



## **MANAGEMENT REPORT**

Food availability for a growing population, malnutrition, climate change, responsible water use and the instability in the prices of raw materials are some of the global challenges facing the sector and that are common to our Organization.

Additionally, in 2016 we faced the volatility of the currencies in our region, high inflation rates, higher funding costs and, particularly in Colombia, we had to deal with the effects of *El Niño* climate phenomenon and several difficulties in the transportation sector.

We faced all these challenges with our corporate sustainability capabilities, aware that behind this great uncertainty there are not only associated risks, but also important opportunities in the economic, social and environmental dimensions.

These capabilities, along with our commitment to Sustainable Development, were once again recognized as the Organization was included for the sixth consecutive year in the World Sustainability Index and in the 2016 Dow Jones Emerging Markets Index, and as we received for the third time the "Silver Category" Honor from RobecoSAM in its 2017 Sustainability Yearbook. Thus, Grupo Nutresa keeps on consolidating worldwide as the second best company in the food sector due to its sustainability management, achieving the maximum performance in the metrics variables of risk and crisis management, codes of conduct, customer relationship management, health and nutrition, environmental reporting, packaging, raw materials sourcing, water-related risk management, labor practices and Human Rights indicators, and social reporting.

This management actions, along with important innovation, quality and productivity efforts deployed by a competent and committed team, allowed us to achieve the results presented today in this integrated management report, which has been prepared in accordance with the framework of the International Integrated Reporting Council (IIRC) and the new GRI standard (comprehensive option). This means that, not only this report has been prepared according to the global reporting guidelines, but it was also developed based on Grupo Nutresa's materiality matrix, which considers the most important issues for the Organization and its stakeholders.

We invite you to review in full detail the printed document and the supplementary information available on our website.

## **INCREASING VALUE GENERATION**

Grupo Nutresa presented a very positive sales dynamic in 2016 both locally and internationally. At a consolidated level, the year closed with COP 8,7 trillion in sales, which represents a growth rate of 9,2% with regard to the sales recorded in 2015, and an 8,3% growth rate if the sales by newly acquired companies are excluded for comparison purposes.



In Colombia, Grupo Nutresa's sales totaled COP 5,4 trillion, exhibiting a growth rate of 9,1%. Excluding the sales from January and February by Grupo El Corral, which are not comparable to those of 2015, we had a 7,7% growth rate that was possible due to the construction of a differentiated value offer for customers, shoppers, and consumers, and to the development of distribution networks. This allowed us to take our products to more than 519.000 points of sale in Colombia with well-known and beloved brands.

Sales outside Colombia, measured in Colombian pesos, were 9,4% higher than those recorded in December 2015 and amounted to COP 3,3 trillion, representing 38,2% of the total sales, which is equivalent to USD 1,1 billion, that is 1,0% less than those of the previous year.

The gross profit, COP 3,7 trillion, increased 7,9% in comparison to the one achieved in 2015 and reflects the combined effect of a responsible price management and the increased costs of some raw materials.

The variation in administrative and production expenses, in line with the increase in the gross profit, partially allowed us to counteract the impact of the greater effort made during the year in terms of sales expenses, which led to an operating margin of 9,4%.

The net post-operating expenses of COP 270.103 million include the increase in the cost of the debt due to higher reference interest rates in 2016.

In terms of profitability, an EBITDA margin of 11,9% on sales is reported for 2016, amounting to COP 1,03 trillion and increasing 5,5% over the 2015 EBITDA margin. This level can be largely explained by the high inflation rates recorded over the year, the effect of the devaluation of the currencies and *El Niño* climate phenomenon in Colombia, which were partially mitigated by a responsible price management with protection of volumes and a long-term vision.

Consequently, the consolidated net profit was COP 395.734 million, which represents a margin on sales of 4,6%.

Assets grew 4,0%, closing at COP 13,7 trillion. This increase is largely due to the higher value of our investments in Grupo Sura and Grupo Argos.

Liabilities increased by 1,8%, closing at COP 5,3 trillion, mainly due to the increase in the working capital liabilities, keeping the debt at an adequate level, according to our moderate financial risk profile.

Equity closed at COP 8,4 trillion, which represents a 5,4% increase compared to the equity recorded at the closing of 2015.

Grupo Nutresa's sustainability is our goal, as well as achieving the objectives of creating value in the present while delivering satisfactory results in the future, always bearing to build a better world.

The Organization's productivity efforts, distribution network development, and innovation were decisive factors to obtain these results, leaving us a solid foundation to face 2017 with optimism.



## **GRUPO NUTRESA S.A. INDIVIDUAL RESULTS**

In compliance with the Colombian regulations, we report the individual results of Grupo Nutresa S.A.: we recorded a net operating income of COP 405.573 million, from which COP 353.743 million correspond to the profit from the equity method of our investments in food companies and COP 50.453 million correspond to dividends from the investment portfolio. The net profit totaled COP 399.098 million.

## **ACQUISITIONS AND OTHER RELEVANT PROJECTS**

It is Grupo Nutresa's permanent mission to keep looking for opportunities to reach markets of interest in order to generate value for our shareholders and stakeholders in a sustainable matter over time.

In 2016, we started to expand to Central America the categories of nuts and roasted and ground coffee, and we kept on making progress with crackers in the United States, pastas in Mexico and baked snacks in Chile.

On that same path, and ensuring the efficient sourcing of cold cuts raw materials in Colombia, Grupo Nutresa acquired Fogasa, a cold storage plant located in Aguachica, Cesar.

## **SPECIAL REPORT OF THE BUSINESS GROUP**

By the end of 2016, Grupo Nutresa was formed by 73 companies, grouped as follows for administrative purposes: i) eight food businesses and their production platforms in Colombia and abroad; ii) international distribution networks; iii) national distribution companies; and (iv) administrative, logistics and transport centers which provide support to the Group's companies.

In compliance with Article 29 of Act 222 of 1995, we inform that Grupo Nutresa S.A., as the parent company of the Business Group, received from its subordinates the sum of COP 1.452 million for the sale of goods and services, and the sum of COP 226.197 million as dividends. In 2016, Grupo Nutresa S.A. endorsed financial obligations of its subordinate companies equivalent to COP 197.000 million in the interest of them. The subordinates, for their part, did not carry out operations for third parties by influence or in the interest of the parent company.

Moreover, in 2016, Grupo Nutresa S.A. did not stop making decisions to address the interest or by influence of any of its subordinate companies and none of them stopped making decisions to address the interest or by influence of Grupo Nutresa S.A.



## **LEGAL PROVISIONS**

Grupo Nutresa and its subordinates strictly complied with the intellectual property and copyright regulations, having their trademarks duly registered, owning the respective licenses of the software installed and keeping the corresponding evidence that allows to verify such compliance.

There were no relevant judicial rulings in 2016. However, as it was timely informed through the corresponding information mechanism, two legal processes were initiated in Colombia and Chile.

In Colombia, Grupo Nutresa S.A. contested the civil action filed by Andrés Arcila Tobar against the Company and other forty-four defendants. This civil action pretends to question the validity of the Rica Rondo S.A. shares purchase agreement signed on December 28, 2001.

In Chile, the companies of the Tresmontes Lucchetti Business, subsidiary companies of Grupo Nutresa, filed a complaint before the Santiago de Chile Tax and Customs Court against a resolution issued by Chile's Internal Tax Service (abbreviated SII in Spanish) that refutes the income tax statements of these companies for the 2014 fiscal year and the recognition of the effects that according to the law correspond to the reorganizations carried out, partially denying the tax return requested by said companies.

Furthermore, no relevant fines or penalties were imposed on Grupo Nutresa's companies or their executive managers over the year.

Note 17 of Grupo Nutresa's Basic Financial Statements, which is published on our website, contains all the details of the operations with shareholders and persons addressed in Article 47 of Act 222 of 1995 and other concordant regulations, operations that were held under market conditions.

The Company declares that it did not hinder the free circulation of invoices issued by the Business Group's vendors or suppliers, according to the provisions of Act 1676 of 2013. Additionally, the Company certifies that the financial statements and other relevant reports do not contain any flaws, inaccuracies or errors that would impede finding out the true equity situation of the Company, pursuant to the provisions of Article 46 of Act 964 of 2005.

## **ASSESSMENT OF THE PERFORMANCE OF BOTH THE FINANCIAL INFORMATION DISCLOSURE AND THE CONTROL SYSTEMS**

The Company's internal control system includes, among other components, the necessary resources to guarantee the accuracy and reliability of the information required to plan, direct, control and measure the performance of its businesses, and to ensure an adequate disclosure of information to its shareholders and other investors, as well as to the market and the public. These resources include comprehensive risk management processes, accountability systems, control plans and programs, budget and cost tools, chart of accounts, standardized policies and procedures, formats and integrated information systems for documenting and recording operations, as well as dashboards for the



Administration to continuously monitor the processes. The Internal Audit Department, through an independent and comprehensive assurance management, verifies the achievement of the Company's goals and objectives in all processes and watches over the adequate protection, use, and conservation of the assets. The Tax Auditor, for its part, is responsible for verifying and certifying relevant aspects such as compliance by the Company with legal, statutory and administrative standards, the reasonableness of its financial statements and the information disclosed therein.

In December 2016, after an external quality assessment, the Institute of Internal Auditors —IIA Global— certified Grupo Nutresa's Internal Audit Department with regard to its international framework for professional practice. This framework is a benchmark recognized by global organizations such as the OECD, the IMF and the World Bank, and it is applicable in more than 190 countries worldwide.

The results of the Administration's continuous monitoring and of the independent assessments carried out by the Internal Audit Department and by the Tax Auditor were communicated in each case in a timely manner to the corresponding bodies, including the Finance, Audit and Risks Committee, allowing thus to confirm that the performance of the financial information disclosure and control systems of the Company and its Businesses are adequate. These systems ensure the adequate and timely delivery of such information, which must be verifiable through accounting methods, as it refers to operations that due to their nature must be reflected and disclosed in the financial statements, or in accordance with the expectations, projections, cash flows or budgets in the case of business initiatives or projects. All of this must be done within the restrictions imposed by the law, confidentiality contracts or agreements related to the disclosure of this type of operations. Based on the aforementioned activities, it is further reported that there were no significant deficiencies in the design and operation of the internal control measures that could have prevented the company from adequately recording, processing, summarizing and presenting the financial information of the corresponding term. No cases of fraud were identified with an effect on the quality of such information, nor were there changes in its assessment methodology.

## **SUSTAINABLE NUTRESA**

Our sustainable development vision proposes a responsible business management that empowers the Organization to make progress and generate long-term value.

Grupo Nutresa recognizes its stakeholders, the Organization is always interested in knowing their expectations and needs in order to combine them with the Company's aspects of interest. This allows us to define priorities, transform sustainability into our action framework and integrate it with our strategy.

In 2016, we actively participated in the first year of the implementation of the Sustainable Development Goals (SDS), due to the fact that we were connected with the Advisory Group from the private sector of the United Nations Sustainable Development Goals Fund and with the Corporate Leadership Group created by The Global Reporting Initiative. This allowed us to prioritize the SDGs on which we will focus



our management and the associated metrics, and to engage suppliers from different locations so that they get involved in the achievement of these global challenges.

In addition to the position obtained on the Dow Jones Sustainability Index mentioned above, in 2016 the Organization was awarded the ALAS20 award in the categories of Leading Company in Sustainability, Leading Company in Relations with Investors and ALAS20 Colombia Company in acknowledgment of our sustainability management, consistency in the public disclosure of information on investor relations practices and our good corporate governance.

Finally, the business reputation monitoring organization “Merco Empresas,” in its 2016 publication, ranked Grupo Nutresa as the second company with the best reputation in Colombia and the first in the food and beverage sector.

## **OUR PLANET**

Although 2016 brought climate-related challenges, the contingency mechanisms adopted by Grupo Nutresa prevented its operations from being negatively affected. This ratifies the relevance of our continuous and consistent work in the search for eco-efficient processes and value chains that contribute to the fulfillment of our growth and profitability goal with a lower environmental impact. These events prompted us to define a climate change policy that will allow us to be better prepared for future events.

In 2016, we progressed towards fulfilling the environmental goals by 2020. We also reduced our energy consumption by 17,1% in Colombia, greenhouse gas emissions by 21,0%, water consumption by 25,8%, and the use of packaging materials by 5,4% (indicators calculated per ton produced with regard to the 2010 baseline).

Furthermore, we strengthened the environmental performance of our sourcing chain, particularly the practices related to the production and processing of raw materials, due to the fact that the most significant environmental impacts occur outside our direct operations. Likewise, we continue to collaboratively work on initiatives that will allow us to reduce the impacts and manage the risks associated with the environmental performance of our products throughout their life cycle.

## **BUILDING A BETTER SOCIETY**

Grupo Nutresa permanently works on achieving human development, focused on the consolidation of a culture centered on the recognition and respect for the being, transformational leadership, inclusion, appreciation of diversity, promotion of a balanced life, organizational climate management and the development of our talents. We do all of this with the conviction that the results and the achievement of the objectives are obtained with the help from committed, passionate and skilled people, and with healthy and safe work environments.



In 2016, the Organization continued to be ranked as the best company to work for in the Colombian food sector, and in Chile we remained in the group of the best employers, according to the Merco Talento results. In addition, we closed the year at a level of excellence according to the organizational climate indicators, which is the result of our constant concern about managing the achievement of the satisfaction and commitment of our employees. Also, we closed the year with lower levels of accident occurrence due to our commitment to occupational health management processes.

We continued to work on the process of validation and follow-up of the management of good labor practices by our suppliers and contractors, identifying possible risks and supporting their development to mitigate such risks and improve their competitiveness.

Additionally, we continued to promote community capabilities development through nutrition, education, income generation and entrepreneurship projects with a total investment of COP 55.272 million in the strategic region, benefiting 4.141.478 low-income people. Likewise, the sense of collectivism and the sustainable vision continue to be important talents among Grupo Nutresa's employees, which is evidenced by the 11.862 volunteers from different locations who contributed 33.048 hours of their time and donated about COP 163 million for community projects.

## **OUTLOOK**

We will face a changing and highly competitive business environment in a region that also has one of the greatest growth opportunities in the world.

Economic, demographic and social changes, the reduction of poverty and the end of armed conflicts will contribute to the improvement of the dynamics in the territories where the Organization operates.

We look forward to the future; we will develop new capabilities that, combined with the ones we already have and acting within a framework of sustainable development and innovation, will enable us to achieve the goals we have set.



## **ACKNOWLEDGMENTS**

We would like to thank all the employees for their solid dedication and commitment, as well as our customers, consumers, suppliers and the community for motivating us to manage a more humane and sustainable organization. Finally, we specially would like to express our gratitude to our shareholders for their trust and their support to our purpose of building a better world where we can all achieve a sustainable development.

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