

COLOMBIA

Changing Perceptions

WITH

a fast-growing economy, political stability and great natural and human resources, Colombia is Latin America's rising star, with the ambitious country attracting billions of dollars of foreign direct investment (FDI) from trade partners like the U.K.

Lucrative investment opportunities exist across the republic's robust and diversifying economy, not just in the traditionally dominant energy and agribusiness sectors, but also in the mining, infrastructure, telecommunications, manufacturing and tourism industries.

In a clear sign of the impressive progress being made by the administration of President Juan Manuel Santos Calderón, Colombia recently signed a Free Trade Agreement (FTA) with the European Union that is due to be ratified in September and come into force in 2013.

"Colombia has many of the things the U.K. needs ... I want to attract British investors and businesses for a win-win situation." Juan Manuel Santos Calderón, President

The FTA will give a further boost to Colombia's exports, which reached a record \$60 billion in 2011, up 41% versus 2010, and attracted fresh FDI that totalled \$15 billion last year—up 58% year-on-year.

During his successful visit to London in November 2011, where he met U.K. officials including Prime Minister David Cameron, President Santos said: "Colombia is considered a rising star. We are doing very well economically; we are almost 50 million consumers and need investment and technology.

"Colombia has many of the things the U.K. needs and the U.K.



Juan Manuel
Santos Calderón
President



Mauricio Cárdenas
Santa María
Minister Mines and Energy



Orlando Cabrales Segovia
President, National Hydro-
carbons Agency (ANH)

many of the things that Colombia needs, so there are tremendous opportunities and great potential. I want to attract British investors and businesses for a win-win situation."

In an exclusive interview with *Business Outlook*, President Santos highlighted the huge importance of U.K.-Colombian trade ties, with 70% of all E.U. exports to Colombia coming from the U.K. "Today, more than ever, relations between Colombia and the U.K. are productive, beneficial and promising for both countries," he said.

Mining and Energy Power Growth

Given its vast natural resources like oil, coal and gold, strategic location and extensive coastline that provides easy access to external markets, Colombia's energy and mining industries are a key source of foreign revenue and FDI.

According to Colombia's Mines and Energy Minister, Mauricio Cárdenas Santa María, there are three key reasons the mining and energy sectors have performed well in recent years and will remain a leading driver of economic growth.

"First, a stable legal framework builds trust with the investor," he explains. "Second, the improved security situation of Colombia, and third, the great momentum we are experiencing

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- Committed to everyday low prices • 4 million customers registered in our loyalty program.
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59 years believing in Colombia

in the prices of 'commodities' which makes investment more attractive."

Established in 2003, the National Hydrocarbons Agency (ANH) aims to promote the optimal and sustainable development of hydrocarbons by harmonizing the sometimes conflicting interests of society, the State and commercial businesses.

With an annual exploration investment budget of \$200 million, the authority is charged with finding and identifying new areas for exploration and regulating industry activities and operations. The ANH is also responsible for monitoring and administering royalty payments and other hydrocarbon activities.

"Colombia has great energy potential and will soon become the world's 18th largest oil producer, an achievement that will be a great milestone," says ANH president, Orlando Cabrales Segovia.

One of the most important and pressing challenges facing Colombia and ANH officials is the best way to open and develop these lucrative new oil and gas markets to domestic and international organizations.

The forward-thinking authority recently oversaw Ronda Colombia 2012, which saw companies bid for exploration and production licenses for 115 offshore and onshore blocks. The tender followed the success of the inaugural initiative two years ago—Ronda Colombia 2010.

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Orlando Cabrales Segovia, President of the National Hydrocarbons Agency (ANH)

"The U.K. will always be a very important player in oil and gas activities," Cabrales Segovia adds. "There are some companies with capital in the U.K. that already have a presence in Colombia, but we want to increase British investment in our country, particularly in oil and gas. Colombia is open to foreign investment and offers investors a favorable business climate. Our country has clear rules that are respected and a great tradition of contractual stability; there has never been government intervention in existing contracts."

Paul Dias is the CEO of Minatura, a mining company that explores, develops and extracts precious and base metals in Colombia and West Africa. Since Dias and his wife, Svava Carlsen, founded the company, it has become a beacon for excellent environmental and community practices.

Dias, a financier and venture capitalist with more than 20 years' experience, went to Colombia in 2001, "with the mindset of an investor," he says. "I was stunned at the tremendous wealth of resources available. To our advantage, very few foreign investors were there at the time because of security issues relating to exploration. I started my first project developing an old gold mine in Remedios. Today, we know this place well; Minatura has matured in line with its vision. Our company holds concessions that are propelling us toward becoming a



Plaza de Bolívar in Bogotá.

world-class resource development company. We now have 24 projects in South America and West Africa.

"In the beginning, I was happy to provide jobs in an area where unemployment was common, but I soon realized there were other deeper needs that required attention. How could my business grow without local security and stability, for example? The answers would have to come from beyond the mining sector. I strongly encouraged involvement from the community. If I wanted the community to accept me, I had to accept them on equal terms. The respect between us grew, and so did our mutual understanding."

This way of thinking created the sustainable part of Minatura's philosophy. "It was very organic," Dias says. "We worked with the people directly. The first thing I realized was that mining could not be their only source of income. Every mining area has its end point. What then? We started looking at other ways for the people in those areas to generate income. A model of micro-economies and ecosystems where people could be sustained, nourished, educated and live in harmony with their environment."

Initial projects took the form of raising hens for food and supplementary income, but beekeeping was soon discovered to be a more productive option. Now 300 families are managing bee farms in many areas, and they are producing impres-



sive results.

"For us, honey is the true gold; it is a give-give relationship between the bees, the people and the land," Dias says. "The families that participate receive all necessary training and are involved in all aspects of the farming. Our goal is to have 2,000 families involved within the next two years. That will have a regional impact on some 25,000 people in total."

Minatura is now working on a fish-farming project with experts from Iceland and Taiwan. It also has a very successful program for mercury recovery, an offshoot of gold mining practices.

"At the end of the day, it is not the amount of money you make, it is the value created," Dias says. "That is longevity, that is sustainability and that is true growth."

Transparency Gives Investors Greater Clarity

Colombia is blessed with a wealth of precious metals and rare jewels such as emeralds, with Colombian emeralds considered among the best in the world thanks to their stunning lime green color, clarity, transparency and size.

Although the sector's development had been held back by a negative image, industry leaders Coexminas and Esmeraldas Santa Rosa are working very hard to raise awareness of the sector and implementing serious measures to improve its public perception.

"The potential of the local emerald sector is huge as only 2% of the mines are exploited. We have three contracts and so are very well positioned in the sector."

Germán Humberto Forero Jiménez, General Manager of Esmeraldas Santa Rosa

While Esmeraldas Santa Rosa locates and mines the valuable stones, Coexminas is responsible for bringing them to market. About 98% of Colombian emeralds are exported, mainly to Europe, the U.S., Asia and the Middle East.

"It is essential to promote transparency in the traceability of Colombian stones to reach the customer. Branding is important but even more so is good practice and know-how of the guild," says Coexminas general manager, Edwin Molina. "Coexminas' emeralds are among the purest in the world and we distribute our emeralds through a partnership which results in the Muzo brand. We are responsible, ethical, professional, and meet international standards.

"The quality of the stones that exist here cannot be replicated. We stand for the highest degree of responsibility. What the

industry needs is venture capital and serious professionals."

"Esmeraldas Santa Rosa is a concession: we do not commercialize emeralds, just the exploration and production part. Neither do we process the stones," states general manager, Germán Humberto Forero Jiménez.

The Colombian government is taking a series of measures to increase transparency in the emerald sector and reduce the risk of money laundering and illegal practices. In addition, it suggests companies incorporate risk management processes in their business model.

This proactive approach is something Esmeraldas Santa Rosa helped pioneer. "We work with a risk management company," Forero adds. "The potential for the local emerald industry is huge as only 2% of the mines are exploited. We have three contracts, one of 47 hectares, so are very well positioned in the sector."

A young and entrepreneurial pharmaceutical firm with a 35-year history, PROCAPS epitomizes innovation and staying power. When other companies left Colombia during the unstable 1990s, PROCAPS continued to invest there and expand its portfolio, developing other lines of business to produce hospital supplies, RX pharmaceuticals, over-the-counter medications and dietary supplements.

Today, the group has a direct presence in 11 other countries, exports to 38 markets and is recognized as a pioneer for the Colombian pharmaceutical industry. It is proud to be the most-prescribed laboratory by doctors, and to have gained the trust of the medical profession. It has also become a strategic partner to a group of the most important multinational laboratories with a presence in the American market.

This success is in no small part due to the fact PROCAPS invests around \$9 million annually in research and development (R&D) and implements a rigorous training process. It has around 250 pharmaceutical chemists working exclusively on new formulas and technologies. Colombia understands the importance of innovation and R&D, and their role in the country's growth through partnerships between the government and private companies—pushing them while supporting them at the same time. But unlike more developed countries, it faces the added challenge of limited resources.

For PROCAPS, the way forward is to focus on becoming "better every day, and not necessarily being the largest."

For this reason, it focuses its efforts on strengthening global quality processes and operational excellence that allows it to penetrate new markets as highly regulated as the U.S., Europe and Asia with innovative products and technologies and continue to build strategic alliances in the pharmaceutical market with world class players.

New Transport Infrastructure Given Green Light

One of the largest countries in Latin America, Colombia's key transport infrastructure such as highways, ports and airports are not as well developed as some of its neighbors, though the government is determined to improve the situation and has pledged substantial funding for new transport networks.

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Ana Maria Galvis (57) 312 3041475, anamaria.galvis@doblep.com.co
José Luis Palencia (571) 5301991, 3819411, jose.palencia@doblep.com.co
info@colombiaoilandgas2012.com



Daabon helps hundreds of small producers cultivate organic and RSPO-certified palm.

Servientrega is a leading provider of integrated logistics solutions in the collection, transportation, storage, packing and packaging, promotion, and distribution of documents and goods. The company is the category leader in Colombia and Ecuador and boasts a strong presence in Venezuela, Panama, Peru and the U.S.

"We have developed and grown through an internal generation model, without capital, by leasing," states Servientrega president, Luz Mary Guerrero Hernández. "More than 70% of the business is done by what we call satellite entrepreneurs, of which there is a large network. We focus on generating and spreading wealth and a model of entrepreneurship. We are interested in micro enterprises. Our drive is to summon people as entrepreneurs as that is what truly creates a sustainable business model."

Another company, Daabon, exemplifies perfectly why mid-sized Colombian businesses are now so successful on the international stage beyond Latin America. Operating out of the Caribbean port of Santa Marta, it has opened offices in key organic markets like Germany, the U.S., Japan and Australia.

Critical to its growth as a producer of organic agricultural products has been the securing of international recognition for its pioneering commitment to social, economic and environmental sustainability, with the company always striving to improve the living standards and working conditions of employees and local communities.

Daabon's core values of ethics, integrity, innovation and trust continue to guide it today just as they did when the firm was



Daabon produces more than 2 million boxes of organic Fair Trade bananas. www.daabon.com

founded 100 years ago. "This strong commitment ensures the business is ecologically sustainable, meeting the needs of the present without jeopardizing the livelihood of our local communities or the environment," explains Manuel Julián Dávila, CEO of the Daabon Group. Today, the company supplies a range of sustainable and fully traceable products through its vertically integrated operation to the global food and cosmetics industries. Its reputation and success have been measured by the positive impact of its social and environmental projects. "We will continue to work together with all our stakeholders, to ensure that future generations benefit from our sustainable approach," Dávila adds.

Investment Boosts Retail Giant

Privately-owned and based in beautiful Barranquilla, Olímpica started off as a small pharmacy but is now one of the largest medicine and food retailers in Colombia, with hundreds of stores and strong online presence. Revenues for 2012 are projected at \$1.8 billion. "Our performance in 2011 was very satisfactory, with significant growth in revenue and net profit. We are the largest retail company with 100% Colombian capital," says Olímpica legal representative, José Manuel Carbonell. "Regardless of the economic situation, we have never stopped growing. Year after year we have made considerable investments and opened more points of sale. Today, Olímpica is the first retailer in Colombia to use SAP technology, and we are continuing to open outlets in different parts of the country."



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We dream it... we do it



A "Big Picture" precious and base metals company

A beacon for socially responsible, sustainable exploration and mining, Minatura is equipping local communities with the skills and resources they need to enjoy a golden future.

LOTS

of small mining companies think big, but the Colombian precious metals producer Minatura envisions a bigger picture: A global portfolio of profitable operations grounded in sustainable economic development for project neighbors.

According to Paul Dias, Chief Executive Officer, some 300 families near the company's operations supplement their incomes with another kind of gold: pure honey from beehives established with the help of Minatura's outreach.

"The world is changing and companies have to take responsibility," says Dias. "If a community gives us access to their resources, it's paramount that we learn how we can help them provide for themselves."

With a strong U.S. and European investor base, Minatura currently has 24 mining projects in Colombia and West Africa and wants to grow annual alluvial gold production to senior producer levels over the next four years. The company plans to use operating cash flow from such production to fund long-term exploration in its hard rock gold and copper deposits and to make distributions to its investors.

"If a community gives us access to their resources, it is paramount we learn how we can best enable them to provide for themselves."

Paul Dias, Chief Executive Officer, Minatura

But to succeed in mining, asserts Dias, Minatura must first succeed by helping people create self-sustaining businesses while protecting their environment—"Mining" + "Nature" = Minatura. Dias sees its approach as a competitive advantage: "We've mastered the creation of community supported projects in conflict zones where other mining companies have failed."

Minatura specializes in low-impact mining methods

such as "concurrent reclamation", uses no mercury and provides technology to clean up mercury at old mining sites. Minatura has also pioneered a method to measure an alluvial precious metals resource in 1/10th of the time of traditional methods and with greater accuracy. With its multiple technical strengths and visionary community engagement, the company's holistic approach neutralizes much of the business risk in developing countries.

This problem isn't surprising given mining's "boom and bust" heritage. Development brings temporary prosperity, but leaves behind an economic vacuum—and often, a degraded environment.

So before starting work, Minatura meets with community leaders to explore their needs and potential. Close coordination with government officials and non-governmental organizations results in approved mining plans and comprehensive community development strategies for each site. Inspired by success in beekeeping, the company is working on prospects for fish farming, biodiesel production and other small enterprises to complement the mine jobs and local economic stimulus provided by Minatura's exploration and development projects.

Dias wants to deploy Minatura's model in other countries—and the company's newer West Africa projects are proving the potential.

Minatura's multi-country hybrid model of developing strong cash flow from alluvial operations while conducting robust exploration programs in hard rock deposits is attracting discerning and local community aware investors. Please contact us if you would like to know more about Minatura.

info@minatura.com | www.minatura.com



Paul Dias
Chief Executive Officer
Minatura

U.S. Headquarters

31225 La Baya Drive, Suite 200, Westlake Village
California 91362, USA
Tel: (+1) 805.557.9200

Colombia Headquarters

Carrera 25 N° 1 A Sur 155, Piso 17, Medellin
Colombia
Tel: (+57) (4) 6051080



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