying most of its previous accounting policies for the regulated deferral accounts after adopting the IFRS for the first time.
IFRS 15 – Revenue from Contracts with Customers	Revenue from contracts with customers.	Sets out a five-step model that applies to revenues from contracts with customers. It replaces the following revenue standards and interpretations after its effective date: - IAS 18 - Revenue; - IAS 11 - Construction Contracts; - IFRIC 13 - Customer Loyalty Programs; - IFRIC 15 - Agreements for the Construction of Real Estate; - IFRIC 18 - Transfer of Assets from Customers and - SIC 31 - Barter Transactions Involving Advertising Services.
IAS 16 - Property, Plant and Equipment	Clarification of acceptable depreciation methods.	Prohibits entities to use a depreciation method based on revenues for items of property, plant and equipment.

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Financial Reporting Standard	Amended Issue	Detail
IAS 16 - Property, Plant and Equipment IAS 41 - Agriculture	Production plants.	Defines the concept of production plant and requires that biological assets meet this definition to be accounted for as property, plant and equipment, according to IAS 16, instead of IAS 41. Regarding the amendments, production plants may be measured using the cost model or the revaluation model set out in IAS 16. The products that grow in production plants are recorded pursuant to IAS 41.
IAS 27 - Consolidated and Separate Financial Statements	Equity method in the separate financial statements.	The use of the equity method is permitted to account for investments in subsidiaries, joint ventures and associates in separate financial statements. The amendments clarify that when a holding company ceases to be an investment entity, or becomes an investment entity, the change must be accounted for as of the date on which the change occurs.
IAS 38 – Intangible Assets	Clarification of acceptable amortization methods.	Sets out conditions relative to intangible asset amortization: a) When the intangible asset is expressed as a measure of income b) When it can be demonstrated that the income and consumption of financial benefits from the intangible assets are closely related.
Annual Improvements 2012 - 2014 Cycle	These amendments reflect issues discussed by the IASB that were afterwards included as amendments to the IFRS.	IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Changes in methods of asset disposal. IFRS 7 - Financial Instruments: Disclosures (with amendments arising from amendments to IFRS 1) - Amendments regarding service provision agreements. - Applicability of amendments to IFRS 7 in the disclosure of offsets in condensed interim financial statements. IAS 19 - Employee Benefits. Discount Rate: issues of regional market. IAS 34 - Interim Financial Reporting: Disclosure of information included in any other place of the interim financial report.

PROMIGAS S.A. E.S.P.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4. RISK MANAGEMENT**

The Companies are exposed to a variety of risks, including market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk, operational and legal risks, which are managed depending on their nature.

**a. Risk Management Framework**

The Companies' Boards of Directors are responsible for establishing and supervising the risk management structure of Promigas.

The Companies' risk management policies are provided in order to identify and analyze the risks faced, set limits and appropriate risk controls, and monitor risks and adherence to limits. Policies and risk management systems are reviewed regularly to reflect changes in market conditions and activities of Promigas and its subsidiaries.

The Companies, through management standards and procedures, aim to develop an environment of disciplined and constructive control where all employees understand their roles and obligations.

**b. Market Risk:**

*1. Macroeconomic Factors*

The main macroeconomic factors that impact the financial results of the Company are devaluation, inflation and the DTF interest rate.

Operating revenues are generated through fees that are indexed to the dollar by 70% of US dollars, transport service invoices are issued in Colombian pesos and settled with the exchange rate at the time of invoice, while 95% of costs are in Colombian Pesos. Therefore, the exchange rate effect represents greater revenues in pesos. Exposure to the exchange rate is mitigated by forward contracts, which provides hedge by establishing a short position for the gains or losses due to exchange difference that may occur on contracting cash flow hedges on revenues from the gas transportation that has a component measured in dollars.

With respect to inflation and DTF, the Companies are exposed given that the total debt is indexed to these macroeconomic indexes. The risk for these variables is mitigated by maintaining a permanent monitoring, which allows timely decision making, maintaining or refinancing existing credits or contracting new obligations, always seeking, where possible, to minimize financial costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. *Vulnerability to Changes in Interest Rates and Exchange Rates*

Fluctuations in interest rates may negatively or positively affect the Companies; however, to mitigate any negative impact that may arise, each and every financial obligation is contracted without prepayment penalty in order to benefit in the event of falls in market rates.

As for the vulnerability to exchange rates, each project is analyzed independently to determine its exposure and the strategy to be implemented. For example, asset accounts held in foreign currency can be hedged naturally with financing in the same currency. Financial liabilities or accounts payable in foreign currency that do not have natural hedging with an active account may be hedged by the contracting of derivatives or by accounting derivatives. The measures implemented seek to minimize exchange rate risk.

3. *Risk of Variation in the Exchange Rate of Foreign Currency:*

The Companies are exposed to variations in the exchange rate produced by transactions in several currencies, mainly in US Dollars. The risk of variation in the exchange rate of foreign currency arises from assets, liabilities, revenues, costs and some recognized expenses.

Assets, liabilities and transactions denominated in foreign currency are those made in currencies different from the Company's functional currency. As of December 31 and June 30, 2016, assets and liabilities denominated in foreign currency, expressed in Colombian pesos are:

	December 2016		June 2016	
	Dollars	Thousands of Pesos	Dollars	Thousands of Pesos
Current assets	\$ 74,964,767	224,948,857	7,723,738	53,930,430
Noncurrent assets	621,587,208	1,865,202,952	184,319,573	537,503,523
Total assets	696,551,975	2,090,151,809	192,043,311	591,433,953
Current liabilities	(11,563,400)	(34,698,411)	(12,958,312)	(37,788,381)
Long-term liabilities	(388,11,230)	(1,165,209,393)	(68,182,086)	(198,829,189)
Total liabilities	(399,874,630)	(1,199,907,804)	(81,140,398)	(236,617,570)
Net asset position	\$ 296,677,345	890,244,005	110,902,913	354,816,383

Revenues received by the Companies for the gas transport service are determined by the dollar rate. The sensitivity due to the effect of the dollar in revenues is as follows:

Dollar fluctuation effects:



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Variable	Scenario	Devaluation	Impact	Value
Exchange Rate	Low	+ 4.00%	EBITDA	\$ 7,432
			Net Profit	9,771
	Medium	0.00%	EBITDA	-
			Net Profit	-
	High	- 4.00%	EBITDA	(7,430)
			Net Profit	\$(9,746)

For the above sensitivity, we start from the medium scenario, which is the real scenario. For the low and high scenarios, a fluctuation of the devaluation in more or less 400 points is considered.

**Hedge Accounting**

Promigas and its subsidiaries generate revenues from the transportation service of gas under a regulated rate in US Dollars. To mitigate the risks of exchange rate effect, hedge positions with Non-Deliverable Forwards are taken to cover expected cash flows based on income projection. The companies' policy consists on ensuring at least the budgeted income of the companies, neutralizing the exchange rate risk without speculating on the currency.

The Companies contractually monetize the monthly invoicing with the average Exchange Rate for the month, so hedge agreements must replicate the exchange Rate of the contract. Through Non-Deliverable Forwards the Company has the option to take as much forwards as there are business days in a month, given that these are negotiated (settled) daily, with an averaged base of the revenues wishing to cover, to which different strike rates apply. At the end of the month, the average rate with which the revenues are contractually settled is simulated with the sum of the settled forwards.

The Companies' risk management strategy consists on adjusting the value of the hedge instrument periodically, so it reflects the changes in the hedged position. In order to measure the efficiency expected at the beginning of the hedge and the actual efficiency during the hedge period, the Market to Market-MtM valuation and the Dollar Offset method will be used under an efficiency range of 80-125 percent.

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**c. Price Risk:**

Companies in the regulated business of gas transportation and distribution have a selling price directly established by the government through the Energy and Gas Regulatory Commission (CREG) and for fixed periods; therefore, such companies do not have fluctuation risks. Price changes are generated in times of rate recalculations when the CREG defines the methodology and variables to be included in the respective calculation.

**d. Credit Risk:**

The Companies, through its non-bank financing product - Brilla, are exposed to credit risk, which consists of the debtor causing a financial loss for not fulfilling its obligations. Credit risk exposure arises as a result of activities and transactions with counterparties that lead to financial assets.

The maximum exposure to credit risk is reflected in the book value of financial assets and in the Companies' statement of financial position. The maximum exposure to credit risk is the amount of the commitment, which is mitigated through guarantees and collaterals.

The principles and rules for managing the Brilla credit are stated in the Non-Bank Financing Policy. The evaluation criteria to control credit risk follow the guidelines provided by the Portfolio Committee.

The maximum credit authority is the Board of Directors, which guides the general policy and has the power to establish the credit limits for each distributor that handles credit requests and is responsible for the analysis, monitoring and results

For credit approvals, the user must have finished paying the gas connection and his payment behavior over the past two years is taken into account.

The Companies calculate the portfolio provision considering the incurred loss. For monitoring and measuring the portfolio, the Companies have the indicator of non-performing loans. Daily monitoring of the portfolio is conducted based on the analysis of nonperforming loans by age. Monthly, the Portfolio Committee meets, presenting the indicators and reviewing the cases that affect collection in order to set out strategies and action plans to improve recovery, assistance is provided to collection agents on their visits to users, and reports by locations are analyzed in order to identify related items of default that establish a trend and control them immediately.

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*Portfolio Concentration:*

Aware of the economic capacity of users to whom the Brilla program is targeted, average limits of \$1,600 are assigned to economic strata 1 through 3 and an average of \$2,400 for strata 4 through 6, thus avoiding portfolio concentration per user. The nonperforming loan indicator is monitored by location in order to control possible cases of complicity in sales that bring about portfolio impairment. The allocation of limits is made by stratum and the user must have a good payment history.

As of December 31, 2016, the Brilla consolidated portfolio increased by 25% due to non-bank financing placements made by related companies: Surtigas S.A. E.S.P., Gases de Occidente S.A. E.S.P., Gases del Caribe S.A. E.S.P., Gases de la Guajira S.A. E.S.P., Efigas S.A. E.S.P. and Compañía Energética de Occidente S.A. E.S.P.

**e. Liquidity Risk:**

Liquidity risk is related to the inability of meeting obligations to creditors, for which purpose the Companies review its available resources on a daily basis. With the information obtained, the Company determines the liquidity needs and makes the relevant decisions to define the excess liquidity placement strategy, seeking to optimize profitability and minimize concentration risk.

**f. Interest Rate Risk:**

The Company and its related companies are exposed to effects of market fluctuations in interest rates that affect its financial position and future cash flows.

Through the resources invested in Mutual Funds, the profits of which are generated from the daily valuation of their portfolios at market price, increased interest margins can be seen, but they may also decrease and generate losses if unexpected changes occur in the market affecting the rates of such funds. The Companies monitor on a daily basis the balances of moneys invested in Mutual Funds, in order to decide whether or not to withdraw the resources and place them in bank accounts after adverse incidents, considering that such investments are in sight and may be used at any time. Mutual Funds current as of December 31, 2016, are:

- Valor Plus Fund of Fiduciaria Corficolombiana
- Sumar Compartimento XI Fund of Fiduciaria Bogotá
- BBVA Cash Fund Class B of Fiduciaria BBVA
- Country BBVA Fund of Fiduciaria BBVA
- CxC Fund of Fiduciaria Alianza
- Interest Fund of Davivienda Brokers

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- Fonval Fund of Credicorp Capital
- Alianza Liquidity Fund of Alianza Valores
- Occivalor Fund of Casa de Bolsa
- Liquidity Fund Class C of BTG Pactual
- Income Liquidity Fund of Valores Bancolombia
- Superior Fund of Fiduciaria Davivienda
- Credifondo Fund of Helm Fiduciaria
- Occirenta Fund of Fiduciaria de Occidente
- Fiducuenta Fund of Fiduciaria Bancolombia

Additionally, the resources remain invested in savings or current accounts with special remuneration, which have no interest rate risks, as they are fixed-rates agreed with the Banks.

Meanwhile, financial obligations are exposed to the effects of fluctuations in market interest rates that affect their future cash flows. For this, the Companies periodically review the conditions of financial obligations to analyze whether hedges need to be replaced, prepaid or managed. 100% of the financial obligations are contracted without prepayment penalty clauses in order to have benefit in cases of drops of market rates.

Promigas contracts loans in pesos indexed to DTF; in addition, issues of ordinary bonds are indexed to the CPI. As of December 31, 2016, the rates of the financial debt consisted of 3% Libor, 12% DTF, and 86% CPI.

As for the consolidated financial debt as of December 31, it consisted of 15.2% Libor, 18% of DTF, 64% CPI, 2.3 IBR and 0.6% fixed rate.

The sensitivity of the net result of fluctuations of interest rates is detailed in the table below:

DTF fluctuation effects:

Variable	Scenario	Rate	Impact	Value
DTF	Low	5.64%	Net Profit	\$ 5,064
	Medium	6.64%	Net Profit	-
	High	7.64%	Net Profit	\$ (5,091)

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For the above sensitivity, we start from the medium scenario, which is the real scenario. For the low and high scenarios, a fluctuation of the devaluation in more or less 100 basic points is considered. The result will be reflected through profit or loss on the following periods.

CPI fluctuation effects:

Variable	Scenario	Rate	Impact	Value
CPI	Low	7.60%	Net Profit	\$ 14,355
	Medium	8.60%	Net Profit	-
	High	9.60%	Net Profit	\$ (14,272)

For the above sensitivity, we start from the medium scenario, which is the real scenario. For the low and high scenarios, a fluctuation of the devaluation in more or less 100 basic points with respect to the medium scenario.

According to the analysis discussed above, the methodology and assumptions used are still valid and have not been modified.

Promigas receives dividends from its gas distributor subsidiaries, which have revenues adjusted for CPI; therefore the business has a natural hedge against fluctuations that this variable may have.

Promigas and its subordinates use the resource investment mechanism to optimize their treasury strategies through Mutual Funds, the returns of which are product of the daily valuation of their portfolios at market price. These, can increase interest margins, but can also reduce them and generate losses if unexpected movements in the rate of such funds occur. The Companies monitor on a daily basis the balance of the money invested in Mutual Funds, in order to make decisions whether to transfer the resources to bank accounts in adverse events or keep them, considering that these investments are demand deposits and can be made available at any moment.

In addition, resources remain invested in savings accounts or current accounts with special remuneration, which do not have interest rate risk because they are fixed rates agreed with the banks.

In turn, financial obligations are contracted with prepayment clauses in order to have benefit in the event of market rate decreases.

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**5. DETERMINING FAIR VALUES**

Some of the Company and its subsidiaries' accounting policies and disclosures require fair value measurement of both financial and non-financial assets and liabilities.

The Company and its subsidiaries have established a control framework regarding the measurement of fair values. This includes the finance team, which has the overall responsibility for the supervision of all significant fair value measurements.

Fair value of assets and liabilities traded in active markets (such as financial assets in debt and equity securities and derivatives actively traded in securities exchange or interbank markets) is based on market prices quoted at the end of the trade on the reporting period closing.

An active market is a market where transactions for assets or liabilities are carried out with the required frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques permitted by the IFRS that are in line with those established by the Financial Superintendence. Promigas and its subsidiaries use a variety of methods and assume that they are based in market conditions existing on the closing date of each period. The valuation techniques used for forwards include the use of recent similar transactions in equal conditions, references to other substantially similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly implemented by market participants that make the most of market data and rely as little as possible on entity specific data. The fair value of non-current assets held for sale is determined by independent experts using the replacement cost method minus damages.

Promigas and its subsidiaries develop internal financial models to measure instruments that lack active markets, which are based on generally accepted valuation methods and techniques standardized for the different objects. Under this practice, Promigas has estimated the fair value of the financial asset that arises in pipeline concession agreements according to IFRIC 12 - Service Concession Arrangements, and in its estimate by not having observable market transactions or market information. Such markets must estimate the price of an ordered transaction to sell the asset or transfer the liability between market participants on the date of the measurement under current market conditions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and the valuation techniques used may not fully reflect every factor relevant to the positions of the Companies. Therefore, valuations are adjusted, if necessary, to allow additional factors, including model, liquidity and counterparty risks.

The fair value hierarchy has the following levels:

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- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level of the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined based on the lowest level input that is significant to the entire measurement of the fair value. For such purpose, the importance of an input is assessed with respect to the measurement of fair value in its entirety. If a measurement of fair value uses observable inputs that require significant adjustments based on unobservable inputs, such measurements is a Level 3 measurement. The evaluation of the importance of a particular input for the measurement of fair value in its entirety requires judgment, considering factors specific to the asset or liability.

Determining what constitutes “observable” requires significant judgment by Promigas and its subsidiaries. Promigas and its subsidiaries consider observable data any market data that is already available, that is distributed or updated regularly, that is reliable and verifiable, that has no property rights, and that is provided by independent sources that actively participate in the reference market.

**(a) Fair Value Measurements on a Recurring Basis**

Fair value measurements on a recurring basis are those that the IFRS require or allow in the statement of financial position at the end of each accounting period.

The following table analyzes, within the fair value hierarchy, the assets and liabilities (by class) of Promigas and its subsidiaries measured at fair value on a recurring basis as of:

	<u>December</u>		<u>June</u>	
	<u>Level 2</u>	<u>Level 3</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Hedging operations receivables	\$ 8,800,251	-	22,710,531	-
Debt securities	16,294,985	-	8,185,338	-
Equity instruments charged to profit and loss	159,263,145	-	126,058,835	-
Equity instruments with changes to OCI	5,696,476	-	5,710,112	-
Long-term financial assets debtors	-	2,072,674,463	-	1,978,679,808
Biological assets	-	1,520	-	6,298,366
	<u>\$ 190,054,857</u>	<u>2,072,675,983</u>	<u>162,664,816</u>	<u>1,984,978,174</u>
<b>Liabilities</b>				
Creditors for hedging liability position	\$ 1,840,013	-	892,018	-

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Promigas and its subsidiaries have no assets or liabilities categorized in Level 1, considering that for an asset or liability to be categorized in Level 1, its values must be based on quoted prices in active markets.

Financial instruments traded in non-active markets, but valued according to quoted market prices, broker quotes or alternative price sources supported by observable inputs, are categorized in Level 2. Derivatives from foreign currency hedging contracts are included. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, the valuations may be adjusted to reflect illiquidity or non-transferability, which are generally based on available market information.

When a price for an identical asset or liability is unobservable, an entity shall measure the fair value using another valuation technique that maximizes the use of relevant observable input data and minimizes the use of unobservable input data. Given that fair value is a market-based measurement, it is measured using assumptions that market participants would use to fix the price of the asset or liability, including risk assumptions. These financial instruments are categorized in Level 3. These are the financial assets recognized at fair value for the sale obligation of the residual interest of the infrastructure at the end of the concession agreements.

Assets reflected in the Company and its subsidiaries' statement of financial position correspond to the financial asset of the unconditional contractual right to receive from the Colombian State or from an entity under its supervision cash or other financial asset for the construction services of the pipelines and networks under concession by the end of the term of the concession agreements, the payment of which the State has little or no ability to avoid, as the agreement is enforceable by law. Promigas and its subsidiaries recognize an intangible asset by the consideration for the construction services, and the plantation project that Transmetano E.S.P. S.A. has classified as biological assets and that has been measured at fair value by independent experts.

Management has decided that the best option to measure the fair value of the financial asset is free discounted cash flow, as it reflects current market expectations on future amounts that constitute the fair value of the concession to be negotiated with the State, once completed or renewed.



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The assumptions for calculating the financial asset were:

- The financial asset is calculated considering the date of termination of the respective concession agreement.
- Promigas and some of its subsidiaries made proportional calculations for the completion of each current concession agreement.
- Only operating cash flows of these assets under concession were considered. Below are the components of the calculation:
  - Free cash flow generated exclusively by assets under concession
  - Concession expiry period
  - Perpetuity value of Free Cash Flow (FCF) for year n
  - Current value discounted of WACC residual value\*
  - Financial Revenue: Annual adjustment of the value of the financial asset

\* Nominal WACC (Weighted Average Cost of Capital) calculated under the CAPM, which is updated periodically.

Significant unobservable input data used for measuring the fair value of the financial asset for the pipelines under concession are: operating revenues, costs and expenses and investments pertaining exclusively to the assets under concession, and the WACC formula intended to take into account the sources of capital used and their share in the total capital of the Company, to determine the average cost of procuring equity capital resources and financial debt. Increases (decreases) in any of these input data considered independently would result in a fair value measurement significantly lower (greater). Generally, a change in the assumption used to project revenues is reflected accordingly in the measurement of the financial asset and with an opposite change in the assumption of costs and expenses.

Promigas and its subsidiaries periodically review the Level 3 valuations and consider the appropriateness of the inputs of the valuation model and the result of the valuation using several industry standardized valuation methods and techniques. In selecting the most appropriate valuation model, the Company and its subsidiaries conduct the tests once again and consider which are the results of the model that historically are more in line with actual market transactions.

For the periods ending December 31 and June 30, 2016, there was no transfer of assets or liabilities initially classified in Level 3.

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The following table indicates the movement of assets classified in Level 3, showing that there are no transfers between levels for the period ending June 30, 2016:

		Biological Assets	Financial Asset by Pipelines Under Concession
Balance as of December 2015	\$	5,360,901	1,891,721,980
Capitalized purchases or expenses (net)		25,892	-
Earnings included in profit and loss		911,573	86,957,828
Balance as of June 30 2016	\$	6,298,366	1,978,679,808
Transfers to properties, pipelines, plant and equipment		(6,355,690)	-
Capitalized purchases or expenses (net)		970,417	-
(Losses) earnings included in profit and loss		(911,573)	93,994,655
Balance as of December 2016	\$	1,520	2,072,674,463

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are integrated as follows:

	December			June		
	Third parties	Related parties	Total	Third parties	Related parties	Total
<b>National currency</b>						
Cash	557,891	-	557,891	1,333,980	-	1,333,980
Demand deposits in banks and other financial institutions (1)	104,885,398	26,268,619	131,154,017	96,991,063	34,211,430	131,202,493
Others	40,033	-	40,033	140,912	-	140,912
Cash in national currency	\$ 105,483,322	26,268,619	131,751,941	98,465,955	34,211,430	132,677,385
<b>Foreign currency</b>						
Cash	80,675	-	80,675	81,062	-	81,062
Demand deposits in banks and other financial institutions (2)	71,682,827	99,549	71,782,376	5,722,292	55,684	5,777,976
Cash in foreign currency	71,763,502	99,549	71,863,051	5,803,354	55,684	5,859,038
Cash and cash equivalents	\$ 177,246,824	26,368,168	203,614,992	104,269,309	34,267,114	138,536,423

(1) As of December 31 and June 30, 2016, they generate an average yield of 7.76% and 6.22% E.A., respectively.

(2) As of December 31 and June 30, 2016, it mainly includes the bank accounts and other financial entities in foreign currency held by Sociedad Portuaria El Cayao S.A. E.S.P., for \$71,228,898 and \$4,106,799, respectively.

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Below is a breakdown of the credit quality of the main financial institutions where the Company and its subsidiaries keep cash funds, as determined by independent risk rating agencies:

Credit Rating	December	June
AAA	\$ 178,791,485	109,142,676
AA+	13,453,077	14,479,970
A+	10,535,772	12,755,645
BBB+	156,059	600,128
N/A	-	2,050
	<u>\$ 202,936,393</u>	<u>136,980,469</u>

## 7. FINANCIAL ASSETS AT FAIR VALUE

The balance of financial assets at fair value is as follows:

	December	June
<b>Short-term</b>		
Debt instruments at fair value (1)	\$ 16,294,985	8,185,338
Equity instruments through profit or loss (2)	158,435,107	125,103,582
	<u>174,730,092</u>	<u>133,288,920</u>
Other accounts receivable at fair value (3)	8,800,251	22,710,531
	<u>\$ 183,530,343</u>	<u>155,999,451</u>
<b>Long-term</b>		
Equity instruments through profit or loss (2)	\$ 828,038	955,253
Equity instruments at fair value through OCI	5,696,476	5,710,112
Other accounts receivable at fair value (3)	2,072,674,463	1,978,679,808
	<u>\$ 2,079,198,977</u>	<u>1,985,345,173</u>

- (1) The increase mainly corresponds to certificates of deposit of \$7,771,604 held by Promisol S.A.S. at Banco Corpbanca, with maturity on February 6, 2017, at a 7.58% interest rate,.
- (2) Includes mainly investments in collective portfolios in trust companies. It includes the following specific purpose collective portfolios: The corresponding transport tax revenues, commercial trust constituted by Promioriente S.A. E.S.P. and the resources provided by the State through the Funds FAER, PRONE to Compañía Energética de Occidente S.A. E.S.P. for the construction of rural power works. In Promigas S.A. E.S.P. temporary investments are represented mainly by Mutual Funds where resources are maintained in order to optimize liquidity surpluses, and are valued at market prices, which are updated monthly according to profitability reported by their administrators. (Stockbrokers and Trusts). These funds provided an average return of 8.70% and 7.47% E.A. as of December 31 and June 30, 2016, respectively. All financial instruments currently held by the Company have a variable interest rate.

The credit rating, as determined by independent risk rating agencies, of the main counterparties in debt securities where the Company holds financial assets at fair value are AAA and AA+.

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- (3) Corresponds to the obligation of selling the networks and pipelines under concession to the Colombian State at the termination date of the agreements. In accordance with IFRIC 12 - Service Concession Arrangements, the Operator shall recognize a financial asset by the residual interest over the infrastructure insofar as it has an unconditional contractual right to receive from the grantor or from an entity under the latter's supervision, cash or other financial asset for the construction services, the payment of which the grantor has little or no ability to avoid, as the agreement is enforceable by law. According to IFRS 9 - Financial Instruments, financial assets are measured at fair value for each reported period. This measurement is based on the application of IFRS 13 - Fair Value Measurement.

Below is the detail of financial assets for each Company:

	December	June
Promigas S.A. E.S.P.	\$ 1,629,993,799	1,557,312,000
Transmetano E.S.P. S.A.	125,585,385	120,608,429
Surtigas S.A. E.S.P.	223,353,537	213,576,619
Promioriente S.A. E.S.P.	36,864,784	33,256,946
Gases de Occidente S.A. E.S.P.	56,876,958	53,925,814
	<u>\$ 2,072,674,463</u>	<u>1,978,679,808</u>

**8. DEBT SECURITIES**

As of December 31 and June 30, 2016, the balance of debt securities is as follows:

	December	June
<b>Short-term</b>		
Debt securities in local currency	\$ 22,810	23,600
Debt securities in foreign currency	482,245	468,454
	<u>\$ 505,055</u>	<u>492,054</u>
<b>Long-term</b>		
Debt securities in local currency (1)	\$ 47,228,435	48,770,643

- (1) As of December 31 and June 30, 2016, includes mainly a certificate of deposit issued by Valores Bancolombia worth \$47,054,362 and \$48,598,090, respectively. This certificate of deposit is a guarantee in favor of the Energy and Gas Regulatory Commission (CREG) by Sociedad Portuaria El Cayao S.A. E.S.P. for the execution of the construction project, management, operation and maintenance of the infrastructure that will provide the service of liquefied natural gas.

The credit rating, as determined by independent risk rating agencies, of the main counterparties in debt securities where the Company holds financial assets is AAA.

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As of December 31 and June 30, 2016, the Company and its subsidiaries do not show signs of debt security impairment.

Below is a summary of debt securities by maturity date:

	December	June
Over 1 month but less than 3 months	\$ -	469,974
Over 3 months but less than 1 year	47,559,417	48,620,170
Less than 1 year	47,559,417	49,090,144
Over 10 years	174,073	172,553
	<u>\$ 47,733,490</u>	<u>49,262,697</u>

**9. COMMERCIAL ACCOUNTS RECEIVABLE**

Detailed below are the balances of commercial accounts receivable:

	December			June		
	Third Parties	Related Entities	Total	Third Parties	Related Entities	Total
<b>Short-term</b>						
Accounts receivable gas transportation (1)	\$ 112,621,391	7,375,064	119,996,455	90,953,497	6,837,817	97,791,314
Accounts receivable gas distribution (2)	301,083,874	1,121,126	302,205,000	238,024,027	1,023,083	239,047,110
Accounts receivable energy trade and distribution (3)	144,538,060	-	144,538,060	139,503,110	-	139,503,110
Accounts receivable non-bank financing (4)	169,948,680	1,141,536	171,090,216	149,130,638	1,378,374	150,509,012
Accounts receivable finance lease (5)	51,332,337	-	51,332,337	-	-	-
Accounts receivable other services (6)	114,240,142	48,797	114,288,939	99,347,290	9,161	99,356,451
Doubtful debts	546,257	-	546,257	833,179	-	833,179
	<u>894,310,741</u>	<u>9,686,523</u>	<u>903,997,264</u>	<u>717,791,741</u>	<u>9,248,435</u>	<u>727,040,176</u>
Debtor impairment	(82,417,253)	-	(82,417,253)	(72,188,595)	-	(72,188,595)
	<u>\$ 811,893,488</u>	<u>9,686,523</u>	<u>821,580,011</u>	<u>645,603,146</u>	<u>9,248,435</u>	<u>654,851,581</u>
<b>Long-term</b>						
Accounts receivable gas distribution (2)	66,645,306	-	66,645,306	61,950,354	-	61,950,354
Accounts receivable other services (6)	118,173,870	-	118,173,870	119,494,240	-	119,494,240
Accounts receivable non-bank financing (4)	121,049,407	-	121,049,407	120,441,131	-	120,441,131
Accounts receivable finance lease (5)	1,175,255,171	-	1,175,255,171	-	-	-
	<u>1,481,123,754</u>	<u>-</u>	<u>1,481,123,754</u>	<u>301,885,725</u>	<u>-</u>	<u>301,885,725</u>
Debtor impairment	-	-	-	(25)	-	(25)
	<u>\$ 1,481,123,754</u>	<u>-</u>	<u>1,481,123,754</u>	<u>301,885,700</u>	<u>-</u>	<u>301,885,700</u>

(1) Includes accounts receivable for the gas transportation, distribution and trading services provided by Promigas and its subsidiaries.

(2) Represents accounts receivable for distribution and trade of energy in Gases del Occidente S.A. E.S.P.; its increase is due to subsidies granted to users by the Ministry of Mines. In addition, the company Surtigas S.A. E.S.P. shows an increase in the portfolio due to increased revenues.

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- (3) Made up of the user portfolio of Compañía Energética de Occidente S.A. E.S.P., and the increase is due to increased billing and refinancing by payment agreements.
- (4) Includes accounts receivable from users of natural gas with the "Brilla" business, whose portfolio ranges from 1 to 5 years at the maximum legal interest rate authorized by the Colombian Financial Superintendence.
- (5) Includes mainly accounts receivable of: Sociedad Portuaria El Cayao for \$1,145,728,106, for the finance lease to Grupo Térmico for the investment in a gas pipeline and a floating storage and regasification unit (FSRU), and Promisol S.A.S. for \$80,859,402, as a result of the start-up of the gas treatment plant for Canacol.
- (6) As of December 31 and June 30, 2016, includes the sale of materials, goods and services, workforce, installed meters, lease receivables, conversion kit, commissions, fees, connection fees, consultancies, project studies, review and installation of inspection workforce and other associated services in Promigas and its subordinates.

As of December 31 and June 30, 2016, there are no levies or restrictions on the balance of the debt account.

Below is the consolidated movement of the accounts receivable impairment:

	December	June
Initial Balance	\$ (72,188,620)	(74,637,633)
Impairment	(17,423,992)	(12,543,021)
Write-off	5,500,533	8,481,009
Recovery	1,694,826	1,024,590
Reclassification	-	5,486,435
Final balance	\$ <u>(82,417,253)</u>	<u>(72,188,620)</u>

Below is a summary of the years when long-term accounts will be collected:

Year	Value
2018	\$ 274,839,987
2019	164,181,817
2020	151,532,500
2021 onwards	890,569,450
	\$ <u>1,481,123,754</u>

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The composition by maturity of accounts receivable is as follows:

	December	June
Maturity 0 - 30 days	\$ 2,130,425,942	772,986,812
Maturity 31 - 90 days	95,215,880	163,954,346
Maturity 91 - 180 days	66,160,889	37,001,751
Maturity 181 - 360 days	47,720,664	14,485,365
Maturity over 360 days	45,597,643	40,497,627
	<u>\$ 2,385,121,018</u>	<u>1,028,925,901</u>

**10. OTHER ACCOUNTS RECEIVABLE**

Below is the composition of the balances of other accounts receivable as of December 31 and June 30, 2016:

	December			June		
	Third Parties	Related Entities	Total	Third Parties	Related Entities	Total
<b>Short-term</b>						
Granted loans	\$ 2,718,462	-	2,718,462	2,735,749	-	2,735,749
Prepayments made	198,305	-	198,305	17,369	-	17,369
Prepayments or credit balances	22,293,496	-	22,293,496	35,004,061	-	35,004,061
Legal deposit	162,712	-	162,712	173,319	-	173,319
Dividends receivable	30	-	30	227,664	-	227,664
Other debtors	14,609,246	3,070,598	17,679,844	19,859,827	7,362	19,867,189
	<u>\$ 39,982,251</u>	<u>3,070,598</u>	<u>43,052,849</u>	<u>58,017,989</u>	<u>7,362</u>	<u>58,025,351</u>
<b>Long-term</b>						
Granted loans	\$ 8,494,928	-	8,494,928	5,845,795	3,077,600	8,923,395
Other debtors	14,590,850	-	14,590,850	12,089,257	-	12,089,257
Deposits	48,430	-	48,430	48,429	-	48,429
	<u>\$ 23,134,208</u>	<u>-</u>	<u>23,134,208</u>	<u>17,983,481</u>	<u>3,077,600</u>	<u>21,061,081</u>

Below is a summary of the years when long-term accounts receivable will be collected:

Year	Value
2018	\$ 12,452,515
2019	6,918,213
2020	1,077,211
2021 onwards	2,686,269
	<u>\$ 23,134,208</u>

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## 11. INVENTORIES

Below is the composition of the balances of inventories:

	December	June
<b>Short-term</b>		
Goods in stock	\$ 63,530,332	24,410,380
Materials for the provision of services	14,990,688	16,297,172
Inventories in transit	898,299	-
Inventories held by third parties	14,473	5,656
	<u>79,433,792</u>	<u>40,713,208</u>
Impairment of inventories	(7,003,274)	(6,586,463)
	<u>\$ 72,430,518</u>	<u>34,126,745</u>
<b>Long-term</b>		
Materials for the provision of services	\$ 10,323,366	8,184,942
Impairment of inventories	(10,169)	(6,188)
	<u>\$ 10,313,197</u>	<u>8,178,754</u>

Below is the movement of impairment of inventories:

	Diciembre	Junio
Initial Balance	\$ (6.592.651)	(7.056.286)
Impairment	(464.352)	(1.439)
Write-off	43.560	-
Recovery	-	465.074
Final balance	<u>\$ (7.013.443)</u>	<u>(6.592.651)</u>

## 12. INVESTMENTS IN ASSOCIATES

## Identification and economic activity of affiliated companies

*Gas Natural de Lima y Callao S.A.C.* - Its corporate purpose is the distribution of natural gas, including the sale of equipment, equipment installation and maintenance, and the implementation of activities related to hydrocarbons and/or distribution. Its headquarters are in Lima Peru.

*Gases del Caribe S.A. E.S.P.* - It was incorporated according to Colombian law on November 25, 1966, and its corporate purpose is the purchase, storage, packaging and distribution of gas and hydrocarbon derivatives; the construction and operation of natural gas pipelines for industrial, commercial and home use, and the purchase of items, services and artifacts related to the sale and distribution of fuel gases and related products. The Company is headquartered in the city of Barranquilla, Colombia. Its legal existence expires on January 26, 2083.



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*E2 - Energía Eficiente S.A. E.S.P.* – Purchase, sale, production and trade of energy in any form, development or trade of products and/or services for managing risks related to the energy business, and provide comprehensive advisory services on the acquisition and use of energy. The Company is headquartered in the city of Barranquilla, Colombia. Its legal existence expires on August 6, 2104.

*Complejo Energético del Este S.A.* - Installation of an import and regasification terminal of Liquefied Natural Gas (LNG) in Dominican Republic territory, within the framework of the policies outlined by that country's government, and the trade and distribution of natural gas through networks or pipelines. The Company is headquartered in Panama City, Republic of Panama, it may be transferred to any other place within the territory of Panama.

*Antillan Gas Ltd* - Investment company incorporated pursuant to the laws of the British Virgin Islands in 2004, and registered in the National Register of Taxpayers of the Dominican Republic on February 12, 2014. Investment company with full authority to carry out or engage in any business or activity, perform acts or enter into any transaction, subject to the British Virgin Islands Business Companies Act of 2004, except for the following businesses: banking or trust, such as insurance or reinsurance companies; insurance broker or agent, company management, agent or registered office of companies incorporated in the British Virgin Islands or mutual funds, mutual fund manager or mutual fund administrator.

*Concentra en Inteligencia en Energía S.A.S.* – Manage and administer, for commercial purposes, information of the natural gas industry and/or other substitute energy sectors, including the corresponding provision of domiciliary public utility service of gas and its complementary activities. The Company is headquartered in Bogota D.C., Colombia. The term of the Company is indefinite.

Below is the detail of investments in affiliated companies:

Company	Economic Activity	Seat	Interest held	Book Value	Revenues Equity Method	OCI for the period
<b>December 2016</b>						
Gas Natural de Lima y Callao S.A.C.	Gas distribution	Peru	40.00%	\$ 354,823,129	29,098,443	9,883,107
Gases del Caribe S.A. E.S.P.	Gas distribution	Colombia	30.99%	218,431,080	19,618,032	76,622
Complejo Energético del Este S.A. (1)	LNG Regasification	Panama	33.00%	3,059,206	-	-
E2 - Energía Eficiente S.A. E.S.P.	Gas trading	Colombia	36.17%	6,677,746	791,766	-
Antillean Gas Ltda. (1)	LNG Regasification	Dominican	20.00%	968,035	-	-
Concentra en Inteligencia en Energía S.A.S.	LNG Regasification	Dominican	28.26%	556,763	78,300	-
				584,515,959	49,586,541	9,959,729
				(4,027,241)		
				\$ 580,488,718		
Impairment of investments in associates (1)						

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Company	Economic Activity	Seat	Interest held	Book Value	Revenues Equity Method	OCI for the period
<b>June 2016</b>						
Gas Natural de Lima y Callao S.A.C.	Gas distribution	Peru	40.00%	\$ 315,841,579	38,298,550	(28,769,186)
Gases del Caribe S.A. E.S.P.	Gas distribution	Colombia	30.99%	221,268,765	38,101,882	-
Complejo Energético del Este S.A. (1)	LNG Regasification	Panama	33.00%	3,059,206	-	-
E2 - Energía Eficiente S.A. E.S.P.	Gas trading	Colombia	36.17%	5,885,981	(183,580)	-
Antillean Gas Ltda. (1)	LNG Regasification	Dominican	20.00%	968,035	-	-
Concentra en Inteligencia en Energía S.A.S.	Services	Colombia	28.26%	478,463	92,172	-
				547,502,029	76,309,024	(28,769,186)
Impairment of investments in associates (1)				(3,059,206)		
				<u>\$ 544,442,823</u>		

(1) In the first half of 2016 impairment of Complejo Energético del Este S.A. in its entirety was recognized due to changes in market conditions and investment, and in the second half of 2016 Antillean Gas Ltda. was impaired.

In order to calculate and record the equity method, the Company recognizes the accounting principles to align the accounting policies with those of Promigas S.A. E.S.P.

The operations of investments in associates are as follows:

	December	June
Initial Balance	\$ 544,442,823	560,001,415
Additions and/or (withdrawals)	-	(4,389,042)
Dividends ordered by companies	(22,527,070)	(55,335,082)
Charity donations	(5,270)	(356,580)
Equity method through profit or loss	49,586,541	76,309,024
Equity method OCI associates	9,959,729	(28,769,186)
Equity method wealth tax	-	(344,811)
Impairment charged to expenses	(968,035)	(3,059,206)
Reclassification	-	386,291
Final balance	<u>\$ 580,488,718</u>	<u>544,442,823</u>

The dividends are as follows:

	December	June
Gases del Caribe S.A. E.S.P.	\$ 22,527,070	17,893,856
Gas Natural de Lima y Callao S.A.C.	-	37,441,226
	<u>\$ 22,527,070</u>	<u>55,335,082</u>

Below is the detail of the equity composition of investments in associates, recorded using the equity method:

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	Capital	Share placement premium	Reserves	Period Results	Un-appropriated retained earnings	Results for IFRS Adoption	Unrealized gains or losses (OCI)	Total equity
<b>December 2016</b>								
Gas Natural de Lima y Callao S.A.C.	\$ 474,434,154	-	35,454,572	75,345,025	61,226,806	-	240,596,879	887,057,436
Gases del Caribe S.A. E.S.P.	1,755,369	1,260,919	42,130,572	190,356,519	132,559,111	388,439,980	(19,660,412)	736,838,458
Complejo Energético del Este S.A.	8,222,580	-	(325,341)	(1,639)	-	-	-	7,895,600
E2 - Energía Eficiente S.A. E.S.P.	909,998	1,439,982	454,999	8,527,704	5,787,042	(721,671)	-	16,398,054
Concentra en Inteligencia en Energía S.A.S.	1,764,000	-	-	473,804	(310,986)	-	-	1,926,818
Antillan Gas Ltd.	<u>8,868,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,691,876)</u>	<u>-</u>	<u>-</u>	<u>(2,823,707)</u>
<b>June 2016</b>								
Gas Natural de Lima y Callao S.A.C.	\$ 474,434,154	-	35,454,572	95,746,375	(33,383,403)	-	217,351,860	789,603,558
Gases del Caribe S.A. E.S.P.	1,755,369	1,260,919	43,633,492	119,760,241	159,071,820	388,439,980	-	713,921,821
Complejo Energético del Este S.A.	8,222,580	-	(325,341)	(1,639)	-	-	-	7,895,600
E2 - Energía Eficiente S.A. E.S.P.	909,998	1,439,982	454,999	878,037	13,312,951	(721,671)	-	16,274,296
Concentra en Inteligencia en Energía S.A.S.	1,764,000	-	-	239,844	(310,986)	-	-	1,692,858
Antillan Gas Ltd.	<u>8,868,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,691,876)</u>	<u>-</u>	<u>-</u>	<u>(2,823,707)</u>

13. PROPERTY, PIPELINES, PLANT AND EQUIPMENT

Below is the detail by type of property, pipelines, plant and equipment:

	December			June		
	Cost	Accrued depreciation	Total	Cost	Accrued depreciation	Total
Lands	\$ 74,040,185	-	74,040,185	61,522,743	-	61,522,743
Construction in progress (1)	100,244,698	-	100,244,698	461,519,743	-	461,519,743
Machinery, plant and equipment in assembly (1)	94,753,551	-	94,753,551	89,923,405	-	89,923,405
Buildings	87,804,080	(6,679,648)	81,124,432	80,481,411	(6,004,857)	74,476,554
Pipelines and stations	465,829,064	(18,836,429)	446,992,635	440,229,044	(15,966,728)	424,262,316
Networks not under concession	358,039,593	(15,598,029)	342,441,564	357,271,013	(12,894,498)	344,376,515
Machinery and equipment	107,213,757	(33,817,781)	73,395,976	103,845,539	(29,876,008)	73,969,531
Furniture and fittings	9,085,792	(2,976,973)	6,108,819	8,061,756	(2,257,713)	5,804,043
Communication and computer equipment	23,042,685	(11,482,332)	11,560,353	18,215,643	(8,815,979)	9,399,664
Transportation equipment	25,091,675	(12,498,559)	12,593,116	20,711,446	(10,279,146)	10,432,300
	<u>1,345,145,080</u>	<u>(101,889,751)</u>	<u>1,243,255,329</u>	<u>1,641,781,743</u>	<u>(86,094,929)</u>	<u>1,555,686,814</u>
Impairment	<u>(1,451,423)</u>	<u>-</u>	<u>(1,451,423)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,343,693,657</u>	<u>(101,889,751)</u>	<u>1,241,803,906</u>	<u>1,641,781,743</u>	<u>(86,094,929)</u>	<u>1,555,686,814</u>

- 1) As of December 31 and June 30, 2016, it mainly includes the Canacol project for \$143,823,277. The decrease mainly corresponds to the commissioning of the regasification plant of Sociedad Portuaria El Cayao S.A. E.S.P., which translates into accounts receivable since it is a finance lease, see note 9.

PROMIGAS S.A. E.S.P.

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The movements of property, plant and equipment are presented below:

Cost	Lands	Constructions in progress	Machinery, plant and equipment in assembly	Goods in Warehouse	Buildings	Pipelines and stations	Networks not under concession	Machinery and Equipment	Furniture and Fittings	Communication and computer equipment	Transportation equipment	Total
Balance as of December 2015	\$ 53,988,314	181,903,318	63,367,422	14,313	76,854,366	439,866,374	353,582,634	103,208,058	7,883,427	17,317,674	19,549,325	1,317,535,225
Purchases	8,649,000	192,039,286	30,290,320	-	67,102	-	4,828,135	7,415,675	354,898	743,519	1,114,890	245,502,825
Capitalized interests	-	-	1,210,212	-	-	-	-	-	-	-	-	1,210,212
Withdrawals	-	(4,235,018)	-	-	-	-	-	(180,225)	(1,955)	(27,261)	(127,917)	(4,572,376)
Reclassification	(693,449)	100,356,637	(4,944,549)	(14,313)	3,744,284	362,670	(1,139,756)	(6,597,969)	(112,363)	218,705	237,959	91,417,856
Conversion adjustments	(421,122)	(8,544,480)	-	-	(184,341)	-	-	-	(62,251)	(36,994)	(62,811)	(9,311,999)
Balance as of June 2016	61,522,743	461,519,743	89,923,405	-	80,481,411	440,229,044	357,271,013	103,845,539	8,061,756	18,215,643	20,711,446	1,641,781,743
Purchases	5,783,107	162,445,441	32,265,361	-	1,742,522	-	1,414,226	3,605,251	903,425	3,537,984	4,396,862	216,094,179
Withdrawals	-	-	-	-	(1,043,261)	(3,515,812)	-	(24,155)	(12,974)	(242,519)	(83,103)	(4,921,824)
Capitalized interests	-	3,759,328	-	-	-	-	-	-	-	-	-	5,866,149
Reclassification	6,355,690	(535,567,437)	(29,542,036)	-	6,549,220	29,115,832	(645,646)	(212,878)	108,706	1,454,499	32,171	(522,351,879)
Conversion adjustments	378,645	8,087,623	-	-	74,188	-	-	-	24,879	77,078	34,299	8,676,712
Balance as of December 2016	\$ 74,040,185	100,244,698	94,753,551	-	87,804,080	465,829,064	358,039,593	107,213,757	9,085,792	23,042,685	25,091,675	1,345,145,080
Accrued Depreciation	-	-	-	-	(4,469,752)	(12,722,743)	(10,227,669)	(26,155,989)	(1,789,923)	(7,172,786)	(7,982,182)	(70,521,044)
Balance as of December 2015	\$ -	-	-	-	(1,619,742)	(3,243,985)	(2,660,465)	(4,301,171)	(510,453)	(1,748,634)	(2,187,594)	(16,272,044)
Depreciation	-	-	-	-	-	-	-	46,678	645	9,361	106,375	163,059
Withdrawals	-	-	-	-	(27,633)	-	(6,364)	534,915	36,801	70,616	(237,959)	370,376
Reclassification	-	-	-	-	112,270	-	-	(441)	5,217	25,464	22,214	164,724
Conversion adjustments	-	-	-	-	(6,004,857)	(15,966,728)	(12,894,498)	(29,876,008)	(2,257,713)	(8,815,979)	(10,279,146)	(86,094,929)
Balance as of June 2016	-	-	-	-	(1,618,949)	(3,240,115)	(2,703,531)	(3,928,146)	(589,031)	(1,670,258)	(2,166,696)	(15,916,726)
Depreciation	-	-	-	-	968,722	370,414	-	7,983	9,983	184,903	74,981	1,616,986
Withdrawals	-	-	-	-	22,471	-	-	(21,610)	(136,300)	(1,174,962)	(118,253)	(1,428,654)
Reclassification	-	-	-	-	(47,035)	-	-	-	(3,912)	(6,036)	(9,445)	(66,428)
Conversion adjustments	-	-	-	-	(6,679,648)	(18,836,429)	(15,598,029)	(33,817,781)	(2,976,973)	(11,482,332)	(12,498,559)	(101,889,751)
Balance as of December 2016	\$ -	-	-	-	-	-	-	-	-	-	-	(1,451,423)
Impairment December 2016	\$ -	-	-	-	-	-	-	-	-	-	-	-
Net balance	-	-	-	-	-	-	-	-	-	-	-	-
Balance as of June 2016	\$ 61,522,743	461,519,743	89,923,405	-	74,476,554	424,262,316	344,376,515	73,969,531	5,804,043	9,399,664	10,432,300	1,555,686,814
Balance as of December 2016	\$ 74,040,185	100,244,698	94,753,551	-	87,124,432	446,992,635	342,441,564	73,395,976	6,108,819	11,560,353	12,593,116	1,241,803,906

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The detail of property, plant and equipment acquired under finance lease is as follows:

	December	June
Networks not under concession	\$ 85,286,088	78,531,320
Machinery and equipment	16,598	-
Furniture and fittings	494,320	120,438
Communication and computer equipment	1,527,915	1,742,149
Transportation equipment	9,199,566	5,285,674

There are currently no restrictions or signs of impairments regarding property, pipelines, plant and equipment that have not been recorded.

## 14. CONCESSIONS

Detail of assets under concession:

	December			June		
	Cost	Accrued amortization	Total	Cost	Accrued amortization	Total
Lands under concession	\$ 3,963,319	-	3,963,319	3,963,319	-	3,963,319
Constructions in progress	233,221,352	-	233,221,352	183,705,442	-	183,705,442
Pipelines and networks	1,915,805,970	(210,197,768)	1,705,608,202	1,640,991,120	(164,735,287)	1,476,255,833
Machinery and equipment	222,704,795	(43,780,326)	178,924,469	165,926,638	(34,134,389)	131,792,249
	<u>\$ 2,375,695,436</u>	<u>(253,978,094)</u>	<u>2,121,717,342</u>	<u>1,994,586,519</u>	<u>(198,869,676)</u>	<u>1,795,716,843</u>

Below are the movements of assets under concession:

	Lands under Concession	Constr. in Progress under Concession	Pipelines and Networks under Concession	Machinery and Equipment under Concession	Concessions
<b>Cost</b>					
Balance as of December 2015	\$ 1,930,220	353,680,492	1,392,122,785	142,597,145	1,890,330,642
Purchases	1,375,000	175,969,880	35,639,418	-	212,984,298
Capitalized interests	-	85,154	253,993	-	339,147
Withdrawals	-	(192,987)	(760,763)	-	(953,750)
Reclassification	658,099	(345,837,097)	220,254,928	23,329,493	(101,594,577)
Conversion adjustments	-	-	(6,519,241)	-	(6,519,241)
Balance as of June 2016	<u>3,963,319</u>	<u>183,705,442</u>	<u>1,640,991,120</u>	<u>165,926,638</u>	<u>1,994,586,519</u>
Purchases	-	139,732,750	51,599,199	-	191,331,949
Capitalized interests	-	33,390,209	-	-	33,390,209
Withdrawals	-	(513,166)	(1,363,332)	(1,515,753)	(3,392,251)
Reclassification	-	(123,093,883)	221,879,006	58,293,910	157,079,033
Conversion adjustments	-	-	2,699,977	-	2,699,977
Balance as of December 2016	<u>\$ 3,963,319</u>	<u>233,221,352</u>	<u>1,915,805,970</u>	<u>222,704,795</u>	<u>2,375,695,436</u>

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		Lands under Concession	Constr. in Progress under Concession	Pipelines and Networks under Concession	Machinery and Equipment under Concession	Concessions
<b>Accrued Amortization</b>						
Balance as of December 2015	\$	-	-	(127,923,583)	(27,402,006)	(155,325,589)
Amortization		-	-	(37,424,801)	(6,408,810)	(43,833,611)
Withdrawals		-	-	33,581	-	33,581
Reclassification		-	-	579,516	(323,573)	255,943
Balance as of June 2016		-	-	(164,735,287)	(34,134,389)	(198,869,676)
Amortization		-	-	(43,349,867)	(10,327,958)	(53,677,825)
Withdrawals		-	-	58,289	685,578	743,867
Reclassification		-	-	(2,170,903)	(3,557)	(2,174,460)
Balance as of December 2016	\$	-	-	(210,197,768)	(43,780,326)	(253,978,094)
<b>Net Balance:</b>						
Balance as of June 2016	\$	3,963,319	183,705,442	1,476,255,833	131,792,249	1,795,716,843
Balance as of December 2016	\$	3,963,319	233,221,352	1,705,608,202	178,924,469	2,121,717,342

In the course of its operations, Promigas and its subsidiaries have the following existing concession agreements:

Section	Contract Date	Expiry Date	Remaining Term
<b>Transmetano E.S.P. S.A.</b>			
Trunk: Puerto Berrio - Medellín Branches: Municipalities of Puerto Berrio, Caracolí, Maceo, San Roque, Yolombó, Cisneros, Santo Domingo, Concepción, Don Matías y Guarne			
	25/08/1994	25/08/2044	27 years 7 months
<b>Promioriente S.A. E.S.P.</b>			
Bucaramanga –Payoa - Barrancabermeja			
	14/09/2015	14/09/2045	28 years y 8 months
<b>Gases de Occidente S.A. E.S.P.</b>			
Concession agreement for the construction, operation and maintenance of the distribution networks of the city of Cali			
	01/09/1997	31/08/2047	30 years y 8 months
<b>Gases del Pacífico S.A.C.</b>			
Distribution System of Natural Gas through Pipeline Network of Northern Peru Concession			
	31/10/2013	31/10/2034	17 years y 10 months
<b>Compañía Energética de Occidente S.A. E.S.P.</b>			
Service networks for distribution and trade of electricity in Cauca			
	08/01/2010	31/07/2035	18 years 7 months

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Section	Contract Date	Expiry Date	Remaining Term
<b>Promigas S.A. E.S.P.</b>			
La Guajira - Barranquilla of 20" and 24"	25/05/1976	25/05/2026	9 years y 4 months
La Guajira - Cartagena of 20" and 24"	16/09/1976	16/09/2026	9 years y 8 months
Baranoa	20/10/1988	20/10/2038	21 years y 9 months
Jobo - Tablón - Montelibano	20/10/1988	20/10/2038	21 years y 9 months
Cartagena - Montería	20/10/1988	20/10/2038	21 years y 9 months
Arjona	20/10/1988	20/10/2038	21 years y 9 months
San Onofre	17/11/1988	17/11/2038	21 years y 10 months
Sampués	13/04/1989	13/04/2039	22 years y 3 months
Chinú	19/06/1989	19/06/2039	22 years y 5 months
Sincelejo - Corozal	18/07/1990	18/07/2040	23 years y 6 months
El Difícil - Campo de la Cruz -Suan	04/10/1990	04/10/2040	23 years y 9 months
Galapa	04/10/1990	04/10/2040	23 years y 9 months
Ovejas - San Juan Nepo	04/10/1990	04/10/2040	23 years y 9 months
Sabanalarga	18/10/1990	18/10/2040	23 years y 9 months
Cerromatoso - Montelibano	27/10/1990	27/10/2040	23 years y 9 months
Trunk Municipality of Cerete	08/11/1990	08/11/2040	23 years y 10 months
Tolúviejo	19/11/1990	19/11/2040	23 years y 10 months
Barranquilla - Puerto Colombia	25/01/1991	25/01/2041	24 years y 0 months
Tolú	24/04/1991	24/04/2041	24 years y 3 months
Aracataca - Fundación	17/05/1991	17/05/2041	24 years y 4 months
Palmar - Varela	18/07/1991	18/07/2041	24 years y 6 months
Trunk a Ciénaga de Oro	18/07/1991	18/07/2041	24 years y 6 months
Trunk Magangué	01/08/1991	01/08/2041	24 years y 7 months
Sincé - Corozal	01/08/1991	01/08/2041	24 years y 7 months
Santo Tomas	23/06/1992	23/06/2042	25 years y 5 months
San Marcos	02/07/1992	02/07/2042	25 years y 6 months
Luruaco	21/04/1993	21/04/2043	26 years y 3 months
Manaure - Uribia	22/10/1993	22/10/2043	26 years y 9 months
Polonuevo	15/10/1994	15/10/2044	27 years y 9 months
Branches Department of Córdoba	08/11/1994	08/11/2044	27 years y 10 months
Branches Department La Guajira	08/11/1994	08/11/2044	27 years y 10 months
Branches Department Atlántico	09/11/1994	09/11/2044	27 years y 10 months
Branches Department Bolívar	09/11/1994	09/11/2044	27 years y 10 months
Branches Department Magdalena	09/11/1994	09/11/2044	27 years y 10 months
<b>Sociedad Portuaria El Cayao S.A. E.S.P.</b>			
Port Concession Agreement No. 001 2015	17/07/2015	17/07/2035	18 years 6 months

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<b>Surtigas S.A. E.S.P.</b>			
Cartagena	27/03/1984	27/03/2034	17 years 2 months
Arjona	08/03/1993	08/03/2043	26 years 2 months
Santa Rosa	29/04/1994	29/04/2044	27 years 3 months
San Jacinto	29/04/1994	29/04/2044	27 years 3 months
San Juan Nepomuceno	29/04/1994	29/04/2044	27 years 3 months
Turbana	29/04/1994	29/04/2044	27 years 3 months
María Labaja	29/04/1994	29/04/2044	27 years 3 months
Clemencia	29/04/1994	29/04/2044	27 years 3 months
Carmen de Bolívar	29/04/1994	29/04/2044	27 years 3 months
Talaigua Nuevo	06/12/1994	06/12/2044	27 years 11 months
El retiro	06/12/1994	06/12/2044	27 years 11 months
El limón	06/12/1994	06/12/2044	27 years 11 months
Talaigua viejo	06/12/1994	06/12/2044	27 years 11 months
Punta Cartagena	06/12/1994	06/12/2044	27 years 11 months
Mompox	06/12/1994	06/12/2044	27 years 11 months
Magangué	22/08/1995	22/08/2045	28 years 7 months
Juanarias	22/08/1995	22/08/2045	28 years 7 months
Camilo Torres	22/08/1995	22/08/2045	28 years 7 months
Turbaco	17/09/1991	17/09/2041	24 years 8 months
Sincelejo	05/09/1988	05/09/2038	21 years 8 months
Sampues	02/09/1992	02/09/2042	25 years 8 months
San Onofre	08/03/1993	08/03/2043	26 years 2 months
Corozal	21/02/1994	21/02/2044	27 years 1 months
Tolú	09/09/1994	09/09/2044	27 years 8 months
Tolú viejo	09/09/1994	09/09/2044	27 years 8 months
San Pedro	09/09/1994	09/09/2044	27 years 8 months
Morroa	09/09/1994	09/09/2044	27 years 8 months
Ovejas	09/09/1994	09/09/2044	27 years 8 months
Buenavista	10/10/1994	10/10/2044	27 years 9 months
Betulia	10/10/1994	10/10/2044	27 years 9 months
Sincé	10/10/1994	10/10/2044	27 years 9 months
Montería	30/08/1990	30/08/2040	23 years 7 months
Chinú	05/06/1992	05/06/2042	25 years 5 months
Ciénaga de Oro	08/09/1992	08/09/2042	25 years 8 months
San Andrés de Sotavento	28/04/1994	28/04/2044	27 years 3 months
Purísima	28/04/1994	28/04/2044	27 years 3 months
Chimá	28/04/1994	28/04/2044	27 years 3 months
Momil	28/04/1994	28/04/2044	27 years 3 months
Lorica	28/04/1994	28/04/2044	27 years 3 months
Planeta Rica	28/04/1994	28/04/2044	27 years 3 months
Montelibano	15/03/1993	15/03/2043	26 years 2 months
Cereté	28/04/1994	28/04/2044	27 years 3 months
Santa Catalina	29/04/1994	29/04/2044	27 years 3 months



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Except for the agreements of Gases del Pacífico S.A.C., Compañía Energética de Occidente S.A. E.S.P. and Sociedad Portuaria El Cayao S.A. E.S.P., the previous agreements are signed in accordance with Decree 1056/1953, the Petroleum Code (now in force), and other laws complementing it. Each concession with the Government was for 50 years, whereby the government gives Promigas and its subsidiaries the right to build, operate, maintain, exploit and manage a network of public utility pipelines for the transportation of hydrocarbons from La Guajira to major cities such as Barranquilla and Cartagena with trunk pipelines and regional pipelines to other populations in the Atlantic Coast. These agreements additionally have the following relevant elements:

- The agreement required the provision of construction services to develop, operate, maintain, exploit and manage a network of pipelines by Promigas and its subsidiaries. The term of the agreements is 50 years, renewable for 20 more years, without representing an automatic renewal, and the estimated useful life of the pipelines is 70 years, in current conditions and with minimal maintenance required. Additionally, since the concession agreements include construction, operation and maintenance activities, at the end of the contractual term, the pipeline shall be in optimum operating conditions to ensure the continued provision of public utilities beyond the contractual term of the concessions; therefore, it is concluded that the infrastructure is not used for its entire useful life. The extensions should proceed with the approval of the Ministry of Mines and Energy.
- Promigas and its subsidiaries have the right to recover the investment by charging the public service, which is regulated by the Government to set rates for transporting gas through the CREG.
- The remuneration of construction service is included in the fees fixed by the CREG, which are established considering the provisions of the Petroleum Code, as follows:
  - Amortization of invested capital in construction;
  - Maintenance, management and exploitation expenses; and
  - Fair earnings for entrepreneurs.

Such remuneration with the building service does not cover payments receivable when the Government exercises its right acquired in signing the agreement to buy transportation infrastructure. In fact, in establishing the remuneration of new investments or reinforcement of infrastructure, the regulated asset base is calculated through the concession on a five-year basis, according to the regulatory framework and in which the fair contractual selling price at the end of the concession is not taken into account, enabling Promigas and its subsidiaries to recover its investment by charging customers for services before fulfilling the obligation to sell the system to the State. That is, the final payment is not part of the repayments related to the investments in construction and maintenance.

- The agreement provides that Promigas is obligated to sell the pipeline only and exclusively to the Government as follows: i) 30 years after the agreement; ii) 50 years after terminating the agreement; and iii) at the end of each extension, if any. Therefore, the Government shall always have the right to purchase the infrastructure at the time that it sees fit, without implying that it has an option of absolute waiver of a payment obligation, but otherwise that it has the ability to choose when to make the payment. Neither party shall have the option of waiving the terms of the agreement with respect to the exercise of the right of purchase by the Government and the obligation to sell by Promigas and its subsidiaries.

Regarding the above obligation, the Government and Promigas and its subsidiaries shall agree the price of the pipeline and only in case of dispute shall the fair price be fixed by a third party.

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Contract law and the relevant contractual obligation exist because of a transaction or event that has happened in the past; in the case of Promigas and its subsidiaries, the execution of the concession agreement, which sets out the mandatory sale of the infrastructure to the Government at a fair price at the end of the concession agreement, produces clear economic consequences that the Government, as party to the agreement, has little or no ability to prevent, as the agreement is enforceable by law.

From the above it follows that, for each concession, Promigas and its subsidiaries is facing a significant residual interest in the pipeline infrastructure and on which it has acknowledged having a right represented in a financial asset by the obligation to sell the infrastructure to the Government, the measurement of which being at fair value.

- Promigas and its subsidiaries may not assign or transfer this Agreement, in whole or in part, to any natural or juridical person without prior approval by the Government, which, at its discretion, can approve or deny it without being obligated to provide the reasons for its determination.

***Concession for the Provision of Electric Power***

Compañía Energética de Occidente S.A.S. E.S.P. (CEO) was incorporated for the purpose of assuming at its own risk and expense the administrative, operational, technical and commercial management, the investment, expansion of coverage, reconditioning and preventive and corrective maintenance of the infrastructure and other activities required for the provision of electric power distribution and trading services in the Department of Cauca. The execution of the Management Agreement was on August 1, 2010, and has a 25-year term.

For the development of the purpose of the agreement, CEO received as lease the assets and possession and use of the infrastructure for the distribution and trade of public services. Upon termination of the management agreement for whatever reason, the infrastructure and assets owned by CEO will be transferred without any consideration to Centrales Eléctricas del Cauca S.A. (Cedelca), the counterparty to the management agreement, in which the National Government has shareholding interest.

CEO, as manager, shall comply with the law and regulations regarding subsidies to lower-income strata and solidarity contribution.

In signing the agreement CEO has also agreed to pay and invest in the following:

- a) Monthly and during the contract term the sum of \$887,000 plus VAT. These payments shall be adjusted on January 1 of each calendar year, according to the CPI variation of the previous year between January 1 and December 31, as consideration for the use of the infrastructure.
- b) With the execution of the agreement, constituted rights worth \$44,000,000 and purchase of assets for \$ 46,236,194 payable to Cedelca S.A.
- c) CEO has agreed to develop an investment plan, understanding such investments as those made in non-current assets (tangible or intangible) that shall serve for the expansion, replacement and improvement of the infrastructure throughout the 25-year period, worth \$328,875,000.

For this agreement, CEO, acting as operator, applied the intangible asset model according to IFRIC 12 – Service Concession Agreements, considering that the compensation mechanism will be realized by charging the use of the infrastructure, even though, as Operator, it has no obligation to build but to

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make improvements to the infrastructure, which are recognized as they are performed as an intangible asset measured at cost.

In addition, CEO is also contractually obligated to perform corrective maintenance as part of the contractually defined investment, and recognized as part of the intangible asset.

***Port Consideration Concession***

Sociedad Portuaria el Cayao S.A. E.S.P. is in charge of running the first liquefied natural gas (LNG) regasification plant in Colombia, operated by a Floating Storage Regasification Unit (FSRU), since December 2016. For this purpose, a Port Concession agreement was entered into with the National Infrastructure Agency (ANI, for its Spanish abbreviation), which grants the entity the right to build, operate and maintain a port terminal. This was evaluated under the scope of IFRIC 12 – Service Concession Agreements, thus recognizing an intangible asset for its right to charge rates to users. In accordance with the reversal clause of the same agreement, this gas pipeline will be assigned free of charge and in an operational state at the end of the agreement.

***Concession in Peru***

By Supreme Resolution No. 067-2013-EM published on October 18, 2013, the Concession of the Natural Gas Distribution System was granted by Red de Ductos de la Concesión Norte to Gases del Pacífico S.A.C., comprising the following regions: Lambayeque, La Libertad, Ancash and Cajamarca; under the terms and conditions detailed in the Concession Agreement. The main issues set out in the agreement are the following:

- The term of the Concession Agreement is 21 years from the closing date (subject to extension of up to 60 years); however, by document No. 981-2016 MEM/DGH dated June 1, 2016, the General Hydrocarbons Directorate (hereinafter DGH) submitted Technical-Legal Report No. 011- 2016-MEM/DGH-DNH-DGGN, which specifies that the Concession's operating term is 19 years from the Commercial Operation (POC).
- The Company will deliver an irrevocable, unconditional, joint-liability letter of guarantee of automatic performance, without exclusion benefit, which must be issued by a bank for US \$20,000,000, with coverage from the closing date to 60 days after compliance with the First Connections Plan. After such date, the letter of guarantee must be for US \$3,000,000. During the term of the Concession Agreement, the Company will be the owner of the Assets Under Concession, which will be transferred to the Concessionaire at the end of the Concession Agreement.
- The Company may assign its contractual position in the Concession Agreement, which shall be total, including all rights and obligations.

**Additional Information Required for Concession Agreements Currently Under Construction**

Below is the detail of the main revenues and costs incurred under concession agreements still under construction:

**Cumulative Revenues Capitalized as Intangible Assets in the Income Statement**

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Balance as of December 2015	\$	181,631,711
Accruals for the period of revenues from concession agreements		267,789,833
Balance as of June 2016		449,421,544
Accruals for the period of revenues from concession agreements		315,228,011
Balance as of December 2016	\$	764,649,555

## Cumulative Costs Incurred in the Concession Recorded in the Income Statement

Balance as of December 2015	\$	181,631,711
Construction costs incurred in the period		267,789,833
Balance as of June 2016		449,421,544
Construction costs incurred in the period		315,228,011
Balance as of December 2016	\$	764,649,555

Promigas and its subsidiaries recognize, only for the pipelines under concession, revenues and costs in accordance with IAS 11 - Construction Contracts, taking into account the stage of completion of the construction. Revenues are measured at the fair value of the consideration received or receivable, which is very close to the costs incurred.

As of and December 31 and June 30, 2016, the Company and its subsidiaries had no contingent assets under revenues receivable caused by a contractual dispute in a pipeline construction, other than a recognition rate. Nor did the Company have any contingent liabilities under fines or penalties imposed by the Government in the performance of the concession agreement for possible contractual breaches.

## 15. GOODWILL

Goodwill generated by the purchase of companies is detailed below:

	December	June
Gas Natural de Lima y Callao S.A.C.	\$ 20,912,996	20,912,996
Compañía Energética de Occidente S.A.S. E.S.P.	448,207	448,207
Gases de Occidente S.A. E.S.P.	65,577,389	65,577,389
Promioriente S.A. E.S.P.	2,845,365	2,845,365
Promisol S.A.S.	91,501	91,501
Surtidora de Gas del Caribe S.A. E.S.P.	35,414,936	35,414,936
Transmetano E.S.P. S.A.	921,966	921,966
Sociedad Portuaria El Cayao S.A. E.S.P.	329,486	329,486
Transoccidente S.A. E.S.P.	234,352	234,352
Enercolsa S.A.S.	2,042,727	2,042,727
	\$ 128,818,925	128,818,925

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As of December 31 and June 30, 2016, a financial analysis of the results of each company was performed in order to monitor financial soundness indicators that reflect whether there has been any business impairment. To determine whether goodwill impairment has occurred, the following criteria were evaluated:

- a. Significant decrease in the fair value of a long-term asset or cash-generating unit (CGU).
- b. Significant adverse changes in the way in which the long-term asset is being used or in its physical condition.
- c. Adverse change in legal factors or in the business environment that may affect the value of the asset.
- d. Cost accumulation much higher than originally expected in the acquisition or construction the asset.
- e. A current period or a history of operating losses in the cash movement involving ongoing losses.
- f. A highly likely current expectation that a long-term asset will be sold or derecognized before its estimated useful life.

No changes or events were found indicating non-recoverability of the recognized goodwill. In addition, the Company performed an impairment test at this time and no deterioration was evident.

## 16. OTHER INTANGIBLE ASSETS

Below is the detail of other intangible assets:

	December			June		
	Cost	Accrued Amortization	Total	Cost	Accrued Amortization	Total
Software	\$ 84,722,010	(25,089,431)	59,632,579	81,403,013	(20,440,502)	60,962,511
Rights	-	-	-	11,464,820	(238,287)	11,226,533
Other intangibles	8,533,061	(982,242)	7,550,819	6,572,654	(811,870)	5,760,784
	<u>\$ 93,255,071</u>	<u>(26,071,673)</u>	<u>67,183,398</u>	<u>99,440,487</u>	<u>(21,490,659)</u>	<u>77,949,828</u>

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Below is the movement of intangible assets:

	December	June
<b>Cost</b>		
Initial Balance	\$ 99,440,487	94,333,749
Purchases	4,526,507	3,592,872
Withdrawals	(308,241)	-
Reclassification	(10,876,850)	2,713,064
Conversion adjustment	473,168	(1,199,198)
Final Balance	<u>\$ 93,255,071</u>	<u>99,440,487</u>
<b>Accrued Amortization</b>		
Initial Balance	\$ (21,490,659)	(13,430,829)
Amortization	(5,125,096)	(5,129,707)
Withdrawals	289,775	-
Reclassification	263,769	(2,942,927)
Conversion adjustment	(9,462)	12,804
Final Balance	<u>\$ (26,071,673)</u>	<u>(21,490,659)</u>

## 17. DEFERRED TAX

Below is the detail of the deferred income tax asset and liability:

	December	June
Deferred tax assets	\$ 52,593,939	48,634,209
Deferred tax liabilities	<u>548,133,539</u>	<u>570,340,711</u>
Net deferred tax	<u>\$ (495,539,600)</u>	<u>(521,706,502)</u>

Below is the detail of the movement of deferred income tax:

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	December 2015	Credited (debited) to profit and loss	Credited (debited) to OCI	OCI conversion adjustment	June 2016	Credited (debited) to profit and loss	Credited (debited) to OCI	OCI conversion adjustment	December 2016
Valuation of fixed income investment	\$ 6,904	(6,904)	-	-	-	-	-	-	-
Provision credit portfolio	18,168,954	(13,159,579)	-	-	5,009,375	4,407,340	-	-	9,416,715
Concession agreements	9,944,952	(9,944,952)	-	-	-	-	-	-	-
Biological asset	343	-	-	-	343	(343)	-	-	-
Fiscal losses	13,246,873	(5,296,004)	-	-	7,950,869	2,637,560	-	-	10,588,429
Excess of presumptive income	43,646	-	-	-	43,646	15,036	-	-	58,682
Non-deductible liability provisions	4,343,672	3,517,199	-	-	7,860,871	(3,825,729)	-	-	4,035,142
Difference between accounting and tax values of property, plant and Equipment	15,714,915	(13,330,074)	-	-	2,384,841	252,066,285	-	-	254,451,126
Provision of investment commitment	54,332,171	6,355,280	-	-	60,687,451	(8,591,656)	-	-	52,095,795
Employee benefits	835,014	949,231	-	-	1,784,245	(2,201,090)	186,975	-	(229,870)
Valuation of derivatives	3,829,089	-	(3,829,089)	-	-	203,681	-	-	203,681
Goodwill	6,946,792	(6,946,792)	-	-	-	-	-	-	-
Others	36,112,531	3,094,579	493,537	-	39,700,647	(27,814,169)	-	-	11,886,478
Financial asset	(432,250,350)	(13,180,894)	-	-	(445,431,244)	17,517,730	-	-	(427,913,514)
Valuation of fixed income investment	(73,774,386)	58,124,100	1,293,887	-	(14,356,399)	(2,004,160)	(392,716)	-	(16,753,275)
IAS 27 application adjustment	57,854,330	(57,854,330)	-	-	-	-	-	-	-
Credit portfolio	(5,885,969)	5,298,473	-	-	(587,496)	(17,081,810)	-	-	(17,669,306)
Accounts Receivable	-	-	-	-	-	(239,458,676)	-	-	(239,458,676)
Cost of property, plant and equipment	(84,864,929)	6,581,616	-	-	(78,283,313)	20,626,006	-	-	(57,657,307)
Cost of intangible assets	(15,962,708)	(3,549,345)	-	-	(19,512,053)	(73,852,678)	-	-	(93,364,731)
Intangibles under concession agreement	(90,052,826)	24,176,748	-	-	(65,876,078)	85,527,394	-	-	19,651,316
Goodwill	(9,898,545)	6,445,029	-	-	(3,453,516)	854,595	-	-	(2,598,921)
Conversion effect on deferred tax account Gases del Pacifico S.A.C.	-	-	-	(610,009)	(610,009)	-	-	246,771	(363,238)
Valuation of derivative instruments	(657,655)	-	(2,202,707)	-	(2,860,362)	-	409,174	-	(2,451,188)
Others	(5,301,323)	(3,382,697)	(7,474,300)	-	(16,158,320)	10,815,531	5,875,851	-	533,062
	\$ (497,268,505)	(12,109,316)	(11,718,672)	(610,009)	(521,706,502)	19,840,847	6,079,284	246,771	(495,539,600)

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Income Tax:

a) Income Tax:

The Company and its subsidiaries are subject to income tax at a 25% rate as of December 31 and June 30, 2016, applicable to the higher value of either net income or presumptive income. The presumptive rate is equal to 3% of the previous year's net equity. Subsidiaries Gases del Pacífico S.A.C. and Gases del Norte del Perú S.A.C. are subject to income tax at a 30% rate as of December 31 and June 30, 2016; Zonagen S.A.S. is subject to income tax at a 15% rate as of December 31 and June 30, 2016.

The settlement made over the tax base for determining this tax has some differences with respect to the settlement made over the income tax calculated by ordinary income.

As of December 31 and June 30, 2016, Promigas and its subsidiaries, with the exception of Zonagen S.A.S., calculated and recorded provisions for the income tax taking as base the net taxable income, which considers some adjustments to the book profit. In addition, as of December 31 and June 30, 2016, Promioriente S.A. E.S.P. calculated and recorded provisions for the income tax taking as base the presumptive income.

Taxable years 2015 and 2014 are subject to review by the tax authorities of Promigas, Compañía Energética de Occidente S.A.S. E.S.P., Gases de Occidente S.A. E.S.P., Surtigas S.A. E.S.P., Zonagen S.A.S., Transmetano E.S.P. S.A., Transoccidente S.A. E.S.P. and Promisol S.A.S. For Promioriente S.A. E.S.P., in addition to taxable years 2015 and 2014, taxable years 2011, 2012 and 2013 are also subject to review. Additional taxes are not expected in the event of an inspection.

On February 4, 2009, Promigas entered into a Legal Stability Agreement with the Nation – Ministry of Mines and Energy, whereby it agrees to build a pipeline and other transportation facilities amounting to \$77,263,585, over a seven-(7)-year term. The contract term is twenty (20) years, during which the Nation, as consideration, guarantees Promigas the legal stability on certain provisions of the Tax Code. Among the benefits as of December 31 and June 30, 2016, there is the deduction of productive real fixed assets for \$4,879,702 and \$80,788,802, respectively.

As of December 31 and June 30, 2016, the Companies had no accrued fiscal loss or excess presumptive income over ordinary income, except for Zonagen S.A.S., and Gases del Pacífico S.A.C., whose fiscal losses and excess presumptive rate over net income amount to \$38,253,199 and \$6,097,788, respectively. Excesses expire in 2017 and fiscal losses have no expiry, as they were caused after 2007.

b) Income Tax for Equality (CREE):

The Company and its subsidiaries are subject to the income tax for equality (CREE) at a 9% rate as of December 31 and June 30, 2016, applicable to the higher value of either net income or presumptive income. The presumptive rate is equal to 3% of the previous year's net equity. Subsidiaries Zonagen S.A.S., Gases del Pacífico S.A.C. and Gases del Norte del Perú S.A.C. are not subject to income tax CREE at a 30% rate as of December 31 and June 30, 2016.

The settlement made over the tax base for determining this tax has some differences with respect to the settlement made over the income tax calculated by ordinary income.



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As of December 31 and June 30, 2016, the Company and its subsidiaries calculated and recorded provisions for the income tax for equality (CREE) taking as base the net taxable income, which considers some adjustments to the book profit.

c) Below is the detail of income tax expense for the half-years ending December 31 and June 30, 2016:

	December	June
Current Income Tax	\$ 77,356,107	66,723,420
CREE Tax	28,999,779	21,242,602
CREE Surcharge	20,379,666	19,953,230
	<u>126,735,552</u>	<u>107,919,252</u>
Income Tax Previous Periods	(104,685)	452,955
CREE Tax Previous Periods	(152,643)	326,445
Net Deferred Taxes	<u>(19,840,847)</u>	<u>12,109,316</u>
	<u>\$ 106,637,377</u>	<u>120,807,968</u>

d) Below is the reconciliation of the effective rate for the half-years ending December 31 and June 30, 2016:

	December	%	June	%
Earnings before income tax	\$ 418,454,038		457,080,083	
Expense of theoretical tax calculated based on the current tax rate	167,381,615	40.00%	182,832,034	40.00%
Non-deductible expenses	12,438,621	2.97%	16,995,032	3.72%
Excesses of Presumptive income that does not generate deferred tax	-		-	0.00%
Revenues from equity method	(19,834,615)	(4.74%)	(30,523,610)	(6.68%)
Interests and other untaxed revenues	(12,597,891)	(3.01%)	(6,274,984)	(1.37%)
Exempt income	(1,509,520)	(0.36%)	(114,816)	(0.03%)
Deduction for investment in science and technology	(566,062)	(0.14%)	-	
Deductions with different rates for CREE	95,198	0.02%	-	0.00%
Tax benefit on acquisition of productive assets	(1,219,925)	(0.29%)	(20,197,200)	(4.42%)
Subsidiary earnings in countries with different tax rates	1,002,037	0.24%	-	0.00%
Tax rate change adjustment	(12,440,527)	(2.97%)	-	0.00%
Effect on deferred tax due to changes in tax rates on concessions	(26,154,717)	(6.25%)	(21,606,418)	(4.73%)
Effect on income tax due to adjustments in previous periods	735	0.00%	180,292	0.04%
Other items	42,428	0.01%	(482,362)	(0.11%)
Total period tax expense	<u>\$ 106,637,377</u>	<u>25.48%</u>	<u>120,807,968</u>	<u>26.43%</u>

e) Wealth Tax:

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Pursuant to the provisions of Act 1739/2014, for the years 2015, 2016 and 2017, the Company shall be obligated to settle a wealth tax equal to 1.15%, 1.0% and 0.40%, respectively. This law provides that for accounting purposes in Colombia such tax may be recorded against equity reserves. The Company and its subsidiaries recognized a wealth tax for \$10,719,185 recorded against the equity reserves account, except for Sociedad Portuaria El Cayao S.A. E.S.P., which recorded the value affecting the income statement, as it had no equity reserves for such record worth \$163,535.

f) **Transfer Pricing**

Pursuant to Acts 788/2002 and 863/2003, Promigas and Surtigas S.A. E.S.P. prepared the last transfer pricing assessment over transactions with related entities abroad in 2015. The assessment did not give rise to adjustments affecting tax income, costs or expenses of the Company. The Company must conduct a transfer pricing assessment for 2016 in 2017; however, no significant changes are expected with respect to the previous year.

**Tax Reform**

On December 29, 2016, Act 1819/2016 was passed, whereby new tax rules are introduced, the most relevant aspects of which are the following:

- As of 2017, the income tax for equality CREE is revoked and the income and complementary tax is unified. The applicable rates will be 34% in 2017 and 33% in 2018 and 2019 with a corresponding surcharge of 6% in 2017 and 4% in 2018 applicable when the taxable base is greater than or equal to \$800 million pesos; such surcharge will not apply for 2019.
- The percentage of presumptive income is increased to 3.5%, which will continue being settled on net worth.
- The Colombian Financial Reporting Standards (CFRS) would be the basic rules used to determine the taxable base for the income tax, but the reconciliations will continue to be managed for those specific cases where accounting treatments have no incidence on the income tax.
- The Peso was determined as functional currency for tax purposes.
- The tax system is modified for profits generated as of 2017, to be drawn as dividends, for which both the company and the shareholder will be taxed. For profits that are "untaxed," according to articles 48 and 49 of the Tax Code, the following rates shall be applied, considering the type of beneficiary:
  - Marginal rates between 0%, 5% and 10% in the payment or account credits to resident natural persons.
  - 5% fee on payment or account credit to nonresidents, foreign companies and branch offices of foreign companies.

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- The payment or account credit made to national companies will continue to be considered revenues that do not qualify as taxable income or occasional earnings.

"Taxable" profits will initially be subject to a 35% tax, and once this tax is reduced, the rates of 0%, 5% and 10% will be applied to resident natural persons, and 5% to non-resident natural persons, foreign companies and branch offices of foreign companies.

National companies must incorporate such rates in their income tax return statement of the payment or account credit, being thereby taxed at the current rate.

- Tax losses may only be offset against the net income obtained within the following 12 taxable periods and the possibility of adjusting the tax credits derived from excess of presumptive income and tax losses is eliminated. The value of tax losses and excess presumptive income generated before 2017 on the income and complementary tax and/or income tax for equality CREE will be proportionally offset and will not have a time limit.
- The general term of the tax returns was fixed at three (3) years. For entities subject to transfer prices, the term will be six (6) years, which applies also in the case of tax returns where tax losses are offset. The term of the tax returns where tax losses are generated will be equal to the time provided to offset them, i.e., twelve (12) years; however, if the taxpayer offsets the loss within the final two years, the term shall be extended for three (3) more years from such offset with respect to the tax return where said loss was settled, so the period for inspection could be 15 years.
- The rates of the withholding tax for payments abroad are modified, fixed at 15% for capital and labor income, consulting, technical services, technical assistance, payments to parent companies for management activities, financial returns, among others. The rate corresponding to 33% of 80% of the payment or account credit for the exploitation of computer programs is maintained.
- In terms of sales tax, the general rate was modified from 16% to 19% and the taxable event was modified, including the sale or assignment of rights on intangible assets associated with industrial property and services provided from abroad. For this purpose, services provided and intangibles acquired or licensed from abroad shall be understood to be provided, acquired or licensed on national territory when the direct beneficiary or recipient has his fiscal residence, domicile, permanent establishment or seat of his economic activity on national territory.

**18. FINANCIAL OBLIGATIONS**

Below is a summary of the financial obligations obtained by Promigas and its subsidiaries as of December 31 and June 30, 2016, for the essential purpose of financing operations and investment plans:

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December

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June

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31 AND JUNE 30, 2016

(Expressed in thousands of Colombian Pesos, unless otherwise stated)

	Third Parties	Related Entities	Total	Third Parties	Related Entities	Total
<b>Short-term</b>						
Loans in foreign currency	\$ 110,751,584	-	110,751,584	184,283,391	-	184,283,391
Loans in local currency	196,058,775	102,230,989	298,289,764	88,438,678	85,731,645	174,170,323
Leases (1)	94,410,387	74,775	94,485,162	40,932,513	196,797	41,129,310
Interest payable	11,998,049	1,940,212	13,938,261	11,662,965	2,210,037	13,873,002
	<u>413,218,795</u>	<u>104,245,976</u>	<u>517,464,771</u>	<u>325,317,547</u>	<u>88,138,479</u>	<u>413,456,026</u>
<b>Long-term</b>						
Loans in foreign currency (2)	460,932,767	-	460,932,767	198,513,476	-	198,513,476
Loans in local currency	503,019,742	84,699,687	587,719,429	697,399,043	114,850,648	812,249,691
Leases (1)	955,458,954	-	955,458,954	173,652,402	-	173,652,402
	<u>\$1,919,411,463</u>	<u>84,699,687</u>	<u>2,004,111,150</u>	<u>1,069,564,921</u>	<u>114,850,648</u>	<u>1,184,415,569</u>

(1) During the second half of 2016 Sociedad Portuaria El Cayao S.A. E.S.P. acquired a long-term finance lease for the FSRU (Floating Storage Regasification Unit) for \$852,178,617.

(2) Includes new loans obtained for \$266,438,787 by Sociedad Portuaria El Cayao S.A. E.S.P., intended to cover commitments acquired by the entry for operation of its ordinary activities.

As of December 31 and June 30, 2016, the financial obligations of Promigas and its subsidiaries are supported with signed promissory notes and assets acquired on lease.

Below is the detail of loans obtained by Promigas and its subsidiaries from financial entities:

	December	June
<b>Short-term</b>		
Loans in foreign currency		
Bancolombia	\$ 17,296,578	17,241,167
Davivienda	43,098,073	20,413,050
Corpbanca	-	72,903,750
Banco BBVA	9,002,130	-
Baru Investment	41,354,803	73,725,424
	<u>110,751,584</u>	<u>184,283,391</u>
Loans in local currency		
Banco Davivienda	60,087,391	22,287,391
Bancolombia	5,413,673	5,000,000
Banco de Bogotá	69,301,923	60,800,235
Banco Corpbanca	7,200,000	6,000,000
Helm Bank	3,034,296	3,034,296
Citibank - Colombia	30,000,000	9,000,000
GNB Sudameris	1,213,773	1,213,773
Banco BBVA	38,581,381	18,000,000
Banco AV Villas	38,997,656	39,000,000
Commercial Banking	30,007,100	-
Banco de Crédito del Perú	14,452,571	9,834,628
	<u>298,289,764</u>	<u>174,170,323</u>
Lease agreements		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31 AND JUNE 30, 2016

(Expressed in thousands of Colombian Pesos, unless otherwise stated)

	December	June
Leasing Bancolombia	32,814,004	36,969,028
Leasing de Occidente	74,775	196,797
Vehicle leases	3,321,809	3,842,626
Corpbanca	31,571	120,859
Hoegh LNG	58,243,003	-
	<u>94,485,162</u>	<u>41,129,310</u>
Interests payable	13,938,261	13,873,002
	<u>\$ 517,464,771</u>	<u>413,456,026</u>
<b>Long-term</b>		
Loans in foreign currency		
Bancolombia	\$ 114,633,565	119,710,558
Davivienda	144,282,629	14,580,750
Corpbanca	150,935,696	14,580,750
Banco GNB Sudameris	25,205,964	24,495,660
Banks abroad	25,874,913	25,145,758
	<u>460,932,767</u>	<u>198,513,476</u>
Loans in local currency		
Banco Av villas	25,000,000	25,000,000
Banco Davivienda	154,159,414	213,203,113
Corpbanca	46,757,214	78,274,362
Bancolombia	98,600,498	193,149,982
Banco de Bogotá	53,631,095	75,782,056
GNB Sudameris	9,103,292	9,710,178
Banco BBVA	200,467,916	217,130,000
	<u>587,719,429</u>	<u>812,249,691</u>
Lease agreements		
Leasing Bancolombia	158,718,760	171,464,679
Corpbanca Colombia	48,400	85,909
Vehicle leases	2,756,180	2,101,814
Hoegh LNG	793,935,614	-
	<u>955,458,954</u>	<u>173,652,402</u>
	<u>\$ 2,004,111,150</u>	<u>1,184,415,569</u>

Below is a summary of the effective interest rates contracted with different financial institutions:

Rate %	In Colombian Pesos		In foreign currency	
	Minimum	Maximum	Minimum	Maximum
<b>December 2016</b>				
Obtained credits	3.52%	13.88%	3.66%	6.33%
Lease Agreements	3.50%	10.66%	0.00%	0.00%
Rent Agreements	1.75%	6.61%	15.00%	15.00%
<b>June 2016</b>				
Obtained credits	2.30%	14.40%	3.35%	7.41%
Lease Agreements	9.62%	12.45%	0.00%	0.00%
Rent Agreements	3.49%	12.60%	15.00%	15.00%

Below is a summary of the maturities of long-term financial obligations:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31 AND JUNE 30, 2016

(Expressed in thousands of Colombian Pesos, unless otherwise stated)

<u>year</u>	<u>Value</u>
2018	\$ 287,526,542
2019	409,792,294
2020	383,989,094
2021	607,226,040
2022 onwards	315,577,180
	<u>\$ 2,004,111,150</u>

During the periods ending December 31 and June 30, 2016, interests were recognized as follows:

	<b>December</b>	<b>June</b>
Accrued in financial expenses	\$ 66,789,100	50,670,944
Paid	<u>\$ 59,281,194</u>	<u>44,375,163</u>

**19. OUTSTANDING BONDS**

Below is a summary of the balance of ordinary bonds issued by Promigas and its subsidiaries:

	<b>December</b>	<b>June</b>
<b>Short-term</b>		
Ordinary bonds	\$ -	104,294,000
Interests on bonds payable	23,889,028	24,616,411
	<u>\$ 23,889,028</u>	<u>128,910,411</u>
<b>Long-term</b>		
Ordinary bonds	<u>\$ 2,216,842,560</u>	<u>1,717,392,860</u>

The characteristics of all bond issues by Promigas and some of its subsidiaries are ordinary issues, through a public offering without guarantees. The payment of interests is quarterly in arrears, with BULLET-type principal payments (at the security's maturity).

The legal representative of bondholders is Helm Trust S.A., which represents exclusively the obligations of each issuer, and the funds were used to replace financial liabilities and/or to finance investment plans of the Company.

The details of issues as of December 31 and June 30, 2016, by issue date and maturity are as follows:

Issuer	Series	Term years	Nominal Value	Interest rate	Issue Date	Maturity Date
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31 AND JUNE 30, 2016

(Expressed in thousands of Colombian Pesos, unless otherwise stated)

Promigas S.A. E.S.P.	Series C10	10	150,000,000	CPI + 5.40%	27/08/2009	27/08/2019
Promigas S.A. E.S.P.	Series C15	15	170,000,000	CPI + 5.99%	27/08/2009	27/08/2024
Promigas S.A. E.S.P.	Series A7	7	99,821,000	CPI + 3.05%	29/01/2013	29/01/2020
Promigas S.A. E.S.P.	Series A10	10	150,179,000	CPI + 3.22%	29/01/2013	29/01/2023
Promigas S.A. E.S.P.	Series A20	20	250,000,000	CPI + 3.64%	29/01/2013	29/01/2033
Promigas S.A. E.S.P.	Series A4	4	105,000,000	CPI + 2.55%	11/03/2015	11/03/2019
Promigas S.A. E.S.P.	Series A7	7	120,000,000	CPI + 3.34%	11/03/2015	11/03/2022
Promigas S.A. E.S.P.	Series A15	15	175,000,000	CPI + 4.37%	11/03/2015	11/03/2030
Promigas S.A. E.S.P.	Series A4	4	100,000,000	CPI + 3.29%	08/09/2016	08/09/2020
Promigas S.A. E.S.P.	Series A10	10	150,000,000	CPI + 3.74%	08/09/2016	08/09/2026
Promigas S.A. E.S.P.	Series A20	20	250,000,000	CPI + 4.12%	08/09/2016	08/09/2036
Surtidora de Gas del Caribe S.A. E.S.P.	Series A10	10	130,000,000	CPI + 3.25%	12/02/2013	12/02/2023
Surtidora de Gas del Caribe S.A. E.S.P.	Series A20	20	70,000,000	CPI + 3.64%	12/02/2013	12/02/2033
Gases de Occidente S.A. E.S.P.	Series C10	10	100,206,000	CPI + 5.89%	23/07/2009	23/07/2019
Gases de Occidente S.A. E.S.P.	Series A10	10	110,382,000	CPI + 3.75%	11/12/2012	11/12/2022
Gases de Occidente S.A. E.S.P.	Series B20	20	89,618,000	CPI + 4.13%	11/12/2012	11/12/2032
Total			\$ 2,220,206,000			

Below are the incremental costs assumed by Promigas and its subsidiaries in the different bond issues:

Company	Issues	Costs
Promigas	September 2016, March 2015 and January 2013	\$ 2,862,518
Surtigas	January 2013	1,006,385
Gases de Occidente	December 2012	742,604
		\$ 4,611,507

Promigas and its subsidiaries apply the amortized cost method for calculating the effective interest rate, which means that the amortization of these costs is made over the expected life of the instrument.

During the half-years ending December 31 and June 30, 2016, interests were recognized as follows:

	December	June
Accrued in financial expenses	\$ 105,711,242	85,794,027
Accrued in cost of sale non-bank financing	5,384,152	4,857,193
Capitalized in projects	15,096,578	20,122,151
Total accrued interests	\$ 126,191,972	110,773,371
Paid	\$ 122,900,286	95,646,689

Below is the detail of the bond issue maturities of Promigas and its subsidiaries:

Year	Amount
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

2019	\$	355,206,000
2020		199,821,000
2022		230,382,000
2023 onwards		1,431,433,560
	\$	<u>2,216,842,560</u>

## 20. ACCOUNTS PAYABLE

Below is the detail of accounts payable:

	December			June		
	Third Parties	Related Entities	Total	Third Parties	Related Entities	Total
<b>Short-Term</b>						
Acquisition of domestic goods and services	\$ 229,368,027	2,599,694	231,967,721	246,160,977	12,520,580	258,681,557
Goods and services abroad (1)	115,767,001	-	115,767,001	37,566,369	-	37,566,369
Creditors	48,342,045	-	48,342,045	36,276,877	-	36,276,877
Dividends payable (2)	2,291,858	133,441,778	135,733,636	-	52,922,891	52,922,891
Hedges payable	1,840,013	-	1,840,013	46,739	845,279	892,018
Allocated subsidies payable	18,742	-	18,742	18,742	-	18,742
Withholding tax and stamp duty	16,556,941	-	16,556,941	12,217,070	-	12,217,070
Industry and trade withholding tax payable	541,085	-	541,085	385,019	-	385,019
Taxes, contributions and fees payable	94,111,236	-	94,111,236	34,287,873	-	34,287,873
Value added tax payable	2,974,537	-	2,974,537	2,365,131	-	2,365,131
Advance payments received	33,256,134	480,110	33,736,244	19,474,120	-	19,474,120
Deposits from third parties	23,580,676	-	23,580,676	25,318,511	-	25,318,511
	<u>\$ 568,648,295</u>	<u>136,521,582</u>	<u>705,169,877</u>	<u>414,117,428</u>	<u>66,288,750</u>	<u>480,406,178</u>
<b>Long-Term</b>						
Creditors	<u>12,919,028</u>	<u>-</u>	<u>12,919,028</u>	<u>10,988,246</u>	<u>-</u>	<u>10,988,246</u>

(1) Increased mainly due to the maintenance service agreement of the Floating Storage Regasification Unit entered into by and between Sociedad Portuaria El Cayao S.A. E.S.P. and Hong Lng Holding- OSA Contract.

(2) The balance mainly corresponds to the dividends ordered by Promigas on the first half of 2016. As of December 31, 2016, it includes three installments of ordinary monthly dividends and a share of extraordinary dividends payable in March 2017.

## 21. EMPLOYEE BENEFITS

Below is the detail of balances of employee benefits:

	December	June
<b>Short-Term</b>		
Severance and interest on severance pay	\$ 4,595,494	2,791,240



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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

Vacations	6,277,236	6,428,063
Extralegal benefits	1,664,483	1,540,765
Other payments and benefits	3,473,458	3,425,737
	<u>\$ 16,010,671</u>	<u>14,185,805</u>
<b>Long-term</b>		
Severance previous labor law	191,979	134,159
Pension actuarial calculation	923,937	800,609
Other actuarial calculation	3,134,696	2,469,280
	<u>\$ 4,250,612</u>	<u>3,404,048</u>

**Employee Retirement Benefits:**

- With Act 100/1993, effective April 1, 1994, the Company and its subsidiaries covered their pension obligation when employees retire after meeting certain age and years of service through the payment of contributions to Colpensiones (formerly known as Social Security Institute) and pension funds, based on defined contribution plans where the Companies and employees contribute monthly values defined by the law to have access to the employee retirement pension; However, some employees who meet the requirements of age and years of service are subject to the previous legislation, Act 50/1990, in which pensions are assumed directly by the Company and its subsidiaries.
- The Company and its subsidiaries award extra-legally or by collective agreements an additional bonus to employees who, upon reaching the required age and years of service, retire to enjoy the pension granted by the pension funds.
- Certain employees hired by the Company before 1990 are entitled to a compensation at the date of their retirement, at the Company's or employee's will, equal to the last month's salary multiplied by the number of years worked for the Company.

The variables used to estimate the projected obligation of the different retirement and long-term employee benefits are presented below:

	<b>December</b>	<b>June</b>
Discount rate - Severance	7.00%	8.25%
Discount rate - Pension bonds	7.25%	9.00%
Discount rate - Pensions	7.25%	8.83%
Inflation rate	3.50%	3.50%
Salary increase rate	3.50%	3.50%
Pensions increase rate	3.50%	3.50%

The life expectancy of employees is calculated based on mortality charts published by the Colombian Financial Superintendence, which prepared them based on mortality experiences provided by different insurance companies operating in Colombia.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

Below is the movement of the retirement benefits of employees and long-term benefits:

	Pensions Plans		Other Benefits	
	December	June	December	June
Initial balance	\$ 800,609	855,536	2,603,439	2,535,649
Costs incurred during the period	39,282	258		
Interest Costs	51,005	27,538	97,606	102,112
Past Service Costs	-	-	130,399	130,398
<b>Costs subtotal</b>	<b>90,287</b>	<b>27,796</b>	<b>228,005</b>	<b>232,510</b>
(Profit) / loss on change in interest rates	70,436	(44,768)	243,649	71,001
(Profit)/loss on actuarial assumptions	19,292	-	387,726	-
<b>Profit - Loss Subtotal</b>	<b>89,728</b>	<b>(44,768)</b>	<b>631,375</b>	<b>71,001</b>
Employee Benefits	(56,687)	(37,955)	(136,144)	(235,721)
<b>Final balance</b>	<b>\$ 923,937</b>	<b>800,609</b>	<b>3,326,675</b>	<b>2,603,439</b>

## 22. OTHER LIABILITIES

Below is the detail of other liabilities:

	December	June
<b>Short-term</b>		
Collections to the benefit of third parties	\$ 33,858,972	36,445,314
Revenues received in advance	2,568,997	2,700,970
	<u>\$ 36,427,969</u>	<u>39,146,284</u>
<b>Long-term</b>		
Collections to the benefit of third parties	<u>\$ 438,021</u>	<u>438,021</u>

## 23. PROVISIONS

In the ordinary course of business, Promigas and its subsidiaries are subject to various legal regulations inherent to public utilities and environmental protection services. In the opinion of Promigas and its subsidiaries' management no situations have been identified that lead to the discovery of a possible breaches to such rules, thus producing a significant impact on the financial statements.

The table below shows the nature and value of long-term loss contingencies:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

	Administrative	Labor	Civil	Dismantling and restoration costs	Other Provisions (1)	Total Provisions
Balance as of December 2015	\$ 2,568,763	87,477	42,938,931	2,372,225	158,474,080	206,441,476
New provisions	48,264	352,478	6,701	859	1,594,926	2,003,228
Increase in provisions charged to expenses	64,433	86,534	6,974,533	71,154	163,113,032	170,309,686
Withdrawal of provisions	(1,642,647)	(18,005)	(1,529,129)	(218,441)	(159,811,454)	(163,219,676)
Balance as of June 2016	\$ 1,038,813	508,484	48,391,036	2,225,797	163,370,584	215,534,714
New provisions	87,956	336,412	2,930,992	89	4,378,634	7,734,083
Increase in provisions charged to expenses		27,370	4,650,814	56,000	8,620,524	13,354,708
Provisions used		(307,139)	(3,081,023)	(96,000)	(8,494,755)	(11,978,917)
Balance as of December 2016	\$ 1,126,769	565,127	52,891,819	2,185,886	167,874,987	224,644,588

(1) As of December 31 and June 30, 2016, includes estimates of the investment plan of Compañía Energética de Occidente S.A. E.S.P. for \$156,425,321 and \$156,766,951, respectively. This provision is decreasing because of the repayment plan. Compañía Energética de Occidente S.A. E.S.P. agreed to implement an infrastructure expansion, replacement and improvement plan for the development of the trading services of Cedelca. IFRIC 12.21 sets out contractual obligations for these to maintain or restore the infrastructure, such as the case of the investment plan, which must be recognized and measured in accordance with IAS 37, i.e., according to the best estimate of the expenditure that would be required to settle the obligation at the end of the reporting period. To contribute to the analysis, it should be noted that, under the type of contract entered into by and between Cedelca and Compañía Energética de Occidente S.A. E.S.P., no construction contracts are performed as per IAS 11.

Includes also the provision of smart tools for Promigas S.A. E.S.P. and Promioriente S.A. E.S.P., which as of December 31 and June 30, 2016, amounted to \$11,00,997 and \$5,119,964, respectively. Additionally, for the second half-year, a new environmental provision of \$4,295,302 was included by Promigas S.A. E.S.P.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 24. EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS

**Share Capital** – As of December 31 and June 30, 2016, share capital was represented by 1,150,000,000 common shares, respectively, with a nominal value of one hundred pesos each. The detail of the assets is presented below:

	December	June
Number of shares authorized, issued and outstanding	1,134,848,043	1,134,848,043
Number of shares paid-in and subscribed	1,134,918,610	1,134,918,610
Number of shares repurchased (1)	70,567	70,567
Paid-in and subscribed capital	\$ 113,491,861	113,491,861

(1) From 2005 to June 30, 2016, the Company has repurchased 70,567 shares for \$1,527,933. In accordance with the provisions of the Code of Commerce, any rights inherent to repurchased shares are suspended.

**Reserves** – The balance of reserves is detailed as follows:

	December	June
Legal reserve	\$ 56,745,931	56,745,931
Reserves pursuant to bylaws	70,865,347	70,865,347
Occasional reserves	169,762,290	97,427,533
Wealth tax reserves paid by the subsidiaries	(7,946,466)	(7,946,466)
	\$ 289,427,102	217,092,345

**Legal Reserve** – According to Colombian Law, the Company must transfer at least 10% of profits for the period to a legal reserve until such reserve equals 50% of the subscribed capital. This reserve is not available for allocation, but may be used to offset losses.

**Tax Reserve** – Pursuant to article 45 of Act 75/1986, the Company created a reserve equal to 70% of the higher value of the depreciation requested as tax deduction. Such reserve may be capitalized or allocated insofar as it is released.

**Reserve for Share Repurchase** – In 2005, the Company created a reserve for share repurchase amounting to \$1,527,933.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

**Profit Allocation** – Dividends are ordered and paid to shareholders based on non-consolidated net profits for the immediately previous year half. The dividends ordered were the following:

	December	June
Date of Meeting	September 22, 2016	March 22, 2016
Unconsolidated profit from the immediately preceding half-year	\$ 322,351,520	221,556,546
Dividends paid in cash (1)	<p>Ordinary dividends in cash of \$211 per share on 1.134.848.043 outstanding common shares as of June 30, 2016, which will be paid monthly each 21<sup>st</sup> day from October 2016 to March 2017.</p> <p>An extraordinary dividend of \$46 and \$69 per share on 1.134.848.043 outstanding shares payable on October 21, 2016, and March 21 2017, respectively.</p>	<p>Ordinary dividends in cash of \$15 per share on 1,134,848,043 outstanding common shares as of December 31, 2015, which will be paid monthly each 21<sup>st</sup> day from April to September 2016.</p> <p>An extraordinary dividend of \$47 per share on 1,134,848,043 outstanding shares payable on April 21, 2016.</p>
Total outstanding shares	1,134,848,043	1,134,848,043
Dividends ordered	\$ 239,452,937	155,474,182
Dividends ordered to minority shareholders	3,732,300	5,058,887
Total dividends ordered	<u>243,185,237</u>	<u>160,533,069</u>
Detail of mandatory and voluntary reserves (2)	\$ 72,343,769	38,830,757
Available for future allocation	\$ 10,554,814	27,251,608

(1) Corresponds to the total number of outstanding shares at the time of dividend allocation as approved by the General Meeting of Shareholders, which may vary with the number of outstanding shares as of the closing dates of these financial statements.

(2) In the second and first halves of 2016, the General Shareholders' Meeting approved the creation of the Reserve for IFRS convergence of accumulated earnings for \$72,343,769 and \$38,830,757, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Colombian Pesos, unless otherwise stated)

## 25. NON CONTROLLING INTEREST

Below is the detail of the non-controlling interest in the consolidated companies:

Company	December			June		
	%	Interest in Equity	Interest in Earnings	%	Interest in Equity	Interest in Earnings
Surtidora de Gas del Caribe S.A. E.S.P.	0.01%	\$ 43,622	2,964	0.01%	40,733	2,211
Transoccidente S.A. E.S.P.	31.00%	3,148,002	361,545	31.00%	3,168,464	361,616
Promioriente S.A. E.S.P.	26.73%	89,301,791	14,225,329	26.73%	75,406,684	6,612,994
Transportadora de Metano E.S.P. S.A.	0.33%	516,959	65,725	0.33%	499,260	61,421
Gases de Occidente S.A. E.S.P.	9.88%	20,819,502	3,771,040	9.88%	20,367,341	3,545,697
Zonagen S.A.S.	0.05%	938	(109)	0.04%	929	(79)
Sociedad Portuaria El Cayao S.A. E.S.P.	49.00%	85,876,882	4,379	49.00%	83,445,551	2,376,962
		\$ 199,707,696	18,430,873		182,928,962	12,960,822

## 26. REVENUES FROM ORDINARY ACTIVITIES

Below is the detail of revenues from ordinary activities for the half-years ending:

	December	June
Transport and distribution of natural gas	\$ 1,177,770,997	1,165,834,072
Generation and distribution of power	184,812,659	219,532,165
Installations and technical services	58,884,265	55,127,358
Revenues from non-banking financing	42,960,875	36,835,258
Revenues from concessions	93,994,655	86,957,828
Construction of concessions (1)	315,228,011	267,789,833
Revenues from back office services	-	800,775
Other services	145,073,462	101,428,503
Equity Method	49,586,541	76,309,024
	<u>\$ 2,068,311,465</u>	<u>2,010,614,816</u>

(1) The Company recognizes from ordinary activities and costs according to IAS 11 – Construction Contracts, considering the final construction phase. Revenues are measured at fair value of the consideration received or expected, which is close to the costs incurred considering that the projects do not exceed one year of construction.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 27. COST OF GOODS SOLD

Below is the detail of costs of goods sold:

	December	June
Employee benefits	\$ 58,972,214	55,629,355
Maintenance and materials	86,152,711	62,188,478
Fees and consultancies	13,268,529	8,052,231
General expenses	812,012,050	872,049,823
Construction of concessions (See note 14) (1)	315,228,011	267,789,833
Taxes	2,231,530	2,070,601
Depreciation and amortization	59,558,269	49,284,698
	<u>\$ 1,347,423,314</u>	<u>1,317,065,019</u>

- (1) Includes costs related to the construction of pipelines and networks under concession that, in accordance with IAS 11 – Construction Contracts, costs and revenues related to the execution of works, extensions or modifications to the networks that are not owned by the Company are recognized. These revenues reflect the construction of the pipelines and networks under concession classified under IFRIC 12 - Service Concession Arrangements.

## 28. OPERATING EXPENSES

Below is the detail of operating expenses:

	December	June
Employee benefits	\$ 47,404,539	41,141,191
Fees	24,947,777	13,258,955
Maintenance and materials	4,958,395	2,571,590
General administrative expenses	21,945,562	19,456,490
Impairment	18,122,061	13,891,695
Provisions	9,225,096	2,137,503
Administrative taxes	23,162,072	20,382,650
Depreciation and amortization	15,161,378	15,950,664
	<u>\$ 164,926,880</u>	<u>128,790,738</u>

Below is the number of employees:

	December	June
Number of Employees	2,291	1,980
Average number of employees	<u>2,177</u>	<u>1,797</u>

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**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

**29. FINANCIAL REVENUES**

Below is the detail of financial revenues:

	December	June
Debt securities yields	\$ 10,697,997	5,612,451
Return on investments	208,740	140,619
Exchange difference	15,907,242	45,874,656
Other financial revenues	6,108,649	4,723,066
	<u>\$ 32,922,628</u>	<u>56,350,792</u>

**30. FINANCIAL EXPENSES**

Below is the detail of financial expenses:

	December	June
Interests financial obligations	\$ 66.789.100	50,670,944
Interests issued bonds and securities	105.711.242	85,794,027
Exchange differences	21.992.216	24,058,948
Other financial expenses	1.789.185	1,460,152
	<u>\$ 196.281.743</u>	<u>161,984,071</u>

**31. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES AND ASSOCIATES**

According to the "IAS 24 - Related Party Disclosures", a related party is a person or entity that is related to the entity that is preparing its financial statements and has control or joint control over the reporting entity; has significant influence over the reporting entity; or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. The definition of a related party includes: a) person or a close member of that person's family related to the reporting entity, entities that are members of the same group (parent and subsidiaries), associates or joint ventures of the entity, post-employment benefit plans for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

Related parties are:

- 1) An economic affiliate is a person or entity that is related to any group entity through transactions such as transfers of resources, services and obligations, regardless of whether or not it is charged.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the Company, transactions between economic affiliates are any economic operations held with shareholders and entities of the parent company.

- 2) Shareholders who individually own more than 10% of the Company's share capital.
- 3) Key management personnel: persons with authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any director or manager (whether executives or otherwise) of the entity, including the CEO, Senior Executives and Board Members.
- 4) Subordinated Entities: Companies where control is exercised according to the definition of control in the code of commerce and "IFRS 10 - Consolidated Financial Statements".
- 5) Affiliated Entities: companies where significant influence is exercised, which is generally considered as a participating interest of between 20% and 50% of its share capital.

## Operations with related parties:

Promigas S.A. may enter into operations, agreements or contracts with related parties, in the understanding that any such operations are carried at fair value, considering market conditions and rates.

During the half-years ending December 31 and June 30, 2016, there were no significant operations of the following characteristics:

- Free or compensated services debited to a related company.
- Loans implying an obligation to the borrower that does not correspond to the essence or nature of the loan agreement.
- Loans with interest rates different from those regularly paid or charged to third parties under similar conditions of term, risk, etc.

Below is the summary of assets and liabilities as of December 31 and June 30, 2016, with shareholders, board members, managers, affiliated companies and other related entities:

	Shareholders	Members of the Board	Key mngmnt. personnel	Associates	Others related	Total
<b>December 2016</b>						
<b>Assets</b>						
Cash	\$ 148,755	-	-	-	26,219,413	26,368,168
Investments	22,765	-	-	580,488,718	482,244	580,993,727
Debtors	42,900	-	3,032,551	9,644,758	36,912	12,757,121
	<u>214,420</u>	<u>-</u>	<u>3,032,551</u>	<u>590,133,476</u>	<u>26,738,569</u>	<u>620,119,016</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Shareholders	Members of the Board	Key mngmnt. personnel	Associates	Others related	Total
<b>Liabilities</b>						
Financial Obligations	-	-	-	-	188,945,663	188,945,663
Accounts payable	133,441,778	-	255,581	2,599,694	224,529	136,521,582
Issued bonds and securities	15,051,059	-	-	-	-	15,051,059
Other liabilities	-	-	128,338	-	-	128,338
	<u>148,492,837</u>	<u>-</u>	<u>383,919</u>	<u>2,599,694</u>	<u>189,170,192</u>	<u>340,646,642</u>
<b>Revenues</b>						
Sale of Goods	-	-	-	89,949	-	89,949
Sale of Services	-	-	-	43,092,887	873,093	43,965,980
Financial	4,533	-	2,225	-	713,540	720,298
Revenues by Equity Method	-	-	-	49,586,541	-	49,586,541
Other revenues	-	-	15,152	59,000	-	74,152
	<u>4,533</u>	<u>-</u>	<u>17,377</u>	<u>92,828,377</u>	<u>1,586,633</u>	<u>94,436,920</u>
<b>Expenses</b>						
Costs	1,274	-	-	4,923,313	204,906	5,129,493
Salaries	-	-	10,759,720	-	-	10,759,720
General	-	314,065	955,682	68,259	660,531	1,998,537
Interests	710,072	-	-	-	10,847,387	11,557,459
Commissions	-	59,684	-	-	-	59,684
	<u>711,346</u>	<u>373,749</u>	<u>11,715,402</u>	<u>4,991,572</u>	<u>11,712,824</u>	<u>29,504,893</u>
<b>June 2016</b>						
<b>Assets</b>						
Cash	\$ 352,139	-	-	-	33,914,975	34,267,114
Investments	22,033	-	-	544,442,823	468,454	544,933,310
Debtors	6,033	-	3,071,567	9,211,072	44,724	12,333,396
	<u>380,205</u>	<u>-</u>	<u>3,071,567</u>	<u>553,653,355</u>	<u>34,428,153</u>	<u>591,533,820</u>
<b>Liabilities</b>						
Financial Obligations	-	-	-	-	202,989,127	202,989,127
Accounts payable	53,768,170	-	96,735	12,265,397	158,448	66,288,750
Issued bonds and securities	19,873	-	-	-	-	19,873
Other liabilities	-	-	119,625	-	-	119,625
	<u>53,788,043</u>	<u>-</u>	<u>216,360</u>	<u>12,265,397</u>	<u>203,147,575</u>	<u>269,417,375</u>
<b>Revenues</b>						
Sale of Goods	-	-	-	67,019	-	67,019
Sale of Services	2,006,098	-	-	43,680,933	796,536	46,483,567
Financial	4,548	-	-	-	323,715	328,263
Revenues by Equity Method	-	-	-	76,309,024	-	76,309,024
Other revenues	-	-	16,832	38,156	-	54,988
	<u>2,010,646</u>	<u>-</u>	<u>16,832</u>	<u>120,095,132</u>	<u>1,120,251</u>	<u>123,242,861</u>

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**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

	Shareholders	Members of the Board	Key mngmnt. personnel	Associates	Others related	Total
<b>Expenses</b>						
Costs	2,199,506	-		176,803	159,511	2,535,820
Salaries	-	-	12,666,208	-	-	12,666,208
General	-	6,895	1,276,704	23,639	363,068	1,670,306
Interests	974,403	-	-	-	8,447,113	9,421,516
Commissions	-	251,985	-	-	-	251,985
	<u>\$ 3,173,909</u>	<u>258,880</u>	<u>13,942,912</u>	<u>200,442</u>	<u>8,969,692</u>	<u>26,545,835</u>

Below is the compensation for key management personnel on the half-years ending:

	December	June
Salaries	10,759,720	12,666,208
Employee Benefits	955,682	906,018
Total	<u>\$ 11,715,402</u>	<u>13,572,226</u>

Structure of key management personnel for the half-years ending:

	No. of executives	
	December 2016	June 2016
CEO	1	1
Senior Executives	5	5
Managers	29	20
Area Managers	17	6
Other executives	34	46
Total	<u>86</u>	<u>78</u>

**32. COMMITMENTS AND CONTINGENCIES**

**Commitments of Promigas S.A. E.S.P.** - For the development of its corporate purpose, the Company has entered into the following agreements, among others:

- By Public Deed No. 1629 of September 16, 1976, the Company obtained from the National government the concession to build, operate, maintain, exploit and manage a public utility pipeline for the transportation of hydrocarbons from Ballenas, Department of La Guajira, to the cities of Barranquilla and Cartagena, for an 50-year term, extendable to 20 more years. Under the terms of the concession, The National Government has a preemption right over the transportation of these products through the gas pipeline, paying a current rate. The Company shall be obligated to sell the pipeline to the Nation, if required by the Government, upon completion of the first 30 years of the Agreement (2006), at the expiry thereof (2026) or upon termination of the extension period, at the price agreed by the parties, or based on the appraisal of an independent expert. The Company may

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not assign or relinquish the agreement, neither totally nor partially, without prior approval by the National Government.

In notice served to the Company on May 11, 2005, the ministry of Mines confirmed that they would not take up the purchase option that was available for 2006 over the gas pipelines under concession.

The detail of the concession agreements for the pipeline sectors entered into with the National Government is included in note 14.

- b) Agreements with gas distribution Companies, power generation companies and industrial users with consumption over 100,000 cubic feet per day, corresponding to natural gas transportation through the pipeline systems available to the Company. These agreements comply with the regulatory framework and their terms of duration range between five and ten years, and the guarantees necessary and sufficient for the performance and stability thereof have been constituted.

The Company's management considers that there are no risks of significant losses in the future arising from the performance of these agreements and commitments.

***Commitments of Compañía Energética de Occidente S.A. E.S.P.*** - For the development of its corporate purpose, the Company has entered into the following agreements, among others, with energy trading and generating companies to avoid being exposed to contracting energy exchange in order to meet demand.

PLC energy purchase agreement with Proenca S.A. effective from January 1, 2014 and December 31, 2023, with a \$128,00 KWH rate.

***Commitments of Sociedad Portuaria el Cayao S.A. E.S.P.*** - For the development of its corporate purpose, the Company has entered into the following agreements, among others:

**a) Port Concession Agreement No. 001 of 2015**

The Ministry of Transport, through resolution No. 594 of March 5, 2015, indicates the terms in which the port concession would be established, to occupy temporarily and exclusively a public use area for 20 years; to develop an unloading platform, underwater gas pipelines and connections to the land pipeline connected to the National Transport System, for the import, export and cabotage of liquefied natural gas, in the department of Bolivar, district of Cartagena de Indias, in the form of public utility service. This agreement was executed on July 17, 2015, through Port Concession Agreement No. 001 of 2015, between the National Infrastructure Agency and Sociedad Portuaria El Cayao S.A. E.S.P.

This agreement will not be automatically extended. It may be extended only by carrying out the procedure provided for such purpose in current regulations, not less than 12 calendar months before the date of expiry of the concession period.

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The investment plan to be implemented by the Company during the first 3 years of the concession amounts to \$38,170,000, which is in accordance with the schedule and the investment plan accepted by the National Infrastructure Agency.

The reference value of the port concession agreement is equal to the net present value of the consideration, which corresponds to USD \$ 3,931,493 payable monthly. Payment must be made in Colombian pesos.

The Company shall constitute a trust where, within the 5 first business days of December, it will deposit the value corresponding to the audit of the immediately following year, i.e., \$446,748, for each year of the construction, in accordance with the schedule of investments. For the final year of the concession, it shall deposit in the freestanding trust fund the sum of \$ 186,188 for the reverse audit.

**b) Agreements with Thermoelectric Companies**

The Company executed agreements with Celsia Zona Franca S.A. E.S.P., Termobarranquilla S.A. E.S.P. and Termocandelaria S.C.A. ESP, on October 29, 2014, for the purpose of providing design, construction, operation and maintenance services for the Terminal, in order to receive imports of Liquefied Natural Gas (LNG), as well as the storage, regasification and placement of LNG in the Inlet of the National Transport System; and providing the necessary port infrastructure for storage, regasification and connection to the Inlet of the National Transport System, and being responsible and accountable for the construction and management of the Terminal under the terms of the agreements.

The annual fixed revenues of USD \$82,500,000, which will be paid in 12 equal installments, allocated according to the percentage share of each customer. This revenue corresponds to all investment costs, fixed costs of administration, operation and maintenance, and other costs relative to the Terminal and the provision of services. This revenue also includes the acquisition and maintenance of LNG Heel in the Terminal.

In addition, there is a variable revenue that corresponds to all variable costs of administration, operation (including fuel and electricity), maintenance and other costs relative to the Terminal and the provision of services, such as LNG cargo services on gas tankers from the Terminal, which will be charged on a monthly basis according to the terms set out.

The commissioning date was December 2016, and will run for ten (10) years until November 30, 2026, extendable for an additional 5 years, if requested 4 years before the expiry of the agreement.

**c) Other Agreements**

On November 1, 2014, an operation and services agreement was signed with HÖEGH LNG HOLDINGS LTD. with respect to a FSRU (LNG Floating Storage and Regasification Unit). The agreement will have a 10-year term.

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This agreement also includes an International Lease Agreement (ILA) for the FSRU and has an annual value during the term of the agreement worth \$40,809,000, and allows a call option on the 10<sup>th</sup> year for USD \$425,798,487.

In addition, the agreement executed on November 28, 2014, with SACYR INDUSTRIAL, S.L.U., for the engineering, procurement and construction of reception, storage and regasification of liquefied natural gas located in Cartagena, Colombia. This agreement has an estimated total value of \$105,893,610.

**Commitments of Gases de Occidente S.A. E.S.P.** - For the development of its corporate purpose, the Company has entered into the following agreements, among others:

a) **Unused Credit Lines**

Below are the commitments of the company Gases de Occidente S.A. E.S.P. in unused lines of credit:

	December	June
Bank guarantees	\$ 6,573,114	6,573,114
Overdraft limit	10,000,000	9,000,000
Unused credit card limits	240,000	240,000
<b>Total</b>	<b>\$ 16,813,114</b>	<b>15,813,114</b>

Outstanding balances of unused credit lines and guarantees do not necessarily represent future cash requirements because such limits may expire and not be used in whole or in part.

b) **Trust Agreement**

The company established a new irrevocable Commercial Trust Agreement for Trust Resource Management with Corficolombiana S.A. GNCV-III Program from 2012, as provided in the Bond Conversion Agreement CNG-V (signed on January 19, 2015) for cooperation to encourage the trade, distribution and consumption of compressed vehicular natural gas in the country's western market, where Gases de Occidente SA E.S.P. serves as Administrative Operator.

c) **Lease Agreements in Force**

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On December 30, 2008, the Company entered into Lease Agreement No. 98098 with Leasing Bancolombia S.A. to finance a system of external networks and district stations, located in the Department of Valle, and Santander de Quilichao, Villa Rica and Puerto Tejada in the Department of Cauca.

Through this agreement, the leasing company prepays constructors, manufacturers or suppliers, or whomever Gases de Occidente SA E.S.P. determines, the sums of money needed to bring the infrastructure into the conditions required by the Company; such amounts will be included in the value of the assets subject of the agreement.

The value of this agreements amounts to \$15,001,207. The term of the agreement is 5 years. This agreement is recorded in the financial obligation liabilities of Long-term Lease Agreements, whose balance as of December 31, 2016, amounts to \$1,937,60.

In addition, on December 30, 2010, the Company signed Lease Agreement No. 118992 with Leasing Bancolombia S.A. to finance the construction of external distribution networks, as well as any necessary regulating stations in the different municipalities of the Departments of Valle del Cauca and Cauca. This agreement was activated in November 2013. The value of this agreement amounts to \$37,799,666. This agreement is recorded in the financial obligation liabilities of Long-term Lease Agreements. The term of the agreement is 10 years. The balance of this agreement as of December 31, 2016, amounts to \$29,077,436.

***Commitments of Surtidora de Gas del Caribe S.A. E.S.P.*** - For the development of its corporate purpose, the Company has entered into the following agreements, among others:

Below is the detail of commitments as of December 31, 2016:

- a) Natural gas supply agreements with Empresa Colombiana de Petróleos (Ecopetrol), Chevron Petroleum Company, Pacific Energy, CNE oil & gas, and Lewis, and gas transportation agreements with Promigas S.A. E.S.P. These agreements are in accordance with the regulatory framework, and their terms of duration range from one to five years, and the necessary and sufficient guarantees for the performance and stability of the agreements have been executed.
- b) Agreements with industrial users and power generating companies with consumptions greater than 100,000 cubic feet per day, under wellhead gas trading and natural gas transport capacity of customer. These agreements are in accordance with the regulatory framework and their terms of duration conform to the trading period determined by current regulations, and the necessary and sufficient guarantees for the performance and stability of the agreements have been executed.

The Company's management considers that there are no significant risks of losses expected in the future as a result of the performance of these agreements and commitments.

***Contingencias of Promigas S.A. E.S.P., Surtidora de Gas de Caribe S.A. E.S.P., y Gases de Occidente S.A. E.S.P. y la Compañía Energética de Occidente. S.A. E.S.P.***

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In the course of its operations, Promigas S.A. E.S.P., Surtigas S.A. E.S.P., Gases de Occidente S.A. E.S.P. y la Compañía Energética de Occidente S.A. E.S.P. are subject to several legal regulations pertaining to public utilities and environmental protection companies. The Management of these Companies considers, based on legal opinions, that there have been no situations that may indicate possible breaches to those standards and leading to significant impacts on the financial statements.

In 2001, the Promigas entered into an Operating Balance Agreement (OBA) with Chevron Petroleum Company and during the reporting period there are contractual differences arising from Chevron's interpretation in the application of the Balance Agreement, based on the entry into force of CREG Resolutions 089/2013 and 088/2015, which explain, inter alia, the provisions for the management of gas imbalances at the Outlet Point and not at the Inlet Point, leading to the dispute over the amounts invoiced in favor or against, in addition to other exceptional economic, regulatory, market and technical circumstances that make it unlikely to reach a settlement, which the Company nevertheless estimates and recognizes as a contingency of \$ 11,638,034, so as not to undervalue its liabilities in the face of uncertainty in its measurement.

As of December 31 and June 30, 2016, the Companies have the following litigations and individual lawsuits filed against it. Their quantities are determined by the claims and are not recognized in the provisions, given that the lawyers handling each process consider that the success chances of such claims are remote or eventual:

**Litigations and Lawsuits**

	December		June	
	Number of Claims	Amount	Number of Claims	Amount
Easement claims:				
Between \$1 and \$1,000	29	\$ 4,800,108	27	\$ 4,117,127
From \$1,001 onward (1)	9	7,911,113	5	33,294,294
Easement	38	12,711,221	32	37,411,421
Ordinary processes:				
Between \$1 and \$1,000	49	7,709,191	46	5,978,256
Between \$1,001 and \$3,000	1	2,150,123	2	4,034,402
From \$3,001 onward	6	5,467,205	4	5,377,204
Ordinary	56	15,326,519	52	15,389,862
Labor	47	4,620,080	45	4,556,337
Other litigations and lawsuits	11	5,414,897	7	5,079,046
Administrative	22	10,724,314	20	8,933,965
Total processes	174	\$ 48,797,031	156	\$ 71,370,631

(1) As of December 31, 2016, the amount decreased mainly due to the withdrawal of the proceedings filed by Sociedad Colombiana de Ingenieros Ltda - Colding for \$30,560,360 by status of March 16, 2016, writ approving the liquidation of Costas and Danish Judith Cerpa Caro for \$1,884,278 for annulment of the action



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requested by the plaintiff, Municipality of Pueblo Nuevo, \$132,991, for the payment of the proceedings, and inclusion of new easement and ordinary processes: Gustavo León de Montero for \$70,000, Gloria Cecilia Botero Maya for \$172,981, Jean Luc Serge Barbier for \$600,000, Sonia Elena Miranda for \$1,800,000, Luis Rafael Martínez Beleño for \$ 1,877,180 and Martha Lucía Botero Maya for \$865,709.

***Contingency Rights of Promigas S.A. E.S.P., Surtidora de Gas de Caribe S.A. E.S.P. and Gases de Occidente S.A. E.S.P.***

As of December 31 and June 30, 2016 there are 6 and 15 processes with no value, respectively.

Range (million pesos)	December		June	
	Number of claims	Amount	Number of Claims	Amount
Contingency rights (1)	96	\$ 61.308.076	97	\$ 60.416.956
Litigations and lawsuits (2)	<u>674</u>	<u>4.588.939</u>	<u>631</u>	<u>4.383.885</u>
Total	<u>770</u>	<u>\$ 65.897.015</u>	<u>728</u>	<u>\$ 64.800.841</u>

(1) As of December 31, 2016, the value increased by \$ 1,099,280 due to the exchange difference in the process The Nation - Ministry of Mines - CREG for the nullity of CREG Resolution 018/2001, CREG Resolution 014/2002, CREG Resolution 089/2004 and CREG Resolution 120/2005 for US \$ 13,000,000.

(2) Includes lawsuits against users in default and lawsuit against an ANE fine in Surtigas S.A. E.S.P. For \$248,203.

### 33. OPERATIONS BY SEGMENT

Information by segment is structured according to the different lines of business of Promigas and its subsidiaries. The lines of business described below were established according to the organizational structure of the Company, considering the nature of services and products offered. The structure of this information is designed as if each line of business were an autonomous business and had its own separate resources, allocated based on the assets assigned to each line according to an internal system of percentage distribution of costs.

The Company's operating segments are structured as follows:

TRANSPORTATION BUSINESSES		DISTRIBUTION BUSINESSES		
Transport of Natural Gas	Integrated solutions for industry and power generation	Distribution of Natural Gas	Distribution of Electricity	Non- banking financing
Promigas	Promisol	Surtigas	Compañía Energética de Occidente	Brilla
Promioriente	Enercolsa	Gases de Occidente		
Transmetano	Zónagen	Gases del Caribe		
Transoccidente	Sociedad Portuaria el Cayao Energía Eficiente	Efigas Gases de la Guajira		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31 AND JUNE 30, 2016**

**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

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Calidda

Gases del Pacífico

Orion Contac Center

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31 AND JUNE 30, 2016

(Expressed in thousands of Colombian Pesos, unless otherwise stated)

Below are the assets, liabilities and income statement by segment:

	Gas transportation	Gas distribution	Distribution and trade of energy	Integrated solutions for industry	Non-bank financing	Total
<b>December 2016</b>						
Assets						
Liabilities	\$ 5,781,714,197	2,381,163,279	510,544,794	299,492,977	292,232,322	9,285,147,569
	\$ 4,374,688,550	1,360,721,251	397,004,171	171,681,978	6,205,864	6,310,301,814
Revenues	\$ 796,561,786	973,523,128	185,655,428	68,257,392	44,313,731	2,068,311,465
Costs	(401,891,209)	(737,473,168)	(133,679,043)	(57,088,304)	(17,291,590)	(1,347,423,314)
Gross profit	394,670,577	236,049,960	51,976,385	11,169,088	27,022,141	720,888,151
Operating expenses	(71,954,150)	(59,352,856)	(28,092,058)	(3,495,149)	(2,032,667)	(164,926,880)
Results from ordinary activities	322,716,427	176,697,104	23,884,327	7,673,939	24,989,474	555,961,271
Financial revenues	22,300,074	4,844,089	4,272,835	1,840,795	-335,165	32,922,628
Financial expenses	(128,418,321)	(47,993,730)	(13,901,059)	(5,968,633)	-	(196,281,743)
Others, net	28,857,166	10,986,535	-2,565,668	(2,246,985)	(9,079,166)	25,851,882
Earnings before income tax	245,455,346	144,533,998	11,590,435	1,299,116	15,575,143	418,454,038
Income tax	(61,230,924)	(27,926,227)	(7,306,148)	(3,515,242)	(6,658,836)	(106,637,377)
Period results	\$ 184,224,422	116,607,771	4,284,287	(2,216,126)	8,916,307	311,816,661
<b>June 2016</b>						
Assets	\$ 4,299,189,310	2,346,915,659	536,436,737	203,077,564	271,297,260	7,656,916,530
Liabilities	\$ 2,889,776,164	1,347,669,957	420,460,790	118,365,311	2,346,651	4,778,618,873
Revenues	\$ 689,534,218	999,579,775	218,815,345	64,915,860	37,769,618	2,010,614,816
Costs	(329,576,551)	(770,521,714)	(156,875,897)	(44,295,804)	(15,795,053)	(1,317,065,019)
Gross profit	359,957,667	229,058,061	61,939,448	20,620,056	21,974,565	693,549,797
Operating expenses	(45,609,620)	(52,790,140)	(26,225,012)	(3,078,141)	(1,087,825)	(128,790,738)
Results from ordinary activities	314,348,047	176,267,921	35,714,436	17,541,915	20,886,740	564,759,059
Dividends received	-	733,708	-	-	-	733,708
Financial revenues	36,412,474	9,791,374	2,661,185	7,150,594	335,165	56,350,792
Financial expenses	(89,356,303)	(48,866,654)	(21,940,916)	(1,820,198)	-	(161,984,071)
Others, net	(386,491)	11,071,727	(2,134,973)	(3,355,928)	(7,973,740)	(2,779,405)
Earnings before income tax	261,017,727	148,998,076	14,299,732	19,516,383	13,248,165	457,080,083
Income tax	(77,927,519)	(24,497,871)	(9,647,710)	(3,213,567)	(5,521,301)	(120,807,968)
Period results	\$ 183,090,208	124,500,205	4,652,022	16,302,816	7,726,864	336,272,115

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31 AND JUNE 30, 2016**

**(Expressed in thousands of Colombian Pesos, unless otherwise stated)**

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**34. EVENTS OCCURRING AFTER THE REPORTED PERIOD**

On December 23, 2016, Promigas and Gases del Pacífico entered into a 5-year (2-year grace period) syndicated loan for USD \$200,000,000 with interest of Libor + 250 Bps with quarterly payments, corresponding to USD \$125,000,000 and USD \$75,000,000, respectively. In January 2017, Promigas and Gases del Pacífico S.A.C. received a first disbursement of USD \$41,472,000 and USD \$50,000,000, respectively. The credit is indexed to Libor + 2.50, payable quarterly.

The managing agent is JP Morgan Chase Bank. The loan was executed with 14 banks from different countries: JP Morgan, Banco de Crédito del Perú, Bank of America, Bank of Tokyo Mitsubishi, Citi, Mizuho, Scotiabank, Sumitomo, Banco BCI, Banco Sabadell, Banco Santander Colombia, Banco Santander Spain, EDC, ING, and Intesa San Paolo.

**Finance Lease**

As of December 31, 2016, Promisol S.A.S. had entered into a 12-year term equipment lease agreement with call option, with Promisol as lessor and Hocol as lessee, for the equipment associated with the national natural gas transportation system from the Fields (Bonga and Mamey). In January 2017, the contracted system began its commercial operation, which implies the recognition of an account receivable from Hocol for US \$49,488,746. Promigas participates by funding part of the equipment mentioned under the finance lease to Promisol with US \$23,736,198.

**Extension of Suspension due to Force Majeure**

On February 3, 2017, Gases del Pacífico received the Technical-Legal Report No. 006-2017-MEM/DGH-DNH-DGGN, whereby the General Hydrocarbons Directorate informs that the extension of the suspension due to Force Majeure will be granted, which shall be computed from February 1, 2015 until March 15, 2017. The remaining contractual term for the Commercial Operation, after the end of the suspension granted, shall be forty (40) calendar days, in accordance with the estimated term by the DGH of the Distribution System Tests informed by the Company.

**35. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements and notes thereto were approved for issue according to Board Meeting Minutes No. 459 of February 21, 2017, and subsequent events have been considered to date. These financial statements and notes thereto will be presented at the Shareholders' Meeting of March 21, 2017. Shareholders have the power to approve or modify the financial statements of the Company.

## **CERTIFICATE**

Pursuant to article 46 of Act 964/2005, I hereby certify that the information presented to the Meeting of Shareholders, such as the consolidated financial statements and other reports relevant to the public, do not contain any flaws, inaccuracies or errors that would prevent knowing the true financial position or operations of Promigas S.A. E.S.P.

In witness whereof, the undersigned has issued this certificate in the city of Barranquilla on the twenty-first (21<sup>st</sup>) of February two thousand seventeen (2017).

Sincerely,

Antonio Celia Martínez-Aparicio

Legal Representative

**CERTIFICATE OF THE LEGAL REPRESENTATIVE AND ACCOUNTANT OF  
PROMIGAS S.A. E.S.P**

To the Shareholders of Promigas S.A. E.S.P.

The undersigned Legal Representative and Public Accountant of Promigas S.A. E.S.P. hereby certify that the consolidated financial statements of the Company as of December 31, and June 30, 2016, have been accurately drawn from the ledgers and that, before making them available to third parties and to you, they have verified the following assertions contained therein:

- a. All assets and liabilities included in the consolidated financial statements of the Company as of December 31 and June 30, 2016, exist, and all transactions included therein have been made throughout the periods ending on such dates.
- b. All economic transactions made by the Company during the half-years ended December 31 and June 30, 2016, have been recognized in the financial statements.
- c. Assets and liabilities represent possible future economic benefits (rights) and future economic sacrifices (obligations), respectively, obtained by the Company as of December 31 and June 30, 2016.
- d. All items have been recognized at their appropriate value in accordance with the Colombian Financial Reporting Standards.
- e. All economic transactions affecting the Company have been properly classified, described and disclosed in the financial statements.

In accordance with Article 37 of Act 222/1995.

In witness whereof, the undersigned have issued this certificate in the city of Barranquilla on the twenty-first (21<sup>st</sup>) day of February two thousand seventeen (2017).

Sincerely,

Antonio Celia Martínez-Aparicio  
Legal Representative

John Rodríguez Benavides  
Accountant  
P.L. 11628-T