

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Annual Report on Form 20-F**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR  
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
Commission file number: 001-34175

ECOPETROL S.A.  
(Exact name of Registrant as specified in its charter)

N/A  
(Translation of Registrant's name into English)

REPUBLIC OF COLOMBIA  
(Jurisdiction of incorporation or organization)

Carrera 13 No. 36 – 24  
BOGOTA – COLOMBIA  
(Address of principal executive offices)

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(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

**Title of each class**

American Depositary Shares (as evidenced by American Depositary Receipts),  
each representing the right to receive 20 Common Shares  
Ecopetrol Common Shares par value Ps\$250 per share\*  
7.625% Notes due 2019

**Name of each exchange on which registered:**

New York Stock Exchange  
Lima Stock Exchange  
New York Stock Exchange  
New York Stock Exchange

\*Not for trading but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the SEC.

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares, par value Ps\$250 per share: 40,472,512,588

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting  
Standards as issued by the  
International Accounting Standards  
Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements of Ecopetrol S.A. (hereinafter “we”, “us”, “our”, “Ecopetrol” or the “Company”), within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements are not based on historical facts and reflect our expectations for future events and results. Most facts are uncertain because of their nature. Words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “should”, “plan”, “potential”, “predicts”, “prognosticate”, and “achieve”, among other similar expressions, are understood as forward-looking statements. These factors may include the following:

- Drilling and exploration activities
- Future production rates
- Import and export activities
- Liquidity, cash flow and uses of cash flow
- Projected capital expenditures
- Dates by which certain areas will be developed or will come on-stream
- Allocation of capital expenditures to exploration and production activities

Actual results are subject to certain factors out of the control of the Company and may differ materially from the anticipated results. These factors may include the following:

- Changes in international crude oil and natural gas prices
- Competition
- Limitations on our access to sources of financing
- Significant political, economic and social developments in Colombia and other countries where we do business
- Military operations, terrorist acts, wars or embargoes
- Regulatory developments
- Technical difficulties
- Other factors discussed in this document as “Risk Factors”

Most of these statements are subject to risks and uncertainties that are difficult to predict. Therefore, our actual results could differ materially from projected results. Accordingly, readers should not place undue reliance on the forward-looking statements contained in this annual report.

## ENFORCEMENT OF CIVIL LIABILITIES

We are a Colombian company, all of our Directors and executive officers and certain of the experts named in this annual report are residents of Colombia, and a substantial portion of their respective assets are located in Colombia. Colombian courts determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known as *exequatur*. Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the following requirements:

- a treaty exists between Colombia and the country where the judgment was granted or there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;
- the foreign judgment does not relate to “*in rem rights*” vested in assets that were located in Colombia at the time the suit was filed and does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;
- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal and a duly certified and authenticated copy of the judgment has been presented to a competent court in Colombia;
- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties; and
- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designated to give the defendant an opportunity to defend against the action.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court has in the past accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. However, such enforceability decisions are considered by Colombian courts on a case-by-case basis.

We reserve our right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 with respect to actions brought against us under United States federal securities laws or any state securities laws.

## PRESENTATION OF FINANCIAL INFORMATION

In this annual report, references to “US\$” or “U.S. dollars” are to United States Dollars and references to “\$”, “Ps\$”, “Peso” or “Pesos” are to Colombian Pesos, the functional currency under which we prepare our financial statements. Certain figures shown in this annual report have been subject to rounding adjustments and, accordingly, certain totals or tables may not be an exact calculation of the preceding figures. In this annual report a billion is equal to one with nine zeros.

The accompanying audited consolidated financial statements of Ecopetrol and our consolidated subsidiaries for the years ended December 31, 2009, 2008 and 2007 have been prepared from accounting records, which are maintained under the historical cost convention as modified in 1992, to comply with the legal provisions of the Colombian *Contaduría General de la Nación* or National Accounting Office or CGN, to recognize the effect of inflation on non-monetary balance sheet accounts, including shareholders’ equity, until December 31, 2001. The CGN eliminated the use of inflation adjustments for accounting purposes for state-owned companies starting on January 1, 2002. However, our consolidated financial statements recognize the effect of inflation on non-monetary balance sheet accounts for an extended period from January 1, 1992 until December 31, 2006 for Hocol, Oleoducto de Colombia S.A. and Ocesa because, prior to our acquisition of these companies, they were subject to the accounting rules applicable to Colombian privately-owned entities. Under such rules, the effect of inflation on non-monetary balance sheet accounts was required to be recognized until December 31, 2006.

Our consolidated financial statements are prepared in accordance with accounting principles for Colombian state-owned entities issued by the CGN and other applicable legal provisions. The CGN adopted new accounting principles for Colombian state-owned entities in September 2007. These accounting principles are known as the *Régimen de Contabilidad Pública* (Regime of Public Accounting or RCP). Pursuant to CGN Communication No. 0079-101345 of September 28, 2007, RCP became effective for Ecopetrol beginning with fiscal year ended December 31, 2008. Our consolidated financial statements at and for the years ended December 31, 2009 and 2008 have been prepared under RCP. Our consolidated financial statements for all prior years were prepared under the *Plan General de Contabilidad Pública* (General Governmental Accounting Plan or PGCP), the former accounting principles issued by the CGN for Colombian state-owned entities. RCP differ in certain respects from PGCP. See Note 1 to our consolidated financial statements “Principal Accounting Policies and Practices”. We refer to both RCP and PGCP as Colombian Government Entity GAAP. Colombian Government Entity GAAP differs in certain significant respects from generally accepted accounting principles in the United States or U.S. GAAP. Note 33 to our audited consolidated financial statements included in this annual report provides a description of the principal differences between Colombian Government Entity GAAP and U.S. GAAP as they relate to our audited consolidated financial statements and provides a reconciliation of net income and shareholders’ equity for the years and dates indicated therein. As a state-owned company, our consolidated financial statements are periodically reviewed by the CGN. However, the review of our accounts by the CGN does not constitute an audit.

Our consolidated financial statements include the financial results for Black Gold Re Ltd., Oleo é Gas Do Brasil Ltda., Ecopetrol Perú S.A., Ecopetrol America Inc., Andean Chemicals Ltd., Propilco S.A., Ecopetrol Global Energy, Ecopetrol Transportation Company Limited, Ecopetrol Pipelines International Limited, Refineria de Cartagena S. A. (“Reficar”), COMAI - Compounding and Masterbatching Industry Ltda. and Hocol Petroleum Limited, which are wholly owned by us. Our consolidated financial statements also include the financial results of Bioenergy S.A., ODL Finance, Oleoducto Central S.A. (Ocensa) and Oleoducto de Colombia S.A. (ODC) of which at December 31, 2009 we had a 80%, 65%, 60% and 66% interest, respectively. Black Gold Re Ltd., Oleo é Gas Do Brasil Ltda., Ecopetrol Perú S.A. and Ecopetrol America Inc. are included in our consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. Andean Chemicals Ltd., Propilco S.A., Bioenergy S.A. and ODL Finance are included in our consolidated financial statements for the years ended December 31, 2009 and 2008. Ecopetrol Global Energy, Ecopetrol Transportation Company Limited, Ecopetrol Pipelines International Limited, Reficar, Hocol Petroleum Limited, Oleoducto Central S.A. (Ocensa) and Oleoducto de Colombia S.A. (ODC) are included in our consolidated financial statements for the year ended December 31, 2009. These financial statements were consolidated line by line and all transactions and significant balances between affiliates have been eliminated.

This annual report translates certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such Peso amounts have been translated at the rate of Ps\$2,044.23 per US\$1.00, which corresponds to the *Tasa Representativa del Mercado* or Representative Market Rate for December 31, 2009, the last business day of the year. The Representative Market Rate is computed and certified by the *Superintendencia Financiera* or Superintendency of Finance, the Colombian banking and securities regulator, on a daily basis and represents the weighted average of the buy and sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions. The Superintendency of Finance also calculates the Representative Market Rate for each month for purposes of preparing financial statements and converting amounts in foreign currency to Pesos. Such conversion should not be construed as a representation that the Peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On July 14, 2010, the Representative Market Rate was Ps\$1,871.19 per US\$1.00.

#### PRESENTATION OF ABBREVIATIONS

The following is a list of crude oil and natural gas measurement abbreviations commonly used throughout this annual report.

bpd	Barrels per day
boe	Barrels of oil equivalent

btu	British thermal units
cf	Cubic feet
cfpd	Cubic feet per day
mcf	Million cubic feet
mcfpd	Million cubic feet per day
mbtu	Million British thermal units
gbtu	Giga British thermal units
gbtud	Giga British thermal units per day
gcf	Giga Cubic feet

## **PRESENTATION OF THE NATION AND GOVERNMENT OF COLOMBIA**

References to the Nation in this annual report relate to the Republic of Colombia, our controlling shareholder. References made to the Government of Colombia or the Government correspond to the executive branch including the President of Colombia, the ministries and other governmental agencies responsible for regulating our business.

## **PRESENTATION OF INFORMATION CONCERNING RESERVES**

Information concerning the technical definitions used for the estimated proved reserves is included in this annual report. Our hydrocarbon net proved reserves have been audited in 2009 by Ryder Scott, DeGolyer and MacNaughton and Gaffney, Cline & Associates (collectively, the “External Engineers”) and their reserves reports are included as exhibits herein. These firms have audited 97% of our total net proved reserves for 2009. Their audit process was conducted in accordance with the U.S. Securities and Exchange Commission (“SEC”) definitions and rules set forth in Rule 4-10(a) of Regulation S-X and the disclosure guidelines contained in the SEC’s “*Modernization of Oil and Gas Reporting*” final rule dated December 31, 2008 and effective as of January 1, 2010. The information presented in this annual report referring to our 2009 net proved reserves estimates is based on those reports and on our own calculations for the remaining 3% of our hydrocarbon net proved reserves. The information regarding 2008 net proved reserves is based on the 2008 audited reserve reports for 89% of our total reserves prepared by the External Engineers under SEC definitions and rules. The remaining 11% corresponds to calculations made by us internally using SEC definitions and rules. The information regarding our proved reserves for 2007 is based on the 2006 reserves reports prepared by the External Engineers under SEC definitions and rules at December 31, 2006 and updated by us to December 31, 2007 by applying the same rules. See “Item 4B – Business Overview – Reserves” for additional information on our reserves estimates.

On December 31, 2008, the SEC issued a final rule revising disclosure requirements relating to oil and gas reserves as contained in Rule 4-10(a) of Regulation S-X. For Ecopetrol, the principal of the rule change was in the prices used to estimate our reserves. In relation with the crude oil and natural gas prices, under the new SEC rule, reserves are required to be estimated by applying (x) the unweighted arithmetic average of the first-day-of-the-month price for each month within the year to (y) year-end quantities of proved reserves (the “SEC average price methodology”). Prior to this revision, the SEC required reserves to be estimated by applying (x) the year-end WTI price to (y) year-end quantities of proved reserves (the “SEC year-end price methodology”). Our proved reserves as of December 31, 2009 are based on the SEC average price methodology for purposes of U.S. GAAP. Our proved reserves as of December 31, 2008 and 2007 are based on the SEC year-end price methodology for purposes of U.S. GAAP.

### **ITEM 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

### **ITEM 2. Offer Statistics and Expected Timetable**

Not applicable.



**ITEM 3. Key Information**

**3.A. Selected Financial Data**

The following table sets forth, for the periods and at the dates indicated, our summary historical financial data, which have been derived from our consolidated financial statements, presented in Pesos. Our consolidated financial statements for the years ended December 31, 2009 and 2008 were audited by Pricewaterhouse Coopers Ltda. and our consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 were audited by Ernst & Young Audit Ltda. The information included below and elsewhere in this annual report is not necessarily indicative of our future performance. The tables set forth below are derived from, and should be read in conjunction with, our consolidated financial statements and accompanying Notes included in this annual report. See also Item 5 – “Operating and Financial Review and Prospects” in this annual report.

	<b>BALANCE SHEET</b>					
	<b>For the year ended December 31,</b>					
	<b>2009<sup>(1)</sup></b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(US\$)					
	<b>in thousands except for common share and dividends per share amounts)</b>					
						<b>(Pesos in millions except for common share and dividends per share amounts)</b>
Total assets	27,178,702	55,559,517	48,702,412	48,112,080	42,137,722	32,664,817
Shareholders' Equity	15,932,628	32,569,957	34,619,717	26,808,467	20,835,746	13,285,251
Number of common shares <sup>(3)</sup>	40,472,512,588	40,472,512,588	40,472,512,588	40,472,512,588 <sup>(2)</sup>	36,384,788,817	36,384,788,817
Dividends declared per share:	0.11	220.0 <sup>(4)</sup>	115.0 <sup>(4)</sup>	123.0 <sup>(4)</sup>	55.0	35.7
<b>Amounts in accordance with U.S. GAAP</b>						
Total Assets	21,198,326	43,334,253	40,244,452	29,698,528	26,517,482	
Ecopetrol Shareholders' Equity	11,027,096	22,541,921	27,425,735	20,991,031	18,015,386	
Number of common shares <sup>(3)</sup>	40,472,512,588	40,472,512,588	40,472,512,588	40,472,512,588	36,384,788,817	
Dividends declared per share:	0.11	220.0	115.0	123.0	55.0	

- (1) Amounts stated in U.S. dollars have been translated for the convenience of the reader at the rate of Ps\$2,044.23 to US\$1.00, which is the Representative Market Rate at December 31, 2009, the last business day of the year, as reported and certified by the Superintendency of Finance.
- (2) Includes 48,512,147 new shares, before the 1 to 400 split, issued to the Republic of Colombia or the Nation on April 27, 2007 as a result of the capitalization of developed reserves in accordance with Decree 2625 of 2000.
- (3) Number of common shares include (i) a 1 to 400 stock split occurred in July 2007 which for purposes of comparability and dividends per share has been applied as if it had occurred in 2003, (ii) 48,512,147 shares issued to the Nation on April 2007 representing in-kind contributions, and (iii) 4,087,723,771 shares issued to the public in connection with our initial offering of shares in Colombia.
- (4) Represents payments made in 2009 and 2008 based on net income and retained earnings for the years ended December 31, 2008 and 2007, respectively. In 2007 dividends were declared and paid on 36,384,788,817 shares. In the same year, dividend payments to the Nation amounted to Ps\$4,475,399 million of which Ps\$3,052,236 million corresponded to net income and Ps\$1,423,163 million to retained earnings paid prior to our initial public offering in the fourth quarter of 2007. See Item 5 — “Operating and Financial Review and Prospects — Pre-IPO Distribution of Retained Earnings”.

Colombian Government Entity GAAP differs in certain significant respects to U.S. GAAP. For differences in net income and shareholders' equity, see Note 33 to our consolidated financial statements “Differences between Colombian Government Entity GAAP and U.S. GAAP” and Item 5 — “Operating and Financial Review and Prospects — Principal Differences between Colombian Government Entity GAAP and U.S. GAAP.”

**INCOME STATEMENT**

	For the year ended December 31,					
	2009 <sup>(1)</sup>	2009	2008	2007	2006	2005
	(US\$ in thousands except for income per share and average number of shares amounts)		(Pesos in millions except for net income per share and average number of shares amounts)			
Total revenue	14,873,273	30,404,390	33,896,669	22,332,320	18,389,965	15,512,903
Operating income	3,851,494	7,873,339	12,657,358	8,959,138	4,798,437	4,543,292
Net operating income per share	0.10	195	313	292	113,038	107,027
Income before income tax	3,546,981	7,250,844	16,011,204	7,065,304	4,891,142	4,288,330
Net income	2,510,507	5,132,054	11,629,677	5,179,792	3,391,373	3,253,756
Weighted average number of shares outstanding <sup>(2)</sup>	40,472,512,588	40,472,512,588	40,472,512,588	30,702,164,870	42,449,825	42,449,825
Net income per share <sup>(3)</sup>	0.06	127	287	169	79,891	76,648
<b>Amounts in accordance with U.S. GAAP</b>						
Total revenue	14,456,091	29,551,574	33,849,213	22,784,694	19,461,739	
Operating income	3,158,820	6,457,354	9,840,311	8,455,099	7,245,976	
Net operating income per share	0.08	160	243	229	199	
Income before income tax and non-controlling interest	3,427,860	7,007,335	13,427,443	8,710,648	7,765,863	
Net income attributable to Ecopetrol	2,239,703	4,578,468	8,841,883	6,144,685	6,636,424	
Net income per Share	0.06	113	218	166	182	
Average number of shares outstanding <sup>(4)</sup>	40,472,512,588	40,472,512,588	40,472,512,588	36,922,352,491	36,384,788,817	

- (1) Amounts stated in U.S. dollars have been translated for the convenience of the reader at the rate of Ps\$2,044.23 to US\$1.00, which was the Representative Market Rate at December 31, 2009, the last business day of the year, as reported and certified by the Superintendency of Finance.
- (2) The weighted average number of common shares outstanding during 2007 was 30,702,164,870 as a result of the application of the 1 to 400 stock split, capitalization of reserves by the Nation and initial public offering in Colombia, which represents a net income per share of Ps\$169, compared to Ps\$79,891 during 2006 when the average number of shares outstanding was 42,449,825.
- (3) Net Income per share is calculated using the weighted-average number of outstanding shares at December 31 of each year, adjusted for a 1 to 400 stock split and the contribution to equity from the Nation.
- (4) Amounts calculated in accordance with U.S. GAAP which differs in certain respects with the calculation of weighted average number of shares for Colombian Government Entity GAAP.

**Exchange Rates**

On July 14, 2010, the Representative Market Rate was Ps\$1,871.19 per US\$1.00. The Federal Reserve Bank of New York does not report a noon-buying rate for Pesos. The Superintendency of Finance calculates the Representative Market Rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by foreign exchange rate market intermediaries including financial institutions for the purchase and sale of U.S. dollars.

The following table sets forth the high, low, average and period-end exchange rate for Pesos/U.S. dollar Representative Market Rate for each of the last five years and for the last six months.

Year ended December 31,	Exchange Rates			
	High	Low	Average	Period-End
2005	2,397.25	2,272.95	2,320.77	2,284.22
2006	2,634.06	2,225.44	2,357.98	2,238.79
2007	2,261.22	1,877.88	2,078.35	2,014.76
2008	2,392.28	1,652.41	1,966.26	2,243.59
2009	2,596.37	1,825.68	2,156.29	2,044.23
January 2010	2,044.23	1,957.82	1,978.19	1,982.29
February 2010	2,003.76	1,914.87	1,952.89	1,932.32
March 2010	1,934.21	1,888.05	1,909.10	1,928.59
April 2010	1,973.05	1,911.07	1,940.36	1,969.75
May 2010	2,029.54	1,950.44	1,984.36	1,971.55
June 2010	1,971.55	1,886.05	1,925.90	1,916.46

Source: Superintendency of Finance for historical data. *Banco de la República* or the Colombian Central Bank ([www.banrep.gov.co](http://www.banrep.gov.co)) for averages.

### **3.B. Capitalization and Indebtedness**

Not applicable.

### **3.C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### **3.D. Risk Factors**

Below is a description of the risk factors that we face which may affect our future results and the overall performance of the Colombian oil industry. Prospective purchasers of our shares represented by American Depositary Receipts or ADRs should carefully consider the risks described below, as well as other information contained in this annual report, before deciding to invest in our ADRs. The risk factors described below are not the only ones that we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, may also become important factors that affect us.

Financial results and the operation of the business units could be affected by the occurrence of one or more of these factors resulting in a decline in the price of our shares, which may result in you losing some or all of your investment.

#### **Risks relating to Colombia's political and regional environment**

*Colombia has experienced internal security issues that have had or could have in the future a negative effect on the Colombian economy and on us.*

Colombia has experienced internal security issues, primarily due to the activities of guerrillas, paramilitary groups and drug cartels. In the past, guerrillas have targeted the crude oil pipelines, including the Oleoducto Transandino, Caño Limón-Coveñas and Ocesa pipelines, and other related infrastructure disrupting our activities and those of our business partners. On several occasions guerilla attacks have resulted in unscheduled shut-downs of the transportation systems in order to repair damaged sections and undertake clean-up activities. These activities, their possible escalation and the effects associated with them have had and may have in the future a negative impact on the Colombian economy or on us, which may affect our customers, employees or assets. In the context of the political instability, allegations have been made against members of the Congress of Colombia and on Government officials for possible ties with illegal groups. This situation may have a negative impact on the credibility of the Colombian Government which could in turn have a negative impact on the Colombian economy or on us in the future.

*There have been certain events in Colombia and abroad, which have resulted in political tension between Colombia and some of its neighboring countries.*

Events such as the Colombian government-sponsored attacks on a FARC camp in Ecuador (which resulted in the death of one of the members of the FARC's Secretariat) and the signing of military treaty between Colombia and the United States have made the diplomatic relations between Colombia and some of its neighboring countries, in particular Ecuador and Venezuela, very tense. This political tension is heightened by the Colombian Government's allegations that neighboring countries are supporting the guerilla groups. On other occasions allegations have been made by Venezuela that the Colombian army has entered foreign soil while in pursuit of FARC members. The Colombian army and air force continue to combat FARC members throughout Colombia, including Colombia's borders. Similar future events could result in new and heightened tensions with its neighbors, which could have a negative impact on Colombia's economy and general security situation.

***Companies operating in Colombia, including us, are subject to prevailing economic conditions and investment climate in Colombia, which may be less stable than prevailing economic conditions in developed countries.***

The market price of securities issued by Colombian companies, including us are subject to the prevailing economic conditions in Colombia. Substantially all of our assets and operations are located in Colombia, and most of our sales are currently derived from our crude oil and natural gas production and production of our refineries located in Colombia. In the past, economic growth in Colombia has been negatively affected by lower foreign direct investment and high inflation rates and the perception of political instability.

The Colombian government has changed monetary, fiscal, taxation, labor and other policies over time and has thus influenced the performance of the Colombian economy. We have no control over the extent and timing of government intervention and policies.

Presidential elections took place in Colombia on May 30, 2010 with Juan Manuel Santos of Party of the U receiving 46.56% of the vote and Antanas Mockus of the Green Party receiving 21.49% of the vote. Since no candidate received more than 50% of the vote, a second round was held on June 20, 2010. Juan Manuel Santos was elected President in this second round, having received 69.1% of the vote while Antanas Mockus received 27.5% of the vote. The investment and security climate in the country will be tied to how this new government is perceived by foreign investors.

If the perception of improved overall security in Colombia changes or if foreign direct investment declines, the Colombian economy may face a downturn which could negatively affect our financial condition and results of operation. Furthermore, the market price of our shares and ADSs may be adversely affected by changes in governmental policy, particularly those affecting economic growth, exchange rates, interest rates, inflation and taxes.

***Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect the market price of Colombian securities, including our American Depositary Shares (ADSs).***

Securities issued by Colombian companies may be affected by economic and market conditions in other countries, including other Latin American and emerging market countries. Securities issued by Colombian issuers are also likely to be affected by economic and political conditions in Colombia's neighbors: Venezuela, Ecuador, Perú, Brazil and Panama. Although economic conditions in such Latin American and other emerging market countries may differ significantly from economic conditions in Colombia, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Colombian issuers.

Due to crises in several emerging market countries (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis of 2001), and the recent world financial crisis, investors may view investments in emerging markets with heightened caution. As a result of the crisis in other countries, flows of investments into Colombia were reduced. Crises in other emerging market countries may hamper investor enthusiasm for securities of Colombian issuers. If Latin America experiences a new slow-down or if the price for securities of Latin American issuers falls, the price for our ADSs could follow this trend and could be adversely affected. A new financial crisis or an expansion of the current crisis could also make it more difficult for us and our subsidiaries to access the international capital markets and finance our operations and capital expenditures in the future on acceptable terms.

***Our controlling shareholder's interests may be different from yours.***

The Republic of Colombia, or the Nation, is our largest shareholder controlling 89.9% of our outstanding capital stock. Colombian law requires the Nation to maintain the majority of our outstanding capital stock, thus holding the right to elect the majority of the members of our Board of Directors. In the future, the Nation as our controlling shareholder may undertake projects which may not be in our best interest or in the best interest of our minority shareholders, including holders of our ADSs.

Before we, or any of our Colombian subsidiaries, can issue any debt in the international and local capital markets or incur any other type of indebtedness, the Government, through the Ministry of Finance and Public Credit, must authorize the issuance of such debt and we must register external debt with the Colombian Central Bank. However, this restriction is not applicable to foreign companies which have branch offices in Colombia, such as our subsidiaries Hocol or ODL. We cannot assure you that if we were to seek such an authorization, that the Nation would issue it in a timely fashion or at all.

Additionally our controlling shareholder may require our Board of Directors to declare dividends in an amount that result in us having to reduce our capital expenditures thereby negatively affecting our prospects, results of operations and financial condition.

***Our operations are subject to extensive regulation.***

The Colombian hydrocarbons industry is subject to extensive regulation and supervision by the Government in matters including the award of exploration and production blocks by the National Hydrocarbon Agency, or *Agencia Nacional de Hidrocarburos* or ANH, the imposition of specific drilling and exploration obligations, restrictions on production, price controls, capital expenditures and required divestments. Existing regulation applies to virtually all aspects of our operations in Colombia and abroad. See Item 4B “— Business Overview — Regulation”.

The terms and conditions of the agreements with the ANH under which we explore and produce crude oil and natural gas generally reflect negotiations with the ANH and other governmental authorities and may vary by fields, basins and hydrocarbons discovered.

We are required, as are all oil companies undertaking exploratory and production activities in Colombia, to pay a percentage of our production to the Government as royalties. The Government has modified the royalty program for crude oil and natural gas production several times in the last 20 years, as it has modified the regime regulating new contracts entered into with the Government. The royalty regime for contracts being entered into today for crude oil is tied to a scale starting at 8% for production of up to 5,000 barrels per day or bpd and increases up to 25% for production above 600,000 bpd. Royalties for natural gas production are also subject to a sliding scale depending on whether the field is on-or off-shore and range between 8% and 25%.

In the future, the Government may once again amend royalty payment levels for new contracts and such changes could have a material adverse effect on our financial condition or results of operation.

***The Government may delay the reimbursement of the gasoline and diesel fuel price differentials.***

The Government regulates domestic prices of liquid fuels according to international market conditions in order to align domestic prices with trends in international prices, with a one month lag. When domestic prices of liquid fuels are lower than international parity prices, the Government is responsible for reimbursing importers or refiners for the difference, which difference is called the fuel price differential pursuant to Law 1151 of 2007. The fuel price differential is calculated on a monthly basis and reported on a quarterly basis, with the corresponding cash payment to be made during the next subsequent quarter. In cases of payment delays, refiners are entitled to receive interest on past due amounts.

Historically, when domestic prices of liquid fuels were higher than international parity prices, the Government lowered domestic prices. However, towards the end of 2008 as international prices decreased, the Government decided not to lower domestic prices. Instead, the Government kept domestic prices high and allocated the positive difference between domestic fuel prices and the international parity prices to a Fuels Stabilization Fund (Fondo de Estabilización de Precios de los Combustibles - FEPC). Similar to the approach followed by other countries, this Fund is funded with these excess payments when international prices are low and depleted when international prices are high in order to mitigate domestic price volatility.

During 2008, refiners, including us, were entitled to fuel price differential payments based on trends in international prices. However, the payment by the Government of the 2008 fuel price differential was delayed and the Ministry of Mines and Energy issued a resolution by which it established a payment schedule relating to the 2008 fuel price differential. Under this payment schedule, the 2008 fuel price differential was paid in three installments in April, August and December 2009 and the Government recognized an opportunity cost with respect to these amounts.

During 2009, refiners, including us, were once again entitled to fuel price differential payments corresponding to the third and fourth quarters of the year. However, the fuel price differential for the third quarter of 2009 was not timely paid during the fourth quarter of 2009. Instead, the Government, through Decree 4839 of 2008, stated that all payments corresponding to the 2009 fuel price differential would be paid in 2010. Pursuant thereto, the price differential corresponding to the third quarter of 2009 was paid in February 2010, together with the fuel price differential for the fourth quarter of 2009.

Based on these past delays, we are unable to determine when we will collect the amount of any fuel price differentials that become due in the future. Any material delay in payment of these fuel price differentials by the Government or a significant amendment to Law 1151 imposing on us additional responsibilities with respect to the fuel price differentials could have a negative impact on our financial condition and results of operations.

#### **Risks related to our business**

*Our business depends substantially on international prices for crude oil and refined products, and prices for these products are volatile. A sharp decrease in such prices could materially and adversely affect our business prospects and results of operations.*

Crude oil prices have traditionally fluctuated as a result of a variety of factors including, among others, the following:

- Changes in international prices of natural gas and refined products;
- Long-term changes in the demand for crude oil, natural gas and refined products;
- Regulatory changes;
- Inventory levels;
- Increase in the cost of capital;
- Adverse economic conditions;
- Development of new technologies;
- Economic and political events, especially in the Middle East and elsewhere with high levels of crude oil production;
- The willingness and ability of the Organization of the Petroleum Exporting Countries or OPEC and its members to set production levels and prices;
- Local and global demand and supply;
- Development of alternative fuels;
- Weather conditions; and
- Terrorism and global conflict.

As of December 2009, nearly 96% of our revenues came from sales of crude oil, natural gas and refined products. Most prices for products developed and sold by us are quoted in U.S. dollars and fluctuations in the U.S. dollar/Peso exchange rate have a direct effect on our Peso-denominated financial statements.

A significant and sustained decrease in crude oil prices could have a negative impact on our results of operations and financial condition. In addition, a reduction of international crude oil prices could result in a delay in our capital expenditure plan, in particular delaying exploration and development activities, thereby delaying the development of reserves and affecting future cash flows.

***We are exposed to the credit risks of our customers and any material nonpayment or nonperformance by our key customers could adversely affect our cash flow and results of operations.***

Some of our customers may experience financial problems that could have a significant negative effect on their creditworthiness. Severe financial problems encountered by our customers could limit our ability to collect amounts owed to us, or to enforce the performance of obligations owed to us under contractual arrangements. In addition, many of our customers finance their activities through their cash flows from operations, the incurrence of debt or the issuance of equity.

The combination of declining cash flows as a result of declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction of our customers' liquidity and limit their ability to make payments or perform on their obligations to us. In addition, some of our customers may be highly leveraged and subjected to their own operating expenses, and as such the risk we face in doing business with these customers may increase. Other customers may be subjected to regulatory changes, which could increase the risk that they may default on their obligations to us. For example, due to a Venezuelan government constraint imposed on foreign currency transactions, PDVSA Gas has delayed payments to its providers, including us. Financial problems experienced by our customers could result in the impairment of our assets, a decrease in our operating cash flows and may also reduce or curtail our customers' future use of our products and services, which may have a material adverse effect on our revenues.

***Achieving our long-term growth prospects depends on our ability to execute our strategic plan, in particular discovering additional reserves and successfully developing them, and failure to do so could prevent us from achieving our long-term goals.***

The ability to achieve our long-term growth objectives depends on discovering or acquiring new reserves as well as successfully developing them. Our exploration activities expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs associated with drilling wells are often uncertain, and numerous factors beyond our control may cause drilling operations to be curtailed, delayed or cancelled.

If we are unable to conduct successful exploration and development of our exploration activities, or if we do not acquire properties having proved reserves, our level of proved reserves will decline. Failure to secure additional reserves may impede us from achieving our growth targets, production targets and may have a negative effect on our results of operations and financial condition.

***Our deep water drilling operations carried out by us and in conjunction with our business partners involve certain risks and costs which may be outside of our control.***

We, in association with our business partners, have undertaken deep water exploratory drilling in two blocks in the Gulf of Mexico. Additionally, we are acting as operators in five off-shore exploratory blocks in Colombia. In association with our business partners, we are also planning on undertaking deep water drilling in four blocks in Colombia, five blocks in the Gulf of Mexico, and two blocks in Brazil. These deep water drilling activities entail new and heightened risks as reserves are located at greater distances underneath the seabed. The heightened risks and costs associated with deep water drilling may have a negative effect on our results of operations and financial condition.

Furthermore, as a result of the recent oil spill in the Gulf of Mexico, significant concerns regarding the safety of deep water drilling have been raised and the U.S. Government has declared a six-month moratorium on drilling new deep-water wells in the Gulf of Mexico. In 2010 we, in association with our business partners which were to act as operators, had specifically planned the drilling of two exploratory wells in the Gulf of Mexico. Due to the above-mentioned moratorium, we will most likely be unable to complete the drilling of these wells. Since we have no control over these types of foreign government regulations, they may negatively impact the timing of our deep water drilling operations and consequently our results of operations and financial condition.

***Our crude oil and natural gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time, which could adversely affect our ability to generate revenue.***

Historical reserves estimates are prepared by the use of commonly used geological and engineering oil industry practices. Estimates are based on geological, topographic and engineering facts. Actual reserves and production may vary materially from estimates shown in this annual report, which could affect our results of operation.

***Our drilling activities are capital intensive and may not be productive.***

Drilling for crude oil and natural gas involves numerous risks, including the risk that we will not encounter commercially productive crude oil or natural gas reservoirs. The costs of drilling, completing and operating wells are high or uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- Unexpected drilling conditions;
- Pressure or irregularities in formations;
- Security problems;
- Equipment failures or accidents;
- Fires, explosions, blow-outs and surface cratering;
- Title problems;
- Other adverse weather conditions; and
- Shortages or delays in the availability or in the delivery of equipment.

Certain of our future drilling activities may not be successful and, if unsuccessful, this failure could reduce the ratio at which we replace our reserves, which could have an adverse effect on our results of operations and financial condition. While all drilling, whether developmental or exploratory, involves risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of hydrocarbons. Because of the percentage of our capital budget devoted to higher-risk exploratory projects, it is likely that we may in the future experience significant exploration and dry hole expenses.

***Increased competition from foreign crude oil companies may have a negative impact on our ability to gain access to additional crude oil and natural gas reserves in Colombia.***

The ANH is the governmental entity responsible for promoting oil and gas investments in Colombia, establishing terms of reference for exploration rounds and assigning exploration blocks to oil and gas companies. Prior to the enactment of Decree Law 1760 of 2003, we had an automatic right to explore any territory in Colombia and to enter into joint venture agreements with foreign and local oil companies. Under current regulations, we are entitled to bid for any exploration blocks offered for exploration by the ANH and we compete under the same conditions as other domestic and foreign oil and gas companies, that is, we receive no special treatment. We may also request the ANH to assign us exploration blocks which have not been previously reserved by that Agency. Our ability to obtain access to potential production fields also depends on our ability to evaluate and select potential hydrocarbon-producing fields and to adequately bid for these exploration fields.

Our strategies include international expansion where we may face competition from local market players and international oil companies that have experience exploring in other countries.

If we are unable to adequately compete with foreign and local oil companies, or if we cannot enter into joint ventures with market players with properties where we could potentially find additional reserves, we may be conducting exploration activities in less attractive blocks. If we fail to maintain our current market position in Colombia, our results of operations and financial conditions may be adversely affected.



***We may be subject to substantial risks relating to our development of exploration activities outside Colombia.***

We began exploration activities outside Colombia in 2006 through our Brazilian subsidiary, Oleo é Gas Do Brazil Ltda. Our foreign subsidiaries have subsequently entered into a number of joint venture exploration agreements with regional and international oil companies to explore blocks in Perú, Brazil and the U.S. Gulf of Mexico. The results of operations and financial condition of our subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and government actions.

We have limited experience exploring outside Colombia, where we are the incumbent operator. We may face new and unexpected risks involving environmental requirements that exceed those currently faced by us. Additionally, we may be exposed to legal disputes with foreign regulators. For example, we were awarded block Tucano-156 in Brazil in the 8th round of 2006. However, our award is currently suspended as a result of a governmental injunction against the 8th round award process. According to official publications, Brazil's *Agencia Nacional do Petroleo* (ANP) removed all blocks that did not receive offers during the 8th round. However, the publications do not specify what will be the result with respect to the 38 blocks which did receive winning offers, including Tucano-156. According to our consultations with the *Superintendência de Promoção de Licitações* (SPL), the awarding process has not yet been defined and the ANP is still waiting for further instructions from the Brazilian government. We may also experience the imposition of restrictions on hydrocarbon exploration and export, or increases in export tax or income tax rates for crude oil and natural gas.

If one or more of these risks described above were to materialize, we may not achieve the strategic objectives in our international operations, which may negatively affect our results of operations and financial condition.

***We may incur losses and spend time and money defending pending lawsuits and arbitrations.***

We are currently a party to several legal proceedings relating to civil, administrative, environmental, and labor claims filed against us. We are also subject to labor-related lawsuits filed by current and former employees in connection with pension plans and retirement benefits affecting the plaintiffs. These claims involve substantial sums of money as well as other remedies. See Notes 18 and 30 to our consolidated financial statements.

Our most relevant legal proceeding was brought by an association of former employees known by the acronym *Foncoeco*. See Item 4B — “Legal Proceedings” for a description of this proceeding.

***Our operations may not be able to keep pace with the increasing demand for natural gas.***

The demand for natural gas in Colombia has grown significantly in recent years. As a result of this growth, demand for natural gas could exceed production capacity, resulting in possible supply shortages. When production shortages occur, we are required to compensate industrial clients with whom we have supply contracts by paying penalties and other compensatory expenses detailed in the supply contracts.

Internal demand for natural gas has experienced strong growth during the last decade as a result of national campaigns for cleaner energy and more competitive tariffs for retail customers. We may not be able to keep up with local demand and industrial commitments if demand outpaces the rate of new gas developments and discoveries.

We have long-term contracts to supply power utilities and other large customers. In 2007, we signed an agreement with PDVSA Gas to supply natural gas to Venezuela until 2012, when it is expected that Venezuela will supply us with natural gas. It is uncertain whether Venezuela will be able to begin supplying us with natural gas by 2012.

Additionally, if our current expansion projects or new projects are delayed, we may be required to compensate our long-term contract customers for our failure to supply natural gas, which may negatively impact our financial condition and results of operation.

***We are not permitted by law to own more than 25% of a natural gas transportation company, which may not allow us to transport new natural gas reserves to distribution points and to our customers.***

We discovered natural gas reserves in the Cusiana and Cupiagua fields for which limited transportation capacity currently exists. New natural gas transportation infrastructure may not be available to transport natural gas from new or existing fields to consumption areas. Furthermore, we are prohibited by law from holding more than 25% of the equity of any natural gas transportation company and we cannot determine whether the necessary transportation capacity will be built by third parties to transport natural gas. We may be required to enter into agreements with natural gas transportation companies in terms that are not favorable to us.

We currently have long-term supply contracts with gas-fired power plants that require us to deliver natural gas in Barrancabermeja and not at La Guajira fields. Our ability to deliver the natural gas to these clients at the delivery point is limited by the Ballena-Barranca pipeline transportation capacity. If we are unable to acquire the necessary transportation, we may be unable to meet our obligation with power generators, which could result in us having to pay fines.

If we are unable to transport natural gas discoveries to our customers or to regions where natural gas is needed, we may not be able to develop these reserves, which may result in impairment of the related assets and would not allow us to recover the capital expenditures invested to make these natural gas discoveries.

***Results could be affected by conflicts with the labor unions.***

In the past, we have been affected by strikes and work stoppages promoted by our labor unions. These strikes have been both politically and contract-related, especially during collective bargaining negotiations. In April, 2009, we entered into an agreement with the Unión Sindical Obrera de la Industria del Petróleo (USO), one of our industry labor unions, to restore trust between USO and us with open communication and transparency as the main principles. Additionally, on August 22, 2009, as a result of consensual negotiations, we entered into a new five-year collective bargaining agreement with three of our most significant industry labor unions: USO, Asociación de Directivos Profesionales, Técnicos y Trabajadores de las Empresas de la Rama de Actividad Económica del Recurso Natural del Petróleo y sus Derivados de Colombia (ADECO) and Sindicato Nacional de Trabajadores de Empresas Operadoras, Contratistas, Subcontratistas de Servicios y Actividades de la Industria del Petróleo y Similares (SINDISPETROL). The new collective bargaining agreement is effective as of July 1, 2009 and covers salaries, healthcare, education, housing, transport, meals, cultural activities, union rights and guarantees, among other aspects. We consider reaching this agreement during consensual negotiations as a significant step towards the development of improved relations with our labor unions. SINCOPEPETROL, our company's labor union, neither presented any list of claims to us nor objected to the bargaining agreement. Thus, we do not have a labor conflict with SINCOPEPETROL.

However, we cannot assure you that we will not experience labor unrest in the future. In the event relations with our labor unions deteriorate, which could result in industry-general strikes, work stoppages or even sabotage, our results of operations and financial condition could be negatively affected.

***We may not be able to achieve our corporate goals if we face difficulty in finding competent successors to our current management and employees.***

Our growth strategy and the successful achievement of our corporate goals depend on the competence of our management and employees. Due to the upcoming expiration of retirement benefits, some of our managers and employees will leave the Company in order not to lose those retirement benefits. See Item 6D — "Employees". As a result, we may face a difficulty in finding successors to our current managers and employees with the required competence and leadership. These difficulties, in turn, may negatively affect our results.

***Interruption of activities caused by external factors.***

We are exposed to several risks that may partially interrupt our activities. These risks include, among others, fire disasters, explosions, malfunction of pipelines and emission of toxic substances. As a result of the occurrence of any of the above, operational activities could be significantly affected or paralyzed. These risks could result in property damage, loss of revenue, cost of human lives, pollution and harm to the environment, among others. If any of these occur, we may be exposed to economic sanctions, fines or penalties.

***We conduct exploration and production activities in areas classified as indigenous reserves and afrocolombian lands.***

We carry out and plan to carry out exploration and production activities in areas classified by the Government as indigenous reserves (*resguardos*) and afrocolombian lands (*territorios colectivos*). We may not begin to explore for or produce hydrocarbons in these regions until we reach an agreement with the indigenous or afrocolombian communities living on these lands. Generally these consultations last between four and six months, but may be significantly delayed if we cannot reach an agreement. For example, we conduct operations in areas of the Northeastern region which are inhabited by the U'wa community. Commencement of operations on two blocks in this region have been delayed for 17 years and eight years, respectively, and as of December 2009, we have not received approval to undertake activities in these two blocks by the indigenous authorities. Similarly, some of our exploration operations in the Southern region have been delayed for over a year as a result of the presence of the Kofan community who oppose our presence and activities in the reservation. If our activities endanger the conservation and preservation of these cultural minorities or their identities or beliefs, we may not be able to explore regions with good prospects. We may face similar risks in other jurisdictions where we have initiated exploration activities which could have a negative effect on our operations.

***Currency fluctuations and an appreciation of the Peso against the U.S. dollar could have a material adverse effect on our financial condition and results of operations because approximately 54% of our revenues came from foreign sales***

Approximately 54% of our sales are made in the international markets. The impact of fluctuations in exchange rates, especially the Peso/U.S. dollar rate on our operations has been and may continue to be material. In addition, a substantial share of our liquid assets are held in U.S. dollars or indexed to foreign currencies and gain value when the Peso depreciates against the U.S. dollar and lose value when Peso appreciates against the U.S. dollar. We use forwards, swaps or futures contracts to partially mitigate the impact of currency fluctuations in order to be able to balance our U.S. Dollar denominated assets and liabilities as our foreign currency indebtedness increases.

The Peso depreciated 9.7% on average against the U.S. dollar in 2009. When the Peso depreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, increase.

The Peso appreciated 11.9% and 5.4% on average against the U.S. dollar in 2007 and 2008, respectively. When the Peso appreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, decrease. However, imported goods and oil services denominated in U.S. dollars become cheaper for us.

***Our ability to access the credit and capital markets on favorable terms to obtain funding for our capital projects may be limited due to the deterioration of these markets.***

We expect to make significant expenditures to reach the corporate goals established by our 2008 – 2015 Strategic Plan. Our ability to fund these expenditures is dependent on our ability to access the capital necessary to finance the construction of these facilities. In recent years, domestic and global financial markets and economic conditions have been weak and volatile and contributed significantly to a substantial deterioration in the credit and capital markets. These conditions, along with significant write-offs in the financial services sector and the re-pricing of credit risk can make it difficult for us to obtain funding for our capital needs on favorable terms. As a result, we may be forced to revise the timing and scope of these projects as necessary to adapt to existing markets and economic conditions.

***We may be exposed to increases in interest rates, thereby increasing our financial costs.***

As a result of our initial public offering, we became a *Sociedad de Economía Mixta* or mixed economy company and can now incur debt locally and in the international capital markets and can be affected by changes in prevailing interest rates. If market interest rates increase, our financing expenses may increase, which could have an adverse effect on our results of operations and financial condition.

During recent periods, the cost of raising funds in debt and equity capital markets has increased while the availability of funds from those markets has diminished. Likewise, during recent periods, the cost of obtaining funds from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards and reduced, and in some cases ceased to provide, funding to borrowers. If the financial market's recovery from the recent crisis falters, our ability to obtain capital from credit facilities may be impaired.

***We are subject to extensive environmental regulations in Colombia and in the other countries in which we operate.***

Our operations are subject to extensive national, state and local environmental regulations in Colombia. Environmental rules and regulations are applicable to our exploration, production, refining, transportation and supply and marketing activities. These regulations establish, among others, quality standards for hydrocarbon products, air emissions, water discharges and waste disposal, environmental standards for abandoned crude oil wells, remedies for soil, water pollution and the general storage, handling, transportation and treatment of hydrocarbons in Colombia. Since the creation of the Ministry of the Environment in 1993 and the enactment of more rigorous laws, environmental regulations have substantially impacted our operations and business results. Currently, all exploratory project drilling in areas that do not yet have a license must have an environmental impact assessment and must receive an environmental license from the local authorities. The Ministry of the Environment routinely inspects our crude oil fields, refineries and other production sites and may decide to open investigations which may result in fines, restrictions on operations or other sanctions in connection with our non-compliance with environmental laws.

We are also subject to regional environmental regulations issued by the *corporaciones autonomas regionales* or regional environmental authorities, which oversee compliance with each region's environmental laws and regulations by oil and gas companies. If we fail to comply with any of these national or regional environmental regulations, we could be subject to administrative and criminal penalties, including warnings, fines and closure orders of our facilities. See Item 4 — "Business Overview – Environmental Matters".

Environmental compliance has become more stringent in Colombia in recent years and as a result we have allocated a greater percentage of our expenditures for compliance with these laws and regulations. If environmental laws continue to impose additional costs and expenses on us, we may need to reduce our investments on strategic projects in order to allocate funds to environmental compliance. These additional costs may have a negative impact on the profitability of the projects we intend to undertake or may make them economically unattractive, in turn having a negative impact on our results of operations and financial condition.

We are subject to foreign environmental regulations for the exploratory activities conducted by us outside Colombia. Failure to comply with foreign environmental regulations may result in investigations by foreign regulators, which could lead to fines, warnings or temporary suspensions of our operations, which could have a negative impact on our financial condition and results of operations.

***Our activities face operational risks that may affect the health and safety of our workforce.***

Some of our operations are developed in remote and dangerous locations which involve health and safety risks that could affect our workforce. Under Colombian law and industrial safety regulations we are required to have health and safety practices that minimize risks and healthy issues faced by our workforce. Failure to comply with health and safety regulations may derive investigations by health officials which could result in lawsuits or fines.

We may be obliged to incur additional costs and expenses to allocate funds to industrial safety and health compliance. These additional costs may have a negative impact on the profitability of the projects we may decide to undertake.

In addition, we may be subject to foreign health and safety regulations for our exploratory activities conducted outside Colombia. Foreign health and safety regulations may be more severe than those established under Colombian law and, therefore, we may be required to make additional investments to comply with those regulations.

***We have made significant investments in acquisitions and we may not realize the value expected.***

We have acquired interests in several companies in Colombia and abroad. See Item 4 – “Information on the Company”. Obtaining the expected benefits of the acquisitions will depend, in part, on our ability to (i) obtain the expected operational and financial results from these acquisitions and (ii) manage disparate operations and to integrate distinct corporate cultures. These efforts may not succeed or may distract our management from operating our existing business. Our failure to successfully obtain the expected results from our recent acquisitions could adversely affect our financial condition and results of operations.

***Our strategic plan contemplates the expansion of operations outside of Colombia where we will be subject to risks associated with investments in new countries.***

As part of our strategic plan, we have begun to operate through business partners, subsidiaries or affiliates outside of Colombia. As of the date hereof, we have investments and subsidiaries incorporated in Perú, Brazil, Bermuda and the United States, and we are analyzing investments in other countries. In connection with making investments, we are and will be subject to risks relating to unstable economic and political conditions, governmental economic actions, such as exchange or price controls or limits on the activities to be performed by us, increases in tax rates, contractual changes, and social and environmental challenges. In addition, we have recently acquired 50% ownership interest in Offshore International Group Inc. (OIG), a company that has investments in Perú, and we have faced reputational risks arising from prior ownership of such company. These factors, among others that our international activities may encounter, could adversely affect our results of operations in those countries and decrease the value of our investments.

***Our subsidiary, Refinería de Cartagena S.A. (“Reficar”) is currently negotiating a project financing which, if delayed, could affect our operating results and financial condition.***

Our subsidiary, Refinería de Cartagena S.A. (“Reficar”) has entered into negotiations to raise approximately US\$ 3.4 billion through a limited-recourse project financing. We will act as sponsor and will provide a guarantee to the project lenders. We are targeting a November 2010 closing for the transaction. If for any reason the closing of the transaction is delayed, the targeted final completion of the project could also be delayed, which would result in higher capital expenditure requirements for Reficar and a decrease in our profitability. Additionally, if the start up of the upgraded refinery is delayed, or if the upgraded refinery does not reach the expected performance level in terms of the quality of products and/or volumes produced, the project lenders could request that we act on the guarantee and assume the payment obligations of Reficar, which would affect our operating results and financial condition.

#### **Risks relating to our ADSs**

***The market for our ADSs has only started to develop recently. An active and liquid public market for our ADSs may not develop.***

The number of our outstanding ADSs has increased significantly since they began trading on the New York Stock Exchange on September 18, 2008. Nevertheless, the number of outstanding ADSs is still relatively small when compared to the number of our total outstanding shares. Increases in the liquidity of the ADSs will depend on the creation of new receipts by investors in the international market, which will in turn depend largely on market conditions and the interest of new investors in our Company.

In addition, holders of ADSs may choose to cancel them and receive instead common shares in an amount equivalent to that of the ADSs previously held. Cancellation of a considerable number of ADSs may significantly influence the development of an actively liquid market for our ADSs, which may have a material adverse effect on the price of our ADSs.

Illiquid or inactive trading markets generally result in higher price volatility and lower efficiency in the execution of sale and purchase orders in the securities markets. The market price of the ADSs may fluctuate significantly in response to a number of factors, some of which may be beyond our control. In the event that the trading price of our ADSs declines, you may lose all or part of your investment in our ADSs.

***Holders of our ADSs may encounter difficulties in exercising their voting rights.***

Holders of our common shares are entitled to vote on shareholder matters. However, holders of our ADSs may encounter difficulties in exercising some of the rights of shareholders if they hold our ADSs rather than the underlying common shares. For example, holders of our ADSs are not entitled to attend shareholders' meetings, and can only vote by giving timely instructions to the Depositary in advance of a shareholders' meeting. Under Colombian law, we are not required to solicit proxies from our existing shareholders and, therefore, you may not receive notice in time to instruct the depositary to vote the shares.

We believe that the holders of the ADSs should be able to direct the Depositary to vote the common shares separately in accordance with their individual instructions, particularly as this is the current interpretation of the *Superintendencia de Sociedades* or Superintendency of Corporations; this issue has been the subject of differing regulatory interpretations in the past and may be subject to differing interpretations in the future. Under prior regulatory interpretations, the Depositary could be required to vote the underlying common shares in a single block (presumably reflecting the majority vote of the ADS holders). In the future, the Colombian regulatory authorities may change their interpretation as to how voting rights should be exercised by ADSs holders, and if this were to occur any such limitation or loss could adversely affect the value of such common shares and your ADSs.

***Our ADSs holders may be subject to restrictions on foreign investment in Colombia.***

Colombia's International Investment statute regulates the manner in which non-Colombian residents can invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Colombian Central Bank and outlines the necessary procedures to authorize certain types of foreign investments. Colombian law requires that certain foreign exchange transactions, including international investment in foreign currency between Colombian residents and non-Colombian residents, must be made through authorized foreign exchange market participants. Any income or expenses under our ADR program must be made through the foreign exchange market.

Investors acquiring our ADRs are not required to register with the Colombian Central Bank. Investors in ADRs who choose to surrender their ADRs and withdraw common shares would have to register their investment in the common shares as a foreign direct investment, in the event the investor does not own a portfolio of investments in Colombia; or as a portfolio investment, in the event the investor delivers such shares to a registered foreign capital investment fund. Non-Colombian residents cannot directly hold portfolio investments in Colombia, but are able to do so through a registered foreign capital investment fund. Investors would only be allowed to transfer dividends abroad after their foreign investment registration procedure with the Colombian Central Bank has been completed. Investors withdrawing the common shares may incur in expenses and/or suffer delays in the application process. The failure of a non-resident investor to report or register foreign exchange transactions with the Colombian Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or initiate an investigation that may result in a fine. In the future, the Government, the Congress of Colombia or the Colombian Central Bank may amend Colombia's International Investment Statute or the foreign investment rules, which could result in more restrictive rules and could negatively affect trading of our ADSs.

Additionally, Colombia currently has a free exchange rate system; however, other restrictive rules for the exchange rate system could be implemented in the future. In the event that a more restrictive exchange rate system is implemented, the depositary may experience difficulties converting Peso amounts into U.S. dollars to remit dividend payments.

***Holders of our ADSs are not able to effect service of process on us, our directors or executive officers within the United States, which may limit your recovery in any foreign judgment you obtain against us.***

We are a *sociedad de economía mixta* organized under the laws of Colombia. All of our directors and executive officers reside outside the United States. All or a substantial portion of our assets and the assets of these persons are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon us or these persons or to enforce against us or them in U.S. courts judgments obtained in such courts predicated upon the civil liability provisions of the U.S. federal securities laws. Colombian courts determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known as *exequatur*. For a description of these limitations, see "Enforcement of Civil Liabilities."

***We may claim immunity under the Foreign Sovereign Immunities Act with respect to actions brought against us under the US securities laws and your ability to sue or recover may be limited.***

We reserve the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 with respect to actions brought against us under United States federal securities laws or any state securities laws. Accordingly, you may not be able to obtain a judgment in a U.S. court against us unless the U.S. court determines that we are not entitled to sovereign immunity with respect to that action. Moreover, you may not be able to enforce a judgment against us in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act.

***The protections afforded to minority shareholders in Colombia are different from those in the United States, and may be difficult to enforce.***

Under Colombian law, the protections afforded to minority shareholders are different from those in the United States. In particular, the legal framework with respect to shareholder disputes is less developed under Colombian law than U.S. law and there are different procedural requirements for commencing shareholder lawsuits, such as shareholder derivative suits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our Directors or controlling shareholder than it would be for shareholders of a U.S. company.

***The relative volatility and illiquidity of the Colombian securities markets may substantially limit our investors' ability to sell our ADSs at the price and time they desire.***

Investing in securities that are traded in emerging markets, such as Colombia, often involves greater risk when compared to other world markets, and these investments are generally considered to be more speculative in nature.

The Colombian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than other securities markets. For example, the *Bolsa de Valores de Colombia* or BVC had a market capitalization of approximately Ps\$287,082 billion (US\$140.46 billion using the closing rate for 2009) as of December 31, 2009, a 47% increase when compared with the amount at the end of 2008, and a trading volume of approximately Ps\$114,380 million (US\$53.1 million, using the average exchange rate for 2009), a 151% increase when compared to the volume in 2008. In contrast, the New York Stock Exchange had a market capitalization of US\$11.8 trillion as of December 31, 2009, and a daily trading volume of approximately US\$70.6 billion in 2009.

As of December 31, 2009 our shares represented the highest market capitalization of the BVC with 35% of the total. In addition, they had the highest trading volume in the BVC averaging Ps\$24,613 million traded per day. Our shares represent 21.4% of the *Índice General de la Bolsa de Valores de Colombia* or IGBC stock market index, 12.5% of the COL20, a stock market index that includes the top 20 traded stocks in the BVC and 21.1% of the COLCAP, a stock price volatility index.

Given the current ownership of our shares, it may be difficult for you to purchase large quantities of shares from a single shareholder. We cannot assure you that a liquid trading market for our ADSs will develop or, if developed, will be maintained following this offering, which could substantially limit the ability of investors in our ADSs to sell them at the price and time you desire.

***We are not required to disclose as much information to investors as a U.S. issuer is required to disclose.***

We are subject to the reporting requirements of the Superintendency of Finance and the BVC. The corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. issuer and, as a result, you may receive less interim information about us than you would receive from a U.S. issuer.

## **ITEM 4. Information on the Company**

### **4.A. History and Development of the Company**

Ecopetrol is a mixed economy company, organized on August 25, 1951, and existing under the laws of Colombia. We have an unlimited duration. Our address is Carrera 13 No. 36-24 Bogota, Colombia and our telephone number is +571 234 4000.

We were incorporated as the Empresa Colombiana de Petróleos as a result of the reversion of the De Mares concession to the Government by the Tropical Oil Company in 1921. We began our operations as a governmental industrial and commercial company, responsible for administering Colombia's hydrocarbon resources.

We began operating the crude oil fields at Cira-Infantas and the pipeline that connected that field with the Barrancabermeja refinery and the port of Cartagena. Three years later, the first national seismic study was performed under the De Mares concession which led to the discovery of the Llanito crude oil field in 1960.

In 1961, we assumed the direct operation of the Barrancabermeja refinery and continued its transformation into an industrial complex. International Petroleum Colombia Limited or Intercol began the construction of a new facility in Mamonal, Cartagena, where the pipeline terminal of the Andean National Corporation was already located and which also included a loading port. In December 1957, the Cartagena refinery began operations, and in 1974 it was acquired by us.

In 1970, we adopted our first by-laws that transformed us into a governmental industrial and commercial company, linked to the Ministry of Mines and Energy. Decree Law 1760 of June 26, 2003 transformed us from an industrial and commercial company into a state-owned corporation by shares linked to the Ministry of Mines and Energy and renamed us Ecopetrol S.A. in order to make us more competitive. Prior to our reorganization our capital expenditures program and access to the credit markets were limited by the Government which was making its decisions based on its budgetary needs and not on our growth prospects.

In 2006, the Congress of Colombia authorized us to issue up to 20% of our capital stock in Colombia, subject to the condition that the Nation control at least 80% of our capital stock. On November 13, 2007, we placed 4,087,723,771 shares in the BVC, which resulted in 482,941 new shareholders and raised approximately Ps\$5,723 billion for the sale of 10.1% of our capital stock. Since September 18, 2008, our ADS's have been trading in the New York Stock Exchange under the symbol "EC". In addition, on December 4, 2009, our ADSs began trading on the Lima Stock Exchange under the symbol "EC". Each ADS represents 20 common shares of the Company.

In April 2008, we completed the acquisition of Polipropileno del Caribe S.A. (Propilco), the main polypropylene supplier in Colombia, for the purchase price of approximately US\$690 million, thereby increasing our market share in the petrochemical business. We acquired 49% of Propilco's shares directly and the remaining 51% indirectly, through our subsidiary Andean Chemicals Ltd.

In July 2008, we, through our Panamanian subsidiary ODL Finance, acquired a 65% interest in Oleoducto de los Llanos Orientales ("ODL"). ODL is a company which, through its Colombian branch Oleoducto de los Llanos Orientales Sucursal Colombia, has built a crude oil pipeline, connecting the Rubiales field to the Monterrey pump station. See Item 4B — "Business Overview — Transportation" for further details on this pipeline.

In February 2009, we, in partnership with Korea National Oil Corporation (KNOC), acquired a 100% stake (50% for each participating company) in Offshore International Group Inc. (OIG) for the purchase price of US\$992 million. OIG is the U.S. parent of Savia Perú (formerly Petrotech Peruana S.A.), which carries out crude oil exploration and production activities in Perú.

In February 2009, we entered into a memorandum of understanding with Glencore International A.C. pursuant to which we acquired in May 2009 all of its stake in Reficar through our subsidiary Andean Chemicals for the purchase price of US\$545 million, thereby becoming the sole indirect owner of Reficar.



In March 2009, we entered into an agreement with Maurel et Prom pursuant to which we acquired in May 2009 100% of its stake in its subsidiary in Bermuda, Hocol Petroleum Limited, for the purchase price of US\$580 million plus US\$162 million for working capital. Hocol Petroleum Limited's most important assets are Hocol and Homcol, two companies incorporated in the Cayman Islands with branches in Colombia involved in crude oil and natural gas exploration and production activities in Colombia.

In March 2009, we entered into an agreement with Enbridge Inc., a Canadian company, pursuant to which we acquired 100% of its stake in Oleoducto Central S.A. (Ocesa) for the purchase price of approximately US\$418 million, thereby increasing our ownership of Ocensa from 35.3% to 60%.

These recent acquisitions were funded mainly through cash on hand and cash flow from our operations.

Currently, we are the largest company in Colombia as measured by revenue, profit, assets and shareholders' equity. We are Colombia's only vertically-integrated crude oil and natural gas company with operations in Colombia and overseas. Our operation does not include natural gas transportation activities due to legal restrictions.

#### **4.B. Business Overview**

##### **Strategic Plan**

Our 2008 – 2015 Strategic Plan focuses on transforming us into a global company with emphasis on crude oil, natural gas and the development of alternative fuels. We are committed to developing into a key player with high competitive standards, strong human resources and transparent social responsibility policies. We intend to become one of *Petroleum Intelligence Weekly's* 27 leading oil and natural gas companies.

Our strategic plan provides detailed initiatives for each one of our business segments. Our main objectives are to achieve a daily output of approximately 1 million boe by 2015 and a reserves addition of 2,110 million barrels of oil equivalent or boe by 2012. We are also planning on expanding our refining and conversion capacity and increasing our petrochemical production, while complying with local and international environmental standards.

We expect to fund our strategic initiatives through cash on hand and cash flow from operating activities. We also expect to access the local and international capital markets to fund part of our expansion. During 2009, we began to incur long-term debt, (i) entering into a Ps\$2.2 trillion (approximately US\$1 billion) syndicated loan facility with a syndicate of local banks in May 2009 and (ii) issuing US\$1.5 billion aggregate principal amount of 7.625% notes due 2019 on July 23, 2009 under Rule 144A/Regulation S with registration rights with the SEC (which notes were subsequently registered with the SEC). In addition, Oleoducto de los Llanos Orientales ("ODL"), our indirect Panamanian subsidiary, through its Colombian branch office, Oleoducto de los Llanos Orientales Sucursal Colombia, (i) entered into a Ps\$520,000 million (approximately US\$200 million) loan facility with Grupo Aval (composed of Banco de Bogota S.A., Banco de Occidente S.A., Banco Popular S.A. and Banco AV Villas S.A.) in March 2009, (ii) placed a series of notes in an aggregate principal amount equal to Ps\$500,000 million (approximately US\$260 million) through the Dutch Auction System in October 2009 and (iii) entered into a second Ps\$800,000 million (approximately US\$406 million) loan facility with Grupo Aval in May 2010 (which proceeds were used to fully pay the first credit facility with Grupo Aval and any remaining amount was allocated to finance part of the Rubiales pipeline described in Item 4B – "Business Overview – Transportation – Pipelines – Oleoducto de los Llanos Orientales" below). We believe that we will be able to access local and international markets when the need arises. We are also authorized by law 1118 of 2006 to sell an additional 9.9% of our equity, which could be used to complete funding our strategic plan. See Item 5B — "Liquidity and Capital Resources — Liquidity" for a description of our liquidity and capital resources.

We expect to achieve our strategy together with our joint venture partners with whom we have built long-term relationships. We are also working with foreign governmental authorities in countries where we already have operation or where we intend to develop operations.

## ***Exploration and Production***

We intend to continue the expansion of our exploration and production activities and enter into new joint ventures to further develop our business. We intend to become a global player with the capacity to increase reserves and production of crude oil and natural gas in a sustainable way, entering frontier on-shore and off-shore areas. In line with our development strategy, we intend to increase our average daily production of hydrocarbons to one million boe per day by the year 2015. By 2015, we estimate our total investment in exploration activities at US\$11 billion and in production activities at US\$27 billion for a total of US\$38 billion.

### *Increase our average daily production of hydrocarbons*

Our 2008 – 2015 Strategic Plan contemplates estimated capital expenditures of approximately US\$38 billion in exploratory and development activities in Colombia and abroad. Our goals are to increase our reserves by 2,110 million boe by 2012 and to increase our daily output of hydrocarbons to one million boe per day by 2015. From 2008 to 2015, we estimate spending approximately US\$11 billion in exploratory activities in Colombia and abroad. We estimate that we will need to incorporate approximately 435 million boe of proved reserves per year from a combination of exploratory drilling, acquisition of reserves in place and incorporation of new reserves from existing fields to achieve our one million boe per day production target.

Between 2008 and 2015, we plan to invest approximately US\$16 billion in production projects, including development of mature fields, increasing production of heavy crude oil and development of natural gas fields. In addition, during the course of the same period, we intend to invest approximately US\$11 billion to execute our growth strategy by selectively entering into joint ventures with major international and regional crude oil companies to bid for new exploration and production blocks on-shore and off-shore within and outside Colombia. In 2009, our capital expenditures in our exploration and production segment were Ps\$5,564,438 million (approximately US\$2.72 billion).

For 2008 and 2009, our capital expenditures in our exploration and production segment were Ps\$10,476 billion (approximately US\$5.125 billion). During the same period, we increased our proved reserves by 623 million boe. In 2009 alone, we produced a daily average of 521 thousand boe representing an increase of 30% compared to 2007.

## ***Refining and Petrochemicals***

### *Expand our refining capacity in the Barrancabermeja refinery and Reficar and increase our production of petrochemicals*

We intend to expand and modernize our refining capacity in the Barrancabermeja refinery and Reficar in order to reach a 95% conversion rate. Our goal is to process approximately 650 thousand bpd by 2015. The implementation of this initiative will allow us to increase production of refined products and improve the efficiency of and upgrade existing facilities in order to reach higher margins in our refining segment. Our strategic plan contemplates the investment of approximately US\$11 billion in the upgrade and expansion of our refineries. We expect to invest approximately US\$4 billion to increase our production of petrochemicals and reach 2.7 million tons per year by 2015, including 700,000 tons per year of polypropylene produced by Polipropileno del Caribe S.A. (Propilco). For 2008 and 2009, our capital expenditures in our refining and petrochemicals segment were Ps\$3,487 billion (approximately US\$1.706 billion), mainly due to our acquisition of the remaining 51% ownership of Reficar and resulting from our commitment to provide cleaner fuels. In 2009 alone, our capital expenditures in our refining and petrochemicals segment were Ps\$2,711 billion (approximately US\$1,326 million).

## ***Transportation***

### *Development of our transportation infrastructure*

We plan to implement a transportation infrastructure program focused on the construction of crude oil pipelines and multipurpose transportation systems to assure our transportation capacity. We intend to invest approximately US\$1.2 billion in the construction and upgrading of our transportation infrastructure to meet our future requirements and in the conversion of existing crude oil pipelines for the transportation of heavy crude oil. For 2008 and 2009, our capital expenditures in our Transportation segment were Ps\$3,210 billion (approximately US\$1.570 billion). In 2009 alone, our capital expenditures in our transportation segment were Ps\$2,270 billion (approximately US\$1.110 billion), including the acquisition of Embridge's stake in Ocesa. We anticipate making further investments in our transportation segment in the near future because our production has grown at faster levels than expected.

## **Market and Supply**

### *Selectively expand our activities into the retail segment*

Our marketing strategy is focused on supplying the local market and exporting crude oil, refined products and natural gas to end-users, including refineries and wholesalers in order to improve our margins. We are focused on increasing our market participation in crude oil and refined products in the Far East. We are currently opening new markets for our products, such as China, India, Nigeria and Angola. Our 2008 – 2015 Strategic Plan contemplates investments of approximately US\$3 billion in the retail sector, and we have been evaluating on a selective basis the prospect of entering into retail markets in Colombia.

Our principal export market in 2009 was the US market. Currently, we maintain short-term crude oil supply contracts with Valero, ConocoPhillips and Tesoro Refining, as well as supply contracts for refined products with Refineria Dominicana de Petróleo S.A., and Berkshire, and a natural gas supply agreement with PDVSA.

Based on our natural gas production growth projections, we expect to increase our sales by focusing on deliveries of compressed natural gas for motor vehicles and industrial users, which have high demand.

## **Others**

### *Expand our operations in the renewable energy market*

We intend to participate in the renewable energy market in Colombia with local investors with whom we have undertaken the development of a refinery to process palm oil and sugar cane for bio-fuels. Our plan calls for investment of US\$570 million in these initiatives. See Item 4B — “Business Overview — Environmental Matters.”

## **Capital Expenditures**

Our consolidated capital expenditures during 2009 amounted to Ps\$10,750,197 million compared to Ps\$6,704,595 million in 2008 and Ps\$3,036,962 million in 2007. The most significant increase in our capital expenditures has been in our refining and petrochemicals segment which increased 249.3% in 2009 to Ps\$2,710,526 million from Ps\$776,080 million in 2008, and 231% in 2008 when compared to Ps\$234,462 million in 2007. We plan to meet our budgeted capital expenditures primarily through existing cash on hand, cash from operating activities and financings in the local and international financial markets. We may access equity markets through the issuance of an additional 9.9% of our common stock as authorized by Law 1118 of 2006.

At March 31, 2010, our unaudited consolidated capital expenditures were approximately Ps\$1,381 billion. These capital expenditures were funded mainly by our cash on hand and cash flow from our operations.

We currently have capital expenditures commitments locally and abroad. The most significant capital expenditures are within our exploration, production, transportation and refining segments. See Note 31 to our consolidated financial statements for a description of our principal commitments.

## **Overview**

We are a vertically integrated oil company operating in Colombia and overseas. We are majority owned by the Nation and our shares trade on the BVC under the symbol ECOPETROL and in the New York Stock Exchange and the Lima Stock Exchange under the symbol “EC”. We divide our operations into four business segments that include exploration and production; transportation; refining; and marketing and supply. We are the largest corporation in Colombia, as measured by assets, sales, net income and net worth, and we play a key role in the local energy supply market.

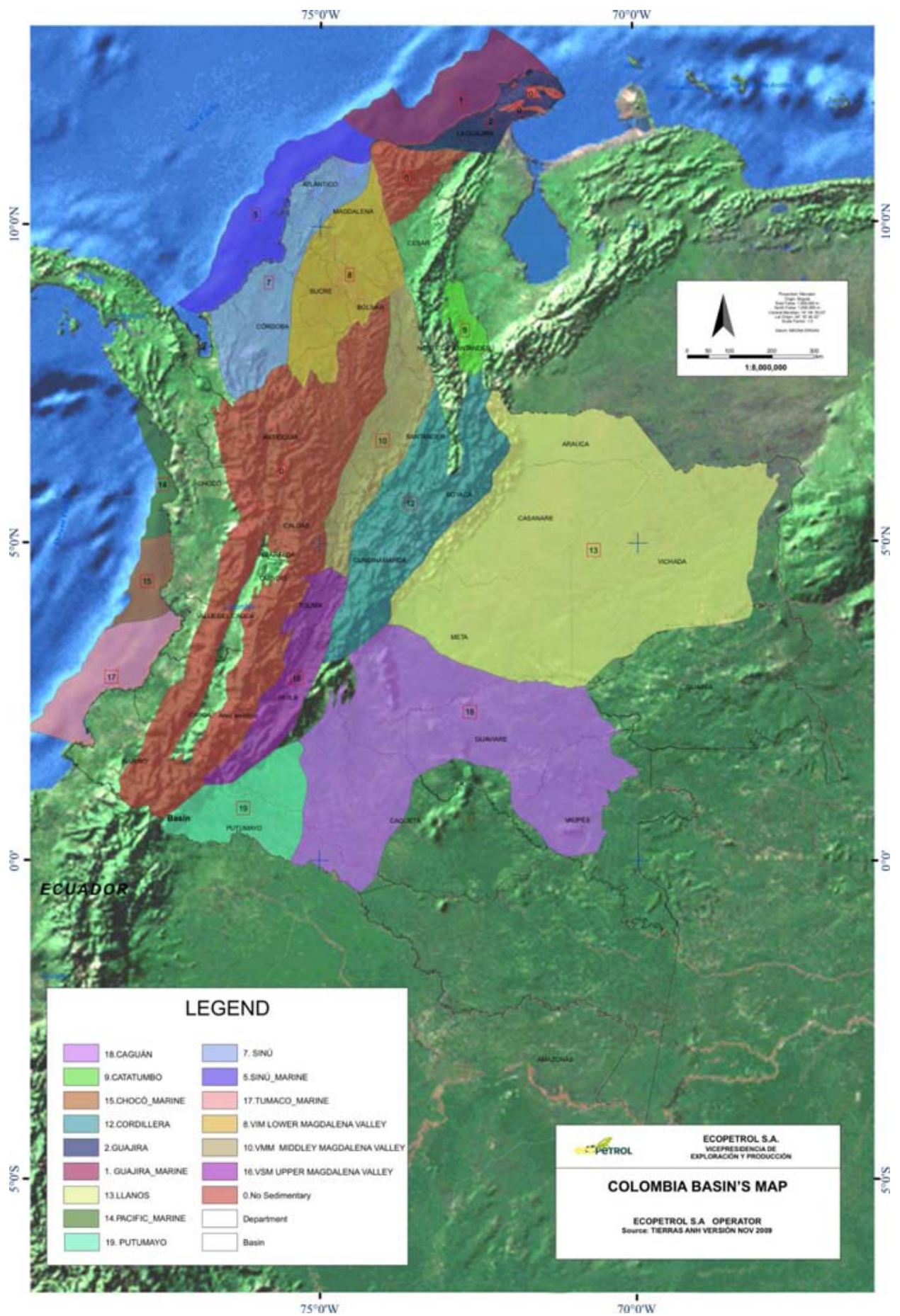
## Overview by Business Segment

### Exploration and Production

#### *Summary*

Our exploration and production business segment includes exploration, development and production activities in Colombia and abroad. We began local exploration in 1955 and international exploration in 2006. We conduct exploration and production activities directly and through joint ventures with third parties. We are the largest producer of crude oil and natural gas, the largest operator, and at December 31, 2009, we maintained the most acreage under exploration in Colombia.

According to the ANH, Colombia has 23 sedimentary basins, and at December 31, 2009, we had exploratory activities in 15 of them. The following map shows the basins where we conduct exploratory activities.



We have organized our production activities into five administrative regions. The administrative regions, and their respective 2009 results, are:

*Northeastern Region* – The Northeastern region is comprised of two areas, one located in the north of Colombia along the Atlantic coast and the other located in the *Piedemonte Llanero*. The Northeastern region covers approximately 439,151 acres, and includes the natural gas fields located at La Guajira and the crude oil and natural gas fields located in Cusiana-Cupiagua. In 2009, the Northeastern region had a total production of approximately 36.8 thousand bpd of crude oil and 494 million cubic feet per day or mcfpd of natural gas. At December 31, 2009, we had 543.4 million boe of net proved reserves of crude oil and natural gas located in this region.

*Mid-Magdalena Valley Region* – The Mid-Magdalena Valley region runs along the Magdalena river valley and covers approximately 1,580,093 acres. The Mid-Magdalena Valley region includes the crude oil fields located in the Santander department and part of the Antioquia, Cesar and Boyacá departments near the Barrancabermeja refinery. The Mid-Magdalena Valley region has a total production of approximately 73.4 thousand bpd of heavy and light crude oil and 23.5 mcfpd of natural gas. At December 31, 2009, we had 252.7 million boe of net proved reserves of crude oil and natural gas located in this region.

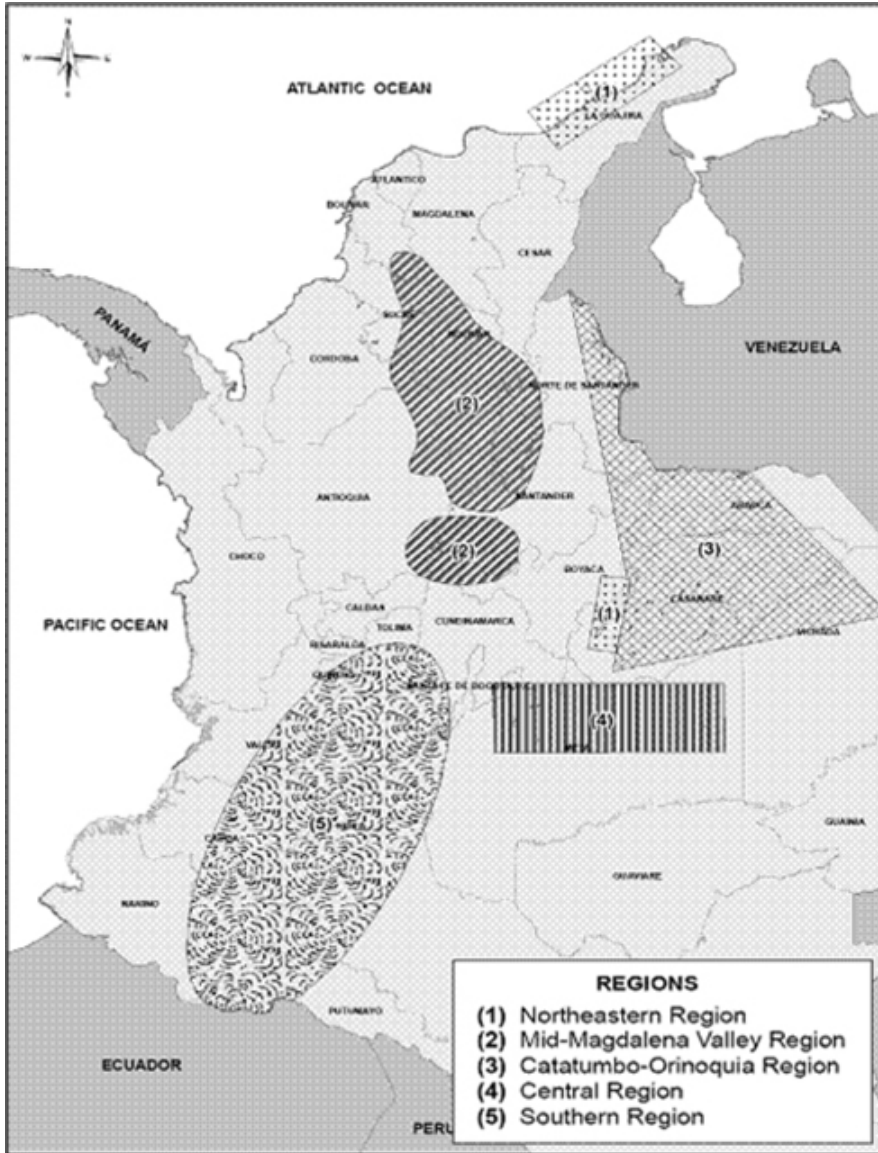
*Central Region* – The Central region is located in Colombia's central region and includes the Meta department and part of the Casanare department. The Central region covers approximately 666,369 acres and has a total production of approximately 155.9 thousand bpd of heavy and medium crude oil and 3.9 mcfpd of natural gas. At December 31, 2009, we had 438.7 million boe of net proved reserves of crude oil and natural gas located in this region.

*Catatumbo-Orinoquía Region* – The Catatumbo-Orinoquía region is located in the eastern part of Colombia and runs along the border with Venezuela covering approximately 651,005 acres. The Catatumbo-Orinoquía region includes the Caño Limón crude oil field and the Gibraltar natural gas field with a total production of approximately 70 thousand bpd of crude oil and 0.6 mcfpd. At December 31, 2009, we had 94.3 million boe of net proved reserves of crude oil and natural gas located in this region.

*Southern Region* – The Southern region is located on the southwestern region of Colombia and covers approximately 1,718,132 acres. The Southern region includes the Orito, Guando and Neiva fields located mainly in the Cundinamarca, Huila and Putumayo departments. The Southern region has a total production of approximately 62 thousand bpd of crude oil and 5.1 mcfpd of natural gas. At December 31, 2009, we had 112.8 million boe of net proved reserves of crude oil and natural gas located in this region.

In addition to the administrative regions mentioned above, we have established a Minor Fields Area that covers some of our small fields throughout the country. The main purpose of this Minor Fields Area is to establish strategies adequate enough to improve efficiency in the production of reserves from these small fields. The total production of the Minor Fields Area during 2009 was 7.2 thousand bpd of crude oil and 1.94 mcfpd of natural gas. This production corresponds to 71 fields located in Mid-Magdalena Valley, Central, Catatumbo-Orinoquía and the Southern regions.

The map below indicates the location of our operations in Colombia.



*Strategy*

Our main objectives in exploration and production in Colombia and abroad are to increase our crude oil and natural gas reserves and reach a production of one million boe per day in 2015, by:

- Investing in high potential hydrocarbon areas in Colombia and abroad;
- Selectively acquiring reserves;
- Implementing new strategies and deploying state-of-the art technologies to increase reserve recovery of new and mature fields;
- Investing in the development of natural gas and heavy crude oil; and

- Entering into new joint ventures with regional and international oil companies in Colombia and abroad.

## Exploration

Our exploration plan in Colombia is focused on exploration of existing production sites in close proximity, exploration of currently producing basins and exploration of frontier areas, including off-shore areas, which have the potential for substantial findings. Our exploration strategy outside of Colombia is focused on prospects for greater findings and establishing joint ventures with experienced operators.

### *Exploration Activities in Colombia*

We conduct exploration in Colombia on our own and through joint ventures with regional and international oil and gas companies. We also benefit from sole risk contracts when commercial reserves are found. In the case of sole risk contracts, we do not take any exploration risk.

In 2009, we acquired 4,433 equivalent kilometers of seismic in Colombia, corresponding to 2,184 kilometers of 2D seismic and 2,249 equivalent kilometers of 3D seismic. Ecopetrol directly acquired 3,095 of those kilometers of seismic and 1,338 were acquired by our business partners. Additionally, operators of sole risk contracts acquired 627 equivalent kilometers of seismic, corresponding to 231 kilometers of 2D seismic and 396 kilometers of 3D seismic.

### *Exploration Activities Outside of Colombia*

Our international exploration strategy is focused on securing blocks available for exploration and entering into joint ventures with international and regional oil companies. Exploring outside Colombia will allow us to diversify our risk and improve the possibilities for increasing our crude oil and natural gas reserves. In December 2006, the incorporation of Ecopetrol Oleo e Gas do Brasil Ltda., our first foreign subsidiary, represented a milestone in our international expansion and our consolidation as an international oil and gas company. In 2007, two new subsidiaries were incorporated, Ecopetrol del Perú and Ecopetrol America Inc.

In March 2009, our subsidiary, Ecopetrol America Inc., participated in the Gulf of Mexico Lease Sale 208, carried out by the Mineral Management Service of the United States (the "MMS," now the Bureau of Ocean Energy, Management, Regulation and Enforcement (the "BOE")). As part of this sale, the MMS awarded 22 exploratory blocks to Ecopetrol America Inc., six of them in association with Repsol, four in association with Eni and four in association with Stone. In the remaining eight blocks, Ecopetrol America has a 100% ownership interest. Drilling in the Gulf of Mexico has been affected by the Gulf spill. See Item 3D — "Risk Factors — Risks related to our business".

In 2009, our international subsidiaries drilled three wells. One well was drilled in Brazil, with our business partners Repsol and Hess, which respectively have 40% and 30% ownership interests, and of which we have the remaining 30% ownership interest. Two wells were drilled in the Gulf of Mexico: the first well was drilled with our business partners Eni and Gdf Suez, which respectively have 53% and 25% ownership interests, and of which we have the remaining 22% ownership interest; the second well was drilled with our business partners BP, Moesx and Hess, which respectively have 60%, 15% and 10% ownership interests, and of which we have the remaining 15% ownership interest. Of the three wells drilled, two found the presence of hydrocarbons but were not considered commercially successful, and the third well was dry. Also, in 2009, we acquired 4,810 equivalent kilometers of seismic data internationally, corresponding to 249 equivalent kilometers of 2D seismic and 4,561 equivalent kilometers of 3D seismic.

Also, during 2009, Ecopetrol Oleo e Gas do Brasil Ltda secured a farm-in agreement in the BM-ES-30 (Hess) block, which is located in the Espirito Santo basin of the Brazilian off-shore. Ecopetrol del Perú also carried out farm-in agreements with Petrobras (Bloque 110 y 117) and Talisman (Bloque 158).

Finally, in 2009, Savia Perú, our 50% -owned affiliate, drilled two exploratory wells (one net well), one of which was productive (one-half net well).



The following table sets forth the number of gross and net exploratory wells drilled by us and our joint venture partners, and the exploratory wells drilled by third parties under a sole risk contract for the years ended December 31, 2009, 2008 and 2007.

	For the year ended December 31,		
	2009	2008	2007
<b>COLOMBIA</b>			
<b>Ecopetrol</b>			
<b>Gross Exploratory Wells</b>			
<b>Owned and operated by Ecopetrol</b>			
Productive <sup>(1)</sup>	2	4	1
Dry <sup>(2)</sup>	7	6	3
<b>Total</b>	<b>9</b>	<b>10</b>	<b>4</b>
<b>Operated by Ecopetrol in Joint Venture</b>			
Productive	-	1	1
Dry	-	0	2
<b>Total</b>	<b>-</b>	<b>1</b>	<b>3</b>
<b>Operated by Partner in Joint Venture</b>			
Productive	3	1	-
Dry	3	1	5
<b>Total</b>	<b>6</b>	<b>2</b>	<b>5</b>
<b>Net Exploratory Wells</b>			
Productive	3.2	5	1.4
Dry	8.2	6.4	5.6
<b>Total</b>	<b>11.4</b>	<b>11.4</b>	<b>7</b>
<b>Sole Risk<sup>(3)</sup></b>			
Productive	4	8	8
Dry	5	12	13
<b>Total</b>	<b>9</b>	<b>20</b>	<b>21</b>
<b>Hocol</b>			
<b>Gross Exploratory Wells</b>			
Productive	1	-	-
Dry	2	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>
<b>Net Exploratory Wells</b>			
Productive	0.2	-	-
Dry	2	-	-
<b>Total</b>	<b>2.2</b>	<b>-</b>	<b>-</b>
<b>INTERNATIONAL</b>			
<b>Ecopetrol America Inc.</b>			
<b>Gross Exploratory Wells</b>			
Productive	-	-	-
Dry	2	1	-
<b>Total</b>	<b>2</b>	<b>1</b>	<b>-</b>
<b>Net Exploratory Wells</b>			
Productive	-	-	-
Dry	0.4	0.3	-
<b>Total</b>	<b>0.4</b>	<b>0.3</b>	<b>-</b>
<b>Ecopetrol Oleo e Gas do Brasil</b>			
<b>Gross Exploratory Wells</b>			
Productive	0	-	-
Dry	1	-	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Net Exploratory Wells</b>			
Productive	-	-	-
Dry	0.3	-	-
<b>Total</b>	<b>0.3</b>	<b>-</b>	<b>-</b>
<b>Ecopetrol del Perú</b>			
<b>Gross Exploratory Wells</b>			
Productive	-	-	-
Dry	-	1	-
<b>Total</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Net Exploratory Wells</b>			
Productive	-	-	-
Dry	-	0.5	-
<b>Total</b>	<b>-</b>	<b>0.5</b>	<b>-</b>
<b>Savia Perú</b>			
<b>Gross Exploratory Wells</b>			
Productive	1	-	-
Dry	1	-	-
<b>Total</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Net Exploratory Wells</b>			
Productive	0.5	-	-
Dry	0.5	-	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>

- 
- (1) A productive well is an exploratory well that is not a dry well.
  - (2) A dry well or hole is an exploratory well found to be incapable of producing either crude oil or natural gas in sufficient quantities to justify completion as a crude oil or natural gas well.
  - (3) We do not take any risk in sole risk contracts but we benefit from successful exploratory efforts. See Item 4 — “Overview of Exploration and Production Contractual Arrangements.”

## **Production**

Our average daily production of hydrocarbons in 2009 totaled 520.6 thousand boed, of which 426 thousand bpd corresponded to crude oil and 94.6 thousand boed corresponded to natural gas. This production includes the production of our subsidiaries and affiliates: Hocol S.A., Ecopetrol America Inc. and Savia Perú S.A. on a pro rata basis.

During 2009, we produced 419.8 thousand bpd of crude oil in Colombia through Ecopetrol S.A. and Hocol, of which 205.9 thousand bpd came from fields we directly operate and of which 213.9 thousand bpd came from our participation in joint ventures, shared risk agreements and other contractual arrangements with our business partners.

During 2008, our average daily production of hydrocarbons totaled 447 thousand boed, of which 362 thousand bpd corresponded to crude oil and 85 thousand boed corresponded to natural gas. Our average daily production of hydrocarbons in 2007 was 399 thousand boed, of which 327 thousand bpd corresponded to crude oil and 72 thousand boed to natural gas.

Our production during 2009 consisted of approximately 66% light and medium crudes (with a gravity between 16° and 35° American Petroleum Institute or API) and 34% of heavy crudes, with a gravity lower than 15° API.

Our crude oil and natural gas production in 2009 includes 99 fields directly operated by us and 167 fields in joint venture with 40 oil companies. At December 31, 2009, we were the largest participant in the Colombian hydrocarbons industry with approximately 63% of crude oil production and approximately 52% of natural gas production.

We produce crude oil and natural gas in all of our regions. The Northeastern region has significant production of natural gas and light crude oil while the Central region and the southern part of the Mid-Magdalena Valley region have the most significant production and prospects of heavy crude oil, and currently produce light and medium crude oil. The Catatumbo-Orinoquía region has significant production of medium crude oil and the Southern region has production of medium and light crude oil.

We undertook development drilling in the producing regions and applied new technologies, allowing us to drill 165 gross development wells operated by us in Colombia in 2009, 19 more than in 2008 and 45 more than in 2007. Of the total gross development wells drilled in 2009, two were dry wells, one located in the Catatumbo-Orinoquia region, and the other in the Southern region. There were seven dry development wells in 2008 and five dry development wells during 2007.

*Relevant operational activities*

The following table sets forth the number of gross and net development wells drilled exclusively by us and in joint ventures for the years ended December 31, 2009, 2008 and 2007.

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>COLOMBIA</b>			
<b>Ecopetrol</b>			
<b>Northeastern Region:</b>			
Gross wells owned and operated by Ecopetrol	–	–	–
Gross wells in Joint Ventures <sup>(1)</sup>	6	1	2
Net Wells	3	1	1
<b>Mid-Magdalena Valley Region:</b>			
Gross wells owned and operated by Ecopetrol	100	90	77
Gross wells in Joint Ventures	249	344	153
Net Wells	227	285	146
<b>Central Region:</b>			
Gross wells owned and operated by Ecopetrol	46	41	29
Gross wells in Joint Ventures	115	66	17
Net Wells	113	79	38
<b>Catatumbo-Orinoquía Region:</b>			
Gross wells owned and operated by Ecopetrol	4	5	8
Gross wells in Joint Ventures	12	59	53
Net Wells	10	36	36
<b>Southern Region:</b>			
Gross wells owned and operated by Ecopetrol	7	10	6
Gross wells in Joint Ventures	48	36	58
Net Wells	23	27	33
<b>Hocol</b>			
Gross wells owned and operated by Hocol	8	-	-
Gross wells in Joint Ventures	1	-	-
Net Wells	8	-	-
<b>Total Gross wells owned and operated in Colombia</b>	<b>165</b>	<b>146</b>	<b>120</b>
<b>Total Gross wells in Joint Ventures in Colombia</b>	<b>431</b>	<b>506</b>	<b>283</b>
<b>Total Net Wells (Colombia)</b>	<b>384</b>	<b>428</b>	<b>254</b>
<b>INTERNATIONAL</b>			
<b>Savia Perú</b>			
Gross wells	5	-	-
Net Wells	5	-	-
<b>Total Gross Wells (International)</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Total Net Wells (International)</b>	<b>5</b>	<b>-</b>	<b>-</b>

(1) Net wells correspond to the sum of wells entirely owned by us and our ownership percentage of wells owned in joint venture with our partners.

*Production Activities in Colombia*

As a result of our 2008 – 2015 Strategic Plan and our investments in production activities, our average daily production of crude oil in Colombia reached 419.8 thousand bpd in 2009, a 16% increase compared to 2008 and a 29% increase when compared to 2007. The increase in our average daily production is due to a 12.6% increase in production from fields developed with our business partners, which totaled 213.9 thousand bpd in 2009 from 189.9 thousand bpd in 2008, and a 19.9% increase from fields operated by us, which totaled a 205.9 thousand bpd in 2009 compared to 171.7 thousand bpd in 2008.

The following table sets forth our average daily crude oil production, average sales price and average production costs (lifting costs) for the years ended December 31, 2009, 2008 and 2007.

	<b>For the Year ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(thousand bpd)		
<b>COLOMBIA</b>			
<b>Ecopetrol</b>			
<b>Northeastern region:</b>			
Joint venture operation	36.9	40.4	47.5
Direct operation	—	—	—
<b>Total Northeastern region</b>	<b>36.9</b>	<b>40.4</b>	<b>47.5</b>
<b>Mid-Magdalena Valley region:</b>			
Joint venture operation	16.9	15.1	12.7
Direct operation	56.6	50.7	39.4
<b>Total Mid-Magdalena Valley region</b>	<b>73.4</b>	<b>65.8</b>	<b>52.1</b>
<b>Central region:</b>			
Joint venture operation	44.5	28.6	15.3
Direct operation	111.5	93.7	82.8
<b>Total Central region</b>	<b>156.0</b>	<b>122.3</b>	<b>98.1</b>
<b>Catatumbo-Orinoquia region:</b>			
Joint venture operation	67.1	70.9	64.9
Direct operation	2.9	3.0	6.0
<b>Total Catatumbo-Orinoquia region</b>	<b>70.0</b>	<b>73.9</b>	<b>70.9</b>
<b>Southern region:</b>			
Joint venture operation	35.4	33.6	35.2
Direct operation	26.6	24.3	22.9
<b>Total Southern region</b>	<b>62.0</b>	<b>57.9</b>	<b>58.1</b>
<b>Minor Fields:</b>			
Joint venture operation	6.6	—	—
Direct operation	0.5	—	—
<b>Total Minor Fields</b>	<b>7.2</b>	<b>—</b>	<b>—</b>
<b>Hocol S.A.<sup>(1)</sup></b>			
Joint venture operation	6.3	—	—
Direct operation	7.8	—	—
<b>Total Hocol</b>	<b>14.1</b>	<b>—</b>	<b>—</b>
<b>Production Tests</b>	<b>0.3</b>	<b>1.3</b>	<b>—</b>
<b>Total Average Daily Crude Oil Production (Colombia)</b>	<b>419.8</b>	<b>361.6</b>	<b>326.7</b>
<b>INTERNATIONAL</b>			
Savia Perú	5.3	—	—
Ecopetrol America	0.9	0.3	—
<b>Total Average Daily Crude Oil Production (International)</b>	<b>6.2</b>	<b>0.3</b>	<b>—</b>
<b>TOTAL AVERAGE DAILY CRUDE OIL PRODUCTION</b>	<b>426.0</b>	<b>361.9</b>	<b>326.6</b>
<b>Crude Oil Average Sales Price</b>			
(U.S. dollars per barrel) <sup>(2)</sup>	60.86	85.30	65.10
<b>Crude Oil Average Sales Price</b>			
(Ps\$ per barrel) <sup>(2)</sup>	131,059	167,797	135,173
<b>Aggregate Average Lifting Costs of Crude Oil</b>			
(U.S. dollars per barrel) <sup>(3)</sup>	8.27	8.33	7.22
<b>Aggregate Average Lifting Costs of Crude Oil</b>			
(Ps\$ per barrel) <sup>(3)</sup>	17,825	16,376	15,057

- (1) Hocol and Savia Perú production figures correspond to their equivalent daily productions since their respective months of acquisitions.  
(2) Corresponds to Ecopetrol's average sales price on an unconsolidated basis.  
(3) Lifting costs per barrel are calculated based on total production, which includes royalties, and correspond to Ecopetrol's lifting costs on an unconsolidated basis.

Our crude oil lifting costs on a Peso basis increased to Ps\$17,825 during 2009 from Ps\$16,376 during 2008, mainly due to (i) an increase in production costs as a result of the expansion of our production facilities and maintenance expenses, (ii) increased costs from joint ventures and (iii) an increase in workovers to maintain our increasing production levels, partially offset by the increase in our crude oil production levels. Our crude oil lifting costs on a Dollar basis decreased to US\$8.27 in 2009 from US\$8.33 in 2008 as a result of the above mentioned factors, which result was more than offset by the 10% depreciation of the average exchange rate of the Peso against the U.S. Dollar.

Our crude oil lifting costs on a Peso basis increased to Ps\$16,376 during 2008 from Ps\$15,057 in 2007 mainly as a result of an increase in production costs from maintenance and services contracted in mature fields, partially offset by an increase in our crude oil production. Our crude oil lifting costs on a Dollar basis increased to US\$8.33 in 2008 from US\$7.22 in 2007 as a result of the above mentioned factors and the 5% appreciation of the average exchange rate of the Peso against the U.S. Dollar.

The following table sets forth our developed and undeveloped gross and net acreage of crude oil production by region for the year ended December 31, 2009.

	<b>Production Acreage at December 31, 2009</b>		<b>Average crude oil production for the year ended December 31, 2009<sup>(1)</sup></b>
	<b>Developed and Undeveloped</b>		<b>(thousand bpd)</b>
	<b>Gross</b>	<b>Net</b>	
	(in acres)		
<b>COLOMBIA</b>			
<b>Ecopetrol</b>			
Northeastern region	200,350	120,210	36.9
Mid-Magdalena Valley region	835,370	531,187	73.4
Central region	464,954	291,287	156.0
Catatumbo-Orinoquía region	640,839	389,669	70.0
Southern region	1,476,199	836,721	62.0
Minor Fields	558,667	165,253	7.2
<b>Hocol</b>	<b>37,264</b>	<b>10,681</b>	<b>14.1</b>
<b>Total (Colombia)</b>	<b>4,213,642</b>	<b>2,345,008</b>	<b>419.5</b>
<b>INTERNATIONAL</b>			
Savia Perú	10,933,233	10,933,233	5.5
<b>Ecopetrol America Inc.</b>	<b>5,760</b>	<b>530</b>	<b>0.9</b>
<b>Total (International)</b>	<b>10,938,993</b>	<b>10,933,763</b>	<b>6.4</b>
<b>TOTAL</b>	<b>15,152,635</b>	<b>13,278,771</b>	<b>426.0</b>

(1) Does not include 0.28 thousand bpd of production from exploratory activities.

The following table sets forth our total gross and net productive wells by region for the year ended December 31, 2009.

	At December 31, 2009					
	Crude Oil		Natural Gas		Natural Gas and Crude Oil	
	Gross	Net	Gross	Net	Gross	Net
<b>COLOMBIA</b>						
<b>Ecopetrol</b>						
Northeastern region	1	1	62	33	64	33
Mid-Magdalena Valley region	2,837	1,939	7	4	0	0
Central region	532	395	0	0	0	0
Catatumbo-Orinoquía region	728	463	1	1	0	0
Southern region	908	547	5	2	6	3
Minor fields	69	38	15	10	4	1
<b>Hocol</b>	<b>252</b>	<b>115</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Total (Colombia)</b>	<b>5,327</b>	<b>3,497</b>	<b>92</b>	<b>52</b>	<b>74</b>	<b>37</b>
<b>INTERNATIONAL</b>						
Savia Perú					652	652
Ecopetrol America Inc.					8	1
<b>Total (International)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>660</b>	<b>653</b>
<b>TOTAL</b>	<b>5,327</b>	<b>3,497</b>	<b>92</b>	<b>52</b>	<b>734</b>	<b>690</b>

*Volume of crude oil purchased*

The table below sets forth the volumes of crude oil purchased from our business partners and volumes of crude oil purchased from the ANH corresponding to royalties which have been received by the ANH in-kind from producers for the years ended December 31, 2009, 2008 and 2007.

	For the year ended December 31,		
	2009	2008	2007
	(million barrels)		
<b>Ecopetrol</b>			
Crude oil purchased from the ANH	35.1	32.6	31.0
Crude oil purchased from our Business partners	26.4	18.8	12.7
<b>Hocol</b>			
Crude oil purchased from our Business partners	4.8	—	—
<b>Total</b>	<b>66.3</b>	<b>51.4</b>	<b>43.7</b>

*Crude Oil*

*Light crude oil*

Light crude oil has an API gravity 25° or higher and tends to have a higher sales price in the international market. We develop and produce light crude oil in the Cravo Norte joint venture and in the Cusiana and Cupiagua fields. During 2009, our production of light crude oil was 83.8 thousand bpd, a 6.2% decrease compared to 89 thousand bpd produced in 2008. During 2008, our production of light crude oil decreased 9% when compared to 98 thousand bpd in 2007. The decrease in production is due to the decline of the fields as they are becoming mature.

Our most productive fields are located in the Northeastern regions. These fields are:

(i) *Cravo Norte Area*. Cravo Norte is located in the Catatumbo-Orinoquia region and is comprised of Cravo Norte, Chipiron, Cosecha and Rondon Joint Ventures. The production in the Cravo Norte area comes primarily from the Caño Limon and Caño Yarumal fields. During 2009, the production level in this area reached 46 thousand bpd, compared to 51.2 thousand bpd in 2008 and 45.5 thousand bpd in 2007. We estimate that the Cravo Norte area has approximately 46.6 million barrels of crude oil in proved reserves.

(ii) *Cusiana and Cupiagua*. The Cusiana and Cupiagua blocks are located in the Piedemonte Llanero and are developed in partnership with British Petroleum and Total. The project is composed by the Cusiana, Cupiagua, Pauto, Floreña and Volcanera fields. The production of these fields during 2009 was 36.8 thousand bpd, compared to 40.4 thousand bpd in 2008 and 47.5 thousand bpd in 2007. We estimate that the Cusiana and Cupiagua fields have approximately 138.1 million barrels of crude oil in proved reserves and 1.083 mcf of natural gas reserves. The first joint venture agreement with British Petroleum and Total under which we produce crude oil and natural gas in these fields expired in June 2010 and the production rights reverted to us at no additional cost. See Item 4 — “Overview of Exploration and Production Contractual Arrangements.”

#### *Heavy crude oil*

We consider heavy crudes those having an API gravity below 15°. We develop, upgrade and produce heavy crude in the Central and Mid-Magdalena Valley regions. From 2000 to 2009, we invested approximately US\$2,200 million to expand our production of heavy crude oil, which increased from 24 thousand bpd in 2000 to 146 thousand bpd in 2009. Our production of heavy crudes in 2009 reached 146 thousand bpd, a 34% increase when compared to 2008 as a result of the development of the Rubiales, Castilla and Chichimene fields, in the San Fernando Region. In 2008, our production of heavy crudes amounted to 109 thousand bpd, compared to 81 thousand bpd in 2007, mainly as a result of the development of the same fields. We are committed to developing our heavy crude reserves as they are an integral part of our growth strategy.

Our most important heavy crude oil projects are:

(i) *Cubarral*. The Cubarral block is located in the Central region and is composed of the Castilla and Chichimene fields with approximately 302.5 million barrels of developed and undeveloped proved reserves. We decided to undertake the development of the project and selected a strategic partner for exploration in the Caño Sur Block.

(ii) *Rubiales*. The Rubiales field is located in the Central region and is developed in joint venture with Metapetroleum. Investments in this field during 2009 amounted to US\$247 million as we and our business partner drilled 105 development wells and enlarged our fluid treatment facilities. The Rubiales field increased Ecopetrol’s production from 20 thousand bpd in 2008 to 38 thousand bpd in 2009. We expect our production share during 2010 to reach 59 thousand bpd.

(iii) *Nare-Teca*. The Nare-Teca fields are located in the Mid-Magdalena Valley region developed in joint venture with Mansarovar, a joint venture between Sinopec from China and Oil and Natural Gas Corporation Ltd. from India. During 2009, we invested approximately US\$24 million in drilling 67 development wells, of which 27 were successful horizontal wells. We expect our production share to increase to 13 thousand bpd in 2010 and to reach a maximum of 32 thousand bpd by 2014.

#### *Mature fields*

We consider the development of mature fields an integral part of our strategy to increase average daily production and hydrocarbon reserves. Mature fields are those fields that have reached their maximum output and have entered their final decline in production. Approximately 70.4% of our fields are considered mature. However, these reservoirs, discovered over 20 years ago, still have significant reserves which can be recovered through aggressive drilling campaigns and by applying new technologies. We continue to focus our efforts on improving the productivity ratio of several directly operated mature fields and other fields currently held in joint venture with other oil companies, which will become mature in the near future.

For the last six years, we have been developing mature fields in all of our administrative regions in Colombia and through Hocol, since May 2009. As a result of these activities, we were able to reduce the rate of decline in production from mature crude oil fields which totaled 264 thousand bpd in 2009 compared to 227.2 thousand bpd in 2008 and 227 thousand bpd in 2007.

The table below describes the location, number and daily production of our mature fields in Colombia for the periods indicated below.

	At December 31, 2009	For the year ended December 31,		
	Number of fields	2009	2008	2007
		(thousand bpd)		
<b>Ecopetrol</b>				
<b>Northeastern region:</b>				
Joint Venture	5	36.8	40.4	47.5
Direct Operation	—	—	—	—
<b>Total Northeastern region</b>	<b>5</b>	<b>36.8</b>	<b>40.4</b>	<b>47.5</b>
<b>Mid-Magdalena Valley region:</b>				
Joint Venture	13	6.2	4.1	5.2
Direct Operation	31	56.5	50.9	39.0
<b>Total Mid-Magdalena Valley region</b>	<b>44</b>	<b>62.7</b>	<b>55.0</b>	<b>44.2</b>
<b>Central region:</b>				
Joint Venture	14	6.5	1.4	1.5
Direct Operation	17	13.8	20.8	23.5
<b>Total Central region</b>	<b>31</b>	<b>20.3</b>	<b>22.2</b>	<b>25</b>
<b>Catatumbo-Orinoquía region:</b>				
Joint Venture	53	67.1	67.9	64.1
Direct Operation	5	2.9	4.8	5.7
<b>Total Catatumbo-Orinoquía region</b>	<b>58</b>	<b>70.0</b>	<b>72.7</b>	<b>69.8</b>
<b>Southern region:</b>				
Joint Venture	37	35.4	13	17.6
Direct Operation	33	26.6	23.9	22.9
<b>Total Southern region</b>	<b>70</b>	<b>62.0</b>	<b>36.9</b>	<b>40.5</b>
<b>Minor fields:</b>				
Joint Venture	41	6.6	—	—
Direct Operation	4	0.5	—	—
<b>Total Minor fields</b>	<b>45</b>	<b>7.1</b>	—	—
<b>Hocol</b>				
<b>Minor fields (Hocol):</b>				
Joint Venture	—	—	—	—
Direct Operation	9	5.1	—	—
<b>Total Minor fields (Hocol)</b>	<b>9</b>	<b>5.1</b>	—	—
<b>TOTAL</b>	<b>262</b>	<b>264.0</b>	<b>227.2</b>	<b>227</b>

*Purchase Commitments with our business partners*

We have entered into a number of crude oil purchase contracts with certain of our business partners. Crude oil purchased from our business partners is either processed in our refineries or exported. The purchase price is calculated based on international market prices. Consequently, our total financial exposure depends on the international prices of oil and volumes produced. We believe that the risk of such exposure is hedged because we either export the crude oil at international market prices or sell refined products at prices which are correlated with international market prices. During 2009, the total volumes of crude oil we purchased from our business partners amounted to 26% of our total crude oil sales.



Deliveries of crude oil are made on a continuous basis. At February 23, 2010 we had 39 of these contracts outstanding, of which 36 or 95% expire in 2010, and the remaining 3 or 5% thereafter.

Under most of our existing contracts we are obliged to purchase 100% of our partner's production in the specific field. During January 2010, our purchases of crude oil under these commitments amounted to 67.2 thousand bpd of crude oil.

The term of some of our purchase contracts is linked to the term of the joint venture agreements signed with our business partners. Other clauses of the contracts such as price and place of delivery may be subject to renegotiation during the term of the contract. Other purchase contracts not linked to joint venture agreements may be extended and renegotiated by the parties.

#### Natural Gas

Our production of natural gas is driven by the growth of local demand and exports to Venezuela. In 2009, we produced 539.2 mcfpd, a 11% increase when compared to the 2008 production and a 31% increase when compared to the 2007 production.

The following table sets forth our average daily natural gas production, our average sales price and average production costs (lifting costs) for the years ended December 31, 2009, 2008 and 2007.

	For the year ended December 31,		
	2009	2008	2007
	(mcfpd)		
<b>COLOMBIA</b>			
<b>Ecopetrol</b>			
<b>Northeastern region:</b>			
Joint Venture	494.4	451.8	375.4
Direct Operation	—	—	—
<b>Total Northeastern region</b>	<b>494.4</b>	<b>451.8</b>	<b>375.4</b>
<b>Mid-Magdalena Valley region:</b>			
Joint Venture	4.0	6.0	8.1
Direct Operation	19.4	21.4	21.5
<b>Total Mid-Magdalena</b>			
<b>Total Valley region</b>	<b>23.3</b>	<b>27.4</b>	<b>29.6</b>
<b>Central region:</b>			
Joint Venture	—	—	—
Direct Operation	3.9	1.7	1.6
<b>Total Central region</b>	<b>3.9</b>	<b>1.7</b>	<b>1.6</b>
<b>Catatumbo-Orinoquia region:</b>			
Joint Venture	0.2	1.0	1.1
Direct Operation	0.5	—	—
<b>Total Catatumbo-Orinoquia region</b>	<b>0.7</b>	<b>1.0</b>	<b>1.1</b>
<b>Southern region:</b>			
Joint Venture	3.4	2.8	3.3
Direct Operation	1.7	2.2	1.0
<b>Total Southern region</b>	<b>5.2</b>	<b>5.0</b>	<b>4.3</b>
<b>Minor Fields:</b>			
Joint venture operation	1.9	—	—
Direct operation	—	—	—
<b>Total Minor Fields</b>	<b>1.9</b>	<b>—</b>	<b>—</b>
<b>Hocol<sup>(1)</sup></b>			
Joint venture operation	4.0	—	—
Direct operation	—	—	—
<b>Total Hocol</b>	<b>4.0</b>	<b>—</b>	<b>—</b>
<b>Production Tests</b>	<b>0.2</b>		
<b>Total Natural Gas Production (Colombia)</b>	<b>533.6</b>	<b>486.9</b>	<b>412.0</b>
<b>INTERNATIONAL</b>			
Savia Perú <sup>(1)</sup>	5.3		
Ecopetrol America	0.4		
<b>Total Natural Gas Production (International)</b>	<b>5.7</b>	<b>—</b>	<b>—</b>
<b>TOTAL NATURAL GAS PRODUCTION</b>	<b>539.2</b>	<b>486.9</b>	<b>412.0</b>
<b>Natural Gas Average Sales Price (U.S. dollars per thousand cf)</b>	<b>2.94</b>	<b>3.47</b>	<b>2.06</b>
<b>Natural Gas Average Sales Price (Ps\$ per thousand cf)</b>	<b>6,321</b>	<b>6,818</b>	<b>4,270</b>
<b>Aggregate Average Lifting Costs of Natural Gas (U.S. dollars per thousand cf)<sup>(2)(3)</sup></b>	<b>0.38</b>	<b>0.52</b>	<b>0.49</b>
<b>Aggregate Average Lifting Costs of Natural Gas (Ps\$ per thousand cf)<sup>(2)(3)</sup></b>	<b>829</b>	<b>1,015</b>	<b>1,024</b>

- (1) Hocol and Savia Perú production figures correspond to their equivalent daily productions since their respective months of acquisitions.
- (2) Corresponds to lifting costs from La Guajira fields.
- (3) During 2009, we modified our methodology for calculating our natural gas lifting cost as follows: we now calculate this cost by taking our production cost and dividing it by our produced volumes (including royalties) rather than using the total volume produced by our fields as the denominator. Our 2008 and 2007 natural gas lifting costs have been restated under the new methodology.

Our natural gas lifting costs on a Peso basis decreased to Ps\$829 per thousand cf in 2009 from Ps\$1,015 per thousand cf in 2008 due to the decrease in our total natural gas production costs and the increase in our natural gas production as a result of the commencement of operations of our natural gas compression project, which enabled us to increase production at La Guajira fields. Our natural gas lifting costs on a Dollar basis decreased to US\$0.38 per thousand cf in 2009 from US\$0.52 per thousand cf in 2008 due the above mentioned factors and the 10% depreciation in the average exchange rate of the Peso against the U.S. Dollar.

Our natural gas lifting costs on a Peso basis decreased to Ps\$1,015 per thousand cf in 2008 from Ps\$1,024 per thousand cf in 2007 mainly due to an increase in our total volumes produced as a result of the commencement of natural gas exports to Venezuela, partially offset by (i) an increase in the disbursements for minor projects related to natural gas treatment in the Guajira fields as established in the contract with our business partner Chevron, (ii) an increase in the production payments to Petrosantander as a result of an increase in volumes and the sales price of natural gas (pursuant to our contract with them). Our natural gas lifting costs on a Dollar basis increased to US\$0.52 per thousand cf in 2008 from US\$0.49 per thousand cf in 2007 due to the above mentioned reasons, which effect was more than offset by the 5% appreciation in the average exchange rate of the Peso against the U.S. Dollar.

The following table sets forth our developed and undeveloped gross and net acreage of natural gas production by region:

	Developed and Undeveloped Production Acreage as of December 31, 2009		Average natural gas production for the year ended December 31, 2009
	(in acres)		(thousand cfpd)
	Gross	Net	
<b>COLOMBIA</b>			
<b>Ecopetrol S.A.</b>			
Northeastern region	238,801	142,127	494.4
Mid-Magdalena Valley region	744,723	442,798	23.3
Central region	201,415	129,384	3.9
Catatumbo-Orinoquía region	10,166	—	0.7
Southern region	241,933	121,802	5.2
Minor fields <sup>(1)</sup>	24,859	12,430	2.1
<b>Hocol</b>	114	80	4.0
<b>Total (Colombia)</b>	<b>1,462,011</b>	<b>848,621</b>	<b>533.6</b>
<b>INTERNATIONAL</b>			
Savia Perú	9,295	9,295	5.3
<b>Ecopetrol America Inc.</b>	—	—	0.4
<b>Total (International)</b>	<b>9,295</b>	<b>9,295</b>	<b>5.7</b>
<b>TOTAL</b>	<b>1,471,306</b>	<b>857,916</b>	<b>539.2</b>

(1) Minor fields production figures include production from production tests.

#### *Northeastern region*

The largest production of natural gas in Colombia is located in the Northeastern region, which we develop under joint venture contracts. We develop the Guajira natural gas reserves with our partner Chevron. The Cusiana and Cupiagua reserves are developed in partnership with British Petroleum and Total; however, the first joint venture agreement with British Petroleum and Total under which we produce crude oil and natural gas in these fields expired in June 2010 and the production rights reverted to us at no additional cost.

Natural gas production in the Northeastern region averaged 494.4 mcfpd in 2009. The natural gas produced from these fields is used to supply our local demand and to meet our commitments to supply natural gas to Venezuela. We are continuing to re-inject natural gas in the Cusiana and the Cupiagua fields in order to increase our recovery ratio.

As a result of the age and the decline rate of the Cusiana, Cupiagua and Floreña crude oil fields, we commenced production of natural gas for sale. Our current natural gas treatment capacity for these fields is 200 mcfpd. During 2009, our production of natural gas for sale from the Cusiana, Cupiagua, Floreña and Pauto fields totaled 114.9 mcfpd, a 10% decrease in comparison to the 127.6 mcfpd produced in 2008, resulting from a decrease in natural gas demand from the Termoyopal power plant, which is operated with natural gas from the Pauto and Floreña fields. We have increased the capacity of the existing Cusiana natural gas treatment plant, and we plan to build a new Cupiagua natural gas treatment plant in order to increase treatment capacity and to increase production of natural gas for sale from these fields to 480 mcfpd by 2012.

#### **Reserves**

Our net proved reserves of crude oil and natural gas at December 31, 2009, totaled 1,538.2 million boe, which represents a 35.0% increase from the 1,137.0 million boe registered in 2008. In 2008, our proved reserves decreased 6.0% from the 1,209.9 million boe registered in 2007. The increase in our reserves in 2009 is mainly due to (i) revisions which include new development projects and reserves reclassification in our existing production fields and (ii) extensions and discoveries which include new acquisitions. Our crude oil reserves in 2009 increased to 1,123.3 million barrels of crude oil from 798.9 million barrels of crude oil in 2008 and our natural gas proved reserves increased to 2,329.4 million cubic feet or mcf from 1,898.9 mcf of reserves in 2008.

Our reserves calculation process is supervised and coordinated by Adriano Lobo, our corporate manager of reservoirs. He is a geologist who holds a masters degree in Geology from the University of Texas at Austin and has more than 20 years of experience in projects associated with the characterization, development, estimation, and reporting of reserves. In addition, we have a reserves coordinator, Martha Patricia Gómez, who is a petroleum engineer, and has more than 15 years of experience (five of which in issues directly relating to the calculation of reserves). Our reserves coordinator supervises and provides support to our employees involved in the reserves calculation process. These employees meet the Society of Petroleum Engineers-SPE qualifications for reserves calculation. Our reserves calculation process ends with the review of our reserves report by our reserves committee and the approval of our Board of Directors. This entire process meets the requirements of our reserves corporate guide, which is aligned to satisfy the SEC definitions and rules and is part of our internal control process.

Hydrocarbon reserves were calculated using SEC definitions and rules. Our hydrocarbon net proved reserves have been audited in 2009 by Ryder Scott, DeGolyer and MacNaughton and Gaffney, Cline & Associates (collectively, the “External Engineers”) and their reserves reports are included as exhibits herein. These firms have audited 97% of our total net proved reserves for 2009. Their audit process was conducted in accordance with the U.S. Securities and Exchange Commission (“SEC”) definitions and rules set forth in Rule 4-10(a) of Regulation S-X and the disclosure guidelines contained in the SEC’s “*Modernization of Oil and Gas Reporting*” final rule dated December 31, 2008 and effective as of January 1, 2010. The information presented below and elsewhere in this annual report referring to our 2009 net proved reserves estimates is based on those reports and on our own calculations for the remaining 3% of our hydrocarbon net proved reserves. Our 2009 crude oil and natural gas net proved reserves include reserves from our acquisitions located in the Gulf of Mexico, Perú and Hocol’s assets in Colombia.

The information regarding 2008 net proved reserves is based on the 2008 audited reserve reports for 89% of our total reserves prepared by the External Engineers under SEC definitions and rules. The remaining 11% corresponds to calculations made by us internally using SEC definitions and rules.

Our reserves were audited in 2006 by the External Engineers. We updated the reserve estimates at December 31, 2007 using the same valuation method. In July 2008, the External Engineers audited 85% of our reserves at December 31, 2007 but the reserve estimates for 2007 shown in this annual report are ours. The total negative difference between our estimates and those of the experts with respect to the 85% of reserves that were audited is 5.6%. Although the total difference was not material, there were significant differences, both positive and negative, with respect to particular fields. The most important differences, on a field by field basis arise from the following four areas: (1) Evaluation of the quality and quantity of information available to incorporate reserves as proved with reasonable certainty, reflecting changes for the Tibu (+100.6% or 12.77 million barrels), Casabe (-14.8% or 6.01 million barrels) and Gibraltar (-59.2% or 18.48 million boe) fields; (2) differences in quantifying depletion rates for purposes of estimating future production, affecting the estimates for the Cusiana (-33.4% or 29.65 million barrels), San Francisco (-70.2% or 20.58 million barrels), Guando (-8.9% or 6.4 million barrels), La Cira (-18.2% or 8.99 million barrels) and Orito (-25.8% or 4.57 million barrels) fields; (3) differences in the method used to estimate the reserves in the Cupiagua fields (+23.9% or 17.3 million barrels) which in 2006 was the gas/oil ratio against accumulated gas and in 2007 was oil rate against time; and (4) as a result of differences in the External Engineers’ interpretations, the economic limits differ with respect to the ones reported by us, therefore reflecting differences between operating expenses and capital expenditures applied by us and by the External Engineers. We do not deem these differences to be significant with respect to the impact on the Company’s estimates as a whole.

The reserve information presented in this section is based on the SEC’s definitions and rules used for U.S. GAAP purposes. See Item 5 — “Operating and Financial Review and Prospects – Principal differences between Colombian Government Entity GAAP and U.S. GAAP” and Note 33 to our consolidated financial statements.

The following table sets forth our estimated net proved reserves (developed and undeveloped) of crude oil and gas by region and for the years ended December 31, 2009, 2008 and 2007.

	At December 31,					
	2009		2008		2007	
	Crude Oil (million barrels)	Gas (gcf)	Crude Oil (million barrels)	Gas (gcf)	Crude Oil (million barrels)	Gas (gcf)
<b>PROVED DEVELOPED RESERVES</b>						
<b>Colombia</b>						
<b>Ecopetrol S.A.</b>						
Northeastern region	65.2	1674.9	66.3	680.0	87.5	1119.8
Mid-Magdalena Valley region	148.0	24.4	134.2	33.3	153.0	66.1
Central region	196.2	0.0	137.3	0.0	152.4	0.0
Catatumbo – Orinoquía region	68.6	0.0	76.5	0.0	93.1	0.0
Southern region	97.5	3.8	92.4	4.9	158.5	19.4
Minor Fields	6.6	0.8	10.9	2.0	6.8	5.2
<b>Hocol</b>	29.7	3.1	—	—	—	—
<b>Total (Colombia)</b>	<b>611.6</b>	<b>1707.0</b>	<b>517.6</b>	<b>720.1</b>	<b>651.3</b>	<b>1210.5</b>
<b>International</b>						
Savia Perú	14.2	23.0	—	—	—	—
Ecopetrol America	4.7	2.6	0.8	0.5	—	—
<b>Total (International)</b>	<b>18.8</b>	<b>25.6</b>	<b>0.8</b>	<b>0.5</b>	<b>—</b>	<b>—</b>
<b>TOTAL PROVED DEVELOPED RESERVES</b>	<b>630.5</b>	<b>1732.6</b>	<b>518.4</b>	<b>720.6</b>	<b>651.3</b>	<b>1210.5</b>
<b>PROVED UNDEVELOPED RESERVES</b>						
<b>Colombia</b>						
<b>Ecopetrol S.A.</b>						
Northeastern region	75.8	584.7	41.5	1173.0	45.8	758.2
Mid-Magdalena Valley region	99.1	7.5	77.2	5.3	59.2	10.9
Central region	242.5	0.0	126.2	0.0	65.1	0.0
Catatumbo – Orinoquía region	25.7	0.0	20.1	0.0	12.7	0.0
Southern region	14.6	0.4	13.8	0.0	22.5	0.0
Minor Fields	1.0	0.0	1.7	0.0	0.7	—
<b>Hocol</b>	19.3	0.4	—	—	—	—
<b>Total (Colombia)</b>	<b>478.0</b>	<b>593.0</b>	<b>280.5</b>	<b>1178.3</b>	<b>206.1</b>	<b>769.1</b>
<b>International</b>						
Savia Perú	14.9	3.8	—	—	—	—
Ecopetrol America	0.0	0.0	0.0	0.0	—	—
<b>Total (International)</b>	<b>14.9</b>	<b>3.8</b>	<b>0.0</b>	<b>0.0</b>	<b>—</b>	<b>—</b>
<b>TOTAL PROVED UNDEVELOPED RESERVES</b>	<b>492.8</b>	<b>596.9</b>	<b>280.5</b>	<b>1178.3</b>	<b>206.1</b>	<b>769.1</b>
<b>TOTAL PROVED RESERVES (DEVELOPED AND UNDEVELOPED)</b>	<b>1123.3</b>	<b>2329.4</b>	<b>798.9</b>	<b>1898.9</b>	<b>857.4</b>	<b>1979.6</b>

The following table sets forth our estimated consolidated net proved developed and undeveloped reserves of crude oil and natural gas at December 31, 2009, 2008 and 2007.

	<b>Net proved developed and undeveloped Reserves</b>		
	<b>Crude Oil (million barrels)</b>	<b>Gas (gcf)</b>	<b>Total (million boe)</b>
Reserves at December 31, 2007	857.4	1,979.6	1,209.9
Revisions	44.2	54.5	53.9
Extensions and discoveries	8.3	0.8	8.4
Production	(111.0)	(136.0)	(135.2)
Reserves at December 31, 2008	<u>798.9</u>	<u>1,898.9</u>	<u>1,137.0</u>
Revisions	318.98	548.55	416.7
Extensions and discoveries <sup>(1)</sup>	137.29	38.62	144.2
Production	(131.85)	(156.63)	(159.7)
Reserves at December 31, 2009	<u>1,123.3</u>	<u>2,329.4</u>	<u>1,538.2</u>
<b>Net proved developed reserves</b>			
At December 31, 2007	651.3	1,210.5	866.9
At December 31, 2008	518.4	720.6	646.7
At December 31, 2009	630.5	1,732.6	939.0

(1) Extensions and discoveries during 2009 included 94.7 mboe associated with our acquisition of Hocol and OIG.

Revisions include existing projects in our existing fields, new projects in our existing fields and reserves reclassification. The revisions during 2009 resulting from new projects in our existing fields amounted to 256 mboe, which corresponds mainly to new projects at the Rubiales (110 mboe), Castilla (44 mboe), Chichimene (32 mboe) and Pauto (15 mboe) fields, representing 78% of all of our new projects. Additionally, we reclassified 211 mboe of reserves from unproved to proved reserves, which mainly occurred at the Cusiana (69 mboe), Pauto (60 mboe), Chichimene (43 mboe) and Castilla (30 mboe) fields, representing 96% of the total reclassifications. In 2009, economic limits reduced proved reserves by 62 mboe and other minor changes in existing projects at our existing projects resulted in revisions of 11 mboe.

The increase in extensions and discoveries of reserves during 2009 is mainly due to the 95 mboe increase resulting from our acquisition of Savia Perú and Hocol. In addition, 49 mboe of new reserves were discovered.

During 2009, our total proved undeveloped reserves increased by 108.8 mboe to 599.2 mboe at December 31, 2009 from 490.4 mboe at December 31, 2008. At December 31, 2009, 82% of our total proved undeveloped reserves corresponded to crude oil.

Of the total amount of proved undeveloped reserves that we had at the end of 2008, we converted approximately 358 mboe or 73% to proved developed reserves during 2009, which resulted from (i) natural gas projects in the Northeastern region, mainly conducted through a new compression unit in the Guajira fields and additional natural gas treatment capacity in the Cusiana field, which represented 41% of the total conversion and (ii) crude oil projects, mainly associated with the development of heavy crude oil fields in Castilla, Rubiales and Chichimene in the central region, which represented the remaining 32% of the total conversion. The amount of investment made during 2009 to convert the proved undeveloped reserves to the proved developed reserves was Ps\$1,493 billion.

The reduction in our proved undeveloped reserves resulting from our conversion to proved developed reserves during 2009 was more than offset by an increase in our proved undeveloped reserves of approximately 467 mboe. This increase mainly resulted from (i) an increase of 382 mboe corresponding to revisions, which include our new development projects and reserves reclassification in our existing production fields and (ii) an increase of 84 mboe corresponding to extensions and discoveries, which includes new acquisitions.

## **Current Activities**

During the first quarter of 2010, we drilled 6 gross (4.8 net) exploratory wells, of which two gross (0.8 net) were productive wells and four gross (4 net) were dry wells. During the same period, we acquired 9,201 equivalent kilometers of seismic, of which 454 equivalent kilometers were acquired directly by us in Colombia, 2,264 equivalent kilometers were acquired by our business partners in Colombia and 6,483 equivalent kilometers were acquired abroad in the US Gulf Coast, Perú and Brazil.

During the first quarter of 2010, our average production of crude oil was 484.6 thousand barrels per day. Our average production of natural gas during the same period was 580.3 million cubic feet per day for a total production of 586.4 thousand boe per day, which represents a 27% increase when compared to the same period in 2009. We drilled 134 gross wells during the first quarter of 2009, of which 25 were drilled directly by us and 109 were drilled by our business partners.

## **Overview of Exploration and Production Contractual Arrangements**

### *Contractual Arrangements for the exploration and production of crude oil and natural gas in Colombia*

#### *Introduction*

Colombia has modified the contractual regime governing the exploration, development and production of hydrocarbons several times since its introduction in 1970 to address the country's exploration and production needs. The exploration and production contracts entered into by our business partners and us provide for the production split, the length of the exploration and production terms and royalty payments.

Under Colombian law, an existing contract cannot be modified because of a change to the contractual regime, except in the cases of public order regulations. As a result, contracts that were executed prior to the issuance of a new contractual regime remain in force and are not affected by the new regime put in place subsequently. At December 31, 2009, we were party to 96 agreements with partners.

Under joint venture contracts entered into before March 1994, which include the Cusiana and Cupiagua crude oil fields, the private investor explored a previously agreed upon area at its own risk and expense. Thereafter, we had the option to become a joint venture partner by reimbursing the investor 50% of the exploration costs of oil wells within commercially viable fields and 50% interest of all future development costs related to those fields. Once we became a partner, we had a 50% interest in the production of the field.

If we decided not to become a joint venture partner within a certain period of time, the private investor had the right to enter into a sole risk contract for the field's crude oil production until it had recovered 200% of its investment and a 100% of its total costs. Thereafter, we could participate in the development of the field and all future costs and expenses are automatically shared with our partner as if we had elected to become a joint venture partner in the field.

Beginning in 1994, modifications were made to standard joint venture contracts to maintain the private investor's share of production at 50% until aggregate production exceeded 60 million barrels. Thereafter, our share increased gradually, up to a maximum of 70% of production. In 1995, further modifications to the standard joint venture contracts required us to pay for half of the exploration costs, not only for wells that ultimately proved to be productive, but also for dry wells, stratigraphic wells and seismic exploration in fields that became commercially viable. The modifications also provided for competitive bidding for the right to explore and develop marginal fields (defined according to certain technical, financial and operational criteria). In the bidding process, private companies presented bids based on percentages of production they would pay us in exchange for the rights to develop these fields. Winning bidders were responsible for all future investment and operating costs related to the field.

The standard joint venture contract was once again modified in 1997 to promote private sector activity in the development of inactive areas and small fields and in the exploration for natural gas. These modifications extended the exploration periods, increased the levels of reimbursement for private companies' exploration costs and provided for the reimbursement of exploration costs in real terms and denominated in U.S. dollars.

In 1999, the Government adopted two additional modifications to the standard terms of the joint venture contracts, applicable to new joint venture contracts:

- *Reduction of Our Initial Participation.* The Government reduced our initial participation under the joint venture contracts from 50% to 30%. At December 31, 2009, we had 33 joint venture contracts outstanding in which our participation was greater than or equal to 50%, and 13 joint venture agreements are outstanding where our participation was 30% or below.
- *Modified R-Factor.* The Government modified the formula used to determine the increase in our share of total production or the R-Factor. The R-Factor is calculated by dividing accumulated revenues in cash by investments and costs. If the R-Factor increases above a certain profitability threshold, then our share of production increases above the initial 30%. Pursuant to the 1999 modifications, we raised the profitability threshold at which the R-Factor triggers an increase in our share from 1.0 to 1.5. Private companies benefited from this modification because our share remained at 30% for a longer period of time. In addition, the R-Factor was calculated in constant dollars. This new calculation method was designed to prevent inflation from causing an increase in the R-Factor and a corresponding increase in our share.

We also entered into various types of arrangements in connection with our own crude oil and natural gas exploration and production projects. These arrangements included: risk participation contracts, incremental production agreements, shared-risk production contracts, risk services production contracts, discovered undeveloped fields contracts and sole risk contracts.

- *Risk Participation Contracts.* Under these contracts, we assumed 15% of the exploration costs and risks at the beginning of the second year in exchange for a larger participation in the future production and equal representation on the executive committee of the joint venture. At December 31, 2009, we had three risk participation contracts in effect.
- *Incremental Production Agreements.* We currently have two types of incremental production agreements, the standard incremental production agreements or SIPA, and the development of incremental production project agreements or DIPA. Under the SIPA, we calculate the total number of proved developed reserves available in a specific field or well and then establish a base production curve for the reserves. Any future production exceeding the curve, which we refer to as incremental production, results from extracting proved undeveloped reserves or probable reserves which require additional investments funded by our partners under the SIPA. We have the right to a previously specified percentage of the incremental production. Our percentage participation varies depending on the total amount invested by our partners and on the R-Factor which cannot be lower than 1.5. The volume produced under the production curve is not shared with our partners. At December 31, 2009, we had five SIPAs in effect.

Under the DIPA, we file a request with the Ministry of Mines and Energy to approve an incremental production project for a field that we directly operate. If the project is approved, we agreed with our partners to develop the field and we determine mandatory investment thresholds for our partners. We are not required to fund any investment. The production from the field is distributed to us and our partners receive a percentage of the total production from the field which varies depending on the invested amount. Once the mandatory investment stage expires, we agree with our partners on the percentage of production, total costs and additional investments to be paid by each party. We pay 20% royalties to the Nation on the base production curve and variable royalties on any incremental production. Additionally, in the event of higher prices and large volumes, we have adjustment clauses to increase our share in the production. At December 31, 2009, we had two DIPAs in effect.



- *Shared-Risk Production Contracts.* Under these contracts, we remain as operators of the field and assume responsibility for 50% of all investments and costs. Private oil companies submit bids to enter into agreements with us based upon the production percentage they will assign to us. The successful bidder has the right to enter into the shared-risk contract with us. At December 31, 2009, we had one shared-risk production contract outstanding.
- *Risk Service Production Contracts.* We began using the risk service production contract in January 1998 to increase production through the use of new technologies in crude oil fields then operated by our partners. All investments in new technologies were made by our partners who received a tariff payment based on a formula that took into account the incremental production resulting from the technological and operative investments. At December 31, 2009, we had two risk service contracts outstanding for the development of the Valdivia-Almagro field and the Rancho Hermoso field located in the Mirador formation.
- *Discovered Undeveloped Fields Contracts.* We have entered into discovered undeveloped fields contracts to promote exploration by private companies of both undeveloped and inactive fields. Under this agreement, the contracting party assumes all costs and expenses for the development and operation of a field in exchange for a previously specified fee per barrel, which varies depending on the production level. At December 31, 2009, we had 20 discovered undeveloped fields contracts outstanding, of which at least two contracts are nearing termination because the fields have not been in production for some time.
- *Sole Risk Contracts.* After 2000, the party deciding to enter in a sole risk contract has the right to recover 100% of its investment and costs. Thereafter, we can participate in the development of the field sharing all new investment and costs. At December 31, 2009, we had 15 sole risk contracts outstanding.

At December 31, 2009 we also have certain other agreements outstanding, including:

- One *Service and Technical Cooperation Contract* with Universidad Industrial de Santander. Pursuant to this agreement, research can be conducted as part of the development of the Colorado field.
- One *Operation Agreement* under which production was being carried out on the Cocorná field while we await the court of arbitration to make a final decision about the termination of the Cocorná joint venture contract. This agreement terminated on May 1, 2010 as the arbitration decision was issued in favor of Ecopetrol.
- One *Technical Alliance Agreement* with a service company to support the operation of Casabe field in which Ecopetrol maintains operation and ownership of 100% reserves.

#### *Current Contractual Regime*

In 2004, the authority to enter into exploration and production contracts was assigned to the ANH under a different exploration and production contractual scheme. We became an operator like any other company, competing with all other regional and international oil companies in Colombia for exploration and production opportunities under the same conditions and without any special rights. Decree Law 1760 gave us the ability to maintain in effect all contracts we had entered into prior to January 1, 2004, as well as to have absolute discretion as to whether or not such contracts would be extended after their stated termination date. If we decide not to extend the contracts, the production rights will revert to us and we would have the right, at no additional costs to us, to exploit the associated reserves indefinitely. Contracts entered into by us after January 1, 2004, that are not extended by the ANH, they will revert to the ANH and not to us.

The ANH introduced two new model contracts to replace the previously used joint venture contracts: the exploration and production contract and the technical evaluation agreement.

- *Exploration and Production Contract or E&P.* Under the E&P contract the contractor, including us, assumes all exploration and production activities. The contractor also assumes all risks and costs of exploration and is the sole owner of all production and assets involved in the exploration and production activities for the term of the contract. There is no partnership or joint venture between the contractor and the ANH.
- *Technical Evaluation Agreements or TEA.* The scope of the technical evaluation agreement is limited to exploration activities. Under this agreement, the contractor can evaluate a specific area and decide whether or not it will enter into an exploration and production contract. The contractor assumes all risks and costs of the activities and operations. The agreement may be entered into for an 18-month period for on-shore areas and up to a 24-month period for off-shore areas.

We have entered into a number of exploration and production contracts with regional and international oil companies. Please see Annex I — “Description of Exploration and Production Contracts” for a list of our exploration and production contracts still in force at December 31, 2009 which describes the main characteristics of these contracts, including the region where they are developed, the identity of our partners and operators, our ownership percentage, the expiration date, the percentage of royalties we have to pay, and whether or not once expired and not extended by us, they will revert to us.

#### *Management of crude oil and natural gas joint ventures*

Every crude oil and natural gas joint venture development has an executive committee, which makes all technical, financial and operational decisions. All major decisions are made unanimously, including for those projects where we have less than a 50% economic interest. Although we do not operate a number of these joint ventures under development, we do have an active role in the decision making process and development of the projects. As a result, we have direct control over the development of joint ventures, even for those joint ventures where we have less than a majority economic interest.

## **Refining and Petrochemicals**

### *Summary*

There are two main refineries in Colombia: the Barrancabermeja refinery (“Barrancabermeja”), which we own and operate, and Refinería de Cartagena S.A. (“Reficar”), which we wholly own since May 2009 and operate. We also own two other minor refineries, Orito and Apiay. Our refineries produce a full range of refined products including gasoline, diesel, jet fuel, liquefied petroleum gas or LPG and heavy fuel oils among others.

During 2009, refining and petrochemicals investments amounted to Ps\$2,710.53 billion. These investments comprised 87 different projects, including re-conversion, upgrading, equipment replacement and environmental projects.

The following table sets forth our daily average installed and actual refinery capacity for each of the last three years.

	For the year ended December 31,								
	2009			2008			2007		
	Capacity	Through-put	% Use	Capacity	Through-put	% Use	Capacity	Through-put	% Use
					(bpd)				
Barrancabermeja	250,000	216,970	87%	250,000	232,052	93%	250,000	229,650	92%
Reficar	80,000	78,920	99%	80,000	78,028	98%	80,000	80,270	100%
Apiay	2,500	1,525	61%	2,500	1,314	53%	2,500	2,208	88%
Orito	2,500	1,495	60%	2,500	1,176	47%	2,500	1,128	45%
<b>Total</b>	<b>335,000</b>	<b>298,910</b>	<b>89%</b>	<b>335,000</b>	<b>312,570</b>	<b>93%</b>	<b>335,000</b>	<b>313,256</b>	<b>94%</b>

The average conversion ratio for Barrancabermeja and Reficar during 2009 was 79.5% and 78.8% respectively. In 2009 these refineries supplied the local demand for fuels and produced a surplus of certain refined products for export. Over the last three years we have maintained the conversion ratios of our refineries at similar rates, 79.3% in 2009, 78.1% in 2007 and 80.1% in 2007.

The refining margin decreased from 4.47 US\$/BI in 2008 to 4.41 US\$/BI in 2009 mainly due to the “crack spread” (difference between the prices of refined products and the prices of crude oil), low gasoline and LPG prices, and high crude oil prices (because of the lower discount of heavy crude oils to the WTI).

### *Strategy*

During 2009, we made significant progress in achieving our corporate goals to (i) position Barrancabermeja and Reficar among Latin-America’s first quartile within the Solomon Index (which classifies refineries by their performance and rank) by 2010 and (ii) implement an aggressive investment plan that will allow us to reach a production level of 650 thousand bpd and 2.7 million tons per year. This strategy is oriented towards improving the configuration of Barrancabermeja and Reficar and upgrading them to high conversion through the addition of coking capacity, hydrocracking and complimentary hydroprocessing units and making the necessary modifications in order for the fuels produced by the refineries to comply with more stringent environmental regulations in Colombia and our export markets. Our strategy is also focused on refining heavy crude oil and increasing our production of petrochemicals. The strategy may also include further upgrades and expansions and selectively acquiring additional refining assets. We seek to improve our ranking in the Solomon Index, which classifies refineries by their performance and rank, to be one of the best refineries in Latin America.

### *Barrancabermeja*

At Barrancabermeja, we produce a variety of fuels, such as regular and premium unleaded gasoline, diesel fuel, kerosene, jet fuel, aviation fuel, LPG, fuel oil and sulfur. We also produce petrochemicals, including, paraffin waxes, lube base oils, low-density polyethylene, aromatics, asphalts, alkylates, cyclohexane and aliphatic solvents, and refinery grade propylene.

The fuel hydro-treatment facility at Barrancabermeja is another major refining project that we have undertaken, which will enable us to meet existing regulation requirements relating to fuel quality standards, including diesel fuel with maximum sulfur content of 50 parts per million by 2010.

Barrancabermeja is undergoing a modernization process aiming to convert it into deep conversion, allowing it to process heavy and extra-heavy crudes produced in local fields and increase production of mid-distillates for the local market, as well as producing fuels meeting international sulphur content standards. This project should be in operation in 2014.

### *Reficar*

In 2006, we selected Glencore as our strategic partner in the development of the master plan with respect to our Cartagena refinery. Pursuant to this plan, Reficar was incorporated and began operations on April 1, 2007. Simultaneously with the incorporation of Reficar, we transferred all of Reficar’s assets to Glencore in exchange for a 49.0% interest. Reficar’s products are mainly exported to the Caribbean and the United States.

In February 2009, as a result of financing difficulties experienced by Glencore which were making it difficult for it to develop the master plan, we entered into a memorandum of understanding with Glencore pursuant to which we acquired in May 2009 all of its stake in Reficar through our subsidiary Andean Chemicals, thereby becoming the sole indirect owner of Reficar.

As part of this overhaul plan we expect to increase the competitiveness and profitability of Reficar through the modernization of its facilities and processes and improve the reliability of its units. We plan to increase the refinery’s production capacity to 150 thousand bpd by 2013 and improve refining margins by processing cheaper heavy crude oils; raising the conversion ratio, and producing a higher quality product slate. We also expect to satisfy existing environmental regulations for fuels by reducing sulfur content in gasoline and diesel fuel, thus complying with national and international fuel standards.

The following table sets forth the production of refined products of Barrancabermeja for the years ended December 31, 2009, 2008 and 2007.

	For the year ended December 31,		
	2009	2008	2007
	(bpd)		
LPG, propylene and Butane	17,122	18,227	18,019
Motor Fuels	75,174	77,110	78,663
Jet Fuel	52,413	15,861	15,152
Diesel	15,375	60,633	66,931
Fuel Oil	44,390	48,747	41,387
Lube Base Oils and Waxes	2,288	2,031	1,752
Aromatics and solvents	3,301	2,893	3,227
Asphalts and Aromatic Tar	7,547	6,862	6,434
Intermediates	881	998	477
<b>Total</b>	<b>218,491</b>	<b>233,363</b>	<b>232,042</b>
Difference between Inventory of Intermediate Products	236	1,897	(441)
<b>Total Production</b>	<b>218,727</b>	<b>235,259</b>	<b>231,601</b>

The following table sets forth the production of refined products of Reficar for the years ended December 31, 2009, 2008 and 2007.

	For the year ended December 31, <sup>(1)</sup>		
	2009	2008	2007
	(bpd)		
LPG, Propylene and Butane	5,255	4,869	3,117
Motor Fuels	26,847	24,577	27,198
Jet Fuel and Kerosene	20,742	6,969	6,911
Diesel	8,098	20,260	21,534
Fuel Oil	16,710	18,495	19,288
Aromatic Tar	945	820	1,162
Other Products	40	33	46
<b>Total</b>	<b>78,636</b>	<b>76,024</b>	<b>79,256</b>
Difference between Inventory of Intermediate Products	1,619	2,176	1,499
<b>Total Production</b>	<b>80,255</b>	<b>78,200</b>	<b>80,755</b>

(1) The table shows the entire production of Reficar.

In addition to our product slate, we have started to purchase low-sulfur diesel and biodiesel to improve the quality of the diesel produced at Barrancabermeja and Reficar. Reficar is currently purchasing biodiesel fuel in the local market and mixing it with its production of diesel to reduce sulfur content. Barrancabermeja is also working on improving the quality of its diesel products and is currently importing low-sulfur diesel. The low-sulfur diesel is being mixed with the current diesel production of Barrancabermeja.

#### *Petrochemicals and other products*

We own and operate four petrochemical plants located within Barrancabermeja producing a variety of products including aromatics, cyclohexane, paraffin waxes, lube base oils, polyethylene and solvents.

In 2008, we invested US\$54 million to improve our polyethylene production capacity in the Barrancabermeja Refinery. As a result of this investment, during 2009, we increased our low-density polyethylene production capacity at Barrancabermeja by 10,695 tons per year, representing an increase of 19%. As a result, our polyethylene deliveries increased by 31,970 tons per year.

## Propilco

On April 7, 2008, we completed the acquisition of Propilco. Propilco is the main polypropylene supplier in Colombia and the leading resins producer in the Andean region, Central America and the Caribbean. This acquisition allows us to assure synergies and to create value by taking advantage of the petrochemical flows derived from the refining process. It also opens the possibility of us undertaking new petrochemical projects in the future, which would follow the current trend in the hydrocarbon industry.

The following table sets forth Propilco's capacity and throughput for each of the last three years.

	For the year ended December 31,		
	2009	2008	2007
Capacity	455,000	405,000	380,000
Throughput	384,858	383,874	372,476
% Use	85%	95%	98%

During 2009, Propilco's production totaled 385 thousand tons of petrochemical products, a 0.3% and 3.3% increase when compared to the 384 thousand tons produced in 2008 and 372 thousand tons in 2007, respectively. However, Propilco's profits were negatively affected during the last two quarters of 2008 and the first quarter of 2009 as a result of the decrease in the differences between the prices of petrochemical products and the price of crude oil.

We intend to expand Propilco's production facilities to increase its production capacity to 500 thousand tons in 2010.

## Transportation

### Summary

Our transportation segment includes the transportation of crude oil, motor fuels, fuel oil and other refined products, excluding natural gas. In 2009, our transportation segment also included the transportation of the mixture of diesel and palm oil.

At December 31, 2009, we, directly or in joint venture with private sector participants, owned, operated and maintained an extensive network of crude oil and refined products pipelines connecting our and third-party production centers and terminals to refineries, major distribution points and export facilities. We own outright 42% of the total crude oil pipeline shipping capacity and 99% of the total product pipeline shipping capacity in Colombia. When aggregated with the crude oil pipelines in which we own an interest, we have access to 75% of the oil pipeline shipping capacity in Colombia.

Our transportation business has three key elements: transportation and shipping of our own and third party crude oil and refined products; sales of excess transportation capacity to third parties; and optimization of our transportation infrastructure according to our existing and future transportation needs.

At December 31, 2009, our network of crude oil and multi-purpose pipelines extended approximately 9,164 kilometers in length. The transportation network we own directly and in partnership with our joint venture partners consists of approximately 5,128 kilometers of main crude oil pipeline networks connecting various fields to the Barrancabermeja refinery and Reficar, as well as to export facilities. Of the 5,128 kilometers of crude oil pipelines, we directly own 2,911 kilometers and 2,217 kilometers with our business partners. We also own 3,654 kilometers of pipelines for transportation of refined products from the Barrancabermeja refinery and Reficar to wholesale distribution points. Approximately 58.2% of our crude oil pipelines were constructed through joint ventures and other agreements with our business partners in order to transport crude oil from producing fields.

## *Strategy*

Our main strategies in our transportation segment are to:

- Improve efficiency in all stages of logistic processes by using a variety of transportation systems and focusing on operational excellence, safety standards and high quality services;
- Construct the necessary crude oil pipelines to transport our crude oil and heavy crude oil from the fields to the refineries and ports and to construct the necessary refined products pipelines to transport our refined products according to demand; and
- Selectively invest in the development of new and more efficient transportation systems and support upstream and downstream strategies.

All of our transportation processes have been certified under ISO 9001, ISO 14001 and OHSAS 18001, which provide standards for hydrocarbons reception, storage, dispatch by pipes and pipelines and the import and export facilities of our docks.

We are currently developing our transportation infrastructure in order to meet our increased transportation needs and for any additional needs which may result from new discoveries. We have significant experience in providing transportation services through crude oil pipelines, trucks, tankers and barges.

The map below shows the main transportation networks owned by our business partners and us.

**TRANSPORTATION INFRASTRUCTURE**



*Pipelines*

In 2009, pipelines in which we own an interest transported a total of 576.2 thousand bpd of crude oil and 223.3 thousand bpd of refined products for a total of 799.5 thousand bpd in 2009, a 6.3% increase when compared to 2008. In 2008 pipelines transported a total of 751.8 thousand bpd of crude oil and refined products compared to 710.4 thousand bpd in 2007.

The following table sets forth our main pipelines and the main pipelines in which we own an interest by name, kilometers covered, type of product transported, origin, destination and our ownership percentage as of December 31, 2009.

<b>Pipeline</b>	<b>Kilometers</b>	<b>Product Transported</b>	<b>Origin</b>	<b>Destination</b>	<b>Ownership Percentage</b>
Caño Limón-Coveñas	771.4	Crude Oil	Caño Limón	Coveñas	100.00%
Oleoducto del Alto Magdalena	397.4	Crude Oil	Tenay	Vasconia	85.12%
Oleoducto de Colombia	480.8	Crude Oil	Vasconia	Coveñas	65.57%
Oleoducto Central S.A. (Ocesa)	834.5	Crude Oil	Cusiana	Coveñas	60.00%

<b>Pipeline</b>	<b>Kilometers</b>	<b>Product Transported</b>	<b>Origin</b>	<b>Destination</b>	<b>Ownership Percentage</b>
Oleoducto Transandino	305.4	Crude Oil	Southern fields	Tumaco Port	100.00%
Oleoducto de los Llanos (ODL)	235	Crude Oil	East fields	Monterrey	65.00%

As a result of the extension of the Cravo Norte Association Contract, we and our business partner Occidental, agreed that all assets included in such contract which were acquired prior to December 31, 2008 would completely revert back to Ecopetrol. The Caño Limon-Coveñas pipeline is included among these assets. As a result, since January 1, 2009, we are the exclusive owner of this pipeline.

In March 2009, we entered into an agreement with Enbridge Inc., a Canadian company, pursuant to which we acquired 100% of its interest in Oleoducto Central S.A. (Ocensa), thereby increasing our ownership of Ocensa from 35.3% to 60%.

In March 2009, we entered into an agreement with Maurel et Prom pursuant to which we acquired in May 2009 100% of its stake in its subsidiary in Bermuda, Hocol Petroleum Limited. Hocol Petroleum Limited's most important assets are Hocol and Homcol, two companies incorporated in the Cayman Islands with branches in Colombia involved in crude oil and natural gas exploration and production activities in Colombia. Additionally, as a result of this acquisition, we are now the indirect owner of Hocol's interest in Oleoducto de Colombia S.A. and Oleoducto del Alto Magdalena and our total interest in these two pipelines increased from 43.85% to 65.57% and from 49% to 85.12%, respectively.

In September 2009, Oleoducto de los Llanos Orientales Sucursal Colombia, a branch of our subsidiary, Oleoducto de los Llanos Orientales ("ODL") in which we have a 65% interest, inaugurated the 235 km, 24" pipeline to transport crude oil from the Rubiales field to the Monterrey pump station where it connect with the Ocensa pipeline. The current transportation capacity of the pipeline is 160 thousand bpd.

The operation of our pipelines is made under international standards and industry practices, such as remote operation, integrity management, automatic ticket transfer, health, safety and environmental policies and a high index of customer satisfaction. The reduction in operating costs, fulfillment of volumetric commitments and reduction in theft, have resulted in higher customer satisfaction and a lower number of complaints.

The table below sets forth the volumes of crude oil and refined products transported through the crude oil pipelines and multipurpose pipelines owned by us.

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(thousand bpd)</b>		
Crude oil transport	576.2	542.3	516.6
Refined products transport	223.3	209.5	193.8
<b>Total</b>	<b>799.5</b>	<b>751.8</b>	<b>710.4</b>

At December 31, 2009, we owned 58 stations, 23 of them located in crude oil pipelines and 35 of them in refined products pipelines with a nominal storage capacity of 19 million barrels of crude oil and 6 million barrels of refined products. We also sell storage capacity to third parties in our Pozos Colorados and Mansilla facilities and in the Coveñas port. We do not own any tankers.

#### *Theft of hydrocarbons*

Hydrocarbon theft, which reached 7,270 bpd in 2002, was reduced to 196 bpd in 2009, as a result of the comprehensive strategy developed in coordination with different law-enforcement agencies and governmental authorities. Theft of fuel in 2009, when compared to 2008, was reduced by 50% and 97.3% when compared to 2002. We continue to evaluate alternatives to improve the efficiency of our transportation system, including improvements to the monitoring and control systems through new supervisory activities and data collection systems.



The table below sets forth the decrease in the level of hydrocarbon theft in our pipelines and multipurpose pipelines.

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Hydrocarbon theft	196	389	561

*Other transportation facilities*

We also enter into transportation agreements with tanker trucks and barge companies to transport crude oil from production locations that currently do not have pipeline connection to the refineries and our export locations. Production of refined products for which we currently have no pipeline capacity and cannot be transported in the tanker trucks is transported by barges. During 2009, 24.4 million barrels of crude oil and refined products were transported by tanker trucks and 9.75 million barrels of crude oil and refined products were transported by barges.

*Export and import facilities*

We currently own five docks for export of crude oil and refined products. Our crude oil loading facilities can load tankers of up to 145 thousand DWT. Adjacent to these loading facilities we also have crude oil storage facilities which are capable of storing 7.5 million barrels. Our docks used for import and export of refined products can load tankers of up to 70 thousand DWT. Additionally, these facilities have storage capacity of up to 1 million barrels.

*New transportation projects:*

*Heavy Crude Oil Castilla Pipeline Project*

We expect to construct a new pipeline system, which will transport solvents from the Sutamarchan pumping station in the Central region to the Castilla field. This new pipeline system will occur in two stages. First, we intend to construct a new 133 kilometers multipurpose-pipeline, which will transport solvents from the Sutamarchan pumping station to the Porvenir pumping station. Second, we intend to convert our old Apiay – Provenir crude oil pipeline to a refined products pipeline. This pipeline will transport solvents for heavy crude oils produced in the Castilla fields.

In December 2008 we finished the construction of a new 129 kilometer pipeline in the Central region which connects the Apiay field with the El Porvenir pumping station. The pipeline increased our transportation capacity from the Castilla fields by approximately 50% in the first stage of the project. This pipeline became the second pipeline connecting the Apiay field with the El Porvenir pumping station.

*Increase the capacity of the Pozos Colorados - Galán multi-purpose pipeline*

We built a new 140 kilometers pipeline in the Mid Magdalena region from Ayacucho to Galán and we expect to modify approximately 290 kilometers of the Pozos Colorados – Ayacucho pipeline, upgrading the system to a 14” pipeline. Through this expansion, we aim to (i) increase transportation capacity to 60 bpd and (ii) transport imported diluents and diesel to the Barrancabermeja Refinery.

**Distribution and Marketing**

*Summary*

We market a full range of refined and feed stock products locally including regular and high octane gasoline, diesel fuel, jet fuel, natural gas and petrochemical products. Local sales of regular gasoline, LPG, jet fuel and diesel fuel as well as natural gas from the Guajira field are subject to government price regulation with reference to international benchmarks for fuel oil.

We are the main producer and supplier of fuel and refined products in Colombia. For regulated products, the Ministry of Mines and Energy establishes maximum prices producers can charge and retail prices for these products pursuant to resolutions. The Ministry also establishes maximum wholesale and retail margins. In terms of LPG, the Energy and Gas Regulatory Commission establishes maximum prices as well as wholesale and retail margins.

#### *Strategy*

Our strategy in the marketing and distribution business segment is focused on supplying the local market and exporting crude oil not used in our refineries, and refined products principally to end-users, including refineries and wholesalers. Our crude oil export sales are made in the spot market and through long-term contracts, primarily to US Gulf Coast refineries, the US West Coast, Caribbean and Chinese refineries. We are focused on entering into new and developing markets and increasing the direct sales of our products to the Far-East.

#### *Crude oil supply commitments*

As part of our transfer of Reficar's assets in April 2007, we extended a commercial offer to Reficar for the supply of crude oil. The commercial offer was renewed in January 2010 for an additional six-month period. Pursuant to the terms of the offer, Reficar has the option to purchase from us up to 85 thousand bpd of crude oil from our Caño Limón, Vasconia Blend, Ayacucho Blend, Cusiana and Castilla production. As we continue to operate Reficar, our operations committee evaluates and decides monthly the refinery's crude oil mix needs including the need for foreign crudes which we import from West Africa, the North Sea and the Caribbean. The purchase price for the delivered volumes is equal to an international benchmark index, subject to certain adjustments.

#### *Import of Ultra Low Sulfur Diesel Fuels*

We are reducing sulfur emissions from fuels produced by us through the import of ultra low sulfur diesel to be mixed with our local production in order to protect the environment. From July 2008 (the date we began to import this ultra low sulfur diesel) through December 2009, we managed to keep sulfur diesel levels under 500 ppm (parts per million) in Bogota and reduced sulfur diesel levels from 3,000 ppm to 2,500 ppm in the rest of the country. We expect that the quality of our diesel (sulfur levels) will continue to improve in 2010 according to our results and international standards.

### **Natural Gas**

#### *Summary*

Development of natural gas reserves began in the 1970s with the discovery of the Guajira fields in the Northeastern region. Additional natural gas reserves were discovered in the *Piedemonte Llanero*. In Colombia we have been selling natural gas to local distribution companies, power generators and large customers and have also been exporting natural gas to Venezuela. In 1986, we introduced a program known as "Natural Gas for Change", which sought to increase local consumption. In 1993, the Government developed a regulatory framework for the distribution and marketing of natural gas. Between 1995 and 1997, we connected our natural gas production fields with distribution points and major cities. In 1997, we transferred all of our natural gas transportation assets to a newly created company, Empresa Colombiana de Gas or Ecogás. Ecogás had spun off from us in 1998. Thereafter, Ecogás transferred all of its assets to a new company, incorporated for such purpose, named Transportadora de Gas Internacional S.A. E.S.P. ("TGI," formerly, Transportadora de Gas del Interior S.A.E.S.P.), which is owned by Empresa de Energía Eléctrica de Bogotá.

#### *Marketing of Natural Gas*

Currently, there are more than 20 natural gas distribution companies with operations in Colombia. As a result of the growth of the natural gas demand from Venezuela and the increase in the domestic consumption of the gas-power plants in recent years, the total demand for natural gas, including natural gas exports, has increased by 14.1% in 2009 to 1,035.1 giga British thermal units per day (gbtud), from 907 gbtud in 2008 and by 19.2% from 760.4 gbtud in 2007. At December 31, 2009, natural gas distribution companies had approximately 5.3 million customers. We sell natural gas to distribution companies through take-or-pay or swing contracts.

### Compressed Natural Gas

Demand for compressed natural gas decreased by 4.3% in 2009 as compared to 2008 as a result of (i) a decrease in natural gas price competitiveness against gasoline prices, (ii) a decrease in the benefit/cost ratio due to higher costs associated with new conversion technologies and (iii) certain supply problems in some cities.

During 2009, we signed three new agreements for the supply of compressed natural gas in the following Colombian regions: the Central Region, which includes cities such as Bogota and Medellin, the Coffee Region and the Western Region. 21,600 additional vehicles were converted in 2009 for a total of 301,986 vehicles converted at the end of 2009.

#### Natural gas sales to the power and industrial sector

We market and sell natural gas to the industrial sector and to gas-fired and combined cycle power plants. We have a number of long-term supply contracts with power generators under which such companies have entered into take-or-pay contracts and purchase and supply obligations for the supply of natural gas. Pursuant to the terms of these agreements if we do not ship the contracted natural gas amounts we must pay a fine to our customers. Long-term supply contracts establish a pricing formula that depends on international reference prices.

We have entered into long-term take-or-pay contracts with 11 of the 14 gas fired and combined cycle power plants located in Colombia. During 2009, gas sales increased in the industrial sector as a result of the South Pacific phenomenon known as "El Niño".

The following table sets forth our local deliveries of natural gas including deliveries to our refineries, during 2009, 2008 and 2007.

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(gbtud)		
Gas-fired power plants	153.7	73.5	123.3
Refineries	87.2	88.3	93.5
Petrochemical	3.1	4.2	4.0
Industrial	65.7	64.7	40.6
Distributors <sup>(1)</sup>	172.2	192.2	152.9
Compressed Natural Gas	36.2	31.6	40.9
Producers	30.3	36.1	60.0
<b>Total Deliveries</b>	<b>548.4</b>	<b>490.5</b>	<b>515.2</b>

(1) Deliveries to distributors include deliveries to industrial clients who are required to purchase natural gas from distributors.

#### Natural Gas Exports

In 2007, we and Chevron entered into a long-term natural gas supply contract with PDVSA. Pursuant to the terms of the agreement, we have agreed to deliver the following quantities of natural gas to Venezuela:

	<b>For the year ended December 31,</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	(gbtud)			
Volume Commitments	50	150	150	100

In 2009 and 2008, we and our partner Chevron delivered 179.1 gbtud and 146.9 gbtud respectively, thereby exceeding the quantities of natural gas agreed to in our gas export contract with PDVSA. Of the total volume of gas delivered, 45.6% came from us, 34.4% came from Chevron and 20% came from royalties.

### Natural gas delivery commitments

The table below sets forth the commitments we have in firm contracts with local natural gas distribution companies, local industries, gas fired power generators, international companies (PDVSA in Venezuela) and internal agreements with our refineries and fields:

	For the year ended December 31,						
	2010	2011	2012	2013 (gbtud)	2014	2015	2016
Volume Commitments <sup>(1)</sup>	669	730	373	271	324	271	256

(1) Includes royalty volumes that are managed by Ecopetrol.

We have natural gas delivery commitments with local natural gas distribution companies, local industry, gas-fired power generators, international companies (PDVSA) and internal agreements with refineries and fields. Pursuant to long-term supply contracts and other agreements, we must supply natural gas to these parties and failure to deliver the agreed amounts would result in fines. In order to meet our natural gas delivery commitments we have four (4) main natural gas production fields, the “Guajira” fields, the “Cusiana and Cupiagua” fields, the “Piedemonte” fields and the “Gibraltar” fields. The “Guajira”, “Cusiana and Cupiagua” and “Piedemonte” fields are productive fields whereas the “Gibraltar” field will begin production at the end of 2010. Of our total natural gas production at December 31, 2009, 73% was supplied by the La Guajira production, 20% from the Cusiana and Cupiagua fields and the remaining 8% from fields located in other regions.

The following table sets forth the estimated production of our productive fields which is available to meet our firm delivery commitments of natural gas for the years ended December 31, 2010 to 2014.

	For the year ended December 31,				
	2010	2011	2012	2013	2014
	(gbtud)				
Guajira Fields	464.6	450.0	409.5	347.7	315.0
Cusiana and Cupiagua Fields	209.8	243.2	190.1	190.1	190.1
Other Fields	51.1	74.2	63.9	60.5	55.6
Imports	0.0	0.0	39.0	85.0	127.0
<b>Total</b>	<b>725.53</b>	<b>767.38</b>	<b>702.46</b>	<b>683.31</b>	<b>687.74</b>

### Price controls on the La Guajira natural gas production

The Ministry of Mines and Energy through the Colombian Commission for the Regulation of Energy and Gas or CREG, establishes the maximum price we are allowed to charge customers who consume less than 100 thousand cfpd from La Guajira field, under take-or-pay contracts, which we refer to as regulated customers. Maximum prices we can charge are determined with reference to the average export price for fuel oil for the prior six months.

### Priorities for delivery of natural gas

The Ministry of Mines and Energy established distribution priorities in the event of a shortfall of reserves or production of natural gas. Residential consumers with existing supply contracts, small businesses and distributors of compressed natural gas have the first priority for delivery. Contracts for export of natural gas have the same priority under the firm commitments as other users such as industrial consumers and power generators. The agreements that are not firm commitments and contemplate delivery of natural gas “as available” have priority over customers on the spot market. We may enter into natural gas export contracts if the ratio of reserves to production exceeds seven years.

The Ministry of Mines and Energy also establishes distribution priorities in the event of a natural gas shortfall derived from supply or infrastructure issues. This order of priority is based on the type of contract, with firm supply contracts having priority over swing supply contracts.

## **Legal Proceedings**

At December 31, 2009, we were a party to 2,428 legal proceedings relating to civil, administrative, environmental, tax and labor claims filed against us in the Colombian courts and arbitration tribunals. Historically, we have been successful in defending lawsuits filed against us. Based on the advice of our legal advisors it is reasonable to assume that the litigation procedures brought against us will not materially affect our financial position or solvency regardless of the outcome. See Note 30 (*Contingencies*) to our Consolidated Financial Statements included in this annual report for a discussion of our legal proceedings. We highlight an unresolved material lawsuit:

### *Foncoeco*

An association of former employees known by the acronym *Foncoeco* brought an action against us in connection with a company profit-sharing plan offered in 1962 that expired in 1975. The plaintiffs claim that our Board of Directors had set aside a specific amount under the profit sharing plan, which was not entirely distributed to employees eligible under the plan. The court of first instance on June 25, 2002, ruled in our favor and rejected the plaintiffs' arguments. The plaintiffs appealed the ruling to the Bogota Higher Tribunal, which ordered us to present a *rendición de cuentas* (an accounting action) to the first instance judge based on the amounts allocated by our Board of Directors. Based on the judge's conclusion with respect to our accounting and the expert testimony of a witness presented by the plaintiffs who included amounts never allocated by our Board of Directors to the profit sharing plan, the first instance judge on December 16, 2005, ordered us to pay Ps\$541,833 million, or approximately US\$260 million. We have appealed the decision by the first instance judge to the Bogota Higher Tribunal and are still waiting for the final judgment. Based on the opinions from our legal counsel regarding the likelihood of a favorable ruling we expect the Bogota Higher Tribunal to revise and reduce the amount of the first instance. Additionally, as of December 31, 2009 we have increased the previously created provision to Ps\$139,933 million considering the probability of a ruling in favor of the plaintiffs.

## **Regulation**

The principal governmental entities regulating us are the Ministry of Mines and Energy and the CREG.

### *Ministry of Mines and Energy*

The Ministry of Mines and Energy is responsible for managing and regulating Colombia's nonrenewable natural resources assuring their optimal utilization by defining and adopting national policies regarding exploration, production, transportation, refining and distribution of minerals and hydrocarbons.

### *CREG*

Laws 142 and 143 of 1994 created the CREG, a special administrative unit of the Ministry of Mines and Energy, responsible for regulating and establishing the standards for the exploitation and use of energy and natural gas, fostering the development of the energy services industry, promoting competition and responding to consumer and industry needs.

## **Control Entities**

### *Superintendency of Domiciliary Public Services*

Under Colombian regulations, the distribution and marketing of natural gas is considered a public service. As such, this activity is regulated by Law 142 of 1994 and supervised by the Superintendency of Domiciliary Public Services.

### *Superintendency of Corporations*

We are subject to the supervision of the Superintendency of Corporations, the governmental body responsible for supervising corporations domiciled in Colombia.

### *Superintendency of Finance*

The Superintendency of Finance is responsible for monitoring, promoting and regulating the publicly traded securities market, registered issuers, broker-dealers, mutual funds and any other participants in the public market including the BVC.

We are a registered issuer and our debt (pension bonds) and equity securities are publicly traded. The Superintendency of Finance is responsible for the supervision of any activity we undertake that may affect the market for our securities. We are required to inform the Superintendency of Finance of any material event and provide periodic reports of our financial condition.

### *Superintendency of Ports and Transport*

The Superintendency of Ports and Transport has exclusive control and regulates us in matters related to ports concession contracts, in which we act as contractor.

### *National Superintendency of Health*

Since we provide health benefits to our employees and their families, the National Superintendency of Health has exclusive control and regulates us in matters related to the inspection, supervision and control of the Social Security Health System.

## **Hydrocarbon Resources Administrator**

### *National Hydrocarbons Agency – ANH*

The ANH was created in 2003 and is responsible for the administration of Colombia's hydrocarbon reserves. The ANH's objective is to manage the hydrocarbon reserves owned by the Nation through the design, promotion and negotiation of the exploration and production agreements in areas where hydrocarbons are found. The ANH is also responsible for creating and maintaining attractive conditions for private investments in the hydrocarbon sector and for designing, bidding rounds for exploration blocks. Any oil company selected by the ANH to explore a specific block must execute an exploration and production contract with the ANH. All royalty payments in connection with the production of hydrocarbons are made to the ANH in-kind unless the ANH grants a specific waiver to make royalty payments in cash.

We, and other oil companies working in Colombia send to the ANH information on the evolution of our exploratory activities and those of our partners.

## **Regulatory Framework**

### *Regulation of Exploration and Production Activities*

Pursuant to Colombian law, the Nation is the exclusive owner of all hydrocarbon resources located in Colombia and has full authority to determine the rights, royalties or compensation to be paid by private investors for the exploration or production of any hydrocarbon reserves. The Ministry of Mines and Energy is the authority responsible for regulating all activities related to the exploration and production of hydrocarbons in Colombia.

Decree Law 1056 of 1953 or the Petroleum Code, establishes the general procedures and requirements that must be completed by a private investor prior to commencing hydrocarbon exploration or production activities. The Petroleum Code sets forth general guidelines, obligations and disclosure procedures that need to be followed during the performance of these activities.

Prior to 2003, all activities regarding the exploration and production of hydrocarbons were governed by Decree 231 of 1974. Consequently, during such period all of our activities were outlined and regulated by this decree. Decree 231 was replaced by Decree Law 1760 of 2003, but all agreements entered into by us prior to 2003 with other oil companies are still regulated by Decree 231.

Decree Law 1760 of 2003 introduced Colombia's new contractual regime for hydrocarbons and granted the ANH full and exclusive authority to regulate and oversee the exploration and production of hydrocarbon reserves. Decree Law 1760 was complemented by Decree 2288 of 2004, which regulates all aspects related to the reversion of reserves and infrastructure under the joint venture agreements executed by us before 2004. Accord 008 of 2004 issued by the Directive Council of the ANH, sets forth the necessary steps for entering into exploration and production contracts with the ANH.

Pursuant to Colombian law we are obliged by law to pay a percentage of our production to the ANH as royalties. Each production contract has its own royalty arrangement. In 1999, a modification to the royalty system established a sliding scale for royalty payments linked to the production level of crude oil and natural gas fields discovered after July 29, 1999 whether the production is crude oil or natural gas, and the quality of the crude oil produced. Since 2002 the royalties system has ranged from 8% for fields producing up to 5,000 bpd to 25% for fields producing in excess of 600,000 bpd. Changes in royalty programs only apply to new discoveries and do not alter fields already in their production stage. Producing fields pay royalties in accordance with the applicable royalty program at the time of the discovery. Our contracts specify that royalties are to be paid in physical product (oil and gas) to the ANH.

We currently purchase all physical product delivered by producers of crude oil and natural gas as royalty payments to the ANH at prices set forth in Law 756 of 2002 and Resolution 18-1709 of 2003. The purchase price is calculated on a reference price for crude oil and natural gas at the wellhead and varies depending on prevailing international prices. We have an interagency agreement or Convenio with the ANH, whereby we collect all in kind and cash royalties owed to the ANH by the oil and gas companies in Colombia. The ANH may extend offers to sell such physical product and we, at our option, may accept such offers to purchase the royalty volume. We sell the physical product purchased from the ANH as part of our ordinary business.

#### *Regulation of Refining and Petrochemical Activities*

Refining and petrochemical activities are considered a public service and are subject to Governmental regulation. Article 58 of the Petroleum Code establishes that oil refining activities can be developed throughout Colombia. Oil refineries must comply with the technical characteristics and requirements established by the existing regulations.

The Ministry of Mines and Energy is responsible for regulating, supervising and overseeing all activities related to the refining of crude oil, import of refined products, storage, transport and distribution.

Decree 2657 of 1964 regulated the oil refining activities and created the Oil Refining Planning Committee which is responsible for studying industry problems and implementing short and long-term refining planning policies. The Committee is also responsible for evaluating and reviewing new refining projects or expansion of existing infrastructure. Prior to deciding on a new project, the Committee must take into account the significance of the project and the economic impact, the sources of financing, profitability, social contribution, the effects on Colombia's balance of payments and the price structure of the refined products.

Pursuant to Resolution 18 0966 of 2006 issued by the Ministry of Mines and Energy and Article 58 of the Petroleum Code, any refining company operating in Colombia must provide a portion or, if needed, the total of its production to supply local demand prior to exporting any production. If the regulated production income, the principal item in the price formula, becomes lower than the export parity price, the price paid for the refined products will be equivalent to the price for those products in the U.S. Gulf Coast market. If there is a need of local demand for imported crudes, the refining company may charge additional transportation costs in proportion to the crudes delivered to the refinery.

The Ministry of Mines and Energy establishes the safety standards for LPG, storage equipment, maintenance and distribution. Regulations issued in 1992 established that every local, commercial and industrial facility with a storage capacity of LPG greater than 420 pounds must receive an authorization for operations from the General Directorate of Hydrocarbons of the Ministry of Mines and Energy.

### *Regulation of Transportation Activities*

Hydrocarbon transportation activity is considered a public service in Colombia and therefore is under governmental supervision and control. Transportation and distribution of crude oil, natural gas and refined products must comply with the Petroleum Code.

Transport systems, classified as crude oil pipelines and multipurpose pipelines, can be owned by private parties. The building, operation and maintenance of the pipelines must comply with environmental, social, technical and economic requirements under national and international standards. Transportation networks must follow specific conditions regarding design and specifications, while complying with the quality standards demanded by the oil and gas industry.

According to Law 681 of 2001, multipurpose pipelines owned by us must be open to third-party use and we must offer their capacity on the basis of equal access to all.

The hydrocarbon transport activity can be developed by third parties and must meet all requirements established by law.

The Ministry of Mines and Energy is responsible for:

- Studying and approving the design and blueprints for private pipelines and approving the construction of all pipelines;
- Establishing the hydrocarbon transport tariffs based on the information furnished by the service provider;
- Issuing the hydrocarbon transport regulations;
- Verifying the calculation and payment of transport related taxes; and
- Managing the information system for the oil product distribution chain.

The construction of transportation systems requires Government licenses and local permits awarded by the Ministry of the Environment as well as licenses from the regional environmental authorities.

### *Regulation on selling, distributing, transporting and marketing of natural gas*

The sale of natural gas and its by-products is subject to certain controls and limitations under Colombian law such as maximum prices to be charged to wholesalers, retailers and distributors.

The distribution of natural gas and its by-products is considered a domiciliary public service and is therefore subject to Government regulation. The transportation and marketing of natural gas production, although not classified as domiciliary public services, are considered complementary activities to the distribution service and therefore, are also governed by Law 142 of 1994. In addition, each of these activities is governed by specific regulations established by the CREG and the Ministry of Mines and Energy.

CREG's Resolution 057 of 1996 delineates and separates the different activities related to the natural gas market. It defines transportation as an independent activity. As such, transporters of natural gas are not allowed to (i) perform production, commercialization or distribution activities or (ii) participate in companies whose main purpose is to perform one of said activities. Transporters also cannot have an economic interest in electricity generating companies. In addition, companies whose corporate purpose is to sell, commercialize or distribute natural gas cannot be transporters and cannot have an economic interest in any transportation company. Moreover, producers and distributors of natural gas are allowed to commercialize natural gas as well.



CREG's Resolution 057 of 1996 also establishes that whenever producers of natural gas require natural gas for their own use or for the use of their subsidiaries, they must acquire it from the market or from their own production at a market price. However, producers are allowed to re-inject natural gas in the crude of the oil fields operated by them.

CREG's Resolution 093 of 2006, as modified by CREG's Resolution 095 of 2008, establishes that partners to a natural gas field are not allowed to jointly commercialize their product without the prior authorization of the CREG, except for commercialization in the form of auctions by the seller.

The CREG also regulates the type of agreements that can be used for the marketing, production, distribution and transportation of natural gas. CREG's Resolutions 070 of 2006 and 095 of 2008, as amended, provide three types of contracts that can be used:

- *Take-or-Pay Agreements.* The buyer agrees to purchase a specific amount or percentage of production of natural gas and the producer guarantees the availability of 100% of the agreed amount.
- *Optional Purchase Agreements.* The buyer agrees to pay a premium for its right to take a fixed amount of natural gas and agrees to pay an exercise price for the amount of natural gas made available. The producer guarantees to have available 100% of the agreed-on amount.
- *Interruptible Supply Agreements.* The parties may enter into contracts which are interruptible if certain market conditions exist.

The export of natural gas is not considered a public service under Colombian law and therefore is not subject to Law 142 of 1994. The export of natural gas is governed by Decree 3428 of 2003 which provides, among other things, that an importer of natural gas who acquires such natural gas through the national pipeline system is subject to CREG's regulatory framework. Export prices and transportation of natural gas for export are not subject to price controls. Natural gas producers must first supply the local consumers.

Decree 3428 of 2003 provides that producers of natural gas may freely dispose of their proved reserves of natural gas when the R-Factor of the proved reserves is higher than seven years. If the R-Factor is lower than seven years, producers of natural gas are not allowed to enter into new agreements or increase the amounts of previous agreements for the production of natural gas. The R-factor will be published by the Ministry of Mines.

Notwithstanding the foregoing, it is important to highlight that Decree 2687 of 2008, as modified by Decree 4670 of 2008, establishes that internal demand for natural gas will take precedence over external demand. Also CREG's Resolution 095 of 2008 establishes the conditions under which foreign bidders can participate in natural gas auctions.

#### *Regulation for sales of liquid fuels*

The sale and transport of liquid fuels (excluding natural gas liquids) is considered a public service under Colombian law and is therefore subject to the supervision and control by the Ministry of Mines and Energy.

Decrees 283 and 1521 of 1990 and 1998, respectively, each with its respective modifications, establish minimum technical requirements for the construction of storage plants and service stations and regulate the distribution of liquid fuels establishing the minimum requirements for distributors and the activities and types of agreements permitted for these agents. The Ministry also regulates the types of liquid fuels that can be sold and purchased and the penalties for noncompliance with governmental regulations.

The Ministry of Mines and Energy fixes the price that we can charge for the sale of gasoline and fuel oil to wholesalers. The Ministry of Mines and Energy issues periodic price adjustments and each municipality imposes additional surcharges applicable to the price.

The price of gasoline and fuel oil is composed by a set of items such as freights, volume conversion ratios, import and export tariffs, transportation tariffs and income tax. Such items are adjusted periodically depending on the fuel oil and gasoline market. Each municipality may impose additional surcharges depending on their economic needs.

Wholesalers sell the product based on the price set by the Ministry and the local municipalities to retailers, earning a distribution margin set by the Ministry of Mines and Energy. Retailers are free to set a sale price for the fuel oil and gasoline to be charged to the public.

The distribution of fuels in areas near Colombian borders is subject to specific regulations that impose stringent control procedures and requirements.

#### *Regulation of biofuel and related activities*

The sale and distribution of biofuels is regulated by the Ministry of Mines and Energy. Regulations establish the quality and pricing standards for biofuels and impose minimum requirements for mixing ethanol with gasoline and biodiesel with diesel.

### **Environmental Matters**

#### *Regulation*

Law 99 of 1993 imposes on any company, including crude oil and natural gas companies, the obligation to obtain an environmental license prior to undertaking any activity that could negatively impact the environment. Crude oil companies must file an environmental plan with the Ministry of Environment which includes, among others, an environmental impact assessment, and mechanisms established to prevent, mitigate, correct and compensate any activity that may harm the environment. The number of licenses required for a crude oil or natural gas field may vary depending on the background of the field and the number of wells. In certain cases, the Ministry of Environment will require a license for each well, and in other cases will require only one license per field. Obtaining a license may take between 90 and 145 business days depending on whether or not the Ministry of Environment requires the applicant to file additional information.

The Ministry of Environment is the highest environmental authority in Colombia and is in charge of issuing Nation-wide environmental regulations, policies, and programs. At the regional level, regional environmental authorities such as the *Corporaciones Autónomas Regionales*, are the highest environmental authorities of the region and are in charge of executing and overseeing all regulations, policies and programs issued by the Ministry of Environment.

The use of natural resources is also regulated. Companies that use large amounts of water for consumption; that discharge industrial wastes into the coastlines or rivers; that exploit forests reserves or that produce atmospheric emissions of gases, must obtain a permit from the regional environmental authorities. Decree 1900 of 2006 provides that any company that uses water resources and that requires an environmental license to the use of such resources must assign 1% of its investment to the recovery, conservation, preservation and supervision of the water resources used.

A company that does not comply with the environmental regulations, or does not follow the environmental plan filed before the Ministry of Environment, or that ignores the requirements imposed by an environmental license, may be subject to an administrative procedure initiated by the Ministry of Environment or the regional environmental authorities, as it may be the case, which may result in oral or written warnings, penalties, license revocation or even temporary or permanent suspension of the activity being undertaken.

As February 26, 2010, we were party to 66 environmental administrative proceedings. During 2009, 34 proceedings were opened and 12 proceedings were closed. In nine of the closed proceedings, we were subject to monetary fines and the remaining three non-liability declared by the Company. It is not possible for us to determine the material effect of these proceedings. Most of our fines have been between Ps\$6 and Ps\$447 million.

## *Environmental Practices*

We have implemented aggressive environmental practices and standards throughout all the activities performed by us and our workforce. During 2009, we invested Ps\$611,775 million in environmental programs to increase our environmental compliance levels. These investments include investments made through our business partners in the sum of Ps\$47,027 million. Such programs include:

- *Compliance.* The purpose of this program is to guarantee knowledge, assessment, disclosure and compliance with all laws, regulations and requirements imposed by the Ministry of Environment and other regulatory bodies. We undertake environmental impact assessments and constantly review our environmental plan.
- *Contingency Planning.* This program focuses on implementing preventive actions in our operative areas in order to diminish the impact of oil spills and establish the steps that need to be followed in case of an emergency.
- *Eco-Efficiency.* This program is designed to minimize the environmental impacts resulting from our (i) use of natural resources through activities such as water uptake and forest exploitation and (ii) waste generation through liquid emissions and creation of hazardous waste.
- *Biodiversity.* This program implements initiatives to preserve endangered species in areas where our activities have strong influence. During 2009, we invested approximately Ps\$24,126 million in investigation and rehabilitation projects for the recovery of ecosystems and environmental education in the areas where we operate.
- *Environmental Culture.* This program seeks to promote an environmental culture in our organization, in our activities, and in our and daily life. We initiated several environmental campaigns to educate our working force in areas such as occupational health and friendly environmental practices.
- *Alternative Energy Sources.* This program is designed to develop alternative energy sources, such as biodiesel and ethanol projects and activities. During 2009, we invested approximately US\$7.5 million in Bioenergy S.A., a Colombian company of which we currently own 85%. Bioenergy S.A. is expected to begin operation during the first quarter of 2012 and to produce 92.75 Million liters per year of ethanol. Throughout 2009, we worked on the technology for this plant and performed the necessary activities in order to have a basic seedbed ready for the first 80 acres. In addition, we have continued to construct a biodiesel plant in Barrancabermeja, Ecodiesel Colombia S.A, of which we currently own 50%. Ecodiesel Colombia S.A. is expected to begin commercial production during the first half of 2010 and to have a production of approximately 100,000 tons of biodiesel per year.

## *Health, Safety and the Environment or HSE*

We are devoted to improving our HSE practices. We have several programs in place to increase our industrial safety and minimize the number of accidents of our workforce or our contractors. The frequency of accidents taking place within our premises has declined significantly since 2005, to 1.24 accidents per million of hours worked in 2009 from 5.77 accidents per million of hour worked in 2005, representing a 79% reduction. These programs include, among others, the technical and HSE competences in our employees and contractors, the standardization of HSE protocols and procedures, drafting safety manuals, compliance with existing regulations and the study of HSE benchmarks among oil companies.

Specifically, in the area of occupational health, our goal is to control the workplace hazards that can affect the health and productivity of our workforce. One of the ways we aim to reach this goal is by monitoring the health of each one of our employees and providing the support and mentorship necessary to ensure their integrity and acclimation to the work. Furthermore, we also actively promote industrial hygiene and ergonomics and seek to address the psychosocial effects of our work environment.

Additionally, during 2009 we began working on “Project Safety”, a project aimed at the continuous improvement and minimization of operational incidents (fire, explosion, loss of primary containment and multiple fatalities). This program was built around the following six pillars: (i) culture and leadership, (ii) requirements, (iii) safe design, (iv) safe operation, (v) prevention and (vi) response to emergencies.

During 2009 we also improved the safety standards of our processes through the use of rigorous methods and new technologies, the performance of risk assessments to each stage of our process, the implementation of new technologies in our projects, including emergency shut down systems and conducted safety integrity level studies and alarm systems.

In 2009, we recorded 116 environmental incidents as compared to the 56 incidents recorded in 2008. This increase is a result of an improvement in our reporting tools and controls.

#### *Human Rights Initiatives*

We have a strong commitment for the protection of human rights in the areas where we operate and use a set of security and human rights principles, or *Principios Voluntarios en Seguridad y Derechos Humanos*, as basis for a risk analysis of our company and the communities where we operate. We use this set of principles to interact with the local communities and strengthen their relationship with local authorities, our third party contractors and us. In particular, under the Colombian Constitution and legal framework, we are required to enter into formal consultations with indigenous communities whenever we are making plans to commence projects or operations in lands under their control.

#### **Insurance**

Ecopetrol, in compliance with all its legal and contractual obligations, has a comprehensive corporate insurance program covering the main insurance risks of the Company, which include but are not limited to the following: all risks associated with property damage and business interruption, control of wells, sabotage and terrorism, general liability, directors and officers, cargo, crime and other minor operational risks. In addition, under our corporate insurance program, all our reinsurers must comply with a credit risk rating of A- by Duff & Phelps, or equivalent.

All our projects and installations under construction are insured against loss in compliance with the terms of the relevant agreements, usually through a performance bond in connection with completion of the contract and/or other damage and liability insurance.

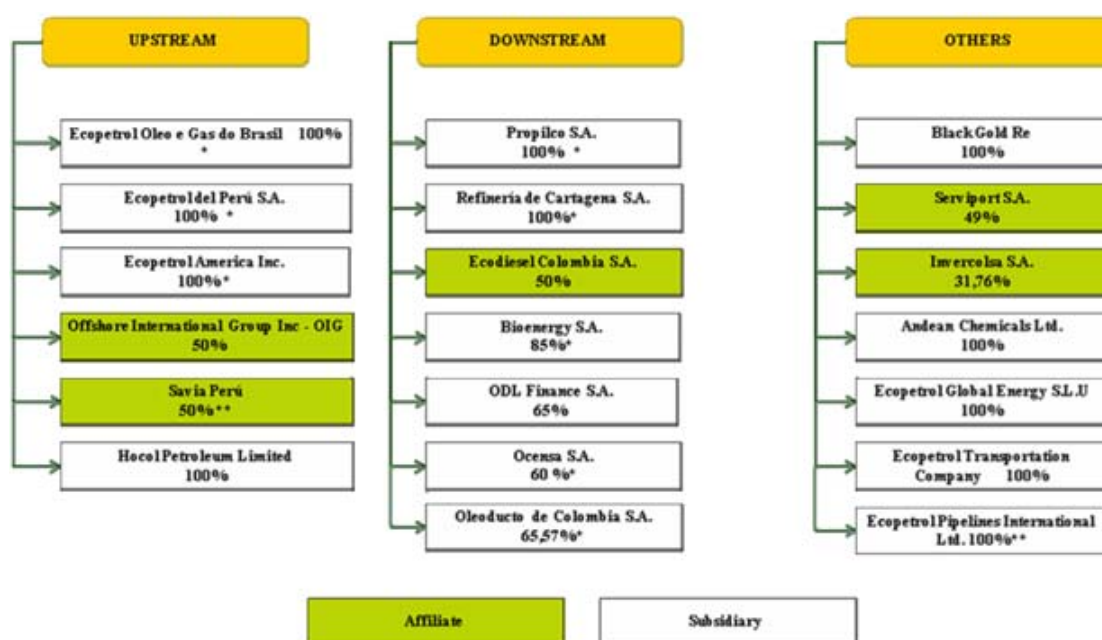
#### **4.C. Organizational Structure**

We are a mixed economy company and have a number of subsidiaries both in Colombia and abroad. Our subsidiaries are either directly owned by us or indirectly owned by us through one of our other subsidiaries. At December 31, 2009, we had 18 subsidiaries directly owned by us, of which 9 were incorporated in Colombia and 9 were incorporated abroad, and 20 subsidiaries indirectly owned by us. Some of our subsidiaries have subsidiaries of their own.

The following diagram sets forth our significant subsidiaries by business segment at May 31, 2010.

## ORGANIZATIONAL STRUCTURE

### ECOPETROL S.A.



\*Direct and indirect participation

\*\*Solely indirect participation through other Subsidiaries or Affiliates:

OIG is the parent company of Savia Perú S.A. and Ecopetrol Transportation Company is the parent company of Ecopetrol Pipelines Ltd

See Exhibit 8.1 to this annual report for a complete list of our significant subsidiaries, their respective countries of incorporation, our percentage ownership in each (both directly and indirectly through our other subsidiaries) and our voting ownership in each.

#### 4.D. Property, Plant and Equipment

Under Colombian law, the Nation owns all crude oil and natural gas reserves within Colombia and we have certain rights to explore and produce those reserves in areas awarded by the ANH after public bidding. Most of our property, consisting of refineries and storage, production and transportation facilities, is located in Colombia. Our main assets consist of our wells, refining facilities and our pipelines. See Item 4 — “Information on the Company — Reserves” for a description of our reserves, sources of crude oil and natural gas, main tangible assets and material plans for expansion and improvements in our facilities.

#### ITEM 4A. Unresolved Staff Comments

None.

#### ITEM 5. Operating and Financial Review and Prospects

The following discussion presents our financial results and prospects as well as factors that affect our results of operation under Colombian Government Entity GAAP, unless otherwise indicated.

##### Overview

We are a vertically integrated crude oil and natural gas company engaged in exploration, development, production, transportation, refining, wholesaling and distribution of crude oil, natural gas and refined products. We are in the process of building facilities to process palm oil and sugar cane for biofuels. We own and have interest in companies which own 9,164 kilometers of crude oil pipelines and multi-purpose transportation pipelines. For the year ended December 31, 2009, our average daily production of crude oil was 426.0 thousand bpd and 539.2 mcfpd of natural gas. Almost all of our crude oil and natural gas production and refining capacity is located in Colombia. In 2006, we began hydrocarbon exploration and production activities outside Colombia in partnership with regional and international oil companies and through the acquisition of exploration and production companies abroad. We export crude oil and refined products mainly to North America and the Caribbean.

We refine crude oil and other hydrocarbons in our refineries in Colombia into a variety of products, including gasoline, diesel, jet fuel, petrochemicals and industrial products. Crude oil, natural gas and refined products are transported mainly through pipelines to our customers and to the refineries. Since 2008, we have wholly owned Propilco, the main polypropylene supplier in Colombia, and as a result, have entered into the petrochemicals business.

Since our IPO in November 2007, 10.1% of our capital stock has been in the public market. On September 18, 2008, we listed our ADSs on the New York Stock Exchange and on December 4, 2009, our ADSs began trading on the Lima Stock Exchange as well. As a result of our initial public offering, we are now subject to the mixed economy regime, which, among other aspects, excludes us from the Government budgetary rules, the national procurement regime and salary caps for state-owned companies.

In 2009, we began to incur long-term indebtedness through a syndicated loan facility with local banks and from a bond issuance in the international markets. See Item 5B — “Liquidity and Capital Resources — Liquidity.”

### **Recent Acquisitions**

The following acquisitions were funded mainly through cash on hand and cash flow from our operations:

In February 2009, we, in partnership with Korea National Oil Corporation (KNOC), acquired a 100% stake (50% for each participating company) in Offshore International Group Inc. (OIG) for the purchase price of US\$992 million. OIG is the U.S. parent of Savia Perú (formerly Petrotech Peruana S.A.), which carries out crude oil exploration and production activities in Perú. From February 2009, we account our 50% interest in OIG as an equity investment.

In February 2009, we entered into a memorandum of understanding with Glencore International A.C. pursuant to which we acquired in May 2009 all of its stake in Reficar through our subsidiary Andean Chemicals for the purchase price of US\$545 million, thereby becoming the sole indirect owner of Reficar. Through this acquisition, we will continue the development of the expansion and modernization plan for Reficar, which includes increasing refining capacity, increasing the conversion factor and improving the quality of the fuels produced to meet environmental requirements. From May 2009, we consolidate the results of operations of Reficar.

In March 2009, we entered into an agreement with Maurel et Prom pursuant to which we acquired in May 2009 100% of its stake in its subsidiary in Bermuda, Hocol Petroleum Limited, for the purchase price of US\$580 million plus US\$162 million for working capital. Hocol Petroleum Limited’s most important assets are Hocol and Homcol, two companies incorporated in the Cayman Islands with branches in Colombia involved in crude oil and natural gas exploration and production activities in Colombia. From June 2009, we consolidate the results of operations of Hocol and Homcol. As a result of this acquisition, our ownership in Oleoducto de Colombia (ODC), a 481 km crude oil pipeline that connects the Vasconia Station and Coveñas, went from 43.85% to 65.57%.

In March 2009, we entered into an agreement with Enbridge Inc., a Canadian company, pursuant to which we acquired its 100% stake in Oleoducto Central S.A. (Ocensa) for the purchase price of approximately US\$418 million, thereby increasing our ownership of Ocensa from 35.3% to 60%. From March 2009, we consolidate the results of operations of Ocensa.

### **Transformation from a wholly state-owned entity**

We have been undergoing a two-step transformation process since 2003, first from a wholly state-owned entity to a state-owned entity characterized by shares, and then with our initial public offering in November 2007, to a mixed economy company, which incorporates private capital. This two-step process has resulted in a substantial change in the legal framework to which we are subject and in the nature of our relationship to the Nation, including a number of changes that have had a significant effect on our results of operations. The most important changes are described below.

### *Role of Ecopetrol in managing Colombia's hydrocarbon reserves*

Prior to 2003, we were an *Empresa Industrial y Comercial del Estado* or state-owned commercial and industrial national entity responsible for the administration and exploitation of Colombia's hydrocarbon reserves, including managing relationships with regional and international oil companies doing business in Colombia. As a result, we are the counterparty to a large number of contracts to exploit Colombia's hydrocarbon reserves that predate the beginning of our transformation process.

In 2003, the Congress of Colombia created the ANH, which became the governmental agency responsible for managing Colombia's hydrocarbon reserves and awarding exploration and production blocks to oil and gas companies. Since the creation of the ANH, any company, including us, wishing to explore, develop and produce hydrocarbon reserves in Colombia must sign contracts with the ANH and not with us. As a result, we became an operator like any other company, competing with all other regional and international oil companies in Colombia for exploration and production opportunities under the same conditions and without any special privileges. Nevertheless, we have remained as counterparty to the contracts which we signed prior to January 1, 2004.

The contracts on which we are the counterparty all have clauses which provide, at our sole option, for extensions. If we do not extend the contracts, the right to exploit the hydrocarbon reserves which are the subject of the contract revert to us, and we have the right to exploit them for an indefinite period at no additional cost to us. If we decide to extend a specific contract and have come to an agreement with the other parties on the terms of such extension, a copy of the final agreement is submitted to the ANH for its review. The ANH's review focuses on assuring that the terms of the extension benefits the Nation more than if the contract were not extended, the production rights reverted to us and we undertook their development.

In June 2010, the "Santiago de las Atalayas Contract", one of the most important exploration and production contracts due to its amount of crude oil and natural gas reserves, terminated and the right to exploit the hydrocarbon reserves subject to this Contract reverted back to us.

All exploration and production contracts entered into after January 1, 2004, in the event they are not extended by the ANH, revert to the ANH and not to us.

### *Accounting for reserves and production*

Under Colombian law, the Nation owns all hydrocarbon reserves within Colombia, and we have the right to explore and produce those reserves as detailed in Item 4 — "Information on the Company — Overview of Exploration and Production Contractual Arrangements". In connection with our transformation process we changed our accounting for all reserves other than reserves that arose in connection with the reversion of concessions.

Prior to March 2007 and in accordance with Decree 2625 of 2000, we recorded a cost of sales in the line-cost of sales of contributions in kind, for every barrel produced (other than from reverted concessions) pursuant to a pricing formula specified in the decree and we recorded a contribution to capital from the Nation for the amount expensed. Since March 2007 and in accordance with Decree 727 of 2007, we no longer record a cost of sales or a capital contribution from the Nation in respect of our production (other than from reverted concessions). We account for production from reverted concessions by recording a depletion charge on our income statement and a reduction in the related asset. At the time we received the reverted concession, we placed the asset in our books at the book value carried by the party holding the concession. In addition, pursuant to Decree 727 of 2007, we are required to record the value of any hydrocarbon exploration or production rights that we own. Pursuant to an opinion issued by the CGN, such records are carried out in memorandum accounts. However, these memorandum accounts are not part of our balance sheet.

## *FAEP*

In 1995, the Government established a macroeconomic stabilization fund to manage excess export earnings from the sale of crude oil from three major oil fields in which we were a partner. As a result, some of our export earnings from these fields were required to be deposited into a fund, the FAEP, which we owned and recorded on our balance sheet as an asset, but which was held at the Colombian Central Bank, which acted as the FAEP's portfolio manager. The amount we recognized as current revenues was determined by a specific formula contained in the law based on the amount of production and sales prices of specified fields. The remaining amount was retained in the FAEP account at the Colombian Central Bank and was recorded in our balance sheet as deferred income with the related liability and the FAEP account as a long-term asset. We recognized the deferred income as revenue when such funds were distributed to us from time to time. In August 2007, in connection with our corporate transformation prior to our initial public offering, we distributed to the Government all of the deferred income in the FAEP account and we removed from our balance sheet the asset and the liability attributable to the FAEP, and our FAEP account ceased to exist. As a result, since that date, we recognize all of our export earnings as current revenues.

## *Gasoline and diesel price differentials*

The Government regulates domestic prices of liquid fuels according to international market conditions in order to align domestic prices with trends in international prices, with a one month lag. When domestic prices of liquid fuels are lower than international parity prices, the Government is responsible for reimbursing importers or refiners for the difference, which difference is called the fuel price differential pursuant to Law 1151 of 2007. The fuel price differential is calculated on a monthly basis and reported on a quarterly basis, with the corresponding cash payment to be made during the next subsequent quarter. In cases of payment delays, refiners are entitled to receive interest on past due amounts.

Historically, when domestic prices of liquid fuels were higher than international parity prices, the Government lowered domestic prices. However, towards the end of 2008 as international prices decreased, the Government decided not to lower domestic prices. Instead, the Government kept domestic prices high and allocated the positive difference between domestic fuel prices and the international parity prices to a Fuels Stabilization Fund (Fondo de Estabilización de Precios de los Combustibles - FEPC). Similar to the approach followed by other countries, this Fund is funded with these excess payments when international prices are low and depleted when international prices are high in order to mitigate domestic price volatility.

As of the beginning of 2007, following our transformation from a state owned entity, we charge the domestic prices established by the Government to wholesalers and, at the same time, we accrue the amount of any fuel price differential due pursuant to Law 1151 as revenues and record an account receivable from the Government.

During 2008, refiners, including us, were entitled to fuel price differential payments based on trends in international prices. However, the payment by the Government of the 2008 fuel price differential was delayed and the Ministry of Mines and Energy issued a resolution by which it established a payment schedule relating to the 2008 fuel price differential. Under this payment schedule, the 2008 fuel price differential was paid in three installments in April, August and December 2009 and the Government recognized an opportunity cost with respect to these amounts.

During the first and second quarters of 2009, refiners, including us, were not entitled to fuel price differential payments based on trends in international prices. Instead, refiners, including us, were required to allocate the difference between high domestic prices and low international prices into the FEPC.

During the third and fourth quarters of 2009, refiners, including us, were once again entitled to fuel price differential payments due to high international prices. Thus, the government depleted the FEPC in order to pay refiners, including us, the corresponding fuel price differential payments. The aggregate amount due to us for both quarters totaled Ps\$226 billion and was effectively paid in February 2010.

## *Reficar*

In 2006, we selected Glencore as our strategic partner in the development of the master plan with respect to our Cartagena refinery. Pursuant to this plan, Reficar was incorporated and began operations on April 1, 2007. Simultaneously with the incorporation of Reficar, we transferred all of Reficar's assets to Glencore in exchange for a 49.0% interest.



Prior to the incorporation of Reficar and transfer of Reficar's assets to Glencore, the results of operations of the Cartagena refinery were included in our consolidated results. As of April 1, 2007, following the incorporation of Reficar and transfer of Reficar's assets to Glencore, under Colombian Government Entity GAAP as in effect for 2007 and 2006, we started recording our 49.0% interest in Reficar as an investment at cost. As such, we started recording as revenues the delivery of crude oil to Reficar and stopped recording as revenues Reficar's sales of refined products. However, under Colombian Government Entity GAAP as in effect for fiscal year 2008 and 2009, we began treating our 49.0% interest in Reficar as an investment under the equity method.

Under U.S. GAAP, we quantified the effects of the transfer by recording a Ps\$579,241 million gain in 2007 equal to 51% of the difference between the book value of the transferred assets and the fair value of the assets received, which we determined to be a more reliable indicator of the value of the exchange. The 2009 gain also includes Ps\$23,640 million corresponding to the amortization of the deferred gain. The remaining 49% or Ps\$556,236 million is to be amortized over the useful life of the equipment.

In February 2009, as a result of financing difficulties experienced by Glencore which were making it difficult for it to develop the master plan, we entered into a memorandum of understanding with Glencore. Pursuant thereto, in May 2009, we acquired all of Glencore's stake in Reficar for the purchase price of US\$549 million through our subsidiary Andean Chemicals, thereby becoming the sole indirect owner of Reficar. As of such date, Reficar's results are consolidated into our results. In addition, under U.S. GAAP, we recorded the effects of this business combination by applying FAS 141 regarding the determination of goodwill and FAS 141(R) regarding the determination of the purchase price allocation. See Note 33 to our consolidated financial statements.

#### *Payments of tariffs of the build, operate, maintain and transfer contracts or BOMTs transferred to Ecogás as part of its spin-off from us*

As a result of Law 401 of 1997, in 1998, we were required to spin-off all of our natural gas transportation assets to Ecogás, a newly created natural gas transportation company. Prior to the spin-off of the natural gas transportation assets, we had entered into a number of BOMT contracts for the construction, operation, maintenance and transfer of the gas pipelines. As part of the spin-off we were required to transfer all rights under the BOMT contracts to Ecogás, while remaining obliged for 100% of the tariffs. Nevertheless, pursuant to Decree 958 of 1998 Ecogás was responsible for reimbursing us for 70% of the tariffs.

During 2007, in connection with the sale by the Government of Ecogás to Empresa de Energía de Bogotá, Ecogás' obligation was cancelled. We made a calculation of the present value of the future tariff payments corresponding to Ecogás' 70% reimbursement obligation, and the Government delivered to us the future tariff payments in cash to cover these future BOMT obligations which totaled Ps\$729,588 million at December 31, 2007. We recorded this payment as a deferred income and as we make payments under the BOMTs, we record an expense and a reduction in the related deferred income liability. We will make all future tariff payments under the BOMT contracts until their expiration. This arrangement should not have a negative effect on our operating expenses, as the 70% expense which was previously compensated by Ecogás' reimbursement, is offset by our recording the deferred income arising from the lump-sum payment.

#### *Pre-IPO distribution of retained earnings*

On April 27, 2007, we distributed as dividends retained earnings and other reserves amounting to Ps\$4,475,399 million to our shareholders in cash.

#### **Development of a Strategic Plan**

We have developed the 2008 – 2015 Strategic Plan aimed at producing one million boe by 2015, placing special emphasis on the production of heavy crude oil. We intend to invest heavily in our exploration and production activities, and in acquisition of reserves in Colombia and abroad to reach our goal. As part of our strategic plan, we are upgrading and expanding Barrancabermeja and Reficar, increasing their capacity and conversion rate.

#### **Factors Affecting our Operating Results**

Our operating results are affected by international prices for crude oil and natural gas, production volumes and product mix. Higher crude oil and natural gas prices have a positive impact on our results of operations in both our exploration and production segments due to our export revenues increasing. Results from our refining activities are also affected by conversion ratios, utilization rates, refining capacity and operating costs, all of which affect our refining margins. Currently, we have relatively low, although improving, conversion ratios in our refineries which results in us producing and selling refined products, particularly fuel oil, below costs. Finally, changes in the value of foreign currencies, particularly the U.S. dollar against the Peso, have a significant effect on our financial statements.

### *Sales volumes and prices*

Our exploration and production segments' results depend on production levels and average local and international prices for crude oil and natural gas that we market and sell to our customers locally and abroad. Additionally, sales volumes depend on our purchases of crude oil and natural gas from our business partners and the ANH.

We sell crude oil in the international market. In addition, we process crude oil at Barrancabermeja and Reficar. We also sell refined products in the local and international markets. Currently, production and sale prices of crude oil and refined products are the main drivers of our financial performance.

### *Local sales and prices*

We have a number of crude oil and natural gas long-term supply contracts with local customers, including Reficar and gas-fired power plants. Local sale prices are determined in accordance with existing regulations, contractual arrangements and the spot market linked to international benchmarks. In May 2009, we started recording as revenues the refined products sales of Reficar and stopped recording as revenues our sales of crude oil to Reficar.

### *International sales and prices*

We export crude oil and refined products at prices which are set by reference to international benchmarks and negotiation with our buyers. However, we export any crude oil and refined products surplus only after we have fulfilled our supply commitments with our refineries and local buyers.

Our commercial strategy has led us to the Far East, and we are currently opening new markets for our products, such as in China, India, Nigeria and Angola. Additionally, we have started to trade some volume out of the Colombian supply chain by purchasing crude oil from an international third party and selling such crude oil to another international third party.

During the last two years we have significantly increased our sales on a "delivered" basis, giving us more chartering experience and thus affording us more operational flexibility and the ability to increase prices.

### *Exploration costs*

We account for exploratory drilling using the successful effort method whereby all costs associated with the exploration and drilling of productive wells are capitalized, while costs incurred in exploring and drilling of dry wells are expensed in the period and accounted for under Operating Expenses – studies and projects. Consequently, the number of exploratory wells we declared as dry negatively affects our results. As such, the significant expansion of our drilling program which we are currently undertaking will likely result in higher dry well expenses.

### *Royalties*

We are obliged by law to pay a percentage of our production to the ANH as royalties. Each production contract has its own royalty arrangement. In 1999, a modification to the royalty system established a sliding scale for royalty payments linked to the production level of crude oil and natural gas fields discovered after July 29, 1999 whether the production is crude oil or natural gas, and the quality of the crude oil produced. Since 2002 the royalties system has ranged from 8% for fields producing up to 5,000 bpd to 25% for fields producing in excess of 600 thousand bpd. Changes in royalty programs only apply to new discoveries and do not alter fields already in their production stage. Producing fields pay royalties in accordance with the applicable royalty program at the time of the discovery. Our contracts specify that royalties are to be paid in physical product (crude oil or natural gas).

### *Purchases of hydrocarbons from the ANH*

We currently purchase all physical product delivered by producers of crude oil and natural gas as royalty payments to the ANH at prices set forth in a crude oil offer letter from the ANH dated July 17, 2009 and a natural gas offer letter from ANH dated June 17, 2009 as well. For crude oil, the purchase price is calculated according to a formula that includes a reference price for crude oil (WTI), a quality adjustment for API gravity and sulfur content, the transportation rates from the wellhead to Coveñas port and a marketing fee. We have an interagency agreement or *Convenio* with the ANH, whereby we collect all in kind and cash royalties owed to the ANH by the oil and gas companies in Colombia. The ANH may extend offers to sell such physical product and we, at our option, may accept such offers to purchase the royalty volume. We sell the physical product purchased from the ANH as part of our ordinary business.

### **Effect of taxes and exchange rate variation on our income**

#### *Income tax*

We are subject to tax on our income at statutory rate of 33%, the standard corporate rate in Colombia since 2008. The statutory income tax rate during 2007 was 34%.

#### *Exchange rate variation*

Since 1999, the Government has allowed the Peso to float freely against all major currencies, including the U.S. dollar. A strong depreciation or revaluation of the Peso, particularly against the U.S. dollar, has multiple effects on our financial results. Our results are reported in Pesos, and we maintain our financial records in Pesos. During 2009, 2008 and 2007, the Peso has appreciated (depreciated) on average (9.7%), 5.4% and 11.9% respectively against the U.S. dollar.

Almost all of our exports of crude oil, natural gas and refined products are made in U.S. dollars at prices determined by reference to international benchmarks. If the Peso depreciates against the U.S. dollar, our revenues from exports increase when expressed in Pesos. Imported goods, however, including imported services denominated in U.S. dollars, will by the same token increase.

The opposite effect occurs when the Peso appreciates against the U.S. dollar as was the case in 2007 and 2008 based on average exchange rates. Our revenues from exports of crude oil and natural gas were reduced in Pesos as a result of the appreciation of the Peso. The appreciation of the Peso also results in lower cost of products, services supplied and contracted abroad as these are denominated in U.S. dollars.

In 2009, we began to incur U.S. Dollar denominated long-term debt while at the same time reducing our financial investments denominated in U.S. Dollars, which used to form part of our investment plan. This strategy allowed us to maintain a balance between our U.S. Dollar assets and liabilities. As a result, the net exchange gain/loss of our investments and liabilities denominated in U.S. Dollars was essentially balanced at year-end.

During 2007 and 2008, most of our financial investments were denominated in U.S. dollars, and we had no debt. Thus, the volatility of the Peso against the U.S. Dollar during 2007 and 2008 resulted in substantial net exchange losses in 2007 and net exchange gains in 2008.

### **5.A. Operating Results**

The following discussion is based on information contained in our audited consolidated financial statements and should be read in conjunction therewith. Our consolidated financial statements have been prepared in accordance with Colombian Government Entity GAAP, which differs in certain significant respects from U.S. GAAP. See Note 33 to our consolidated financial statements for a description of the principal differences.

**Results of operations for the year ended December 31, 2009, compared to the year ended December 31, 2008, and compared to the year ended December 31, 2007.**

The following table sets forth components of our income statement for the years ended December 31, 2009, 2008 and 2007.

	<b>For the Year ended December 31,</b>		<b>2009/2008 % change</b>	<b>For the Year ended December 31, 2007</b>	<b>2008/2007 % change</b>
	<b>2009</b>	<b>2008</b>			
	<b>(Pesos in millions)</b>			<b>(Pesos in millions)</b>	
<b>Revenues:</b>					
Total Revenue	30,404,390	33,896,669	(10)%	22,332,320	52%
Cost of Sales	19,906,073	19,084,436	4%	12,121,833	57%
<b>Gross Profit</b>	<b>10,498,317</b>	<b>14,812,233</b>	<b>(29)%</b>	<b>10,210,487</b>	<b>45%</b>
Operating Expenses:	2,624,978	2,154,875	22%	1,251,349	72%
<b>Operating Income</b>	<b>7,873,339</b>	<b>12,657,358</b>	<b>(38)%</b>	<b>8,959,138</b>	<b>41%</b>
Non-operating income (expenses):	(622,495)	3,353,846	n.m.	(1,893,834)	n.m.
<b>Income before income tax</b>	<b>7,250,844</b>	<b>16,011,204</b>	<b>55%</b>	<b>7,065,304</b>	<b>127%</b>
Income tax:	2,114,029	4,381,982	52%	1,885,512	132%
Non-controlling interest:	(4,761)	(455)	n.m.	-	n.m.
<b>Net Income</b>	<b>\$ 5,132,054</b>	<b>\$ 11,629,677</b>	<b>56%</b>	<b>\$ 5,179,792</b>	<b>125%</b>

n.m.= Not meaningful

**Total Revenues**

**Methodology**

Starting in 2009, the methodology established for assigning our crude oil and natural gas sales to the production and market and supply segments, as the case may be, was modified. Under the current methodology, we allocate our crude oil and natural gas sales to the production segment when the volumes sold come from our own production, whereas our crude oil and natural gas sales are allocated to the market and supply segment when the corresponding volumes sold are purchased from the ANH and our business partners. For presentation purposes we have recasted our segment sales information for the years 2008 and 2007.

From May 2009 we stopped recording as revenues our local sales of crude oil to Reficar. Instead, our crude oil sales to Reficar are allocated to our market and supply segment and eliminated in consolidation. Additionally, from May 2009, we started recording as revenues the refined product sales of Reficar.

Results

The following table sets forth our principal sources of revenue by business segment for the years ended December 31, 2009, 2008 and 2007.

	For the Year ended December 31,		2009/2008 % change	For the Year ended December 31, 2007 (Pesos in millions)	2008/2007 % change
	2009 (Pesos in millions)	2008			
<b>Production Segment <sup>(1)</sup>:</b>					
<b>Crude oil:</b>					
Export sales	7,329,974	4,107,194	78.5%	1,102,815	272.4%
<b>Total sales of crude oil</b>	<b>7,329,974</b>	<b>4,107,194</b>	<b>78.5%</b>	<b>1,102,815</b>	<b>272.4%</b>
<b>Natural Gas:</b>					
Local sales	547,792	464,588	17.9%	407,291	14.1%
Other income from local sales of natural gas	157,653	129,631	21.6%	6,614	n.m.
Export sales	307,820	310,389	(0.8)%	35	n.m.
<b>Total sales of natural gas</b>	<b>1,013,265</b>	<b>904,608</b>	<b>12.0%</b>	<b>413,940</b>	<b>118.5%</b>
<b>Other Income from Production Segment <sup>(2)</sup></b>	<b>128,147</b>	<b>140,429</b>	<b>(8.7)%</b>	<b>115,824</b>	<b>21.2%</b>
<b>Total production segment sales</b>	<b>8,471,386</b>	<b>5,152,231</b>	<b>64.4%</b>	<b>1,632,579</b>	<b>215.6%</b>
<b>Production segment eliminations in consolidation</b>	<b>(33,845)</b>	<b>-</b>	<b>n.m.</b>	<b>-</b>	<b>n.m.</b>
<b>Total production segment sales to third parties</b>	<b>8,437,901</b>	<b>5,152,231</b>	<b>63.8%</b>	<b>1,632,579</b>	<b>215.6%</b>
<b>Refining segment:</b>					
<b>Refined Products:</b>					
Local sales <sup>(3)</sup>	11,850,849	14,876,906	(20.3)%	11,517,000	29.2%
Sales of refined products allocated to our production segment <sup>(4)</sup>	(72,956)	(90,628)	(19.5)%	(94,734)	(4.3)%
Other income from local sales of refined products <sup>(5)</sup>	56,521	61,612	(8.3)%	49,842	23.6%
Export sales	4,136,988	3,273,018	26.4%	2,156,388	51.8%
<b>Total refining segment sales:</b>	<b>15,971,402</b>	<b>18,120,908</b>	<b>(11.9)%</b>	<b>13,628,496</b>	<b>33.0%</b>
<b>Refining segment eliminations in consolidation</b>	<b>(75,077)</b>	<b>-</b>	<b>n.m.</b>	<b>-</b>	<b>n.m.</b>
<b>Total Refining segment sales to third parties</b>	<b>15,896,325</b>	<b>18,120,908</b>	<b>(12.3)%</b>	<b>13,628,496</b>	<b>33.0%</b>
<b>Market and supply segment:</b>					
<b>Crude oil sales:</b>					
Local sales	3,636,242	4,774,401	(23.8)%	3,004,629	58.9%
Export sales	4,485,538	4,589,088	(2.3)%	3,373,322	36.0%
<b>Total crude oil sales</b>	<b>8,121,780</b>	<b>9,363,489</b>	<b>(13.3)%</b>	<b>6,377,951</b>	<b>46.8%</b>
<b>Natural gas sales:</b>					
Local sales	486,210	436,826	11.3%	252,880	72.7%
Other income from local sales of natural gas	80,726	72,003	12.1%	60,471	19.1%
Export sales	3,914	2,958	32.3%	1	n.m.
<b>Total natural gas sales</b>	<b>570,850</b>	<b>511,787</b>	<b>11.5%</b>	<b>313,352</b>	<b>63.3%</b>
<b>Refined Products sales:</b>					
Export sales	69,865	-	n.m.	-	n.m.
<b>Total Market and Supply segment sales</b>	<b>8,762,495</b>	<b>9,875,276</b>	<b>(11.3)%</b>	<b>6,691,303</b>	<b>47.6%</b>
<b>Market and Supply segment eliminations in consolidation</b>	<b>(3,618,048)</b>	<b>-</b>	<b>n.m.</b>	<b>-</b>	<b>n.m.</b>
<b>Total Market and Supply segment sales to third parties</b>	<b>5,144,447</b>	<b>9,875,276</b>	<b>(47.9)%</b>	<b>6,691,303</b>	<b>47.6%</b>
<b>Transportation segment:</b>					
Transportation sales	1,596,766	752,599	112.2%	695,268	8.2%
Sales of transportation services allocated to our production, market and supply, and refining segment	(16,832)	(27,761)	(39.4)%	(17,330)	60.2%
<b>Total transportation sales</b>	<b>1,579,934</b>	<b>724,838</b>	<b>118.0%</b>	<b>677,938</b>	<b>6.9%</b>
<b>Transportation segment eliminations in consolidation</b>	<b>(675,507)</b>	<b>-</b>	<b>n.m.</b>	<b>-</b>	<b>n.m.</b>
<b>Total Transportation segment sales to third parties</b>	<b>904,427</b>	<b>724,838</b>	<b>24.8%</b>	<b>677,938</b>	<b>6.9%</b>
Other sales <sup>(6)</sup>	354,549	308,702	14.9%	139,188	121.8%
Adjustment to other sales <sup>(7)</sup>	(333,259)	(285,286)	16.8%	(120,687)	136.4%
FAEP	-	-	n.m.	(316,497)	n.m.
<b>Total sales</b>	<b>30,404,390</b>	<b>33,896,669</b>	<b>(10.3)%</b>	<b>22,332,320</b>	<b>51.8%</b>

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n.m.=Not meaningful.

- (1) Local sales of crude oil are assigned to the Market and Supply segment, since all the production sold was purchased from ANH and business partners and thus did not come directly from our production.
- (2) Corresponds to sales of refined products, transportation services and industrial services allocated to our production segment.
- (3) Includes motor fuel price differential reimbursements by the Government amounting to Ps\$1,778,050 million in 2007, Ps\$3,070,479 million in 2008 and Ps\$196,533 million in 2009.
- (4) Corresponds to sales of refined products from our Apiay and Orito refineries allocated to our production segment.
- (5) Corresponds to sales of transportation services and industrial services allocated to our refining segment.
- (6) Includes insurance premiums and sales of industrial services in Colombia.
- (7) Corresponds to sales of industrial services allocated to our production segment.

In 2009, total revenues decreased by 10.3% as compared to 2008, mainly due to the lower average prices of crude oil and refined products, offset in part by an increase in the total volumes sold. The 51.8% increase in total revenues in 2008 compared to 2007 was due to an increase in the average price of crude oil and refined products, higher volumes of crude oil sold and sales of crude oil to Reficar beginning in April 2007, partially offset by lower sales of refined products, due to not taking into account the sales of refined products by Reficar from April 2007 until May 2009.

The following table sets forth our total export and local sales of crude oil, natural gas and refined products for the years ended December 31, 2009, 2008 and 2007.

	For the Year ended December 31,		2009/2008 % change	For the Year ended December 31, 2007	2008/2007 % change
	2009	2008			
<b>Crude oil:</b>					
Local sales (barrels) <sup>(1)</sup>	455,895	26,981,442	(98.3)%	20,859,714	29.3%
Export sales (barrels)	92,921,245	54,592,797	70.2%	34,724,093	57.2%
Average price per local barrel (in U.S. dollars) <sup>(2)</sup>	67.77	89.95	(24.7)%	69.38	29.7%
Average price per export barrel (in U.S. dollars) <sup>(3)</sup>	60.83	83.00	(26.7)%	62.54	32.7%
Weighted average price per local and export barrel (in U.S. dollars)	60.86	85.30	(28.7)%	65.10	31.0%
<b>Natural gas:</b>					
Local sales (mbtu)	167,095,380	146,955,743	13.7%	160,056,709	(8.2)%
Export sales (mbtu) <sup>(4)</sup>	43,568,928	35,491,468	22.8%	6,555	n.m.
Average local price (mbtu) (in U.S. dollars)	2.72	3.12	(12.7)%	1.99	56.9%
Average export price (mbtu) (in U.S. dollars)	3.27	4.30	(23.9)%	2.77	55.3%
<b>Refined products:</b>					
Product local sales (barrels)	86,211,706	69,312,065	24.4%	71,191,548	(2.6)%
Export sales (barrels)	34,368,558	18,380,770	87.0%	19,335,063	(4.9)%
Average local price per barrel (U.S. dollars)	67.18	106.02	(36.6)%	77.89	36.1%
Average export price per barrel (U.S. dollars)	69.25	72.63	(4.7)%	53.81	35.0%

n.m. = Not meaningful.

(1) Starting in May 2009, no longer includes sales to Reficar.

(2) Corresponds to average price per local barrel translated at an average exchange rate of 2,156.29 for 2009, 1,966.26 for 2008 and 2,078.35 for 2007.

(3) Corresponds to the average of the actual prices at which we sold our crude oil in the international markets.

(4) We initiated exports of natural gas to Venezuela in the third quarter of 2007.

#### Production segment sales

##### Crude oil

###### Export sales

In 2009, our production segment revenues from exports of crude oil increased by 78.5%, mainly due to a 74.4% increase in volumes exported in this segment, resulting from an increase in our production level and an approximately 9.7% depreciation in the average exchange rate for the Peso against the U.S. Dollar, which were partially offset by a decrease in the average sales price. In 2008, our production segment revenues from exports of crude oil increased by 272.4% due to a 210.6% increase in volumes exported in this segment and an increase in the average export price of crude oil, partially offset by a 5.4% appreciation in the average exchange rate for the Peso against the U.S. Dollar.

##### Natural gas

###### Local sales

Our production segment local sales of natural gas increased by 17.9% in 2009 as compared to 2008 mainly due to a 12.1% increase in volumes sold in this segment, which was partially offset by an 12.7% decrease in the average sale price. Our production segment local sales of natural gas increased by 14.1% in 2008 primarily due to an increase in the average sale price of natural gas, partially offset by an 14.7% reduction in volumes as a result of lower consumption in the thermal power generation sector and scheduled maintenance programs.

###### Export sales

Export sales of natural gas decreased in 2009 as compared to 2008 mainly due to lower average export price which decreased 23.9%, partially offset by a 20.8% increase in the exported volumes in this segment. In 2008, export sales of natural gas reflect the first complete year of natural gas exports to Venezuela. In 2007, export sales of natural gas only reflected the start of our sales of natural gas to Venezuela.

### ***Production segment sales to third parties***

Our total production segment sales to third parties increased by 63.8% in 2009, compared to 2008, as a result of the increase in our volumes produced, partially offset by a decline in the average sales prices, and by 215.6% in 2008, compared to 2007, as a result of the increases in the average sale price and in our volumes produced.

### **Refining segment sales**

#### ***Local sales***

Local sales of refined products decreased 20.3% in 2009 as compared to 2008 as a result of lower average sales prices which decreased 36.6%, partially offset by a 24.4% increase in the volumes sold due to the consolidation of the results of Reficar into our results of operations. Revenue from local sales of refined products in 2008 as compared to 2007 increased by 29.2% as a result of higher average sales prices resulting from an increase in international oil prices, partially offset by a 2.6% decrease in volumes sold. The decrease in volumes sold resulted from no longer recording Reficar's sales in our consolidated results of operations from April 2007 as a result of the transfer of a majority of Reficar's shares to Glencore, which in turn was partially offset by the increase in volumes sold due to the consolidation of the results of Propilco into our results of operations.

#### ***Export sales***

As a result of our acquisition of the remaining 51% ownership interest of Reficar, from May 2009 the refined product exports of Reficar are now consolidated into our total refined products exports. As a result, our exported volumes increased by 87%, and our exports of refined products increased 26.4% in 2009, compared to 2008. This increase was partially offset by a 4.7% decrease in the average export price. The increase in revenues from exports of refined products in 2008 as compared to 2007 was due to a 35% increase in the average sales price (resulting from the increase in international oil prices), partially offset by our no longer recording the refined product exports of Reficar in our consolidated results of operations from April 2007 as a result of the transfer of a majority of Reficar's shares to Glencore.

### ***Refining segment sales to third parties***

Our total refining segment sales to third parties decreased 12.3% in 2009, compared to 2008, as a result of the decrease in the average sales prices of refined products, partially offset by a 37.5% increase in our volumes sold, which mainly resulted from the volumes sold by Reficar. Our total refining segment sales to third parties increased 33% in 2008, compared to 2007, as a result of the increase in the average sales price.

### **Market and Supply segment sales**

#### ***Crude Oil***

##### ***Local sales***

Our local sales of crude oil assigned to our market and supply segment almost entirely reflect sales to Reficar that have been eliminated in consolidation since May 2009 as a result of our acquisition of Reficar from Glencore. Revenues from local sales of crude oil allocated to our market and supply segment increased by 58.9% in 2008 as compared to 2007 as a result of an increase in sales to Reficar and higher average sales prices for crude oil, as a result of the increase in international oil prices.

##### ***Export Sales***

Exports of crude oil allocated to our market and supply segment decreased by 2.3% in 2009, compared to 2008, as a result of a 26.7% decrease in the average export price of crude oil, partially offset by a 17.9% increase in our exported volumes allocated to this segment. Revenues from exports of crude oil allocated to this segment increased in 2008 as compared to 2007, as a result of higher average international crude oil prices and an increase in volumes sold internationally, partially offset by a 5.4% appreciation in the average exchange rate for the Peso against the U.S. Dollar.



## Natural Gas

### Local Sales

Revenues from local sales of natural gas allocated to our market and supply segment increased by 11.3% in 2009 as compared to 2008, mainly as a result of a 17.9% increase in the volumes sold in this segment, partially offset by the lower average sales price of natural gas.

### Market and Supply segment sales to third parties

Our total market and supply segment sales to third parties decreased by 47.9% in 2009, compared to 2008, mainly as a result of the eliminations in consolidation of our crude oil sales to Reficar.

### Transportation segment sales

Our total transportation segment sales increased by 112.2% in 2009, compared to 2008, mainly due to higher volumes of crude oil and refined products transported, which in turn resulted from (i) our consolidation as of March 2009 of the results of operations of Ocesa and ODC, (ii) the commencement of operations of ODL and (iii) the expansion of our transportation infrastructure. Transportation segment sales in 2008 increased by 8.2%, compared to 2007, as a result of higher volumes transported.

### Transportation segment sales to third parties

As a result of the above mentioned increase in volumes and after giving effect to eliminations in consolidation of the transportation services provided by us to our subsidiaries, our transportation segment sales to third parties increased by 24.8% in 2009, compared to 2008.

## Cost and Expenses

The following table sets forth elements of our cost of sales, operating expenses and operating income for the years ended December 31, 2009, 2008 and 2007.

	For the Year ended December 31,		2009/2008 % change	For the Year ended December 31,	
	2009	2008		2007	2008/2007 % change
	(Pesos in millions)			(Pesos in millions)	
Cost of sales	19,906,073	19,084,436	4%	12,121,833	57%
Operating expenses	2,624,978	2,154,875	22%	1,251,349	72%
Operating Income	7,873,339	12,657,358	(38)%	8,959,138	41%

### Cost of sales—consolidated

As a result of the increase in international prices for crude oil, our costs of sales have been affected by a number of factors. The most important factors are described below:

- Purchases of hydrocarbons from the ANH in 2009 decreased 22% to Ps\$4,358,408 million as compared with 2008 mainly as a result of lower average prices, partially offset by an increase on the volumes purchased. Purchases of hydrocarbons from the ANH in 2008 increased 43% to Ps\$5,584,474 million as compared to 2007 as a result of higher average prices on an increased number of barrels purchased as compared to 2007.

- Purchases of crude oil from our business partners in 2009 increased 29% to Ps\$4,130,116 million as compared with 2008 mainly due to higher volumes purchased as crude oil production from our business partners increased. Purchases of crude oil from our business partners in 2008 increased 124% to Ps\$3,193,690 million as compared to 2007 as a result of higher volume purchased to meet existing supply obligations, which amounted to 19 million barrels in 2008 compared to 12.9 million barrels in 2007 and increases in average prices for crude oil.
- Purchases of imported products in 2009 decreased 21% to Ps\$2,739,681 million as compared with 2008 as a result of lower average prices. Purchases of imported products in 2008 increased to Ps\$3,470,987 million as compared to 2007 as a result of higher volumes purchased in order to mix such imports with the local production of gasoline and diesel in order to decrease the content of sulphur in our fuels and a higher average international price for gasoline and diesel.
- Services contracted with associations, which are pro rata expenses for our joint ventures, increased by 8.6% in 2009 to Ps\$1,290,177 million as compared to 2008, mainly as a result of an increase in production activities. Services contracted with associations in 2008 increased 16.6% to Ps\$1,188,294 million as compared to 2007 due to an increase in production activities and increases in the price of oil services as a result of a worldwide increase in demand for oil services.
- Maintenance costs increased by 53% to Ps\$1,274,618 million as compared to 2008, mainly due to the consolidation of the maintenance costs of Ocesa and Hocol into our results of operations. Maintenance costs increased by 40% to Ps\$593,331 million in 2008 as compared to 2007, mainly due to an increase in tariffs and an increase in our production activities.
- Depreciation costs increased by 85% to Ps\$1,239,846 million as compared to 2008, mainly due to the consolidation of Ocesa's depreciation into our results of operations. Depreciation costs decreased by 7% to Ps\$670,279 million in 2008 as compared to 2007, mainly due to our no longer recording Reficar's depreciation costs in our consolidated results of operations from April 2007 as a result of the transfer of a majority of Reficar's shares to Glencore.
- Labor costs in 2009 increased 22% to 918,264 million as compared to 2008 mainly due to a 2.65% increase in the total number of Ecopetrol's employees in response to the increase in the exploration and production activities, and an adjustment in wages which has been progressively implemented among all of our employees. Labor costs increased 40% in 2008 as compared to 2007 increased as a result of increases in wages, labor benefits and bonuses paid as part of our personnel retention policies and an increase in the number of our employees who are eligible to receive these benefits.

Principal elements of our cost of sales by business segments are as follows:

*Production segment's cost of sales*

Cost of sales affecting our production segment are mainly related to the amortization and depletion of our production assets, services contracted with outside vendors, maintenance costs, project expenses and labor costs related to this segment.

*Refining segment's cost of sales*

Cost of sales affecting our refining segment are primarily for the purchase of crude oil and natural gas to upload and feed the refineries, to import products for the refining process, to feed stock transportation services, for services contracted for the maintenance of the refineries, and for the amortization and depreciation of refining assets.

*Transportation segment's cost of sales*

Cost of sales affecting our transportation segment are: depreciation and amortization of our transportation assets and project costs, which relate to costs associated with the maintenance of transportation networks and construction and conversion of existing pipelines to the transportation of heavy crude oil. Due to the consolidation of Ocesa and ODC, our transportation costs have increased as we now include the total costs of sales of these subsidiaries into our cost of sales.

### *Market and supply segment's cost of sales*

Cost of sales affecting our market and supply segment are mainly related to the costs associated with purchases of crude oil and natural gas volumes from the ANH and from our business partners.

### *Operating expenses*

Our operating expenses increased in 2009 compared to 2008 as well as in 2008 compared to 2007, mainly as a result of the following factors:

- Studies and projects in 2009 compared to 2008 increased by 53% as a result of an increase in the number of seismic studies and production projects conducted. Studies and projects in 2008 increased, compared to 2007, as a result of higher maintenance expenses for production projects, an increase in accounting for dry wells and exploration costs.
- Oil pipeline transportation tariff payments in 2009 were eliminated beginning in March 2009 when we began to consolidate the operating results of OCENSA and ODC. Oil pipeline transportation tariff payments increased in 2008, compared to 2007, as a result of higher volume transported and maintenance of back-up product pipelines, offset in part by a decrease in tariffs.

Our operating expenses by business segments increased in 2009, compared to 2008, and increased in 2008, compared to 2007. Such expenses by business segment are described below.

### *Exploration and production segment's operating expenses*

Operating expenses affecting our exploration and production segment are primarily for studies and projects, which correspond to expensing dry wells, the amortization of the goodwill from our acquisitions assigned to this segment and administrative expenses assigned to this segment.

### *Refining segment's operating expenses*

Operating expenses affecting our refining segment are primarily for the amortization of the goodwill from our acquisitions assigned to this segment and administrative expenses assigned to this segment.

### *Transportation segment's operating expenses*

Operating expenses affecting our transportation segment are primarily for the amortization of the goodwill from our acquisitions assigned to this segment and for tariffs paid in connection with crude oil transportation.

### *Market and supply segment's operating expenses*

Operating expenses affecting our market and supply segment are primarily for the administrative expenses related to selling the crude oil and natural gas assigned to this segment.

### *Non-operating income (expenses)*

The following table sets forth our non-operating income (expenses) for the years ended December 31, 2009, 2008 and 2007.

	<b>At December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Non-operating income(expenses):</b>			
Financial income, net	495,833	4,101,252	93,628
Pension expenses	(595,157)	(1,144,925)	(1,090,343)
Inflation gain	22,355	30,473	41,132
Other income (expenses), net	(545,526)	367,046	(938,251)

*Financial income, net.* Financial income, net, includes foreign exchange gains, valuation of investments, dividends received and profit from sale of investments. The following table summarizes the principal components of our financial income (expenses) for the years ended December 31, 2009, 2008 and 2007.

	At December 31,		
	2009	2008	2007
	(Pesos in millions)		
<b>Financial income:</b>			
Exchange difference gain	14,672,907	10,863,242	3,772,753
Interest and monetary correction	479,694	682,542	161,125
Income on valuation of investment portfolio	168,442	1,640,338	808,922
	(Pesos in millions)		
<b>Financial expenses:</b>			
Exchange difference loss	(14,798,550)	(8,901,184)	(4,385,021)
Interest	(138,801)	(19,376)	(1,021)
<b>Financial Income, net:</b>	495,833	4,101,252	93,628

Financial income, net decreased in 2009 when compared with 2008 mainly due to (i) a decrease in our net exchange difference gain (loss) as a result of a slight unbalance in our investments and liabilities denominated in U.S. Dollars in favor of liabilities due to the net effect of the 9.7% depreciation of the Peso against the U.S. dollar; (ii) a decrease in our income on valuation of investment portfolios as we transferred our pension liabilities to pension trust funds and (iii) a decrease in interest received from our investment portfolios as we utilized some of our financial investments to fund our investment plan. Financial income, net increased significantly in 2008 when compared to 2007 mainly due to a net exchange gain and an increase in net income from the valuation of our investment portfolio.

*Pension expenses.* Pension expenses decreased by 48% in 2009 when compared to 2008 mainly as a result of not registering an amortization of the pension actuarial calculation because the current yield of this portfolio covers the increase in liability. The only actuarial amortizations which were registered correspond to health and education. Pension expenses increased by 5% in 2008 compared to 2007, mainly due to an increase in the amortization of the actuarial calculation.

*Other income (expenses), net.* Other income includes recovery of provisions, other revenues and other recoveries. Other expenses include BOMT contracts related expenses, legal and other provisions and taxes unrelated to income.

Other income (expenses) decreased in 2009 compared to 2008, mainly due to a lower recovery of legal provisions and an increase in legal provisions and taxes unrelated to income.

Other income (expenses) increased in 2008 compared to 2007, mainly due to an increase in the recovery of provisions for legal proceedings and to lower provision expenses in 2008.

#### *Income before income tax*

Income before income tax decreased by 54.7% in 2009 when compared to 2008, mainly due to lower revenues as a result of the lower average price of crude oil. Income before income taxes increased by 126.6% in 2008, compared to 2007, as a result of higher revenue due to a higher average price of crude oil without a comparable increase in cost of sales and operating expenses.

#### *Income tax*

The effective income tax rate for 2009 was 29.16%, compared to 27.3% in 2008 and 26.7% in 2007. Our effective tax rates were lower than the statutory rate as a result of tax benefits mainly related to (i) an income tax deduction applicable to productive fixed assets investments, equal to 40% of these investments for 2007, 2008 and 2009 and (ii) exempt net income on asphalt sales.

## *Net Income*

As a result of the foregoing, net income decreased by 55.9% in 2009 when compared to 2008 and increased by 124.5% in 2008, compared to 2007.

### ***Principal differences between Colombian Government Entity GAAP and U.S. GAAP***

We prepare our financial statements in accordance with Colombian Government Entity GAAP. These principles and regulations differ in certain significant respects from U.S. GAAP. The following is a description of the most relevant differences between Colombian Government Entity GAAP and U.S. GAAP. Note 33 to our consolidated financial statements presents reconciliations of net income and shareholders' equity determined under Colombian Government Entity GAAP to those same amounts as determined according to U.S. GAAP, as well as a complete description of the differences between the two accounting standards. The principal differences between Colombian Government Entity GAAP and U.S. GAAP are as follows:

#### ***FAEP***

Under Colombian Governmental Entity GAAP, contributions to FAEP were recorded as increases to deferred income and an asset account for the same amount. No revenue was recognized for contributions to FAEP. Distributions from the FAEP to us were recorded as ordinary revenue with corresponding decreases in the deferred income and the FAEP asset accounts.

Under U.S. GAAP, the FAEP amount is recognized as current income and not as deferred income. U.S. GAAP requires us to recognize the FAEP as revenue even though it was a Government savings program with the purpose of maintaining macro-economic stability in the country. Therefore, the amounts recognized as current income under U.S. GAAP had the effect of increasing retained earnings and when the distribution of the amounts deposited in the FAEP was made by us to the Government in August 2007, for U.S. GAAP purposes, the distribution was treated as a dividend payment to the sole shareholder.

#### ***Advances received from Ecogás for BOMT Contracts (Build, Operate, Maintain and Transfer)***

Under Colombian Government Entity GAAP, payment obligations under the BOMT contracts were treated as equivalent to an operating lease. Under U.S. GAAP the obligations are treated as capital leases, and an asset and liability were recognized and payments under the BOMT contracts serve to reduce the liability and the asset is depreciated. Subsequently, we subleased the same asset to Ecogás, with the corresponding treatment of the payments receivable from Ecogás as direct financing lease for U.S. GAAP purposes.

#### ***Contributions in kind***

Under Colombian Government Entity GAAP, contributions of the Nation in kind (the produced reserves) pursuant to Decree 2625 of 2000 were recognized as a cost of production during the years Decree 2625 was in force and a contribution to equity. Under U.S. GAAP, costs associated with these contributions were reversed to reflect retained earnings that were later distributed to the Nation as a stock dividend.

#### ***Reversal of concessions***

Under Colombian Government Entity GAAP, we recorded an asset for the contributions of the Nation of crude oil and natural gas reserves deriving from the reversal of concessions of oilfield areas in favor of the Nation, given before the effectiveness of Decree 1760 of 2003. Reserves were valued by means of the technical-economic model where the value per barrel resulted from the relation of the net present value obtained at a discount rate and the total proved reserves on the contribution date. For U.S. GAAP purposes, these reversions were considered a transfer of assets between entities under common control. Ecopetrol as the entity that received the net assets, should have initially recognized the assets transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer, which in this case is zero as the transferring entity did not recognize a carrying value.

## **Reserves**

On December 31, 2008, the SEC issued a final rule revising disclosure requirements relating to oil and gas reserves as contained in Rule 4-10(a) of Regulation S-X. Under the new SEC rule, reserves are required to be estimated by applying the unweighted arithmetic average of the first-day-of-the-month price for each month within the year to year-end quantities of proved reserves (the "SEC average price methodology"). Prior to this revision, the SEC required reserves to be estimated by applying the year-end WTI price to year-end quantities of proved reserves (the "SEC year-end price methodology"). Our proved reserves as of December 31, 2009 are based on the SEC average price methodology for U.S. GAAP purposes, which mirrors the average price methodology used by us to prepare our consolidated financial statements during this period. Our proved reserves as of December 31, 2008 are based on the SEC year-end price methodology for U.S. GAAP purposes, which mirrors the year-end price methodology used by us to prepare our consolidated financial statements during this period. However, our proved reserves as of December 31, 2007 are estimated using average prices for the preparation of our consolidated financial statements and using the SEC year-end price methodology for U.S. GAAP purposes. As a result, the quantity of proved reserves for this period differs from the estimated quantities of proved reserves in accordance with the SEC year-end methodology. See Note 33 to our consolidated financial statements for a description of the main differences between Colombian Government Entity GAAP and U.S. GAAP.

Under the new SEC final rule, optional disclosure of probable and possible reserves is allowed but we opted not to do so. Estimates of reserves were prepared by the use of commonly used geological and engineering oil industry practices. The method or combination of methods used in the analysis of each reserve was adopted by experience with similar reserves, stages of development, quality and completeness of basic data, and production history.

The majority of the producing proved reserves were estimated by the application of appropriate decline curves or other performance relationships. In analyzing decline curves, reserves were estimated to the calculated economic limits based on current economic conditions. In certain cases where the previous methods could not be used, reserves were estimated by analogy with similar reserves where more complete data was available.

## **Effects of inflation on financial information**

The accompanying consolidated financial statements have been prepared from the accounting records, which are maintained under the historical cost convention, modified since 1992 to comply with the legal provisions of the CGN to recognize the effect of inflation on non-monetary balance sheet accounts until December 31, 2001, including equity. The CGN eliminated the use of inflation adjustments for accounting purposes for state-owned companies starting on January 1, 2002. However, our consolidated financial statements recognize the effect of inflation on non-monetary balance sheet accounts for an extended period from January 1, 1992 until December 31, 2006 for Hocol, Oleoducto de Colombia S.A. and Ocesa because, prior to our acquisition of these companies, they were subject to the accounting rules applicable to Colombian privately-owned entities. Under such rules, the effect of inflation on non-monetary balance sheet accounts was required to be recognized until December 31, 2006. The accumulated inflation adjustments were eliminated in the process of reconciling our financial statements to U.S. GAAP.

## **Valuation surplus**

Under Colombian Government Entity GAAP, property, plant and equipment are revalued every three years in accordance with market value and the investments in unconsolidated investees are revalued by using the equity intrinsic value (percentage of ownership of the Company in the equity of the investee). The excess of these amounts over the carrying amount is treated as valuation surplus with a corresponding amount in equity (valuation surplus). Revaluation of these assets is not done for purposes of U.S. GAAP.

### ***Variable interest entity***

Under Colombian Government Entity GAAP consolidation with significant subsidiaries is required when there is control by having more than 50% ownership or majority of the voting rights in the subsidiary. Under U.S. GAAP (FIN 46(R)) if an entity has variable interests whereby one party absorbs losses or benefits from net profits in excess of its ownership interest then those variable interests must be evaluated. Ocesa was not consolidated under Colombian Government Entity GAAP until March 2009 while as Ocesa was a variable interest entity under the rules of FIN 46 and included in our consolidated results pursuant thereto until March 2009. Thereafter, Ocesa was consolidated under both Colombian Government Entity GAAP and U.S. GAAP, when we acquired voting control. See Note 33 to our consolidated financial statements for a description of our analysis.

### ***Equity method accounting***

Under Colombian Government Entity GAAP as in effect for fiscal year 2007, equity method is only applied when control exists. Under U.S. GAAP, equity method is required for investments where significant influence exists (generally ownership higher than 20%) but the investment is not controlled.

Under Colombian Government Entity GAAP as in effect for fiscal year 2009 and 2008, equity method is applied for investments where significant influence exists but the investment is not controlled. However, unlike U.S. GAAP, there is no 20% ownership requirement.

### ***Employee benefit plans***

There are significant differences in the measurement of expense and balance sheet amounts for employee benefit plans between Colombian Government Entity GAAP and U.S. GAAP. See Note 33 to our consolidated financial statements.

### ***Investment securities***

There are significant differences in the measurement of expense and balance sheet amounts for investments between Colombian Government Entity GAAP and U.S. GAAP. See Note 33 to our consolidated financial statements.

### ***Provisions - allowances and contingences***

There are significant differences in the measurement of expense and balance sheet amounts for provisions - allowances and contingences between Colombian Government Entity GAAP and U.S. GAAP. See Note 33 to our consolidated financial statements.

## **5.B. Liquidity and Capital Resources**

### **History**

Prior to our corporate transformation and initial public offering, the Government limited our capital expenditure program and access to the credit markets as it was making decisions for us based on its own budgetary needs and concerns and not on the growth prospects of the Company. Furthermore, we were required to make macroeconomic stabilization payments to the FAEP, which negatively affected our cash flow from the export of crude oil. As a result of our sale of shares to private investors, we became a mixed economy company, which provides us budgetary autonomy and access to credit markets.

### **Liquidity**

Our principal sources of liquidity in 2009 were cash flows from operations amounting to Ps\$9,405,637 million, a Ps\$2.2 trillion syndicated loan facility with local banks and a US\$1,500 million bond issuance. Our principal uses of liquidity in 2009 were Ps\$10,750,197 million in capital expenditures, which included investments in natural and environmental resources and reserves, additions to our property, plant and equipment and dividend payments for the fiscal year 2009 amounting to Ps\$8,902,602 million.

At December 31, 2009, we had consolidated indebtedness of Ps\$6,151,435 million, which corresponded mainly to:

- A Ps\$2.2 trillion (approximately US\$1 billion) syndicated loan facility we entered with a syndicate of local banks in May 2009. This loan facility has a term of seven years with a two year grace period. The interest rate under the facility equals the fixed term deposit rate (DTF) plus an additional 4% (the anticipated quarterly interest rate). Amortization is bi-annual under the loan. In addition, as guarantee for the loan, we pledged our direct stock in Reficar (which was 49% of the total shares at the time of the loan), Oleoducto Central S.A. (Ocensa) and Propileno del Caribe (Propilco). We used the proceeds from this loan to finance our strategic plan.
- An issuance of US\$1,500 million aggregate principal amounts of 7.625% Notes Due 2019 (the “Original Notes”) on July 23, 2009. The Original Notes were issued pursuant to Rule 144A/ Regulation S with registration rights with the SEC. The Original Notes were subsequently registered with the SEC on September 3, 2009 (the “Registered Notes”). Concurrently with this registration, we commenced an exchange offer to exchange up to U.S.\$1.5 billion aggregate principal amount of the Registered Notes for an equal principal amount of our outstanding Original Notes under the terms and subject to the conditions set forth in a prospectus dated September 3, 2009. The exchange offer was carried out in compliance with the obligations acquired by us under the Registration Rights Agreement referred to in the prospectus. The exchange offer expired on October 2, 2009. Bonds exchange requests were received in an aggregate amount of US\$1,492,541,000. On October 7, 2009, we issued an aggregate amount of US\$1,492,541,000 in Registered Notes and cancelled an aggregate amount of US\$1,492,541,000 in Original Notes. In addition, the Registered Notes were listed on the New York Stock Exchange.

In addition, ODL, our indirect Panamanian subsidiary, through its Colombian branch office, Oleoducto de los Llanos Orientales Sucursal Colombia, entered into a Ps\$520,000 million (approximately US\$200 million) loan facility with Banco de Bogota S.A., Banco de Occidente S.A., Banco Popular S.A. and Banco AV Villas S.A., which together comprise the Grupo Aval, in March 2009. This loan facility (which has been paid in full) had a term of five years and its proceeds were used to finance part of the Rubiales pipeline described in Item 4B – “Business Overview – Transportation – Pipelines – Oleoducto de los Llanos Orientales” above. The interest rate under the facility equaled the fixed term deposit rate (DTF) plus an additional 5% (the anticipated quarterly interest rate). In October 2009 Oleoducto de los Llanos Orientales Sucursal Colombia also placed a series of notes in an aggregate principal amount equal to Ps\$500,000 million (approximately US\$260 million) through the Dutch Auction System. Furthermore, in May 2010 Oleoducto de los Llanos Orientales Sucursal Colombia entered into a second Ps\$800,000 million (approximately US\$406 million) loan facility with Grupo Aval. The interest rate under the new facility equals the fixed term deposit rate (DTF) plus an additional 4% (the anticipated quarterly interest rate). The principal amount under the second loan facility will be amortized in 20 equal quarterly payments. As guarantee for the second loan, Oleoducto de los Llanos Orientales Sucursal Colombia pledged its economic rights to certain finance tariffs it is entitled to receive under its Ship-or-Pay Contracts. The proceeds from this second credit facility were used to fully pay the first credit facility with Grupo Aval and any remaining amount was allocated to finance part of the Rubiales pipeline described in Item 4B – “Business Overview – Transportation – Pipelines – Oleoducto de los Llanos Orientales” above.

Furthermore, Ocensa entered into a Ps\$1,200,000 million (approximately US\$631 million) loan facility with a syndicate of local banks, comprised of Bancolombia S.A., Banco de Bogota S.A., Banco de Occidente S.A., Banco Popular S.A., Banco AV Villas S.A., Banco Davivienda S.A., Banco Bilbao Vizcaya Argentaria Colombia (BBVA) S.A., Banco Agrario de Colombia S.A., Banco Santander S.A. and Helm Bank S.A., in March 2010. This loan facility has a term of seven year and its proceeds will be used to (i) increase Ocensa’s transportation capacity and (ii) return equity to Ocensa’s shareholders. The interest rate under the facility equals the fixed term deposit rate (DTF) plus an additional 4%. The first disbursement under this loan was made in March 2010 in an amount totaling Ps\$260,000 million. Ocensa expects to make all remaining disbursements during the second half of 2010.

For 2010, major cash needs include planned capital expenditures amounting to approximately Ps\$16.95 trillion, of which Ps\$2.14 trillion correspond to exploration activities, Ps\$7.89 trillion correspond to production activities, Ps\$4.14 trillion correspond to refining activities, Ps\$1.92 trillion for transportation activities, Ps\$864 billion for other capital expenditures and Ps\$3.68 trillion for dividend distributions. Based on the current price of oil, we expect our existing and anticipated working capital, capital expenditure requirements and declared dividend payments to be met from our cash flows from operations and cash in hand. In addition, we may access the local and international financial markets for additional needs, if required. We believe such funding will be available. See Item 3D — “Risk Factors — Risks related to our business”.



## Use of Funds

### Capital expenditures

The following table sets forth our consolidated capital expenditures for each of our business segments for 2009, 2008 and 2007.

	For the Year ended December 31,		
	2009	2008	2007
	(Pesos in millions)		
Exploration & production	5,564,438	4,911,487	2,678,684
Refining and Petrochemicals	2,710,526 <sup>(1)</sup>	776,080	234,462
Transportation	2,269,540 <sup>(2)</sup>	939,996	92,344
Corporate	197,237	69,483	23,760
Marketing and Supply	8,455	7,549	7,712
<b>Total</b>	<b>10,750,197</b>	<b>6,704,595</b>	<b>3,036,962</b>

(1) Does not include Ps\$868,053 million corresponding to our initial share ownership in Reficar.

(2) Does not include (i) Ps\$636,832 million corresponding to non-controlling interest capital expenditures and Ps\$528,207 million corresponding to our initial share ownership in Ocesa and (ii) Ps\$31,087 million corresponding to non-controlling interest capital expenditures and Ps\$36,287 million corresponding to our initial share ownership in ODC.

Our 2008-2015 budget capital expenditure is approximately US\$57.7 billion distributed by business segment. See Item 4B — “Business Overview — Strategy”.

We plan to meet our budgeted capital expenditures for the next two to three years mainly through existing cash on hand and cash from operating activities. We also expect to access local and international financial markets to fund part of our capital expenditures. Furthermore, we may decide to access the equity markets through the issuance of an additional 9.9% of our common stock as authorized by law 1118 of 2006.

### Cash from operating activities

Net cash provided by operating activities decreased by 9.9% in 2009 compared to 2008 as a result of a decrease in the average price of crude oil and natural gas, which resulted in a 10.3% decrease in our total revenues. Net cash provided by operating activities increased by 11.0% in 2008, compared to 2007, mainly due to the increase in average sales prices and in our production levels.

### Cash used in investing activities

Net cash used in investing activities decreased in 2009, compared to 2008, mainly as a result of (i) decreases in our purchases of investments and our redemption and sale of our investments and (ii) increases in our investments in natural and environmental resources. These investments were partially funded by cash provided by our portfolio investments, which totaled Ps\$7.977 trillion.

Net cash used in investment activities increased in 2008, compared to 2007, mainly due to the increase in our capital expenditures as a result of our investment projects.

### Cash used in financing activities

Net cash used in financing activities decreased in 2009, compared to 2008, mainly due to the increase in our financial obligations as a result of our incurrence of indebtedness in 2009. See Item 5: “Operating and Financial Review and Prospects – Liquidity and Capital Resources” above. This increase was partially offset by the increase in our dividend payments in 2009, amounting to Ps\$8,903 billion.

Net cash used in financing activities increased in 2008, compared to 2007, mainly as a result of the fact that the receipt of cash from our initial public offering in Colombia in 2007 did not re-occur in 2008.

### Dividends

In 2009, we paid dividends of Ps\$8,902,602 million to our shareholders, including the Nation. On March 25, 2010, our shareholders at the ordinary general shareholders’ meeting approved dividends for the fiscal year ended December 31, 2009, amounting to Ps\$3,682,999 million, or Ps\$91.00 per share, based on the number of outstanding shares at December 31, 2009. Dividends declared will be paid in three installments. The first payment was made in April, and the second and third payments will be made in August and December, 2010, respectively.

### 5.C. Research and Development, Patents and Licenses, etc.

Our research and development activities are conducted by the *Instituto Colombiano del Petróleo* (ICP) or the Institute, our research and development unit. Our activities are focused on developing technology solutions for us and the Colombian oil industry and the development of technical tests and analyses to evaluate our business. Each year, we present to the *Instituto Colombiano para el Desarrollo de la Ciencia y la Tecnología* (“COLCIENCIAS”) our research and development projects in order to get a certification for our investment in science and technology. In 2009, we presented 24 projects to COLCIENCIAS which amounted to Ps\$136,696 million (approximately US\$ 63 million), of which Ps\$109,456 million correspond to projects certified by COLCIENCIAS and the remaining Ps\$27,241 million to man-hours dedicated to those projects. In 2008, our research and development investment amounted to Ps\$86,695 million, including Ps\$62,042 million related to 19 projects certified by COLCIENCIAS and Ps\$24,653 million corresponding to man-hours dedicated to these projects. In 2007, our investment in research and development investment amounted to Ps\$46,795 million, of which Ps\$37,551 million corresponded to 24 projects certified by COLCIENCIAS and Ps\$9,244 million to man-hours dedicated to those projects.

The Institute has 25 demo locations and 20 research and development laboratories. During 2009 our research and development laboratories rendered services to other companies including Shell, British Petroleum, Exxon Mobil as well as the ANH.

We currently own 19 patents in Colombia, United States, Venezuela, Ecuador, Brazil and Nigeria, including two patents granted by the Government of Nigeria in the first quarter in 2010. In 2009, we filed for 39 new patents, four of them in Colombia. One of our most significant patents is an anti-theft patent which allowed us to reduce fuel oil and crude oil theft by 50% in 2009 when compared to 2008. Most of our patents will expire between 2015 and 2017.

In 2009, we were also granted twelve new commercial brands, adding to the eight brands we had previously (which existing brands have been renewed for an additional 10-year period).

During the first quarter of 2010, the ICP’s Technical Information Center became one of the first specialized information units in the Oil and Gas Sector in Latin America to receive the certification in the System of Information Security Management under the NTC/ISO 27001:2005, standard granted by the ICONTEC, a Colombian National Standards organization.

### 5.D. Trend Information

See Item 5 — “Operating and Financial Review and Prospects — Overview”.

### 5.E. Off-Balance Sheet Arrangements

Under Colombian Government Entity GAAP we do not have any off-balance sheet arrangements.

### 5.F. Tabular Disclosure of Contractual Obligations

#### *Contractual Obligations*

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our contractual obligations at December 31, 2009.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3 to 5 years	More than 5 years
(Pesos in millions)					
<b>Contractual Obligations:</b>					
Pension Plan Obligations	16,076,329	574,152	1,311,108	1,391,040	12,800,029
Contract Service Obligations	4,306,254	2,595,169	1,309,160	5,883	396,042
Operating Lease Obligations	44,157	35,906	8,251	0	0
Natural Gas Supply Agreements	1,422,512	59,736	551,066	4,432	807,277
Purchase Obligations (oil and refining)	3,039	3,039	0	0	0
Energy Supply Agreements	2,862,526	2,438,004	422,309		2,213
Capital expenditures	18,674,140	6,617,677	2,949,793	54,316	9,052,354
Build, Operate, Maintain and Transfer Contracts (BOMT)	301,195	63,490	113,870	123,835	0
Capital (Finance) Lease Obligations	71,163	21,563	48,538	1,062	0
Financial Sector Debt	2,272,708	182,934	1,238,832	683,273	167,670
Bonds	3,369,584	215,702	615,140	345,138	2,193,603
<b>Total</b>	<b>49,403,607</b>	<b>12,807,372</b>	<b>8,568,066</b>	<b>2,608,980</b>	<b>25,419,189</b>

## Critical accounting policies and estimates

The following discussion sets forth our critical accounting policies. Critical accounting policies are those policies that require us to exercise the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to calculate variables and make assumptions about matters that are highly uncertain. In each case, if we had made other estimates, or if changes in the estimates occur from period to period, our financial condition and results of operations could be materially affected. This information should be read together with Note 1 to our consolidated financial statements for a summary of the economic entity and principal accounting policies and practices. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

### *Oil and gas reserves*

When accounting for our reserves we use the internationally recognized “successful efforts” method of accounting for investments in exploration and production areas. These investments are amortized using the technical units-of-production method on the basis of proved developed reserves by field. The reserves are based on technical studies prepared internally by our Department of Reservoirs and approved by our reserves committee, which follow estimation methodologies recommended by international organizations of specialists in hydrocarbon reserves and that in accordance with their certification meet the guidelines followed by the SEC.

Oil and gas reserves are divided between proved and unproved reserves. Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved reserves can also be divided in two categories: developed and undeveloped. Developed proved reserves are expected to be recovered from existing wells including line pack, or when the costs necessary to put them in production are relatively low. For undeveloped proved reserves, significant investments are necessary, including drilling new wells and installing production or transportation facilities.

The estimation of hydrocarbon reserves is subject to several uncertainties inherent to the determination of proved reserves, production recovery rates, the timeliness with which investments are made to develop the reservoirs and the degree of maturity of the fields.

On December 31, 2008, the SEC issued a final rule revising disclosure requirements relating to oil and gas reserves as contained in Rule 4-10(a) of Regulation S-X. Under the new SEC rule, reserves are required to be estimated by applying the unweighted arithmetic average of the first-day-of-the-month price for each month within the year to year-end quantities of proved reserves (the "SEC average price methodology"). Prior to this revision, the SEC required reserves to be estimated by applying the year-end WTI price to year-end quantities of proved reserves (the "SEC year-end price methodology"). Our proved reserves as of December 31, 2009 are based on the SEC average price methodology for U.S. GAAP purposes, which mirrors the average price methodology used by us to prepare our consolidated financial statements during this period. Our proved reserves as of December 31, 2008 are based on the SEC year-end price methodology for U.S. GAAP purposes, which mirrors the year-end price methodology used by us to prepare our consolidated financial statements during this period. However, our proved reserves as of December 31, 2007 are estimated using average prices for the preparation of our consolidated financial statements and using the SEC year-end price methodology for U.S. GAAP purposes. As a result, the quantity of proved reserves for this period differs from the estimated quantities of proved reserves in accordance with the SEC year-end methodology. See Note 33 to our consolidated financial statements for a description of the main differences between Colombian Government Entity GAAP and U.S. GAAP.

Crude oil prices have traditionally fluctuated as a result of a variety of factors such as changes in international prices of natural gas and refined products, long term changes in the demand for crude oil, natural gas and refined products, regulatory changes, inventory levels, increase in the cost of capital, economic conditions, development of new technologies, economic and political events, and local and global demand and supply. Revisions to proved reserves estimates of crude oil and gas and the effect of such price variations are presented in Note 33.xxviii to our consolidated financial statements. Changes in the crude oil price may affect our estimates in the future. A decrease in our estimated proved reserves due to pricing may result in the impairment of oil and gas properties.

The calculation of units-of-production depreciation and depletion is a critical accounting estimate that measures the depreciation and depletion of upstream assets. The units of production are equal to the ratio of actual volumes produced to total proved developed reserves (those proved reserves recoverable through existing wells with existing equipment and operating methods) and applied to our asset cost.

#### *Financial derivative instruments*

Occasionally we enter into hedging agreements to protect our exposure from the fluctuations of international crude prices. The difference between amounts paid and income received under hedging operations is recognized as financial income/expense. We do not enter into hedging contracts for speculative purposes.

Under Colombian Government Entity GAAP, our estimates are based on current spot prices subject to market variations. The differences between our estimates and current payments have been immaterial. We do not foresee material variations in the near future that may significantly impact our financial condition or results of operations. Our transactions with financial derivatives have not been significant during the last three years.

Under U.S. GAAP, we used fair values to measure our financial derivative instruments. Fair values were based on market quotes. There have not been material variations between fair values that have impacted significantly our financial condition or operating performance in the past.

#### *Pension plans and other retirement benefits*

The determination of the expense and liability relating to our pension and other retirement benefits require us to use judgment in the determination of actuarial assumptions. These include active employees with indefinite term contracts, retirees and their heirs, pension benefits, healthcare and education expenses; number of temporary employees who will remain with us until retirement, voluntary retirement plans and pension bonuses. The calculation of retirement bonds posted by us to meet our pension obligations is regulated by Decrees 1748 of 1995, 1474 of 1997 and 876 of 1998, as well as Law 100 of 1993 and its regulatory decree.

These actuarial assumptions include estimates of future mortality, withdrawal, changes in compensation and discount rate to reflect the time value of money as well as the rate of return on pension bonds and other plan assets. These assumptions are reviewed at least annually and may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates or longer or shorter life spans of participants.

Most of our assumptions have been based on historical trends. Actuarial gains and losses a result of differences between estimates and actual calculations and differences between Colombian Government Entity GAAP and U.S. GAAP are disclosed in Note 33.vii to our consolidated financial statements. Changes in interest rates and amendments to plan conditions have affected prior estimates. We believe that the assumptions used in recording our obligations under the plans are reasonable based on our experience and market conditions.

#### *Litigation and tax assessments*

We are subject to claims for substantial amounts, regulatory and arbitration proceedings, tax assessment and other claims arising in the normal course of business. Management and legal counsel evaluate these situations based on their nature, the likelihood that they materialize, and the amounts involved, to decide on any changes to the amounts accrued and/or disclosed. This analysis includes current legal processes against the Company and claims not yet initiated. In accordance with management's evaluation and guidance provided by Colombian Government Entity GAAP, we created reserves to meet these costs when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. At December 31, 2009, we had created a provision of Ps\$680,022 million for litigation contingencies. We also maintain insurance policies to cover specific operational risks and asset protection.

Estimates are based on legal counsel's evaluation of the cases and management's judgment. In the past our estimates have been accurate and have not varied substantially compared to final judgments. We believe that payments required to settle the amounts related to the claims, in case of loss, will not vary significantly from the estimated costs, and thus will not have a material adverse effect on our results of operations or cash flows. Litigation and tax assessment differences between Colombian Government Entity GAAP and U.S. GAAP are disclosed in Note 33 to our consolidated financial statements.

Income taxes are accounted for under the assets and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax base. Deferred taxes on assets and liabilities are calculated based on statutory tax rates that we believe will be applied to our taxable income during the years in which temporary differences between the carrying amounts are expected to be recovered.

#### *Abandonment of fields*

We are required by law to remove equipment and restore the land or seabed at the end of operations at production sites. To estimate this obligation, we include plugging costs and abandonment of wells, dismantling of facilities and environmental recovery of areas and wells. Changes resulting from new estimates of the liability for abandonment can occur as a result of changes in economic conditions. We accrue the estimated discounted costs of dismantling and removing these facilities at the time of installation of the assets. The related liability is estimated in foreign currency and is adjusted for exchange difference at the end of each year.

We use economic factors from different sources and develop our own internal estimates of future inflation rates and discount rates. There have not been significant disparities between estimates and asset retirement costs paid. We believe that the assumptions used in recording our asset retirement costs and obligations are reasonable based on our experience and market conditions.

Differences between Colombian Government Entity GAAP and U.S. GAAP are disclosed in Note 33 to our consolidated financial statements.

#### *Recognition and measurement of assets recognized and liabilities assumed upon business combinations*

Under U.S. GAAP, we account for businesses acquired using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets, property, plant and equipment as well as the liabilities assumed at the date of the acquisition. In addition, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. Accordingly, for significant acquisitions, we obtain assistance from third-party valuation specialists. The valuations are based on information available at the acquisition date and different methodologies are used for each intangible identified above.

## Goodwill

Under U.S. GAAP, Ecopetrol tests goodwill for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a re-measurement of the fair value of a reporting unit. Fair value is determined by reference to market value, if available, or by a qualified evaluator or pricing model. Determination of a fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates. Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different assumptions and estimates could be used which would lead to different results. In 2009, the most significant amounts of goodwill relate to the acquisitions of Reficar and OIG. The valuation models used to determine the fair value of these companies are sensitive to changes in the underlying assumptions. For example, the prices and volumes of product sales to be achieved and the prices which will be paid for the purchase of raw materials are assumptions which may vary in the future. Adverse changes in any of these assumptions could lead us to record a goodwill impairment charge. During 2009, Ecopetrol conducted a quality impairment test of goodwill which showed that no goodwill had been impaired.

Under Colombian Government Entity GAAP, goodwill corresponds to the difference between the acquisition price and the book value of the acquired company. This amount is amortized during the period on which the Company expects to receive future benefits. Additionally, under Colombian Government Entity GAAP, goodwill is not subject to impairment tests.

### 5.G. Safe Harbor

See — “Forward Looking Statements.”

## ITEM 6. Directors, Senior Management and Employees

### 6.A. Directors and Senior Management

The information below sets forth the names and business experience of each of our Directors, officers and senior management, as of the date hereof.

#### Directors of Ecopetrol

The following are our current Directors as elected at the shareholders’ meeting held on March 25, 2010:

*Minister of Mines and Energy, Hernan Martínez (68)* has been a member of our Board of Directors since September 25, 2006. Mr. Martínez has served as Minister of Mines and Energy of Colombia since 2006. Prior to holding this position, Mr. Martínez worked as Manager of Corporate Planning for Esso Colombiana S.A.; President of International Colombia Resources Corporation; President of Exxon Mobil Colombia S.A., and as representative of the President of Colombia before the ANH. He has been a member of various Boards of Directors, including Carton de Colombia S.A., Empresa de Interconexión Eléctrica S.A. ESP, Transmisión Eléctrica S.A. and Inversura S.A. Mr. Martinez earned a degree in chemical engineering from Universidad Pontificia Bolivariana and obtained a specialization degree in petroleum management from Northwestern University. Mr. Martínez was appointed as a director by the Nation.

*Minister of Finance, Oscar I. Zuluaga (50)* has been a member of our Board of Directors since March 26, 2007. Mr. Zuluaga has served as Minister of Finance of Colombia since 2007. From 1988 to 1990, Mr. Zuluaga was a member of the Council of Pensilvania (Caldas-Colombia), and in 1990 became the Mayor of this municipality. He served in the Senate of Colombia from 2002 to 2004. He is a founding member of the “U” Political Party, and served as the Advisor Minister for the Office of the President of Colombia in 2006. Mr. Zuluaga was also a Vice-President and President of Acerías de Colombia S.A. from 1992 to 2001. Mr. Zuluaga has been a member of the Board of Directors of Banco de la Republica – Colombia’s central bank, Fenalco or *Federación Nacional de Comerciantes*, Fedemetal, and the Colombo-Venezuelan Chamber of Commerce. Mr. Zuluaga earned a degree in economics from Pontificia Universidad Javeriana and a master’s degree in public finance from Exeter University, England. Mr. Zuluaga was appointed as a director by the Nation. He earned the award of the “Best Latin American Minister of Finance 2009” issued by the journal of *Emerging Market*.

*Esteban Piedrahíta (39)* has been a member of our Board of Directors since May 2009. Mr. Piedrahíta has served as Director of the National Planning Agency of Colombia since May 4, 2009. He has worked for the Inter-American Development Bank and the Colombian Embassy in Washington. He has also held positions at *Poder Magazine*, *Semana Publishing House*, *Estrategias Corporativas* and *Salomon Brothers Inc.* Mr. Piedrahíta earned a degree in economics from Harvard University and a master's degree with honors in Philosophy and Science History from the London School of Economics and Political Science. Mr. Piedrahíta was appointed as a director by the Nation.

*Fabio Echeverri (77)* has been a member of our Board of Directors since September 16, 2002. From 1957 to 1962, Mr. Echeverri worked as the President of Banco de Colombia and Banco Comercial Antioqueño. Since then, he has held various positions in the private and public sectors, serving as President of Siderurgica de Medellin, Director of ANDI (National Association of Industries), AILA (Latin American Association of Industries) and CONANDI (Andean Confederation of Industries), and as a member of the Inter-American Council of Commerce and Production, a position that he held for over 18 years. Mr. Echeverri is currently a member of the Board of Directors of the Shaio Clinic, Telecom-Colombia and Frigoríficos Ganaderos de Colombia S.A. During his career, Mr. Echeverri has been a chairman of the Board of Directors of Fondo Ganadero de Antioquia; and chairman of the board of Siemens S.A., among others. Mr. Echeverri earned degrees in economics from Gimnasio Moderno and Universidad Jorge Tadeo Lozano. Mr. Echeverri was appointed as an independent director by the Nation.

*Joaquín Moreno (61)* has been a member of our Board of Directors since March 27, 2008. Mr. Moreno worked for 33 years for the Royal Dutch/Shell Group. He held various positions such as Project Manager in Colombia; Project and Operations Manager and Marketing and Operations Manager of Shell Química de Venezuela; Director of Marketing for agrochemical products and Global Marketing Manager for petrochemical products at Shell Centre-Shell International Chemicals Company in London; Director of Shell Venezuela S.A.; Director of Shell Colombia S.A. and Director of Cerromatoso S.A., and Strategic Planning Director for Exploration and Production in Europe and the Middle East at the Shell offices in the Netherlands. Mr. Moreno has also served as Country Chairman and President for Shell in Mexico, Colombia and Venezuela. Mr. Moreno has been a member of various Boards of Directors of local and international companies. Mr. Moreno earned a degree in civil engineering from Universidad Industrial de Santander and completed a program in advanced management at Harvard University. He was appointed as an independent director by the Nation.

*Ignacio Sanín (62)* has been a member of our Board of Directors since September 16, 2002. Mr. Sanín is currently the managing partner of the law firm Ignacio Sanín Bernal & Cia, Asociados. Mr. Sanín is a recognized professor of law having taught in various universities in Colombia at the undergraduate and postgraduate levels. Mr. Sanín earned a law degree and a degree in political science from Universidad Pontificia Bolivariana. He has completed postgraduate studies in commercial and tax law at the Polytechnic School, London School of Economics and King's College in London. He obtained a master's degree in private law and a master's degree in commercial law from Universidad Pontificia Bolivariana. Mr. Sanín was appointed as an independent director by the Nation.

*María E. Velásquez (52)* has been a member of our Board of Directors since December 16, 2004. Mrs. Velásquez has served as Vice-President of Tecnocómicas S.A. since February 2008. Prior to her current position, Mrs. Velásquez held the positions of Vice-President and President of Imusa S.A. from 2002 to 2007. She has also held positions in marketing at Andeco Ltda. and Diriventas Ltda. Mrs. Velásquez has been a member of various Boards of Directors, including those of the Colombian-American Chamber of Commerce and the Chamber of Commerce of Medellin. Mrs. Velásquez earned a business degree from Universidad de Medellin and specialization degrees in marketing from Universidad EAFIT and management from Universidad de la Sabana. Mrs. Velásquez was appointed as an independent director by the Nation.

*Amylkar Acosta Medina (59)* has been a member of our Board of Directors since March 25, 2010. From 1991 to 2002, Mr. Acosta was a senator in the Colombian National Senate, where he also served as President of the National Congress from July 1997 to July 1998. From 1974 to 1988, Mr. Acosta was a member of the Council of Rioacha and Medellín, cities in the Guajira and Antioquia regions of Colombia. Mr. Acosta has served as an advisor to the General Controller of the National Government. He was also Vice-Minister of the Ministry of Mines and Energy from 1997 to 1998 and has held several positions as a researcher and professor at various universities. Mr. Acosta has published various economic treatises, articles and research papers. Mr. Acosta earned a degree in economics from Universidad de Antioquia. In accordance with the Declaration of the Nation dated July 26, 2007, he was appointed by the Nation as an independent director representing the hydrocarbon production departments of Colombia.

*Mauricio Cárdenas (47)* has been a member of our Board of Directors since March 27, 2008. Mr. Cárdenas has served as the executive director of Fedesarrollo (*Fundación para la Educación Superior y el Desarrollo*) since 2003. Mr. Cardenas served as President of Empresa de Energía de Bogotá in 1993. He left this position to become the Minister of Economic Development of Colombia. He then worked as an investigator and executive director of Fedesarrollo. In 1998, Mr. Cárdenas was appointed the Minister of Transportation and later became the Director of the National Planning Agency of Colombia. Mr. Cárdenas was also a visiting professor for the Center of International Development at Harvard University from March to June 2001 and has held several positions as a researcher and a professor at various universities. Mr. Cárdenas has served as a member of the Board of Directors of various organizations, including the Latin American and Caribbean Economic Association, LACEA, Universidad de los Andes and the BVC. Mr. Cárdenas has published various economic treatises, articles and research papers. Mr. Cárdenas earned a degree and a master's degree in economics from Universidad de los Andes and later obtained a Ph.D. in economics from the University of California, Berkeley. In accordance with the Declaration of the Nation dated July 26, 2007, Mr. Cárdenas was appointed by the Nation as an independent director representing the ten largest minority shareholders.

None of our Directors, or executive officers has any family relationship with any other director or executive officer.

### **Officers and Senior Management of Ecopetrol**

The following presents information concerning our executive officers and senior management.

*Javier G. Gutiérrez (58)* has served as our President and Chief Executive Officer since January 22, 2007. Prior to becoming our CEO, Mr. Gutiérrez served as CEO of *Empresa de Interconexión Eléctrica S.A. ESP* or *ISA* since 1992 where he started in the planning department in 1975. Mr. Gutiérrez also worked as Vice-President of the Colombian Commission for Regional Electric Integration from 1995 to 1997. In 2002, Mr. Gutiérrez received an award from the *Portafolio* economic journal as the "Best Enterprise Leader in Colombia". In 2005 the *América Economía Journal* granted Mr. Gutiérrez an award of excellence and in the same year *La República*, a renowned financial journal in Colombia, ranked Mr. Gutiérrez among Colombia's top 10 executives. In 2008, Mr. Gutiérrez was recognized as the enterprise leader with the best reputation in Colombia by the Spanish Monitor of Corporate Reputation (MERCOR). Mr. Gutiérrez earned a degree in civil engineering, a master's degree in industrial engineering from Universidad de los Andes and a specialization degree in finance from Universidad EAFIT. Mr. Gutierrez has worked as a part-time professor of statistics and research at Universidad de los Andes and as a professor of operational research at Universidad EAFIT.

*Adriana M. Echeverri (40)* joined us in 1994, and has served as our Chief Financial Officer since September 2006. Prior to being appointed as our CFO, Mrs. Echeverri worked as Chief of the Finance and Treasury Unit from September 2003 to September 2006. She earned a degree in finance and foreign affairs and an MBA from Universidad Externado de Colombia.

*Margarita Obregon (52)* joined Ecopetrol in 2000 and has served as the Secretary of the Board of Directors and as Chief to the Support Office of the Chief Executive Officer since 2008. Prior to joining us, Mrs. Obregon worked in the supply department of *Previsora S.A: Compañía de Seguros* and as legal advisor of lands for British Petroleum Company – BP in *Alvaro Rengifo y Cia*. Mrs. Obregon also served as the head of the Business and Administration department of the *Fiduciaria del Estado*. Mrs. Obregon earned a law degree from Colegio Mayor de Nuestra Señora del Rosario with specialization degrees in financial law and administration law.

*Nelson Navarrete (47)* has served as our Exploration and Production Executive Vice-President since February 2008. Mr. Navarrete joined us in 1986. Prior to becoming our Exploration and Production Executive Vice-President, he held several positions within the operations department, such as Management Coordinator of the Cusiana oil field, Director of Reserves & Production, Regional Manager of fields located in the *Piedemonte*, and Chief of Production. Mr. Navarrete earned a degree in petroleum engineering from Universidad America and a master's degree in petroleum engineering from Tulsa University.



*Pedro A. Rosales (46)* joined us in 1989, and has served as our Downstream Executive Vice-President since February 2008. Mr. Rosales is responsible for the following businesses: refining, petrochemicals, transportation and logistics, marketing and distribution, biofuels and gas. Mr. Rosales has held several positions in the Company within the areas of maintenance, operations, projects, planning and administration. Prior to becoming our Downstream Executive Vice-President, Mr. Rosales served as our Vice-President of Transportation since January 2003 and as our Chief Operation Officer since 2006. Mr. Rosales is a member of the board of directors of Refinería de Cartagena S.A. (“Reficar”), Oleoducto Central S.A. (“Ocensa”), Propileno del Caribe (“Propilco”) and Empresa de Energía de Bogotá (“EEB”). Mr. Rosales earned a degree in mechanical engineering and an MBA from Universidad de los Andes.

*Hector Manosalva (48)* joined us in 1986 and has served as our Production Vice-President since 2009. Mr. Manosalva earned a degree in petroleum engineering from Universidad de America and a specialization degree in finance from Universidad EAFIT. He has held a number of positions in Ecopetrol, including Chief of the Planning Division, Production Director in Putumayo, Director of Corporate Social Responsibility and Director of Production in the Central region.

*Diego A. Carvajal (56)* has served as our Vice-President of Exploration since 2005. Mr. Carvajal has extensive technical and managerial experience in projects of exploration and production of hydrocarbons, both in Colombia and overseas. Former President of the Colombian Association of Petroleum Geologists and Geophysicists, affiliated to AAPG. From 1984 to 1993, Mr. Carvajal worked as an Exploration Geologist for the Texas Petroleum Company – TEXACO, and from 1993 to 2005 he worked as Exploration Team Leader for the BP Exploration Co. Colombia Ltd. He joined Ecopetrol in 2005 as our Vice-President of Exploration. Mr. Carvajal earned a degree in geology from Universidad Nacional de Colombia.

*Camilo Marulanda (31)* joined us in 2003 and has served as our Vice-President of Strategy since 2009. Mr. Marulanda earned a degree in economics and a specialization degree in marketing from Universidad de los Andes. He worked for Procter & Gamble Colombia from August 2001 to February 2003 as Category Manager. Mr. Marulanda was Chief of the Marketing Department since September 2003, Director of the National Commercialization unit since December 2004 and Vice-President of Supply and Marketing since December 2005.

*Federico Maya (44)* has served as our Vice-President of Refining and Petrochemicals since December 2005. Mr. Maya has held various positions at Ecopetrol over the last 20 years, including Marketing and Contract Coordinator for Ecopetrol’s Gas Department, member of the Corporate Planning Directory, and Chief of Supply and Marketing. Mr. Maya earned a degree in chemical engineering from Pontificia Universidad Bolivariana and a specialization degree in marketing from Universidad EAFIT.

*Claudia Castellanos (46)* has served as our Vice-President of Supply and Marketing since 2009. Mrs. Castellanos earned a degree in chemical engineering from Universidad Industrial de Santander and a specialization degree in energy resources management from Universidad Autónoma de Bucaramanga. She has worked in Ecopetrol for over 22 years as a process engineer at Reficar, where she also worked in the Finance Department. Prior to becoming our Vice-President of Supply and Marketing, Mrs. Castellanos was chief of our Gas Department for six years, where her focus was in the domestic and international commercialization of natural gas.

*Alvaro Castañeda (47)* has served as our Vice-President of Transportation since 2009. Mr. Castañeda earned a degree in metallurgical engineering, a specialization degree in international management of oil and gas and a master’s degree in administration from Universidad Autónoma de Bucaramanga and Instituto Tecnológico de Monterrey. He has worked in Ecopetrol for the last 20 years, and has held various positions, including Plant Coordinator, Director of the Operations Department, Chief of the Centralized Operations Department and Director of Multipurpose Pipelines.

*Martha Cecilia Castaño (41)* joined us in 2004 and has served as our Vice-President of Human Resources since 2008. Prior to becoming our Human Resources Vice-President, Mrs. Castaño worked as Coordinator of Organizational Culture, Chief of the Leadership, Internal Communications and Cultural Unit and was also in charge of the Labor Relations Department. Mrs. Castaño earned a degree in social communications and a specialization degree in economics from Universidad de la Sabana. She has also worked in Acopi, El Tiempo, Uniandinos and Empresa de Telecomunicaciones de Bogotá (ETB), in several areas such as human resources management, corporate communications and labor relations.

*Oscar A. Villadiego (45)* joined us in 1986, and has served as Vice-President of Services and Technology since February 2008. He has held several positions in the Production Vice-Presidency in such areas as the crude oil reserves, development and human resources unit. He served as manager for the Central region for a period of 2.5 years, and as Technical Manager for the production Vice-Presidency for four years. Mr. Villadiego earned a degree in Petroleum Engineering from Universidad America in 1987.

*Mauricio Echeverry (53)* joined us in November 1999, and has served as our General Counsel since then. Mr. Echeverry held the positions of Dean, Associate Dean and Professor at Universidad de los Andes Law School. He was also Colombia's Deputy General Prosecutor and Plenipotentiary Minister for Colombia's Embassy in the U.S. Mr. Echeverry earned a law degree and a specialization degree in commercial law from Universidad de los Andes.

#### **6.B. Compensation**

The total compensation paid to our Directors, executive officers and senior management during 2009 amounted to Ps\$7,832 million.

Based on a resolution adopted at our 2008 annual shareholders' meeting, board compensation for Board and/or Committee meetings in person is set at the equivalent of four minimum monthly wage salaries, which totals approximately Ps\$1,987,600 for 2009 and Ps\$2,060,000 for 2010, minus the VAT and Industry and Commerce taxes. Fees for attendance at virtual meetings is set at 50% of the in-person meeting fees.

Our Directors are not eligible to receive pension and retirement benefits from us. The total amount set aside to provide pension and retirement benefits to our eligible executive officer totals Ps\$4,029,638,051.

#### **6.C. Board Practices**

Our Board of Directors is composed of nine members and is responsible for, among other things, establishing our general business policies. The members of the Board of Directors are elected at the annual shareholders' meeting for one-year terms through an electoral quota voting system (number of votes required to fill each position is calculated by dividing the number of possible votes by the number of open board positions) and may be reelected indefinitely; the members of the Board of Directors may be elected without an electoral quota voting system when there is unanimity. Pursuant to our by-laws, the Board of Directors' positions are filled either by person or by position. Currently, we have three members appointed by their position: the Minister of Finance, the Minister of Mines and Energy and the Director of the National Planning Agency. Our Directors were elected on March 25, 2010. Our executive officers are appointed by our Board of Directors.

None of the service contracts of any of our Directors contain provisions for benefits upon termination of such director's services.

Pursuant to our by-laws, our Board of Directors has four committees, which establish guidelines, set specific actions and evaluate and submit proposals designed to improve performances in the areas under their supervision and control.

These committees are comprised of members of the Board of Directors whom are appointed by the Board.

In addition to applicable regulations, the committees also have their own specific regulations that establish their purposes, duties and responsibilities.

The following table sets forth the current members of our committees:

<b>Audit Committee(1)</b>	<b>Compensation and Nomination Committee</b>	<b>Corporate Governance Committee</b>
Joaquín Moreno Mauricio Cárdenas María E. Velásquez Ignacio Sanín	Minister of Mines and Energy Fabio Echeverri María E. Velásquez Amílcar Acosta	Ignacio Sanín Amílcar Acosta Minister of Finance
<b>Business Committee</b>		
Joaquín Moreno Mauricio Cárdenas María E. Velásquez Minister of Mines and Energy Director of National Planning Department		

(1) All members of our audit committee must be independent.

*Audit Committee*

Our audit committee, comprised of four independent Directors, is the highest internal control body of our company and provides support to our Board of Directors in accounting and financial matters. It is in charge of guaranteeing the design, implementation and supervision of our internal control over financial reporting. It also provides support for the Board in analyzing topics related to financial matters, risks, control environment and assessment of the Company's internal and external auditor.

All committee members are required to be knowledgeable in accounting matters and at least one of them is required to be an expert in financial and accounting matters.

*Compensation and Nomination Committee*

Our compensation and nominating committee, comprised of three members, including at least one independent director, provides general guidelines for selection and compensation of our executive officers and employees.

*Corporate Governance Committee*

Our corporate governance committee, comprised of three members, including at least one independent director, makes corporate governance proposals to our Board to ensure and supervise the fulfillment of the good governance practices of the Company according to the Company's Code of Good Governance.

*Business Committee*

Our business committee, comprised of five members, including at least one independent director, was created to assist the Board in analyzing potential business ventures. Based on its delegation of power, the committee studies, analyzes and approves investment projects, new exploration and production businesses and other matters which would help the Company move forward in its efforts towards internationalization. The primary criteria used in the committee's decision-making is the optimization of the Company's portfolio and the proper allocation of its resources.

**6.D. Employees**

At December 31, 2009 we had 6,695 employees. The collective bargaining agreement entered into between us and our three main labor unions governs the labor relations of our unionized employees, which stood at 2,169 on December 31, 2009. Agreement 01 of 1977 governs the labor relations of our employees devoted to technical and trustworthy activities, which stood at 4,526 on December 31, 2009. The collective bargaining agreement and Agreement 01 of 1977 do not vary significantly in benefits or economic benefits. Employees hired before January 29, 2003 have a special retirement plan and those hired after January 29, 2003 are subject to Law 100 with respect to their retirement scheme.

To support our corporate growth strategy, we increased our total number of employees by 2.73% from 6,517 in 2008 to 6,695 in 2009. The table below presents the number of Ecopetrol S.A's employees and the average number of employees by business segments for the years ended December 31, 2009, 2008 and 2007:

<b>December 2009<sup>(a)</sup></b>	<b>Direct Employees (full time)</b>	<b>Direct Employees average<sup>(2)</sup></b>	<b>Temporary Employees</b>
<b>Exploration and Production</b>			
Exploration	130	123	-
Production	1369	1372	57
Others	240	238	-
<b>Total Exploration and Production</b>	<b>1739</b>	<b>1733</b>	<b>57</b>
<b>Downstream</b>			
Refining	2080	2073	220
Transport	869	858	72
Marketing	150	147	1
Others	18	18	-
<b>Total Downstream</b>	<b>3117</b>	<b>3096</b>	<b>293</b>
<b>Corporate</b>	<b>1839</b>	<b>1849</b>	<b>117</b>
<b>TOTAL<sup>(1)</sup></b>	<b>6695</b>	<b>6678</b>	<b>467</b>
<b>December 2008<sup>(b)</sup></b>			
<b>Exploration and Production</b>			
Exploration	108	100	-
Production	1,343	1,305	94
Others	215	124	-
<b>Total Exploration and Production</b>	<b>1,666</b>	<b>1,529</b>	<b>94</b>
<b>Downstream</b>			
Refining	2,056	1,991	212
Transport	580	812	65
Marketing	141	123	0
Others	14	9	0
<b>Total Downstream</b>	<b>3,061</b>	<b>2,935</b>	<b>277</b>
<b>Corporate</b>	<b>1,790</b>	<b>1,700</b>	<b>130</b>
<b>TOTAL<sup>(1)</sup></b>	<b>6,517</b>	<b>6,154</b>	<b>501</b>
<b>December 2007<sup>(c)</sup></b>			
<b>Exploration and Production</b>			
Exploration	100	97	8
Production	1,278	1,298	85
Others	-	-	-
<b>Total Exploration and Production</b>	<b>1,378</b>	<b>1,395</b>	<b>93</b>
<b>Downstream</b>			
Refining	1,979	1,936	81
Transport	762	768	23
Marketing	113	113	9
Others	-	-	-
<b>Total Downstream</b>	<b>2,854</b>	<b>2,817</b>	<b>113</b>
<b>Corporate</b>	<b>1,631</b>	<b>1,638</b>	<b>114</b>
<b>TOTAL<sup>(1)</sup></b>	<b>5,863</b>	<b>5,850</b>	<b>320</b>

(1) At the last day of each month.

(2) Averages are calculated on a monthly basis from January to December of each year.

(a) 279 persons employed by us during 2009 were not included in our 2009 employee statistics as they were involved in intermittent, non-regular activities and do not classify as temporary employees.

(b) 60 persons employed by us during 2008 were not included in our 2008 employee statistics as they were involved in intermittent, non-regular activities and do not classify as temporary employees.

(c) 211 persons employed by us during 2007 were not included in our 2007 employee statistics as they were involved in intermittent, non-regular activities and do not classify as temporary employees.

The following table sets forth the number of employees of each of our subsidiaries for the years ended December 31, 2009 and 2008:

<b>December 2009</b>	<b>Direct Employees (full time)</b>
Ecopetrol America Inc.	-
Bioenergy S.A.	62
Hocol S.A.	152
Ocensa	130
ODC S.A.	2
ODL	9
Ecopetrol del Perú S.A.	4
Refinería de Cartagena S.A.	106
Ecopetrol Oleo e Gas do Brasil Ltda	4
Propilco S.A.	231
<b>TOTAL SUBSIDIARIES<sup>(1)</sup></b>	<b>700</b>

<b>December 2008</b>	<b>Direct Employees (full time)</b>
Ecopetrol America Inc.	-
Bioenergy S.A.	28
Hocol S.A.	-
Ocensa	-
ODC S.A.	-
ODL	-
Ecopetrol del Perú S.A.	-
Refinería de Cartagena S.A.	-
Ecopetrol Oleo e Gas do Brasil Ltda	-
Propilco S.A.	223
<b>TOTAL SUBSIDIARIES<sup>(1)</sup></b>	<b>251</b>

(1) At the last day of each month.

#### **Labor Unions**

We currently have three industry-wide labor unions and one company labor union:

1. Unión Sindical Obrera de la Industria del Petróleo — USO (Industry labor union)
2. Asociación de Directivos Profesionales, Técnicos y Trabajadores de las Empresas de la Rama de Actividad Económica del Recurso Natural del Petróleo y sus Derivados de Colombia — ADECO (Industry labor union)
3. Sindicato Nacional de Trabajadores de Empresas Operadoras, Contratistas, Subcontratistas de Servicios y Actividades de la Industria del Petróleo y Similares — SINDISPETROL (Industry labor union)
4. Sindicato Nacional de Trabajadores de Ecopetrol — SINCOPEPETROL (Company labor union)

Our employees and any employee working for a company in the oil and gas industry may join the USO, ADECO or Sindispetrol. Sincopetrol may only be joined by our employees.

On August 22, 2009, as a result of consensual negotiations, we entered into a five-year collective bargaining agreement with USO, ADECO and Sindispetrol.

The following are the most representative benefits of the agreement currently in force:

- *Transportation Subsidy.* Monthly transportation subsidy depends on the employee's location and ranges between Ps\$1,213 and Ps\$130,000;
- *Food Subsidy.* Daily food subsidy ranges between Ps\$6,520 and Ps\$8,195 depending on the employee's location;
- *Lodging Subsidy.* Monthly lodging subsidy to employees ranges between Ps\$190,739 and \$405,000;
- *Subsidy for Education.* Subsidy that covers 90% of tuition and board expenses and fixed amounts of transportation and textbooks for our employees and their children;
- *Stability Clause.* Employees who as of December 1, 2004 had worked over 16 months cannot be fired without just cause;
- *Retirement Benefit.* A retirement benefit is paid to our employees who meet the following requirements: have worked for us for at least 20 years and have reached the specific retirement age. In order for employees to be eligible to receive the benefit, the number of years working for us (in excess of 20), plus their age must be equal 70 years. The retirement benefit paid is equal to at least 75% of the average compensation received by the employee during the last 12 months. This benefit expires on July 31, 2010. After July 31, 2010, we will transfer to pension funds the amounts accrued under this benefit for each employee who did not meet the requirements established by law;
- *Public Retirement Benefit.* A retirement benefit is paid to our employees who meet the following requirements: have worked for us and other public or private company for a total period of at least 20 years, are at least 50 years old, in the case of women, and 55 years old, in the case of men. The retirement benefit paid is equal to 75% of the average compensation received by the employee during the last 12 months. This benefit is paid in proportion to the time worked for us, with the difference being assumed by the other companies for which the employee has worked;
- *Retirement plan for new employees.* Employees hired after January 29, 2003 are not covered by our retirement scheme and are covered by the general social security system;
- *Five-year bonus.* A cash benefit bonus accrued on a yearly basis and paid for every 5-year period worked in the Company according to the following scale:

5 years worked	Bonus equivalent to 9 days of basic payment plus Ps\$180,000
10 years worked	Bonus equivalent to 14 days of basic payment plus Ps\$180,000
15 years worked	Bonus equivalent to 19 days of basic payment plus Ps\$180,000
20 years worked	Bonus equivalent to 24 days of basic payment plus Ps\$180,000
25 years worked	Bonus equivalent to 29 days of basic payment plus Ps\$180,000
30 years worked	Bonus equivalent to 34 days of basic payment plus Ps\$180,000

#### **Labor Relations**

As part of our challenge to improve workplace morale, we implemented a number of initiatives to maintain good relations with our employees, guarantee competitive wages, strengthen our corporate culture, provide opportunities for personal development and improve the general welfare of our employees. Our initiatives also sought to strengthen communication processes, and start performance-based compensation.

As part of the actions to improve quality of life, we extended open term contracts to 472 employees, 1,093 home loans were extended to our employees for a total of Ps\$91,217 million and 547 loans for computers were extended for a total of Ps\$3,257 million.

We provided on-site and external training and development courses to our employees. At December 31, 2009, our employees had received an average of 80.1 hours of training per employee.

## Labor Regulation

As of November 13, 2007, all of our employees are official employees as a result of our transformation into a mixed economy company. Therefore, our employees have been governed by the provisions of the Colombian Labor Code since then.

### 6.E. Share Ownership

The disclosure of the beneficial ownership of shares by any of our Directors or executive officers is not provided as no Director or executive officer beneficially owns more than 1% of our outstanding shares.

## ITEM 7. Major Shareholders and Related Party Transactions

### 7.A. Major Shareholders

The following table sets forth the names of our major shareholders, and the number of shares and the percentage of outstanding shares owned by them at December 31, 2009, 2008 and 2007.

Shareholders	At December 31,					
	2009		2008		2007	
	Number of shares	% Ownership	Number of shares	% Ownership	Number of shares	% Ownership
Nation	36,384,788,817	89.9%	36,384,788,817	89.9%	36,384,788,817	89.9%
Public float	4,087,723,771	10.1%	4,087,723,771	10.1%	4,087,723,771	10.1%
<b>Total</b>	<b>40,472,512,588</b>	<b>100%</b>	<b>40,472,512,588</b>	<b>100%</b>	<b>40,472,512,588</b>	<b>100%</b>

All our common shares have identical voting rights.

### 7.B. Related Party Transactions Agreements

We engage in a variety of transactions with related parties in the ordinary course of business. Set forth below is a description of material related party transactions. For additional information about transactions with related parties see Note 15 to our consolidated financial statements.

#### Ocensa

As of December 31, 2009, we had entered into the following agreements with Ocensa, a company in which we have a 60% equity interest since March 2009:

In March 1995, we entered into an agreement for the transportation of crude oil through the Ocensa pipeline. Pursuant to the terms of the agreement, we are required to make monthly payments that vary depending on the volumes of crude oil we transport through the pipeline and a tariff calculated by Ocensa on the basis of Ocensa's financial projections and their expected volumes of crude oil. In 2009, payments made by us under this agreement amounted to US\$274.5 million. This agreement expires in December 2093 or upon liquidation of Ocensa.

In December 1995, we leased the Porvenir and Miralflores terminals to Ocensa. Pursuant to the terms of the agreement we receive monthly payments of approximately US\$4590,000 plus applicable taxes. The duration of the agreement is indefinite.

In November 1996, we leased the Cravo Norte port to Ocensa. Pursuant to the terms of the agreement we receive monthly payments of US\$25,000, plus applicable taxes. The duration of this agreement is indefinite.

In September 1999, we entered into a joint operation agreement for the TLU-3 Coveñas buoy with Ocesa, ODC and the Cravo Norte joint venture. Pursuant to the terms of the agreement we are required to make monthly payments of a fixed amount of US\$75,000 plus a variable amount depending of the volumes exported through the buoy. There have not been variable payments in the last three years. The duration of this agreement is indefinite.

In December 1999, we entered into an operation and maintenance agreement for the Porvenir, Miralflores and Vasconia pumping stations. Pursuant to the terms of the agreement, we receive monthly payments of approximately US\$349,000 plus applicable taxes and variable costs. This agreement expires on December 1, 2010.

In December 2004 we entered into a natural gas supply agreement. Pursuant to the terms of the agreement, we receive variable monthly payments based on the volumes of natural gas delivered and a fixed tariff. In June 2008, this contract was renewed for an additional two years. During 2009, we received monthly payments of approximately US\$445,142 under this contract.

#### *Oleoducto de Colombia S.A. or ODC*

We entered into the following agreements with ODC, a company where we have a 43.85% equity interest:

In July 1992, we entered into a take-and-pay agreement for the transportation of hydrocarbons. Pursuant to the agreement, we must pay a previously agreed tariff over the volume of hydrocarbons transported. The duration of this agreement is indefinite.

In August 1992, we entered into an operation and maintenance agreement for the Vasconia and Coveñas terminals. Pursuant to the terms of the agreement, ODC is required to make monthly payments amounting of approximately US\$1.1 million per year plus any other expenses incurred by us in the performance of the agreement, including a variable surcharge between 5% and 12% on such expenses, plus any applicable taxes. The duration of this agreement is indefinite.

In July 2006, we entered into an operation and maintenance agreement for the Caucasia Station and the Vasconia-Coveñas pipeline system. Pursuant to the terms of the agreement, ODC is required to make monthly payments of US\$508,500 per year, plus any other expenses incurred by us in the performance of the agreement, including a variable surcharge of between 5% and 12% on such expenses, plus any applicable taxes. The duration of this agreement is indefinite.

In March 2007, we entered into a services agreement to guarantee the protection and safety of the Cusiana-Coveñas and Vasconia-Coveñas pipeline systems. Under the terms of the agreement, ODC must pay us Ps\$51 million per year. This agreement expires in March 2011.

#### *Reficar*

In conjunction with our transfer of Reficar's assets in April 2007, we entered into a maintenance and administration agreement with Reficar, which we wholly own as of May 2009. Pursuant to the terms of the agreement, we provide them with maintenance and administration services and Reficar pays us a monthly fee equal to Ps\$2.9 billion and a variable annual fee that may not exceed Ps\$6.96 billion. This agreement expires in April 2011 and may be extended for additional one-year periods until Reficar's upgrade and modernization is completed.

Also, as part of the transfer, we extended a ten-month commercial offer to Reficar for the supply of crude oil. The commercial offer was renewed in January 2010 for an additional six-month period. Pursuant to the terms of the offer, Reficar has the option to purchase from us up to 85 thousand bpd of crude oil from our Caño Limón, Vasconia Blend, Ayacucho Blend, Cusiana and Castilla production. As we continue to operate Reficar, our operations committee evaluates and decides monthly the refinery's crude oil mix needs including the need for foreign crudes which we import from West Africa, the North Sea and the Caribbean. The purchase price for the delivered volumes is equal to an international benchmark index, subject to certain adjustments. At April 31, 2010, we had received aggregate payments of approximately Ps\$1.31 billion for the supplied amounts.



### *Oleoducto de los Llanos Orientales or ODL*

We entered into two ship-or-pay agreements with ODL, a company where we have a 65% equity interest.

The first agreement was entered into in March 2009 and establishes a financing tariff which will be used to pay ODL's indebtedness to the Grupo Aval for five years. This financing tariff is collected through a trust fund, which in turn is responsible for making the debt service payments to the Grupo Aval.

The second agreement was entered into in September 2009 and establishes a financing tariff which will be used to securitize ODL's indebtedness for seven years.

Under both of these contracts, ODL has committed itself to transport 30,000 barrels of oil a day during the first phase of the ODL project (which entered in operation in September 2009) and 60,000 barrels of oil a day upon commencement of the second phase of the ODL project, which is expected to occur in April 2010.

### *Other Agreements*

We entered into a supply agreement with Ecodiesel, a company in which we have a 50% equity interest. This agreement is not yet operative and will begin once the Ecodiesel plan starts with its activities. Pursuant to the terms of the agreement, Ecodiesel must deliver and we must purchase specific amounts of biodiesel each month. Payments vary depending on the purchased volumes of biodiesel. This agreement expires on December 31, 2017.

In April 2002, we entered into a service agreement with Sociedad Colombiana de Servicios Portuarios S.A., Serviport, a company in which we have a 49% equity interest. Pursuant to the terms of the agreement, Serviport assists us in our maritime operations in Coveñas port in exchange for which we pay Serviport approximately US\$155,000 per month. This agreement is renewable annually.

### **Transactions with other state-controlled entities**

We are a state-owned oil and gas company and operate in an industry regulated by the Governmental authorities, agencies and other organizations.

In the ordinary course of business we enter into transactions with other state-owned entities which include but are not limited to the following:

- sales and purchase of goods, properties and other assets;
- rendering and receiving services;
- lease of assets;
- depositing and borrowing money; and
- use of public utilities.

These transactions are conducted in the ordinary course of business on terms comparable to the terms of transactions with private parties. We have also established procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are state-owned entities or not.

### **Loans to our Directors and Executive Officers**

We extend loans to our employees as part of our compensation scheme, including our executive officers. We do not extend loans to our Directors. We grant loans for housing and computers. Housing loans to our executive officers are approved by a housing loans committee composed of the Human Resources and Strategy vice-presidents, and the Compensation manager. Executive officers may apply for housing loans after their third year in tenure. The principal amount of the loan depends on the applicant's tenure and cannot exceed 59 times the applicant's monthly salary. We do not guarantee any loans made by third parties to our executive officers or employees. At December 31, 2009 the total amount of outstanding loans granted to our executive officers was Ps\$896.8 million.

The following table sets forth a description of the loans outstanding to our executive officers at December 31, 2009.

<b>Executive Officer</b>	<b>Nature of the Loan and Date of Disbursement</b>	<b>Principal Amount of the Loan</b>	<b>Amount Outstanding at December 31, 2009</b>	<b>Largest Amount Outstanding during period</b>	<b>Termination Date</b>	<b>Applicable Interest Rate</b>
<b>Javier G. Gutiérrez</b>	Housing, June 2008	729	655.6	729	June 2028	UVR
<b>Adriana M. Echeverri</b>	Housing, June 2002	37.5	45.1	56.6	October, 2018	8%
<b>Pedro A. Rosales</b>	Housing, April 1997 and September 2003	279.2	196.1	247.5	September 2018	UVR

(Pesos in millions)

**7.C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. Financial Information**

**8.A. Consolidated Statements and Other Financial Information**

Our Annual Consolidated Financial Statements are filed as part of this annual report starting on page F-1.

**8.B. Significant Changes**

There have not been any significant changes since the date of our Annual Consolidated Financial Statements for the year ended December 31, 2009.

**ITEM 9. The Offer and Listing**

**9.A. Offer and Listing Details**

**American Depositary Receipts**

We entered into a deposit agreement with JPMorgan Chase Bank, N.A., as depositary, for the issuance of ADRs evidencing ADSs. Each of the ADSs will represent 20 of our common shares or evidence of the right to receive 20 of our common shares.

On September 12, 2008, we submitted to the Securities and Exchange Commission an application to register our company and to register and list our ADSs evidenced by ADRs on the New York Stock Exchange or NYSE. Our ADSs began trading on the NYSE under the symbol "EC" on September 18, 2008.

In addition, on December 4, 2009, our ADSs began trading on the Lima Stock Exchange under the symbol "EC".

**Common Shares**

In November 2007, we conducted an initial public offering of 10.1% of our common shares in Colombia. As a result of such offering, our common shares trade on the BVC under the symbol ECOPETROL.

## Price Information

The following table sets forth reported high and low closing prices in Pesos for our shares and the reported average daily trading volume of our shares on the BVC for the periods indicated. The table also sets forth information on the trading price of our shares in Pesos and U.S. dollars, as well as the average trading volume.

	Shares Traded on the BVC				
	Pesos per share		U.S. dollars per share <sup>(1)</sup>		Average number of shares traded per day
	High	Low	High	Low	
2007	2,080	1,400	1.0187	0.6701	19,706,337
2008	2,895	1,575	1.6638	0.7647	21,063,806
2009	2,815	1,990	1.4707	0.7833	10,245,002
Most recent quarters					
First quarter 2008	2,095	1,575	1.1543	0.8003	18,601,066
Second quarter 2008	2,895	2,095	1.6638	1.1417	25,198,314
Third quarter 2008	2,730	2,390	1.5557	1.1640	19,266,325
Fourth quarter 2008	2,600	1,825	1.1911	0.7647	21,214,848
First quarter 2009	2,150	1,990	0.9384	0.7833	10,121,571
Second quarter 2009	2,580	2,085	1.2363	0.8431	10,952,758
Third quarter 2009	2,815	2,505	1.4208	1.1856	12,083,692
Fourth quarter 2009	2,715	2,425	1.4707	1.1806	7,714,689
First quarter 2010	2,710	2,370	1.4313	1.1958	7,013,937
Second quarter 2010	2,790	2,630	1.4634	1.3035	6,314,608
Most recent six months					
January 2010	2,495	2,370	1.2544	1.1958	6,395,938
February 2010	2,600	2,405	1.3508	1.2042	7,179,267
March 2010	2,710	2,560	1.4313	1.3248	7,380,692
April 2010	2,785	2,680	1.4338	1.3799	7,269,191
May 2010	2,790	2,630	1.4304	1.3035	8,342,527
June 2010	2,775	2,685	1.4634	1.3658	3,424,285

(1) U.S. dollars per common share translated at the Representative Market Rate for each period.

The following table sets forth reported high and low closing prices in U.S. Dollars for our ADRs and the reported average daily trading volume of our ADRs on the NYSE for the periods indicated. The table also sets forth information on the trading price of our ADRs in U.S. dollars, as well as the average trading volume.

	ADRs Traded on NYSE		
	U.S. dollars per share <sup>(1)</sup>		Average number of shares traded per day
	High	Low	
2008	27.25	15.04	42,074
2009	29.99	15.31	48,289
Most recent quarters			
Third quarter 2008	27.25	23.52	120,235
Fourth quarter 2008	24.50	15.04	31,219
First quarter 2009	19.50	15.31	42,277
Second quarter 2009	24.89	17.24	47,985
Third quarter 2009	28.77	23.64	48,341
Fourth quarter 2009	29.99	23.96	54,960
First quarter 2010	28.73	23.60	64,272
Second quarter 2010	29.58	26.00	65,182

	ADRs Traded on NYSE		
	U.S. dollars per share <sup>(1)</sup>		Average number of shares traded per day
	High	Low	
Most recent six months			
January 2010	25.64	23.60	72,847
February 2010	27.09	23.95	61,590
March 2010	28.73	26.98	59,521
April 2010	28.78	27.26	50,697
May 2010	28.43	26.00	82,833
June 2010	29.58	26.85	62,818

(1) Each ADR represents the right to receive 20 of our common shares.

The following table sets forth reported high and low closing prices in U.S. Dollars for our ADRs and the reported average daily trading volume of our ADRs on the Lima Stock Exchange for the periods indicated. The table also sets forth information on the trading price of our ADRs in U.S. dollars, as well as the average trading volume.

	ADRs Traded on Lima Stock Exchange		
	U.S. dollars per share <sup>(1)</sup>		Average number of shares traded per day
	High	Low	
2009	25.5	25.0	578
Most recent quarters			
Fourth quarter 2009	25.5	25.0	578
First quarter 2010	28.3	23.8	302
Second quarter 2010	29.0	27.2	179
Most recent six months			
January 2010	25.5	23.8	525
February 2010	26.2	26.2	112
March 2010	28.3	28.0	175
April 2010	27.2	27.2	200
May 2010	27.4	27.4	50
June 2010	29.0	29.0	288

(1) Each ADR represents the right to receive 20 of our common shares.

#### 9.B. Plan of Distribution

Not applicable.

#### 9.C. Markets

##### *Bolsa de Valores de Colombia – BVC*

The BVC began operations in 2001 as a result of the merger of the Bogotá, Medellín and Occidental Stock Exchanges, the largest exchanges in Colombia. The BVC is the largest stock exchange in Colombia for trading securities and derivatives. The BVC has over 500 shareholders and is a member of the World Federation of Exchanges and the *Federación Iberoamericana de Bolsas*.

The BVC is the only exchange where our common shares trade in Colombia. The table below sets forth the reported aggregate market capitalization of the BVC, as of December 31, 2009.

	Aggregate Market Capitalization on BVC	
	Market Capitalization (Ps\$ in billions)	Market Capitalization (US\$ in billions) <sup>(1)</sup>
December 31, 2009	287,082	140.44

(1) Representative Market Rate at December 31, 2009.

There are three basic indexes that measure the BVC's performance. The principal and most important is the IGBC. The IGBC is calculated on the price variation of the stock of the companies with the highest capitalization and highest trading volumes.

Another index used to measure the performance of the BVC, is the COLCAP. The COLCAP includes the price variations of the 20 companies having the highest trading volumes in the BVC, where the adjusted market capitalization of each company determines its weighted value.

The COL20, an index measuring the performance of the BVC, was introduced in 2008. The COL20 measures the liquidity of the 20 stocks having the highest trading volumes in the BVC, which in turn determines their weight on the index.

#### *New York Stock Exchange*

Since September 18, 2008, our ADRs have been trading on the New York Stock Exchange as a result of our ADR listing. The average traded volume of our ADRs has increased since we began the program.

#### *Lima Stock Exchange*

Since December 4, 2009, our ADRs have been trading on the Lima Stock Exchange as a result of our ADR listing in that exchange.

#### *Transfer and Registration of Shares*

In general, the following transfers do not need to be effected through the BVC: transfers between shareholders having the same beneficial owner; transfers of shares owned by financial institutions that are in process of liquidation under the control and supervision of the Superintendency of Finance; repurchase of shares; transfers of shares made by the Nation; transfers of shares issued abroad by Colombian companies, provided they take place outside Colombia; transfers of shares issued abroad by foreign companies, provided they take place outside Colombia; and any other transaction authorized to be effected outside the BVC by the Superintendency of Finance.

Pursuant to Colombian law, purchases of 25% or more of the outstanding shares with voting rights (including ADSs) of a listed company, or the purchase of 5% or more of the outstanding shares with voting rights (including ADSs) by a shareholder or group shareholders beneficially owning 25% or more of the outstanding capital stock of a listed company, should be made pursuant to public tender offer rules.

Certain exemptions apply to tender offer rules including, transfers made through an auction on the BVC as a result of privatization procedures; transfers authorized in writing by 100% of the shareholders; repurchase of shares by the issuer in open market transactions; transfers by virtue of law including donations, liquidation processes, judicial decisions, among others. In any case, the Superintendency of Finance must be notified of any transfer that is deemed to be an *hecho relevante* or a significant event, under Colombian law.

Under Colombian law, shares may be traded either in physical form or electronic form. Transfers of shares are subject to a registry system which differs depending on whether the shares are evidenced by electronic form or physical form. Transfers of shares evidenced by electronic certificates must first be registered with *Depósito Centralizado de Valores* or DECEVAL through the relevant stockbroker. DECEVAL's main purpose is to receive, safekeep and manage share certificates issued by corporations in order to keep a record of the transactions undertaken over such securities, including but not limited to transfers, pledges and withdrawals. Accordingly, DECEVAL is not allowed to hold, invest or otherwise use the securities held under its custody.

Transfer of shares evidenced by electronic and physical certificates must be registered on the Issuer's stock ledger. Only those holders registered on the stock ledger are recognized by us and third parties as shareholders. Registration requires endorsement of the certificates or a written instruction from the holder. In the case of electronic certificates, DECEVAL notifies us regarding the transfer of shares after registering it in its system.

Transfer of shares do not give rise to any fee for us but they may be subject to certain taxes, stamp duties or other governmental charges which the shareholder may be required to pay.

**9.D. Selling Shareholders**

Not applicable.

**9.E. Expenses of the Issue**

Not applicable.

**ITEM 10. Additional Information**

**10.A. Share Capital**

Not applicable.

**10.B. Memorandum and Articles of Incorporation**

**Corporate Purpose**

Pursuant to Article 4 of our by-laws, we may engage in the exploration, production, refining, transportation, storage, distribution and commercialization of crude oil and its by-products in Colombia and abroad. Our by-laws also authorize us to perform activities for the exploration and production of crude oil in areas that prior to January 1, 2004 were operated by us directly or were subject to agreements subscribed by us; to directly or indirectly explore and produce crude oil in areas assigned to us by the ANH; to directly or indirectly explore and produce crude oil in areas assigned to us by a foreign regulatory entity; to buy, sell, import, export, store, blend, or distribute hydrocarbons and its by-products in Colombia or abroad; to undertake research for developing and commercializing alternative energy sources; and in general, to undertake any other activity instrumental or required to develop our corporate purpose. Our corporate purpose includes administering and managing all properties that were formerly part of the De Mares concession.

Additionally, pursuant to Article 5 of our by-laws, we may enter into all acts, contracts and legal business and activities which may be required for us to adequately fulfill our corporate purpose.

**Directors**

Our Board of Directors is composed of nine members and is responsible for, among other things, establishing our general business policies. The members of the Board of Directors are elected at the annual shareholders' meeting for one-year terms through an electoral quota voting system (number of votes required to fill each position is calculated by dividing the number of possible votes by the number of open board positions). Pursuant to our by-laws, the Board of Directors' positions are filled either by person or by position. Currently, we have three members appointed by their position: the Minister of Finance, the Minister of Mines and Energy and the Director of the National Planning Agency. Our Directors were elected on March 25, 2010. Our executive officers are appointed by our Board of Directors.

Pursuant to our by-laws, our Board of Directors has four (4) committees (Audit Committee, Corporate Governance Committee, Nomination and Compensation Committee and Business Committee), which establish guidelines, set specific actions and evaluate and submit proposals designed to improve performances in the areas under their supervision and control. These committees are comprised of members of the Board of Directors whom are appointed by the Board.

According to Colombian law, Directors must be elected in accordance with a proportional representation system similar to cumulative voting (through an electoral quota voting system). Directors may be removed without cause at any moment by a majority of the shareholders present at a general shareholders' meeting.

Under Colombian law, a director or executive officer must disclose any transaction involving a conflict of interest to the general shareholders' meeting. The general shareholders' meeting may approve or reject the transaction giving rise to the conflict with the vote of the majority of the shares present at the shareholders' meeting. If the director or executive officer with a conflict is a shareholder, his or her vote will be excluded.

The compensation of our Directors is set annually and exclusively by the general shareholders' meeting. Directors are compensated for attending board meetings and committee meetings. A Board meeting requires a quorum of at least five members and decisions are approved with a majority of the members present.

Neither our by-laws nor our code of corporate governance provide a minimum retirement age for our Directors. Under our by-laws there is no requirement for a person to have a minimum number of shares to be considered as a director. Colombian law provides that Directors willing to sell or purchase shares in our company require a prior authorization of the Board of Directors. Colombian law does not impose any limitation as to the number of shares that may be acquired by a director.

Colombian law prohibits Directors from receiving corporate loans.

In compliance with our corporate governance best practices, below is a summary of the number of our shares held by each respective Board Member as of December 31, 2009:

<b>Board Member</b>	<b>No. of Shares for period ending on December 31, 2009</b>
<b>Minister of Mines and Energy</b>	1,000
<b>Minister of Finance and Public Credit</b>	0
<b>National Director of Planning</b>	0
<b>Fabio Echeverri Correa</b>	0
<b>Ignacio Sanín Bernal</b>	0
<b>Maria E. Velasquez Restrepo</b>	0
<b>Joaquín Moreno Uribe</b>	50,000
<b>German Bernal Gutierrez</b>	0
<b>Mauricio Cárdenas Santamaria</b>	2,000

#### **Preference Rights and Restrictions Attaching to Our Shares**

We have only one class of stock without special rights or restrictions. Our shareholders do not have any type of preemptive rights.

Under Colombian law, our shareholders have the following economic privileges and voting rights:

- To participate and vote in the decisions of the general shareholders meeting;
- To receive dividends based on the financial performance of the Company in proportion to their share ownership;
- To transfer and sell shares according to our by-laws and Colombian law;
- To inspect corporate books and records 15 business days prior to the ordinary shareholders' meeting where the year-end financial statements are to be approved;
- Upon liquidation, to receive a proportional amount of the corporate assets after the payment of external liabilities; and

- To sell the shares, known as *derecho de retiro*, if a corporate restructuring affects the economic or voting rights of the shareholders in the terms and conditions established under Colombian law.

Our by-laws and corporate governance code provide additional rights to our minority shareholders. These rights include:

- *Sale of Assets.* For a ten-year period counted from the date of adoption of our by-laws or until the Nation loses its status as majority shareholder, the Nation guarantees that any sale of 15% or more of our assets requires the approval of the general shareholders' meeting and that the Nation would only be allowed to vote its shares in favor of the proposal if 2% or more of our minority shareholders accept the proposal.
- *Candidate List.* Pursuant to our by-laws and law 1118 of 2006, the Nation will include in its candidate list for election of members of the Board of Directors one member selected by the departments that produce hydrocarbons. In addition, pursuant to the declaration of the Nation dated July 26, 2007, the Nation will include in its candidate list for election of members of the Board of Directors one member selected by the ten largest minority shareholders. The minority shareholders' right to select a candidate loses its effect when minority shareholders, according to their share participation, name a member to our Board of Directors.
- *Extraordinary Meetings.* Our by-laws and corporate governance code provide that the entity exercising permanent control over Ecopetrol S.A. must instruct the Company's CEO or Statutory Auditor to call an extraordinary meeting of the Company's shareholders when so requested by a or plurality of shareholders holding at least 5% of the total number of shares outstanding. Such requests shall be made in writing and must clearly indicate the purpose of the meeting.
- *Office for the Attention of Shareholders.* We created an office for the attention of shareholders, our specialized unit responsible for receiving complaints from our shareholders. Pursuant to our by-laws, shareholders holding at least 5% of the total number of shares outstanding may request that the office for the attention of shareholders a special audit of the following documents: the income statement; the proposal for the distribution of profits; the report of the Board of Directors as to the economic and financial status of our company; the report from our general counsel as to the legal status of our company; and the report from the independent auditors. Special audits cannot be made of documents that contain scientific, technological or statistical information of our company, or agreement that gives us competitive and economic advantages over our competitors, or in respect of any document related to intellectual property. Shareholders also have the right to propose good corporate governance recommendations to the office for the protection of investors.
- *Others.* Pursuant to our by-laws, shareholders holding at least 5% of the total number of shares outstanding may propose recommendations to our Board of Directors pertaining to the management of our company. Any shareholder may file a written petition to our Board of Directors to investigate corporate governance violations that the shareholder believes to have been committed.

#### **Amendments to Rights and Restrictions to Shares**

The rights and restrictions given to our shareholders may only be modified through an amendment to our by-laws. The general shareholders' meeting has full and exclusive authority to modify or amend our by-laws.

#### **General Shareholders' Meeting**

Shareholders' meetings may be ordinary or extraordinary. Ordinary meetings will take place in our legal domicile located in Bogota, Colombia, within the first three months following the end of each fiscal year, on the day and at the time set forth in the notice for the general shareholders' meeting. The call for the general shareholders' meeting may be made electronically or by written communication sent to each shareholder. In both cases the call must be published in a newspaper of wide circulation 20 business days prior to the date on which the meeting will take place.



In the ordinary general shareholders' meeting, our Board of Directors and the external auditor are appointed and our annual financial statements, profit distribution, audit and management reports and any other matter provided under applicable law or our corporate by-laws are approved.

Extraordinary meetings of shareholders may be called by our Board of Directors, by our president or chief executive officer, by our external auditor, or by shareholders holding at least 5% of the shares outstanding. Calls to extraordinary meetings should be made at least eight days prior to the date of the meeting, and may be made electronically or by written communication to each shareholder or be published in a newspaper of wide circulation. The meeting notice must specify the agenda for the meeting.

The required quorum for both ordinary and extraordinary meetings is 50% plus one share entitled to vote and decisions are approved with a majority of the members present. This quorum is exempted in the case of "second-call meetings," which may take place when a meeting fails to obtain the required quorum and is called within a period between 10 business days and 30 business days from the first date, in which case decisions may be adopted by a majority of the shares present regardless of the number represented.

Unless Colombian law requires a super majority, decisions made at the shareholders' meeting must be approved by a majority of the shares present. Colombian law requires super majorities in the following cases:

- the vote of at least 70% of the shares present and entitled to vote at the ordinary shareholders' meeting is required to approve the issuance of stock not subject to preemptive rights;
- the vote of at least 78% of the shares represented entitled to vote is required to approve the distribution of less than 50% of the annual net profits. If the sum of all legal reserves (statutory, legal and optional) exceeds the amount of the outstanding capital, the Company must distribute at least 70% of the annual net profits;
- the vote of at least 80% of the shares represented is required to approve the payment of dividends in shares; and
- the vote of 100% of the outstanding and issued shares is required to replace a vacancy on the Board of Directors without applying the electoral quotient system.

Shareholders may be represented by proxies provided that the proxy: (i) is in writing (faxes and electronic documents are valid), (ii) specifies the name of the representative, (iii) specifies the date or time of the meeting for which the proxy is given and (iv) other specified by the applicable law. Proxies granted abroad do not require legalization or an apostille.

During our annual shareholders' meeting, our employees and Directors are only allowed to represent their own shares.

#### **Limitations to the Rights to Hold Securities**

There are no limitations in our by-laws or Colombian law on the rights of Colombian residents or foreign investors to own the shares of our company, or on the right to hold or exercise voting rights with respect to those shares.

#### **Restrictions on Change of Control Mergers, Acquisitions or Corporate Restructuring of the Company**

Under Colombian law and our by-laws, the general shareholders' meeting has full and exclusive authority to approve any corporate restructuring including, any mergers, acquisitions or spin-offs. Corporate restructurings are also subject to the requirement that the Nation must hold a minimum of 80% of our common stock at all times. While Law 1118 of 2006 is in effect, there cannot be any restructuring that results in a change of control of our company.

## Ownership Threshold Requiring Public Disclosure

Our corporate governance code provides that we must disclose periodically in our web page, the names of the shareholders of our company, indicating at least, the twenty shareholders with the highest number of shares. We must also disclose this information to the Superintendency of Finance at the end of each fiscal year.

Colombian securities regulations set forth the obligation to disclose any material event or *hecho relevante*. Any transfer of shares equal or greater than 5% of our capital stock or any person acquiring a percentage of shares that would make him the beneficial owner of 5% or more of our capital stock, is a material event, and therefore, must be disclosed to the Superintendency of Finance.

## Changes in the Capital of the Company

There are no conditions in our by-laws governing changes in our capital stock that are more stringent than those required under Colombian law, with the exception that the Nation must hold a minimum of 80% of our capital stock at all times.

### 10.C. Material Contracts

#### *Transportation Agreement between Ecopetrol and ECOGAS/TGI*

On October 6, 2006, we entered into a natural gas transportation agreement with Ecogás for the transportation of natural gas from the Ballena terminal located in the La Guajira fields to the Barrancabermeja terminal. The agreement is set to expire in November 30, 2012. Pursuant to the terms of the agreement, Ecogás will transport natural gas produced by us upon our request, up to the available capacity set forth in the agreement. According to the agreement, Ecogás should undertake two overhauling stages to expand the pipeline's capacity. After its first capacity expansion completed in June 2007 the pipeline's capacity was increased to 190,000 thousand cfpd expanding our transportation capacity to 134,066 thousand cfpd. Once Ecogás executes the second expansion to 262,000 thousand cfpd we will have transportation availability of up to 175,000 thousand cfpd.

In February 27, 2007, Ecogás transferred the rights and obligations under this agreement to Transportadora de Gas del Interior S.A. ESP, currently operating as Transportadora de Gas Internacional S.A. ESP or TGI.

Pursuant to the terms of the agreement, we pay TGI a regulated transportation tariff composed of a fixed fee, a variable fee depending on transported volumes and an administration, operation and maintenance fee. Payments for transported volume are made in Pesos. During 2009, we paid Ps\$132.578 billion for the transportation services provided to us by TGI and at March 31, 2010, we had paid TGI Ps\$21.883 billion.

Please see Exhibit 4.2 to this annual report for a full description of this agreement.

#### *Transportation Agreement between Ecopetrol and Ocesa*

On March 31, 1995 we entered into a crude oil transportation agreement with Ocesa. Pursuant to the terms of the agreement, Ocesa agreed to transport this pipeline our production of crude oil from the Cusiana and Cupiagua fields.

We are required to make monthly payments that vary depending on the volumes shipped through the Ocesa pipeline and a tariff calculated by Ocesa based on its financial projections and its expected transportation volume. Payments to Ocesa are made in cash in accordance with the agreement. In 2007, payments made by us to Ocesa under this agreement amounted to US\$245.7 million, to US\$276.5 million in 2008 and to US\$ 274.5 million in 2009.

This agreement expires in December 2093 or upon liquidation of Ocesa.

Please refer to Exhibit 4.1 to this annual report for a full description of this agreement.

## 10.D. Exchange Controls

Payments in foreign currency with respect to certain foreign exchange transactions including international investments between Colombian residents and non-Colombian residents must by law be conducted through the commercial exchange market. Therefore, any foreign currency income or expenses under the ADRs must be channeled through that market. Transactions conducted through the commercial exchange market are made at market rates freely negotiated with authorized intermediaries (banks, financial corporations and others).

Colombian law provides that the Colombian Central Bank may intervene in the foreign exchange market if the value of the Colombian Peso experiences significant volatility. Likewise the Colombian government introduces from time to time amendments to the International Investment Statute. For example, on May 23, 2007, the Colombian government introduced a new deposit requirement related to portfolio investments made by foreign investors. Decrees 1801 of 2007 and 1888 and 3264 of 2008 required foreign investors making portfolio investments in securities other than shares or mandatory convertible bonds to make a non-interest bearing deposit with the Colombian Central Bank for a term of six months from the date of such investment, for an amount equivalent to 40% of the value of investment converted at the representative market rate then in effect. Nevertheless, since June 29, 2007, when the Colombian government issued Decree 2466 of 2007 setting forth that portfolio investments made pursuant to ADR programs were exempt from the deposit requirement, ADRs were not affected by the requirement of Decree 1801 of 2007. As a result, neither Ecopetrol nor the purchasers of ADRs had to comply with the 40% deposit requirement. Furthermore, in 2008, pursuant to Decree 3913 of October 8, 2008, the Colombian government eliminated the 40% deposit requirement for all investors. See Item 3D — “Risk Factors — Risks relating to the ADRs”.

The Colombian Central Bank may also limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. Since the creation of the current foreign exchange regime in 1991, the Colombian Central Bank has never taken such action. However, we cannot assure you that the Colombian Central Bank will not intervene in the future. See Item 3D — “Risk Factors — Risks Relating to Colombia”.

### *Registration of foreign investment represented in underlying shares*

Colombia’s International Investment Statute, which has been amended from time to time through related decrees and regulations, regulates the manner in which non-Colombian resident entities and individuals can invest in Colombia and participate in the Colombian securities markets. Among other requirements, the statute mandates registration of certain foreign exchange transactions with the Colombian Central Bank and specifies procedures to authorize and administer certain types of foreign investments. Additionally, the pertinent information must be updated yearly.

Foreign investors who acquire ADRs are not required to register before Colombian authorities. Holders of ADRs who wish to withdraw the underlying shares will have to comply with certain registration and reporting procedures, among other requirements. Under these foreign investment regulations, the failure of a foreign investor to report or register with the Colombian Central Bank foreign exchange transactions relating to investments in Colombia on a timely basis may prevent the investor from obtaining remittance rights, constitute an exchange control infraction and result in a fine.

Holders of ADRs will benefit from the registration to be obtained by the custodian for our common shares underlying the ADRs in Colombia, which permits the custodian to convert dividends and other distributions with respect to the common shares into foreign currency and remit the proceeds abroad. If investors in ADRs choose to surrender their ADRs and withdraw common shares, they would have to register their investment in the common shares as a foreign direct investment, provided that the investor does not own a portfolio of investments in Colombia; or as a portfolio investment, in the event the investor delivers such shares to a registered foreign capital investment fund. Non-Colombian residents cannot directly hold portfolio investments in Colombia, but are able to do so through a registered foreign capital investment fund. Holders of ADRs that surrender their ADRs may also deliver the underlying common shares to a foreign investment capital fund authorized to operate in Colombia.

In obtaining its own foreign investment registration, an investor who surrendered its ADRs and withdrew common shares may incur expenses and/or suffer delays in the application process. Investors would only be allowed to transfer dividends abroad or transfer funds received as distributions relating to our common shares after their foreign investment registration procedure with the Colombian Central Bank has been completed. In addition, the depository's foreign investment registration may also be adversely affected by future legislative changes, but its rights to transfer abroad dividends or profits arising from distributions relating to our common shares must be maintained, according to Colombian law and foreign investment treaties entered into by Colombia, except when the Colombian international reserves fall below an amount equivalent to three months worth of imports.

## **10.E. Taxation**

### **Colombian Tax Considerations**

The following is a description of the Colombian tax considerations for investments in common shares in Colombia or for the purchase of ADSs in a foreign securities market. This description is based on the applicable law in effect as of the date of this annual report. Prospective purchasers of common shares or ADSs should consult their own tax advisors for a detailed analysis of the tax consequences resulting from the acquisition, ownership and disposition of common shares or ADSs.

#### ***General Considerations***

Income tax and complementary taxes are considered a single tax with two components: income and sporadic earnings. Taxes are accrued on a calendar basis.

Pursuant to the Colombian Tax Code, Colombian corporations and public entities are subject to Colombian taxes on income earned in Colombia and worldwide; while foreign entities are liable only for income earned in Colombia.

#### ***Tax Treatment of a Non-Resident of Colombia who Purchases an ADR in a Foreign Securities Market***

##### ***Dividends***

In general, dividends paid to foreign companies or other foreign entities, non-Colombian residents or successors of non-Colombian residents are subject to Colombian income tax.

To avoid double taxation, corporate and branch profits are taxed at the corporate or branch level. If the accounting earnings and profits of a Colombian corporation exceed the tax profits subject to income tax, the excess is subject to income tax at the shareholder level. If the shareholder is a non-resident, the applicable tax rate is 33%.

Therefore, provided all distributions, including the payment of dividends, are made by Ecopetrol to non-resident holders of ADRs through the Depository, such payments will be exempted from income, withholding and remittance tax in Colombia. This exception would not apply in the case of distributions paid out of non-taxed earnings made by Ecopetrol which would be subject to income tax at the 33% rate.

Dividends paid to foreign investment capital funds are subject to a 33% withholding income tax.

##### ***Taxation on Capital Gains for the sale of ADRs***

Under Colombian law, capital from the sale of ADRs is not subject to income tax in Colombia as they are considered foreign sourced income.

Similarly, capital gains earned by foreign capital investment funds arising from the purchase or sale of securities are not subject to income taxes in Colombia. The remittance of capital gains to the Depository is not subject to income tax in Colombia.

***Tax Treatment in Colombia of Non-Residents who Purchase Ecopetrol's shares in Colombia's securities market***

***Dividends***

Dividends paid to foreign companies, other foreign entities, non-Colombian residents or successors of non-Colombian residents are subject to Colombian income tax.

To avoid double taxation, corporate and branch profits are taxed at the corporate or branch level. If the accounting earnings and profits of a Colombian corporation exceed the tax profits subject to income tax, the excess is subject to income tax at the shareholder level. If the shareholder is a non-Colombian resident, the applicable tax rate is 33%.

Therefore, all distributions, including the payment of dividends, made by Ecopetrol to shareholders not resident in Colombia, will be exempted from income, withholding and remittance taxes. This exception would not apply in the case of distributions paid out of non-taxed earnings made by Ecopetrol which would be subject to the 33% income tax rate.

***Taxation on Capital Gains for the sale of shares***

Capital gains obtained in the sale of shares listed on the BVC and owned by the same beneficial owner, are not subject to income tax in Colombia, provided that the shares sold during the taxable year do not represent more than 10% of the outstanding shares of the listed company. However, a seller of shares must file an income tax return for each transaction involving a sale of shares within the month following the sale, even when such sale is not subject to any tax.

***Tax treatment by Non-Residents who purchase Ecopetrol's shares in the BVC market and exchange them for ADRs***

***Dividends***

Dividends paid to ADRs are not subject to income, withholding or remittance taxes. In the event Ecopetrol distributes dividends from such taxes, the dividends are paid to the Depository of ADRs. In any case, the Depository of ADRs is only subject to income tax or complementary taxes and non-taxed earnings. The dividend payments would be taxed at the 33% rate.

**Material U.S. Federal Income Tax Consequences**

The following discussion is a summary of the material U.S. federal income tax consequences of acquiring, holding and disposing of our common shares or ADSs. This discussion applies only to beneficial owners of common shares or ADSs that are "U.S. Holders," as defined below, that hold the common shares or ADSs as "capital assets" (generally, property held for investment). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the U.S. Internal Revenue Service, or IRS, and judicial decisions, all as currently in effect and all of which are subject to change (possibly on a retroactive basis) and to different interpretations.

This discussion is also based in part on the representations of the Depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

This discussion does not purport to address all U.S. federal income tax consequences that may be relevant to a particular U.S. Holder and you are urged to consult your own independent tax advisor regarding your specific tax situation. The discussion does not address the tax consequences that may be relevant to U.S. Holders in special tax situations, including, for example:

- insurance companies;
- tax-exempt organizations;

- broker-dealers;
- traders in securities that elect to mark to market;
- banks or other financial institutions;
- partnerships or other pass-through entities;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons that received our common stock or ADSs as compensation for the performance of services;
- U.S. expatriates;
- persons that hold our common shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction; or
- persons that own, directly, indirectly or constructively, 10% or more of the total combined voting power of our shares.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. See “—Passive Foreign Investment Companies.” Further, this discussion does not address U.S. federal estate and gift tax or the alternative minimum tax consequences of holding common shares or ADSs or the indirect consequences to holders of equity interests in partnerships (or any other entity treated as a partnership for U.S. federal income tax purposes) that own our common shares or ADSs. In addition, this discussion does not address the state, local and non-U.S. tax consequences of holding our common shares or ADSs.

You should consult your own tax advisor regarding the U.S. federal, state and local, as well as non-U.S., income and other tax consequences of purchasing, owning and disposing of our common shares or ADSs in your particular circumstances.

You are a “U.S. Holder” if you are a beneficial owner of common shares or ADSs and you are for U.S. federal income tax purposes:

- an individual, who is a citizen or resident of the United States;
- a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) if the trust has a valid election in effect under current U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds common shares or ADSs the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership considering the purchase of our common shares or ADSs should consult its own independent tax advisor regarding the U.S. federal income tax consequences of investing in our common shares or ADSs through a partnership.

For U.S. federal income tax purposes, if you are a holder of ADSs, you generally will be treated as the owner of our common stock represented by such ADSs.

### *Distributions on Common Shares or ADSs*

If you are a U.S. Holder, for U.S. federal income tax purposes, distributions made by us of cash or property with respect to common shares or ADSs generally will be treated as a dividend for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). A U.S. Holder of common shares or ADSs generally will be taxed on such dividend as ordinary income. Distributions in excess of our current or accumulated earnings and profits will be treated first as a tax-free return of capital reducing such U.S. Holder's adjusted tax basis in the common shares or ADSs. Any distribution in excess of such adjusted tax basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the common shares or ADSs for more than one year. Distributions of additional common shares or ADSs to U.S. Holders that are part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles, and, therefore, U.S. Holders should expect that any distributions generally will be reported as dividends for U.S. federal income tax purposes. As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions, to claim a U.S. foreign tax credit in respect of any Colombian income taxes withheld on dividends received on common shares or ADSs. U.S. Holders who do not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such Colombian income taxes provided the U.S. Holder elects to deduct (rather than credit) all foreign income taxes for that year. Dividends received with respect to the common shares or ADSs will be treated as foreign source income, subject to various classifications and other limitations. For the purposes of the U.S. foreign tax credit limitations, the dividends paid with respect to our common shares or ADSs should generally constitute "passive category income". The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of such ADSs. Accordingly, the analysis of the creditability of Colombian income taxes described above could be affected by future actions that may be taken by the U.S. Treasury Department. The rules relating to computing foreign tax credits or deducting foreign income taxes are extremely complex, and U.S. Holders are urged to consult their own independent tax advisors regarding the availability of foreign tax credits with respect to any Colombian income taxes withheld.

Dividends paid by us generally will not be eligible for the "dividends received deduction" available under the Code to certain U.S. corporate shareholders. Also, dividends paid by us generally are not expected to qualify for the preferential tax rates available to U.S. non-corporate shareholders for certain "qualified dividend income".

The amount of any cash distribution paid in Pesos will be included in your gross income in an amount equal to the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is actually or constructively received by the U.S. Holder, in the case of our common shares, or by the depositary, in the case of ADSs, regardless of whether the payment is in fact converted to U.S. dollars at that time. A U.S. Holder should not recognize any foreign currency gain or loss in respect of such distribution if such Pesos are converted into U.S. dollars on the date they are received by the U.S. Holder, in the case of our common shares, or by the depositary, in the case of ADSs. If the Pesos are not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Pesos. Such foreign currency gain or loss, if any, will be U.S. source ordinary income or loss. U.S. Holders should consult with their own independent tax advisors regarding the treatment of any foreign currency gain or loss if any Pesos received as a dividend are not converted into U.S. dollars on the date of receipt.

### *Sale, Exchange or Other Taxable Dispositions of Common Shares or ADSs*

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange or other taxable disposition of common shares or ADSs in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition of the common shares or ADSs and the U.S. Holder's adjusted tax basis in the common shares or ADSs. Any gain or loss will be long-term capital gain or loss if the common shares or ADSs have been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

If you are a U.S. Holder of common shares or ADSs, the initial tax basis of your common shares or ADSs will be the U.S. dollar value of the Peso-denominated purchase price determined on the date of purchase. If the common shares or ADSs are treated as traded on an “established securities market,” a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such common shares or ADSs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. If you convert U.S. dollars to Pesos and immediately use that currency to purchase common shares or ADSs, such conversion generally will not result in taxable gain or loss to you.

With respect to the sale or exchange of common shares or ADSs, the amount realized generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder. If the common shares or ADSs are treated as traded on an “established securities market,” a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

If a Colombian income tax is withheld or otherwise imposed on the sale, exchange or other taxable disposition of common shares or ADSs, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale or other disposition before deduction of the Colombian income tax. Capital gain or loss, if any, realized by a U.S. Holder on the sale, exchange or other taxable disposition of common shares or ADSs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a disposition of a common share or ADS that is subject to Colombian income tax imposed on the gain, the U.S. Holder may not be able to benefit from the foreign tax credit for the Colombian income tax (because the income or loss on the disposition would be U.S. sourced), unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Colombian income tax if it does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued during the taxable year.

Deposits and withdrawals of common shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

#### *Passive Foreign Investment Companies*

Special U.S. federal income tax rules apply to U.S. Holders owning shares in a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75% of its gross income is passive income; or
- at least 50% of the average value of its gross assets is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rent, gains from the disposition of passive assets and net gains from commodities transactions (other than gains from commodities transactions derived in the active conduct of a trade or business and not derived from a related person).

Based on current estimates of our income, assets and the nature of our business, we do not believe that we were classified for our most recently ended taxable year, or will be classified for our current taxable year, as a PFIC and we intend to continue our operations in such a manner that we do not expect that we would become a PFIC in the future. However, there can be no assurance in this regard, because the PFIC determination is made annually and is based on the portion of our assets (including goodwill) and income that is characterized as passive under the PFIC rules, and further because our business plans may be subject to change. If we are or become a PFIC, unless a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to its common shares or ADSs, as described below, any gain realized on a sale or other taxable disposition of our common shares or ADSs and certain “excess distributions” (generally distributions in excess of 125% of the average distribution over a three-year period or, if shorter, the holding period for our common shares or ADSs) will be treated as ordinary income and will be subject to tax as if (i) the excess distribution or gain had been realized ratably over the U.S. Holder’s holding period for our common shares or ADSs, (ii) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year, and (iii) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. Income allocated to the year of sale or excess distribution or any taxable period before we became a PFIC, would be subject to tax at the U.S. Holder’s regular ordinary income rate for the year of sale or excess distribution and would not be subject to the interest charge discussed above.



If we are treated as a PFIC, the rules above can be avoided by a U.S. Holder that makes a mark-to-market election. A U.S. Holder may make a mark-to-market election for our common shares or ADSs if our common shares or ADSs constitute “marketable stock” as defined in the Treasury Regulations. Our common shares and ADSs will be “marketable stock” if they are “regularly traded” on a “qualified exchange or other market.” We cannot provide any assurance that our common shares or ADSs are or will be considered “marketable stock” for this purpose. In particular, it is unclear whether the BVC would meet the requirements for a “qualified exchange or other market.” If a mark-to-market election were made, a U.S. Holder would take into account each year the appreciation or depreciation in value of its common shares or ADSs as if the common shares or ADSs were sold at fair market value at the end of the year. Such appreciation or depreciation generally would be treated as ordinary income or ordinary loss, as would gains or losses on actual dispositions of common shares or ADSs. A U.S. Holder will be entitled to deduct as an ordinary loss each year the excess of such holder’s adjusted tax basis in the common shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A mark-to-market election under the PFIC rules with respect to shares would not apply to a subsidiary PFIC, and a U.S. Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that subsidiary PFIC. Consequently, U.S. Holders of shares could be subject to the PFIC rules with respect to income of the subsidiary PFIC, the value of which already had been taken into account indirectly via mark-to-market adjustments.

Any U.S. Holder who owns common shares or ADSs during any year that we are a PFIC would be required to file IRS Form 8621. U.S. Holders should also be aware that recently enacted legislation may broaden the current IRS Form 8621 filing requirements or impose an additional annual filing requirement for U.S. persons owning shares of a PFIC. The legislation does not describe what information would be required to be included in either situation, but grants the Secretary of the U.S. Treasury Department power to make this determination. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to our common shares or ADSs and the application of the recently enacted legislation to their particular situation. U.S. Holders should also consult their own independent tax advisors regarding the availability and advisability of making a mark-to-market election should we be considered a PFIC for any taxable year.

#### *Backup Withholding and Information Reporting*

In general, dividends on common shares or ADSs, and payments of the proceeds of a sale, exchange or other taxable disposition of common shares or ADSs, paid within the United States, by a U.S. payor or through certain U.S.-related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding at a current rate of 28% unless the holder (i) establishes that it is a corporation or other exempt recipient or (ii) with respect to backup withholding, provides an accurate taxpayer identification number and certifies that it is a U.S. person and that no loss of exemption from backup withholding has occurred.

Backup withholding is not an additional tax. The amount of any backup withholding tax from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed its U.S. federal income tax liability by timely filing a refund claim with the IRS.

In addition, U.S. Holders should be aware that recently enacted legislation imposes new reporting requirements with respect to the holding of foreign financial assets, including stock of foreign issuers, if the aggregate value of all of such assets exceeds \$50,000. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our common shares or ADSs and the application of the recently enacted legislation to their particular situation.

## *Non-U.S. Holders*

The above discussion does not address the U.S. federal income tax consequences of acquiring, holding and disposing of our common shares or ADSs for holders of the common shares or ADSs that are not U.S. Holders. If you are such a non-U.S. holder, you should consult your own independent tax advisor regarding the U.S. federal income tax consequences, if any, of acquiring, owning and disposing of our common shares or ADSs in your particular circumstances.

### **10.F. Dividends and Paying Agents**

Not applicable.

### **10.G. Statement by Experts**

Not applicable.

### **10.H. Documents on Display**

We have filed this annual report on Form 20-F with the SEC under the Securities Exchange Act of 1934, as amended, with respect to our common stock. You may read and copy all or any portion of this annual report or other information in the SEC's public reference room at 100 F. Street, NE, Washington, D.C. 20549. You can also request copies of these documents upon payment of a duplicating fee, by writing the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC maintains a web site (<http://www.sec.gov>) that contains all of our filings with the SEC.

### **10.I. Subsidiary Information**

Not applicable.

## **ITEM 11. Quantitative and Qualitative Disclosures About Market Risk**

### **Risk Management and Financial Instruments**

We are subject to a number of risks. The most important risk we face is crude oil price volatility. Other exposures include currency and interest rate risk as we hold in our treasury investment portfolios a number of foreign currency-denominated instruments.

Oil price risk results from our day-to-day operations as we export and import crude oil and refined products.

Currently we manage our exposure to oil price variation risk using the cash flow at risk methodology. Our exposure tool prices fluctuations, which are measured based on the impact such price variations have on our cash flow. Specifically, we implemented CF@R or cash flow-at-risk methodology to determine the impact of oil price variations on our cash flow.

Currency risk is mainly an accounting risk as we have to report our financial statements in Pesos whereas 30% of our operations are denominated in U.S. dollars. We manage our currency risk by maintaining funds in U.S. dollars and in Pesos. We use our U.S. dollar funds to meet our U.S. dollar denominated expenses and liabilities and our Peso funds to meet our Peso denominated expenses.

Interest rate risk results from our exposure value of our floating-rate investments held in our investment portfolio. As interest rates vary, the value of our floating-rate investments held in our investment portfolio can experience fluctuations as a result of market movements.

With respect to interest rate risk, the effective duration of our fixed income portfolio in U.S. dollars vary between +/- 25% versus the portfolio's benchmark.

Since 2007 we have been using a financial model based on key rate durations to measure our portfolio's sensitivity to interest rate changes from each segment of the curve.

Through this model, risk managers try to recognize the fact that yield curve movements are caused by multiple market factors and do not depend on a curve equilibrium model. Also, the model allows us to calculate value at risk versus a previously defined benchmark.

Finally, at December 2009, we did not have any off-balance sheet debt. As a result of this, our exposure to passive interest rate is only marginal.

From time to time we enter into derivative contracts as we deem necessary to hedge our exposure to oil price, exchange rate and interest rate risks.

#### Investment Guidelines

Following Decree 648 of 2001, our management established investment guidelines for our investment portfolios. In general terms, our guidelines determine that we should invest our excess cash in fixed-income securities of issuers rated A+ or higher according to the rating issued by a recognized rating agency. We have no limitation to invest in securities issued or guaranteed by the U.S. government and we may invest in securities issued by OECD member countries so long as they are rated A+ or higher.

Our investment portfolio in U.S. dollars is segmented in four tranches, each one matching our liquidity needs. Working capital is calculated taking into account our cash flow needs for the next 60 days. The liquidity tranche is calculated as the contingent cash flow needs over the working capital taking into account the development of capital expenditure projects. The asset liability tranche is built to match our off-balance debt. Finally, the investment tranche is composed of the remaining resources from the total portfolio after deducting the above mentioned tranches.

#### Sensitivity Analysis

The following table provides information about our financial statements as of December 31, 2009 that may be sensitive to changes in WTI prices and exchange rates:

	<b>Income Statement 2009</b>	<b>Income Statement Case WTI<sup>(1)</sup> + US\$1</b>	<b>Differs Between Real 2009 and Case WTI</b>	<b>Income Statement Case TRM<sup>(2)</sup> - 1%</b>	<b>Differs Between Real 2009 and Case TRM</b>
			(Pesos in billions)		
Local Revenue	14,058.53	14,298.81	240.28	13,923.69	(134.84)
Export Revenue	16,345.86	16,539.75	193.89	16,219.73	(126.12)
<b>Total Revenue</b>	<b>30,404.39</b>	<b>30,838.56</b>	<b>434.17</b>	<b>30,143.43</b>	<b>(260.96)</b>
Cost of Sales	19,906.07	20,090.08	184.01	19,808.11	(97.97)
Selling Operating Expenses	1,962.64	1,962.51	-0.13	1,962.51	(0.13)
Administrative Operating Expenses	662.34	662.66	0.32	662.66	0.32
<b>Operating Profit</b>	<b>7,873.34</b>	<b>8,123.32</b>	<b>249.98</b>	<b>7,710.15</b>	<b>(163.19)</b>
Non-Operating Income (Expenses)	(622.50)	(622.37)	0.13	(622.37)	0.13
<b>Profit before Income Tax</b>	<b>7,250.84</b>	<b>7,500.95</b>	<b>250.11</b>	<b>7,087.79</b>	<b>(163.06)</b>
Income Tax	2,118.79	2,186.20	67.41	2,074.57	(44.22)
<b>Net Income</b>	<b>5,132.05</b>	<b>5,314.75</b>	<b>182.70</b>	<b>5,013.22</b>	<b>(118.83)</b>

WTI= West Texas Intermediate.

(1) Average WTI for 2009 was US\$61.80 for barrel.

(2) Average Market Representative Rate for 2009 was \$2,153.30 per US\$1 on a calendar day basis

**Assumptions for the sensitivity analysis of Financial Statements**

- The base scenario on which our sensitivity analysis is made corresponds to the Consolidated Statements of Financial, Economic and Social Activity or Income Statement for 2009 as presented elsewhere in this annual report.
- The sensitivity of the WTI price index is the increase of one dollar per barrel of crude oil in the average WTI reference price based on a 365-day year for 2009. Prices assumed correspond to real prices for crude oil, natural gas and refined products for 2009, adjusted to account for the differences between such real prices and the WTI reference price.
- The sensitivity of our results to changes in the exchange rates is the decrease by 1% on the average exchange rate for 2009 on a calendar day basis. Prices assumed correspond to real prices of crude oil, natural gas and refined products in 2009, proportionally adjusted to account for differences between such real prices and the monthly average exchange rate.

The table below sets forth the line items that are being affected by the variation on the reference prices or the average exchange rate.

<u>VARIATION ON WTI REFERENCE PRICE</u>	<u>OPERATING INCOME</u>	<u>VARIATION ON AVERAGE EXCHANGE RATE</u>
<b>Local Sales</b>	<b>Local Sales</b>	<b>Local Sales</b>
Crude Oil	Crude Oil	Crude Oil
Refined products	Refined products	Refined products
Natural gas	Natural gas	Natural gas
<b>Exports</b>	<b>Exports</b>	<b>Exports</b>
Crude Oil	Crude Oil	Crude Oil
Refined products	Refined products	Refined products
Natural gas	Natural gas	Natural gas
<b>Local purchases</b>	<b>COST OF SALES</b>	<b>Local purchases</b>
Purchases from business partners		Purchases from business partners
Purchases of hydrocarbons from the ANH		Purchases of hydrocarbons from the ANH
Purchases of Natural gas		Purchases of Natural gas
<b>Imports</b>	<b>Imports</b>	<b>Imports</b>
Crude Oil	Crude Oil	Crude Oil
Products	Products	Products
	<b>NON-OPERATING INCOME</b>	
	Exchange income	
	Exchange loss	

**ITEM 12. Description of Securities Other than Equity Securities****12.A. Debt Securities**

Not applicable.

**12.B. Warrants and Rights**

Not applicable.

**12.C. Other Securities**

Not applicable.

## 12.D. American Depositary Shares

### *Fees and charges that a holder of our ADSs may have to pay, either directly or indirectly*

Our Depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, the case may be. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The Depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for Depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to US\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of US\$0.05 per ADS per calendar year (or portion thereof) for services performed by the Depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the Depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- any other charge payable by any of the Depositary, any of the Depositary's agents, including, without limitation, the custodian, or the agents of the Depositary's agents in connection with the servicing of our shares or other deposited securities (which charge shall be assessed against registered holders of our ADRs as of the record date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such registered holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

- expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars; and
- such fees and expenses as are incurred by the Depositary (including, without limitation, expenses incurred in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary's or its custodian's compliance with applicable laws, rules or regulations.

We will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the custodian) pursuant to agreements from time to time between us and the Depositary. The fees described above may be amended from time to time.

***Fees and other direct and indirect payments made by the Depositary to us***

Our Depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. In 2009, the Depositary made direct payments and reimbursements to us in the amount of US\$3,143.38 for expenses related to investor relations expenses.

**ITEM 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**ITEM 15. Controls and Procedures**

**Disclosure controls and procedures**

As required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, we evaluated the design and effectiveness of our financial disclosure controls and procedures as of December 31, 2009, under the supervision and participation of our management, including our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even if effective, disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed in the reports that we file and submit under the Securities Exchange Act of 1934 is recorded, summarized and reported as and when required.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934.

Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer, and affected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles, and it includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, any evaluation of the effectiveness of the internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of the year ended December 31, 2009, our management conducted an assessment of the effectiveness of our internal control over financial reporting in accordance with the criteria established in the publication “Internal Control – Integrated Framework”, issued by the Treadway Commission’s Committee of Sponsoring Organizations (COSO).

Based on the assessment performed, our management has identified a material weakness in our process relating to the preparation and analysis of the differences existing between Colombian Government Entity GAAP and U.S. generally accepted accounting principles (US GAAP). A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual financial statements would not be prevented or detected on a timely basis.

The material weakness is the result of the aggregation of control deficiencies due to our lack of sufficient accounting personnel competent in the application of US GAAP to ensure:

(1) appropriate interpretation of US GAAP to determine the differences existing in terms of non-recurring transactions such as business combinations, including the measurement and financial statement presentation of goodwill, non-controlling (minority) interest, additional paid in capital, contingent considerations and deferred income tax; and timely review of adjustments to fair value on the acquisition date for validity and accuracy;

(2) appropriate interpretation of US GAAP to estimate the differences existing in terms of recurring transactions including changes in the lives of fixed assets; analysis of conditions used to estimate contingent liabilities; and the completeness and accuracy of (i) the basis, both for income tax and financial reporting purposes, used to compute the deferred income tax over consolidated assets and liabilities, and (ii) journal entries to record the differences;

(3) that entries relating to US GAAP differences and financial statements reconciled to US GAAP were analyzed, reviewed and monitored on a timely basis to provide reasonable assurance of their validity, accuracy and completeness.

This situation has resulted in a number of adjustments to our U.S. GAAP differences which were identified by our Independent Auditor during their review of our consolidated financial statements reconciled to US GAAP included in this annual report. These control deficiencies could result in a misstatement of the differences existing between Colombian Government Entity GAAP and U.S. GAAP that would not be prevented or detected on a timely basis. Accordingly, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2009.

In response to the results of this evaluation, our management will undertake the following changes to remediate this material weakness:

- perform an assessment of our closing and reporting process to identify areas where our process controls and efficiency can be improved. These improvements will allow for more comprehensive review of our preparation and analysis of the differences existing between Colombian Government Entity GAAP and U.S. GAAP; and

- improve the accounting skills and U.S. GAAP expertise of our accounting group through training, hiring of experienced personnel and the support of U.S. GAAP experts.

As discussed in the Item 5 — “Recent Acquisitions”, from March to May 2009, we acquired complete ownership of Refineria de Cartagena S.A. and Hocol Petroleum Limited (the “Acquired Companies”). For purposes of evaluating internal controls over financial reporting, our management determined that the internal controls of the Acquired Companies would be excluded from their internal control assessment as of December 31, 2009, due to the timing of the closing of these acquisitions. For the year ended December 31, 2009, under Colombian Government Entity GAAP, Refineria de Cartagena S.A. and Hocol Petroleum Limited contributed approximately 5% and 3% of total assets, respectively, and 13% and 6% of total revenues, respectively.

The effectiveness of our internal control over financial reporting has been audited by PricewaterhouseCoopers Ltda., an independent registered public accounting firm, as stated in their audit report accompanying our consolidated financial statements, which expresses an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2009.

#### **Attestation Report of the Registered Public Accounting Firm**

PricewaterhouseCoopers Ltda.’s attestation report on our internal control over financial reporting is included in their audit report accompanying our consolidated financial statements. See Item 18 — “Financial Statements”.

#### **Changes in Internal Control over Financial Reporting**

There were no changes made in our internal control over financial reporting during the year ended December 31, 2009 that have materially affected or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

#### **ITEM 16. [Reserved]**

##### **16.A. Audit Committee Financial Expert**

On April 19, 2010, our Board of Directors determined that Mauricio Cardenas, a member of our Audit Committee, meets the requirements of an “audit committee financial expert” as defined by the Securities and Exchange Commission.

##### **16.B. Code of Ethics**

We currently have a code of ethics which complies with the requirements of U.S. and Colombian law. Our Code of Ethics is available on our website at [http://www.ecopetrol.com.co/english/documentos/42238\\_CARTILLA\\_CODIGO\\_DE\\_ETICA-12-03-09.pdf](http://www.ecopetrol.com.co/english/documentos/42238_CARTILLA_CODIGO_DE_ETICA-12-03-09.pdf).

##### **16.C. Principal Accountant Fees and Services**

###### ***Principal Accountant Fees***

Our consolidated financial statements for fiscal years ended December 31, 2009 and 2008 were audited by PricewaterhouseCoopers Ltda. (“PwC”) and our consolidated financial statements for fiscal years ended December 31, 2007 were audited by Ernst & Young Audit Ltda (“E&Y”). The following table sets forth the fees billed to us by PwC, during fiscal years ended December 31, 2009 and 2008, and E&Y, during fiscal year ended December 31, 2007:



	<b>At December 31,</b>		
	<u>2009 (PwC)</u>	<u>2008 (PwC)</u>	<u>2007 (E&amp;Y)</u>
	(in millions of pesos, excluding 16% value added tax)		
Audit fees	4,435	2,117	3,465
Audit – related fees	1,306	168	0
<b>Total</b>	<b>5,741</b>	<b>2,285</b>	<b>3,465</b>

#### *Audit Fees*

The audit fees listed in the table above are the aggregated fees billed by PricewaterhouseCoopers Ltda. and Ernst & Young Audit Ltda. in connection with their audits of our annual consolidated financial statements (under Colombian GAAP and U.S. GAAP), interim consolidated financial statements (under Colombian GAAP), subsidiary audits (under local GAAP) and review of periodic documents filed with the SEC. In addition, these audit fees include fees related to our independent auditors' audits of our internal controls over financial reporting.

#### *Audited – Related Fees*

The audit–related fees listed in the table above are the fees billed by PricewaterhouseCoopers Ltda. in connection with their audit of (i) our variable compensation bonus system, (ii) their review in connection with SEC filings and debt offerings and (iii) their evaluation of the risks and controls of our technical information service suppliers under SAS70.

#### **Audit Committee Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to us.

#### **16.D. Exemptions from the Listing Standards for Audit Committee**

Not applicable.

#### **16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

#### **16.F. Change in Registrant's Certifying Accountant**

Not Applicable.

#### **16.G. Corporate Governance**

On November 4, 2003, the NYSE established new corporate governance standards ("NYSE standards") that are applicable to NYSE-listed companies, including non-U.S. issuers. These standards were then amended on November 3, 2004. Under these standards, non-U.S. issuers are permitted, in general, to follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements (the "NYSE Sections") codified in Section 303A of the NYSE's Listed Company Manual. Non-U.S. issuers must comply with NYSE Sections 303A.06, 303A.11 and 303A.12(b) and (c). Section 303A.11 requires that non-U.S. issuers disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies in accordance with the NYSE Sections.

Pursuant to the requirements of Section 303A.11 of the NYSE's Listed Company Manual, the following is a summary of the significant differences between our corporate governance standards and those required of U.S. companies in accordance with the NYSE Sections:

#### **NYSE Section 303A.01**

Requirement: Listed companies must have a majority of independent directors on their board of directors.

Colombian Requirement: Law No. 964/2005 establishes that (i) listed companies must be comprised of a minimum of five directors and a maximum of 10 directors and (ii) at least 25% of board members must be independent. Under our corporate governance guidelines, our board of directors must be comprised of nine directors, of which at least three must be independent. As of the date of this annual report, we have six independent directors.

#### **NYSE Section 303A.02**

Requirement: Establishes general standards to evaluate directors' independence (no director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company; directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), and emphasizes that the concern is independence from management. The board of directors is also required to express an opinion with regard to the independence or lack of independence of each individual director.

Colombian Requirement: Law No. 964/2005 sets forth the requirements under which a board member is considered independent. Law No. 964/2005 is primarily concerned with independence from management and that no material related-party relationship exists between the director and the Company. In accordance with Law No. 964/2005, our corporate governance guidelines establish the minimum independence requirements for our directors, requiring them to maintain their independent status while holding such position. Our corporate governance code also establishes that Directors will declare in writing their independent status. Once a director becomes non-independent, he or she must tender their resignation.

#### **NYSE Section 303A.03**

Requirement: The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Colombian Requirement: A comparable rule does not exist under Colombian law. Except for our Audit Committee, our Board of Directors does not meet without management.

#### **NYSE Section 303A.04**

Requirement: Listed companies must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties.

Colombian Requirement: Colombian law does not require the establishment of a nominating/corporate governance committee composed entirely of independent directors. Pursuant to our by-laws, we have a three-member corporate governance committee comprised of at least one independent director which acts pursuant to a written charter that covers specific duties.

#### **NYSE Section 303A.05**

Requirement: Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties.

Colombian Requirement: Colombian law does not require the establishment of a compensation committee composed entirely of independent directors. Pursuant to our by-laws, we have a three-member nomination and compensation committee comprised of at least one independent director which acts pursuant to a written charter that covers specific duties.

#### **NYSE Section 303A.06**

**Requirement:** Listed companies must have an “audit committee” that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934. Foreign private issuers must satisfy the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 by July 31, 2005.

**Colombian Requirement:** According to Law No. 964/2005, Colombian companies that are authorized to issue securities by the Superintendency of Finance must have an audit committee that satisfies the requirements of Law No. 964/2005, including its minimum number of members, independence criteria and audit-related duties. Our audit committee is composed by Mauricio Cardenas, María Velasquez, Joaquín Moreno and Ignacio Sanín, all of whom are independent directors, and the committee meets the requirements of Law No. 964/2005 and Rule 10A-3 under the Securities Exchange Act of 1934.

#### **NYSE Section 303A.07(a)**

**Requirement:** An audit committee shall consist of at least three members. All of its members must satisfy the requirements for independence set out in Section 303A.02 and shall be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration.

**Colombian Requirement:** Colombian law requires that a company’s audit committee be comprised of at least three members who must all be independent and have adequate experience in accounting or financial administration in order to adequately carry out the functions of an audit committee member. All three of our audit committee members are independent and financially literate. In addition, Mauricio Cardenas, a member of our audit committee, meets the requirements of an “audit committee financial expert” as defined by the SEC.

#### **NYSE Section 303A.07(b).**

**Requirement:** If a member of the audit committee is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then, in each case the board of directors shall determine whether the simultaneous service would prevent such members from effectively serving on the listed company’s audit committee, and shall disclose its decision in the annual proxy statement of the Company or in the Company’s annual report on Form 10-K, which is filed with the SEC.

**Colombian Requirement:** A comparable rule does not exist under Colombian law nor our corporate governance guidelines. However, under our by-laws, a member of our board of directors cannot sit on the board of more than five companies.

#### **NYSE Section 303A.07(c)**

**Requirement:** An audit committee shall have a written charter establishing the duties and responsibilities of its members, including the duties and responsibilities required, at a minimum, by Rule 10A-3(b)(2-5) of the Securities Exchange Act of 1934.

**Colombian Requirement:** Law No. 964/2005 establishes the functions and responsibilities of an audit committee, which are substantially similar to those required under Rule 10A-3 of the Securities Exchange Act of 1934. Our audit committee acts pursuant to a written charter which establishes the specific duties and responsibilities of our audit committee members. These duties and responsibilities are essentially the same as those required under Rule 10A-3 of the Securities Exchange Act of 1934.

#### **NYSE Section 303A.07(c)(iii)(A)**

**Requirement:** Provides that the audit committee must, at least annually, obtain and review report by the independent auditor describing: the firm’s internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and all relationships between the independent auditor and the Company.

**Colombian Requirement:** Decree No. 410/1971 and Law No. 222/1995 regulate the contents of the reports prepared by the independent auditors and compliance with the recommendations set forth therein. Pursuant to our by-laws, our audit committee must review our independent auditor's reports, including its assessment of our internal control over financial reporting.

**NYSE Section 303A.07(c)(iii)(B-C)**

**Requirement:** Provides that the audit committee shall: meet to review and discuss the Company's annual audited consolidated financial statements and quarterly financial statements with management and the independent auditor, including reviewing the Company's specific disclosures under "Operating and Financial Review and Prospects," and discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

**Colombian Requirement:** Pursuant to Law No. 964/2005, the audit committee is responsible for reviewing the Company's annual audited financial statements and quarterly financial statements. Our audit committee reviews our annual audited consolidated and unconsolidated financial statements and quarterly financial statements as well as our public disclosures about the Company's financial information.

**NYSE Section 303A.07(c)(iii)(D-H)**

**Requirement:** Provides that the audit committee shall: discuss policies with respect to risk assessment and risk management; meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors; review with the independent auditor any audit problems or difficulties and management's response; set clear policies for hiring external auditors' employees; and report regularly to the board of directors.

**Colombian Requirement:** Law No. 964/2005 requires the audit committee to supervise a company's risk assessment and internal quality-control program. Our audit committee supervises our risk assessment and internal quality-control program and makes recommendations related to such program, presents any quality-control risk to the Company's shareholders and reports regularly to our board of directors. The written charter of the audit committee establishes that the committee members can meet separately with the Company's external and internal auditors.

**NYSE Section 303A.07(d)**

**Requirement:** Provides that each company must have an internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and system of internal control.

**Colombian Requirement:** Law No. 87/1993 requires state-owned companies to have an internal audit function in order to provide ongoing assessments of the Company's risk management processes and system of internal control. Since becoming a mixed economy company on November 13, 2007, Law No. 87/1993 no longer applies to us. However, we do have an internal audit department that provides ongoing assessments about our risk management processes and system of internal control. Our internal audit department follows the standards set forth by the Committee of Sponsoring Organizations (COSO).

**NYSE Section 303A.08**

**Requirement:** Shareholders must be given the opportunity to vote on equity compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE standards.

**Colombian Requirement:** No similar opportunity to vote on equity compensation plans and material revisions thereto is given to shareholders under Colombian law. We do not give our shareholders the right to vote on equity compensation plans and material revisions thereto.

**NYSE Section 303A.09**

Requirement: Listed companies must adopt and disclose corporate governance guidelines.

Colombian Requirement: The Superintendency of Finance does recommend the adoption of corporate governance guidelines. However, according to Superintendency of Finance Circular No. 056/2007, the adoption of corporate governance guidelines is voluntary. Nevertheless, listed companies must annually publish a corporate governance survey comparing their corporate governance standards with those recommended by the Superintendency of Finance. Our corporate governance guidelines are listed on our website at <http://www.ecopetrol.com.co>.

**NYSE Section 303A.10**

Requirement: Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

Colombian Requirement: Colombian law requires that companies adopt a code of ethics for directors, officers and employees. We have adopted a code of ethics which applies to our directors, officers and employees. Our code of ethics can be found on our website at [http://www.ecopetrol.com.co/english/documentos/42238\\_CARTILLA\\_CODIGO\\_DE\\_ETICA-12-03-09.pdf](http://www.ecopetrol.com.co/english/documentos/42238_CARTILLA_CODIGO_DE_ETICA-12-03-09.pdf).

**NYSE Section 303A.12(a)**

Requirement: The CEO must certify to the NYSE each year that he or she is not aware of any violation by the Company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.

Colombian Requirement: No such requirement exists under Colombian law.

**NYSE Section 303A.12(b)**

Requirement: The CEO shall notify the NYSE in writing whenever any executive officer of the Company becomes aware of any material noncompliance with of any applicable provision of NYSE Section 303A.

Colombian Requirement: No such requirement exists under Colombian law.

**NYSE Section 303A.12(c)**

Requirement: Listed companies must submit an executed Written Affirmation annually to the NYSE. In addition, listed companies must submit an interim Written Affirmation each time a change occurs to the board or any of the committees subject to Section 303A.

Colombian Requirement: As a local issuer, we must report any change in our Board of Directors or in our committees as relevant information.

**ITEM 17. Financial Statements**

Not applicable.

**ITEM 18. Financial Statements**

See page F-1 through F-109.

**ITEM 19. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
1.1	By-laws of Ecopetrol S.A. dated November 6, 2007 as recorded under Public Deed No. 5314 of November 14, 2007 (incorporated by reference to Exhibit 1.1 on Form 20-F filed with the U.S. Securities and Exchange Commission on September 12, 2008 (File No. 001-34175)).
4.1	Transportation Agreement between Ecopetrol S.A. and Ocesa S.A., dated March 31, 1995 (incorporated by reference to Exhibit 4.1 on Form 20-F filed with the U.S. Securities and Exchange Commission on September 12, 2008 (File No. 001-34175)).
4.2	Natural Gas Transportation Agreement between Ecopetrol S.A. and Empresa Colombiana de Gas-Ecogás, dated October 6, 2006 (incorporated by reference to Exhibit 4.2 on Form 20-F filed with the U.S. Securities and Exchange Commission on September 12, 2008 (File No. 001-34175)).
4.3	Indenture, dated as of July 23, 2009, between the Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Form F-4 filed with the U.S. Securities and Exchange Commission on July 31, 2009 (File No. 333-160965)).
8.1	Subsidiaries of Ecopetrol S.A.
12.1	Section 302 Certification of the Chief Executive Officer.
12.2	Section 302 Certification of the Chief Financial Officer.
13.1	Section 906 Certification of the Chief Executive Officer.
13.2	Section 906 Certification of the Chief Financial Officer.
23.1	Consent of Ernst & Young Audit Ltda.
23.2	Consent of PricewaterhouseCoopers Ltda.
23.3	Consent of Ryder Scott.
23.4	Consent of Gaffney, Cline & Associates.
23.5	Consent of DeGolyer and MacNaughton.
99.1	Third Party Reserve Report of Ryder Scott.
99.2	Third Party Reserve Report of Gaffney, Cline & Associates.
99.3	Third Party Reserve Report of DeGolyer and MacNaughton.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**ECOPETROL S.A.**

By: /s/ Adriana M. Echeverri  
Name: Adriana M. Echeverri  
Title: Chief Financial Officer

By: /s/ Javier G. Gutiérrez  
Name: Javier G. Gutiérrez  
Title: Chief Executive Officer

Date: July 14, 2010

**ANNEX I**  
**DESCRIPTION OF EXPLORATION AND PRODUCTION CONTRACTS**

Region	Contract Name	Type of Agreement	Purpose	Operator	Partners	Ownership Percentage	Term of Contract	Expiration Date	Right of Reversion upon Termination	Royalty
Southern	Abanico	Joint Venture	E&P	Kappa Resources Colombia Limited	Kappa Resources Colombia Limited	50%	28 years	October 11, 2024	Yes	5% to 25%
Minor Fields Southern	Alcaravan Ambrosia	Joint Venture	E&P	Harken de Colombia Ltd.	Harken de Colombia Ltd.	50%	28 years	February 13, 2021	No	20%
Minor Fields Southern	Arjona Armero	Joint Venture	E&P	Interoil	Interoil	30%	25 years	December 27, 2027	Yes	8% to 25%
Minor Fields Southern		Discovered Undeveloped Field	E&P- Discovered and Undeveloped Field	Vetra- NCT Consortium	Vetra- NCT Consortium	35%	10 years	March 9, 2017	Yes	8% to 25%
Minor Fields Southern		Undeveloped Field	E&P	Interoil	Interoil	50%	28 years	December 31, 2010	Yes	20%
Minor Fields	Barranca Lebrija	Joint Venture-Sole Risk	Develop Field	Union Temporal Mocam	Union Temporal Mocam	8%	10 years	December 31, 2013	Yes	20%
Minor Fields	Bocachico	Joint Venture-Sole Risk	E&P	Harken de Colombia Ltd.	Harken de Colombia Ltd.	0%	28 years	March 7, 2022	Yes	20%
Minor Fields Southern	Bolivar Boqueron	Joint Venture	E&P	Harken de Colombia Ltd.	Harken de Colombia Ltd - Harken Energy Corporation	0%	28 years	June 12, 2024	Yes	20%
Minor Fields Southern	Caguán	Joint Venture	E&P	Petrobras	Petrobras/Nexen	50%	28 years	October 2, 2023	Yes	5% to 25%
Minor Fields	Camao	Discovered Undeveloped Field	E&P- Discovered and Undeveloped Field	Drilling and Workover Services Ltda.	Drilling and Workover Services Ltda.	50%	28 years	December 31, 2011	Yes	20%
Minor Fields		Undeveloped Field		Drilling and Workover Services Ltda.	Drilling and Workover Services Ltda.	20%	10 years	December 28, 2013	Yes	6% to 25%
Catatumbo-Orinoquia	Campo Rico	Joint Venture	E&P	Emerald Energy PLC Sucursal Colombia	Emerald Energy PLC Sucursal Colombia	50%	25 years	May 24, 2027	Yes	8% to 25%
Minor Fields Central	Capachos	Joint Venture	E&P	Repsol YPF	Repsol YPF	50%	28 years	September 15, 2025	Yes	5% to 8%
Mid – Magdalena Valley	Carare las Monas	Joint Venture	E&P	CEPCOLSA	CEPCOLSA	30%	28 years	April 9, 2029	Yes	8% to 25%
Minor Fields		Discovered Undeveloped Field	Production E&P- Discovered and Undeveloped Field	Petrosantander	Petrosantander	30%	Until economic limit	Until economic limit	Yes	20%
Minor Fields	Carbonera la Silla	Joint Venture	E&P	Mompos Oil Company Inc.	Mompos Oil Company Inc.	6%	10 years	October 25, 2014	Yes	20%
Catatumbo-Orinoquia	Casanare	Joint Venture	E&P	Perenco	Perenco - Hocol and Homcol	64%	Until economic limit	Until economic limit	No	20%
Minor Fields	Cerrito	Joint Venture	E&P	Kappa Resources Colombia Limited	Kappa Resources Colombia Limited	0%	27.5 years	August 17, 2029	Yes	20%
Minor Fields		Discovered Undeveloped Field	E&P	Vetra Exploracion y Produccion Colombia	Vetra Exploracion y Produccion Colombia	50%	28 years	October 4, 2012	Yes	8% to 25%
Minor Fields	Chaparral	Joint Venture	E&P	Vetra Exploracion y Produccion Colombia	Vetra Exploracion y Produccion Colombia	70%	10 years	December 28, 2013	Yes	8% to 25%
Minor Fields	Chenche	Discovered Undeveloped Field	E&P	Kappa Resources Colombia Limited	Kappa Resources Colombia Limited	0%	28 years	February 27, 2026	Yes	8% to 25%
Minor Fields	Chipalo	Joint Venture-Sole Risk	E&P	Kappa Resources Colombia Limited	Kappa Resources Colombia Limited	0%	28 years	February 27, 2026	Yes	8% to 25%
Catatumbo-Orinoquia	Chipiron	Joint Venture	E&P	Occidental de Colombia Inc.	Occidental de Colombia Inc. and Occidental Andina	30%	25 years	February 13, 2028	Yes	8% to 25%
Mid – Magdalena Valley	Acuerdo de Cooperación Campo Teca	Arbitration Court	E&P	Mansarovar Energy Colombia Ltd.	Mansarovar Energy Colombia Ltd.	100%	28 years	October 08 , 2008/tribunal	Yes	32%
Catatumbo-Orinoquia	Corocora	Joint Venture	E&P	Perenco	Hocol S.A - Perenco	56%	Until economic limit	Until economic limit	No	8% to 25%
Catatumbo-Orinoquia	Cosecha	Joint Venture	E&P	Occidental de Colombia Inc.	Occidental de Colombia Inc.	30%	28 years	October 31, 2030	Yes	8% to 25%
Southern	CPR Santana	Risk participation contract	E&P	Gran Tierra Colombia	Gran Tierra Colombia	65%	28 years	July 27, 2015	Yes	20%
Catatumbo-Orinoquia	Cravo Norte	Joint Venture	E&P	Occidental de Colombia Inc.	Occidental de Colombia Inc.	59.98%	Until economic limit	Until economic limit	No	5% to 25%



Minor Fields	Dindal	Joint Venture-Sole Risk Discovered Undeveloped Field	E&P E&P- Discovered and Undeveloped Field	SIPETROL	SIPETROL	60%	28 years	March 22, 2021	Yes	20%
Minor Fields	Entrerrios	Risk participation contract	E&P	Union Temporal Andina	Union Temporal Andina	61%	10 years	December 28, 2013	Yes	8% to 25%
Southern Catatumbo-Orinoquia	Espinal	Joint Venture	E&P	Petrobras	Petrobras	55%	28 years	October, 2015	Yes	20%
Catatumbo-Orinoquia	Estero	Joint Venture	E&P	Perenco	Perenco - Hocol and Homcol	89%	Until economic limit	Until economic limit	No	20%
	Garcero	Joint Venture	E&P	Perenco	Perenco - Hocol and Homcol	76%	Until economic limit	Until economic limit	No	5% to 25%
Minor Fields	Guachiria	Joint Venture	E&P	Solana Petroleum Exploration Colombia Limited	Solana Petroleum Exploration Colombia Limited	13%	28 years	September 30, 2031	Yes	8% to 25%
Northeastern	Guajira	Joint Venture Discovered Undeveloped Field	E&P E&P- Discovered and Undeveloped Field	Chevron Petroleum Company	Chevron Petroleum Company	57%	Until economic limit	Until economic limit	No	20%
Minor Fields	Guarimena	Joint Venture Discovered Undeveloped Field	E&P E&P- Discovered and Undeveloped Field	Vetra Exploracion y Produccion Colombia	Vetra Exploracion y Produccion Colombia	81%	10 years	January 17, 2018	Yes	8% to 25%
Southern	Guayuyaco	Joint Venture Discovered Undeveloped Field	E&P	Gran Tierra Colombia	Gran Tierra Colombia	30%	28 years	May 30, 2030	Yes	8% to 25%
Minor Fields Southern	Hato Nuevo Hobo	Joint Venture	E&P E&P	NCT Consortium Petrobras	NCT Consortium Petrobras	41% 50%	10 years 28 years	July 3, 2016 December 31, 2011	Yes Yes	32% 20%
Mid – Magdalena Valley	La Cira	Business Cooperation Discovered Undeveloped Field	E&P E&P- Discovered and Undeveloped Field	Ecopetrol S.A.	Ecopetrol S.A.	52%	Until economic limit	Until economic limit	Yes	8% to 20%
Minor Fields	La Punta	Joint Venture-Sole Risk	E&P	Vetra Exploracion y Produccion Colombia	Vetra Exploracion y Produccion Colombia	70%	10 years	December 28, 2013	Yes	8% to 25%
Minor Fields	Las Quinchas	Joint Venture-Sole Risk	E&P	Kappa Resources Colombia Limited	Kappa Resources Colombia Limited	7%	Until economic limit	Until economic limit	Yes	20%
Minor Fields	Lebrija	Joint Venture-Sole Risk	E&P	Petroleos del Norte S.A.	Petroleos del Norte S.A.	0%	28 years	August 26, 2013	Yes	20%
Minor Fields Southern	Magangué Mana	Joint Venture	E&P	Solana Petroleum Exploration (Colombia Limited)	Solana Petroleum Exploration (Colombia Limited)	58%	28 years	January 1, 2018	Yes	20%
Minor Fields	Maracas	Joint Venture-Sole Risk	E&P	Interoil	Interoil	30%	25 years	November 11, 2028	Yes	8% to 25%
Southern	Matambo	Joint Venture Discovered Undeveloped Field	E&P	Texican Oil Ltd. Emerald Energy PLC Sucursal Colombia	Texican Oil Ltd. Emerald Energy PLC Sucursal Colombia	0%	28 years	March 5, 2024	Yes	20%
Minor Fields	Mugrosa	Joint Venture Discovered Undeveloped Field	E&P	Emerald Energy PLC Sucursal Colombia	Emerald Energy PLC Sucursal Colombia	50%	28 years	November 29, 2024	Yes	20%
Minor Fields Mid – Magdalena Valley	Nancy-Burdine-Maxime	Discovered Undeveloped Field	Develop Field	Cosacol S.A.	Cosacol S.A.	75%	10 years	July 25, 2015	Yes	8% to 25%
Minor Fields	Nare	Joint Venture Incremental Production	E&P	Union Temporal II&B Mansarovar Energy Colombia Ltd.	Union Temporal II&B Mansarovar Energy Colombia Ltd.	41%	10 years	December 28, 2013	Yes	20%
Southern	Neiva	Incremental Production	E&P	Mansarovar Energy Colombia Ltd.	Mansarovar Energy Colombia Ltd.	50%	28 years	November 5, 2021	Yes	20%
Minor Fields	Opon	Joint Venture	E&P	Ecopetrol S.A. Compañía Operadora Petrocolombia	Petrominerales Compañía Operadora Petrocolombina	31%	22 years	June 5, 2023	Yes	8% to 25%
Minor Fields	Opon-6	Joint Venture-Sole Risk	E&P	Compañía Operadora Petrocolombia	Compañía Operadora Petrocolombina	0%	28 years	July 14, 2015	Yes	20%
Southern Catatumbo-Orinoquia	Orito	Incremental Production	E&P	Compañía Operadora Petrocolombia	Compañía Operadora Petrocolombina	0%	28 years	July 14, 2015	Yes	20%
	Orocue	Joint Venture	E&P	Ecopetrol S.A.	Petrominerales	21%	22 years	June 5, 2023	Yes	8% to 25%
Southern	Ortega	Incremental Production	E&P	Perenco	Perenco and Hocol	63%	Until economic limit	Until economic limit	No	20% 8% incremental, 20% basica

Mid – Magdalena Valley Southern	Palagua Palermo	Incremental Production Joint Venture Discovered Undeveloped Field	Production E&P	Union Temporal IIP Hocol S.A.	Union Temporal Ismocol, Joshi- Petcar- Parko Hocol S.A.	34% 50%	22 years 28 years	July 14, 2023 April 30, 2012	Yes Yes	20% 20%
Minor Fields Northeastern	Pavas- Cachira Piedemonte	Joint Venture risk participation contract Discovered Undeveloped Field	Develop Field E&P	Ismocol de Colombia S.A. BP	Union Temporal Ismocol, Joshi- Petcar- Parko BP	5% 50%	10 years 28 years	December 29, 2013 February 29, 2020	Yes Yes	20% 20%
Central	Piriri	Discovered Undeveloped Field	E&P	Metapetroleum	Pacific Rubiales Representaciones y Servicios de Petroleos	50%	28 years	June 30, 2016	Yes	20%
Minor Fields	Playon	Discovered Undeveloped Field	Develop Field E&P- Discovered and Undeveloped Field	Serinet	Serinet	54%	10 years	July 12, 2015	Yes	20%
Minor Fields Southern	Puerto Barco Puli	Discovered Undeveloped Field Joint Venture	Develop Field E&P	Avante Colombia Interoil	Vetra Exploracion y Produccion Colombia - Avante Colombia Interoil	6% 50%	10 years 28 years	December 29, 2013 February 29, 2012	Yes Yes	20% 20%
Minor Fields	Quebrada Roja	Discovered Undeveloped Field	Develop Field	Campos de Producción Consortium	Campos de Producción Consortium	58%	10 years	July 12, 2015	Yes	20%
Northeastern	Recetor	Joint Venture	E&P	BP	BP Explotarion Co (Colombia) Ltd. - BP Santiago	50%	28 years	May 29, 2017	Yes	20%
Northeastern	Rio Chitamina	Discovered Undeveloped Field	E&P E&P- Discovered and Undeveloped Field	BP	BP Explotarion Co (Colombia) Ltd. - BP Santiago	50%	28 years	January 31, 2019	Yes	20%
Minor Fields Southern	Rio de Oro Rio Opia	Joint Venture	Develop Field E&P	Avante Colombia Interoil	Vetra Exploracion y Produccion Colombia - Avante Colombia Interoil	12% 30%	10 years 28 years	December 29, 2013 June 23, 2030	Yes Yes	20% 8% to 25%
Southern	Río Paez (La Hocha)	Joint Venture- Sole Risk	E&P	Hocol S.A.	Hocol S.A.	0%	28 years	April 26, 2029	Yes	5% La Hocha
Minor Fields	Río Seco	Discovered Undeveloped Field	E&P	SIPETROL	SIPETROL	0%	28 years	August 21, 2023	Yes	20%
Minor Fields Catatumbo- Orinoquia Central	Rompida Rondon Rubiales	Discovered Undeveloped Field Joint Venture	Develop Field E&P E&P	Vetra Exploracion y Produccion Colombia Occidental de Colombia Inc. Metapetroleum	Vetra Exploración y Producción Colombia Occidental de Colombia Inc. Pacific Rubiales	19% 50% 60%	10 years 28 years 28 years	December 30, 2013 January 8, 2023 June 30, 2016	Yes Yes Yes	20% 8% to 25% 20% 8% La Cañada Norte
Southern	San Jacinto (La Cañada Norte)	Joint Venture	E&P	Hocol S.A. Vetra Exploracion y Produccion Colombia	Hocol S.A.	50%	28 years	December 22, 2024	Yes	20%
Minor Fields	San Luis	Joint Venture	E&P	BP	Vetra Exploración y Producción Colombia BP Explotarion Co (Colombia) Ltd. - BP Santiago	50%	28 years	May 8, 2014	Yes	20%
Northeastern	Santiago de las Atalayas	Joint Venture Incremental Production	E&P	BP	BP Explotarion Co (Colombia) Ltd. - BP Santiago	50%	28 years	June 30, 2010	Yes	20%
Southern	Suroriente	Joint Venture- Sole Risk	E&P	Colombia Energy	Colombia Energy	48%	22 years	June 11, 2024	Yes	8% to 25%
Minor Fields	Tambaqui	Joint Venture- Sole Risk	E&P	Hupecol	Hupecol	50%	28 years	February 28, 2026	Yes	8% to 25%
Minor Fields	Tapir	Joint Venture- Sole Risk	E&P	Petrocco	Petrocco and Doreal Energy	0%	28 years	February 24, 2023	Yes	20%
Northeastern	Tauramena	Joint Venture	E&P	BP	BP Explotarion Co (Colombia) Ltd. - BP Santiago	50%	28 years	July 3, 2016	Yes	20%
Catatumbo- Orinoquia Mid – Magdalena Valley	Tibú Tisquirama	Business Cooperation Joint Venture Discovered Undeveloped Field	E&P Production	Ecopetrol S.A. Petroleos del Norte S.A. Campos de Producción Consortium	Tibú Consortium formed by Petrobras Colombia Limited and Petrobras Energía de Colombia Petroleos del Norte S.A – Petrosantander	60% 60%	Undetermined Until economic limit	Undetermined Until economic limit	no Yes	8% to 25% 20%
Minor Fields	Toca	Discovered Undeveloped Field	Develop Field	Campos de Producción Consortium	Campos de Producción Consortium	58%	10 years	July 12, 2015	Yes	8%

Minor Fields Central	Tolima B Upia B	Joint Venture-Sole Risk	E&P	Vetra Exploracion y Produccion Colombia	Vetra Exploracion y Produccion Colombia	50%	28 years	June 12, 2014	Yes	20%
		Joint Venture Services and Technical Cooperation	E&P	Petrobras Universidad Industrial de Santander	PETROBRAS	50%	28 years	Feb 29, 2012	Yes	20%
Minor Fields	Colorado	Joint Venture-Sole Risk	Production	Universidad Industrial de Santander	Universidad Industrial de Santander	1%	10 Years	2016	No	20%
Minor Fields	El piñal	Joint Venture-Sole Risk	E&P	Petrosantander Emerald Energy PLC Sucursal Colombia	Petrosantander	50%	28 years	July 28, 2018	Yes	20%
Minor Fields Southern	Fortuna Doima	Joint Venture-Sole Risk	E&P	PLC Sucursal Colombia	Emerald Energy PLC Sucursal Colombia	20%	28 years	December 18, 2031	Yes	14,5 and 8%
		Joint Venture Sahered Risk	E&P	Hocol S.A.	Hocol S.A	39%	30 years	February 16, 2039	Yes	6.4%
Mid – Magdalena Valley	Guariques	production contract Discovered Undeveloped Field	E&P	Ecopetrol S.A.	Ramshorn	55% and R Factor	25 years	May 24, 2029	Yes	8% to 20%
Minor Fields	Berlin	Discovered Undeveloped Field	Develop Field	Sadeven s.a.	Sadeven s.a.	35%	10 Years	July 17, 2015	Yes	8% to 25%
Minor Fields	Bravo	Discovered Undeveloped Field	Develop Field	Sadeven s.a. Hollywell Resources S.A. / Kappa Resources S.A.	Sadeven s.a.	7%	10 Years	July 17, 2015	Yes	8% to 25%
Minor Fields Hocol	Buganviles Guarrojo	Joint Venture E&P	E&P	Hocol S.A.	Kappa Resources S.A.	30%	28 años	27-Nov-08	Yes	8% to 25%
			E&P			100%	24 años	24-Feb-30	No	8% to 25%

**Ecopetrol S.A. and Subsidiaries**  
**Consolidated Financial Statements**  
**Years ended December 31, 2009, 2008 and 2007**

**Ecopetrol S.A. and Subsidiaries**  
**Consolidated Financial Statements**  
**Years ended December 31, 2009, 2008 and 2007**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

July 14, 2010

To the Board of Directors  
and Shareholders of Ecopetrol S. A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of financial, economic, social and environmental activities, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ecopetrol S. A. and its subsidiaries (the "Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2009 in conformity with generally accepted accounting principles for Colombian Government Entities issued by the Contaduría General de la Nación. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the preparation and analysis of the differences existing between generally accepted accounting principles for Colombian Government Entities and accounting principles generally accepted in the United States of America, existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in "Management's Report on Internal Control over Financial Reporting" appearing under Item 15. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2009 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2009). We conducted our audits in accordance with generally accepted auditing standards in Colombia and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

**To the Board of Directors  
and Shareholders of Ecopetrol S. A.  
July 14, 2010**

Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting principles generally accepted for Colombian Government Entities vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effects of such differences is presented in Note 33 to the consolidated financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**To the Board of Directors  
and Shareholders of Ecopetrol S. A.  
July 14, 2010**

As described in “Management’s Report on Internal Control over Financial Reporting”, appearing under Item 15, management has excluded Refinería de Cartagena S. A. and Hocol Petroleum Limited from its assessment of internal control over financial reporting as of December 31, 2009, because they were acquired by the Company in purchase business combinations during 2009. We have also excluded these named subsidiaries from our audit of internal control over financial reporting. For the year ended December 31, 2009, Refinería de Cartagena S. A. and Hocol Petroleum Limited total assets represent 5% and 3%, respectively, and total revenues represent 13% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2009, prepared in accordance with accounting principles generally accepted for Colombian Government Entities.

We do not express an opinion or any other form of assurance on management’s statement referring to the changes to be implemented to remediate the material weakness in the internal control over financial reporting.

/s/ PricewaterhouseCoopers Ltda.

Bogotá, Colombia



## Report of Independent Registered Public Accounting Firm

To the Shareholders of Ecopetrol S.A. and subsidiaries

We have audited the accompanying consolidated balance sheets of Ecopetrol S.A. and subsidiaries ("the Company") as of December 31, 2007 and 2006, and the related consolidated statements of financial, economic and social activities, changes in equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ecopetrol S.A. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their financial, economic and social activities and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with generally accepted accounting principles for Colombian Governmental Entities issued by the Contaduría General de la Nación, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 33 to the consolidated financial statements).

/s/ Francisco J. González R.

Francisco J. González R.

Statutory Auditor

Professional Card 13442-T

Designated by Ernst & Young Audit Ltda. – TR 530

ERNST & YOUNG AUDIT LTDA.

Bogotá, D.C., Colombia, February 15, 2008

(except for Notes 32 and 33 to which the date is May 30, 2008)

**Ecopetrol S.A. and Subsidiaries**

Consolidated Balance Sheets

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
	(In millions of Colombian pesos)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Notes 2 and 3)	\$ 3,562,119	\$ 2,113,803
Investments (Notes 2 and 4)	462,258	3,749,919
Accounts and notes receivable, net (Notes 2 and 5)	2,969,120	5,877,282
Inventories, net (Note 6)	2,042,697	1,611,296
Advances and deposits (Notes 2 and 7)	3,018,779	2,248,122
Pension plan assets (Note 11)	-	80,263
Prepaid expenses (Note 8)	62,815	24,215
Total current assets	<b>12,117,788</b>	<b>15,704,900</b>
Non-current assets:		
Investments (Notes 2 and 4)	3,710,739	8,688,320
Accounts and notes receivable, net (Note 5)	226,781	194,912
Property, plant and equipment, net (Note 9)	16,782,503	8,077,488
Natural and environmental resources, net (Note 10)	11,155,381	8,054,049
Advances and Deposits (Note 7)	253,681	271,121
Deferred charges (Note 12)	1,886,529	1,595,683
Other assets (Note 13)	3,034,698	935,978
Revaluations (Note 21)	6,391,417	5,179,961
Total assets	<b>\$ 55,559,517</b>	<b>\$ 48,702,412</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Financial obligations (Note 14)	\$ 437,081	\$ 281,026
Accounts payable and related parties (Notes 2 and 15)	3,280,232	1,708,647
Taxes payable (Note 16)	2,433,022	3,906,468
Labor and pension plan obligations (Note 17)	165,463	129,658
Estimated liabilities and provisions (Notes 2 and 18)	1,154,415	673,973
Total current liabilities	<b>7,470,213</b>	<b>6,699,772</b>
Long-term liabilities:		
Financial obligations (Note 14)	5,714,354	5,473
Accounts payable (Note 15)	51,154	-
Labor and pension plan liabilities (Note 17)	2,669,331	2,164,787
Estimated liabilities and provisions (Note 18)	3,411,977	2,542,791
Other long-term liabilities (Note 19)	2,731,220	2,426,921
Total liabilities	<b>22,048,249</b>	<b>13,839,744</b>
Non-controlling interest (Note 20)	941,311	242,951
Shareholders' equity (Note 21 and see accompanying statement)	32,569,957	34,619,717
Total liabilities and shareholders' equity	<b>\$ 55,559,517</b>	<b>\$ 48,702,412</b>
Memorandum accounts (Note 22)	<b>\$ 138,884,829</b>	<b>\$ 118,874,631</b>

The accompanying notes are an integral part of these consolidated financial statements

**Ecopetrol S.A. and Subsidiaries**

Consolidated Statements of Financial, Economic, Social and Environmental Activities

	<b>Year ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(In millions of Colombian pesos, except for the net income per share expressed in pesos)		
<b>Revenue (Note 23)</b>			
Local sales	\$ 14,058,534	\$ 21,597,999	\$ 16,002,997
Foreign sales	16,345,856	12,298,670	6,645,820
FAEP	-	-	(316,497)
Foreign sales, net	16,345,856	12,298,670	6,329,323
<b>Total revenue</b>	<b>30,404,390</b>	<b>33,896,669</b>	<b>22,332,320</b>
Cost of sales (Note 24)	19,906,073	19,084,436	12,121,833
	<b>10,498,317</b>	<b>14,812,233</b>	<b>10,210,487</b>
<b>Operating expenses (Note 25)</b>			
Administration	662,336	382,101	322,044
Selling	1,962,642	1,772,774	929,305
<b>Operating income</b>	<b>7,873,339</b>	<b>12,657,358</b>	<b>8,959,138</b>
<b>Non-operating income (expenses)</b>			
Financial income, net (Note 26)	495,833	4,101,252	93,628
Pension expenses (Notes 17 and 27)	(595,157)	(1,144,925)	(1,090,343)
Inflation gain (Note 28)	22,355	30,473	41,132
Other (expenses) income, net (Note 29)	(545,526)	367,046	(938,251)
<b>Income before income tax</b>	<b>7,250,844</b>	<b>16,011,204</b>	<b>7,065,304</b>
<b>Income tax (Note 16)</b>			
Current	1,948,819	3,611,020	2,006,484
Deferred tax	165,210	770,962	(120,972)
	<b>2,114,029</b>	<b>4,381,982</b>	<b>1,885,512</b>
Non-controlling interest	(4,761)	455	-
<b>Net income</b>	<b>\$ 5,132,054</b>	<b>\$ 11,629,677</b>	<b>\$ 5,179,792</b>
Net income per share	<b>\$ 126.80</b>	<b>\$ 287.35</b>	<b>\$ 168.71</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Ecopetrol S.A. and Subsidiaries**

Consolidated Statements of Changes in Shareholders' Equity

(In millions of Colombian pesos, except the dividend per share)  
Year ended on December 31, 2009, 2008 and 2007

	Subscribed and paid-in capital	Additional paid-in capital	Legal and other reserves	Incorporated Institutional equity and other	Surplus from equity method	Surplus from revaluations	Public accounting application effect	Retained earnings	Total Equity
<b>Balance at December 31, 2007</b>	<u>\$ 10,113,334</u>	<u>\$ 3,850,814</u>	<u>\$ 1,910,686</u>	<u>\$ 108,730</u>	<u>\$ (2,271)</u>	<u>\$ 5,647,382</u>	<u>\$ -</u>	<u>\$ 5,179,792</u>	<u>\$ 26,808,467</u>
Distribution of dividends (\$115 per share)	-	-	4,415	-	-	-	-	(4,658,755)	(4,654,340)
Subscribed capital receivable and additional paid-in capital	4,457	824,607	-	-	-	-	-	-	829,064
Addition to additional paid in capital - execution of warranties	-	3,855	-	-	-	-	-	-	3,855
Appropriation to reserves	-	-	517,639	-	-	-	-	(517,639)	-
Adjustment in translation of foreign subsidiaries and equity method	-	-	-	-	143,018	-	-	(3,398)	139,620
Addition to incorporated institutional equity	-	-	-	2,635	-	-	-	-	2,635
Surplus from revaluations	-	-	-	-	1,340,356	(1,479,650)	-	-	(139,294)
Devaluation in Property, Plant and Equipment	-	-	-	-	-	1,012,229	(1,012,229)	-	-
Pending responsibility rulings	-	-	-	814	-	-	(781)	-	33
Net income	-	-	-	-	-	-	-	11,629,677	11,629,677
<b>Balance as of December 31, 2008</b>	<u>10,117,791</u>	<u>4,679,276</u>	<u>2,432,740</u>	<u>112,179</u>	<u>1,481,103</u>	<u>5,179,961</u>	<u>(1,013,010)</u>	<u>11,629,677</u>	<u>34,619,717</u>
Distribution of dividends (\$220 per share)	-	-	-	-	-	-	-	(8,903,953)	(8,903,953)
Subscribed capital receivable and additional paid-in capital	-	24,324	-	-	-	-	-	-	24,324
Addition to additional paid-in capital - execution of warranties	-	16,720	-	-	-	-	-	-	16,720
Surplus from revaluations	-	-	-	-	-	1,211,456	-	-	1,211,456
Devaluation in property, plant and equipment	-	-	-	-	-	-	714,205	-	714,205
Appropriation to legal reserve	-	-	1,163,072	-	-	-	-	(1,163,072)	-
Appropriation to investment reserves	-	-	1,563,692	-	-	-	-	(1,563,692)	-
Addition to incorporated institutional equity	-	-	-	43,350	-	-	-	-	43,350
Adjustment in translation of foreign subsidiaries and equity method	-	-	-	-	(288,956)	-	-	-	(288,956)
Unrealized Income	-	-	-	-	-	-	-	1,040	1,040
Net income	-	-	-	-	-	-	-	5,132,054	5,132,054
<b>Balance as of December 31, 2009</b>	<u>10,117,791</u>	<u>4,720,320</u>	<u>5,159,504</u>	<u>155,529</u>	<u>1,192,147</u>	<u>6,391,417</u>	<u>(298,805)</u>	<u>5,132,054</u>	<u>32,569,957</u>

The accompanying notes are an integral part of these consolidated financial statements.

Ecopetrol S.A. and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31		
	2009	2008	2007
(In millions of Colombian pesos)			
<b>Cash flows from operating activities</b>			
Net income	\$ 5,132,054	\$ 11,629,677	\$ 5,179,792
Adjustments to reconcile net income to cash provided by operating activities:			
Deferred Income Tax, net	165,210	770,962	(120,972)
Depreciation of Property, Plant and Equipment	1,262,643	691,488	750,074
Amortizations			
Natural Resources	1,274,979	947,788	572,743
Abandonment of installations	199,939	139,795	92,716
Actuarial Calculation	502,665	645,770	695,057
Intangibles	152,235	37,496	14,892
Deferred charges	94,288	73,343	173,883
Deferred monetary correction, net	(22,355)	(30,473)	(41,132)
Provisions			
Accounts receivable	30,734	2,275	20,276
Inventories	33,161	49,380	115,944
Property, Plant and Equipment	127,826	-	1,790
Legal Proceedings	271,091	62,380	1,096,117
Other	-	103,062	-
Recovery of provisions			
Inventories	(118,652)	(8,711)	(21,010)
Property, Plant and Equipment	(17,091)	(18,813)	-
Legal Proceedings	(83,258)	(832,788)	(281,507)
Other	(5,564)	(139,554)	(265,436)
Net changes in operating assets and liabilities			
Decrease (increase) Debtors	2,030,376	5,946,536	(1,853,727)
Decrease (increase) Inventories	(291,819)	(237,710)	(397,365)
Decrease (increase) Deferred and other assets	(1,408,834)	(865,556)	1,198,025
(Decrease) increase Accounts payable	1,536,580	423,182	334,558
(Decrease) increase Taxes payable	(1,473,446)	988,828	855,264
(Decrease) increase Labor obligations	37,684	(9,246,210)	25,942
(Decrease) increase Estimated liabilities and provisions	(24,809)	(697,407)	1,258,884
<b>Net cash provided by operating activities</b>	<b>9,405,637</b>	<b>10,434,740</b>	<b>9,404,808</b>
<b>Cash flows from investing activities</b>			
Payment in acquisition of companies, net of cash acquired	(1,082,580)	(1,275,049)	-
Purchase of investments	(7,939,870)	(27,801,568)	(33,328,213)
Investments redemption and sale	15,917,196	27,054,516	28,296,998
Investments in natural and environmental resources	(3,613,355)	(1,844,917)	(2,013,947)
Additions to Property, Plant and Equipment	(9,237,307)	(4,861,067)	(1,082,887)
<b>Net cash used in investing activities</b>	<b>(5,955,916)</b>	<b>(8,728,085)</b>	<b>(8,128,049)</b>
<b>Cash flows from financing activities</b>			
Non-controlling interest	698,360	242,950	-
Financial obligations	6,140,588	106,942	-
Debts from credit and financing operations	21,205	128,778	(39,305)
Received from associates – capitalization	41,044	832,919	5,359,968
Payment of dividends	(8,902,602)	(4,654,340)	(4,475,399)
<b>Net cash provided (used) by financing activities</b>	<b>(2,001,405)</b>	<b>(3,342,751)</b>	<b>845,264</b>
Net increase (decrease) in cash and cash equivalents	1,448,316	(1,636,096)	2,122,023
Cash and cash equivalents at beginning of year	2,113,803	3,749,899	1,627,876
<b>Cash and cash equivalents at end of year</b>	<b>3,562,119</b>	<b>2,113,803</b>	<b>3,749,899</b>

The accompanying notes are an integral part of these consolidated financial statements

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Attachment 1 – Cash and cash equivalents detail</b>			
Cash	\$ 82	\$ 408	\$ 399
Banks and savings entities	1,508,846	1,395,199	1,160,069
Special and in-transit funds	1,690,815	703,577	123,251
Temporary investments	362,376	14,619	2,466,180
<b>Total cash and cash equivalents</b>	<u><u>\$ 3,562,119</u></u>	<u><u>\$ 2,113,803</u></u>	<u><u>\$ 3,749,899</u></u>

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

*(Amounts expressed in millions of Colombian pesos, unless otherwise stated, except amounts in other currencies, exchange rates and income per share, which are expressed in unit pesos – throughout these financial statements pesos or Ps refer to Colombian pesos and U.S. Dollar refers to United States Dollar)*

### 1. Economic Entity and Principal Accounting Policies and Practices

#### Reporting Entity

Ecopetrol S.A. (hereinafter Ecopetrol or the Company) was organized by Law 165 of 1948 and transformed through Extraordinary Decree 1760 of 2003 (added by Decree 409 of 2006) and Law 1118 of 2006 into a state-owned Company by shares and then into a mixed economy entity of a commercial character, at national level, related to the Ministry of Mines and Energy, for an indefinite period. Ecopetrol's corporate purpose is the development, in Colombia or abroad, of commercial or industrial activities corresponding to or related with exploration, production, refining, transportation, storage, distribution, and selling of hydrocarbons, their by-products and associated products, and of subsidiary operations, connected or complementary to these activities in accordance with applicable regulations. Ecopetrol's principal domicile is Bogotá, D.C. and it may establish subsidiaries, branches and agencies in Colombia or abroad.

By means of the transformation Decree 1760 of June 27, 2003, the integral administration of the hydrocarbon reserves owned by the Colombian Nation (the Nation), and the administration of non-strategic assets, represented by shares and the participation in companies were separated from Ecopetrol. In addition, Ecopetrol's basic structure was changed and two entities were created: a) the Agencia Nacional de Hidrocarburos (ANH) was created to hereinafter issue and develop the Colombian petroleum policy (formerly the responsibility of Ecopetrol), and b) Sociedad Promotora de Energía de Colombia S.A., which received the non-strategic assets owned by Ecopetrol.

Law 1118 of December 27, 2006 changed the legal nature of Ecopetrol S.A., and authorized the Company to issue shares to be placed in the equity market and acquired by Colombian individuals or legal entities. Once the shares were issued and placed, corresponding to 10.1% of the authorized capital, at the end of 2007, the Company became a Mixed Economy Entity of a commercial nature, at a national level, controlled by the Ministry of Mines and Energy.

Ecopetrol entered into a deposit agreement with JPMorgan Chase Bank, N.A., as depositary, for the issuance of ADRs evidencing ADSs. Each of the ADSs will represent 20 of Ecopetrol's common shares or evidence of the right to receive 20 of Ecopetrol's common shares.

On September 12, 2008, Ecopetrol submitted to the Securities and Exchange Commission of the United States (the "SEC") an application to register the Company and to register and list the Company's ADSs evidenced by ADRs on the New York Stock Exchange (NYSE). The Company's ADSs began trading on the NYSE under the symbol "EC" on September 18, 2008.

On December 3, 2009, the National Commission for the Surveillance of Companies and Securities of Peru – CONASEV approved the listing of Ecopetrol's ADRs on the Lima Stock Exchange and the registration of such securities with the Public Registry of the Securities Market. The ADRs began trading on the Lima Stock Exchange on December 4, 2009 under the "EC" symbol.

By means of a private document issued by Ecopetrol S.A.'s legal representative on February 13, 2008, which was registered with the Chamber of Commerce of Bogotá, it was announced that the Group of Companies comprising the Ecopetrol Corporate Group are the parent Company Ecopetrol S.A. and its subsidiaries Black Gold Re Limited, Ecopetrol Oleo é Gas do Brasil Ltda., Ecopetrol del Perú S.A. and Ecopetrol America Inc. Subsequent thereto, the following companies were also incorporated into the Group of Companies: Andean Chemicals Ltd., the parent Company of Bioenergy and investor in Propilco S.A., which in turn is the parent Company of Compounding and Masterbatching Industry Ltda ("COMAI").

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

Likewise, during 2009, by means of private documents issued by Ecopetrol S.A.'s legal representative, which were subsequently registered with the Chamber of Commerce of Bogotá, ODL Finance, the parent Company of ODL; Hocol Petroleum Limited, the parent Company of Homcol Cayman Inc and Hocol Limited (whose branch office in Colombia is Hocol S.A.); Ecopetrol Transportation Company, the parent Company of Ecopetrol Pipelines International Ltd.; Ecopetrol Global Energy; and Refinería de Cartagena S.A. were all incorporated into the Group of Companies.

The subsidiaries consolidated by Ecopetrol are:

<b>Subsidiaries</b>	<b>Participation Percentage ECP</b>	<b>Activity</b>	<b>Subsidiaries</b>
Ecopetrol Oleo é Gas do Brasil Ltda.	100	Exploration, exploitation, transportation, storage, distribution and selling of hydrocarbons, by-products and products, as well as investigation, development and selling of energy sources	-
Ecopetrol del Peru S.A.	100	Manage all business associated with the total or partial, direct or indirect execution of insurance and reinsurance of Ecopetrol's and of its affiliate and/or subsidiary Company risks.	-
Ecopetrol America Inc.	100		-
Black Gold Re Ltd.	100		-
Andean Chemicals Ltd.	100	Manage all business associated with Ecopetrol's, Propilco's and its affiliate companies' operations.	Bioenergy S.A. Refinería de Cartagena Propileno del Caribe
ODL Finance S.A.	65	Design, construct, operate, sell, exploit and be the direct or indirect owner of crude oil pipeline systems for hydrocarbon transportation of private use in Colombia.	ODL S.A. ODL - Colombia Branch office
Propilco S.A.	100	Production and selling of polypropylene resin	Comai S.A.
Bionergy S.A.	80	Construction and operation of bio-fuel production plants, and others related	-
Ecopetrol Global Energy	100	Investment vehicle.	Ecopetrol America Inc
Ecopetrol Transportation Company Limited	100	Investment vehicle.	Ecopetrol Pipelines International Limited
Ecopetrol Pipelines International Limited	100	Investment vehicle.	-
Oleoducto Central S.A. - Ocesa	60	Crude oil transportation through pipelines.	-
Refineria de Cartagena S.A.	100	Hydrocarbons refining, selling and distribution.	-
COMAI - Compounding and Masterbatching Industry Ltda.	100	Manufacture of polypropylene compounds and master batches for a wide range of uses.	-
Hocol Petroleum Limited	100	Investment vehicle.	Hocol Limited Hocol S.A. Homcol Cayman Inc
Oleoducto de Colombia S.A. - ODC	66	Crude oil transportation through pipelines.	-

Each subsidiary's individual financial statements as of December 31, 2009, 2008 and 2007 were used to prepare the consolidated financial statements.



## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

The Company and its subsidiaries conduct their exploration and production operations through association contracts or other types of contracts, as follows:

Contract Type	Number of contracts				
	Ecopetrol S.A.	Hocol Petroleum Ltd.	Ecopetrol Oleo é Gas do Brasil Ltda.	Ecopetrol America Inc.	Ecopetrol del Perú S.A.
Exploration	51	9	9	22	5
Production	46	9	-	1	-
Discovered, undeveloped fields	20	-	-	-	-
Sole risk	15	1	-	-	-
Incremental production	5	1	-	-	-
Production service with risk	3	-	-	-	-
Business collaboration	2	-	-	-	-
Services and technical collaboration	1	-	-	-	-
	<b>143</b>	<b>20</b>	<b>9</b>	<b>23</b>	<b>5</b>

Ecopetrol carries out production operations in 270 fields, of which it is the operator in 100 fields and 170 fields are operated by third parties.

Ecopetrol Oleo é Gas do Brasil Ltda has entered into nine exploration contracts, six of which are operated by Petrobras, one of which is operated by Hess, one of which is operated by Repsol and one of which is operated by Andarko.

Ecopetrol America Inc. has a 9.2% participation in a production contract known as “K2” located in the Gulf of Mexico, which is operated by Anadarko.

Ecopetrol del Peru S.A. has three exploration contracts known as “101”, “134” and “158” which are operated by Talisman and two exploration contracts known as “110” and “117” which are operated by Petrobras Energía del Peru S.A.

### Principal accounting policies and practices

The Contaduría General de la Nación or CGN adopted new accounting principles for Colombian state-owned entities in September 2007. These accounting principles are known as the Régimen de Contabilidad Pública (Regime of Public Accounting or RCP). Pursuant to CGN Communication No. 20079-101345 of September 28, 2007, RCP became effective for Ecopetrol beginning with fiscal year ended December 31, 2008. Ecopetrol’s consolidated financial statements at and for the years ended December 31, 2009 and 2008 have been prepared under RCP. Ecopetrol’s consolidated financial statements for all prior years were prepared under the Plan General de Contabilidad Pública (General Governmental Accounting Plan or PGCP), the former accounting principles issued by the CGN for Colombian state-owned entities. Both RCP and PGCP are referred to herein as Colombian Government Entity GAAP.

RCP modified various aspects of Colombian Government Entity GAAP. The main modifications pertain to the following items:

- Investments,
- Property, plant and equipment,
- Intangibles,
- Retirement pensions and
- Provisions.

A more detail discussion of these RCP modifications is hereinafter provided for each of the above-listed items.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

Pursuant to current regulations promulgated by the CGN, as from December 31, 2009 Ecopetrol applies the indirect method to prepare its Statement of Cash Flows instead of the direct method which had been applied to date. This change brings local reporting standards into conformity with financial statements prepared under U.S. GAAP. This change in methodology does not have any financial impact and is consistent with the local and international accounting regulations. For comparison purposes, the Company's Statement of Cash Flows for fiscal year ended December 31, 2008 and 2007 has been prepared under the indirect method with the appropriate reclassifications.

### Principles of Consolidation

The consolidated financial statements include those of Ecopetrol (as Home Office), Black Gold Re Ltd., Oleo é Gas Do Brasil Ltda., Ecopetrol del Perú S.A., Ecopetrol America Inc., Andean Chemical Ltd., ODL Finance S.A., Propilco S.A., Bioenergy S.A., Ecopetrol Global Energy, Ecopetrol Transportation Company Limited, Ecopetrol Pipelines International Limited, Oleoducto Central S.A. (OCENSA), Refinería de Cartagena S.A. ("Reficar"), Compounding and Masterbatching Industry Ltda (COMAI), Hocol Petroleum Limited and Oleoducto de Colombia S.A. (ODC) (collectively, "the Subsidiaries"), where Ecopetrol combined direct and indirect, participation, is 100%, 100%, 100%, 100%, 100%, 65%, 100%, 80%, 100%, 100%, 100%, 60%, 100%, 100%, 100%, 66%, respectively. These financial statements were consolidated line by line and all transactions and significant intercompany balances between companies have been eliminated.

### Presentation Basis

The preparation of the financial statements was carried out under Colombian Government Entity GAAP standards and principles issued by the CGN and other legal provisions. These principles may differ in certain aspects from those established by other standards and other control authorities and the opinions on specific matters issued by CGN prevail over other regulations. The accrual method was applied for the accounting recognition of financial, economic and social facts.

In accordance with the rules for the inspection, supervision, and/or control of Ecopetrol, a normative decision-making structure was established to define the accounting treatment of operations not envisaged by the CGN, which is as follows: i) Principal and permanent inspection, supervision, and control: Residential Public Services Superintendency; ii) Residual control: Companies Superintendency and iii) Concurrent control: Financial Superintendency, on the activities of the Company in its capacity as issuer in the stock market. International Financial Reporting Standards (IFRS) are used to measure the normative gap and the accounting principles generally accepted in the United States are applied to operations related to crude oil and natural gas.

### Segments

In order to assess the financial results of the Company, the Board of Directors has divided the Company's activities into five segments: Exploration and Production; Refining; Transportation; Market and Supply, and Corporate. The segments are divided for administrative reasons, and we are not required to disclose information by segments under RCP.

### Materiality Concept

An economic fact is material when, due to its nature and amount and the circumstances that surround it, its knowledge or ignorance can significantly alter the economic decisions of the users of the financial information.

The consolidated financial statements include specific headings in accordance with legal requirements, or those representing 5% or more of total assets, current assets, total liabilities, current liabilities, working capital, equity and results of operations, as appropriate. In addition, lower amounts are shown when they are deemed to contribute to a better interpretation of financial information.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

### Use of Estimates

The preparation of the consolidated financial statements in accordance with RCP requires that management make estimates and assumptions that could affect the recorded amounts of assets, liabilities, results of activities and the attached notes. These estimates are carried out in accordance with technical criteria pursuant to regulations and current legal provisions. Actual or market values could differ from such estimates.

### Transactions in Foreign Currency

Transactions in foreign currency are entered into in accordance with applicable regulations and they are recorded at appropriate exchange rates on the transaction date. Balances denominated in foreign currency are reflected in Colombian pesos at the representative market exchange rates of \$2,044.23, \$2,243.59 and \$2,014.76 per US\$1 at December 31, 2009, 2008 and 2007, respectively.

The adjustment for exchange differences generated by foreign currency assets and liabilities is recorded against results of operations, except when such adjustment is charged to capital investments in controlled entities, in which case the equity is accounted.

Pursuant to RCP, the financing costs (including foreign financing costs) associated with assets purchased under construction form part of the overall costs of these assets until they are ready to use.

The Company in developing its crude oil exploration and production activities can freely deal in foreign currency provided that it complies with the provisions of the exchange regime.

With respect to those subsidiaries whose financial statements were originally presented in a currency other than the Colombian peso, the financial statements were first converted to U.S. dollars and then to Colombian pesos. Market exchange rates at December 31, 2009, 2008 and 2007, as the case may be, were used to translate balance sheet accounts, weighted average exchange rates were used to translate income statement accounts and historical exchange rates were used to translate equity statement accounts.

### Joint Operation Contracts

Joint venture or common-interest operation contracts are entered into between Ecopetrol and third parties in order to share the risk, secure capital, maximize operating efficiency and optimize the recovery of reserves. In these joint ventures, one party is designated as the operator and each party takes its share of the crude oil production according to its agreed participation. Ecopetrol records these investments, revenues, costs and expenses on a timely basis based on information reported by the operators. When Ecopetrol directly operates the facilities, it records assets, revenues, costs and expenses, recognizing at the same time the accounts receivable of the third party for joint interest billings.

### Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in banks and highly liquid investments maturing within three months following their acquisition.

For the purpose of presentation, investments which have maturities of less than ninety (90) days are regarded as cash equivalents and are treated as liquidity management investments.

Cash from operations with business partners corresponds to advances from both Ecopetrol and its business partners in the agreed upon participation percentages set for in the relevant joint venture contract, which will be managed in a joint exclusive-use bank account.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

### Financial Derivative Instruments

The Company enters into hedging agreements to protect itself from the fluctuations of international crude oil prices and exchange rates. The difference between amounts paid and income received under hedging operations is recognized as financial income or expense in the statements of financial, economic, social and environmental activities. Ecopetrol does not use these financial instruments for speculative purposes.

Hedging operations are carried out with banks and other counterparties with a credit risk rating higher than or equal to A+.

The Company makes periodic evaluations based on the market risk of hedging operations, and together with the Board of Directors and Risk Department determines the need for extension or early termination of the subscribed contracts, when the result is ineffective vis-à-vis the hedged items. In the event of settlement, the financial and contractual effects are recognized in the results of operation, as established by RCP.

### Investments

The investments are classified as: i) Liquidity Management Investments, ii) Investments for Policy Purposes and, iii) Equity Investments.

Liquidity management investments correspond to resources invested in debt and equity securities with the objective of obtaining profits through short term price fluctuations. Their initial recording corresponds to their historical cost and they are updated based upon valuation methodologies issued by the Colombian Finance Superintendency.

Policy purpose investments are made up of debt securities of national or foreign entities, acquired in compliance with macroeconomic or internal policies of the entity, which include investments held through their maturity date and those available for sale, the former being those which are kept for at least one (1) year as of the first day on which they were classified for the first time, or when they were reclassified.

Investments held to maturity are updated based on the Internal Rate of Return (IRR) included in the methodologies adopted by the Finance Superintendency and the investments for the purpose of macroeconomic policy and available for sale should be updated based on methodologies adopted by the Finance Superintendency for tradable investments.

Equity investments are classified in controlled and uncontrolled entities. Equity investments in controlled entities are recognized at their acquisition cost whenever it is less than the net book value; otherwise, they are recognized at the net book value and the difference between the cost of purchase and the net book value corresponds to goodwill. Their values are updated through the equity method, as established in Resolution 145 of 2008, issued by the CGN.

Beginning in 2008, the RCP incorporated the concept of significant influence for the recognition of investments in associated entities and established the equity method to update the value of these investments.

Significant influence is defined as the power that the entity has, regardless if the percentage of ownership is less than or equal to 50%, to participate in the setting and overseeing of financing and operational policies of another entity for the purpose of obtaining profits from that entity.

Significant influence may be present in one or more of the following aspects:

- Representation on the Board of Directors or equivalent regulatory organ of the associated entity.
- Participation in policy-making processes.
- Significant transactions between the investor and the associated entity.
- Secondment of officers, or
- Supply of essential technical information.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

Equity investments in non-controlled entities include shares of low or minimum liquidity or without any trading on an exchange which do not permit any type of control or to exert significant influence and are recognized at historical cost; their updating arises from the periodic comparison of the cost of the investment to its net book value or its value in the stock market.

In accordance with the Technical Standard Related to Assets of the RCP, the investments made in foreign currency should be recognized applying the representative market rate (TRM) of the transaction date. The value must be re-expressed periodically based on the TRM. For foreign subsidiaries, the equity method should be applied in Colombian pesos, following the translation of the financial statements.

### **Receivables and Provision for Doubtful Accounts**

Receivables are recognized at their original amount or at the amount accepted by the debtor, which is subject to periodic updating in accordance with current legal provisions or agreed contractual terms.

The provision for doubtful accounts is reviewed and updated periodically in accordance with the aged analysis of balances, and the evaluation of the recoverability of individual accounts. The Company carries out the necessary administrative and legal procedures to recover delinquent accounts receivable as well as the collection of interest from customers that do not comply with payment policies.

It is only possible to write-off accounts and notes receivable against the provision for doubtful accounts when there is reasonable legal certainty of the total or partial loss of the asset.

### **Inventories**

Inventories include assets extracted, transformed and acquired for any reason, to be sold, intended for transformation and consumed in the production process, or as a part of services rendered. Ecopetrol uses the perpetual inventory system to account for raw materials.

Inventories are recorded at historical costs or at purchase cost, which includes direct and indirect charges incurred to prepare the inventory for sale or production conditions.

This valuation is measured under the weighted average method, considering the following parameters:

- Crude oil and natural gas inventories for the Company's own production, at production cost.
- Crude oil purchases, at acquisition costs, including transportation and delivery costs incurred.
- Finished goods inventory, at total production costs (at each refinery).
- Work in progress inventory, at production costs.
- Raw material inventory, at weighted average cost.

Raw materials and supplies in joint ventures are controlled by the operator and reported in a joint account at acquisition costs (recorded in the original currency at average costs). Inventory consumptions are charged to the joint venture as expense or property, plant and equipment or natural environmental properties, as appropriate.

Additionally, inventories are valued at the lower of market value and average cost; and at the actual cost incurred for in-transit inventories. At the end of the year, provisions are calculated to recognize impairment, obsolescence, excess, slow-moving or loss of market value.

### **Property, Plant and Equipment and Depreciation**

Property, plant and equipment are recorded at the historical cost, adjusted for inflation until 2001, which includes financial expenses and exchange differences from foreign currency financing incurred until the asset is placed in service. When an asset is sold or retired, the adjusted cost and accumulated depreciation are written off and any gain or loss is recognized in results of operations.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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Depreciation is calculated on the total acquisition cost using the straight-line method, based on the assets useful life. Annual depreciation rates used are:

	%
Buildings and pipelines	5
Plants and equipment	10
Transportation equipment	20
Computers	33.3

Regular disbursements for maintenance and repairs are included in expenses. Significant disbursements which improve efficiency or extend asset's useful life are capitalized.

Until 2007, devaluation had been recorded as the lesser value of the revaluations of assets and in equity without effect on the results of the period. However, in compliance with RCP, for 2008 revaluations were reclassified to the equity account known as "Effect of the Application of the Rules for Public Accounting". Beginning in 2009, devaluation of property, plant and equipment is charged to results.

### Natural and Environmental Resources

The Company applies the internationally recognized successful efforts method of accounting for investments in exploration and production areas. The acquisition of geological and geophysical seismic information is expensed as incurred, before the discovery of proved reserves. Acquisition costs are capitalized until the time in which it is determined if exploration drilling was successful. If exploration drilling results are unsuccessful, all incurred costs are expensed. Once a project is sanctioned for development, the accumulated acquisition and exploration costs are transferred to the oil investments account. Costs capitalized also include asset retirement cost. Asset and liability balances related to asset retirement costs are updated annually. Production and support equipment are accounted for on a cost basis and are part of the Property, Plant and Equipment subject to depreciation.

These investments are amortized using the technical units-of-production method on the basis of proved developed reserves without royalties by field. The reserves are based on technical studies prepared internally by the Company's Department of Reservoirs and approved by the Company's Reserves Committee, which follow estimation methodologies recommended by international organizations of specialists in hydrocarbon reserves. Proved reserves consist of estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is, prices and costs as of the date the estimate is made.

When a well is declared productive, in compliance with the information provided by the Exploration Vice-Presidency of Ecopetrol, tangible property (property, plant and equipment) is capitalized and intangible assets are recognized as an investment in natural and environmental properties.

When it is determined that a well located in an exploration zone has no proved reserves, it is considered a dry or not commercial well and accumulated costs are expensed in the same period this is known. Costs incurred in geology, seismic and similar activities are recorded in the income statement when incurred.

The estimation of hydrocarbon reserves is subject to several uncertainties inherent to the determination of the proved reserves, production recovery rates, the timeliness in which investments are made to develop the reservoirs and the degree of maturity of the fields.

Support equipment and other property and equipment are depreciated over their estimated useful lives.

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Upon the retirement of a complete unit of a proved field, costs and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. Upon the retirement of a partial unit of a proved field, costs are charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized as income. The Company does not sell any interest in properties.

The Company recorded as reserves within the account "natural and environmental resources" the Nation's contributions represented by crude oil and natural gas reserves derived from the reversion of concessions of oilfield areas in favor of the Nation, given prior to the effectiveness of Decree 1760 of 2003. Reserves were valued according to the technical-economic model where the value per barrel resulted from the relation between net present value at a discount rate and total proved reserves on the contribution date. Depletion is calculated using the units of production method.

Since Ecopetrol became an issuer in the Bolsa de Valores de Colombia (BVC) and the NYSE, the Company has used the methodology approved by the SEC for the calculation of reserves. On December 31, 2008, the SEC issued a final rule revising disclosure requirements relating to oil and gas reserves as contained in Rule 4-10(a) of Regulation S-X. Under the new SEC rule, reserves are required to be estimated by applying (x) the unweighted arithmetic average of the first-day-of-the-month price for each month within the year to (y) year-end quantities of proved reserves (the "SEC average price methodology"). Prior to this revision, the SEC required reserves to be estimated by applying (x) the year-end WTI price to (y) year-end quantities of proved reserves (the "SEC year-end price methodology"). The Company's proved reserves as of December 31, 2009 are based on the SEC average price methodology for U.S. GAAP purposes, which mirrors the average price methodology used by the Company in Colombia during this period. The Company's proved reserves as of December 31, 2008 are based on the SEC year-end price methodology for purposes of U.S. GAAP which mirrors the year-end price methodology used by the Company in Colombia during this period. However, the Company's proved reserves as of December 31, 2007 are estimated using average prices methodology used by the Company and under the SEC year-end price methodology for U.S. GAAP purposes. As a result, the quantity of proved reserves for this period differs from the estimated quantities of proved reserves in accordance with the SEC year-end methodology. See Note 33 herein for a discussion of the differences between Colombian Government Entity GAAP and U.S. GAAP.

On March 7, 2007, Decree 727 was issued replacing Decree 2625 of 2000, which includes regulations related to reserves valuation and accounting for hydrocarbons reserves of the Nation in the Company's financial statements. In addition, it orders Ecopetrol to register the value of the hydrocarbons exploration or production rights that it owns. This recording is carried out in memorandum accounts in compliance with the opinion issued by the CGN; however, these memorandum accounts are not part of the Company's balance sheet.

### **Impairment of Long-Lived Assets**

At the end of each year, the net value of long-lived assets held and in use is reviewed, including those to be dismantled or when circumstances or changes occur indicating that the book value may not be recoverable. The recording of provisions usually coincides with the formalization of an action plan by Ecopetrol, including, among others, the offer of such assets to third parties.

### **Deferred Charges**

Deferred charges include deferred income tax, which results from the temporary differences arising due to the different ways of determining book profit and taxable income at the end of each period.

They also include the investments made while negotiating the business collaboration contract between Ecopetrol and Schlumberger for the purpose of obtaining incremental production in the Casabe field. Such investments are amortized based on the units-of-production of the field. In addition, they include the costs incurred in the Sensor (SAP) project, which costs are amortized using the straight line method over five (5) years.

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Monetary correction attributable to non-monetary accounts (including equity) related to exploration and development activities, was recorded as a deferred asset or liability through December 31, 2001 and is transferred to results during the amortization and/or depreciation period of the assets originating it.

### Other Assets

Other assets includes goodwill, which corresponds to the difference between the value of purchase of the equity investments in controlled entities and their net book value, which reflects the economic benefits hoped to be achieved from the investment, originating in good name, specialized personnel, reputation of privileged credit, prestige due to sale of better products and services, favorable location and expectations of new businesses, among others.

Goodwill is amortized based on generally accepted methodologies during the term in which the investment recovery is expected, which are reviewed and updated annually based on actual results and future projections applied to investments.

Intangible assets are defined as immaterial goods or goods with no material existence, which may be identified and controlled and from which future use, exploitation, economic benefits or service might be obtained under reliable monetary measurements.

Software, licenses, patents, and rights, among others, are recognized as intangibles under the "other assets" heading for their acquisition, development or production cost. Intangible assets are amortized during (i) periods when it is expected that benefits will be derived from the incurred costs and expenses or (ii) during the term of legal or contractual coverage.

### Advances received from Ecogas to cover Build, Operate, Maintain and Transfer (BOMT) obligations

Pursuant to specific instructions from CGN, as a result of the sale of Ecogas by the National Government, the Company recognized as deferred income the net present value of the future payments scheme, in connection with Ecopetrol's liability related to BOMT contractors. These liabilities are due in 2017, the year when these contractual obligations end.

### Revaluations

#### a. Investments

Revaluations and surplus from revaluations correspond to the difference between the historical cost and the intrinsic value or the price quoted on a stock exchange.

#### b. Property, Plant and Equipment

Valorizations and valorization surplus of property, plant and equipment in the equity correspond to the difference between net book value and the market value for real estate or the current value in use for plant and equipment, determined by specialists registered with the Colombian Real Estate Association or by suitable technical personnel, respectively.

Following the guidelines established by the CGN under the RCP, the methodology used to appraise property, plant and equipment is the current value of the assets in use by going businesses (VAU as per its acronym in Spanish) for economic valuation of assets, considering current facilities condition and their useful lives in terms of production capability and ability to generate income. The revaluation of the property, plant, and equipment includes the excess difference between the respective appraisal value of these assets and their net book value.



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Updating the appraisal of movable assets is not mandatory when their historic cost, considered individually, is lower than 35 current monthly legal minimum wages. Additionally, updating the appraisal of property, plant and equipment as located in high risk areas is not mandatory.

### **Financial Obligations**

In accordance with RCP, public credit operations correspond to any action or contracts which, under compliance with legal regulations on public credit, are addressed to supply the Company with resources, goods and services under specific payment terms such as loans, issue and placement of bonds and public credit securities, and vendors' credit.

In regard to loans, public credit operations must be recorded for the actual disbursed amount while bonds and securities placed are recorded for their nominal amount.

### **Accounts Payable – Suppliers**

Correspond to obligations incurred by Ecopetrol with third parties in order to comply with its corporate purpose.

### **Income Tax**

The provision for income tax was calculated at the official rate of 33% in 2009 and 2008 and at the official rate of 34% in 2007, respectively, on the greater of presumptive or taxable income by the accrual method.

The effect of timing differences involving the payment of a lower or higher income tax in the current year is recorded as a deferred tax liability or asset, respectively, provided that a reasonable expectation exists that such differences will reverse and in the case of the deferred tax asset, that sufficient taxable income will be generated to recover the tax. The deferred tax balance was calculated at the rate of 33%.

The Company uses the special deduction for investment in real productive fixed assets equivalent to 40% of the effective investment carried out during the fiscal year. If such assets are sold, or they are no longer used in income producing activity prior to the expiration of their useful lives, the Company must reimburse the proportional value of the deduction taken during the remaining productive lives of the assets in the income tax return corresponding to the fiscal period in which such fact arises.

### **Labor and Pension Obligations**

The system for salaries and fringe benefits for Ecopetrol personnel is governed by the Collective Labor Agreement 01 of 1977, and in the absence thereof, by the Labor Code. In addition to fringe benefits, Ecopetrol employees are entitled to receive additional benefits covered by previous regulations that depend on the place, type of work, length of service, and basic salary. Annual interest of 12% is paid on accumulated severance amounts in favor of each employee and the payment of indemnities is provided for when special circumstances arise that result in the non voluntary termination of the contract, and in periods other than the qualifying period.

The actuarial calculation includes active employees with indefinite term contract, pensioners and heirs, for pension, health care and education plan; it likewise includes pension bonuses for temporary employees, active employees and voluntary retirements.

All social benefits of employees who joined the Company before 1990 are the direct responsibility of Ecopetrol, without the involvement of the Colombian social security entity or institution. The cost of health services of the employee and his/her relatives registered with the Company is determined by means of the morbidity table, prepared on the basis of facts occurring during 2009. Likewise, the experience of Ecopetrol is considered for the calculation of educational allowances, based on the annual average cost of each business segment, subdivided in accordance with the class of studies: pre-school, primary, high school and university.

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For employees who joined the Company as of the effectiveness of Law 50 of 1990, the Company makes periodic contributions for severance, pensions and labor related injuries to the respective funds that assume all these obligations. Likewise, Law 797 of January 29 of 2003 determined that Ecopetrol employees who joined the Company as of January 29, 2003 will be subject to the provisions of the General Pension Regime.

Pursuant to Decree 941 of 2002, once the actuarial calculation was approved by the Ministry of Finance in October 2008 and the mechanism for transfer (“commutation”) of the corresponding liability was approved by the Ministry of Social Protection on December 29, 2008, the Company as of December 31, 2008 transferred (“commuted”) the amounts corresponding to its pension liabilities, to autonomous pension trust funds (PAP). The amount transferred as of December 31, 2008 was \$10,092,528 million, which also implied removing the pension trust fund assets and their corresponding pension liabilities for the same amount from the balance sheet and transferring them to the memorandum accounts.

The transferred funds, as well as their earnings, cannot change their destination nor be restored to the Company until all the pension obligations have been fulfilled.

The transferred liabilities correspond only to the pension obligations; those relating to health care and education services remain Ecopetrol’s direct obligations.

### **Purchase of hydrocarbons**

The Company purchases hydrocarbons that the ANH receives from all the production in Colombia, at prices established according to section four of Law 756 of 2002 and Resolution 18-1709 of 2003 of the Ministry of Mines and Energy, considering the international prices of reference.

Additionally, it purchases hydrocarbons both from partners as well as from other producers in Colombia and abroad to meet the needs and operating plans of the Company.

### **Recognition of Income**

Income from crude oil and natural gas sales is recognized at the time of transfer of title to the buyer, including its risks and benefits. In the case of refined and petrochemical products, income is recognized when products are shipped by the refinery; subsequently, they are adjusted in accordance with the volumes actually delivered. Income from transportation services is recognized when products are transported and delivered to the buyer in accordance with sale terms. In other cases, income is recognized at the time it is earned and a true, probable and quantifiable right to demand its payment arises.

Late payment interest income on the collection of accounts receivable is recognized following prudence and realization principles.

Starting in March 2007, price differentials for gasoline and diesel are granted by the Nation to refiners such as Ecopetrol, as provided in Law 1111 of 2006 (Budget Law). Income from said price differentials corresponds to the difference between the regulated price and the international parity price and was recorded by the Company in 2008 in accordance with the Ministry of Mines and Energy Resolution No. 181496 of September 2008, which replaced resolution 180414 of March 2007. Under the new resolution, interest income relating to these price differentials was recorded for 2008. In addition, in 2008, both the value of and interest on the price differential were calculated in U.S. dollars, generating a net gain due to the difference in the Colombian peso/U.S. dollar exchange rate. Furthermore, Resolution 182439 and Decree 4839 of December 2008 established the procedure for the recognition of the price differentials when the amount is negative (the difference between the parity price and the regulated price is negative).

In 2009, the price differential and related interest income was again calculated in Colombian pesos, including the recognition of interest related to these price differentials.

## Ecopetrol S.A. and Subsidiaries

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### **Cost of Sales and Expenses**

Costs are recognized at their historic value both for goods purchased for sale, goods produced for sale and services rendered. Costs are disclosed according to the sale operation generating such cost.

Expenses correspond to amounts required for the development of the ordinary activity and include those caused by extraordinary events. Expenses are disclosed in accordance with their nature and the occurrence of extraordinary events.

Costs and expenses are recognized upon receipt of goods or services or when there is certainty of the occurrence of the economic fact. Fuel shortages and losses due to thefts and explosions are recorded as non- operating expenses.

### **Abandonment of Fields**

The Company recognizes the liability for future environmental obligations and its corresponding entry is capitalized as a greater value of natural and environmental resources assets. The estimation includes plugging costs and abandonment of wells, dismantling of facilities and environmental recovery of areas and wells. Amortization is imputed to production costs, using the technical units-of-production method based on proved developed reserves. Changes resulting from new estimates of the liability for abandonment and environmental restoration are capitalized to the respective asset. The related liability is estimated in foreign currency and is adjusted for exchange difference at the end of each year as a greater or lesser value of the asset.

Since the extension of certain association contracts, the abandonment costs are assumed by the associates in the percentages of participation established in each contract. Ecopetrol has not allocated funds in order to cover these obligations, with the exception of association contracts Casanare, Cravo Norte, Guajira and Cravo Norte Pipeline; however, regarding these contracts, the Company is required to cover all costs arising from abandonment-related activities before the contracts were extended.

### **Accounting for Contingencies**

As of the date of these consolidated financial statements, conditions that result in losses for the Company might exist, which will only be known if future specific circumstances arise. Management, the legal Vice Presidency and legal counsel evaluate these situations based on their nature, the likelihood that they will materialize, and the amounts involved, to decide on any changes to the amounts accrued and/or disclosed. This analysis includes current legal proceedings against the Company.

After the change to RCP in 2007, the Company began adjusting the methodology used to evaluate its legal proceedings and any contingent liability there under. Such methodology was completed in 2008 and is based on the credit system of the Nation, which is used by the Ministry of the Interior and of Justice. Prior to October 31, 2008, Ecopetrol recognized its legal proceedings under the methodology it had used in the past; however, the new methodology was applied at December 31, 2008.

### **Risks and Uncertainties**

The Company is subject to certain operational risks which are customary to the oil and gas industry in Colombia, such as terrorism, product theft, crude oil international price changes, environmental damages, and variations in the estimations of hydrocarbon reserves.

### **Net Income per Share**

Net income per share is calculated based on the weighted average of outstanding shares of the Company during the year.

## Ecopetrol S.A. and Subsidiaries

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### Memorandum Accounts

These accounts represent facts or circumstances from which rights or obligations could derive and affect the Company. However, Memorandum Accounts are not included in the Company's balance sheet.

### Reclassifications

Certain figures in the financial statements of 2008 and 2007 were reclassified for comparative purposes with those of 2009, as a result of the establishment of new accounting parameters resulting from the operational reorganization of certain areas, such as those related to administrative resources, operating expenses, costs of sales and RCP modifications to Colombian Government Entity GAAP.

### 2. Assets and liabilities denominated in foreign currency

Transactions and balances in foreign currency are translated into Colombian pesos at the exchange rate certified by the Finance Superintendency of Colombia.

At December 31, 2009 and 2008, the consolidated financial statements of Ecopetrol included the following assets and liabilities denominated in foreign currency (which are translated into Colombian pesos at the closing exchange rates, \$2,044.23 and \$2,243.59 for US\$1, for 2009 and 2008, respectively).

	<b>2009</b>		<b>2008</b>	
	<b>Thousands of US\$ dollars</b>	<b>Equivalent millions of COP</b>	<b>Thousands of US\$ dollars</b>	<b>Equivalent millions of COP</b>
<b>Assets:</b>				
Cash and cash equivalents	1,133,720	\$ 2,317,585	1,504,857	\$ 3,376,282
Investments	1,602,179	3,275,223	4,243,339	9,520,313
Accounts and notes receivables	792,713	1,620,487	1,930,970	4,332,305
Advances and deposits	120,923	247,194	171,040	383,744
Other assets	713,950	1,459,478	-	-
	<b>4,363,485</b>	<b>\$ 8,919,967</b>	<b>7,850,206</b>	<b>\$ 17,612,644</b>
<b>Liabilities:</b>				
Financial obligations	1,601,090	\$ 3,272,996	103,171	231,473
Estimated liabilities and provisions	1,519,417	3,106,037	926,695	2,079,124
Accounts payable	607,508	1,241,886	347,957	780,670
Other liabilities	503,388	1,029,041	557,331	1,250,422
	<b>4,231,403</b>	<b>\$ 8,649,960</b>	<b>1,935,154</b>	<b>\$ 4,341,689</b>
<b>Net Asset Position</b>	<b>132,082</b>	<b>\$ 270,007</b>	<b>5,915,052</b>	<b>\$ 13,270,955</b>

## Ecopetrol S.A. and Subsidiaries

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### 3. Cash and cash equivalents

	2009	2008
Banks and saving entities	\$ 1,508,846	\$ 1,395,199
Special and revolving funds (1)	1,690,815	703,577
Cash	82	408
Sight investments (2)	362,376	14,619
	<u>\$ 3,562,119</u>	<u>\$ 2,113,803</u>

(1) Includes savings in special funds in local and foreign currencies in the amount of \$1,690,781 (2008 - \$698,980) and investments in overnight operations in the amount of \$34 (2008 - \$4,597). The year-to-year difference results from higher liquidity needs to support new business opportunities during the first quarter of 2009.

(2) Represented by trust rights and time deposits of \$167,403 from Reficar, \$124,271 from Hocol, \$54,366 from Ocesa, \$6,790 from Oleoducto de Colombia, \$6,865 from Propilco, \$2,373 from Ecopetrol Oleo e Gas do Brasil, \$305 from Ecopetrol, and \$3 from Bioenergy.

#### Restrictions on banks and corporations

Payment made by Ecopetrol to the Neuro Science Center of Cuba for US\$98,447 is currently withheld by the ABN bank, Miami Agency (now Banco Itau Internacional) as part of the embargo of the United States against Cuba following the Office of Foreign Assets Control (OFAC) regulations.

### 4. Investments

	2009	2008
<b>Current:</b>		
<b>Fixed yield:</b>		
Investment Funds administered by third parties (1)	\$ 197,485	\$ 2,077,218
Bonds and securities of private or foreign entities (1)	60,330	1,099,487
Trust Funds	77,929	326,941
Bonds issued by the Colombian Government	126,375	224,053
Specific destination Funds – Legal Contingencies	-	10,212
Treasury Securities – TES	-	6,970
Time deposits	-	5,038
Other investments	139	-
<b>Total Current</b>	<u>\$ 462,258</u>	<u>\$ 3,749,919</u>
<b>Long Term:</b>		
<b>Variable yield - Shares (3)</b>	\$ 777,503	\$ 2,404,695
<b>Fixed yield:</b>		
Bonds and securities of foreign entities	1,834,779	5,094,596
Bonds issued by the Colombian Government	602,039	754,054
Specific destination Funds – Legal Contingencies	380,463	378,461
Treasury Securities- TES	94,252	56,529
Other investments (2)	21,703	-
	<u>3,710,739</u>	<u>8,688,335</u>
Less: Provision for investments protection	-	(15)
<b>Total Long term</b>	<u>\$ 3,710,739</u>	<u>\$ 8,688,320</u>

(1) During year 2009 an amount of US\$839 million was collected from deposits in three investment funds which have been destined to working capital and new acquisitions of the Company.

(2) Corresponds to the remaining resources in amount of \$21,584 derived from the production of the Teca Field – Cocorná Association Contract, which are currently held in trust waiting for the decision of the Arbitration Court on the continuity of the association contract with Mansarovar Energy Colombia Ltd.

(3) A summary of long-term investments of variable yield as of December 31, 2009, valued under the cost method, is set forth below:

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	<u>Number of shares and/or quotas</u>	<u>Participation percentage</u>	<u>Valuation date</u>	<u>Historical Cost</u>	<u>Intrinsic / Market Value</u>	<u>Revaluations (provisions)</u>
<b>STRATEGIC</b>						
Sociedad Portuaria de Olefinas	249,992	49.99	Dec-2009	\$ 317	\$ 417	\$ 100
Zona Franca de Cartagena S.A.	244	8.18	Dec-2009	239	669	431
Sociedad Portuaria del Dique	10	0.5	Dec-2009	5	8	3
<b>Total strategic</b>				<b>\$ 561</b>	<b>\$ 1,094</b>	<b>\$ 534</b>
<b>NON STRATEGIC</b>						
Empresa de Energía de Bogotá	6,310,980	7.35	Nov-2009	\$ 169,421	\$ 503,027	\$ 333,606
Interconexión Eléctrica S.A	58,925,480	5.48	Dec-2009	69,549	764,853	695,304
Propaise S.A.	18,744,883	0.99	Dec-2009	10	-	-
<b>Total non-strategic</b>				<b>\$ 238,980</b>	<b>\$ 1,267,880</b>	<b>\$ 1,028,910</b>

A summary of variable yield long-term investments, valued under the equity method, is set forth below:

	<u>Number of shares and/or quotas</u>	<u>Participation percentage</u>	<u>Valuation date</u>	<u>Historical Cost</u>	<u>Adjusted cost</u>	<u>Equity method effect</u>
<b>Significant influence</b>						
Serviport S.A.	53,714,116	49.00	Nov-09	\$ 2,081	\$ 7,433	\$ 5,352
Ecodiesel Colombia S.A.	7,750,000,000	50.00	Nov-09	7,750	7,921	171
Offshore International Group(1)	250	50.00	Dec-09	404,664	363,199	(41,465)
Invercolsa S.A.(2)	889,410,047	31.76	Nov-09	60,282	148,844	88,562
Arces Group (3)	10,001	100.00	Dec-09	6,000	3,919	(2,081)
Amadine Holding (3)	500	100.00	Dec-09	6,657	6,646	(11)
<b>Total</b>				<b>\$ 487,434</b>	<b>\$ 537,962</b>	<b>\$ 50,528</b>

In accordance with the RCP, Ecopetrol's investments in associated companies in which it has significant influence were valued under the equity method. Significant influence is defined as the power that the entity has, regardless if the percentage of ownership is less than or equal to 50%, to participate in the setting and overseeing of financing and operational policies of another entity for the purpose of obtaining profits from that entity.

(1) Offshore International Group Inc.

In February 2009, Ecopetrol in association with the Korea National Oil Corporation - KNOC acquired a 100% stake (50% for each participating company) in Offshore International Group Inc. ("OIG") for a total purchase price of \$2,453,316 (US\$992 million). The transaction generated goodwill of \$821,994. The purchase price is subject to the adjustments which may arise as described in section 2.2 of the related purchase agreement.

OIG is the U.S. parent of Petro-tech Peruana S.A. Petro-Tech Peruana S.A. is a Company whose economic activity is the exploration, production and processing of hydrocarbons in Perú.

(2) Restrictions over variable income long-term investments

The 28th Bogota Civil Court issued a decision on February 8, 2007 under which Mr. Fernando Londoño was condemned to return to Ecopetrol the shares that he acquired in Inversiones de Gases de Colombia S.A. (Invercolsa) as well as the amount of dividends he received from those shares. The decision was appealed and is currently awaiting a ruling by at the High Court of Justice (Civil Court).

In addition, the Council of State ruled in favor of Ecopetrol in a popular lawsuit filed by two citizens, whom were ordered the return their shares and dividends received from these shares to Ecopetrol. The decision was affirmed by the Constitutional Court. However, because this lawsuit was based on constitutional jurisdiction, it is not final until decision is reached in a court of civil jurisdiction.

On September 10, 2009, the Administrative Court of Cundinamarca issued an order requiring the legal representative of Invercolsa in order to cancel a collateral warranty of some of its stock in favor of the Arrendadora Financiera Bolivariana Internacional S.A. (AFIB). Although Invercolsa was eventually represented legally, the registry of stock in Ecopetrol's name is pending a final decision by the 27th Civil Court of Bogotá.

(3) As of December 31 of 2009 these companies were undergoing liquidation proceedings

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A summary of the balances of Ecopetrol's consolidated subsidiaries as of December 31, 2009 is set forth below:

<b>Company</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Results of the period</b>
Black Gold Re Ltd	\$ 230,652	\$ 5,384	\$ 225,268	\$ 14,705
Ecopetrol Oleo é Gas do Brasil Ltda.	31,340	10,928	20,412	(139,743)
Ecopetrol America Inc	1,249,328	12,880	1,236,448	(318,609)
Ecopetrol del Perú S.A.	81,228	10,450	70,778	(3,347)
Andean Chemicals Limited	1,717,785	1,193,676	524,109	(65,597)
Polipropileno del Caribe S.A.	983,246	354,652	628,594	47,712
Compounding and Masterbatching Industry Ltda – COMAI.	76,539	28,516	48,023	27,114
Bioenergy S.A.	64,928	6,593	58,335	(2,476)
ODL Finance S.A.	1,381,021	959,245	421,776	12,419
Oleoducto Central	1,773,783	63,824	1,709,959	-
Ecopetrol Transportation Company	509,716	27,418	482,298	634
Hocol Petroleum Limited	1,901,317	608,693	1,292,624	330,590
Oleoducto de Colombia	311,550	27,090	284,460	(22,027)
Refinería de Cartagena	3,046,293	572,520	2,473,773	(127,854)
Ecopetrol Global Energy	1,242,406	8	1,242,398	(316,887)

A summary of the balances of Ecopetrol's consolidated subsidiaries as of December 31, 2008 is set forth below:

<b>Company</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Results of the period</b>
Black Gold Re Ltd	\$ 245,470	\$ 13,277	\$ 232,193	\$ 18,515
Ecopetrol Oleo é Gas do Brasil Ltda.	17,727	20	17,707	(1,907)
Ecopetrol America Inc.	1,294,425	30,068	1,264,357	(243,317)
Ecopetrol del Perú S.A.	25,588	6,103	19,485	(43,333)
Andean Chemicals Limited	392,795	15,816	376,979	8,255
Polipropileno del Caribe S.A.	970,284	410,340	559,944	53,346
ODL Finance S.A.	680,004	3,376	676,628	186

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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The economic activity and the net results for companies in which Ecopetrol has investments for the years 2009 and 2008 are set forth below:

<b>Company</b>	<b>Economic Activity</b>	<b>Net result 2009</b>	<b>Net result 2008</b>
Interconexión Eléctrica S.A. (1)	Operation, maintenance, transmission and sale of electrical power.	\$ 371,996	\$ 179,495
Empresa de Energía de Bogotá S.A. ESP. (2)	Electrical energy power transmission	\$ 786,888	\$ 230,756
Invercolsa S.A. (1)	Investments in energy sector companies including activities inherent to the industry and commerce of hydrocarbons and mining.	\$ 71,903	\$ 111,773
Serviport S.A. (1)	Provision of support services for loading and unloading of crude oil ships, supply of equipment for the same purpose, load inspections and measurements.	\$ 941	\$ (500)
Ecodiesel Colombia S.A. (1)	Production, sale and distribution of bio-fuels and oleo-chemicals.	\$ 336	\$ 76
Offshore International Group	Exploration, development, production and processing of hydrocarbons.	\$ 69,845	\$ -

(1) Information as of November 30, 2009

(2) Preliminary information as of December 31, 2009

The classification of treasury investments depends on the use of the funds, their destination and maturity. Investments whose maturity or realization is shorter than one year and those which will be utilized within the next business cycle are held for short term.

A summary of the Company's main long-term fixed yield investments as of December 31, 2009 to be redeemed during the next five years is set forth below:

<b>Maturity</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>&gt; 5 Years</b>	<b>Total</b>
Bonds and securities of foreign entities	\$ 1,681,593	\$ 101,843	\$ 51,343	\$ 1,834,779
Bonds issued by the Colombian Government	311,367	290,672	-	602,039
Treasury Securities - TES	36,149	45,905	12,198	94,252
Other investments	21,703	-	-	21,703
Fund for legal contingencies	61,227	139,009	180,227	380,463
	<b><u>\$ 2,112,039</u></b>	<b><u>\$ 577,429</u></b>	<b><u>\$ 243,768</u></b>	<b><u>\$ 2,933,236</u></b>

A summary of the Company's main long-term fixed yield investments as of December 31, 2008 to be redeemed during the next five years is set forth below:

<b>Maturity</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>&gt; 5 Years</b>	<b>Total</b>
Private Bonds	\$ 4,145,510	\$ 757,805	\$ 191,281	\$ 5,094,596
Bonds and securities issued by the Colombian Government	144,180	442,297	167,577	754,054
Treasury Securities - TES	31,317	13,863	11,349	56,529
Fund for legal contingencies	131,250	159,726	87,485	378,461
	<b><u>\$ 4,452,257</u></b>	<b><u>\$ 1,373,691</u></b>	<b><u>\$ 457,692</u></b>	<b><u>\$ 6,283,640</u></b>



Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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5. Accounts and notes receivable

	<u>2009</u>	<u>2008</u>
<b>Current portion</b>		
Customers:		
Local	\$ 975,743	\$ 555,405
Foreign	1,202,517	530,495
Price differentials to be received from the Ministry of Mines and Energy (1)	263,513	3,970,115
Other debtors	300,586	350,227
Related parties	-	237,236
Reimbursements and investment yields (2)	99,798	111,977
Association contracts – Joint operations	85,582	52,821
Doubtful accounts	62,038	33,008
Accounts receivable from employees	16,780	29,951
Notes receivable	14,661	22,680
Industrial service customers	11,965	17,046
	<u>3,033,183</u>	<u>5,910,961</u>
Less allowance for doubtful accounts	(64,063)	(33,679)
<b>Total current portion</b>	<b>\$ 2,969,120</b>	<b>\$ 5,877,282</b>
<b>Long-term portion</b>		
Local customers	\$ -	\$ 859
Loans to employees (3)	204,647	149,051
Credit portfolio (4)	22,129	41,010
Others	5	3,992
<b>Total long-term portion</b>	<b>\$ 226,781</b>	<b>\$ 194,912</b>

The aging determination and classification of the accounts receivable to customers at December 31, 2009, pursuant to maturity, is set forth below:

	<u>Maturity in days</u>		
	<u>0 - 180</u>	<u>181 - 360</u>	<u>More than 361*</u>
Current accounts receivable	\$ 2,037,815	\$ -	\$ -
Past Due accounts receivable	127,899	5,777	6,769
	<u>2,165,714</u>	<u>5,777</u>	<u>6,769</u>
Local customers	974,241	75	1,427
Foreign customers	1,191,473	5,702	5,342
	<u>\$ 2,165,714</u>	<u>\$ 5,777</u>	<u>\$ 6,769</u>

The aging determination and classification of the accounts receivable to customers at December 31, 2008, pursuant to maturity, is set forth below:

	<u>Maturity in days</u>		
	<u>0 - 180</u>	<u>181 - 360</u>	<u>More than 361*</u>
Current accounts receivable	\$ 1,036,244	\$ 2,131	\$ 859
Past Due accounts receivable	47,525	-	1,507
	<u>1,083,769</u>	<u>2,131</u>	<u>2,366</u>
Local customers	555,405	-	-
Foreign customers	530,495	-	-
	<u>\$ 1,085,900</u>	<u>\$ -</u>	<u>\$ -</u>

The movement of the allowance for doubtful accounts is set forth below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Initial balance	\$ 33,679	\$ 28,665	\$ 23,847
Additions (New provisions)	34,608	3,100	15,591
Adjustments to existing allowance	(3,445)	2,319	3,064
Recoveries	(779)	(405)	(13,837)
<b>Ending balance</b>	<b>\$ 64,063</b>	<b>\$ 33,679</b>	<b>\$ 28,665</b>

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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- (1) Corresponds to accounts receivable from the Ministry of Mines and Energy for a total amount of \$263,513 regarding the recognition of the regular motor gasoline and Diesel price differential and the opportunity cost. During the year payments in amount of \$4,105,909 were received corresponding to the opportunity cost and price differential of the regular motor gasoline and Diesel for year 2008. The opportunity cost accrued for 2009 was of \$235,704.
- (2) Made up by (i) dividends receivable from Interconexión Eléctrica S.A. – ISA in amount of \$2,117 and (ii) return and yield of investments receivable in amount of \$96,669.
- (3) By means of Leg contracts 058-80 of 1980 and 4008928 of 2006, the administration, management and control of loans granted to employees by the Company were given to Cavipetrol. In its capacity as administrator, Cavipetrol acts as custodian in its database and financial system of the detail by employee of said loans and their respective conditions.

The future collections of accounts receivable from Cavipetrol accounts at December 31, 2009 are as follows:

Year	Amount
2010	\$ 25,488
2011	27,782
2012	30,282
2013	33,008
2014 and following	88,087
	\$ 204,647

There are no other important restrictions to accounts and notes receivables' recovery.

- (4) A summary of the long-term recovery portfolio for each of the following five years is provided below:

Applicable interest rate	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
	Dec-10 to Nov-11	Dec-11 to Nov-12	Dec-12 to Nov-13	Dec-13 to Nov-14	Dec-14 to Nov-15	
DTF previous month	\$ 87	\$ 14	\$ -	\$ -	\$ -	\$ -
CPI + 6	9	19	19	5	-	-
CPI + 6	46	61	61	49	-	-
CPI	37	18	18	18	19	79
ECP opportunity rate -Bank Average	285	-	-	-	-	-
DTF + 6 points	10	-	-	-	-	-
Greater between 6% EA and CPI for semester starting July 2009	9,311	2,164	6,500	-	-	-
DTF + 6.25% T.A. percent points in its equivalent to E.A, starting on March 30, 2011	3,300	-	-	-	-	-
<b>Total annual recovery</b>	<b>\$ 13,085</b>	<b>\$ 2,276</b>	<b>\$ 6,598</b>	<b>\$ 72</b>	<b>\$ 19</b>	<b>\$ 79</b>
<b>Total</b>						<b>\$ 22,129</b>

DTF: Average of interest rates for fixed term deposits, promulgated by the Superintendency of Finance.  
 CPI: Consumer Price Index, as indicated by the Colombian Government  
 ECP: Ecopetrol  
 EA: Effective Annual Rate

Additionally, the long-term credit portfolio includes \$1,318 corresponding to benefits granted to the employees of the Asociación Guajira and the Asociación Las Monas through housing loans.

No other significant restrictions exist for the recovery of accounts and notes receivable.

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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6. Inventories

	2009	2008
<b>Finished Products:</b>		
Fuels	\$ 555,359	\$ 465,388
Petrochemicals	101,302	108,352
Crude oil	763,800	602,210
Natural gas	-	41
<b>Purchased Products:</b>		
Crude oil	23,212	35,568
Fuel	84,189	132,295
Petrochemicals	5,704	31,934
Natural gas	-	-
<b>Raw Materials:</b>		
Crude oil	74,343	96,970
Petrochemicals	29,045	29,596
Natural gas	-	-
<b>In-process Products:</b>		
Fuel	316,129	203,328
Petrochemicals	19,458	3,826
In transit inventories	21,870	11,279
Materials for the production of assets	93,298	9,907
Packing material	-	2,144
In transit materials	-	5,922
<b>Total</b>	<u>2,087,709</u>	<u>1,738,760</u>
Less allowance for inventories	(45,012)	(127,464)
<b>Total</b>	<u>\$ 2,042,697</u>	<u>\$ 1,611,296</u>

Below are the adjustments made to the allowance for inventories for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Initial balance	\$ 127,464	\$ 80,971	\$ 752
Adjustments to allowance, net	(82,452)	46,493	80,219
Ending balance	<u>\$ 45,012</u>	<u>\$ 127,464</u>	<u>\$ 80,971</u>

7. Advances and Deposits

	2009	2008
<b>Short term</b>		
Official Entities (1)	\$ 2,350,646	\$ 1,465,401
Partners in joint operations (2)	474,920	578,368
Advances to contractors	27,907	19,805
Agreements	19,364	16,880
Customs agents	12,611	14,484
Advances to suppliers	42,496	82,623
Related parties	89,782	2,528
Advances for assets acquisition	-	67,308
Advances to employees	1,053	725
	<u>3,018,779</u>	<u>2,248,122</u>
<b>Long-term</b>		
Advances and deposits	253,681	271,121
<b>Total</b>	<u>\$ 3,272,460</u>	<u>\$ 2,519,243</u>

(1) Includes transactions with the National Tax and Customs Administration - DIAN for advance income tax for 2009 in an amount totaling \$1,889,555, self withholdings, and others in an amount totaling \$461,091 (in 2008, \$498,671).

(2) Joint operations:

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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	<u>2009</u>	<u>2008</u>
<b>Contracts in which Ecopetrol is not the operator:</b>		
BP Exploration Company Colombia	\$ 25,845	\$ 112,230
Meta Petroleum Ltd.	73,450	80,092
Mansarovar Energy Colombia Ltd.	3,712	48,579
Occidental Andina LLC	21,386	36,996
Petrobras Colombia Limited	33,877	31,438
Anadarko Petroleum Corporation	2,495	25,410
Petróleo Brasileiro S.A. - Petrobras	120	-
Occidental de Colombia Inc.	10,864	16,997
BHP Billiton Petroleum Colombia	5,111	9,129
Hocol S.A.	-	7,370
Petrobras Internacional Braspetro B.V.	5,042	3,716
CEPSA Colombia S.A.	7,258	2,228
Perenco Colombia Limited	1,262	1,770
Kappa Resources Colombia Ltd.	1,694	1,199
Chevron Petroleum Company	76,693	-
Other operations	61,253	64,961
<b>Contracts in which Ecopetrol is the operator:</b>		
Oleoducto Caño Limón	55,931	120,797
La Cira	51,415	8,303
Tibú	4,120	3,087
CRC 2004 – 01	1,559	730
JOA Caño Sur	6,135	200
JOA Platanillo	-	22
Shared risk Catleya	706	20
Other operations	24,992	3,094
<b>Total</b>	<b>\$ 474,920</b>	<b>\$ 578,368</b>

8. Prepaid expenses

	<u>2009</u>	<u>2008</u>
Insurance (1)	\$ 20,199	\$ 14,247
Others (2)	42,616	9,968
<b>Total</b>	<b>\$ 62,815</b>	<b>\$ 24,215</b>

(1) \$13,242 corresponds to Ecopetrol S.A and is valid to April 2010.

(2) Includes mainly the resources paid by America Inc. for cash call in amount of \$38,603; and \$2,698 for purchase and maintenance of the vehicles assigned to top officers of Ecopetrol through leasing.

9. Property, Plant and Equipment, net

	<u>2009</u>	<u>2008</u>
Plant and equipment	\$ 13,438,144	\$ 11,291,735
Construction in progress (1)	6,487,411	3,435,379
Pipelines, networks and lines (2)	13,171,399	4,081,579
Buildings	2,184,484	1,194,298
Equipment on deposit and in transit	1,221,822	949,724
Transportation equipment and other fixed assets	389,728	286,864
Computer equipment	313,891	281,037
Land	302,420	76,660
<b>Total</b>	<b>37,509,299</b>	<b>21,597,276</b>
Accumulated depreciation	(20,226,621)	(12,426,330)
Provision for property, plant and equipment (3)	(500,175)	(1,093,458)
<b>Total</b>	<b>\$ 16,782,503</b>	<b>\$ 8,077,488</b>

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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- (1) The representative amounts corresponds to infrastructure projects such as the Barrancabermeja's Refinery modernization project and fuel hydro treatment plant; drilling projects of Apiay, Suria and Reforma wells – Direct Operation; drilling project of the Santiago de las Atalayas well – Joint Operation; start-up of the injection plants of Isla IV in the Mid Magdalena; construction of the Chichimene Station; construction of the naphtha pipeline Mansilla – Tocancipá, and the physical infrastructure adaptation project of Ecopetrol's premises.

As a result of the utilization of the syndicated loan to finance diverse investment projects, \$100,299 which were capitalized corresponds to the net effect of income and financial expenses.

- (2) Increase corresponds mainly to the incorporation of assets from Oleoducto Central and Oleoducto de Colombia into the Group of Companies' consolidated financial statements.
- (3) Corresponds to the final result of the appraisal made by Ecopetrol to the fixed assets in the year 2009, which represents the devaluation of assets by comparison of their net book value and their technical appraisal.

Below is the activity of the allowance for property, plant and equipment in each of the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Initial balance	\$ 1,093,458	\$ 105,118	\$ 97,227
Additions (new provisions)	144,431	1,013,116	9,037
Provision from business combination	-	770	-
Adjustment of existing provisions	(714,605)	(6,733)	(1,146)
Recoveries	(23,109)	(18,813)	-
Ending balance	<u>\$ 500,175</u>	<u>\$ 1,093,458</u>	<u>\$ 105,118</u>

Depreciation expense for years 2009, 2008 and 2007 charged to results amounted to \$1,262,643, \$691,488 and \$750,074, respectively.

The residual value is only considered in the valuation process for property, plant and equipment and only in the eventuality in which the assets are totally depreciated or are no longer in operating conditions. A 5% general average of the cost is applied, according to oil industry practice. This criterion is not applicable to assets classified as pipelines and buildings, since it is considered that the recoverable costs are equivalent to the costs of removal and transportation for their retirement. The assets are depreciated at 100% of their historical cost adjusted for inflation.

A summary of property, plant and equipment at December 31, 2009 is set forth below:

<u>Type of asset</u>	<u>Adjusted cost</u>	<u>Accumulated depreciation</u>	<u>Revaluations</u>	<u>Allowances</u>	<u>Fair Value</u>
Plants and equipment	\$ 13,438,144	\$ 9,410,022	\$ 3,506,575	\$ (347,839)	11,171,442
Pipelines, networks and lines	13,171,399	9,373,243	787,908	(71,262)	1,661,697
Construction in progress	6,487,411	-	-	-	-
Buildings	2,184,484	966,755	777,504	(67,442)	1,812,927
Equipment on deposit and in transit	1,221,822	-	-	-	-
Computer equipment	313,892	239,540	30,425	(5,636)	33,391
Transportation equipment and other fixed assets	389,727	237,061	96,802	(7,996)	93,656
Land	302,420	-	162,760	-	53,938
<b>Total</b>	<u>\$ 37,509,299</u>	<u>\$ 20,226,621</u>	<u>\$ 5,361,974</u>	<u>\$ (500,175)</u>	<u>14,827,051</u>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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A summary of property, plant and equipment at December 31, 2008 is set forth below:

Type of asset	Adjusted cost	Accumulated depreciation	Revaluations	Allowances	Fair Value
Plants and equipment	\$ 11,291,735	\$ 8,795,252	\$ 3,613,491	\$ (636,241)	10,978,466
Pipelines, networks and lines	4,081,579	2,644,522	308,518	(158,006)	714,405
Construction in progress	3,435,379	-	-	-	12,224
Buildings	1,194,298	532,271	529,766	(270,227)	1,008,253
Equipment on deposit and in transit	949,724	-	-	-	-
Computer equipment	281,037	229,026	25,617	(20,789)	25,581
Transportation equipment and other fixed assets	286,864	225,259	73,950	(8,195)	74,915
Land	76,660	-	11,668	-	26,635
<b>Total</b>	<b>\$ 21,597,276</b>	<b>\$ 12,426,330</b>	<b>\$ 4,563,010</b>	<b>\$ (1,093,458)</b>	<b>12,840,479</b>

There are not restrictions, pledges of bonds over these assets.

**10. Natural and Environmental Resources, net**

	2009	2008
Amortizable crude oil investments	\$ 17,676,586	\$ 13,727,384
Less: Accumulated amortization (1)	(8,756,267)	(7,007,255)
	<b>8,913,329</b>	<b>6,720,129</b>
Plugging and abandonment, dismantling of facilities and environmental recovery costs	2,942,370	1,965,902
Less: Accumulated amortization	(1,247,047)	(1,091,504)
	<b>1,695,323</b>	<b>874,398</b>
Reservoirs and appraisals (2)	701,590	701,590
Less: Accumulated depletion	(598,330)	(580,132)
	<b>103,260</b>	<b>121,458</b>
Exploration in progress (3)	<b>443,469</b>	<b>338,064</b>
<b>Total</b>	<b>\$ 11,155,381</b>	<b>\$ 8,054,049</b>

- (1) Amortization increase of crude oil investments resulted from the difference on the applied WTI price which increased from US\$44,6 bl. to US\$61,18 bl. in accordance with the SEC methodology. On the other hand \$2,996,112 was capitalized mainly for the Cusiana, Cupiagua, Capachos Sur, Rubiales, Girasol and Casabe fields, among others.
- (2) These reserves were received from the reversions of concession contracts in an amount totaling \$520,218 currently administered by Gerencia Sur and \$181,372 by Magdalena Medio.
- (3) Corresponds to the exploratory fields from Ecopetrol America Inc \$95,806, Ecopetrol Perú \$36,012, Hocol \$109,472, Ecopetrol Brasil \$14,743 Ecopetrol S.A \$187,436.

Amortization and depletion expense for years 2009, 2008 and 2007 charged to results amounted to \$1,474,918, \$1,087,583 and \$665,459, respectively.

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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**11. Pension Plan Assets**

Decree 2153 of 1999 required the Company to fund up to 70% of its pension liabilities existing as of December 31, 1998. In connection therewith, the Company created guaranteed trust funds with the entities described below and makes annual contributions thereto.

Pursuant to Decree 941 of 2002, once the actuarial calculation for pension obligations was approved by the Ministry of Finance in October 2008 and once the mechanism for transfer (“commutation”) of the corresponding liability was approved by the Ministry of Social Security on December 29, 2008, the Company transferred to pension trust funds an amount equal to the actuarial calculation for pensions as estimated on December 31, 2008, with a remaining balance of \$80,263.

During 2009, the pension trust funds earned a 14.52% annual yield and generated net earnings of \$1,429,872 as compared to \$1,171,960 in 2008. These earnings are not included in Ecopetrol’s financial results.

At December 31, 2009 and 2008, the Company had set up the following trusts:

	<b>2009</b>	<b>2008</b>
Consortio Fidubogotá – Fiducolpatria	\$ -	\$ 17,399
Consortio Fidupopular – Fiduoccidente	-	14,980
Consortio Fiduagraria - Fiducoldex - Helm Trust	-	9,610
Consortio BBVA - Corficolombiana – Fidubogotá	-	9,677
Consortio Fiducafé - Fiduprevisora - Fidupetrol	-	16,805
Consortio Fiducolombia - Santander Investment	-	11,792
<b>Total</b>	<b>-</b>	<b>80,263</b>
Less: short term redeemable portion (1)	\$ -	\$ 80,263

(1) Amount reimbursed to Ecopetrol in March 2009 which corresponded to the remainder resulting from the partial transfer (commutation) of monthly pension obligations made through the mechanism approved by the Ministry of Social Security in December 2008.

The trend of the coverage of trust funds with reference to the pension liability for fiscal year 2008 is as follows:

	<b>2008</b>	
	<b>Transferred amount</b>	<b>Non-transferred amount</b>
Pension Liability (*)	\$ 10,092,528	\$ 2,157,286
Trust funds	\$ 10,172,791	\$ 80,263
Coverage	100.8%	4%

\* The Company’s pension liability includes health care and education reserves and the actuarial calculation of its joint operations personnel, using the participation percentage initially agreed to in each respective contract. These amounts were not part of the transfer of pension liabilities.

The table below sets forth the adjustments made in the Company’s pension trust funds for the year ended December 31, 2008:

	<b>2009</b>	<b>2008</b>
Initial balance	\$ 80,263	\$ 9,495,674
Yields	-	1,171,960
Payments	-	(494,843)
Transfer of pension liability	-	(10,092,528)
Reimbursement from trust funds	(80,263)	-
Ending balance	<b>\$ -</b>	<b>\$ 80,263</b>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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**12. Deferred Charges**

	<b>2009</b>	<b>2008</b>
Deferred income tax	\$ 1,408,659	\$ 1,285,648
Other deferred charges (net)	419,342	235,720
Charges of deferred monetary correction, net	58,528	66,279
Deferred reinsurance expenses	-	8,036
	<b><u>\$ 1,886,529</u></b>	<b><u>\$ 1,595,683</u></b>

**13. Other Assets**

	<b>2009</b>	<b>2008</b>
Goodwill (1)	\$ 2,507,552	\$ 668,614
National Royalties Fund	76,185	82,147
Trust funds (2)	83,342	77,255
Intangibles: Trademarks, licenses, patents, software (3)	96,027	45,968
Abandonment of installations fund	-	31,283
Deposits held in trust (4)	258,745	20,879
Other assets (5)	12,847	9,832
	<b><u>\$ 3,034,698</u></b>	<b><u>\$ 935,978</u></b>

(1) Goodwill corresponds to:

- (i) \$621,099 to the net amount between goodwill and the monthly amortization as of December 31, 2009 relating to the acquisition of Andean Chemicals Limited and Polipropileno del Caribe S.A., with an estimated amortization term of 17 years and 8 months, determined based on the net present value of the investment reduced by the amount of the estimated future cash flows.
- (ii) \$773,492 to the purchase of Offshore International Group, which is subject to the adjustments that may arise to the purchase price, with an estimated term for amortization of 14 years determined based on the valuation of the reserves of block Z2B, the only block in production.
- (iii) \$507,255 as a result of the purchase of IPL Enterprises (now Ecopetrol Transportation Company) with an estimated term for amortization of 15 years determined based on Ocesa's outstanding contractual agreements as of the date of the negotiation.
- (iv) \$605,706 to the acquisition of Hocol Petroleum Limited with an estimated term for amortization of 16 years determined based on the net present value of the estimated future cash flows.

(2) Includes

- (i) Contributions and share in amount of \$68,024 into the National Hydrocarbons Fund created to support future hydrocarbon investment, exploration and production contracts in minor fields, projects managed by the private equity fund of Hydrocarbons of Colombia
- (ii) Contributions of \$5,728 to the Procuraduria Fund created for general benefit projects in municipalities near the Cicuco field under the Company's direct operation: Cicuco, Mompo and Talaigua Nueva (the objective of the fund is to disburse the amounts according to each project's development, which will be carried out by the municipalities through agreements with Incoder and the Ministry of Environment) and
- (iii) Contributions of \$9,590 to the Colpet, Condor and Sagoc Fund for possible contingencies in the liquidation of these former subsidiaries.

(3) Intangible assets corresponds to assets acquired, showing an increase of \$50,062 as compared to December 2008. Assets increase comprises acquisitions of licenses and software.

(4) Corresponds to the FAEP deposits to the National Royalties Fund in favor of Ecopetrol. Its sole purpose is the payment of debts and financing for development projects and programs in hydrocarbon producing and non-producing municipalities and departments. Ecopetrol disburses amounts after the Ministry of Finance issues the corresponding approvals.

(5) Includes restricted funds in amount of \$11,815 (2008 - \$73) and \$1,015, mainly represented by legal deposits destined to attend labor, civil and tax claims.



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**14. Financial Obligations**

Financial obligations at December 31, 2009 are as follows:

	<b>2009</b>	<b>2008</b>
<b>Short term</b>		
Foreign currency debt	\$ 101,968	\$ 231,015
Local currency debt	335,113	11
Issued Bonds	-	50,000
<b>Total short term</b>	<b>437,081</b>	<b>281,026</b>
<b>Long term</b>		
Foreign currency debt	13,845	561
Local currency debt	2,648,009	4,912
Foreign currency issued bonds	3,052,500	-
<b>Total long term</b>	<b>5,714,354</b>	<b>5,473</b>
<b>Total</b>	<b>\$ 6,151,435</b>	<b>\$ 286,499</b>

The details of Ecopetrol's financial obligations are as follows:

<b>Entity</b>	<b>Currency</b>	<b>Interest rate</b>	<b>USD (Thousand)</b>	<b>COP (Million)</b>
<b>Short term</b>				
Banco Agrario (1)	COP	DTF + 4 TA	-	1,601
Banco BBVA (1)	COP	DTF + 4 TA	-	1,465
Banco BBVA (2)	USD	0,98%	49,174	100,523
Banco Bogota (6)	COP	25,82%	-	19
Banco Bogotá (1)	COP	DTF + 4 TA	-	1,889
Banco Bogotá (2)	USD	1,19%	22,992	47,002
Banco Bogota (3)	USD	0,43%	250	511
Banco Colmena BCSC (1)	COP	DTF + 4 TA	-	163
Banco Av Villas (1)	COP	DTF + 4 TA	-	407
Banco Occidente (1)	COP	DTF + 4 TA	-	814
Banco Occidente (5)	COP	DTF + 5 TA	-	67,500
Banco Popular (1)	COP	DTF + 4 TA	-	1,616
Banco Popular (5)	COP	DTF + 5 TA	-	30,000
Banco Santander (1)	COP	DTF + 4 TA	-	488
Banco Santander (2)	USD	1,13%	5,902	12,065
Bancolombia (1)	COP	DTF + 4 TA	-	12,605
Bancolombia (6)	COP	25,08%	-	10
Bank of New York- Bonds issued Ecopetrol	USD		49,880	101,968
Davivienda (1)	COP	DTF + 4 TA	-	10,542
Finandina (4)	COP	15,34%	-	8
Helm Bank (1)	COP	DTF + 4 TA	-	1,352
Helm Bank (2)	USD	1,09%	21,670	44,298
Helm Bank (6)	COP	24,02%	-	117
Leasing Bancolombia (5)	COP	DTF + 5.3% TA	-	116
Uniandes (3)	COP	9,57%	-	2
<b>Total short term</b>			<b>149,868</b>	<b>437,081</b>
<b>Long term</b>				
Banco Agrario (1)	COP	DTF + 4 TA	-	196,700
Banco AV Villas (5)	COP	DTF + 5 TA	-	45,000
Banco BBVA- (1)	COP	DTF + 4 TA	-	180,000
Banco Bogotá (1)	COP	DTF + 4 TA	-	232,000
Banco Bogota (5)	COP	DTF + 5 TA	-	340,000
Banco Colmena BCSC (1)	COP	DTF + 4 TA	-	20,000
Banco Av Villas (1)	COP	DTF + 4 TA	-	50,000
Banco Occidente (1)	COP	DTF + 4 TA	-	100,000
Banco Popular (1)	COP	DTF + 4 TA	-	118,000
Banco Popular (5)	COP	DTF + 5 TA	-	37,500
Banco Santander (1)	COP	DTF + 4 TA	-	60,000
Bancolombia (1)	COP	DTF + 4 TA	-	750,000
Bancolombia (4)	COP	20.0469% EA	-	4,180
Bancolombia (7)	COP	DTF + 5.3% TA	-	622
Bank of New York- Bonds issued Ecopetrol	USD	7.625%	1,500,000	3,066,345
Davivienda (1)	COP	DTF + 4 TA	-	450,000
Helm Bank - (1)	COP	DTF + 4 TA	-	63,500
Leasing Bancolombia (6)	COP	DTF + 5.3% TA	-	398
UniAndes (3)	COP	9,57%	-	109
<b>Total long term</b>			<b>1,500,000</b>	<b>5,714,354</b>
<b>Total</b>			<b>1,649,868</b>	<b>6,151,435</b>

## Ecopetrol S.A. and Subsidiaries

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(1) Includes:

- (i) The disbursement of the syndicated loan with 11 local banks issued in an amount of \$2,220,200 to finance Ecopetrol's investment plans. In order to guarantee coverage of 120% of the credit amount, Ecopetrol granted the banks a stock pledge over the shares of stock it owns, either directly or indirectly, in the following companies:

Company	Amount
Oleoducto Central S.A.	1,110,035
Refinería de Cartagena S.A.	1,274,796
Polipropileno del Caribe S.A.	279,409
<b>Total</b>	<b>2,664,240</b>

- (ii) On July 23, 2009 the Company issued US\$ 1.5 billion, 7.625% unsecured and unsubordinated Notes due 2019 (the "Notes") under Rule 144A/Regulation S, with registration rights before the SEC. The Notes were issued pursuant to an Indenture dated as of July 23, 2009 (the "Indenture") between the Company and The Bank of New York Mellon, as trustee.

The terms of the notes are as follows:

- Coupon: 7.625%
- Make Whole on Optional Redemption: 50 basis points over equivalent U.S. Treasury Securities.
- Interests Payment Dates: July 23 and January 23 of each year, starting January 23, 2010.
- Maturity Date: July 23, 2019
- Denominations: US\$1.000 / US\$1.000

Under the Notes' terms, the Company is required to comply various covenants that, among other things:

- Require the Company to duly and punctually pay interest on the Notes at the rate of 7.625% per year on January 23 and July 23 of each year, beginning on January 23, 2010;
- Require the Company to duly and punctually pay principal on the Notes on the maturity date of July 23, 2019;
- Limit the ability of the Company and its material subsidiaries to incur any lien, except for certain permitted liens, to secure the payment of public external indebtedness of the Company or any of its material subsidiaries, except in cases where the Notes are secured equally and ratably with (or prior to) such indebtedness (but only for so long as such indebtedness is so secured); and
- Require the Company to make an offer to purchase all or any portion of outstanding Notes held by holders upon the occurrence of a Change of Control Repurchase Event (as defined in the Indenture).

- (2) Propilco's total debt is denominated in U.S. dollars at December 31, 2009 this debt totaled US\$ 99,738

Ecopetrol S.A. and Subsidiaries

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- (3) Comai
- (4) Bioenergy
- (5) ODL Finance's debt is guaranteed by the "Ship or Pay (SoP)" contracts mentioned in note 31: ODL's long-term debt expires as follows: \$130,000 in 2011, \$130,000 in 2012, \$130,000 in 2013, and \$32,500 in 2014.
- (6) Hocol
- (7) Reficar

**15. Accounts payable and transactions with related parties**

	<u>2009</u>	<u>2008</u>
<b>Short term</b>		
Advances from Partners	\$ 555,620	\$ 532,833
Deposits received from third parties	817,937	397,731
Suppliers	1,207,724	386,237
Related parties	-	19,002
Purchase of hydrocarbons from the Agencia Nacional de Hidrocarburos - ANH	441,533	210,056
Reimbursement of exploratory costs	141,775	120,627
Other payables (1)	109,952	38,996
Dividends payable (2)	3,510	2,158
Insurance and reinsurance payable	2,181	1,007
	<u>\$ 3,280,232</u>	<u>\$ 1,708,647</u>
<b>Long term</b>		
Other payables	<u>\$ 51,154</u>	<u>-</u>

(1) Includes \$37,577 payable to the Fuel Price Stabilization Fund due to the participation differential generated during 2009.

(2) It corresponds to dividends payable to shareholders who bought Company's shares on an installment payment plan and are in arrears there under. Shareholders' rights have been suspended pursuant with article 397 of the Commercial Code and will be restored once the installment payments are brought up to date.

**Balances and Transactions with related parties**

A summary of the most significant balances with related parties where Ecopetrol holds direct investments or interests are set forth below:

	<u>Accounts receivable</u>	<u>Advances receivable</u>	<u>Accounts payable</u>
Hocol Petroleum Ltd.	-	10,003	28,448
Ocensa S.A.	2,123	-	296,717
Refinería de Cartagena S.A.	360,138	-	35,775
Andean Chemicals Limited	1,170,739	-	-
Black Gold Re Ltd.(1)	-	-	197,485
<b>Balance as of December 2009</b>	<u>1,533,000</u>	<u>10,003</u>	<u>558,425</u>
<b>Balance as of December 2008</b>	<u>238,370</u>	<u>2,528</u>	<u>229,325</u>

(1) Corresponds to amounts received in administration.

## Ecopetrol S.A. and Subsidiaries

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The principal transactions with related parties as of December 31, 2009 are set forth below:

	Sales and services	Leases	Others
<b>Revenue:</b>			
Refinería de Cartagena S.A.	3,701,421	-	-
Ocensa S.A.	18,406	15,883	-
Andean Chemicals Limited	-	-	62,103
Oleoducto de Colombia S.A.	8,084	-	-
Compounding and Masterbatching (COMAI)	73,797	-	-
<b>Year ended December 31, 2009</b>	<b><u>3,801,708</u></b>	<b><u>15,883</u></b>	<b><u>62,103</u></b>
<b>Year ended December 31, 2008</b>	<b><u>4,778,329</u></b>	<b><u>13,849</u></b>	<b><u>53,954</u></b>
	Purchase of products	Transportation costs	Other
<b>Expenses:</b>			
Andean Chemicals Limited	-	-	-
Hocol Petroleum Ltd.	93,675	-	-
Ocensa S.A.	-	540,060	-
Oleoducto de Colombia S.A.	-	28,880	-
Refinería de Cartagena S.A.	373,199	-	-
<b>Year ended December 31, 2009</b>	<b><u>466,874</u></b>	<b><u>568,940</u></b>	<b><u>-</u></b>
<b>Year ended December 31, 2008</b>	<b><u>-</u></b>	<b><u>577,120</u></b>	<b><u>29,223</u></b>

There are no special price conditions or non-arms' length transactions with related companies. However, for Ocensa S.A. and Oleoducto de Colombia S.A. there is a maximum tariff determined by the Ministry of Mines and Energy that can be collected by both companies for the use of their pipeline systems. Their operation is based on the recovery of total operating and administrative expenses to determine the transportation unit cost. The cost per barrel is transferred to each shareholder that uses the system based on the barrels transported.

During 2009 no shareholder, director, legal representative, officer of the Company has engaged in any material operation with Ecopetrol. In addition, no shareholder, director, legal representative, or officer of the Company is a beneficial owner of 10% or more of the outstanding shares of the Company.

### 16. Taxes Payable

	2009	2008
Income tax and other taxes	\$ 1,940,756	\$ 3,618,553
Income and VAT with holdings	194,217	129,737
Special tax and surcharge on gasoline (1)	124,667	92,935
Industry and commerce and other minor taxes	123,707	20,917
Sales tax payable	49,675	44,326
<b>Total</b>	<b><u>\$ 2,433,022</u></b>	<b><u>\$ 3,906,468</u></b>

(1) This tax is levied on sales and/or consumption of regular and premium gasoline and diesel. The funds collected for this tax are paid to the National Treasury Office of the Ministry of Finance. The special tax is paid on the basis of the percentage participation of each beneficiary in the national monthly consumption of regular and premium gasoline.

Income tax returns may be reviewed by the tax authorities within two years of their filing date. At this date, the terms of filings for the years 2007 and 2008 are open for review.

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Currently, differences exist between the National Tax and Customs Administration (DIAN) and Ecopetrol regarding the calculation and payment method of the first installment of the 2003 and 2004 income tax returns because in the opinion of the DIAN the surtax of such years should have been included in the base. The result of this proceeding will not affect the Company's cash flow since the amounts under discussion have been directly compensated by the DIAN by positively adjusting the Company's balances with adjustments the Company had previously requested in unrelated cases.

Through its appellate decision dated March 13, 2009 (which became effective as of April 20, 2009), the Council of State partially accepted the claims of Ecopetrol to modify DIAN'S official liquidation plan, which sought an additional payment by Ecopetrol in an amount totaling \$27,033 (corresponding to the income tax return for fiscal year 1996 of \$1,888 plus default interest). The judicial decision accepted Ecopetrol's arguments on the exemption of the income tax on asphalt and the absence of a penalty for inexact information due to a difference in criteria and dismissed Ecopetrol's arguments related to the deductibility of the loss on the portfolio sale. Pursuant to Resolution 6282-1422 of September 2009, DIAN compensated Ecopetrol for the entire obligation plus default interest by recording an excess payment pending regarding VAT collection. Therefore, the application of the corresponding provision was duly recorded in accounting.

The provision for income tax was determined on net taxable income, as follows:

	2009	2008	2007
<b>Current income tax</b>	<b>\$ 1,948,819</b>	<b>\$ 3,611,020</b>	<b>\$ 2,006,484</b>
<b>Deferred tax:</b>			
Asset	(69,230)	494,757	(155,118)
Liability	234,440	276,205	34,146
	<b>165,210</b>	<b>770,962</b>	<b>(120,972)</b>
	<b>\$ 2,114,029</b>	<b>\$ 4,381,982</b>	<b>\$ 1,885,512</b>

The deferred tax asset is calculated based on the value of accounting provisions not accepted for tax purposes which are deductible at the time of their utilization, and the value of asset inflation adjustments originated from 2004 to 2006. The deferred tax liability results from the differences in the policy for amortization of crude oil investments which for accounting purposes are amortized by technical units of production whereas for tax purposes are amortized through the straight-line method, and the differences in the method for revaluation of fixed yield investments, which for regulation purposes are valued through the market method and for tax purposes are valued through the linear method.

	2009	2008
<b>Deferred tax asset:</b>		
Initial balance	\$ 1,285,648	\$ 1,779,874
Net activity for the year	69,230	(494,757)
Balance from subsidiaries acquired in 2009	53,781	531
<b>Ending balance</b>	<b>\$ 1,408,659</b>	<b>\$ 1,285,648</b>
<b>Deferred tax liability:</b>		
Initial balance	\$ 944,816	\$ 644,857
Net activity for the year	234,438	276,205
Balance from subsidiaries acquired in 2009	15,594	23,754
<b>Ending balance</b>	<b>\$ 1,194,848</b>	<b>\$ 944,816</b>

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The reconciliation of net taxable income is set forth below:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Income before income taxes	\$ 7,250,844	\$ 16,011,204	\$ 7,065,304
Monetary correction gain	(3,471)	25,300	23,711
Effect of tax inflation adjustment	108,615	(87,788)	(391,391)
Non deductible costs and expenses	1,256,081	813,248	432,278
Special deductions and deductible tax expenses	(3,291,472)	(2,837,230)	(1,176,608)
Other taxable income	182,199	1,085,307	55,972
Income not constituting income or capital gains	(126,460)	(907,847)	(22,772)
Non taxable income	(727,029)	(1,185,857)	(594,954)
Non deductible provisions	574,403	243,623	1,184,895
Non taxable trust funds yields	(250,265)	(890,538)	238,327
Net exempt income	(29,540)	(1,372,083)	(863,946)
Excess of presumptive over ordinary income	403,226	-	-
Net effect of consolidation of taxable income	(443,949)	75,269	-
<b>Net taxable income</b>	<b>4,932,722</b>	<b>10,972,608</b>	<b>5,950,816</b>
<b>Tax on taxable income</b>	<b>1,948,819</b>	<b>3,611,020</b>	<b>2,023,277</b>
Tax discounts	-	-	(16,793)
<b>Net current income tax</b>	<b>\$ 1,948,819</b>	<b>\$ 3,611,020</b>	<b>\$ 2,006,484</b>

The effective tax rate for the twelve-month periods ending December 2009, 2008 and 2007 was 29.16%, 27.37% and 26.69%, respectively.

**17. Labor Obligations**

As a result of a process that began in 2006, pursuant to Decree 941 of 2002, once the actuarial calculation for pension obligations was approved by the Ministry of Finance in October 2008 and once the mechanism for transfer (“commutation”) of the corresponding liability was approved by Ministry of Social Security on December 29, 2008, the Company, as of December 31, 2008, transferred (“commuted”) the amounts corresponding to its pension liabilities to autonomous pension trust funds (PAP). The amount transferred as of December 31, 2008 was \$10,092,528 million. Therefore, the Company removed the assets represented in trust funds and their corresponding pension liabilities from the balance sheet and transferred them to memorandum accounts. Pursuant to current regulations, transferred funds, as well as their earnings, cannot change their destination nor be restored to the Company until all the pension obligations have been paid. Moreover, Ecopetrol continues to be financially responsible for the transferred pension liability. At December 31, 2009 the amounts of pension liabilities was \$10,899,026 million and the amounts of autonomous pension trust funds (PAP) was \$10,971,723 million.

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	<u>2009</u>	<u>2008</u>
<b>Current</b>		
Bonuses and allowances (1)	\$ 57,022	\$ 40,773
Vacations	47,061	37,593
Severance (2)	42,598	32,391
Pension bonds issued and interest (4)	-	848
Salaries and pensions payable	13,078	12,491
Interest on severance	3,347	2,996
Others	2,357	2,566
<b>Total current</b>	<b><u>165,463</u></b>	<b><u>129,658</u></b>
<b>Long term</b>		
Retirement pensions and other benefits ECP (3)	2,583,117	2,082,072
Retirement pensions joint operations	77,826	75,215
Pension bonds issued and interests (4)	-	7,500
Other	8,388	-
<b>Total long-term</b>	<b><u>2,669,331</u></b>	<b><u>2,164,787</u></b>
<b>Total</b>	<b><u>\$ 2,834,794</u></b>	<b><u>\$ 2,294,445</u></b>

- (1) Includes provision for the 2009 variable compensation bonus in the amount of \$30,339 to be paid in 2010. Also includes provision for retirement bonus in the amount of \$6,829.
- (2) Increase obeys to the hiring of 560 new employees in Ecopetrol.
- (3) Corresponds to the actuarial reserve amount for health and education, which has not been transferred and has not been funded.

A summary of the Company's actuarial liability at December 31, 2009 and 2008 is set forth below:

	<u>2009</u>	<u>2008</u>	<u>Variation</u>
<b>Health</b>			
Active personnel	287,909	276,496	11,413
Pensioners	1,789,843	1,390,062	399,781
<b>Education</b>			
Active personnel	104,951	110,306	(5,355)
Pensioners	400,414	305,208	95,206
<b>Totals</b>	<b><u>2,583,117</u></b>	<b><u>2,082,072</u></b>	<b><u>501,045</u></b>

Increase obeys to 908 additional beneficiaries in the reserve and to the costs incurred in for health and education in 2009 which are reflected in the actuarial projection.

- (4) Variation results from the transfer of the issued pension bonds included in the actuarial reserves which will be paid through the Autonomous Pension Trust funds (PAP) and are controlled through the memorandum accounts.

A summary of personnel covered by the actuarial calculation for 2009 and 2008 is set forth below:

	<u>Headcount</u>	
	<u>2009</u>	<u>2008</u>
Bonds reserve – retired personnel	10,017	10,391
Bonds reserve – persons retiring after 2010	3,374	3,410
Health care and education reserve (active and pensioners)	17,901	17,375
Pension reserve (active and pensioners)	16,127	16,149

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18. Estimated Liabilities and Provisions

	2009	2008
<b>Current</b>		
Provision for legal proceedings (1) (See Note 30)	\$ 680,022	\$ 547,942
Provisions for contingencies (2)	96,859	87,255
Provision for pension funds (3)	2,203	4,000
Other provisions	192,631	34,776
Provision for pension obligations (6)	178,594	-
Provision for abandonment, dismantling of facilities and environmental recovery costs (4)	4,106	-
<b>Total current</b>	<b>\$ 1,154,415</b>	<b>\$ 673,973</b>
<b>Long-term</b>		
Provision for abandonment, dismantling of facilities and environmental recovery costs (4)	3,013,097	1,964,756
Provision for royalties (5)	380,933	388,674
Provision for pension obligations (6)	-	178,594
Other provisions (7)	17,947	10,767
<b>Total long-term</b>	<b>3,411,977</b>	<b>2,542,791</b>
<b>Total</b>	<b>\$ 4,566,392</b>	<b>\$ 3,216,764</b>

(1) The movement of the provisions for legal proceedings during fiscal years ended December 2009 and 2008 is set forth below:

	Number of cases	Provisions Amount
<b>Initial balance as of December 2008</b>	603	547,942
Additions (new provisions)	252	36,714
Adjustments to existing provisions	(135)	122,691
Recoveries	(29)	(27,325)
<b>Ending balance as of December 2009</b>	<b>691</b>	<b>680,022</b>

- (2) Include \$59,938 for possible payment claims to PDVSA related to the cleaning and decontamination of the Maracaibo lake in Venezuela; \$20,000 related to the proceeding filed by Compañías Asociadas de Gas - ASOGAS against Ecopetrol regarding inappropriate billing of the GLP transportation tariff; \$3,242 related to spillages with environmental impact; \$500 related to the retirement bonus of Hocol S.A. personnel; \$544 related to the success commission payable to the attorney in law handling the proceeding filed by Industrias Crizasa against Ecopetrol, and \$721 related to potential liabilities from arbitration decisions.
- (3) Corresponds to the estimated pending pension contributions of employees who joined Ecopetrol after January 29, 2003 (Law 797 of 2003) and until the first quarter of 2004, who were covered by the General Pension Regulations.
- (4) Difference between December 2008 of \$1,052,447 includes the updating of liabilities furnished by the Production Vice-presidency of Ecopetrol of \$1,203,773; the effect from foreign currency exchange of \$(188,225); the use of liabilities related to the abandonment wells in \$18,799 for the Casabe, La Cira-Infantas, Floreña, Cantagallo, Sardinata, Tibú, Petrolea, La Cira, Palagua, Sabana and Lisama-Llanito fields; \$73,832 from Hocol and \$10,383 from America Inc.

Below are the movements of the provisions for the abandonment cost, facility dismantling and environmental recovery costs which correspond to Ecopetrol \$2,933; Hocol \$74 and America Inc. \$10 for the years 2009, 2008 and 2007:

	2009	2008	2007
<b>Initial Balance</b>	\$ 1,964,756	\$ 1,528,374	\$ 1,355,989
Retirements and uses	(21,964)	(2,853)	(1,296)
Additions	1,188,670	54,418	94,887
Changes in estimation	80,243	208,131	214,485
Exchange rate effect	(194,502)	176,686	(135,691)
<b>Final Balance</b>	<b>\$ 3,017,203</b>	<b>\$ 1,964,756</b>	<b>\$ 1,528,374</b>

- (5) Includes a provision related to a claim of Comuneros of Santiago de las Atalayas and Pueblo Viejo of Cusiana, originated in Royalties Contracts 15, 15<sup>a</sup> and 16 and 16<sup>a</sup> executed with Ecopetrol, but declared null and void by the Colombian Council of State. Of this amount, \$90,752 corresponds to the initial claimed amounts, together with the valuation of the fund where the amounts are invested and \$290,180 corresponds to interests. The decision on the extraordinary appeal presented by the Comuneros is pending.
- (6) Corresponds to the provision of the pension reserve for employees that are expected to accept the "Plan 70" retirement plan on July 31 of 2010.
- (7) It corresponds to provision to cover the arbitration regarding Mansarovar Energy Colombia Ltda. controversy related to the termination date of Cocorná Association contract.



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**19. Other long term liabilities**

The other long term liabilities at December 31, 2009 and 2008, correspond to the following:

	<u>2009</u>	<u>2008</u>
Advances received from Ecogas for BOMT obligations	996,787	1,250,281
Deferred income tax liability	1,194,848	944,816
Credit for deferred monetary correction	200,230	227,605
Other liabilities (1)	339,355	2,789
Deferred commissions	-	1,430
<b>Total</b>	<b><u>2,731,220</u></b>	<b><u>2,426,921</u></b>

(1) Includes \$330,238 of ODL Finance which corresponds to credit portfolio securitization through an Autonomous Trust Fund.

**20. Non-controlling Interest**

Subsidiary	<u>2009</u>	<u>2008</u>	% of other shareholders
Bioenergy S.A.	11,696	8,682	20,05%
ODL Finance S.A.	147,621	234,269	35,00%
Oleoducto Central S.A.	684,054	-	40,00%
Oleoducto de Colombia S.A.	97,940	-	34,43%
	<b><u>941,311</u></b>	<b><u>242,951</u></b>	

**21. Equity**

	<u>2009</u>	<u>2008</u>
Authorized capital	15,000,000	15,000,000
Capital to be subscribed	(4,881,872)	(4,881,872)
<b>Subscribed Capital</b>	<b>10,118,128</b>	<b>10,118,128</b>
Subscribed capital pending payment	(337)	(337)
<b>Subscribed and paid-in capital</b>	<b>10,117,791</b>	<b>10,117,791</b>
Additional paid-in capital	4,721,457	4,704,737
Additional paid-in capital receivable	(1,137)	(25,461)
<b>Additional paid-in capital</b>	<b>4,720,320</b>	<b>4,679,276</b>
<b>Surplus from revaluations</b>	<b>6,391,417</b>	<b>5,179,961</b>
Devaluation of assets	(298,024)	(1,012,229)
Responsibilities from pending rulings	(781)	(781)
<b>Effects of RCP application</b>	<b>(298,805)</b>	<b>(1,013,010)</b>
Net income	5,132,054	11,629,677
Legal reserve	3,591,397	2,428,325
Appropriation for new explorations	1,568,107	4,415
Accounting clearance	17,804	17,804
Surplus from equity method	1,287,118	1,340,357
Incorporated institutional equity	137,725	94,375
Foreign exchange conversion adjustment	(94,971)	140,746
<b>Total equity</b>	<b><u>32,569,957</u></b>	<b><u>34,619,717</u></b>

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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### Subscribed and Paid-in-Capital

The authorized capital of Ecopetrol is \$15,000,000 divided into 60,000,000,000 common shares, with \$250 par value each, of which 40,472,512,588 shares have been subscribed, where 10.1% are held by private shareholders and 89.9% are held by the Colombian Nation.

### Additional paid-in capital

It Corresponds to (i) the excess over par value in the sale of shares at the 2007 capitalization for \$4,700,882 and (ii) to the value resulting in the new shares offering for the secondary market equal to \$20,575 which resulted from foreclosing of guarantees of delinquent debtors pursuant to Article 397 of the Commerce Code.

### Effects of RCP application

Corresponds to the transfer of negative balances originated from the devaluation of property, plant and equipment required by the RCP since 2008.

This line-item also includes responsibilities from pending rulings related to inventory losses, as required by the RCP.

### Legal Reserve

Legal reserve is set up with 10% of net income and it may be used to absorb losses or to be distributed at the liquidation of the Company.

The Company's 2008 financial results were available for the General Shareholders' Meeting that took place on March 26, 2009. At that meeting, the Company's Shareholders decided to increase the legal reserve by \$1,163,072 by December 31, 2009.

The reserves also include \$1,492,168 in occasional reserves for new explorations and \$75,939 in reserves for profits not realized from Ecopetrol's subsidiaries.

### Incorporated Institutional Equity

It corresponds primarily to the commerciality of Nare, Matambo, Garcero, Corocora, Estero, and Caracara association contracts relating to Sardinias 6, Remache Norte 3, Abejas 3, Jaguar T5 and T6, Orocué and Guarilaque 7 wells. Variation obeys to new commercial opportunities presented in 2009 in Corocora, Estero, Garcero and Campo Rico association contracts for Candalay, Jordan 5, Remache Norte 2 and 5, Abejas 2 and Vigia wells.

### Summary of Revaluations and Surplus from Revaluations

	<u>2009</u>	<u>2008</u>
<b>Property, plant and equipment:</b>		
Plant and equipment (1)	\$ 3,506,575	\$ 3,613,491
Buildings	777,504	529,766
Pipelines and networks	787,908	308,518
Land	162,760	11,668
Communication and computer equipment	30,424	25,616
Other assets	96,803	73,951
	<u>5,361,974</u>	<u>4,563,010</u>
<b>Variable yield investments:</b>		
Interconexión Eléctrica S.A.	695,303	348,822
Empresa de Energía de Bogotá S.A. ESP.	333,606	268,129
Propaise S.A.	100	-
Zona Franca Industrial	431	-
Sociedad Portuaria El Dique	3	-
	<u>1,029,443</u>	<u>616,951</u>
<b>Total</b>	<u>\$ 6,391,417</u>	<u>\$ 5,179,961</u>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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- (1) In 2009 the Company carried out the assets physical count for their valuation process, giving full compliance to the obligation of performing physical inventories counts at least every three years.

**22. Memorandum Accounts**

	<u>2009</u>	<u>2008</u>
<b>Debtor / Rights:</b>		
Exploitation Rights - Decree 727 of 2007 (1)	\$ 46,503,863	\$ 21,870,515
Pension Trust funds (2)	10,971,723	10,092,528
Costs and expenses (deductible and non deductible)	14,422,782	9,763,156
Other contingent rights and debtor accounts (3)	11,480,671	5,420,473
Securities given in custody and guarantee	3,045,181	9,583,641
Execution of investment projects	780,040	761,276
Legal proceedings	441,675	602,436
Fiscal differences	313,572	-
	<u><b>87,959,507</b></u>	<u><b>58,094,025</b></u>
<b>Creditor / Obligations:</b>		
Contractual guarantees (4)	12,420,129	26,187,641
Pension trust funds	10,899,026	10,092,528
Non-tax liabilities	5,205,671	5,603,395
Non-taxable income	5,826,947	4,197,768
Mandate contracts (5)	1,460,073	1,576,785
Administration Funds - Dec 1939 of 2001 and 2652 of 2002	972,641	972,390
Legal proceedings	2,283,219	1,636,275
Goods received in custody (6)	7,949,960	9,214,520
Future BOMT payments	504,288	713,099
Guarantees granted to Oleoducto Central S.A. (7)	-	404,569
Other contingent obligations (8)	3,403,368	181,636
	<u><b>50,925,322</b></u>	<u><b>60,780,606</b></u>
	<u><b>\$ 138,884,829</b></u>	<u><b>\$ 118,874,631</b></u>

- (1) As of December 31, 2009 Ecopetrol updated its estimated volumes of net reserves (without royalties) determined by the international methodology for reserves calculations; certification process for 2009 started in September and results were obtained in January 2010.
- (2) Reflects the contingent right (debtor account) on the resources delivered to PAP, to pay the transferred pension liability in order to control the existence of liquid resources present in the trust fund. The commuted (transferred) amount as of December 31, 2009 was \$10,971,723 (\$10,092,528 as of December 31, 2008) which solely corresponds to pension allowances, shares and pension bonds; the amounts regarding health and education are included in the pension liabilities owed by Ecopetrol. The commuted (transferred) amounts, as well as their yields, cannot change destination or be returned to the Company until the pension obligations have been entirely covered.

A detail of the trust funds is set forth below:

	<u>2009</u>	<u>2008</u>
Consorcio Fidubogotá - Fiducolpatria	\$ 2,378,039	\$ 2,187,742
Consorcio Fidupopular - Fiduoccidente	2,032,621	1,883,653
Consorcio Fiduagraria - Fiducoldex - Helm Trust	1,306,940	1,208,338
Consorcio BBVA - Fidubogotá - Corficolombiana	1,331,711	1,216,868
Consorcio Fiducaf� - Fiduprevisora - Fidupetrol	2,299,552	2,113,131
Consorcio Fiduocolombia - Santander Investment	1,622,860	1,482,796
<b>Total</b>	<u><b>\$ 10,971,723</b></u>	<u><b>\$ 10,092,528</b></u>

- (3) Balance of the tax memorandum accounts groups the differences between the values of both equity and results accounts taken from the tax return for 2008 and the accounting balances. Differences correspond to concepts such as revaluations and provisions not accepted by tax regulations, the difference in the method for amortization of crude oil investments which for accounting purposes is made by production units and for tax purposes by the straight-line method, and the effect of the generated inflation adjustment, among others.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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- (4) Includes (i) contracts pending to implement in Pesos, Dollars, and Euros at the representative market rate at December 31, 2009, (ii) \$11,889,152 in standby letters credit which guarantees contracts entered into by Ecopetrol in an amount totaling \$523,772 and (iii) \$7,205 in documentary credit letters. The difference between December 2008 values are due to contract balances for 2009.
- (5) Includes the amount of assets received in custody by Refinería de Cartagena S.A. to comply with the obligations entered into under the warrant operating agreement between the Company and said entity to operate the Cartagena refinery.
- (6) Corresponds to non-renewable natural resources received by the Nation for \$7,883,514 calculated based on SEC prices and discount rates. Additionally, the balance is represented by the inventories of sold products pending delivery to customers, for \$65,374 from Ecopetrol, \$934 from Propilco, \$28 from Ocesa and inventories held on consignment for self consumption in the different plants of Ecopetrol for \$110.
- (7) In March 2009, Ecopetrol acquired Enbridge Inc.'s shares in Ocesa. As a result, the contingent obligations to provide the necessary funds to repay capital contributions and the preferred dividends to the remaining Ocesa's shareholders have ended.
- (8) Includes basically the closed pledge in amount of \$2,664,240 of the stock shares that Ecopetrol owns directly or indirectly in Oleoducto Central, Refinería de Cartagena S.A. and Polipropileno del Caribe S.A., guaranteeing 120% coverage of the syndicated loan granted by the local banks. (See note 14)

### 23. Revenue

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Local Sales</b>			
Medium distillates	\$ 5,097,467	\$ 5,914,627	\$ 4,889,373
Gasoline	5,015,900	3,644,345	3,346,360
Services	1,113,075	921,652	821,197
Natural gas	1,000,517	901,414	660,171
Plastic and rubber	571,007	382,519	-
L.P.G. and propane	469,551	612,771	604,752
Asphalt	314,230	390,544	257,177
Other products	262,060	985,247	641,288
Crude oil	18,194	4,774,401	3,004,629
	<b>13,862,001</b>	<b>18,527,520</b>	<b>14,224,947</b>
Recognition of Price differential (1)	196,533	3,070,479	1,778,050
	<b>14,058,534</b>	<b>21,597,999</b>	<b>16,002,997</b>
<b>Foreign sales</b>			
Crude oil	11,815,512	8,696,282	4,476,137
Fuel oil	1,660,911	2,093,012	1,560,399
Gasoline	1,654,669	186,197	269,248
Other products	642,877	744,957	82,348
Natural gas	311,734	313,348	37
Diesel	178,530	246,158	-
Traded gasoline	69,866	-	-
Naphtha	-	2,693	244,393
Petroleum savings and stabilization Fund – FAEP	-	-	(316,497)
	<b>16,334,099</b>	<b>12,282,647</b>	<b>6,316,065</b>
Premium income, net	11,757	16,023	13,258
	<b>16,345,856</b>	<b>12,298,670</b>	<b>6,329,323</b>
	<b>\$ 30,404,390</b>	<b>\$ 33,896,669</b>	<b>\$ 22,332,320</b>

- (1) Corresponds to Decree 4839 applied at December 2008 which determines the price differential (value generated between the parity price and the regulated price, which may be either negative or positive). As of December 31, 2009 the negative price differential was \$326,453 and is recorded as a lower income amount of medium distillates and gasoline in local sales. As of December 31, 2009 the positive differential was \$260,933 (2008 - \$3,070,479) in Ecopetrol, affected by a negative price differential from Cartagena refinery of \$64,400.

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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24. Cost of Sales

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Variable Cost</b>			
Purchase of hydrocarbons from the ANH (1)	\$ 4,358,408	\$ 5,584,474	\$ 3,912,315
Purchase of crude oil in association and concession	4,130,116	3,193,690	1,425,945
Imported products	2,739,681	3,470,987	681,485
Amortization and depletion	1,474,918	1,087,583	665,459
Process materials	166,785	113,427	93,017
Electrical power	156,405	112,355	91,036
Purchase of natural gas and other products	57,335	230,977	203,697
Depreciation by production units	48,834	-	-
Insurance premium costs, net	554	1,898	6,237
Costs of sale of contributions in kind	-	-	432,144
Absorption of the cost in final inventory balances	(55,042)	(239,033)	(390,416)
Adjustment in volumes from other assignments and project charges	(334,658)	(132,040)	(254,808)
<b>Fixed Cost</b>			
Services contracted with associations	1,290,177	1,188,294	1,059,522
Maintenance	1,274,618	831,553	593,331
Depreciation	1,239,846	670,279	719,811
Labor costs	918,264	751,826	531,171
Transportation services for hydrocarbons	637,029	581,945	648,586
Project expense	524,441	571,941	696,089
Ecopetrol contracted services	451,222	294,351	312,768
Taxes	326,767	199,175	127,534
Materials and operations supplies	316,218	266,134	212,322
Amortization of deferred charges, intangibles and insurance premiums	94,288	73,343	173,883
Amortization of actuarial liability	82,812	207,363	161,825
General costs	7,055	23,914	18,880
	<u>\$ 19,906,073</u>	<u>\$ 19,084,436</u>	<u>\$ 12,121,833</u>

(1) Corresponds to the crude oil and natural gas purchases of Ecopetrol from the Agencia Nacional de Hidrocarburos derived from national production, both under the Company's direct operation and under the operation of third parties.

Ecopetrol S.A. and Subsidiaries

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25. Operating Expenses

	2009	2008	2007
<b>Administration</b>			
Labor	\$ 281,123	\$ 189,757	\$ 156,959
Depreciation and amortization (1)	175,032	58,705	45,059
General expenses	149,644	65,087	50,146
Maintenance	17,361	11,295	11,730
Rentals	17,322	10,156	24,255
Active personnel amortization of pension actuarial liability	12,770	44,055	32,494
Taxes	9,084	3,046	1,401
	<b>662,336</b>	<b>382,101</b>	<b>322,044</b>
<b>Selling</b>			
Studies and projects (2)	1,396,482	912,751	425,355
Taxes	181,109	182,886	155,374
General expenses (3)	166,480	113,024	35,452
Natural Gas pipeline transportation	141,889	102,862	75,474
Labor expenses	43,495	26,759	11,622
Non-compliance gas delivery charges	27,851	-	-
Maintenance	5,336	5,090	75,305
Crude oil pipeline transportation tariff	-	422,697	146,721
Active personnel amortization of pension actuarial liability	-	6,705	4,002
	<b>1,962,642</b>	<b>1,772,774</b>	<b>929,305</b>
	<b>\$ 2,624,978</b>	<b>\$ 2,154,875</b>	<b>\$ 1,251,349</b>

- (1) In 2009 \$139,909 were amortized in regard to goodwill acquired from Offshore International Group, IPL Enterprise, Hocol, Andean Chemicals Limited and Propilco (2008 - \$27,512).
- (2) These expenses correspond to seismic and exploratory activities from Ecopetrol \$785,628, Ecopetrol America Inc \$350,080, Ecopetrol Oleo e Gas do Brasil \$138,421, Hocol \$117,857, Ecopetrol de Peru \$4,147, Bioenergy 349.
- (3) Corresponds mainly to customs operation expenses, leases, freight charges, utilities and administration contracts from Ecopetrol in the amount of \$104,524, from Propilco in the amount of \$57,158, from Comai in the amount of \$2,515, from Hocol in the amount of \$2,240 and from Refinería de Cartagena in the amount of \$43.

26. Financial Income, Net

	2009	2008	2007
<b>Income</b>			
Exchange difference gain (1)	\$ 14,672,907	\$ 10,863,242	\$ 3,772,753
Interest and monetary correction (2)	479,694	682,542	161,125
Income on valuation of investment portfolio	168,442	1,640,338	808,922
Income on valuation of derivatives (3)	159,245	4,782	-
Dividends in cash	31,687	39,472	25,387
Income from equity method	55,143	110,824	-
Others	1,802	-	-
	<b>15,568,920</b>	<b>13,341,200</b>	<b>4,768,187</b>
<b>Expenses</b>			
Exchange difference loss (1)	(14,798,550)	(8,901,184)	(4,385,021)
Loss on valuation of derivatives (3)	(84,492)	(74,685)	(43,696)
Interest	(138,801)	(19,376)	(1,021)
Administration and securities issuance	(23,438)	(52,277)	(76,770)
Others	(27,806)	(6,820)	(1,147)
Loss on application of equity method	-	(185,606)	(115)
Discount on cash purchases of shares	-	-	(166,789)
	<b>(15,073,087)</b>	<b>(9,239,948)</b>	<b>(4,674,559)</b>
	<b>\$ 495,833</b>	<b>\$ 4,101,252</b>	<b>\$ 93,628</b>

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- (1) The 8.9% Colombian peso revaluation against the U.S. dollar during 2009 and the U.S. dollars Company's indebtedness originated an almost neutral effect in the results due to the exchange difference. The final effect was unfavorable in an amount totaling \$125,643 compared to a positive exchange difference during 2008 of \$1,962,058, as a result of 11.4% devaluation during such period. The net position is active in dollars and decreased from USD 5,9 billion in 2008 to USD 132 million in 2009.
- (2) In 2009, \$235,704 was recorded regarding the opportunity cost of the cumulative receivable balance of the differential price for regular gasoline and diesel of 2008 in accordance to Resolution 180639 of April 29 of 2009 (2008 - \$93,218). Income is estimated for 2009 applying the following interest rates: 9.29% EA for April's month payment, 9.344 % EA for August and 9.398% EA for December (Resolution 180639). In addition the reference rate for recognition of the opportunity cost of the fuel price differential during the third quarter of 2009 is 4.142%. The opportunity cost was recognized for year 2008 based on the definition made by CONFIS in its meeting of February 21, 2008, equivalent to a rate of 4.48% EA (Resolution 181496).
- (3) Profits of \$66,862 were recorded at Ecopetrol from asphalt hedging and of \$906 were recorded from exchange rates hedging . Losses of \$19,021 were recorded from WTI hedging and of \$4,736 from other hedging. Likewise, Cartagena refinery recorded profits from exchange rate hedging in an amount totaling \$30,742.

### 27. Pension expenses

	2009	2008	2007
Amortization of pension actuarial calculation (1)	\$ 407,083	\$ 986,565	\$ 955,381
Health care services	132,322	107,213	86,520
Education services	55,752	51,147	48,442
	<u>\$ 595,157</u>	<u>\$ 1,144,925</u>	<u>\$ 1,090,343</u>

- (1) In December 2008 the Company partially commutated (transferred) the amount corresponding to the pension provisions by transferring said obligations and funds supporting them to pension trust funds. In 2009 the Company did not recognize any actuarial amortization of pensions given that the current yield of the self-standing funds covers the growth on pensions liability during 2009 for pensions and monthly payments exceeding growth in \$72,696. In 2009 only health and education actuarial amortization was recognized in amount of \$407,083 (\$195,341 in 2008).

### 28. Inflation gain

The inflation gain corresponds to the net amortization of the deferred monetary correction.

### 29. Other income (expenses), Net

	2009	2008	2007
<b>Other Income</b>			
Recovery of provisions (1)	\$ 224,565	\$ 999,866	\$ 555,438
BOMTs deferred income	-	-	4,008
Recuperation of exploration expenses	148,996	-	-
Expense recovery	61,972	7,459	39,575
Income for services	48,878	3,605	6,685
Income from transferred rights	28,116	-	-
Income from undeveloped discovered fields	19,257	1,228	13,622
Indemnities received	16,305	6,367	1,703
Recovery from services to associates	14,219	22,840	70,133
Other minor income	134,885	23,303	64,062
Income on sale of property, plant and equipment	3,579	10,435	8,724
	<u>700,772</u>	<u>1,075,103</u>	<u>763,950</u>
<b>Other expenses</b>			
Provisions (2)	(462,812)	(114,035)	(1,240,400)
Taxes	(352,459)	(299,673)	(328,871)
Tariff and natural gas pipelines availability – BOMT	(89,906)	(95,505)	-
Fuel losses	(99,771)	(93,854)	(56,648)
Contributions and donations	(40,497)	(35,293)	(9,535)
Inspection quota	(26,986)	(25,811)	(25,934)
Surveillance and security	(23,026)	(16,052)	(14,457)
Other minor expenses	(151,034)	(26,135)	(23,208)
Loss on sale and retirement of assets	193	(1,399)	(3,148)
	<u>(1,246,298)</u>	<u>(707,757)</u>	<u>(1,702,201)</u>
	<u>\$ (545,526)</u>	<u>\$ 367,046</u>	<u>\$ (938,251)</u>

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(1) A detail of the recovery of provisions is as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Product and materials inventories	\$ 118,652	\$ 8,711	\$ 21,010
Legal Proceedings	83,258	832,788	46,934
Fixed assets, receivable and others	17,091	18,813	27,355
Other recoveries	5,564	-	-
Investment	-	130,543	1,322
Taxes	-	9,011	117,680
BOMT Provisions	-	-	221,055
Project expenses	-	-	120,082
	<b><u>\$ 224,565</u></b>	<b><u>\$ 999,866</u></b>	<b><u>\$ 555,438</u></b>

(2) A detail of provisions is as follows:

Legal Proceedings	\$ (271,091)	\$ (59,305)	\$ (1,096,117)
Products and materials inventories	(33,161)	(49,379)	(115,944)
Receivables	(30,734)	(2,275)	(20,276)
Devaluation of property, plant and equipment	(127,826)	-	-
Contributions to pension funds	-	(3,076)	-
Investments	-	-	(6,273)
Property, plant and equipment and other	-	-	1,790
	<b><u>\$ (462,812)</u></b>	<b><u>\$ (114,035)</u></b>	<b><u>\$ (1,240,400)</u></b>

### 30. Contingencies

Ecopetrol has recognized provisions corresponding to reasonable estimates intended to cover future situations deriving from loss contingencies or the occurrence of future events that could affect its financial position and results of operations.

The methodology used by the Legal Vice Presidency is based on the credit system of the Nation, which is used by the Ministry of Interior and Justice and includes an analysis of factors such as procedural risk, strength of the claim, proof of the claim, strength of the response, proof of the response, level of jurisprudence and results of first instance decision.

A summary of the most significant proceedings (with amounts of claims greater than \$10 billion) for which provisions have been recognized according to the evaluations of the internal and external attorneys of the Company, as of December 31, 2009, is set forth below:

<b>Proceeding</b>	<b>Claim</b>	<b>Amount of the Provision</b>
Foncoeco (*)	Profit participation fund of the employees and ex employees of Ecopetrol	139,933
Municipio de Aguazul, Tauramena	Class Action. Administrative proceeding of the Solidarity Contribution Fund to the electricity self-taxation	139,688



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Proceeding	Claim	Amount of the Provision
Municipio de Arauca	Class Action. Contributions to the solidarity and redistribution of income fund as a consequence of the generation of electricity, according to the Law 142 of 1994.	121,051
Departamento del Tolima	Class Action for the recalculation of royalties with 20% specified in Law 141 of 1994.	82,287
Municipio de Melgar	Class Action requesting the recovery to the Department of Tolima of the amounts not collected regarding royalties corresponding to the Guandó well.	40,351
Universidad de Cartagena and Junta Especial de la Estampilla	Constitutional Action in which the Universidad de Cartagena requests the compliance action for the payment of the stamp on operations carried out in Bolivar, especially in Cartagena de Indias port.	22,866
Consorcio Protécnica Ltda (under liquidation) - Constructora Kepler S.A. De C.V.	Time over run in construction said to be Ecopetrol's fault that altered the economic and financial equilibrium of the contract against the contracting consortium .	10,000

\* Expert's report of 2005 calculated in \$542,000 the damages owed by Ecopetrol in the Ordinary Civil Action filed by Foncoeco which claims that Ecopetrol must pay principal and interest on the profit participation fund for the employees of the Company which was established by the Board of Directors. It is the opinion of the Company's management and its legal advisors that there are sufficient arguments to demonstrate that this lawsuit will not proceed, particularly because the basis of the report includes amounts not authorized by the Board of Directors, therefore, at December 2009 closing date a provision in amount of just \$139,933 (2008 - \$100,000).was recorded for this proceeding.

### 31. Commitments

#### Cocorna Association Contract – Campo Teca

Upon expiration of the Cocorna Association Contract on October 8, 2008 Ecopetrol received from its associate Mansarovar Energy Colombia LTD. the Teca field that was operated and located near Puerto Nare municipalities (Antioquia), Puerto Triunfo (Antioquia) and Puerto Boyacá (Boyacá). It has 219 wells that in 2009 produced an average of 1,798 daily barrels of heavy crude oil of 12.5 degrees API.

Notwithstanding the expiration of the Cocorna Association Contract and the Teca field was delivered to Ecopetrol, there is a difference in interpretation between the two companies regarding the date of expiration as Mansarovar Energy Colombia Ltd. claims that it should be June 18, 2011. The two companies have agreed to present the differences in interpretation before Arbitration Panel.

While waiting for the Arbitration Panel to make a decision, Ecopetrol entered into an agreement with Mansarovar Energy Colombia Ltd. for it to continue operating the Teca field. All income to Mansarovar (which is set at 50% of production) as well as the total expenses of the Teca field operation will be administered through a Management and Payment Trust, until the Arbitration Panel makes a decision. The remaining resources in the trust will be assigned to the Company who wins the arbitration.

The municipalities and the department of the said area will continue to receive royalties of 20%, which corresponds to the percentage set forth in the expired association contract. Additional royalties of 12%, which were determined by Law on the date of expiration, will be deposited into the Management and Payment Trust's royalties account and will generate the appropriate interest.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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### Natural Gas Supply Contracts

In addition to existing contracts, the Company has entered into new contracts for sale or supply of natural gas with third parties, such as Gecelca ESP, Alcanos S.A. ESP, E2, Gas Natural S.A. ESP, Empresas Públicas de Medellín, among others. During 2009, Ecopetrol sold 578.66 GBTUD average for \$1,305,419 (including exports). Likewise, Ecopetrol entered into a new agreement with the National Hydrocarbon Agency (ANH) for the sale of royalties.

In December 2009, Ecopetrol conducted the auction of 32.8 GBTUD of natural gas from the Cusiana extension project (LTO2), achieving the highest marketing price in the primary market, which positively impacted the incorporation of reserves from the foothills.

During the last quarter of 2009, the unfavorable weather condition, known as “El Niño”, caused a high thermoelectric generation of gas in Colombia. As a result, gas sales exceeded historical levels. Additionally, in order to increase the thermal generation levels, the Company provided an average of 2.4 KBD diesel.

### Hedging operations

#### Call Options

##### Hedging Description

Hedging operations were performed by means of call options. Using this strategy Ecopetrol S.A. protects itself from price increase risk on the relevant index. The underlying assets hedged by this strategy are the asphalt shipments traded in the local market by the Company which has a valuation index of USGC 3%.

As of December 31, 2009, the following call options were exercised as follows:

Counterpart	Effective date in 2010	Expiration date in 2010	Volume	STRIKE PRICE	CALL PRICE
BP. Products North America Inc.	January 1	December 31	480,000 Bls.	US\$ 71	9.80
J. Aron & Company (Goldman Sachs)	January 1	December 31	600,000 Bls.	US\$ 71	9.73
JP Morgan	January 1	December 31	480,000 Bls.	US\$ 71	9.85
Morgan Stanley	January 1	December 31	480,000 Bls.	US\$ 70	9.96

##### Hedge Instruments

Long positions on call options over the USGC index

A summary of hedge instruments is as follows:

Counterpart	Effective date in 2010	Maturity in 2010	Volume	STRIKE PRICE
Morgan Stanley	January 1	January 30	300,000Bls.	US\$ 1.02

## Ecopetrol S.A. and Subsidiaries

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### **Swap - Spread**

#### *Hedge description*

A Swap-Spread hedge operation was performed over the price difference between NY 1% and USGC 3% indexes, thus guaranteeing a competitive discount factor for the Company on the Ecopetrol valuation index. The aforementioned indexes are used to negotiate fuel oil shipments.

#### *Hedge Instruments*

Swap instruments with long and short positions over each index respectively.

### **Earn outs in acquired companies**

As part of the Company's acquisitions of Hocol Petroleum Ltd. and Offshore International Group ("OIG"), the Company took over future commitments, called "earn outs", which must be recognized by the buyer to the seller, depending on the behavior of variables such as the crude oil price and the reserves.

#### **Hocol Petroleum Ltd.**

1. An additional amount might have to be paid in February 2011 depending on the behavior of the crude oil average price per barrel. Below is a summary of the additional amount to be paid depending on the actual recorded WTI crude barrel price between January 1, 2010 and December 31, 2010:

If the WTI crude barrel price is:

- Less than US\$55, the amount to be paid is zero
- Higher than US\$55 and less than US\$60, the amount to be paid is US\$25 million; or
- Higher than US\$60 and less than US\$65, the amount to be paid is US\$40 million.
- Higher than US\$65, the amount to be paid is US\$65 million.

2. An additional payment, in a maximum amount of US\$50 million, may have to be paid in the first quarter of 2013 depending on the exploratory results of the Huron well. The amount to be paid will be determined by considering that, during a maximum period of two years (until December 2012), there should be 2P type certified reserves. The calculation of the additional payment is as follows: the reserves volume is multiplied by a percentage (between 6% and 8%) of the average WTI price during a given period of time to determine the base price to pay, subject to the maximum limit established.

#### **Offshore International Group ("OIG")**

If during the two years after the acquisition of "OIG" (which occurred on February 6, 2009), the average price of crude oil per barrel is more than US\$60, but less or equal than US\$70, an additional amount equal to US\$200 million will have to be paid by Ecopetrol. If during that time frame, the average price per barrel is more than US\$70, the amount to be paid will be US\$300 million. Ecopetrol will be responsible for 50% of this commitment.

### **Ship or Pay Contracts**

Ecopetrol and ODL have entered into two Ship-or-Pay contracts: (i) The first supports the financing tariff obligation for 5 years and is collected through a trust fund in charge of paying the debt amortization payments to "Grupo Aval", and (ii) the second supports the securitization obligation for 7 years. Under each of these contracts, the invoicing, collection and payment obligations have been transferred to the trust funds. Each of these contracts commits daily transportation of 30,000 barrels during the first phase and 60,000 barrels during the second phase.

## Ecopetrol S.A. and Subsidiaries

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### **Refinare**

Ecopetrol was notified in July 2009 about a legal proceeding initiated by Refinería del Nare S.A. (“Refinare”) in which Ecopetrol was one of the named defendants. Refinare argues that, as a result of a criminal proceeding initiated against it by the Hydrocarbons Police Unit, Ecopetrol suspended all commercial relations with Refinare, which in turn resulted in the mandatory liquidation it now faces. The amount of the damages sought by Refinare for this alleged wrongdoing totaled approximately \$710 million at December 31, 2009. However, under the Company’s internal evaluation, this claim is highly likely to prove unsuccessful. As such, at December 31, 2009, the Company did not record a provision related to this claim.

### **32. Subsequent Events**

#### **Savia - Perú**

In February 2010, an announcement was made regarding the change of Petro-Tech Peruana’s name to Savia – Perú, which is the main subsidiary of Offshore International Group (“OIG”).

#### **Ecopetrol Response to Refinare Litigation**

On February 8, 2010, Ecopetrol sent its response to the Refinare litigation mentioned above. Ecopetrol argued, among others, that: 1) it was forced by law to enter the criminal proceedings which the General Prosecutor's Office of Colombia brought against Refinare, 2) it did not have a monopoly in the market, nor did it abuse its presumed dominant position in the market with respect to the oil demand supplied by Refinare, 3) it did not engage in any behavior that could be considered unfair competition, and 4) it was under no legal obligation to sell crude oil to Refinare.

Additionally, Ecopetrol argued that: 1) the complaint had partially expired with respect to the alleged illegal competition and presumed acts of jurisdictional error, 2) Ecopetrol does not have any influence on the decisions by the General Prosecutor's Office of Colombia, and 3) Refinare had reached liquidation as a result of its own economic condition.

#### **Cocorna Association Contract – Campo Teca**

On February 12, 2010, the Arbitration Panel convened by Ecopetrol S.A. and Mansarovar Energy Colombia Ltda. issued its decision concerning the expiration date of the Cocorna Association Contract (See note 31). The Arbitration Panel ruled in favor of Ecopetrol, thereby generating income in the Company’s financial statements of in the amount of \$17,946 million. This amount will be recognized in the financial results of the Company for the fiscal year ending 2010.

#### **Dry wells – Ecopetrol S.A.**

In May 2010, Ecopetrol recognized six dry wells, which are Tupale 1, Merey, Sonero 1, Torrontes 1, Hechicera and Merecure. The cost associated with the exploration activities as of December 31, 2009 was \$32,351, and this amount was recognized at the end of 2009 for U.S. GAAP purposes in the income statement.

#### **Dry wells – Ecopetrol America Inc. – Palomino and Soluki**

On April and May 2010, two wells were declared dry in America Inc., Palomino-1 (25% Ecopetrol’s participation) and Saluki (35% Ecopetrol’s participation). Exploration activities in the mentioned wells began in January and February 2010, respectively. Costs associated with the exploration were recognized in the first and second quarter of 2010. For that reason, there is no impact on the financial statements as of December 31, 2009.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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### **33. Differences between Colombian Governmental Entity accounting principles and U.S. GAAP**

The Company's financial statements are prepared in accordance with Colombian Government Entity GAAP (RCP). These principles and regulations differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP), and therefore this note presents reconciliations of net income and shareholders' equity determined under RCP to those same amounts as determined according to U.S. GAAP. Also presented in this note are those disclosures required under U.S. GAAP but not required under RCP.

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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A) Reconciliation of net income attributable to Ecopetrol S.A.:

The following table presents the reconciliation of net income per Colombian Government Entity GAAP to net income under U.S. GAAP attributable to Ecopetrol S.A. for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Consolidated net income under Colombian Government Entity GAAP	\$ 5,132,054	\$ 11,629,677	\$ 5,179,792
i. Investment securities:			
a. Unrealized gain (loss)	639,073	(924,715)	69,657
b. Impairment	28,083	163,902	(78,123)
ii. Investments in non-marketable securities:			
a. Equity method	(182,623)	164,734	(36,960)
b. Variable Interest Entity (VIE)	320,600	(367,743)	11,658
iii. Derivatives	25,505	-	6
iv. Exchange of non-monetary assets	23,640	55,623	606,751
v. Deferred charges	(35,722)	(228)	240,293
vi. Employee benefit plans	(1,416,598)	(1,451,179)	(1,045,374)
vii. Provisions, allowances and contingencies	(24,833)	1,082,434	925,380
viii. Deferred income taxes	(210,119)	(159,891)	(624,185)
ix. Revenue recognition:			
a. Revenue – FAEP	-	-	329,355
b. Cost of sales – over and under	(111,126)	(8,887)	16,607
c. Other income	10,765	-	(97,127)
x. Inflation adjustment	112,290	128,837	230,822
xi. Inventories	22,565	10,274	(67,089)
xii. Lease accounting	(43,163)	39,744	(393,131)
xiii. Prior year adjustments	-	-	574
xiv. Property, plant and equipment:			
a. Interest	(63,779)	-	1,228
c. Impairment	(395,044)	(121,296)	(65,137)
d. Capitalized expenses	(236,219)	76,167	-
e. Exchange difference	(16,028)	-	-
xv. Depreciation, Depletion and Amortization	484,593	(1,478,851)	227,754
xvi. Asset retirement obligations	401,695	(70,014)	10,039
xvii. Equity contributions:			
a. Incorporated institutional equity	20,692	21,217	9,304
b. Contributions in kind	-	-	432,144
c. Reversion of concession rights contributed as capital	18,199	24,117	17,562
xviii. Public offering costs and discount on issuance of shares	-	-	242,885
xix. Indebtedness cost	8,800	-	-
xx. Business combinations:			
a. Goodwill	139,909	27,512	-
b. Fair value adjustments to assets and liabilities acquired	25,217	449	-
xxi. Non-controlling Interest	(99,958)	-	-
Consolidated net income under U.S. GAAP attributable to Ecopetrol S.A.	<u>\$ 4,578,468</u>	<u>\$ 8,841,883</u>	<u>\$ 6,144,685</u>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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B) Reconciliation of Shareholders' equity attributable to Ecopetrol S.A.:

The following table presents a reconciliation of Ecopetrol shareholders' equity under Colombian Governmental Entity GAAP to Ecopetrol shareholders' equity under U.S. GAAP as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Consolidated shareholders' equity under Colombian Government Entity GAAP	\$ 32,569,957	\$ 34,619,717
i. Investment securities:		
a. Unrealized gain	581,841	-
ii. Investments in non-marketable securities:		
a. Equity method	(1,507,543)	(991,927)
b. Variable Interest Entity (VIE)	320,600	(320,600)
d. Valuation surplus	(1,029,443)	(616,951)
iii. Derivatives	30,489	-
iv. Exchange of non-monetary assets	686,014	662,374
v. Deferred charges	25,697	(7,133)
vi. Employee benefit plans	(1,511,824)	(563,814)
vii. Provisions – allowance and contingencies	16,477	183,852
viii. Deferred income taxes	212,175	470,044
ix. Revenue recognition:		
b. Cost of sales – over and under	(89,261)	10,984
c. Other income	4,433	-
x. Inflation adjustment	(3,568,525)	(863,496)
xi. Inventories	(31,017)	(66,570)
xii. Lease accounting	399,734	444,117
xiv. Property, plant and equipment:		
a. Interest	(24,011)	39,768
b. Revaluation of property, plant and equipment and public accounting effect	(5,361,974)	(3,505,449)
c. Impairment	(692,398)	(297,319)
d. Capitalized expenses	(774,373)	(555,684)
e. Exchange difference	(233,563)	(217,535)
xv. Depreciation, Depletion and Amortization	2,295,829	(820,184)
xvi. Asset retirement obligations	425,351	(24,054)
xvii. Equity contributions:		
a. Incorporated institutional equity	(82,870)	(60,907)
c. Reversion of concession rights contributed as capital	(103,260)	(121,459)
xix. Indebtedness cost	8,800	-
xx. Business combinations:		
a. Goodwill	116,805	48,471
b. Fair value adjustments to assets and liabilities acquired	(196,291)	(20,510)
xxi. Non-controlling Interest	54,072	-
Consolidated Ecopetrol shareholders' equity under U.S. GAAP	<u>\$ 22,541,921</u>	<u>\$ 27,425,735</u>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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C) Supplemental consolidated condensed financial statements under U.S. GAAP

C) 1. Supplemental consolidated condensed balance sheets

The condensed balance sheets of the Company as of December 31, 2009 and 2008 under U.S. GAAP are presented below:

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,861,532	\$ 4,812,595
Investments		
Available for sale	178,832	1,345,760
Held to maturity	7,876	-
Accounts and notes receivable, net	2,530,379	5,891,412
Inventories	1,929,977	1,569,165
Advances and deposits	1,200,682	887,634
Prepaid expenses and other assets	62,759	25,492
Deferred income taxes	1,015,488	1,968,177
Total current assets	<u>10,787,525</u>	<u>16,500,235</u>
Investments		
Available for sale	4,118,555	7,327,755
Held to maturity	130,740	179,096
Accounts and notes receivable, net	226,781	194,912
Restricted assets	380,463	388,892
Property, plant and equipment, net	13,098,446	7,696,192
Natural and environmental resources, net	9,431,458	6,456,158
Goodwill	2,385,113	627,610
Deferred charges and other assets	1,280,359	793,339
Deferred income taxes	1,475,559	-
Direct finance lease long-term	19,254	80,263
<b>Total Assets</b>	<u><b>\$ 43,334,253</b></u>	<u><b>\$ 40,244,452</b></u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Financial obligations	\$ 437,111	\$ 281,841
Accounts payable and related parties	3,571,680	1,834,041
Capital lease liability	82,356	102,657
Taxes payable	567,271	2,570,886
Labor and pension plan obligations	165,472	340,537
Estimated liabilities and provisions	1,122,409	677,214
Total current liabilities	<u>5,946,299</u>	<u>5,807,176</u>
Financial obligations, long-term	5,725,099	5,473
Accounts payable, long-term	248,571	279,882
Capital lease liability	278,594	388,591
Pension plan obligation and other labor obligations, long-term	4,359,751	2,518,307
Deferred income tax, long-term	-	774,463
Estimated liabilities and provisions	2,841,371	1,748,014
Other long-term liabilities	809,334	478,039
Total non-current liabilities	<u>14,262,720</u>	<u>6,192,769</u>
Total liabilities	<u>20,209,019</u>	<u>11,999,945</u>
Shareholders' equity of Ecopetrol	22,541,921	27,425,735
Non-controlling interest	583,313	818,772
Total Equity	<u>23,125,234</u>	<u>28,244,507</u>
Total liabilities and shareholders' equity	<u><b>\$ 43,334,253</b></u>	<u><b>\$ 40,244,452</b></u>



Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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C) 2. Supplemental consolidated condensed statements of income

The condensed statements of income of the Company for the years ended December 31, 2009, 2008 and 2007 under U.S. GAAP are presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Revenue:</b>			
Local sales	\$ 13,808,720	\$ 21,550,543	\$ 16,138,874
Foreign sales	15,742,854	12,298,670	6,645,820
<b>Total revenue</b>	<b>29,551,574</b>	<b>33,849,213</b>	<b>22,784,694</b>
<b>Cost of sales</b>	<b>19,136,478</b>	<b>17,927,991</b>	<b>10,942,526</b>
	<b>10,415,096</b>	<b>15,921,222</b>	<b>11,842,168</b>
<b>Operating expenses:</b>			
Administration	1,990,603	4,246,426	2,431,443
Selling	1,967,139	1,834,485	955,626
<b>Operating income</b>	<b>6,457,354</b>	<b>9,840,311</b>	<b>8,455,099</b>
Non-operating income, net	549,981	3,587,132	255,549
<b>Income before income tax</b>	<b>7,007,335</b>	<b>13,427,443</b>	<b>8,710,648</b>
<b>Income tax:</b>			
Current income tax	1,948,819	3,648,451	2,045,997
Deferred income tax	375,329	930,853	498,593
	2,324,148	4,579,304	2,544,590
<b>Net income</b>	<b>4,683,187</b>	<b>8,848,139</b>	<b>6,166,058</b>
Less: Net (income) attributable to Non-controlling interest	(104,719)	(6,256)	(21,373)
<b>Net Income attributable to Ecopetrol S.A.</b>	<b>\$ 4,578,468</b>	<b>\$ 8,841,883</b>	<b>\$ 6,144,685</b>
Earnings per share (Basic and diluted) attributable to Ecopetrol common shareholders	<b>\$ 113.13</b>	<b>\$ 218.47</b>	<b>\$ 166.42</b>
Weighted-average shares outstanding (Basic and diluted)	40,472,512,588	40,472,512,588	36,922,352,491

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C) 3. Supplemental consolidated condensed statements of cash flows

The condensed statements of cash flows of the Company for the years ended December 31, 2009, 2008 and 2007 under U.S. GAAP are presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Cash flows provided by operating activities:</b>			
Net income	\$ 4,683,187	\$ 8,848,139	\$ 6,166,058
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>			
Equity method in non-marketable securities	182,623	(106,845)	36,960
Depreciation, depletion and amortization	4,144,035	3,177,935	1,467,372
Impairment	395,044	113,087	65,137
Provisions	547,354	(569,969)	86,746
Deferred income tax	375,329	930,853	498,594
Exchange (loss) gain	(496,983)	(1,390,953)	408,181
<b>Net changes in operating assets and liabilities:</b>			
Accounts and notes receivable	3,336,133	(2,383,061)	1,534,251
Inventories	(32,049)	(255,090)	(316,950)
Deferred charges and other assets	(28,095)	(245,528)	(33,721)
Accounts payable and related parties	1,398,162	326,967	(171,444)
Taxes payable	(2,678,083)	1,374,621	509,612
Labor obligations	311,513	401,445	1,231,621
Estimated liabilities and provisions	162,188	668,220	130,729
Negative goodwill	(182,868)	-	-
Fair value of pre-existent participation of business combination	107,545	-	-
Net cash provided by operating activities	<u>12,225,035</u>	<u>10,889,822</u>	<u>11,613,146</u>
<b>Cash flows from investing activities:</b>			
Payment for purchase of companies, net of cash acquired	(4,061,289)	(1,274,751)	-
Purchase of investment securities	(7,921,615)	(27,814,744)	(33,328,213)
Redemption of investment securities	12,250,389	25,975,418	34,664,456
Investment in natural and environmental resources	(2,934,666)	(3,574,418)	(1,866,544)
Additions to property, plant and equipment	(6,417,866)	(3,869,577)	(1,176,142)
Net cash used in investing activities	<u>(9,085,047)</u>	<u>(10,558,072)</u>	<u>(1,706,443)</u>
<b>Cash flows from financing activities:</b>			
Non-controlling interest obligations	(340,178)	240,918	(14,893)
Payment of financial obligations	(310,420)	(99,888)	(425,879)
Proceeds from financial obligations	6,152,400	235,720	-
Proceeds from issuance of shares	41,044	832,919	4,625,066
Cash paid to acquire a non-controlling interest	(998,903)	-	-
Dividends paid	(8,902,602)	(4,652,182)	(8,538,936)
Net cash used in financing activities	<u>(4,358,659)</u>	<u>(3,442,513)</u>	<u>(4,354,642)</u>
Effect of exchange rate changes on cash	(267,608)	83,923	(116,558)
Net (decrease) increase in cash and cash equivalents	(951,063)	(3,194,687)	5,668,619
Cash and cash equivalents at beginning of year	4,812,595	8,007,282	2,338,663
Cash and cash equivalents at end of year	<u>\$ 3,861,532</u>	<u>\$ 4,812,595</u>	<u>\$ 8,007,282</u>

Ecopetrol S.A. and Subsidiaries

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Supplemental cash flows information</b>			
<b>Cash paid during the year</b>			
Interest	\$ 107,343	\$ 9,874	\$ 23,426
Income taxes	\$ 3,934,441	\$ 1,869,475	\$ 1,457,015
<b>Non cash transactions</b>			
Liabilities assumed in business combinations	\$ 891,112	\$ 184,807	\$ -
Exchange of non-monetary assets	\$ -	\$ -	\$ 234,731
Assets acquired through leasing contracts	\$ -	\$ 12,659	\$ -
Increase of natural and environmental resources through asset retirement obligations	\$ 96,766	\$ 137,903	\$ 83,088

Under Colombian Government Entity GAAP as in effect for 2007, some deposits with banks were considered as short – term investments because they produce yields and the Company has defined them to be used for specific purposes. Under U.S. GAAP, these deposits are considered cash. The amounts reclassified as of December 31, 2009, 2008 and 2007 were \$275,552, \$2,404,159 and \$4,133,705. These deposits are valued at fair value.

Ecopetrol S.A. and Subsidiaries

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C) 4. Supplemental consolidated statements of shareholders' equity

The statements of shareholders' equity of the Company for the years ended December 31, 2009, 2008 and 2007 under U.S. GAAP are as follows:

	Common Stock			Comprehensive Income	Retained earnings	Accumulated Other Comprehensive income (loss)	Ecopetrol's Equity	Non-Controlling Interest	Total Equity
	Millions of shares	Value	Additional paid-in-capital						
<b>Balance at January 1, 2007</b>	<b>36,385</b>	<b>\$ 4,244,943</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$15,443,181</b>	<b>\$ (1,672,738)</b>	<b>\$18,015,386</b>	<b>\$ 565,119</b>	<b>\$ 18,580,505</b>
Issuance of company shares	4,088	5,868,391	\$ 3,607,929	-	(4,851,254)	-	4,625,066	529	4,625,595
Distribution of dividends	-	-	-	-	(8,538,936)	-	(8,538,936)	(15,418)	(8,554,354)
Other contributions	-	-	-	-	71,424	-	71,424	-	71,424
Net income	-	-	-	\$ 6,166,058	6,144,685	-	6,144,685	21,373	6,166,058
Other Comprehensive income, net of tax:									
Unrealized earnings on investment securities, net of tax effect of \$(6,364)	-	-	-	12,918	-	-	12,918	-	12,918
Amortization of actuarial loss, net of tax effect of \$(358,277)	-	-	-	727,415	-	-	727,415	-	727,415
Translation adjustment	-	-	-	(66,933)	-	-	(66,927)	(6)	(66,933)
Total other comprehensive income	-	-	-	673,400	-	673,406	-	-	-
Comprehensive income	-	-	-	\$ 6,839,458	-	-	-	-	-
<b>Balance at December 31, 2007</b>	<b>40,473</b>	<b>10,113,334</b>	<b>3,607,929</b>	<b>-</b>	<b>8,269,100</b>	<b>(999,332)</b>	<b>20,991,031</b>	<b>571,597</b>	<b>21,562,628</b>
Business combination	-	-	-	-	-	-	-	8,718	8,718
Issuance of company shares	-	4,457	828,462	-	-	-	832,919	217,378	1,050,297
Distribution of dividends	-	-	-	-	(4,654,340)	-	(4,654,340)	(141,634)	(4,795,974)
Other contributions	-	-	-	-	(23,742)	-	(23,742)	139,566	115,824
Comprehensive income:	-	-	-	-	-	-	-	-	-
Net income	-	-	-	\$ 8,848,139	8,841,883	-	8,841,883	6,256	8,848,139
Other Comprehensive income, net of tax:									
Unrealized earnings on investment securities, net of tax effect of \$(236,974)	-	-	-	524,729	-	-	524,729	-	524,729
Amortization of actuarial loss, net of tax effect of \$(302,050)	-	-	-	613,251	-	-	613,251	-	613,251
Translation adjustment	-	-	-	316,895	-	-	300,004	16,891	316,895
Total other comprehensive income	-	-	-	1,454,875	-	1,437,984	-	-	-
Comprehensive income	-	-	-	\$ 10,303,014	-	-	-	-	-
<b>Balance at December 31, 2008</b>	<b>40,473</b>	<b>10,117,791</b>	<b>4,436,391</b>	<b>-</b>	<b>12,432,901</b>	<b>438,652</b>	<b>27,425,735</b>	<b>818,772</b>	<b>28,244,507</b>
Business combination	-	-	-	-	-	-	-	21,530	21,530
Acquired non-controlling interest	-	-	(432,766)	-	-	-	(432,766)	(281,692)	(714,458)
Other non-controlling interest	-	-	-	-	-	-	-	22,767	22,767
Issuance of company shares	-	-	41,044	-	-	-	41,044	-	41,044
Distribution of dividends	-	-	-	-	(8,903,953)	-	(8,903,953)	(89,736)	(8,993,689)
Comprehensive income:	-	-	-	-	-	-	-	-	-
Net income	-	-	-	\$ 4,683,187	4,578,468	-	4,578,468	104,719	4,683,187
Other Comprehensive income, net of tax:									
Unrealized earnings on investment securities, net of tax effect of \$15,389	-	-	-	(74,844)	-	-	(74,844)	-	(74,844)
Amortization of actuarial loss, net of tax effect of \$(95,697)	-	-	-	194,295	-	-	194,295	-	194,295
Translation adjustment	-	-	-	(299,105)	-	-	(286,058)	(13,047)	(299,105)
Total other comprehensive income	-	-	-	(179,654)	-	(166,607)	-	-	-
Comprehensive income	-	-	-	\$ 4,503,533	-	-	-	-	-
<b>Balance at December 31, 2009</b>	<b>40,473</b>	<b>\$10,117,791</b>	<b>\$ 4,044,669</b>	<b>-</b>	<b>\$ 8,107,416</b>	<b>\$ 272,045</b>	<b>\$22,541,921</b>	<b>\$ 583,313</b>	<b>\$ 23,125,234</b>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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C) 5. Supplemental consolidated Comprehensive Income

	2009	2008	2007
Net Income	\$ 4,683,187	\$ 8,848,139	\$ 6,166,058
Other Comprehensive income, net of tax:			
Unrealized earnings on investment securities, net of tax:	(74,844)	524,729	12,918
Amortization of actuarial loss, net of tax	194,295	613,251	727,415
Translation adjustment	(299,105)	316,895	(66,933)
Total other comprehensive income	(179,654)	1,454,875	673,400
Comprehensive income	4,503,533	10,303,014	6,839,458
Comprehensive income attributable to the non-controlling interest	(91,672)	(23,147)	(21,367)
Comprehensive income attributable to Ecopetrol	<u>\$ 4,411,861</u>	<u>\$ 10,279,867</u>	<u>\$ 6,818,091</u>

A detail of accumulated other comprehensive income attributable to Ecopetrol, including the related income tax effects, is presented below:

	2009		
	Before-Income Tax Amount	(Income Tax Expense) or Benefit	Net of Income Tax Amount
Unrealized gain on securities available for sale	\$ 745,649	\$ (246,065)	\$ 499,584
Pension liability - net unamortized actuarial loss	(260,451)	85,949	(174,502)
Cumulative translation adjustment	(53,037)	-	(53,037)
Other comprehensive income (loss)	<u>\$ 432,161</u>	<u>\$ (160,115)</u>	<u>\$ 272,045</u>

	2008		
	Before-Income Tax Amount	(Income Tax Expense) or Benefit	Net of Income Tax Amount
Unrealized gain on securities available for sale	\$ 835,882	\$ (261,454)	\$ 574,428
Pension liability - net unamortized actuarial loss	(550,443)	181,646	(368,797)
Cumulative translation adjustment	233,021	-	233,021
Other comprehensive income (loss)	<u>\$ 518,460</u>	<u>\$ (79,808)</u>	<u>\$ 438,652</u>

Ecopetrol S.A. and Subsidiaries

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	<b>2007</b>		
	Before-Income Tax Amount	(Income Tax Expense) or Benefit	Net of Income Tax Amount
Unrealized gain on securities available for sale	\$ 74,179	\$ (24,480)	\$ 49,699
Pension liability - net unamortized actuarial loss	(1,465,744)	483,696	(982,048)
Cumulative translation adjustment	(66,983)	-	(66,983)
Other comprehensive income (loss)	<u>\$ (1,458,548)</u>	<u>\$ 459,216</u>	<u>\$ (999,332)</u>

D) Summary of significant differences between Colombian Government Entity GAAP and U.S. GAAP and required U.S. GAAP disclosures

i. INVESTMENT SECURITIES

The Company's investments include both marketable securities and non-marketable securities. Under RCP, the Company classifies investment securities based on the form of their investment return, either as fixed-yield investment or as variable-yield investments. Fixed-yield investments generally represent debt securities and are initially recorded at cost with subsequent adjustments to fair market value recorded in the income statement. Variable-yield investments generally represent equity securities or interests in other entities and are initially recorded at cost. Subsequent adjustments to fair value are made with increases in fair value resulting in an increase to equity, while decreases in fair value are charged to the income statement. Fair values are determined using quoted market prices, if and when available. Absent quoted market prices, these investments are recorded at Management's estimate of fair value using discounted cash flow techniques.

Under U.S. GAAP, the Company has classified its investment securities as held to maturity or available for sale, as defined in ASC Sub-topic 320-10-25, Accounting for Certain Investments in Debt and Equity Securities. Debt security investments for which the Company has demonstrated its positive ability and intent to hold until maturity are classified as held-to-maturity. Such investments are reported at amortized cost. Investments classified as available-for-sale are reported at fair value, with unrealized gains and losses reported, net of taxes, as a component of other comprehensive income.

In the event any other than temporary impairment of the values of the investments occurs, the impairment loss is recorded in income.

The Company's short-term and long-term investments at December 31, 2009, 2008 and 2007 consist of the following:

Ecopetrol S.A. and Subsidiaries

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As of December 31, 2009	Aggregated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Gross Recognized Losses	Cost Basis
<b>Short-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	\$ 126,376	\$ 5,472	\$ (965)	\$ (6,813)	\$ 128,682
Securities issued or secured by government sponsored enterprise (GSEs)	41,863	4,472	-	-	37,391
Securities issued or secured by financial entities	10,593	1,093	-	-	9,500
<b>Total Short-term Investments Classified as Available for Sale</b>	<b>178,832</b>	<b>11,037</b>	<b>(965)</b>	<b>(6,813)</b>	<b>175,573</b>
<b>Long-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	879,484	70,477	(464)	(9,189)	818,660
Securities issued or secured by government sponsored enterprise (GSEs)	1,670,687	48,475	-	-	1,622,212
Securities issued or secured by financial entities	592	-	(412)	-	1,004
Securities issued or secured by government USA	251,926	-	(23,241)	-	275,167
Securities issued by mixed – economy governmental entities	916,785	640,740	-	-	276,045
<b>Total Long-term Investments Classified as Available for Sale</b>	<b>3,719,474</b>	<b>759,692</b>	<b>(24,117)</b>	<b>(9,189)</b>	<b>2,993,088</b>
<b>Total Available for Sale</b>	<b>\$ 3,898,306</b>	<b>\$ 770,729</b>	<b>\$ (25,082)</b>	<b>\$ (16,002)</b>	<b>\$ 3,168,661</b>

	Aggregated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Net Carrying Amount
<b>Short-term Investments - Held to Maturity Securities:</b>				
Other debt securities	\$ 8,280	\$ 404	\$ -	\$ 7,876
<b>Total Short-term Investments Classified as Held to Maturity</b>	<b>8,280</b>	<b>404</b>	<b>-</b>	<b>7,876</b>
<b>Long-term Investments- Held to Maturity Securities:</b>				
Securities issued or secured by Colombian government	129,769	9,343	-	120,426
Securities issued or secured by government USA	10,950	636	-	10,314
<b>Total Long-term Investments Classified as Held to Maturity</b>	<b>140,719</b>	<b>9,979</b>	<b>-</b>	<b>130,740</b>
<b>Total Held to Maturity</b>	<b>\$ 148,999</b>	<b>\$ 10,383</b>	<b>\$ -</b>	<b>\$ 138,616</b>

	Aggregated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Gross Recognized Losses	Cost Basis
As of December 31, 2008					
<b>Short-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	\$ 239,819	\$ 17,825	\$ (5,559)	\$ -	\$ 227,553
Securities issued or secured by government sponsored enterprise	989,949	148,808	(4,158)	-	845,299
Securities issued or secured by financial entities	92,535	13,026	-	-	79,509
Other debt securities	23,457	3,175	-	-	20,282
<b>Total Short-term Investments classified as Available for Sale</b>	<b>1,345,760</b>	<b>182,834</b>	<b>(9,717)</b>	<b>-</b>	<b>1,172,643</b>
<b>Long-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	821,342	123,957	(6,259)	-	724,733
Securities issued or secured by government sponsored enterprise	2,515,761	427,156	(215)	(390)	2,110,413
Securities issued or secured by financial entities	596,792	110,263	(64)	-	487,898
Securities issued or secured by government USA	2,169,197	35,436	(27,653)	-	2,161,414
Other debt securities	1,452	144	-	(95)	1,403
<b>Total Long-term Investments classified as Available for Sale</b>	<b>6,104,544</b>	<b>696,956</b>	<b>(34,191)</b>	<b>(485)</b>	<b>5,485,861</b>
<b>Total Available for Sale</b>	<b>\$ 7,450,304</b>	<b>\$ 879,790</b>	<b>\$ (43,908)</b>	<b>\$ (485)</b>	<b>\$ 6,658,504</b>

	Aggregated Fair Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Net Carrying Amount
<b>Long-term Investments- Held to Maturity Securities</b>				
Securities issued or secured by Colombian government	\$ 132,133	\$ 993	\$ (2,533)	\$ 133,693
Securities issued or secured by government USA	12,436	1,129	-	11,307
Other debt securities	35,829	1,733	-	34,096
<b>Total Long-term Investments Classified as Held to Maturity</b>	<b>\$ 180,398</b>	<b>\$ 3,855</b>	<b>\$ (2,533)</b>	<b>\$ 179,096</b>



Ecopetrol S.A. and Subsidiaries

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	Aggregated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Gross Recognized Losses	Cost Basis
<b>As of December 31, 2007</b>					
<b>Short-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	\$ 60,382	\$ 2,084	\$ (1,380)	\$ -	\$ 59,678
Securities issued or secured by government entities	1,226,125	16,436	(11,757)	(76,343)	1,297,789
Securities issued or secured by financial entities	397,306	8,080	(3,642)	(15,968)	408,836
Other debt securities	136,457	4,255	(496)	(8,462)	141,160
<b>Total Short-term Investments Classified as Available for Sale</b>	<b>1,820,270</b>	<b>30,855</b>	<b>(17,275)</b>	<b>(100,773)</b>	<b>1,907,463</b>
<b>Long-term Investments - Available for Sale Securities:</b>					
Securities issued or secured by Colombian government	63,165	1,251	(186)	-	62,101
Securities issued or secured by government entities	2,287,235	71,024	(27,247)	(104,033)	2,347,491
Securities issued or secured by financial entities	249,275	11,019	(1,164)	(1,179)	240,600
Other debt securities	113,553	7,751	(1,846)	(2,002)	109,651
<b>Total Long-term Investments Classified as Available for Sale</b>	<b>2,713,228</b>	<b>91,045</b>	<b>(30,443)</b>	<b>(107,214)</b>	<b>2,759,843</b>
<b>Total Available for Sale</b>	<b>\$ 4,533,498</b>	<b>\$ 121,900</b>	<b>\$ (47,718)</b>	<b>\$ (207,987)</b>	<b>\$ 4,667,306</b>

	Aggregated Fair Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Net Carrying Amount
<b>Long-term Investments- Held to Maturity Securities</b>				
Securities issued or secured by government entities	\$ 82,210	\$ 2,766	\$ -	\$ 79,444
Other debt securities	59,014	2,737	(102)	56,379
<b>Total Long-term Investments Classified as Held to Maturity</b>	<b>\$ 141,224</b>	<b>\$ 5,503</b>	<b>\$ (102)</b>	<b>\$ 135,823</b>

The maturities of fixed-income investments at December 31, 2009 and 2008 are as follows:

As of December 31, 2009

	Available for Sale		Held to Maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 175,573	\$ 178,832	\$ 7,876	\$ 8,280
Due in one year to five years	2,737,281	3,475,706	130,740	140,719
Due in five years to ten years	255,807	243,768	-	-
<b>Total</b>	<b>\$ 3,168,661</b>	<b>\$ 3,898,306</b>	<b>\$ 138,616</b>	<b>\$ 148,999</b>

As of December 31, 2008

	Available for Sale		Held to Maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 1,172,643	\$ 1,345,759	\$ 60,254	\$ 63,986
Due in one year to five years	5,157,100	5,765,696	118,842	116,412
Due in five years to ten years	328,761	338,849	-	-
<b>Total</b>	<b>\$ 6,658,504</b>	<b>\$ 7,450,304</b>	<b>\$ 179,096</b>	<b>\$ 180,398</b>

Proceeds from the sale of investment securities available for sale, gains and losses resulting from such sales are as follows:

	2009	2008	2007
Proceeds from sales	\$ 9,693,609	\$ 6,820,433	\$ 805,550
Gains	25,759	15,626	747
Losses	5,308	7,901	933

## Ecopetrol S.A. and Subsidiaries

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Realized gains and losses on securities available for sale at December 31, 2009, 2008 and 2007 were:

	2009	2008	2007
Losses	\$ 727,697	\$ 188,060	\$ 27,730
Gains	\$ 38,539	\$ 48,108	\$ 5,219

### Foreign Exchange Gains and Losses on Securities Available for Sale

Under RCP, changes in account balances resulting from variations in foreign currency exchange rates are reflected in the Company's net income. Under U.S. GAAP, any change in value of available-for-sale debt securities as a result of changes in foreign currency exchange rates is reflected in equity as required under the guidance in ASC subtopic 320-10-35. The amount reclassified from earnings under RCP purposes to other comprehensive income for U.S. GAAP purposes includes \$88,278, \$635,430 and \$37,817 in 2009, 2008 and 2007, respectively that correspond to exchange rate differences.

#### a. Unrealized gain (loss)

Available-for-sale securities in an unrealized loss position as of December 31, 2009, 2008 and 2007 are as follows:

	Less than 12 months		More than 12 months	
	Gross Unrealized Loss	Market Value	Gross Unrealized Loss	Market Value
2009	\$ (7,779)	\$ 27,013	\$ (28,857)	\$ 337,965
2008	\$ (27,867)	\$ 1,258,847	\$ (16,041)	\$ 268,894
2007	\$ (36,424)	\$ 883,748	\$ (11,294)	\$ 187,604

#### b. Impairment

Impairment of investment securities are reported differently under RCP and U.S. GAAP. Under RCP, impairment is also charged to earnings in the current period, but recoveries in value can be recorded up to the amount that was originally impaired. Under U.S. GAAP, other-than-temporary impairment should be charged to earnings in the current period and a new cost basis for the security is established. Subsequent increases in the cost basis of an impaired investment as a result of a recovery in fair value are included in Other Comprehensive Income.

The Company has a policy under which they conduct periodic reviews of marketable securities to assess whether other-than-temporary impairment exists. A number of factors are considered in performing an impairment analysis of securities. Those factors include:

- a) the length of time and the extent to which the market value of the security has been less than cost;
- b) the financial condition and near-term prospects of the issuer, including any specific events which influence the operations of the issuer (such as changes in technology that may impair the earnings potential of the investment, or the discontinuance of a segment of a business that may affect the future earnings potential); and
- c) carries out the analysis as instructed in ASC paragraph 320-10-65-1 which includes the comparison of the fair value and the amortized cost, evaluates the intention to sell the security and if it is more-likely-than-not that the Company will be required to sell the security prior to recovery, including the existence of a credit loss.

The Company also takes into account changes in global and regional economic conditions and changes related to specific issuers or industries that could adversely affect these values.

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Ecopetrol's marketable security portfolio consists only of debt securities, such as treasury investments, bonds, and commercial paper. For this reason, the Company has an internal policy to limit the ratings of their investments and issuers to the following ratings:

<u>Credit Rating Agency</u>	<u>Short-term Credit Rating</u>	<u>Long-Term Credit Rating</u>
Standard & Poor's	A-1	A
Moody's Investors Services	P-1	A2
Fitch Ratings	F-1	A

If the credit rating of an issuer or an investment drops below the aforementioned limits, the Company must sell the investment within 10 days. Investment securities were assessed for other than temporary impairment. For U.S. GAAP purposes, the Company recognized impairment on its investment securities amounting to \$28,083, \$163,902 and \$78,123 in 2009, 2008 and 2007, respectively. For 2008, a major contributing factor to these losses has been the global financial crisis. For 2009 and 2007 a major contributing factor to these losses has been that Ecopetrol has a large portion of their investments in securities denominated in U.S. dollars.

### ii. INVESTMENTS IN NON-MARKETABLE SECURITIES

#### a. Equity Method

Under RCP, equity securities for which prices are unquoted, or for which trading volume is minimal, and the Company does not control the investee, are accounted for under the cost method and subsequently are valued by the shareholders' equity comparison method. Under the equity comparison method, the Company accounts for the difference between its proportionate share of shareholders' equity of the investee and its acquisition cost, adjusted for inflation through 2001, in a separate valuation account in the assets and equity (valuation surplus), if the proportionate share of shareholders' equity of the investee is higher than its cost or as an allowance for losses, affecting net income, if the cost is higher than the proportionate share of shareholders' equity of the investee. The proportionate share of shareholder's equity is considered as the market value for this purpose and is known as intrinsic value. Under this method, the Company only records dividends as income when received. From 2008 the RCP incorporated the concept of significant influence for the recognition of investments in associated entities and established the equity method to update these investments. Until 2007 the investments in associates were recognized using the equity comparison method.

Under U.S. GAAP, an investment in a non-marketable equity security is recorded using the equity method when the investor can exercise significant influence over the investee, or the cost method when significant influence cannot be exercised. Investments accounted for using the equity comparison method under RCP are accounted for using the equity method for U.S. GAAP. Under the equity method of accounting for U.S. GAAP the carrying value of such an investment is adjusted to reflect (1) the Company's proportionate share of earnings or losses from the investee and (2) additional investments and distributions of dividends. The Company's proportionate share of income or loss is reported in earnings but any dividends or additional investments are reported only as an adjustment of the carrying amount of the investment. The income tax consequences that the Company would incur as a result of equity earnings have been reported by the Company as additional deferred income tax expenses and deferred tax liabilities.

The differences between the application of the cost and equity comparison methods under RCP and the equity method under U.S. GAAP were:

- Reversal of valuations and allowances for losses recorded under RCP
- Reversal of inflation adjustments recorded under RCP
- Inclusion of share of earnings or losses under U.S. GAAP, net of intercompany eliminations.
- Inclusion of share in other comprehensive income under U.S. GAAP.

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The summary of the investments valued by the equity method for U.S. GAAP purposes is shown in the following table:

**For the Year Ended December 31, 2009**

<u>Company</u>	<u>Percentage Of Voting Interest</u>	<u>Equity Calculated under U.S. GAAP</u>	<u>Equity Under Colombian GAAP</u>	<u>Assets Under Colombian GAAP</u>	<u>Liabilities Under Colombian GAAP</u>	<u>Net Income (Loss) Under Colombian GAAP</u>	<u>Investment Under U.S. GAAP Equity Method</u>
Invercolsa S.A.	32%	\$ 230,058	\$ 468,507	\$ 479,104	\$ 10,597	\$ 71,902	\$ 73,078
Serviport S.A.	49%	4,742	15,170	17,557	2,387	941	2,324
Offshore International Group	50%	640,866	726,398	860,151	133,753	69,845	320,433
Ecodiesel S.A.	50%	<u>5,985</u>	<u>15,842</u>	<u>91,641</u>	<u>75,799</u>	<u>336</u>	<u>2,992</u>
							<u>\$ 398,827</u>

**For the Year Ended December 31, 2008**

<u>Company</u>	<u>Percentage Of Voting Interest</u>	<u>Equity Calculated under U.S. GAAP</u>	<u>Equity Under Colombian GAAP</u>	<u>Assets Under Colombian GAAP</u>	<u>Liabilities Under Colombian GAAP</u>	<u>Net Income (Loss) Under Colombian GAAP</u>	<u>Investment Under U.S. GAAP Equity Method</u>
Oleoducto de Colombia S.A.	44%	\$ 3,716	\$ 109,967	\$ 150,450	\$ 40,483	\$ (23,862)	\$ -
Invercolsa S.A.	32%	262,856	501,896	503,194	1,298	111,773	83,496
Serviport S.A.	49%	2,909	12,768	16,092	3,324	(500)	1,425
Refinería de Cartagena S.A.	49%	2,276,788	2,601,628	3,110,642	509,014	9,478	1,115,624
Ecodiesel S.A.	50%	<u>11,282</u>	<u>15,579</u>	<u>63,614</u>	<u>48,036</u>	<u>76</u>	<u>5,641</u>
							<u>\$ 1,206,186</u>

The number of shares which the Company owns with respect to its investment in Invercolsa S.A. has been subject to a legal dispute with another Invercolsa shareholder. Numerous court decisions have ruled in favor of both the Company and the other shareholder, with the final outcome still unknown. As a result of these court decisions, the number of shares owned by the Company has fluctuated, from the current 31.76% to more than 50%. Consequently, applying appropriate GAAP in both Colombia and the U.S., which is based on the Company's percentage ownership of the investee, would result in different accounting treatment each time a court decision is handed down. Therefore, until the final legal outcome is known, the Company has decided to record the investment under the equity method for U.S. GAAP purposes, applying the lower percentage owned (31.76%) during all of the years that the Company has had an ownership interest in Invercolsa S.A. As such, the amount of the Company's investment is adjusted only for its proportionate share of Invercolsa's net income or loss and any dividends received or additional investments made, and no adjustment is made for changes in Invercolsa's estimated fair value.

**b. Variable Interest Entity (VIE)**

Under U.S. GAAP, ASC paragraph 810-10-15-13 requires that consolidated financial statements include subsidiaries in which the Company has a controlling financial interest, i.e., a majority voting interest. However, application of the majority voting interest requirement to certain types of entities may not identify the party with a controlling financial interest because that interest may be achieved through other arrangements. Thus, the U.S. GAAP rules also require a Company to consolidate a variable interest entity if that Company is a primary beneficiary that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. In determining whether it is a primary beneficiary of a variable interest entity, a Company shall treat variable interests in that same entity held by the Company's related parties as its own interest. Under RCP, consolidated financial statements only include subsidiaries in which the Company has the majority voting interest.

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Ecopetrol owned 35.29% of Oleoducto Central S.A. (hereinafter "Ocensa") until March 2009 when, through a direct transaction with Enbridge Inc., Ecopetrol acquired an additional 24.71% ownership interest for \$998,903 in cash. As of such date, Ecopetrol's participation in Ocensa became 60%. Ecopetrol assessed the new conditions and concluded that Ocensa is no longer a variable interest entity; instead Ocensa was consolidated as a subsidiary. Until March 2009, Ocensa, valued at cost under RCP, was treated as a variable interest entity under U.S. GAAP because Ecopetrol was contractually absorbing 60% of the operating expenses through tariffs.

According to Colombian Government Entity GAAP, the acquisition of the 24.71% of the non-controlling interest is accounted for as an increase in investment and goodwill; under U.S. GAAP, the ownership interest increase in a subsidiary is an equity transaction based on Accounting Research Bulletin No. 51, Consolidated Financial Statements, as amended by FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements (ASC Subtopic 810-10, Consolidation - Overall) and is accounted for as an equity transaction which decreases additional paid-in-capital in by the difference between the non-controlling interest carrying amount and the consideration paid. Under U.S. GAAP, the additional paid-in capital effect of the transaction was \$610,007. A corresponding deferred income tax effect of \$177,241 was recorded, resulting in a net effect of \$432,766.

The summary of Ocensa's financial information under U.S. GAAP as of and for the years ended December 31, 2009, 2008 and 2007 follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Assets	\$ 1,175,830	\$ 1,000,110	\$ 1,255,285
Liabilities	61,565	106,447	371,907
Equity	<b>\$ 1,114,265</b>	<b>\$ 893,663</b>	<b>\$ 883,378</b>
Net income	<b>\$ 404,621</b>	<b>\$ 10,284</b>	<b>\$ 33,901</b>

### c. Cost Method Investments

For investments in non-marketable securities that the Company has determined should be accounted for under the cost method in accordance with U.S. GAAP, the inflation adjustment and the valuation recorded under RCP were reversed. The effect is all recorded in shareholders' equity.

The following table lists those non-marketable equity investments held by the Company at December 31, 2009 and 2008 which are accounted for using the cost method:

#### December 31, 2009:

Investment	Number of Shares	Participation Percentage	Cost
Zona Franca de Cartagena S.A.	244	8.18	\$ 239
Sociedad Portuaria del Dique	10	0.5	5
Propaise S.A.	18,744,883	0.99	10
Total			\$ 254

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**December 31, 2008:**

Investment	Number of Shares	Participation Percentage	Cost
Interconexión Eléctrica S.A.	58,925,480	5.48	\$ 124,113
Empresa de Energía de Bogotá S.A. ESP.	6,310,980	7.35	151,932
<b>Total</b>			<b>\$ 276,045</b>

Under U.S. GAAP ASC paragraph 325-20-35 1A and 2, assets held at cost, including non-marketable equity investments, should be evaluated for impairment if the Company is aware of any events or changes in circumstances that may have significant adverse effects on the fair value of the investment. If the Company believes such circumstances exist, the Company would estimate the asset's fair value and compare that to cost to determine if any impairment is necessary. The Company believes no such events or changes in circumstances existed at the balance sheets dates. However, the Company used market values established under RCP to assess impairment of these investments and determined that they were not impaired.

iii. DERIVATIVES

As discussed in Note xxiii, Ecopetrol adopted new accounting standards for derivative disclosures on January 1, 2009. Ecopetrol is exposed to market risk from changes in foreign currency exchange rates, interest rate risk of its financial obligations and to commodity price risk, resulting from the fluctuations of international crude oil prices which affect its earnings, cash flows and financial condition. Ecopetrol manages its exposure to these market risks through its regular operating and financial activities and, when appropriate, through the use of derivative financial instruments. Ecopetrol has established a control to assess, approve and monitor derivative financial instrument activities. Ecopetrol does not buy, hold or sell derivative financial instruments for trading purposes. Ecopetrol's primary foreign currency exposures relate to the U.S. dollar; however, Ecopetrol manages its foreign currency risk position internally, using non-deliverable forwards, according to the size of the mismatches between its asset-liability position in U.S. Dollars and its asset-liability position in Colombian pesos. If no mismatches occur Ecopetrol has a perfect natural hedge. Ecopetrol also utilizes other derivative agreements to mitigate changes in the fair value of commodities. None of the derivatives were designated nor documented for hedge accounting.

The Company periodically enters into call option contracts to cover the price risk associated with fluctuations in market prices of asphalt. The option contracts limit the unfavorable effect that price increase will have on asphalt. The maximum term over which the Company is managing its exposures to the variability for commodity price risk is 12 months.

As of December 31, 2009, the Company had entered into four commodity call options with an effective date of January 1, 2010 and a termination date of December 31, 2010. Under these call options, Ecopetrol has the right to purchase 2,040,000 bls. equivalent of asphalt.

Total results recognized related to derivative activities during the periods are as follow:

	2009		2008		2007	
	Realized	Unrealized	Realized	Unrealized	Realized	Unrealized
Options (1)	\$ 66,889	\$ 25,943	\$ -	\$ -	\$ -	\$ -
Swaps	(23,757)	(438)	(45,024)	-	-	-
Forwards	878	-	(24,879)	-	43,696	-
<b>Total</b>	<b>\$ 44,010</b>	<b>\$ 25,505</b>	<b>\$ (69,903)</b>	<b>\$ -</b>	<b>\$ 43,696</b>	<b>\$ -</b>

(1) Amounts include premiums paid

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As a result of business combination, Ecopetrol included an exchange rate forward from Reficar of 1,050,600,000 JPY with a termination date on April 30, 2010. The effect of this forward in the reconciliation of shareholder's equity was \$4,984.

Under RCP, the difference between the amounts paid and received under these arrangements is recognized as financial income or expense. If the net payment will result in a payment to the counterparty, this is recorded as interest payable and thus is accrued as a liability. If the net payment will result in a payment to be received from the counterparty this is recorded as interest receivable. Both the interest payable and interest receivable resulting from net payments are recorded using current rates for the period.

U.S. GAAP requires that all derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated to be part of an effective cash-flow hedging transaction or an effective fair-value hedging transaction. Derivative instruments that do not meet the requirements of either a cash-flow or fair value hedge would be recorded at fair value on the balance sheet with the fair value gains and losses of the instrument recorded in the income statement.

Under U.S. GAAP, embedded derivative instruments shall be separated from the host contract, and accounted for using different measurement attributes, if certain conditions are met. In the case of the Company, some contracts to which the Company is counterparty include embedded foreign exchange derivatives. According to ASC paragraph 815-15-15-10 through 13 these contracts do not require separate accounting for the embedded derivative and the host contract because contract payments are made in the functional currency of a party to the contract or contract payments are made in a currency in which the price of the good or service delivered is routinely denominated in international commerce.

#### iv. EXCHANGE OF NON-MONETARY ASSETS

During 2007, the Company exchanged fixed assets with a cost of \$234,371 for a 49% interest in Reficar. The Company estimated the fair value of the investment in \$1,369,546. Under RCP, this difference between the cost of the assets given and the fair value of the assets received was recorded as an increase to asset revaluation and equity. However, under ASC Subtopic 845-10-30, the 51% of the difference between the cost of the assets given and the fair value of the assets received, which the Company determined to be a more reliable indicator of the value of the exchange, was recorded in the results of operations as a gain amounting of \$579,241. The remaining 49% of the difference, equivalent to \$556,236 is to be amortized over the useful life of the equipment. The reconciliation includes \$23,640 in 2009; \$55,623 in 2008 and \$27,812 in 2007 corresponding to the amortization of the deferred gain.

#### v. DEFERRED CHARGES

Under RCP, the Company deferred certain pre-operating expenses and other deferred charges, which are expensed as incurred under U.S. GAAP. These charges include research studies and projects in the research and development phase. Normal recurring maintenance is also included in this category.

#### vi. EMPLOYEE BENEFIT PLANS

Under Colombian Government Entity GAAP, the Company estimates the net present value of its actuarial liability for all pension and other post-retirement obligations. Annually, the Company estimates the net present value of the actuarial liability and adjusts the recorded liability accordingly. The amount of the adjustment is reflected in the Company's net income. Funds are set aside to settle this liability and are reflected as Pension Plan Assets in the Company's consolidated balance sheets as of December 2007. As discussed in Note 17, as of December 31, 2008 and 2009, that pension plan assets were effectively netted against the corresponding pension obligation liability.

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For other post-retirement benefits, the payments are made according to seniority and the salary at the time of retirement, as stipulated in the Collective Labor Agreement and the Agreement No. 01.

Under the post-retirement benefits plan for Ecopetrol personnel, the Company covers 90% of educational expenses for children of employees, including enrollment fees, tuition and other associated costs. A fixed annual sum, depending on grade level, is also provided for the acquisition of textbooks. Educational coverage includes kindergarten, elementary school, high school and college. Ecopetrol's financial statements must also show the cost of post-retirement educational benefits for children of retired employees, since benefits continue irrespective of retirement or death.

According to the Collective Labor Agreement and Agreement No. 01, the Company will pay for health services for employees and enrolled family members. Health services include: office visits and required laboratory services, drugs, diagnostic examinations, ambulatory treatment, hospitalization due to illness or accident, surgery due to illness or accident, maternity and rehabilitation treatments and orthopedic parts. Therefore, such post-retirement health benefit costs, are recorded in the RCP Ecopetrol financial statements, since retired workers and enrolled family members continue to receive full medical coverage. The same is true for deceased non-retired employees.

U.S. GAAP requires the recognition of pension, health care and education plans costs based on actuarial computations under a prescribed methodology which differs from that used under RCP. For purposes of U.S. GAAP reconciliation, the transition obligation is calculated at the date the Company adopted the ASC Topic 420, 715, 805, 835, 958 and 980 Employers Accounting for Pensions, is being amortized from January 1, 1989. The transition obligation for the education and medical plan is being amortized from January 1, 1995.

In addition, under Colombian law, the Company must pay pension bonds for certain employees when they leave Ecopetrol and those bonds payable accrue interest at the DTF rate, which rate averaged 5.6% for 2009, (10.90% for 2008, and 8.86 % for 2007).

Additionally, under Colombian law, employees are entitled to one month salary for each year of service. This benefit is known as the "severance obligation" or "*cesantias*". This benefit accumulates during the time of employment and is paid to employees upon their termination or retirement from Ecopetrol. However, employees may request advanced benefit payments at any time. In 1990, the Colombian government revised its labor regulations to permit companies, subject to employee approval, to pay the severance obligation to their employees on a current basis. Law 50 of 1990 also enabled each employee to freely choose yearly which trust fund would manage the amount accrued during each year in which they are eligible for severance payments. This amount must be transferred by the company to the trust fund no later than the next subsequent year.

Under U.S. GAAP, a curtailment is an event that significantly reduces the expected years of future service of present employees covered by a pension plan or eliminates for a significant number of employees by the plan the accrual of defined benefits for some or all of their future services. Consequently, this modification reduces the projected benefit obligation. Such reduction is used to reduce any existing unrecognized prior service cost. The excess, if any, is amortized on the same basis as the cost of benefit increases.

The economic assumptions used in the determination of pension obligations under U.S. GAAP differ from those used under RCP because the latter are established annually by the Colombian regulations.

The combined costs for the above mentioned benefit plans, determined using U.S. GAAP, for the years ended December 31, 2009, 2008 and 2007 are summarized below: (all obligations were measured at the year end).



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Components of net periodic benefit costs:	2009			2008			2007		
	Pension	Other Benefits (*)	Total	Pension	Other Benefits (*)	Total	Pension	Other Benefits (*)	Total
Service cost	\$ 21,126	\$ 40,279	\$ 61,405	\$ 57,957	\$ 20,549	\$ 78,506	\$ 58,608	\$ 20,352	\$ 78,960
Interest cost	1,037,577	474,634	1,512,211	861,042	787,838	1,648,880	757,536	302,210	1,059,746
Expected Return on plan assets	(1,013,399)	(416,474)	(1,429,873)	(366,541)	(78,806)	(445,347)	(292,564)	(63,184)	(355,748)
Amortization of net (gain) or loss	-	1,992,091	1,992,091	270,231	143,337	413,568	904,528	232,876	1,137,404
Net periodic pension cost under U.S. GAAP	45,304	2,090,530	2,135,834	822,689	872,918	1,695,607	1,428,108	492,254	1,920,362
Net periodic pension cost under Colombian GAAP	-	(719,236)	(719,236)	109,530	(353,958)	(244,428)	(526,277)	(348,711)	(874,988)
Difference to be recognized under U.S. GAAP	\$ 45,304	\$ 1,371,294	\$ 1,416,598	\$ 932,219	\$ 518,960	\$ 1,451,179	\$ 901,831	\$ 143,543	\$ 1,045,374

\* Other benefits include education, health, pension bonds and accrued severance.

Under U.S. GAAP, the changes in the benefit obligations and in plan assets for the above mentioned benefit plans, for the years ended December 31, 2009 and 2008 are summarized below:

	Pension Plans		Other Benefits	
	2009	2008	2009	2008
<b>Reconciliation of projected benefit obligation:</b>				
Projected benefit obligation as of January 1	\$ (8,910,139)	\$ (8,602,489)	\$ (3,838,042)	\$ (2,865,655)
Cost of service	(21,126)	(57,957)	(40,279)	(20,549)
Cost of interest	(1,037,577)	(861,042)	(474,634)	(787,838)
Actuarial (gain) loss	(920,726)	116,506	(701,110)	(341,386)
Benefit payments	550,678	494,843	209,850	177,386
Projected benefit obligation as of December 31	<u>(10,338,890)</u>	<u>(8,910,139)</u>	<u>(4,844,215)</u>	<u>(3,838,042)</u>
<b>Reconciliation of plan assets:</b>				
Fair value of plan assets as of January 1	8,501,667	7,815,380	1,671,124	1,680,294
Reclassification between plan assets	-	216,553	-	(216,553)
Actual return on plan assets	1,013,399	964,577	416,474	207,383
Company contributions	-	-	-	-
Benefits paid	(550,678)	(494,843)	-	-
Actuarial (gain) loss	182,017	-	(262,280)	-
Fair value of plan assets as of December 31	<u>9,146,405</u>	<u>8,501,667</u>	<u>1,825,318</u>	<u>1,671,124</u>
Projected benefit obligation, as of December 31	(524,622)	(479,318)	(3,426,309)	(1,545,629)
Amounts recognized in other comprehensive income (loss)	(667,863)	70,846	407,412	(621,289)
Net liability under U.S. GAAP	<u>(1,192,485)</u>	<u>(408,472)</u>	<u>(3,018,897)</u>	<u>(2,166,918)</u>
Net liability under RCP	(121,415)	-	(2,578,143)	(2,011,576)
Net effect under pension plan and other benefits	<u>\$ (1,071,070)</u>	<u>\$ (408,472)</u>	<u>\$ (440,754)</u>	<u>\$ (155,342)</u>

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Net liability of employee benefit plans is classified as follows:

	Pension Plans		Other Benefits		Total	
	2009	2008	2009	2008	2009	2008
Current portion	\$ -	\$ -	\$ (245,315)	\$ (209,523)	\$ (245,315)	\$ (210,294)
Long-term portion	(1,192,485)	(408,472)	(2,773,582)	(1,957,395)	(3,966,067)	(2,365,867)
Net liability	<u>\$ (1,192,485)</u>	<u>\$ (408,472)</u>	<u>\$ (3,018,897)</u>	<u>\$ (2,166,918)</u>	<u>\$ (4,211,382)</u>	<u>\$ (2,575,390)</u>

For U.S. GAAP purposes, plan assets are shown net of the pension obligations. There are no differences between the fair value of plan assets under RCP and U.S. GAAP.

Under U.S. GAAP, the Company applies the provisions of Statement on ASC Topic 420, 715, 805, 835, 958 and 980, as amended by Statement on ASC Topic No. 450, 715 and 958, Employers Disclosure about Pension and Other Post-retirement Benefits, an amendment to ASC Topic No. 420, 715, 805, 835, 958, 980, 712 and 710. The Company adopted Statement on ASC Topic No. 715 and 958 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans effective January 1, 2006, in respect of its defined benefits pension, health and education plans. This standard requires the Company to recognize the overfunded or underfunded status of each of its defined benefit pension and other postretirement benefit plans as an asset or liability and to reflect changes in the funded status through Accumulated Other Comprehensive Income, as a separate component of shareholders' equity. The actuarial calculations are estimated at year end dates.

As of December 31, 2009 and 2008, the amounts recognized in the balance sheet related to pension, health, education and severance obligations consist of:

	2009	2008
Long-term liability		
Pension	\$ 1,192,485	\$ 408,472
Health	2,343,212	1,586,115
Education	437,424	365,169
Bonds	(16,381)	5,340
Severance	9,327	771
Total long-term liability	<u>\$ 3,966,067</u>	<u>\$ 2,365,867</u>

As of December 31, 2009, 2008 and 2007, the amounts recognized in accumulated other comprehensive loss, related to pension, health and education obligations consist of:

	2009	2008	2007
Other comprehensive income			
Actuarial income (loss)			
Pension	\$ (667,863)	\$ 70,846	\$ (1,130,480)
Health	(887,162)	(1,747,418)	(209,690)
Education	(123,837)	(464,731)	(125,574)
Bonds	1,418,411	1,590,860	-
Total other comprehensive income (loss)	<u>(260,451)</u>	<u>(550,443)</u>	<u>(1,465,744)</u>
Deferred income tax effect	85,949	181,646	483,696
Total	<u>\$ (174,502)</u>	<u>\$ (368,797)</u>	<u>\$ (982,048)</u>

The Company expects the following amounts in other comprehensive income to be recognized as components of net periodic pension cost during 2010:

Health	<u>\$ 636,590</u>
Education	<u>\$ 81,203</u>

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For the pension plan obligation there was a loss of \$920,726 during 2009. The outstanding cumulative loss at December 31, 2009 was \$667,863. Since this accumulated gain is less than 10% of the projected benefit obligation or the pension assets, no amortization charge is necessary for 2010.

For the medical plan, there was a liability loss of \$616,837 during 2009. The outstanding cumulative loss at December 31, 2009 was \$887,162. Since this accumulated loss is greater than 10% of the accumulated post-retirement benefit obligation or the plan assets, an amortization charge of \$636,590 is necessary for 2010.

For the education plan, there was a liability loss of \$84,273 during 2009. The outstanding cumulative loss at December 31, 2009 was \$123,837. Since this accumulated loss is greater than 10% of the accumulated post-retirement benefit obligation or the pension assets, an amortization charge of \$81,203 is necessary for 2010.

The economic assumptions adopted are shown below in nominal terms. Those assumptions used in determining the actuarial present value of the pension obligation and the projected pension obligations for the plan years were as follows:

	2009			2008		
	Pension	Health	Education	Pension	Health	Education
Discount rate	8.50%	8.50%	8.50%	11.98%	11.98%	11.98%
Rate of compensation and pension increases	5.06%	4.00%	4.00%	9.67%	8.67%	7.67%
Expected rate of return	4.33%	***	***	4.69%	4.69%	4.69%
Mortality table	**	**	**	*	*	*

\* Colombian mortality table ISS, male and female, 1981-1989.

\*\* Colombian Mortality Table ISS, male, and female, 2005-2008.

\*\*\* The partial transfer does not include health and education benefits.

The rate of return of the Ecopetrol pension fund during 2009 was 14.52%; this high figure is mainly due to the low interest rates 8.5% driven by the Central Bank (Banco de la República) and reflected in the bank system and the capital market. As a result of falling interest rates, the market value of the investments corresponding to the pension fund increased and therefore the rate of return rose substantially. This rate will not be sustainable in the medium and long term. In order to determine the discount rate, Ecopetrol has taken into consideration the rate corresponding to the government bonds, TES, at December 31, 2009, 8.5% and an expected inflation rate equal to 4%, giving a real discount rate of 4.327%.

The Finance Superintendency concluded a mortality study based on the experience of the affiliated workers to the pension funds and to the Social Security Institute ISS, during the years 2005-2008. The resulting mortality table from such study reflects the current mortality of the Colombian workers. As was expected, the new table shows lower mortality rates compared with those of the actual mortality table, ISS, experience 1981-1989. Therefore, Ecopetrol used the new table to make the actuarial calculations included in the current valuation.

### Estimated future benefit payments

The benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Period	Pension Benefits	Health Care Benefits	Education Benefits
2010	\$ 555,303	\$ 162,507	\$ 70,333
2011	590,830	156,058	58,765
2012	582,053	152,523	55,179
2013	573,083	148,807	51,131
2014	563,947	144,913	46,051
Years 2015 – 2019	1,913,130	477,537	121,412

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All of the benefits estimated in the table above are to be paid from plan assets. The Company does not have any insurance policies that are intended to cover benefits that plan participants are to receive.

Furthermore, at the current time the Company does not intend to contribute to the fund in the upcoming fiscal year. Management believes that the plan assets will provide for a return sufficient to cover any payments that are necessary to be made in the upcoming year.

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	<b>1% Percentage Point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on total of service and interest cost	\$ 258,622	\$ 199,141
Effect on postretirement benefit obligation	\$ 2,831,320	\$ 2,237,066

### Plan assets

Pension and pension bonds are covered by assets in a single fund with the following investment allocation:

	<b>2009</b>	<b>2008</b>
Government securities	51%	64%
Private bonds	24%	13%
Foreign currency	3%	3%
Other	22%	20%
	100%	100%

The plan assets do not contain any shares of stock of Ecopetrol or any of its related parties.

In 2007, the Company was in the process of outsourcing administration of its pension plan to a third party (known as a partial transfer.) As a result of this process, under RCP, the discount rate was reduced from 4.8% to 4.0%, the effect of which was an additional pension liability of \$869,927. For U.S. GAAP purposes, the provision was reversed, because the partial transfer is not a settlement, as defined by ASC topic 712,715, and 958. For U.S. GAAP purposes, the Company used the discount rate in accordance with ASC Topic 420, 715, 805, 835, 958, and 980 to prepare its actuarial calculation. The amount reversed at December 31, 2007 was \$869,927.

As a result of the process mentioned above, on October 28, 2008 the Ministry of Finance and Public Credit approved the partial transfer (“commutation”) of the pension obligation of the Company, which was then approved by the Ministry of Social Security, according to the actuarial calculation at December 31, 2008 of \$10,092,528. Because Ecopetrol continues to be financially responsible for the transferred pension liability, this amount is recognized in the same way for U.S. GAAP purposes.

### vii. PROVISIONS, ALLOWANCES AND CONTINGENCES

Prior to September 5, 2007, under RCP, a provision was recorded for a contingent event at the time a judgment was issued against the Company, without reference to the evaluation of the probable final outcome. On September 5, 2007, the CGN issued Resolution 356 which provides that a provision was to be recorded for a contingent event if the evaluation of the outcome was evaluated to be probable. Such methodology evolved in 2008 to be based on the “credit system” of the Nation used by the Ministry of the Interior and Justice. Up to October 31, 2008, Ecopetrol recognized the provisions by the methodology it had been using in the past. The term probable as used was interpreted in practice under RCP to mean “more-likely-than-not”. As a result, the provision for legal processes included in Estimated Liabilities and Provisions was increased by \$951,158 during 2007 to reflect the implementation of the new rule. Additionally, the amount at which the provision is valued under RCP is the estimated amount of the loss at the end of the year. In 2008, the modification of the methodology generated a net decrease (recoveries and new provisions) of \$425,376, recorded in December 2008. In addition, in 2009, the modification of the methodology generated a net decrease (recoveries and new provisions) of \$142,452, recorded in December 2009.

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For U.S. GAAP, Accounting for Contingencies (ASC 450), provides the guidance for recording contingencies. Under ASC 450, there are three levels of assessment of contingent events – probable, reasonably possible and remote. The term probable in ASC 450 is defined as “the future event or events are likely to occur”. The term reasonably possible is defined as “the chance of the future event or events occurring is more than remote but less than likely”. And the term remote is defined as “the chance of the future event or events occurring is slight”.

Under ASC 450, an estimated loss related to a contingent event is to be accrued by a charge to income if both of the following conditions are met:

- Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.
- The amount of loss can be reasonably estimated.

The amount recorded is an estimate of the amount of loss at the date of the financial statements. If the contingent event is evaluated to be reasonably possible, no provision for the contingent event may be made, but disclosure of the event is required.

As a result of the difference in the definition of “probable” between RCP and U.S. GAAP, and the general interpretation of the definition in practice in Colombia, there is a difference in the amount of the provision for legal proceedings. This difference increased significantly during 2007 as a result of the rule change issued by the CGN. Additionally, in 2009, 2008 and 2007, there was a difference in the amount at which the provision for loss is recorded, as described above.

### viii. DEFERRED INCOME TAXES

Under RCP (Colombian Government Entity GAAP), deferred income taxes are recognized only for temporary differences using the liability method. Under U.S. GAAP, deferred tax must be recorded for all temporary differences between the financial and tax basis of assets and liabilities.

Under RCP, a deferred income tax asset is recorded to the extent the company expects to generate taxable income to recover that amount. Under U.S. GAAP, a valuation allowance is provided for deferred tax assets to the extent that it is more likely than not that they will not be realized.

Under RCP, deferred income taxes are calculated using the statutory tax rate. Under U.S. GAAP, deferred income taxes are calculated based on rates and tax laws that are enacted at the reporting date.

Under RCP, since 2009, goodwill is deductible and does not generate differences between tax laws and the RCP. Under U.S. GAAP, the goodwill is not amortizable and generates a temporary difference. As a result, it is necessary to compute and recognize deferred income taxes for differences resulting from deductions since the acquisition dates.

The Company and its subsidiaries file separate income tax returns because the tax regulations do not allow consolidated income tax returns. There are no requirements to file tax returns by segments. Tax returns are required for each legal entity.

The following information regarding income taxes has been prepared under U.S. GAAP:

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### Income Taxes

Total income taxes for the years ended December 31, 2009, 2008 and 2007 were comprised as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income tax expense	\$ 2,324,148	\$ 4,579,304	\$ 2,544,590
Income tax effects based on items of Other Comprehensive Income:			
Pension Plan Liability	(95,697)	(302,050)	358,277
Available-for-sale securities	15,389	(236,974)	(6,364)
Additional paid in capital	177,241	-	-
	<u>\$ 2,421,081</u>	<u>\$ 4,040,280</u>	<u>\$ 2,896,503</u>

Income tax expense attributable to income from continuing operations consists of:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current provision	\$ 1,948,819	\$ 3,648,451	\$ 2,045,997
Deferred tax	375,329	930,853	498,593
	<u>\$ 2,324,148</u>	<u>\$ 4,579,304</u>	<u>\$ 2,544,590</u>

In 2009, 2008 and 2007, subsidiaries in foreign countries have not generated taxable income and, consequently, they have not incurred income tax expense.

### Tax Rate Reconciliation

Income tax expense attributable to income from continuing operations was \$2,324,148, \$4,579,304 and \$2,544,590 for the years ended December 31, 2009, 2008 and 2007, respectively, and differed from the amounts computed by applying the income tax rate of 33% in 2009 and 2008, and 34% in 2007 to pretax income from continuing operations as a result of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Nominal income tax	33.00%	33.00%	34.00%
Non – taxable income	0.92%	(1.09)%	(0.89)%
Non – deductible expenses	2.19%	3.56%	1.14%
Effect of contribution in kind	-	-	(1.69)%
Others	(2.38)%	1.94%	0.08%
Goodwill fiscal amortization (ASC 830)	0.58%	-	-
Exempt revenue	(0.14)%	(3.29)%	(3.37)%
Changes in tax rate	-	-	0.10%
Effect of foreign profit taxed at other rate	(0.02)%	(0.02)%	-
Business combination	(0.98)%	-	-
Effective income tax under U.S. GAAP	<u>33.17%</u>	<u>34.10%</u>	<u>29.21%</u>

## Ecopetrol S.A. and Subsidiaries

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### Deferred Taxes

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Deferred income tax expense (exclusive of the effects of other components below):			
Accounts payable	\$ (21,072)	\$ 8,192	\$ 111,514
Inventories, principally due to inflation adjustments	19,168	(14,554)	(54,565)
Property, plant and equipment, principally due to DD&A and inflation adjustments	(568,471)	521,649	190,536
Deferred charges	177,228	(70,630)	379,099
Capital lease assets	42,999	10,488	50,820
Monetary Correction and other	(44,921)	(39,573)	377,656
Investments	318,291	655,164	175,221
Direct finance leases	(6,355)	-	(461,312)
Estimated liabilities and provisions	(470,479)	(106,139)	75,919
Accounts and notes receivable	(87,778)	(19,110)	(431,134)
Carryforward losses	(146,932)	-	-
Labor obligations	(374,923)	51,299	13,305
Deferred income	8,237	(156,470)	-
Natural and environmental resources due to inflation adjustments and capitalized expenses	259,483	(11,979)	(26,418)
Valuation allowance	93,281	4,126	8,004
Additional tax discount on the acquisition of productive assets according to ASC 740 (1)	1,321,469	637,418	462,676
Excess in presumptive income tax	(114,744)	-	-
Other	(69,965)	(4)	1,645
Amortization of actuarial loss recorded in OCI	(95,697)	(302,050)	(375,343)
Unrealized loss in available for sale securities	15,389	(236,974)	(7,428)
Amortization of fiscal goodwill according to (ASC 830)	30,133	-	-
Acquisitions adjustments (2)	90,988	-	-
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates	-	-	8,399
	<u>\$ 375,329</u>	<u>\$ 930,853</u>	<u>\$ 498,594</u>

- (1) This value corresponds to the deferred tax generated by the calculation of ASC 740, due to the implementation of the special deduction for investment in productive assets.
- (2) This value consists of the net balance of the deferred tax accounts of the companies we acquired during 2009 at the time of the acquisition.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 are presented below:

	<u>2009</u>	<u>2008</u>
<b>Deferred income tax assets and liabilities</b>		
<b>Deferred income tax assets:</b>		
Inventories	\$ 60,482	\$ 79,650
Investments, principally due to inflation adjustments	456,674	1,598,571
Accounts and notes receivable	100,458	12,686
Deferred income	148,233	156,470
Property, plant and equipment, principally due to DD&A and inflation adjustments	1,501,499	933,028
Deferred charges	793	178,021
Financial obligation, principally due to capitalized leasing	119,113	162,112
Pension obligations	560,982	186,059
Accounts payable	134,664	113,592
Carryforward losses (1)	146,932	-
Excess in presumptive income tax (2)	114,744	-
Other	16,083	4
Amortization of fiscal goodwill according to ASC 830	376,976	-
Estimated liabilities and provisions (3)	<u>1,149,945</u>	<u>679,466</u>
Total gross deferred income tax assets	4,887,578	4,099,659
Less valuation allowance	<u>(103,427)</u>	<u>(10,146)</u>
Deferred income tax assets	<u>4,784,151</u>	<u>4,089,513</u>
<b>Deferred income tax liabilities</b>		
Accounts and notes receivable	-	6
Natural and environmental properties due to inflation adjustments and capitalized expenses	440,494	181,011
Monetary correction and other	445,289	490,210
Investments	1,400,966	2,224,572
Direct finance lease	<u>6,355</u>	<u>-</u>
Deferred income tax liabilities	<u>2,293,104</u>	<u>2,895,799</u>
Net deferred income tax assets (4)	<u>\$ 2,491,047</u>	<u>\$ 1,193,714</u>

- (1) Carryforward losses are generated by subsidiaries and according to local tax laws, these losses will not expire.
- (2) The excesses in presumptive income tax are generated by subsidiaries and will expire in 5 years.
- (3) Includes \$14,364 from Ecopetrol del Perú that is calculated at 29% income tax rate, which is the income tax rate for this company.
- (4) The Company does not have the intention to repatriate dividends to the Head Office from subsidiaries in the short term; for that reason the deferred income taxes only include the deferred income taxes recognized by the subsidiaries.

The valuation allowance for deferred income tax assets as of December 31, 2009 and 2008 was \$103,427 and \$10,146, respectively. In 2009, the valuation allowance is generated by subsidiaries ODC and Hocol in the amount of \$92,112 and \$11,315, respectively. The ODC valuation allowance refers to fiscal accumulated losses which are considered by the company to be unrecoverable. On the other hand, the Hocol valuation allowance refers to the deferred income tax provision that Hocol maintains upon the ODC investment, because Hocol does not have the intention to sell the ODC participation. In 2008, the valuation allowance was primarily related to the effect for Ecopetrol's income tax related to inflation adjustments of lands which was reversed in 2009.

ix. REVENUE RECOGNITION

a. Revenue – FAEP

The Colombian government created and regulated in Law 209 of 1995 the savings and stabilization fund for the oil sector (*Fondo de Ahorro y Estabilización Petrolera, or FAEP*) with the exclusive dual purpose of (i) fiscal savings and macroeconomic stabilization and (ii) government management of overseas accounts. The law, which was in effect until 2007, required the Company to defer a certain portion of cash received in U.S. dollars from sales to third parties into the FAEP. Banco de la República (Colombian Central Bank) acted as the portfolio manager of the funds and monies withdrawn in accordance with the formula specified in the law.



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Under RCP, contributions to FAEP were recorded as increases to deferred income and an asset account for the same amount. No revenue was recognized for contributions to FAEP despite the completion of a sale. Distributions out of the fund were recorded as revenue, with corresponding decreases in the deferred income and the FAEP asset accounts. The amount of income that was deferred under RCP and the cash deposited into the Fund through December 31, 2007 amounted to \$3,844,167. In 2007, an additional \$316,497 was deferred and an equivalent amount was deposited into the fund; and an exchange loss of \$97,127 was recorded in the fund. During 2007, the Colombian government issued Law 1151 of 2007 by means of Decree 3238 of August 27, 2007, which rescinded Law 209 of 1995 and declared that Ecopetrol's contributions to the fund and not previously distributed to the Company pursuant to Law 209 belonged to the Colombian government. The total amount remitted to the Government was \$4,063,537.

Until December 31, 2007, the amount of the deferred income was recognized for U.S. GAAP purposes, considering that this deferral responded to a Government saving program with the purpose of maintaining macro-economic stability in the country and that the transaction with the third party was complete. Further, the effective receipt by the Government of the fund balance in August 2007 was treated as a distribution to its sole shareholder under U.S. GAAP.

### **b.1 Natural Gas Imbalance**

For U.S. GAAP purposes, the Company utilizes the entitlement method of accounting for natural gas balancing arrangements by which the amount of natural gas sold is based on its shared interests in the properties. The Company's natural gas imbalance positions at December 31, 2009 and 2008 were \$539 and \$8,755 in favor, equivalent to 147,903 MBTU and 777,790 MBTU, respectively. Under RCP, natural gas imbalances are settled with a purchase or sale to the partner that are accounted for at the end of each period.

### **b.2 Over and Under**

Under RCP, the Company recognizes receivables from or payables to partners based on the cost of the inventory.

For U.S. GAAP purposes, the Company utilizes the entitlement method of accounting for over and under positions by which the amount of crude oil sold is based on its shared interest in the properties, and revenue is recognized based on market prices. The Company's crude oil imbalance position at December 31, 2009 was \$227,900 against Ecopetrol and, at December 31, 2008 was \$32,576 against equivalent to 1,674,479 and 360,730 barrels, respectively.

### **b.3 Cost of Sales**

Under U.S. GAAP, the related cost of sale for over and under transactions described on b.2 above amounted to \$(111,126), \$(8,887) and \$16,607 during 2009, 2008 and 2007, respectively, in comparison with the amount recognized under RCP.

### **c. Other income**

For U.S. GAAP purposes, the Company recognized exchange losses originated from FAEP funds. Under RCP, exchange losses on FAEP funds were offset with deferred income. Exchange losses were \$97,127 in 2007.

### **x. INFLATION ADJUSTMENTS**

The RCP consolidated financial statements were adjusted for inflation based on the variation in the IPC (Colombia's equivalent to the consumer price index in the United States) for middle income-earners from January 1, 1992 to December 31, 2001 for Ecopetrol S.A. and from January 1, 1992 to December 31, 2006 for Oleoducto de Colombia S.A. ("ODC"), Hocol S.A., Oleoducto Central S.A. ("Ocensa") and Reficar S.A. The adjustment was applied monthly to non-monetary assets, equity (except for the valuation surplus) and memorandum accounts.

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Financial statements are only adjusted for inflation under U.S. GAAP when an entity operates in a hyperinflationary environment. The environment in which companies have operated has not been hyperinflationary since the early 1990's. For this reason, inflation adjustments recorded from 1992 until 2001 for Ecopetrol S. A. and until 2006 for the subsidiaries acquired in 2009, which remained as part of the cost of assets, have been excluded for U.S. GAAP purposes.

### xi. INVENTORIES

Under RCP, inventories are valued at the lower of average cost or sale price. Under U.S. GAAP, inventories are valued at the lower of average cost or market value, the determination of which can be made using several different methods acceptable under U.S. GAAP. An adjustment has been recorded to reflect the difference in the method used to determine the valuation of inventories that arises from using sale price instead of market value, as defined by U.S. GAAP. The effects of this adjustment in the reconciliation of income were \$22,565, \$10,274 and (\$67,089) in 2009, 2008 and 2007, respectively.

Inventories are also affected by the effect of adjustments to cost of sales included in this reconciliation note. These adjustments relate to depreciation, expenses capitalized in property, plant and equipment, asset retirement cost and impairment of long lived assets. The effects of these adjustments in the reconciliation of equity and the corresponding effect in inventory were \$(31,017) and \$(66,570) in 2009 and 2008, respectively.

### xii. LEASE ACCOUNTING

Under both RCP and U.S. GAAP, lessees' accounting for capital leases and operating leases are identical. However, the tests used to determine if a lease is a capital or an operating lease differs between RCP and U.S. GAAP. In applying the tests in accordance with RCP, the Company has determined that all leases are operating leases. Under U.S. GAAP some of these leases should be accounted for as capital leases in accordance with ASC 840-10, Leases. As a result, adjustments were recorded to reflect the related assets and liabilities, and to recognize interest expense and de-recognize operating expenses associated with the lease payments.

#### **Build, Operate, Maintain and Transfer (BOMT)**

Three original leases that were accounted for as capital leases under U.S. GAAP are BOMT contracts, the use of which are specifically required under Colombian law for projects that involve the building, operating, maintaining and transferring of natural gas pipelines for the transportation of natural gas. These contracts had original terms of 20 years, no renewal provisions, and a purchase option. The rights to the leased assets were subsequently transferred to a related Company (ECOGAS) that was sold, but Ecopetrol was not relieved of the primary obligation under the original lease. This transfer was considered a sublease accounted for as a direct finance lease.

In 2007, Ecopetrol received a prepayment of all amounts to be received during the term of the sublease contract.

The outstanding amount of rentals, excluding operation and maintenance, payable under the BOMT obligations that were not relieved during the next years follows for these three leases:

<b>Year</b>	<b>USD (million)</b>	<b>Pesos</b>
2010	31	\$ 63,490
2011	20	41,034
2012	18	37,486
2013	17	35,350
2014	17	34,725
Payments after 2014	44	89,110
	<u>147</u>	<u>\$ 301,195</u>

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**Build, Operate, Maintain and Transfer (BOMT) - Hocol Petroleum Limited**

In addition, the subsidiary Hocol has another BOMT contract, which is accounted for as an operating lease under Colombian Government Entity GAAP. Under U.S. GAAP, this BOMT is accounted for as a capital lease in accordance with Statement on Financial Accounting Standard ASC 840-10, Leases. As a result, adjustments were recorded to reflect the related assets and liabilities.

At December 31, 2009, the capitalized amount and the related liability are as follows:

	<b>2009</b>
<b>Assets</b>	
Property, plant and equipment (Building offices)	\$ 10,987
Accumulated depreciation	(1,481)
Net value	<u>\$ 9,506</u>
<b>Liabilities:</b>	
Financial obligations	<u>\$ 11,258</u>

The following table shows the net present value (in thousands of dollars) of the lease payments for the next 5 years:

<u>Year</u>	<u>USD (million)</u>	<u>Pesos</u>
2010	1.2	\$ 2,549
2011	1.2	2,549
2012	1.2	2,549
2013	1.3	2,549
2014	0.6	1,062
Payments after 2014	-	-
	<u>5.5</u>	<u>\$ 11,258</u>

**Embedded Leasing**

Under RCP, there is no requirement to identify whether the arrangements or contracts contain leases.

Under U.S. GAAP, an arrangement contains a lease if both of the following two criteria are met:

1. The arrangement depends on a specific fixed asset, either identified contractually or implicitly identified as no alternative item could feasibly be used.
2. The purchaser has the right to control the use of the underlying fixed asset, such control demonstrated by the existence of any of the following qualitative conditions:
  - a) The purchaser can operate the asset or direct others to operate the asset while obtaining or controlling more than a minor amount of the asset's output;
  - b) The purchaser can control physical access to asset while obtaining or controlling more than a minor amount of the asset's output; or
  - c) Probability is remote that another party will get more than minor amount of the asset's output and the price is not fixed per unit.

Under U.S. GAAP, if the arrangement contains a lease, ASC 840 is applied by both purchaser and supplier for recognition, measurement, classification and disclosure purposes.

In the case of the Company, it was determined that there were leases included in various contracts. The most significant embedded lease was determined to exist in Contract DIJ 970 (Transmetano), Natural gas transportation - Sebastapol – Medellín pipeline.

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The contractor is entitled to receive natural gas at the designated point, and it is also obligated along with the Company to transport the product throughout the pipeline and bring it to the delivery point (conducting up to 67 million cubic feet per day). The contract has duration of 15 years since 1998 until 2012, and it could be extended for periods of 1 year, not longer than 10 years. Leasing payments include the costs of transportation, administration, operation and pipeline maintenance. At the end of 2009, there is no extension agreement with Transmetano.

This contract meets the criteria of Emerging Issues Task Force 01-08, Determining Whether an Arrangement Contains a Lease (ASC 840) in order to be considered a lease agreement. Similarly, according to ASC 840, the contract meets the criteria to be recognized as a capital lease. At December 31, 2009 and 2008, the capitalized amount and the related liability are as follows:

	2009	2008
<b>Assets</b>		
Property, plant and equipment (Gas pipeline)	\$ 83,245	\$ 83,245
Accumulated depreciation	(66,596)	(61,046)
Net value	\$ 16,649	\$ 22,199
<b>Liabilities:</b>		
Financial obligations	\$ 56,903	\$ 77,513

The following table shows the net present value (in thousands of dollars) of the lease payments for the next 3 years:

Year	USD (thousands)	Pesos
2010	8	\$ 16,162
2011	9	18,848
2012	11	21,892
	28	\$ 56,902

Other minor contracts contained capital leases that were adjusted under U.S. GAAP.

### xiii. PRIOR YEAR ADJUSTMENTS

In accordance with RCP, adjustments of previously issued financial statements shall be included in the net income of the period in which they are discovered. These adjustments do not have any impact on the income tax because they cannot be considered a deduction in the period in which they are discovered. Under U.S. GAAP, when comparative statements are presented, corresponding adjustments shall be made of the amounts of net income, its components, retained earnings balances, and other affected balances for all of the periods presented to reflect the retroactive application of the prior period adjustments. Prior year adjustments were classified in the year they were incurred as defined by U.S. GAAP.

### xiv. PROPERTY, PLANT AND EQUIPMENT

Under RCP, property, plant and equipment is recorded at cost and is adjusted for inflation until 2001. Cost includes administrative expenses until 2004, financial expenses and exchange differences from foreign currency financing until the asset is placed in service. Normal disbursements for maintenance and repairs are charged to expense and those significant costs that improve efficiency or extend the useful life are capitalized. Under U.S. GAAP, cost includes expenditures until the asset is placed in service such as installation cost, freight, interest, retirement cost; construction cost and other direct expenses are capitalized, with exception of adjustment for inflation and foreign currency loss. For U.S. GAAP purposes, administrative expenses capitalized were eliminated from property, plant and equipment. In addition, a deferred income tax asset resulted from the application of the provisions of ASC 740-10, Accounting for Acquired Temporary Differences in Certain Purchase Transactions that are not Accounted for as Business Combinations, because the investment in productive assets creates an additional tax deduction of 40% in 2009, 2008 and 2007.

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The following table reflects the net changes in capitalized exploratory wells during 2009, 2008 and 2007 and does not include amounts that were capitalized and subsequently expensed during the same period.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Beginning balance at January 1	\$ 218,413	\$ 206,300	\$ 113,200
Additions from business combination	143,541	-	-
Additions to capitalized exploratory well costs	349,162	268,041	288,910
Reclassifications to wells, facilities and equipment based on the determination of proved reserves	(149,130)	(163,817)	(113,900)
Capitalized exploratory well costs charged to expense*	(198,064)	(92,111)	(81,910)
Ending balance at December 31	<u>\$ 363,922</u>	<u>\$ 218,413</u>	<u>\$ 206,300</u>

\* Includes \$32,351 of capitalized exploratory well costs at December 31, 2009 that were declared as dry wells during 2010.

The balances at December 31, 2009, 2008 and 2007 correspond to well costs capitalized during the years ended at those dates.

### a. Interest

Under RCP, the interest is calculated on the total financial obligation together with other costs related to the debt transactions, recognized in full as a greater asset value.

Under U.S. GAAP, the amount of these costs capitalized in an accounting period shall be determined by applying the capitalization rate (weighted average rate used in the balance of the obligations on the net financial costs, in other words, costs less income from unused fund performance) by the average cumulative amount of the costs for the specified period.

The total interest capitalized during 2009 under RCP was \$127,026 (\$0 in 2007) and the total interest capitalized under U.S. GAAP was \$63,247 (\$1,228 in 2007). The effect of this adjustment in the reconciliation of income was \$63,779 (\$1,228 in 2007). There was no interest capitalized during 2008.

### b. Revaluation of property, plant and equipment and public accounting effect

Valuation surplus of property, plant and equipment and public accounting effect correspond to the difference between net book value and the market value for real estate or the current value in use for plant and equipment, determined by specialists. These accounts are reflected as Valuations and as Valuation Surplus from reappraisals of assets and public accounting effect (components of equity) in the Company's consolidated balances sheets. The last valuation was in December 2009. Technical appraisals are valid for three years.

Under U.S. GAAP valuation, valuation surplus of assets and public accounting effect are not permitted.

### c. Impairment

Under RCP, technical appraisals for property, plant and equipment are performed at least every three years. If the technical study is lower than the carrying value, the difference is recorded in equity as a reduction of the property, plant and equipment carrying value even if it reduces the valuation surplus below zero. Under U.S. GAAP, in accordance with ASC 360-10, Property, Plant, and Equipment - Impairment or Disposal of Long-Lived Assets (ASC 360-10), property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by the asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. For U.S. GAAP purposes, the Company reviewed property, plant and equipment for impairment as of December 31, 2009, 2008, and 2007; and recorded impairment losses when required. For U.S. GAAP purposes, the Company recorded in 2009, 2008 and 2007 \$395,044, \$121,296 and \$65,137, respectively, as additional impairment charges to reduce the net book value of certain wells and pipelines to their estimated values.

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### xv. DEPRECIATION, DEPLETION AND AMORTIZATION

Under RCP, all tangible equipments, including those used in the production of crude oil and natural gas, are depreciated on a straight-line basis over the related estimated useful lives. Intangible crude oil and natural gas assets reflected on the Company's consolidated balance sheets as natural and environmental resources are depleted on a units-of-production basis. Under U.S. GAAP, all assets, including tangible equipment, used in crude oil and natural gas producing activities are required to be depreciated or depleted using a units-of-production method, using proved reserves calculated in accordance with U.S. GAAP requirements. Therefore, an adjustment to net income per U.S. GAAP has been recorded to account for the difference in depreciation, depletion and amortization expense based on the above-described differences in the methods used.

### xvi. ASSET RETIREMENT OBLIGATIONS

Under RCP, the Company annually updates an analysis of the estimated liability for future asset retirement obligations as of each balance sheet date. The liability is adjusted to the current value and an offsetting amount is recorded as an adjustment to the asset cost. To the extent that elements of the liability originate in U.S. dollars, changes in the foreign currency rates are included in the adjustment to the liability and the related asset. The component of the asset cost resulting from this liability is included in the depreciable base of the related asset.

For purposes of U.S. GAAP reporting, the Company follows the provisions of Accounting Standards Codification ASC 360-10 Impairment or Disposal of Long-Lived Assets. ASC 360-10 requires the Company to recognize a liability for the present value of all legal obligations associated with the retirement of tangible, long-lived assets as of the date the related asset was placed into service, and capitalize an equal amount as an additional cost of the asset. Each period the liability is accreted using an effective interest rate method. The accretion is included as an operating expense. The cost associated with the abandonment obligation, is included in the computation of depreciation, depletion and amortization.

An adjustment has been recorded in the consolidated financial statements to reflect accretion expense, and the related obligation and assets in accordance with ASC 360-10.

The following table presents the changes in abandonment obligations for 2009 and 2008 as is required by ASC 360-10.

	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 1,320,058	\$ 980,082
Liabilities incurred in the current period	6,131	25,902
Abandonment Cost from Business combination	58,143	-
Liabilities revised	666,706	122,005
Liabilities settled	(17,435)	(3,120)
Accretion	(33,895)	195,191
Balance at end of period	<u>\$ 1,999,708</u>	<u>\$ 1,320,058</u>

## Ecopetrol S.A. and Subsidiaries

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### xvii. EQUITY CONTRIBUTIONS

#### a. INCORPORATED INSTITUTIONAL EQUITY

At the end of association contracts that were signed prior to January 1, 2004, private companies are required to transfer, without cost, to Ecopetrol, all producing wells, facilities and other real estate and assets acquired in executing the contracts. Under RCP, the Company accounts for the receipt, using the relinquishing Company's reported historical cost, by recording an increase to assets and equity. The assets are then depreciated in accordance with the Company's previously disclosed accounting policies. For U.S. GAAP reporting purposes, these balances and their related impacts on accumulated depreciation, depletion and amortization, and cost of production have been removed from the financial statements, based on the fact that the cost of these assets is zero. The adjustment to conform to U.S. GAAP in 2009 was a reduction in equity of \$82,870 (original value of \$137,068 net of \$54,198) of accumulated depreciation of the assets received). The adjustment to conform to U.S. GAAP in 2008 was a reduction in equity of \$60,907 (original value of \$94,414 net of \$33,507 of accumulated depreciation of the assets received).

#### b. CONTRIBUTIONS IN KIND

Under RCP, contributions of Nation in Kind established by Decree 2625 of 2000 were recognized as a cost of production during the years that the Decree was in force, by increasing equity. Contributions in kind established by Decree 2625 of 2000 were estimated based on the number of oil barrels extracted at market price in situ. Under U.S. GAAP, costs associated with these contributions were reverted as they were transactions between entities under common control in which the transferor had no basis in the investment.

#### c. REVERSION OF CONCESSION RIGHTS CONTRIBUTED AS CAPITAL

Under RCP, the Company recorded as reservoirs the contributions of the Nation represented by crude oil and natural gas reserves deriving from the reversion of concessions of oilfield areas in favor of the Nation, given before the effectiveness of Decree 1760 of 2003. Reserves were valued by means of the technical-economic model where the value per barrel resulted from the relation of the net present value obtained at a discount rate and the total proved reserves on the contribution date.

For U.S. GAAP purposes, these reversions were considered a transfer of assets between entities under common control. Ecopetrol, the entity that received the net assets, recognized the assets transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer which was zero value. The unamortized amount reverted at December 31, 2009 and 2008 was \$103,260 and \$121,459 respectively.

### xviii. PUBLIC OFFERING COSTS AND DISCOUNT ON ISSUANCE OF SHARES

In August 2007, the Company issued shares in an initial public offering in Colombia. Under RCP, all related costs of this issuance were expensed as well as a discount granted to shares fully paid in cash. For U.S. GAAP purposes, direct costs incurred in public offerings and cash discounts are recorded as a reduction of the proceeds received and, consequently, a reduction in equity. An adjustment of \$242,885 was recorded to recognize the effect of these amounts in 2007.

### xix. INDEBTEDNESS COST

Under RCP, the costs of borrowing correspond to interest payable, lender commissions and other costs related to the debt transactions, the exchange difference for the interest rate to be paid, the amortization of premiums and discounts in the placement of bonds and securities, and any income results earned on the temporary investment of such loans.

Under U.S. GAAP, the costs of borrowing correspond to interest payable, lender commissions and other costs related to the debt transactions, and the amortization of premiums and discounts in the placement of bonds and securities. It should not offset interest expense with interest income. Unlike RCP, the cost of borrowing does not include the exchange difference for the interest rate to be paid, unless such difference forms part of the negotiation of the interest rate for the transaction.

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The total indebtedness cost incurred during 2009 under RCP was \$210,362 and the total indebtedness cost incurred under U.S. GAAP was \$201,562. The effect of this adjustment in the reconciliation of income was \$8,800. There were no indebtedness costs incurred during 2008 and 2007.

### xx. BUSINESS COMBINATIONS

#### *Purchase method of accounting*

Under RCP, the method of accounting requires that (i) the purchase price be allocated to the acquired assets and liabilities on the basis of their book value, (ii) the statement of operations of the acquiring Company for the period in which a business combination occurs include the income of the acquired Company after the date of acquisition, and (iii) the costs directly related to the purchase business combination are expensed as incurred.

In regard to a business combination, the purchase method of accounting under U.S. GAAP requires that (i) the purchase price be allocated to the identifiable acquired assets and liabilities on the basis of fair market value according to the Purchase Price Allocations analysis, (ii) the statement of operations of the acquiring Company for the period in which a business combination occurs include the income of the acquired Company after the date of acquisition, and (iii) the costs directly related to the purchase of a business combination are expensed as incurred.

In the reconciliation of Ecopetrol's net income and shareholders' equity between RCP to U.S. GAAP, the adjustments for each line item have been taken into account the effects of the acquisitions during the year.

#### *Business Combinations during 2009*

During 2009, Ecopetrol acquired the following ownership interests in the following companies:

<u>Company</u>	<u>Acquisition Date</u>	<u>% acquired</u>	<u>Activity</u>
Hocol	May 27, 2009	100%	Investment vehicle
Offshore International Group – "OIG"	February 06, 2009	50%	Hydrocarbons exploration and production
Reficar	May 27, 2009	51%	Hydrocarbons refining

#### **Reficar**

With the acquisition of the additional 51% of Reficar, Ecopetrol became the owner of 100% of the company. As a result, Ecopetrol consolidated Reficar's results in 2009.

#### **Offshore International Group**

The purchase price allocation pertaining to our acquisition of 50% of Offshore International Group includes only the information of Savia Peru (formerly Petro-tech Peruana) as this is OIG's biggest and most important asset corresponding to 89% of OIG's equity.

#### **Hocol**

With the purchase of Hocol, Ecopetrol acquired an additional 21.72% of ODC, As a result, Ecopetrol became the owner of 66% and consolidated ODC's results in 2009.



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The following table summarizes (i) the consideration given in exchange for ownership interests in the above-listed companies (ii) the amounts of the assets acquired and liabilities assumed recognized at the acquisition dates, as well as (iii) the fair value of the non-controlling interest Ecopetrol held in the above-listed companies at their respective acquisition dates.

	<b>Total</b>
<b>Consideration:</b>	
Cash	\$ 4,061,289
Contingent consideration arrangement	22,401
Fair value of Ecopetrol's equity interest in acquirees held before the business combination	1,213,980
	<u>\$ 5,297,670</u>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>	
Financial assets	1,963,286
Inventory	444,885
Property, plant, and equipment	2,833,678
Other assets	272,738
Financial liabilities	(885,077)
Other liabilities	(425,508)
Total identifiable net assets	\$ 4,204,002
Non-controlling interest in acquirees at fair value	(511,494)
Goodwill	<u>\$ 1,605,162</u>

The following table shows, by acquired company, the goodwill balance at the end of 2008, the amount of goodwill acquired during 2009, the amount of goodwill acquired in 2009 before taxes, the amount of deferred income tax on goodwill (indicating the impact of paragraphs 262 and 263 of ASC 805 (FAS 141-R)), and the goodwill balance at the end of 2009:

Company	Balance 2008	Goodwill acquired during 2009	Balance before tax 2009	Deferred income tax*	Balance 2009
Propilco - Andean Chemicals	\$ 618,617	\$ -	\$ 618,617	\$ 899	\$ 619,516
Refineria de Cartagena	-	1,029,840	1,029,840	-	1,029,840
Offshore International Group	-	758,190	758,190	(31,426)	726,764
Bioenergy	8,993	-	8,993	-	8,993
<b>TOTAL</b>	<u>\$ 627,610</u>	<u>\$ 1,788,030</u>	<u>\$ 2,415,640</u>	<u>\$ (30,527)</u>	<u>\$ 2,385,113</u>

\*Impact of paragraphs 262 and 263 of ASC 805 (FAS 141-R)

Under RCP, the following table shows amounts deductible for income tax purposes at December 31, 2009 (which in the aggregate totaled \$1,703,172).

Company	Goodwill	Accumulated Amortization	Balance	Net Effect	Remaining time-years
Andean Chemicals Ltd	\$ 357,629	\$ (33,655)	\$ 323,974	\$ 106,911	17.8
Offshore International Group – “OIG”	821,994	(48,502)	773,492	255,252	14.0
Hocol	628,456	(22,750)	605,706	199,883	16.0
Total	<u>\$ 1,808,079</u>	<u>\$ (104,907)</u>	<u>\$ 1,703,172</u>	<u>\$ 562,046</u>	

Under RCP in 2009, \$139,909 was amortized in regard to goodwill acquired from OIG, Ecopetrol Transportation Company, Hocol, Andean Chemicals and Propilco. The amortization in the table above represents the accumulated amortization of the companies that could be deductible for income tax.

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**Contingencies from Business Combinations in 2009**

**Hocol**

Pursuant to the Hocol Stock Purchase Agreement, a contingent consideration exists, representing the amount which may become payable by Ecopetrol depending on oil prices during the period from January 1, 2010 through December 1, 2010.

The following table represents the amounts payable for each price scenario:

<b>Scenario</b>	<b>Average published price/barrel (in U.S. Dollars)</b>	<b>Amount of Contingent Obligation (in Millions of U.S. Dollars)</b>
1	Less than \$55	\$ -
2	Equal to \$55 and less than \$60	\$ 25
3	Equal to \$60 and less than \$65	\$ 40
4	Equal or more than \$65	\$ 65

For the calculation of the average price per barrel, the Hocol Stock Purchase Agreement establishes that Ecopetrol must use the Platts average for the last fiscal year.

Furthermore, an additional payment, in the maximum amount of US\$50 million, may have to be paid in the first quarter of 2013 depending on the results of exploration of the Huron well located in the Niscota field. The amount to be paid will be determined by considering that during a maximum period of two years (until December 2012), there should be 2P-type certified reserves.

A contingent consideration included in the purchase price allocation related to the Niscota field was calculated at the acquisition date for \$22,401.

The calculation of the additional payment is as follows: the reserves volume is multiplied by a percentage (between 6% and 8%) of the average WTI price during a given period of time in order to determine the base price to pay, subject to the maximum limit established.

In summary, a contingency in an amount \$83,030 was recorded at December 31, 2009 to cover potential liabilities associated with the Hocol acquisition.

**Offshore International Group (“OIG”)**

Pursuant to the OIG Stock Purchase Agreement, a contingent obligation exists, representing the amount which may become payable by Ecopetrol depending on oil prices during the two year period from February 6, 2009 through February 6, 2011.

The following table represents the amounts payable for each price scenario:

<b>Scenario</b>	<b>Average published price/barrel (in U.S. Dollars)</b>	<b>Amount of Contingent Obligation (in Millions of U.S. Dollars) *</b>
1	Less than \$60	\$ -
2	More than \$60 and less or equal that \$70	\$ 200
3	More than \$70	\$ 300

\*Ecopetrol must pay 50% of this amount.

A contingency amount of \$183,891 was accounted at December 31, 2009 to cover potential liabilities associated with the OIG acquisition.

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The total liabilities accrued for future contingencies due in 2009 by business combinations amounted to \$266,921.

### *Fair value*

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed of Refinería de Cartagena S.A. ("Reficar") 51%, Hocol Petroleum Limited ("HOCOL") 100%, Oleoducto de Colombia S.A. ("ODC") 21.72%, and Offshore International Group at their respective dates of acquisition:

	Refinería de Cartagena S.A.	Hocol Petroleum Limited	Oleoducto de Colombia S.A.	Offshore International Group	Total
Fair value of assets acquired and liabilities assumed under US GAAP during 2009					
Assets acquired	\$ 1,123,775	\$ 338,586	\$ 19,622	\$ 261,587	\$ 1,743,570
Property, plant and equipment, net	502,279	1,530,386	196,583	302,216	2,531,464
Accounts receivable	272,685	317,688	9,649	37,866	637,888
Liabilities assumed	(562,899)	(463,332)	(17,952)	(133,201)	(1,177,384)
Net Assets Acquired	1,335,840	1,723,328	207,902	468,468	3,735,538
Total purchase price net of cash received	2,365,680	1,623,395	124,967	1,226,658	5,340,700
Goodwill (Negative goodwill)	\$ 1,029,840	\$ (99,933)	\$ (82,935)	\$ 758,190	\$ 1,605,162

The negative goodwill is recognized as Non-operating income, net in income statement.

The cash paid for the acquired companies is described in the following table:

	Refinería de Cartagena S.A.	Hocol Petroleum Limited	Oleoducto de Colombia S.A.	Offshore International Group	Total
Cash Paid	\$ 1,206,497	\$ 1,600,992	\$ 27,142	\$ 1,226,658	\$ 4,061,289

The fair value of assets acquired includes property, plant and equipment in an amount of \$1,611,052.

The fair value of Ecopetrol's non-controlling interests in the above-listed companies was estimated by applying the market price at the acquisition dates according to the requirements of ASC 805 (FAS 141 -R).

Ecopetrol recognized a gain of \$110,354 as a result of re-appraising to fair value its 60% equity interest in ODC held before the business combination. The gain is included in other income in Ecopetrol's income statement for the year ending December 31, 2009.

### *Effect on Revenues and Earnings*

The revenues and earnings included in Ecopetrol's consolidated income statement for the year ended December 31, 2009 reflecting these business combinations and the revenue and earnings the combined entity would have recorded had the acquisition dates been January 1, 2009 or January 1, 2008, are as follows:

#### UNAUDITED PRO FORMA FINANCIAL INFORMATION

	2008	2009
Consolidated sales of Ecopetrol, December 31	\$ 33,849,213	\$ 29,551,574
Sales of the companies acquired prior to the acquisition	7,388,318	2,570,354
<b>Pro forma Sales</b>	<b>\$ 41,237,531</b>	<b>\$ 32,121,928</b>
Net Earnings of Ecopetrol	\$ 8,848,139	\$ 5,661,562
Net earnings of the companies acquired in 2009	271,341	136,977
<b>Pro forma Earnings</b>	<b>\$ 9,119,480</b>	<b>\$ 5,798,539</b>
Weighted-average shares outstanding	40,472,512,588	40,472,512,588
Earnings per share	<b>\$ 225.33</b>	<b>\$ 143.27</b>

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### ***Bargain Purchase***

The following table shows the bargain purchase (gain or loss in the pre-existing participation) of the acquired companies. The gains and losses were calculated by third party experts who determined the fair value in the purchase price allocation:

	<b>Reficar</b>	<b>ODC</b>
Percentage acquired	51.00%	21.72%
Bargain Purchase	\$ (134,967)	\$ 27,422
Gain	\$ 23,300	\$ 4,608

The total amount expended in the acquisition processes of Hocol, Reficar and Offshore International Group during 2009 was \$16,320.

#### a. Goodwill

Under Colombian Government Entity GAAP, goodwill corresponds to the difference between the acquisition price and the book value of the acquired company. This amount is amortized during the period in which the Company expects to receive future benefits. Additionally, under Colombian Government Entity GAAP, goodwill is not subject to impairment tests and RCP does not generate negative goodwill in business combination.

The descriptions of goodwill generated under RCP during 2009 are as follows:

#### **Offshore International Group – “OIG”**

The resulting goodwill from the acquisition of Offshore International Group (“OIG”) was accounted as intangible assets and is amortized on a monthly basis in the administrative expenses account over a 14-year term, determined by the net present value of the investment minus estimated future cash flows. The straight line method of amortization was applied to the goodwill, which will be reviewed and updated annually based on the actual life of the biggest production block. Ecopetrol does not include the results OIG’s operations in its consolidated financial statements since Ecopetrol does not have control over OIG.

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### Hocol

The resulting goodwill from the acquisition of Hocol was recorded as intangible assets and is amortized on a monthly basis in the administrative expenses account over a 16-year term, determined by the net present value of the investment minus the estimated future cash flows. The straight line method of amortization was applied to the goodwill which will be reviewed and updated annually based on the Discount Cash Flow applied to the investments. Accordingly, Ecopetrol reversed \$22,750, which corresponds to the amortization of goodwill of Hocol under RCP.

### Reficar

Under RCP, the increase in ownership in Reficar did not result in goodwill. Under U.S. GAAP, the resulting goodwill from the acquisition of Reficar was accounted as intangible assets and will be tested for impairment annually.

Under U.S. GAAP, Ecopetrol tests goodwill for impairment at least annually using a two step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment and the second step measures the amount of impairment.

Fair value is determined by reference to market value, if available, or by a qualified evaluator or pricing model. Determination of a fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates. Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different assumptions and estimates could be used which would lead to different results. In 2009, the most significant amounts of goodwill were related to the acquisitions of Reficar and Offshore International Group. The valuation models used to determine the fair value of these companies are sensitive to changes in the underlying assumptions. For example, the prices and volumes of product sales to be achieved and the prices which will be paid for the purchase of raw materials are assumptions which may vary in the future. Adverse changes in any of these assumptions could lead the Company to record a goodwill impairment charge. During 2009, Ecopetrol conducted a qualitative impairment test of goodwill which showed that no goodwill had been impaired.

### xxi. NON-CONTROLLING INTEREST

To determine the attributable non-controlling interest at December 31, 2009, Ecopetrol used the net equity from all subsidiaries at the beginning of the period and computed with all variations (net income, retained earnings, non-controlling interest, distribution of dividends, purchase price allocation, translation adjustments, and others) the carrying amount of total equity (net assets) attributable to the non-controlling interest at the end of 2009.

The following table sets the information for Ecopetrol's non-controlling interests in 2008 and 2009, respectively.

	Ocensa	Brazil	Peru	ODC	ODL	Bioenergy	Total
<b>Balance 2006</b>	<b>\$ 565,119</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 565,119</b>
Issuance of company shares	-	45	484	-	-	-	529
Net income (loss)	21,373	-	-	-	-	-	21,373
Distribution of dividends	(15,418)	-	-	-	-	-	(15,418)
Translation Adjustments	-	4	(10)	-	-	-	(6)
<b>Balance 2007</b>	<b>571,074</b>	<b>49</b>	<b>474</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>571,597</b>
Issuance of company shares	-	-	-	-	217,378	-	217,378
Other Non-controlling Interest	-	(45)	(484)	-	-	-	(529)
Net income (loss)	8,716	-	-	-	-	(2,460)	6,256
Distribution of dividends	(141,634)	-	-	-	-	-	(141,634)
Retained Earnings	140,095	-	-	-	-	-	140,095
Purchase Price Allocation	-	-	-	-	-	8,718	8,718
Translation Adjustments	-	(4)	10	-	16,885	-	16,891
<b>Balance 2008</b>	<b>578,251</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234,263</b>	<b>6,258</b>	<b>818,772</b>
Acquired Non-controlling Interest	(300,377)*	-	-	21,495	-	(2,810)	(281,692)
Equity reduction declared and paid	-	-	-	-	(78,405)	-	(78,405)
Net income (loss)	161,849	-	-	(40,320)	(14,274)	(2,536)	104,719
Distribution of dividends	(89,736)	-	-	-	-	-	(89,736)
Retained Earnings	95,790	-	-	(1,622)	464	6,540	101,172
Purchase Price Allocation	-	-	-	21,530	-	-	21,530
Translation Adjustments	-	-	-	-	(13,047)	-	(13,047)
<b>Balance 2009</b>	<b>\$ 445,777</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,083</b>	<b>\$ 129,001</b>	<b>\$ 7,452</b>	<b>\$ 583,313</b>

\* Corresponds to acquisition of an additional 24.71% ownership interest in Ocensa for \$998,903 in cash. The difference of 610,007 was registered as an additional paid in capital net of income tax in an amount of \$171,241 as a result of difference between local deductible goodwill.

### xxii. EARNINGS PER SHARE

Under RCP, earnings per share ("EPS") are calculated by dividing net income by the weighted average of both common and preferred shares outstanding for each period presented. The Company does not have any issued or outstanding preferred shares.

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U.S. GAAP requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS calculation with the diluted EPS calculation. Basic EPS is calculated by dividing net income available to common shareholders by the weighted average of common shares outstanding for the corresponding period.

Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. For the years ended December 31, 2009, 2008 and 2007, the Company had a simple capital structure. There are no stock compensation plans or any other compensation plan involving shares. Therefore, the Company is not required to present diluted EPS for these years.

### xxiii. CONCENTRATIONS

At December 31 2009, 2008 and 2007, 32%, 33% and 26.6%, respectively, of the Company's employees belong to unions. Management believes the Company's relationships with those unions are good. The current labor agreement with the union was renewal on September 10, 2009.

In 2007, two customers of the refinery segment accounted for 14.2% and 12.9%, and one customer of the production segment accounted for 13.4% of total sales, respectively. No other customers accounted for more than 10% of total sales in 2007. In 2008, one customer of the production segment accounted for 14.2% and one customer of the refinery segment accounted for 11.7% of the total sales. No other customers accounted for more than 10% of total sales in 2008. In 2009, one customer of the refining segment accounted for 13.1% of total sales. No other customers accounted for more than 10% of total sales in 2009. Management does not believe that the loss of any single significant customer would materially affect Ecopetrol's financial position.

The significant majority of the Company's assets and activities are located in Colombia. The financial position and results of operations of those subsidiaries located outside of Colombia are not material to the Company.

### xxiv. RECENT U.S. GAAP PRONOUNCEMENTS

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (EITF Issue No. 08-1, Revenue Arrangements with Multiple Deliverables). ASU 2009-13 amends ASC 650-25 to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price ("VSOE") or third party evidence of selling price ("TPE") before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE and TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company expects that the adoption of ASU 2009-13 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets (FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140) in December 2009. ASU 2009-16 removes the concept of a qualifying special-purpose entity ("QSPE") from ASC Topic 860, Transfers and Servicing, and the exception from applying ASC 810-10 to QSPEs, thereby requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered QSPEs. Transferor-imposed constraints on transferees whose sole purpose is to engage in securitization or asset-backed financing activities are evaluated in the same manner under the provisions of the ASU as transferor-imposed constraints on QSPEs were evaluated under the provisions of Topic 860 prior to the effective date of the ASU when determining whether a transfer of financial assets qualifies for sale accounting. The ASU also clarifies the Topic 860 sale-accounting criteria pertaining to legal isolation and effective control and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. The ASU is effective for periods beginning after December 15, 2009, and may not be early adopted. The Company expects that the adoption of ASU 2009-16 will not have a material impact on its consolidated financial statements.

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The FASB issued ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)) in December 2009. ASU 2009-17, which amends the Variable Interest Entity ("VIE") Subsections of ASC Subtopic 810-10, Consolidation – Overall, revises the test for determining the primary beneficiary of a VIE from a primarily quantitative risks and rewards calculation based on the VIE's expected losses and expected residual returns to a primarily qualitative analysis based on identifying the party or related-party group (if any) with (a) the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. The ASU requires kick-out rights and participating rights to be ignored in evaluating whether a variable interest holder meets the power criterion unless those rights are unilaterally exercisable by a single party or related party group. The ASU also revises the criteria for determining whether fees paid by an entity to a decision maker or another service provider are a variable interest in the entity and revises the Topic 810 scope characteristic that identifies an entity as a VIE if the equity-at-risk investors as a group do not have the right to control the entity through their equity interests to address the impact of kick-out rights and participating rights on the analysis. Finally, the ASU adds a new requirement to reconsider whether an entity is a VIE if the holders of the equity investment at risk as a group lose the power, through the rights of those interests, to direct the activities that most significantly impact the VIE's economic performance, and requires a Company to reassess on an ongoing basis whether it is deemed to be the primary beneficiary of a VIE. ASU 2009-17 is effective for periods beginning after December 15, 2009 and may not be early adopted. The Company expects that the adoption of ASU 2009-17 will not have a material impact on its consolidated financial statements.

### xxv. RECENTLY ADOPTED ACCOUNTING STANDARDS AND U.S. GAAP PRONOUNCEMENTS

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurement and Disclosure (ASC 820). This statement defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement (as amended by FSP FAS 157-2) is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The statement is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. FSP FAS 157 – 2, "Effective Date of FASB Statement No. 157", delays the effective date of this statement for nonfinancial assets and liabilities that are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Disclosures required by this statement are presented below in xxix.

In December 2007, the FASB issued FASB Statement No. 141(R) (ASC 805), Business Combinations, and FASB Statement No. 160 (ASC 810), Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51 (ASC 810). Statements 141(R) and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141(R) (ASC 805) will be applied to business combinations occurring after the effective date. Statement 160 (ASC 810) will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The adoption of Statement 160 is reflected in Ecopetrol's consolidated balance sheet and consolidated income statement.

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In February 2008, the FASB issued FASB Staff Position FAS 140-3, “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” (ASC 310 and ASC 860). The objective of the FSP is to provide guidance on accounting for a transfer of a financial asset and repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. FSP FAS 140-3 is effective for annual and interim periods beginning after November 15, 2008 and early adoption is not permitted. There was no impact to the Company.

In March 2008, the FASB issued FASB Statement No. 161 (ASC 815), Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. The statement also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The disclosure required by this statement had no effect in 2008. For 2009, the disclosures are presented in Note 33, iii – Derivatives.

In April 2008, the FASB issued FASB Staff Position FAS 142-3, “Determination of the Useful Life of Intangible Assets.” FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142 (ASC 350). FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008.

In June 2009, the FASB issued FAS 168 “Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles” (ASC 100), the objective of this Statement is to replace Statement 162 and to establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This Statement shall be effective for financial statements issued or interim and annual periods ending after September 15, 2009, except for nonpublic nongovernmental entities that have not followed the guidance included in the AICPA Technical Inquiry Service (TIS) Section 5100, “Revenue Recognition,” paragraphs 38–76. Those entities shall account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years. If an accounting change results from the application of that guidance, an entity shall disclose the nature and reason for the change in accounting principle.

In September 2009, the FASB issued ASU 2009-11, Extractive activities - Oil and Gas – Amendment to section 932-10-S99, this accounting standard update represents a technical correction to the SEC observer comment in EITF-90-22 “Accounting for Gas-Balancing arrangements”. Registrants should account for all significant gas imbalances consistently, using one accounting method. SEC registrants should disclose their method of accounting, as well as the amount of any imbalance in terms of units and value, if significant.

In January 2010, the FASB issued ASU 2010-03, Oil and Gas Reserve Estimation and Disclosures. This ASU aligns the oil and gas reserve estimation and disclosure requirements of FASB ASC Topic 932, Extractive Activities—Oil and Gas, with the requirements in the SEC Rule, Modernization of the Oil and Gas Reporting Requirements, which was issued on December 31, 2008 (SAB-113). The amendments to Topic 932 are effective for annual reporting periods ending on or after December 31, 2009 and should be accounted for as a change in accounting principle inseparable from a change in estimate. Early application is not permitted. Disclosures required by this statement are presented below in Note 33, xxix. Supplemental information on oil and gas producing activities.



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### xxvi. SEGMENT INFORMATION

The following segment information has been prepared in accordance with ASC 280, Disclosure about Segments of an Enterprise and Related Information. Financial information by business segment is reported in accordance with the internal reporting system under RCP and shows internal segment information that is used by the chief operating decision maker to manage and measure the performance of Ecopetrol.

As of 2009, the Company's management modified the methodology used to analyze the financial information of its business segments in a way that better suits the operations of the Company. Specifically, as from 2009, crude oil purchases from third parties and ANH and the proceeds from the sales thereof are presented within the Market and Supply segment. Up to 2008, they were included in the Exploration and Production segment. The composition of the segments or the structure of the Company's internal organizations was not modified. The segment information for 2008 and 2007 included herein has been updated for comparison purposes.

The Company operates under the following segments, which are described as follows:

**Exploration and Production** — this segment includes the Company's oil & gas exploration and production activities. Revenue is derived from the sale of crude oil and natural gas to inter-company segments, at market prices, and to third parties. Revenue is derived from local sales of crude oil, regulated fuels, non-regulated fuels and natural gas. Sales are made to local and foreign distributors. Costs include those costs incurred in production. Expenses include all exploration costs that are not capitalized.

**Refining** – this segment includes the Company's refining activities. Goods sold, both internally and to third parties, include refined products such as motor fuels, fuel oils and petrochemicals at market prices. This segment also includes sales of industrial services to third parties.

**Transportation** – this segment includes the Company's sales and costs associated with the Company's pipelines and other transport activities.

**Market and Supply** – this segment includes the Company's revenues, costs and expenses associated with distribution, including distribution of purchases from third parties and the ANH (Agencia Nacional de Hidrocarburos).

**Corporate** – this segment includes the financial results and other activities not included in the previous segments, and all corporate financial management and overhead related with the Company's central administration. It also includes actuarial expenses related with the pension and health-care plans for pensioned participants.

These functions have been defined as the operating segments of the Company because they are the segments (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Company's chief operating decision maker to allocate resources to the segments and assess their performance; and (c) for which discrete financial information is available. Internal transfers represent sales to intercompany segments and are recorded and presented at market prices.

The following presents the Company's balance sheet by segment in accordance with RCP:

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As of December 31, 2009

	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Eliminations	Total
<b>Current assets</b>							
Cash and cash equivalents	\$ 524,575	\$ 474,419	\$ 284,071	\$ 1	\$ 2,279,053	\$ -	\$ 3,562,119
Accounts and notes receivable	1,729,683	881,807	470,252	150,352	484,201	(747,175)	2,969,120
Inventories	586,915	1,186,598	38,168	355,879	-	(124,863)	2,042,697
Investments	-	-	77,929	-	580,802	(196,473)	462,258
Other current assets	1,967,700	759,092	142,117	31,653	191,035	(10,003)	3,081,594
	<u>4,808,873</u>	<u>3,301,916</u>	<u>1,012,537</u>	<u>537,885</u>	<u>3,535,091</u>	<u>(1,078,514)</u>	<u>12,117,788</u>
Investments in non-consolidated companies	1,756,903	614,863	510,654	7,921	1,424,157	-	4,314,498
Property, plant and equipment, net	16,959,637	5,725,580	5,000,979	16,950	234,738	-	27,937,884
Other non-current assets	2,813,026	3,671,095	1,490,849	86,227	4,266,059	(1,137,909)	11,189,347
Non Current assets	<u>21,529,566</u>	<u>10,011,538</u>	<u>7,002,482</u>	<u>111,098</u>	<u>5,924,954</u>	<u>(1,137,909)</u>	<u>43,441,729</u>
Total assets	<u>\$ 26,338,439</u>	<u>\$ 13,313,454</u>	<u>\$ 8,015,019</u>	<u>\$ 648,983</u>	<u>\$ 9,460,045</u>	<u>\$ (2,216,423)</u>	<u>\$ 55,559,517</u>
<b>Liabilities and equity</b>							
Accounts payable	\$ (1,769,120)	\$ (805,784)	\$ (577,766)	\$ (704,937)	\$ (408,257)	\$ 985,632	\$ (3,280,232)
Financial obligations (short-term)	(20,434)	(214,698)	(99,983)	-	(101,966)	-	(437,081)
Other Current Liabilities	(1,155,241)	(1,602,026)	(408,600)	(34,274)	(552,759)	-	(3,752,900)
Current Liabilities	<u>(2,944,795)</u>	<u>(2,622,508)</u>	<u>(1,086,349)</u>	<u>(739,211)</u>	<u>(1,062,982)</u>	<u>985,632</u>	<u>(7,470,213)</u>
Financial obligations (long-term)	(1,369,726)	(688,452)	(589,832)	-	(3,066,344)	-	(5,714,354)
Other non Current Liabilities	(4,710,256)	(1,686,981)	(652,950)	(32,003)	(2,887,420)	1,105,928	(8,863,682)
Non-current liabilities	<u>(6,079,982)</u>	<u>(2,375,433)</u>	<u>(1,242,782)</u>	<u>(32,003)</u>	<u>(5,953,764)</u>	<u>1,105,928</u>	<u>(14,578,036)</u>
Total Liabilities	<u>(9,024,777)</u>	<u>(4,997,941)</u>	<u>(2,329,131)</u>	<u>(771,214)</u>	<u>(7,016,746)</u>	<u>2,091,560</u>	<u>(22,048,249)</u>
Non-controlling interest	-	(11,696)	(929,615)	-	-	-	(941,311)
Shareholders' equity of Ecopetrol	<u>(17,313,662)</u>	<u>(8,303,817)</u>	<u>(4,756,273)</u>	<u>122,231</u>	<u>(2,443,299)</u>	<u>124,863</u>	<u>(32,569,957)</u>
Total Equity	<u>(17,313,662)</u>	<u>(8,315,513)</u>	<u>(5,685,888)</u>	<u>122,231</u>	<u>(2,443,299)</u>	<u>124,863</u>	<u>(33,511,268)</u>
Total liabilities and equity	<u>\$ (26,338,439)</u>	<u>\$ (13,313,454)</u>	<u>\$ (8,015,019)</u>	<u>\$ (648,983)</u>	<u>\$ (9,460,045)</u>	<u>\$ 2,216,423</u>	<u>\$ (55,559,517)</u>
Capital expenditures	<u>\$ 5,564,438</u>	<u>\$ 3,578,579</u>	<u>\$ 3,501,953</u>	<u>\$ 8,455</u>	<u>\$ 197,237</u>		<u>\$ 12,850,662</u>
Goodwill	<u>\$ 1,393,705</u>	<u>\$ 603,193</u>	<u>\$ 510,654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,507,552</u>

As of December 31, 2008

	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 29,621	\$ 25,702	\$ 205,423	\$ 1	\$ 1,853,056	\$ 2,113,803
Accounts and notes receivable	889,324	713,242	108,034	3,195	4,163,487	5,877,282
Inventories	695,998	514,696	1,609	312,697	86,296	1,611,296
Investments	-	-	-	-	3,749,919	3,749,919
Other current assets	1,311,415	567,679	224,437	1,573	247,496	2,352,600
	<u>2,926,358</u>	<u>1,821,319</u>	<u>539,503</u>	<u>317,466</u>	<u>10,100,254</u>	<u>15,704,900</u>
Investments in unconsolidated companies	636,010	1,307,996	48,221	7,790	404,678	2,404,695
Property, plant and equipment, net	11,532,444	2,624,998	1,858,477	13,260	102,358	16,131,537
Other non-current assets	3,748,875	2,256,078	884,312	37,319	7,534,696	14,461,280
Non Current assets	<u>15,917,329</u>	<u>6,189,072</u>	<u>2,791,010</u>	<u>58,369</u>	<u>8,041,732</u>	<u>32,997,512</u>
Total assets	<u>\$ 18,843,687</u>	<u>\$ 8,010,391</u>	<u>\$ 3,330,513</u>	<u>\$ 375,835</u>	<u>\$ 18,141,986</u>	<u>\$ 48,702,412</u>
<b>Liabilities and equity</b>						
Accounts payable	\$ (751,117)	\$ (532,743)	\$ (287,843)	\$ (3,280)	\$ (133,664)	\$ (1,708,647)
Other Current Liabilities	(2,818,830)	(1,171,709)	(327,960)	(9,907)	(662,719)	(4,991,125)
Current Liabilities	<u>(3,569,947)</u>	<u>(1,704,452)</u>	<u>(615,803)</u>	<u>(13,187)</u>	<u>(796,383)</u>	<u>(6,699,772)</u>
Non-current liabilities	(3,133,747)	(173,241)	(191,295)	(8,360)	(3,633,329)	(7,139,972)
Total Liabilities	<u>(6,703,694)</u>	<u>(1,877,693)</u>	<u>(807,098)</u>	<u>(21,547)</u>	<u>(4,429,712)</u>	<u>(13,839,744)</u>
Non-controlling interest	-	(8,682)	(234,269)	-	-	(242,951)
Shareholders' equity of Ecopetrol	<u>(12,139,993)</u>	<u>(6,124,016)</u>	<u>(2,289,146)</u>	<u>(354,288)</u>	<u>(13,712,274)</u>	<u>(34,619,717)</u>
Total Equity	<u>(12,139,993)</u>	<u>(6,132,698)</u>	<u>(2,523,415)</u>	<u>(354,288)</u>	<u>(13,712,274)</u>	<u>(34,862,668)</u>
Total liabilities and equity	<u>\$ (18,843,687)</u>	<u>\$ (8,010,391)</u>	<u>\$ (3,330,513)</u>	<u>\$ (375,835)</u>	<u>\$ (18,141,986)</u>	<u>\$ (48,702,412)</u>
Capital expenditures	<u>\$ 4,911,487</u>	<u>\$ 776,080</u>	<u>\$ 939,996</u>	<u>\$ 7,549</u>	<u>\$ 69,483</u>	<u>\$ 6,704,595</u>
Goodwill	<u>\$ -</u>	<u>\$ 668,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,614</u>

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As of December 31, 2007

	<u>Exploration &amp; Production</u>	<u>Refining</u>	<u>Transportation</u>	<u>Market and Supply</u>	<u>Corporate</u>	<u>Total</u>
<b>Current assets</b>						
Cash and cash equivalents	\$ 117,231	\$ 503	\$ 20,008	\$ 1	\$ 3,612,156	\$ 3,749,899
Accounts and notes receivable	892,734	1,213,755	24,147	55	139,213	2,269,904
Inventories	514,294	782,594	1,417	-	486	1,298,791
Investments	-	-	-	-	5,954,502	5,954,502
Other current assets	1,387,466	426,403	107,142	698	579,317	2,501,026
	<u>\$ 2,911,725</u>	<u>2,423,255</u>	<u>152,714</u>	<u>754</u>	<u>10,285,674</u>	<u>15,774,122</u>
Investments in unconsolidated companies	396,021	239,271	50,746	7,750	432,157	1,125,945
Property, plant and equipment, net	7,887,869	1,941,755	1,203,771	14,105	233,368	11,280,868
FAEP	-	-	-	-	-	-
Pension Plan assets	-	-	-	-	8,986,861	8,986,861
Other non-current assets	3,805,094	2,603,033	737,494	46,619	3,752,044	10,944,284
Non Current assets	12,088,984	4,784,059	1,992,011	68,474	13,404,430	32,337,958
Total assets	<u>\$ 15,000,709</u>	<u>\$ 7,207,314</u>	<u>\$ 2,144,725</u>	<u>\$ 69,228</u>	<u>\$ 23,690,104</u>	<u>\$ 48,112,080</u>
Accounts payable	(803,715)	(530,031)	(112,722)	(15)	(118,087)	(1,564,570)
Other Current Liabilities	(2,546,871)	(763,965)	(355,851)	(43,398)	(791,129)	(4,501,214)
Current Liabilities	<u>\$ (3,350,586)</u>	<u>(1,293,996)</u>	<u>(468,573)</u>	<u>(43,413)</u>	<u>(909,216)</u>	<u>(6,065,784)</u>
Non-current liabilities	(2,592,625)	(383,365)	(430,798)	(33,565)	(11,797,475)	(15,237,828)
Total Liabilities	<u>\$ (5,943,211)</u>	<u>(1,677,361)</u>	<u>(899,371)</u>	<u>(76,978)</u>	<u>(12,706,691)</u>	<u>(21,303,612)</u>
Shareholders' equity of Ecopetrol	\$ (9,057,498)	(5,529,953)	(1,245,354)	7,750	(10,983,413)	(26,808,468)
Total Liabilities and equity	<u>\$ (15,000,709)</u>	<u>\$ (7,207,314)</u>	<u>\$ (2,144,725)</u>	<u>\$ (69,228)</u>	<u>\$ (23,690,104)</u>	<u>\$ (48,112,080)</u>
Capital expenditures	<u>\$ 2,678,684</u>	<u>\$ 234,462</u>	<u>\$ 92,344</u>	<u>\$ 7,712</u>	<u>\$ 23,760</u>	<u>\$ 3,036,962</u>

The Company's statement of net income by segment is as follows in accordance with RCP:

Year ended December 31, 2009

	<u>Exploration &amp; Production</u>	<u>Refining</u>	<u>Transportation</u>	<u>Market and Supply</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenues:</b>							
Local sales	\$ 833,592	\$ 11,834,414	\$ 1,579,934	\$ 4,203,178	\$ 9,533	\$ (4,402,117)	\$ 14,058,534
Foreign sales, net	7,637,794	4,136,988	-	4,559,317	11,757	-	16,345,856
Inter-segment net operating revenues	8,910,816	1,328,066	1,336,699	170,637	-	(11,746,218)	-
Total Revenue	<u>17,382,202</u>	<u>17,299,468</u>	<u>2,916,633</u>	<u>8,933,132</u>	<u>21,290</u>	<u>(16,148,335)</u>	<u>30,404,390</u>
Cost of sales	5,933,870	17,034,428	1,454,660	8,143,415	46,929	(15,647,927)	16,965,375
Depreciation, depletion and amortization	1,868,371	418,341	641,154	-	12,832	-	2,940,698
Selling	1,409,026	188,119	52,707	605,414	82,920	(375,544)	1,962,642
Administration expenses	253,167	202,349	156,481	51,117	761	(1,539)	662,336
Costs and expenses	9,464,434	17,843,237	2,305,002	8,799,946	143,442	(16,025,010)	22,531,051
Operating income	7,917,768	(543,769)	611,631	133,186	(122,152)	(123,325)	7,873,339
Financial income (expenses), net	221,444	(73,909)	(66,610)	58,065	356,843	-	495,833
Pension expenses	-	-	(4,414)	-	(590,743)	-	(595,157)
Other non-operating income (expenses)	(100,716)	(60,559)	(130,607)	(10,205)	(219,545)	(1,539)	(523,171)
Other expenses, net	120,728	(134,468)	(201,631)	47,860	(453,445)	(1,539)	(622,495)
Income before income taxes and non-controlling interest	8,038,496	(678,237)	410,000	181,046	(575,597)	(124,864)	7,250,844
Income tax benefits (expense)	(2,239,098)	158,400	(127,082)	(48,966)	142,717	-	(2,114,029)
Net income	5,799,398	(519,837)	282,918	132,080	(432,880)	(124,864)	5,136,815
Less: Net loss (income) attributable to Non-controlling	(39,270)	31,272	3,237	-	-	-	(4,761)
Net income for the year attributable to Ecopetrol S.A.	<u>\$ 5,760,128</u>	<u>\$ (488,565)</u>	<u>\$ 286,155</u>	<u>\$ 132,080</u>	<u>\$ (432,880)</u>	<u>\$ (124,864)</u>	<u>\$ 5,132,054</u>

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**Year ended December 31, 2008**

	<b>Exploration &amp; Production</b>	<b>Refining</b>	<b>Transportation</b>	<b>Market and Supply</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>							
Local sales	\$ 734,648	\$ 14,847,890	\$ 724,838	\$ 5,283,230	\$ 7,393	\$ -	\$ 21,597,999
Foreign sales, net	4,417,583	3,273,018	-	4,592,046	16,023	-	12,298,670
Inter-segment net operating revenues	13,134,513	922,252	1,092,465	167,144	-	(15,316,374)	-
<b>Total Revenue</b>	<b>18,286,744</b>	<b>19,043,160</b>	<b>1,817,303</b>	<b>10,042,420</b>	<b>23,416</b>	<b>(15,316,374)</b>	<b>33,896,669</b>
Cost of sales	4,032,496	18,063,118	1,105,176	9,146,456	5,462	(15,316,374)	17,036,334
Depreciation, depletion and amortization	1,505,540	351,387	188,585	-	2,590	-	2,048,102
Selling	949,457	214,408	10,840	521,685	76,384	-	1,772,774
Administration expenses	262,634	244,159	158,562	32,578	(315,832)	-	382,101
Costs and expenses	6,750,127	18,873,072	1,463,163	9,700,719	(231,396)	-	36,555,685
<b>Operating income</b>	<b>11,536,617</b>	<b>170,088</b>	<b>354,140</b>	<b>341,701</b>	<b>254,812</b>	<b>-</b>	<b>12,657,358</b>
Financial income (expenses), net	909,111	62,161	(82,989)	(106,054)	3,319,023	-	4,101,252
Pension expenses	-	-	(6,204)	-	(1,138,721)	-	(1,144,925)
Other non-operating income (expenses)	129,037	173,890	140,748	825	(46,981)	-	397,519
Other expenses, net	1,038,148	236,051	51,555	(105,229)	2,133,321	-	3,353,846
Income before income taxes and non-controlling interest	12,574,765	406,139	405,695	236,472	2,388,133	-	16,011,204
Income tax benefits (expense)	(3,436,850)	(125,797)	(110,596)	(64,629)	(644,110)	-	(4,381,982)
Net income	9,137,915	280,342	295,099	171,843	1,744,023	-	11,629,222
Less: Net loss (income) attributable to Non-controlling	-	-	455	-	-	-	455
Net income for the year attributable to Ecopetrol S.A.	\$ 9,137,915	\$ 280,342	\$ 295,554	\$ 171,843	\$ 1,744,023	\$ -	\$ 11,629,677

**Year ended December 31, 2007**

	<b>Exploration &amp; Production</b>	<b>Refining</b>	<b>Transportation</b>	<b>Market and Supply</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>							
Local sales	\$ 529,729	\$ 11,472,108	\$ 677,938	\$ 3,317,980	\$ 5,242	\$ -	\$ 16,002,997
Foreign sales	1,102,850	2,156,388	-	3,373,323	13,259	-	6,645,820
FAEP	-	-	-	(316,497)	-	-	(316,497)
Foreign sales, net	1,102,850	2,156,388	-	3,056,826	13,259	-	6,329,323
Inter-segment net operating revenues	9,996,500	553,640	766,151	189,154	-	(11,505,445)	-
<b>Total Revenue</b>	<b>11,629,079</b>	<b>14,182,136</b>	<b>1,444,089</b>	<b>6,563,960</b>	<b>18,501</b>	<b>(11,505,445)</b>	<b>22,332,320</b>
Cost of sales	3,459,322	12,092,084	790,255	5,496,151	5,182	(11,505,445)	10,337,549
Depreciation, depletion and amortization	1,173,006	356,215	191,541	-	216	-	1,720,978
Selling	458,026	148,283	102,004	380,842	76,254	-	1,165,409
Administration expenses	113,420	103,657	74,057	30,910	-	-	322,044
Costs and expenses	5,203,774	12,700,239	1,157,857	5,907,903	81,652	(11,505,445)	13,545,980
<b>Operating income</b>	<b>6,425,305</b>	<b>1,481,897</b>	<b>286,232</b>	<b>656,057</b>	<b>(63,151)</b>	<b>-</b>	<b>8,786,340</b>
Financial income (expenses), net	(45,989)	(25,260)	(16,284)	(47,440)	228,601	-	93,628
Pension expenses	-	-	(5,660)	-	(1,084,683)	-	(1,090,343)
Other non-operating income (expenses)	(289,114)	(533,901)	(109,076)	10,742	197,028	-	(724,321)
Other expenses, net	(335,103)	(559,161)	(131,020)	(36,698)	(659,054)	-	(1,721,036)
Income before income taxes and non-controlling interest	6,090,202	922,736	155,212	619,359	(722,205)	-	7,065,304
Income tax benefits (expense)	(1,625,288)	(246,250)	(41,421)	(165,288)	192,735	-	(1,885,512)
Net income for the year	\$ 4,464,914	\$ 676,486	\$ 113,791	\$ 454,071	\$ (529,470)	\$ -	\$ 5,179,792

The following tables illustrate sales by geographic zones:

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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Sales by Geographic Zones December 31, 2009

Zone	Products	Value	Participation
Colombia*	Crude oil, Refined, Petrochemicals and natural gas	\$ 14,134,884	46.5%
United States of America	Crude oil, Refined and Petrochemicals	10,875,221	35.8%
Asia	Crude oil, Refined and Petrochemicals	1,431,302	4.7%
South America	Crude oil, Refined, Petrochemicals and natural gas	561,221	1.8%
Central America and Caribbean	Crude oil, Refined and Petrochemicals	1,473,225	4.8%
Europe	Crude oil, Refined and Petrochemicals	1,207,367	4.0%
Other	Petrochemicals	721,170	2.4%
		<u>\$ 30,404,390</u>	<u>100.0%</u>

\* Includes sales to free trade zone of \$76,350

Sales by Geographic Zones December 31, 2008

Zone	Products	Value	Participation
Colombia	Crude oil, Refined, Petrochemicals and natural gas	\$ 21,597,999	63.7%
United States of America	Crude oil, Refined and Petrochemicals	7,847,375	23.2%
Asia	Crude oil, Refined and Petrochemicals	1,516,946	4.5%
South America	Crude oil, Refined, Petrochemicals and natural gas	1,024,709	3.0%
Central America and Caribbean	Crude oil, Refined and Petrochemicals	1,188,904	3.5%
Europe	Crude oil, Refined and Petrochemicals	605,655	1.8%
Other	Petrochemicals	115,081	0.3%
		<u>\$ 33,896,669</u>	<u>100.0%</u>

Sales by Geographic Zones December 31, 2007

Zone	Products	Value	Participation
Colombia	Refined and Petrochemicals	\$ 16,002,997	71.6%
United States of America	Crude oil and Refined	4,531,885	20.3%
Central America and Caribbean	Crude oil and Refined	1,109,504	5.0%
Europe	Crude oil and Refined	673,948	3.0%
Rest of world	Crude oil and Refined	13,986	0.1%
		<u>\$ 22,332,320</u>	<u>100.0%</u>

The following tables illustrate sales of products by Segment:

Sales of products by Segment for the year ended December 31, 2009

Local Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Eliminations	Total
Medium distillates	\$ 9,571	\$ 5,087,896	\$ -	\$ -	\$ -	\$ -	\$ 5,097,467
Gasolines	-	5,015,900	-	-	-	-	5,015,900
Crude Oil	-	-	-	3,636,242	-	(3,618,048)	18,194
Other products	194,460	456,907	-	-	-	(75,077)	576,290
Services	61,868	56,521	1,579,934	80,726	9,533	(675,507)	1,113,075
Natural Gas	547,792	-	-	486,210	-	(33,485)	1,000,517
L.P.G.	19,901	449,650	-	-	-	-	469,551
Diesel and gasoline price differentials	-	196,533	-	-	-	-	196,533
Plastic and rubber	-	571,007	-	-	-	-	571,007
Total local sales	<u>\$ 833,592</u>	<u>\$ 11,834,414</u>	<u>\$ 1,579,934</u>	<u>\$ 4,203,178</u>	<u>\$ 9,533</u>	<u>\$ (4,402,117)</u>	<u>\$ 14,058,534</u>

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Sales of products by Segment for the year ended December 31, 2009

Foreign Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Eliminations	Total
Crude oil	\$ 7,329,974	\$ -	\$ -	\$ 4,485,538	\$ -	\$ -	\$ 11,815,512
Fuel oil	-	1,660,911	-	-	-	-	1,660,911
Gasoline	-	1,654,670	-	69,865	-	-	1,724,535
Natural Gas	307,820	-	-	3,914	-	-	311,734
Plastic and rubber	-	544,912	-	-	-	-	544,912
Other products	-	276,495	-	-	11,757	-	288,252
<b>Total foreign sales</b>	<b>\$ 7,637,794</b>	<b>\$ 4,136,988</b>	<b>\$ -</b>	<b>\$ 4,559,317</b>	<b>\$ 11,757</b>	<b>\$ -</b>	<b>\$ 16,345,856</b>

Sales of products by Segment for the year ended December 31, 2008

Local Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Total
Medium distillates	\$ 11,032	\$ 5,903,595	\$ -	\$ -	\$ -	\$ 5,914,627
Gasoline	41	3,644,304	-	-	-	3,644,345
Crude Oil	-	-	-	4,774,401	-	4,774,401
Other products	179,577	1,196,214	-	-	-	1,375,791
Services	55,806	61,612	724,838	72,003	7,393	921,652
Natural Gas	464,588	-	-	436,826	-	901,414
L.P.G.	19,901	592,870	-	-	-	612,771
Diesel and gasoline price differential	3,703	3,066,776	-	-	-	3,070,479
Plastic and rubber	-	382,519	-	-	-	382,519
<b>Total local sales</b>	<b>\$ 734,648</b>	<b>\$ 14,847,890</b>	<b>\$ 724,838</b>	<b>\$ 5,283,230</b>	<b>\$ 7,393</b>	<b>\$ 21,597,999</b>

Sales of products by Segment for the year ended December 31, 2008

Foreign Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Total
Crude oil	\$ 4,107,194	\$ -	\$ -	\$ 4,589,088	\$ -	\$ 8,696,282
Fuel oil	-	2,093,012	-	-	-	2,093,012
Gasoline	-	186,197	-	-	-	186,197
Naphtha	-	2,693	-	-	-	2,693
Jet fuel	-	-	-	-	-	-
Natural Gas	310,389	-	-	2,958	-	313,347
Plastic and rubber	-	704,034	-	-	-	704,034
Other products	-	287,082	-	-	16,023	303,105
<b>Total foreign sales</b>	<b>\$ 4,417,583</b>	<b>\$ 3,273,018</b>	<b>\$ -</b>	<b>\$ 4,592,046</b>	<b>\$ 16,023</b>	<b>\$ 12,298,670</b>

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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Sales of products by Segment for the year ended December 31, 2007

Local Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Total
Medium distillates	\$ 18,997	\$ 4,870,376	\$ -	\$ -	\$ -	\$ 4,889,373
Gasoline	748	3,345,612	-	-	-	3,346,360
Crude Oil	-	-	-	3,004,629	-	3,004,629
Other products	53,186	845,279	-	-	-	898,465
Services	27,900	49,646	677,938	60,471	5,242	821,197
Natural Gas	407,291	-	-	252,880	-	660,171
L.P.G.	18,649	586,103	-	-	-	604,752
Diesel and gasoline price differential	2,958	1,775,092	-	-	-	1,778,050
<b>Total local sales</b>	<b>\$ 529,729</b>	<b>\$ 11,472,108</b>	<b>\$ 677,938</b>	<b>\$ 3,317,980</b>	<b>\$ 5,242</b>	<b>\$ 16,002,997</b>

Sales of products by Segment for the year ended December 31, 2007

Foreign Sales	Exploration & Production	Refining	Transportation	Market and Supply	Corporate	Total
Crude oil	\$ 1,102,815	\$ -	\$ -	\$ 3,373,322	\$ -	\$ 4,476,137
FAEP	-	-	-	(316,497)	-	(316,497)
Fuel oil	-	1,560,399	-	-	-	1,560,399
Gasoline	-	269,248	-	-	-	269,248
Naphtha	-	244,393	-	-	-	244,393
Jet fuel	-	71,378	-	-	-	71,378
Natural Gas	35	-	-	1	-	36
Other products	-	10,970	-	-	13,259	24,229
<b>Total foreign sales</b>	<b>\$ 1,102,850</b>	<b>\$ 2,156,388</b>	<b>\$ -</b>	<b>\$ 3,056,826</b>	<b>\$ 13,259</b>	<b>\$ 6,329,323</b>

xxvii. RELATED PARTIES

In addition to the transactions disclosed in Note 15, Ecopetrol is controlled by the Colombian Government which owns a majority stake in the Company. Thus Ecopetrol has numerous transactions with other government entities as well as state-owned companies in the ordinary course of its business. The most significant of these transactions are disclosed below:

FAEP – Ecopetrol was required to defer revenue into a stabilization fund by the Colombian government. However, this process ended in 2007, at which time Ecopetrol was required to remit all deferred revenue to the government. For more information about this transaction, please see Note 33, ix. revenue recognition.

Price differentials – The Colombian government regulates the price at which refiners sell refined products to distributors located in Colombia. For each unit sold, the price received, for which revenue was recorded, was the regulated price which was less than what the Company could have received had it sold those products to customers located outside Colombia at market prices. The amount of price differential included in revenue in 2009, 2008 and 2007 were (\$196,533), \$3,070,479 and \$1,778,050, respectively. Additionally, in 2009 and 2008 the Company recognized interests amounting to \$235,704 and \$93,218, respectively, which corresponds to the price differentials recorded. However, in 2007 the Company did not record any interest because the government did not recognize interest of the debt.

## Ecopetrol S.A. and Subsidiaries

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Contribution of Nation in Kind – Decree 2625 of 2000 imposed contributions in kind (hydrocarbons) of the Colombian Nation that were recognized as cost of production until March 9, 2007.

Taxes – Ecopetrol recognizes taxes to the Government and municipalities where it has facilities. Taxes paid in 2009, 2008 and 2007 are disclosed in the cash flow statement.

Purchases of hydrocarbons from ANH – The Company purchases the physical product that the ANH receives from all producers in Colombia at prices set forth in the Law 756 of 2002 and Resolution 18 1709 of 2003, which reference international prices. For more information on this transaction please see Notes 1 and 24.

The following table presents accounts receivable and payable with related parties as of December 31, 2009 and 2008:

	<b>2009</b>		<b>2008</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Ministerio de Hacienda y Crédito Público	\$ 1,015,691	\$ 130,668	\$ 1,503,458	\$ 92,465
Ministerio de Minas y Energía	37,228	-	3,777,133	-
U.A.E. Agencia Nacional de Hidrocarburos	134,108	9,093	222,199	8
E.S.P. Empresa de Energía de Bogotá S.A.	503,217	-	169,611	-
E.S.P. Generadora de Energía del Caribe S.A.	54,337	23,735	65,978	14,179
Interconexión Eléctrica S.A.	766,969	-	71,537	127
Entidades Territoriales (Departamentos, Municipios)	17,438	7,399	37,915	7,824
Empresas Públicas de Medellín	33,038	62	15,169	129
Isagen S.A.	8,306	45	5,399	616
E.S.P. Transportadora de Gas del Interior S.A.	4,666	-	2,458	2,426
Empresa Colombiana de Gas	-	-	2,193	-
E.S.P. Termoemcali S.A.	34,001	-	1,367	3,861
E.S.P. Gestión Energética S.A.	600	-	1,173	7
Central Hidroeléctrica de Caldas S.A. E.S.P	529	-	215	665
Universidad Industrial de Santander U.I.S.	18	-	3	244
Dirección de Impuestos y Aduanas Nacionales DIAN	11,961	73,328	-	791,021
Others	484	3,855	906	6,082
	<b>\$ 2,622,591</b>	<b>\$ 248,185</b>	<b>\$ 5,876,714</b>	<b>\$ 919,654</b>

Other transactions with related parties during 2009, 2008 and 2007 are:

	<b>2009</b>		<b>2008</b>		<b>2007</b>	
	<b>Income</b>	<b>Expenses</b>	<b>Income</b>	<b>Expenses</b>	<b>Income</b>	<b>Expenses</b>
Ministerio de Minas y Energía	\$ -	\$ -	\$ 3,870,348	\$ -	\$ 1,778,050	\$ -
Dirección de Impuestos y Aduanas Nacionales DIAN	19	2,344,905	-	4,855,718	-	2,289,777
Entidades Territoriales (Departamentos, Municipios)	15	121,396	-	133,346	-	148,785
Contraloría General de la República	-	33,106	-	25,811	-	25,934
Ministerio de Defensa Nacional	-	12,128	-	15,774	-	10,928
Ministerio de Transporte	-	-	-	13,922	-	22,572
Inversiones de Gases de Colombia S.A. - Invercolsa	-	-	9,231	-	9,219	-
Unidad de Planeación Minero Energética	-	2,308	-	2,206	-	2,885
Others	745	19,526	1,653	7,311	218	2,815
	<b>\$ 779</b>	<b>\$ 2,533,369</b>	<b>\$ 3,881,232</b>	<b>\$ 5,054,088</b>	<b>\$ 1,787,487</b>	<b>\$ 2,503,696</b>



## Ecopetrol S.A. and Subsidiaries

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### Material Related Party Agreements

Set forth below is a description of the Company's material related party agreements:

Ecopetrol entered into a supply agreement with Ecodiesel S.A. in 2007, a Company in which it has a 50 % equity interest. This agreement is not yet operative and will begin once the Ecodiesel plant starts its activities. Pursuant to the terms of the agreement, Ecodiesel must deliver to Ecopetrol and Ecopetrol must purchase at least 80% of Ecodiesel's monthly biodiesel production. Payments vary depending on the purchased volumes of biodiesel produced. This agreement expires on December 31, 2017.

In April 2002, Ecopetrol entered into a service agreement with Sociedad Colombiana de Servicios Portuarios S.A. or Serviport, a Company in which the Company has a 49% equity interest. Pursuant to the terms of the agreement, Serviport assists the Company in its maritime operations in the Coveñas port in exchange for which the Company pays Serviport approximately US\$155,000 per month. This agreement is renewable annually.

### xxviii. FAIR VALUE

Under U.S. GAAP the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a consistent framework for measuring fair value and provides guidance regarding the disclosures for each major category of assets and liabilities that are measured at fair value on a recurring or nonrecurring basis. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009 and 2008 under U.S. GAAP:

	<b>2009</b>				<b>2008</b>
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 3,861,532	\$ 3,861,532	\$ -	\$ -	\$ 4,812,595
Investment securities	4,369,219	4,209,008	8,280	151,931	8,201,004
Derivatives	66,283	-	66,283	-	-
Accounts Receivable	2,760,554	-	2,760,554	-	6,086,633
<b>Liabilities</b>					
Financial Obligations	6,162,210	-	6,162,210	-	287,314
Accounts Payable	3,820,251	-	3,820,251	-	2,113,923
Capital lease	496,397	-	496,397	-	436,102

The following methods and assumptions were used to estimate the fair value of each category of assets and liabilities:

**Cash and Cash Equivalents, Accounts Payable:** The carrying amount approximates fair value for short maturity of these instruments.

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**Investment Securities:** The fair value of debt securities (both available for sale and held to maturity investments) and equity securities are based on quoted market prices at the reporting date for those or similar investments.

**Derivatives:** The fair value is determined as the present value of expected future cash flows discounted using the rate U.S. Treasury Rate.

**Accounts Receivable and Direct Finance Lease:** The fair value is determined as the present value of expected future cash flows discounted using the rate provide by financial institutions for savings and checking accounts in Colombia.

**Financial Obligations:** The carrying amount approximates fair value under Subtopic ASC820-10-15-3-B.

**Capital Lease:** The fair value is determined as the present value of expected future payments discounted using an interest rate for loans which is posted in the financial institutions in Colombia.

The following table presents the reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investment Securities
Beginning balance	\$ -
Total gains or losses (realized/unrealized)	-
Included in earnings	-
Included in other comprehensive income	-
Purchases, issuances, and settlements	-
Transfers in and/or out level 3	151,931
Ending balance	151,931
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	-

In accordance with the provisions of the impairment of Long-Lived Assets Subtopic 360-10 long-lived assets held and used were written down to their fair value, resulting in an impairment charge, which was included in earnings for the period. The fair value is determined as the present value of expected future cash flows discounted using the Ecopetrol's WACC rate:

Description	2009	Level 1	Level 2	Level 3	Total Gains (Losses)
<b>Long-lived assets held and used</b>	\$ 370,269	\$ -	\$ -	\$ 370,269	\$ 395,044

xxix. SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

In accordance with the requirements of the United States Securities and Exchange Commission (SEC), Accounting Standards Codification 932 and the updated 2010-03 "Oil and Gas reserve Estimation and Disclosures" Rule, this section provides supplemental information on oil and gas exploration and producing activities of the Company. The information included in items (i) through (iii) provides historical cost information pertaining to costs incurred in exploration, property acquisitions and development, capitalized costs and results of operations. The information included in items (iv) and (v) presents information on Ecopetrol's estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows.

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The following information corresponds to Ecopetrol's oil and gas producing activities at December 31 of 2009, 2008, and 2007 in direct and joint operations.

Under the new SEC final rule optional disclosure of possible and probable reserves is allowed, but the company opted not to do so.

Ecopetrol estimated its reserves without considering non-traditional resources.

**Table i – Capitalized costs relating to oil and gas producing activities**

	2009	2008	2007
Natural and environmental properties – proved properties (1)	\$ 12,188,806	\$ 8,657,429	\$ 7,026,558
Wells, equipment and facilities – property, plant and equipment	5,359,419	4,112,318	3,899,238
Construction in progress	2,321,427	1,828,945	1,108,023
Accumulated depreciation, depletion and amortization	(9,883,704)	(7,637,750)	(6,460,233)
Net capitalized costs	<u>\$ 9,985,948</u>	<u>\$ 6,960,942</u>	<u>\$ 5,573,586</u>

(1) In accordance with ASC 410-20, Asset Retirement Obligations, during 2009, 2008 and 2007 an additional \$6,131, \$25,902 and \$60,864 was added, respectively, to the cost basis of oil and gas wells for wells drilled.

The Company does not capitalize general and administrative expenses within exploration and production activities.

**Table ii – Costs incurred in oil and gas exploration property acquisitions and development activities**

Costs incurred are summarized below and include both amounts expensed and capitalized in the corresponding period.

	2009	2008	2007
Acquisition of Proved Properties (1)	\$ 2,879,233	\$ 1,049,402	\$ -
Exploration costs	1,273,486	941,369	497,737
Development costs	4,098,822	2,808,888	2,163,444
Total costs incurred	<u>\$ 8,251,541</u>	<u>\$ 4,799,659</u>	<u>\$ 2,661,181</u>

(1) Includes wells, equipment and facilities associated with Hocol S.A. and OIG.

**Table iii - Results of operations for oil and gas producing activities**

	2009	2008	2007
Net revenues			
Sales	\$ 8,724,917	\$ 5,152,231	\$ 1,632,579
Transfers (1)	8,910,816	13,134,513	9,996,500
Total	<u>17,635,733</u>	<u>18,286,744</u>	<u>11,629,079</u>
Production cost (2)	6,493,549	4,500,054	3,761,656
Depreciation, depletion and amortization (3)	1,123,633	775,852	545,188
Exploration expenses (4)	1,321,927	852,697	394,712
Total	<u>8,939,109</u>	<u>6,128,603</u>	<u>4,701,556</u>
Income before income tax	8,696,624	12,158,141	6,927,523
Income Tax expense	(2,869,886)	(4,012,187)	(2,355,358)
Results of operations for producing activities	<u>\$ 5,826,738</u>	<u>\$ 8,145,954</u>	<u>\$ 4,572,165</u>

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

- (1) The Company transferred approximately 51%, 26% and 44% of its crude oil and gas production; (percentages are based on the sales value in Colombian pesos) to inter-company business units in 2009, 2008 and 2007, respectively. Using volumes, those transfers were 35%, 40% and 44%, respectively, in 2009, 2008 and 2007. The inter-company transfers were recorded at values equal to the Company's market prices.
- (2) Production costs are lifting costs incurred to operate and maintain productive wells and related equipment and facilities, including such costs as operating labor, materials, supplies, and fuel consumed in operations and the costs of operating natural gas liquids plants. Production costs also include administrative expenses and depreciation and amortization of equipment associated with production activities.
- (3) In accordance with ASC 410-20, the combined depletion and accretion expense related to asset retirement obligations that were recognized during 2009, 2008 and 2007 in depreciation, depletion and amortization expense was approximately (\$33,895), \$195,191 and \$18,392 respectively. The Company's results of operations from oil and gas producing activities for the years ending December 31, 2009, 2008 and 2007 are shown above.
- (4) Exploration expenses include the costs of geological and geophysical activities and non-productive exploratory wells. Depreciation and amortization expenses relate to assets employed in development activities. In accordance with ASU 2010-03, income taxes are based on statutory tax rates.

### Table iv – Reserve information

The reserve information presented in this section is based on the definitions and rules used for U.S. GAAP purposes. The estimates for proved oil and gas reserves used in the preparation of the consolidated financial statements were prepared by Ecopetrol's engineers and approved by the Company's reserves committee. Our hydrocarbon net proved reserves have been audited in 2009 by Gaffney, Cline & Associates and Ryder Scott, Degolyer and Macnaughton.

Information concerning the technical definitions used for the estimated proved reserves is included in this annual report. The information provided in this annual report about our 2009 net proved reserves is based on the 2009 audited reserve reports for 97% of our total reserves prepared by experts under the SEC definitions and rules. The remaining 3% corresponds to calculations made by us internally using SEC definitions and rules. Our 2009 crude oil and natural gas net proved reserves include reserves from our first international production asset located in the Gulf of Mexico, Perú and Hocol's assets in Colombia.

Such estimates are in accordance with guidelines established by the SEC and the Financial Accounting Standards Board, which require that reserve reports be prepared under economic and operating conditions existing at the registrant's year end with no provision for price and cost escalations except by contractual arrangements.

On December 31, 2008, the SEC issued a final rule revising disclosure requirements relating to oil and gas reserves as contained in Rule 4-10(a) of Regulation S-X. Under the new SEC rule, reserves are required to be estimated by applying (x) the unweighted arithmetic average of the first-day-of-the-month price for each month within the year to (y) year-end quantities of proved reserves (the "SEC average price methodology"). Prior to this revision, the SEC required reserves to be estimated by applying (x) the year-end WTI price to (y) year-end quantities of proved reserves (the "SEC year-end price methodology"). The Company's proved reserves as of December 31, 2009 are based on the SEC average price methodology for U.S. GAAP purposes, which mirrors the average price methodology used by the Company in Colombia during this period. The Company's proved reserves as of December 31, 2008 are based on the SEC year-end price methodology for purposes of U.S. GAAP which mirrors the year-end price methodology used by the Company in Colombia during this period. The use of the unweighted arithmetic average price of the first day of each month within the year, had an upward effect on reserves because the price was higher than the 2009 year-end prices applied under the previous rule. However, the Company's proved reserves as of December 31, 2007 are estimated using average prices methodology used by the Company and under the SEC year-end price methodology for U.S. GAAP purposes. As a result, the quantity of proved reserves for this period differs from the estimated quantities of proved reserves in accordance with the SEC year-end methodology.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

Future development, abandonment and production costs were computed by estimating the expenditures to be incurred in developing, producing, and abandoning proved oil and gas reserves at the end of the year, based on year-end costs. Future income taxes were computed by applying statutory tax rates to the estimated net pre-tax cash flows after consideration of tax basis and tax credits and carry forwards. Discounted future net cash flows are calculated using 10% mid period discount factors. This discounting requires a year-by-year estimate of when the future expenditures will be incurred and when the reserves will be produced. Most of the Company's activities and reserves are located in Colombia.

The information provided does not represent management's estimate of the Company's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities involve uncertainty and change over time as new information becomes available.

The arbitrary valuation methodology prescribed under ASU 2010-03 requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of the Company's future cash flows or the value of its oil and gas reserves.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate.

The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

The area of the reservoir considered as proved includes all of the following:

- a. The area identified by drilling and limited by fluid contacts, if any, and
- b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geosciences and engineering data.

In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

Ecopetrol used deterministic methods that are commonly used internationally to estimate reserves. These methods have some uncertainty in degradation, and thus, the estimates should not be interpreted as being exact amounts. These methods have some uncertainty in gradation, and thus, the estimates should not be interpreted as being exact amounts.

However, the technology used to estimate reserves is considered reliable.

According to ASU 2010-03, proved developed oil and gas reserves are considered to be proved when they can be expected to be recovered:

- a) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.
- b) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Estimates of reserves were prepared by geological and engineering methods commonly used in the oil industry. The method or combination of methods used in the analysis of each reserve was adopted from experience with similar reserves, stage of development, quality and completeness of basic data and production history.

## Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

The majority of the producing proved reserves were estimated by applying appropriate decline curves or other performance relationships. In analyzing decline curves, reserves were estimated by calculating economic limits that are based on current economic conditions. In certain cases, where the methods previously employed could not be used, reserves were estimated by analogy with similar reserves where more complete data was available.

The Colombian Nation is the owner of all mineral interests located in Colombia. The Company and, by extension of joint association contracts, its partners, are given the right to explore, develop, produce and sell those reserves, but do not own them. The reserve quantities and their standardized measure, presented in the following tables, represent those reserves and their estimated value that the Company has the right to extract and sell.

The table below sets forth the Company's total proved oil and gas reserves together with their changes therein as of and for the years ended December 31, 2009, 2008 and 2007. The estimates (oil in million barrels, gas in billion cf, gas converted to million barrels at 5.615 billion cf per million barrels) using the SEC rules in effect for each respective year. However, as stated previously, the estimate of reserves at December 31, 2007 was prepared using average prices for 2007 which, differs from the SEC year-end price methodology in effect for 2007.

In 2009, the Company acquired 100% of Hocol and 50% of Offshore International Group, which is the owner of Petro-tech Peruana (Savia). These companies increased the Company's total reserves of oil and gas by 3.2% and 2.2%, respectively. The Company did not consider these additional reserves as significant to be disclosed separately.

	2009			2008			2007		
	Oil million barrels	Gas billion cf	Total million boe	Oil million barrels	Gas billion cf	Total million boe	Oil million barrels	Gas billion cf	Total million boe
<b>Proved Reserves:</b>									
Beginning of year	798.9	1,898.9	1,137.0	857.4	1,979.6	1,209.9	921.2	1,860.4	1,252.5
Revisions (1)	319.0	548.5	416.7	44.2	54.5	53.9	25.9	74.0	39.0
Extensions and discoveries (2)	137.3	38.6	144.2	8.3	0.8	8.4	9.8	164.1	39.0
Production	(131.9)	(156.6)	(159.7)	(111.0)	(136.0)	(135.2)	(99.6)	(118.8)	(120.7)
End of year	<u>1,123.3</u>	<u>2,329.4</u>	<u>1,538.2</u>	<u>798.9</u>	<u>1,898.9</u>	<u>1,137.0</u>	<u>857.4</u>	<u>1,979.6</u>	<u>1,209.9</u>
<b>Proved developed reserves:</b>									
Beginning of year	518.4	720.6	646.7	651.3	1,210.5	866.9	610.7	995.4	788.0
End of year	<u>630.5</u>	<u>1,732.6</u>	<u>939.1</u>	<u>518.4</u>	<u>720.6</u>	<u>646.7</u>	<u>651.3</u>	<u>1,210.5</u>	<u>866.9</u>
<b>Proved undeveloped reserves: (3)</b>									
Beginning of year	280.5	1,178.3	490.3	206.1	769.1	343.0	310.5	865.0	464.5
End of year	<u>492.8</u>	<u>596.9</u>	<u>599.1</u>	<u>280.5</u>	<u>1,178.3</u>	<u>490.3</u>	<u>206.1</u>	<u>769.1</u>	<u>343.0</u>

(1) The variation in the revisions of new projects in existing fields was 256 mboe, mainly in fields Rubiales (110mboe), Castilla (44 mboe), Chichimene (32 mboe) and Pauto (15 mboe). New projects in these fields correspond to 78% of all projects.

Additionally, Ecopetrol reclassified (unproved reserves to proved reserves) 211 mboe, mainly from Cusiana (69 mboe), Pauto (60 mboe), Chichimene (43 mboe), Castilla (30 mboe), that corresponds to 96% of total reclassifications.

In 2009, the economic limit reduced proved reserves by 62 mboe.

(2) The increase in extension and discoveries of reserves is mainly due to the inclusion of Petro-tech (Savia), Hocol and K2. Ecopetrol introduced new reserves by 49 mboe.

(3) During 2009, our total proved undeveloped reserves increased by 108.8 mboe to 599.2 mboe at December 31, 2009 from 490.4 mboe at December 31, 2008. At December 31, 2009, 82% of our total proved undeveloped reserves corresponded to crude oil.

Ecopetrol S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
Years ended December 31, 2009, 2008 and 2007

This note to the Ecopetrol's consolidated financial statements presents the Company's total proved oil and gas reserves together with the changes therein as of and for the year end December 31, 2009, 2008 and 2007. The estimate of reserves at December 31, 2007 was prepared under Ecopetrol's policy, using average prices for 2007, which is acceptable in Colombia, but differs from U.S. GAAP, which requires that reserves be calculated using year-end prices. As a result, the quantity of estimated proved reserves under Ecopetrol's 2007 policy differed from the estimated quantities of proved reserves in accordance with U.S. GAAP and SEC Rule 4-10 of Regulation S-X. The following table presents the difference in total proved reserves at December 31, 2007:

	<u>Quantities under Ecopetrol's Policy</u>	<u>Quantities under U.S. GAAP</u>	<u>Difference</u>
Oil, million of barrels	833.2	857.4	(24.2)
Gas, billion cf	1,919.6	1,979.6	(60.0)
<b>Total, million boe</b>	<b>1,175.1</b>	<b>1,209.9</b>	<b>(34.8)</b>

**Table v – Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein**

The standardized measure of discounted future net cash flows, related to the above proved crude oil and natural gas reserves, is calculated in accordance with the requirements of ASU 2010-03. Estimated future cash inflows from production under U.S. GAAP are computed by applying unweighted arithmetic average of the first-day-of-the-month for oil and gas price to year-end quantities of estimated net proved reserves.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Future cash inflows	\$ 137,518,875	\$ 91,719,056	\$ 156,132,956
Future costs			
Production	(36,994,366)	(30,923,136)	(49,909,724)
Development	(14,245,475)	(9,185,049)	(4,483,284)
Income Taxes	(27,574,537)	(18,409,888)	(30,561,458)
Abandonment costs	(1,430,847)	(645,382)	(1,350,144)
Future net cash flow	57,273,650	32,555,601	69,828,346
10% discount factor	(21,813,763)	(13,897,290)	(27,309,680)
Standardized measure of discounted net cash flows	<u>\$ 35,459,887</u>	<u>\$ 18,658,311</u>	<u>\$ 42,518,666</u>

The following are the principal sources of change in the standardized measure of discounted net cash flows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net change in sales and transfer prices and in production (lifting) cost related to future production	\$ 10,994,821	\$ (21,567,415)	\$ 25,567,846
Changes in estimated future development costs	(5,847,900)	(3,858,978)	1,369,555
Sales and transfer of oil and gas produced during the period	(11,491,435)	(13,543,509)	(7,425,045)
Net change due to extension discoveries	1,129,590	137,845	1,168,704
Net change due to revisions in quantity estimates	16,770,839	1,759,641	2,175,445
Previously estimated development costs incurred during the period	4,098,822	2,808,888	2,163,444
Accretion of discount	1,865,831	4,251,867	2,299,461
Other – unspecified	5,802,156	(1,906,546)	(2,150,112)
Net change in income taxes	(6,521,148)	8,057,853	(5,645,244)
Aggregate change in the Standardized measure of discounted future net cash flows for the year	<u>\$ 16,801,576</u>	<u>\$ (23,860,354)</u>	<u>\$ 19,524,054</u>





## Subsidiaries of Ecopetrol S.A.

The following table sets forth our significant subsidiaries, their respective countries of incorporation, our percentage ownership in each (both directly and indirectly through other subsidiaries) and our voting percentage in each at May 31, 2010.

COMPANY	COUNTRY OF INCORPORATION	OWNERSHIP %	VOTING %
Ecopetrol Oleo e Gas do Brasil Ltda*	Brazil	100	100
Ecopetrol del Perú S.A.*	Perú	100	100
Ecopetrol America Inc.*	United States	100	100
Black Gold Re	Bermuda	100	100
Andean Chemicals Ltd.	Bermuda	100	100
ODL Finance S.A.	Panama	65	65
Propilco S.A.*	Colombia	100	100
Bioenergy S.A.**	Colombia	85	85
Ecopetrol Global Energy S.L.U.	Spain	100	100
Ecopetrol Pipelines International Ltd.**	Bermuda	100	100
Ecopetrol Transportation Company	Cayman Islands	100	100
Offshore International Group Inc. – OIG <sup>(1)</sup>	United States	50	50
Savia Perú S.A.** <sup>(1)</sup>	Perú	50	50
Ecodiesel Colombia S.A. <sup>(1)</sup>	Colombia	50	50
Refinería de Cartagena S.A.*	Colombia	100	100
Serviport S.A. <sup>(1)</sup>	Colombia	49	49
Oleoducto de Colombia S.A.*	Colombia	65.57	65.57
Oleoducto Central S.A.*	Colombia	60	60
Hocol Petroleum Limited	Bermuda	100	100
Invercolsa S.A. <sup>(1)</sup>	Colombia	31.76	31.76

\* Direct and indirect participation.

\*\* Solely indirect participation through other Subsidiaries or Affiliates. OIG is the parent company of Savia Perú S.A., and Ecopetrol Transportation Company is the parent company of Ecopetrol Pipelines Ltd.

<sup>(1)</sup> Affiliate.

## CERTIFICATION

I, Javier G. Gutiérrez, certify that:

1. I have reviewed this annual report on Form 20-F of Ecopetrol S.A. (the “company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Dated: July 14, 2010

By: /s/ Javier G. Gutiérrez

Name: Javier G. Gutiérrez

Title: Chief Executive Officer

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## CERTIFICATION

I, Adriana M. Echeverri, certify that:

1. I have reviewed this annual report on Form 20-F of Ecopetrol S.A. (the “company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Dated: July 14, 2010

By: /s/ Adriana M. Echeverri

Name: Adriana M. Echeverri

Title: Chief Financial Officer

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Ecopetrol S.A. (the "Company") on Form 20-F for the fiscal year ended December 31, 2009, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Javier G. Gutiérrez, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Javier G. Gutiérrez  
Name: Javier G. Gutiérrez  
Title: Chief Executive Officer

Dated: July 14, 2010

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Ecopetrol S.A. (the "Company") on Form 20-F for the fiscal year ended December 31, 2009, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Adriana M. Echeverri, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

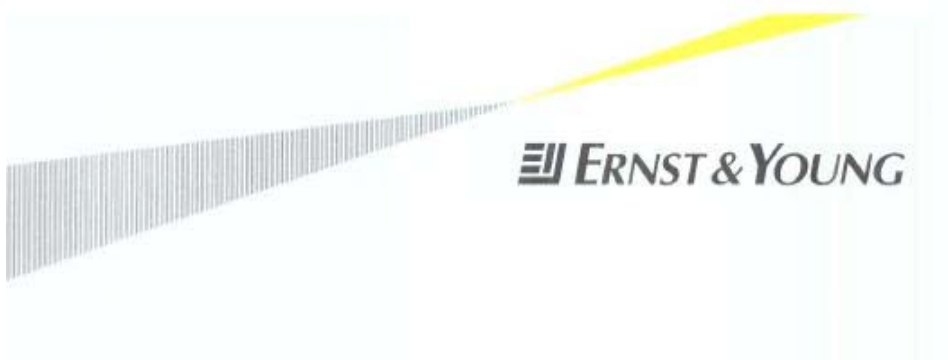
- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Adriana M. Echeverri  
Name: Adriana M. Echeverri  
Title: Chief Financial Officer

Dated: July 14, 2010

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Ernst & Young Audit Ltda.  
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Torre AR Piso 3  
Bogotá D.C. - Colombia  
Tel: +57 1 484 70 00  
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www.ey.com

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference into the Registration Statement on Form F-3 of Ecopetrol S.A., filed with the United States Securities and Exchange Commission on February 12, 2010, of our report dated February 15, 2008 (except for Notes 33 and 34 to which the date is May 30, 2008), with respect to the consolidated financial statements of Ecopetrol S.A., which is included in Ecopetrol S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2009.

/s/ Francisco J. González R.

Francisco J. González R.  
Independent Accountant  
(Statutory Auditor of Ecopetrol S.A. until March 31, 2008)  
Professional Card 13442-T  
Designated by Ernst & Young Audit Ltda. TR-530

Bogotá, D.C., Colombia  
July 12, 2010

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**PricewaterhouseCoopers Ltda.**  
Calle 100 No. 11A-35 Piso 5  
Apartado 60188  
Conmutador: 634 0555  
Fax: 218 8544 - 218 9133  
Bogotá, Colombia  
[www.pwc.com/co](http://www.pwc.com/co)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 No. 333-164898 of Ecopetrol S. A. of our report dated July 14, 2010 relating to the financial statements and the effectiveness of internal control over financial reporting which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Ltda.

Bogota, Colombia  
July 14, 2010

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TBPE REGISTERED ENGINEERING FIRM F-1580  
1100 LOUISIANA SUITE 3800

HOUSTON, TEXAS 77002-5235

FAX (713) 651-0849  
TELEPHONE (713) 651-9191

July 14, 2010

**CONSENT OF INDEPENDENT PETROLEUM ENGINEERS**

Ryder Scott Company, L.P. consents to the references to our firm included in Ecopetrol S.A.'s annual report on Form 20-F for the year ended December 31, 2009 (the "Annual Report"), and to the inclusion of our report dated April 15, 2010 (our "Report") as Exhibit 99.1 to the Annual Report, as well as to the incorporation by reference of this consent and our Report into Ecopetrol's S.A.'s registration statement on Form F-3 filed with the United States Securities and Exchange Commission on February 12, 2010.

/s/ Ryder Scott Company, L.P.

**RYDER SCOTT COMPANY, L.P.**  
TBPE Firm Registration No. F-1580

Houston, Texas

1200, 530 8TH AVENUE, S.W. CALGARY, ALBERTA T2P 3S8  
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Four Oaks Place  
1360 Post Oak Boulevard, Suite 2500  
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Telephone: (713) 850-9955  
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Email: [gcah@gaffney-cline.com](mailto:gcah@gaffney-cline.com)

RJHS/bgh/C1774.00/gcah.133.10

July 14, 2010

Mr. Oscar Humberto Valbuena Amaris  
Director de Control de Reservas  
Vicepresidencia Financiera  
**Ecopetrol, S. A.**  
Edificio Principal, Piso 7  
Cr 13 No. 36 - 24 Bogota, Colombia

**Consent of Gaffney, Cline & Associates**

Dear Mr. Valbuena:

As independent reserve engineers for Ecopetrol S.A., Gaffney, Cline & Associates hereby consents to the references to our firm included in Ecopetrol S.A.'s annual report on Form 20-F for the year ended December 31, 2009 (the "Annual Report"), and to the inclusion of our report entitled "Reserve Audit for Forty Two Fields in Colombia As well as Ecopetrol's Participation in PetroTech Peruana SA (SAVIA)" dated June 9, 2010 (our "Report") as Exhibit 99.2 to the Annual Report, as well as to the incorporation by reference of this consent and our Report into Ecopetrol's S.A.'s registration statement on Form F-3 filed with the United States Securities and Exchange Commission on February 12, 2010.

Very truly yours,

**GAFFNEY, CLINE & ASSOCIATES, INC.**

/s/ Rawdon J.H. Seager  
Rawdon J.H. Seager  
Principal Advisor

**DeGolyer and MacNaughton**

4925 Greenville Avenue, Suite 400  
One Energy Square  
Dallas, Texas 75206

July 13, 2010

Board of Directors  
Ecopetrol S.A.  
Calle 35 No. 7-21 Piso 1  
Bogota, D.C. Colombia

Ladies and Gentlemen:

We hereby consent to the references to DeGolyer and MacNaughton as set forth under the headings "Presentation of Information Concerning Reserves," "Item 4 – Information on the Company—Business Overview," and "Item 19—Exhibits" in the Annual Report on Form 20-F of Ecopetrol S.A. for the year ended December 31, 2009 (the "Annual Report"). We further consent to the inclusion of our third party letter report dated June 24, 2010 (our "Third Party Letter Report") as Exhibit 99.3 in the Annual Report. The Third Party Letter Report contains opinions regarding our estimates of the proved oil, condensate, natural gas, and oil equivalent reserves of certain selected properties owned by Ecopetrol S.A. in Colombia and in the United States of America.

We further consent to the references to DeGolyer and MacNaughton, as set forth in the Ecopetrol S.A. Registration Statement on Form F-3, filed with the United States Securities and Exchange Commission on February 12, 2010 (the "Form F-3"), under the heading "Experts", and to the incorporation by reference of this consent and our Third Party Letter Report in the Form F-3.

Very truly yours,

/s/ DeGOLYER and MacNAUGHTON

DeGOLYER and MacNAUGHTON  
Texas Registered Engineering Firm F-716

**ECOPETROL**

**Third Party Independent Audit of**

**Estimated Future Reserves**

**Attributable to Certain Interests**

**in Colombia**

**SEC Parameters**

**As of**

**December 31, 2009**

/s/ Herman G. Acuña

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Herman G. Acuña, P.E.  
TBPE License No. 92254  
Managing Senior Vice President—International

[SEAL]

**RYDER SCOTT COMPANY, L.P.**

TBPE Firm Registration No. F-1580

RYDER SCOTT COMPANY    PETROLEUM CONSULTANTS

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TBPE REGISTERED ENGINEERING FIRM F-1580  
1100 LOUISIANA SUITE 3800

HOUSTON, TEXAS 77002-5218

FAX (713) 651-0849  
TELEPHONE (713) 651-9191

April 15, 2010

ECOPETROL  
Calle 37 No. 8-43 Piso 12  
Bogota, D.C., Colombia

Ladies and Gentlemen:

At your request, Ryder Scott Company has prepared an estimate of the proved reserves, future production and income attributable to certain properties of Ecopetrol, as of December 31, 2009. The subject properties are located in the country of Colombia.

The reserves and income data were estimated based on the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). The conclusions of our third party study, completed on January 25, 2010, are discussed herein.

The conclusions discussed in this report, as of December 31, 2009, are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, the conclusions of our third party study may differ significantly from the discussion below.

Ecopetrol has opted to represent that Ryder Scott Company conducted these 3<sup>rd</sup> party independent estimations; accordingly, Ryder Scott Company has prepared this report for inclusion as an exhibit to the relevant registration statement or other Commission filings by Ecopetrol.

***Scope of 3<sup>rd</sup> Party Independent Audit***

At the request of Ecopetrol, Ryder Scott Company conducted an independent estimation of the reserves, future production and income associated with certain assets in which Ecopetrol owns an interest. Ryder Scott Company was provided with both interpreted and uninterpreted data. Based on this information, Ryder Scott Company conducted the necessary studies to estimate and audit the proved reserves to conform with our understanding of the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10 (a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

During our investigations, no attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. Ecopetrol does not include fuel gas in their estimation of net reserves, therefore, our conclusion herein are exclusive of these volumes.

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While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may also increase or decrease from existing levels, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. However, most of the parameters that define the reserves of a reservoir cannot be measured directly, and must be estimated indirectly through geologic and reservoir engineering analysis and interpretations. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical risks. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. The reserves included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts.

The conclusion reported herein are limited to the period prior to expiration of current contracts providing the legal right to produce or a revenue interest in such production unless evidence indicates that contract renewal is reasonably certain. Furthermore, while we have only examined Ecopetrol's properties located in Colombia, properties in different countries may be subjected to significantly varying contractual fiscal terms that may affect the net revenue to Ecopetrol from the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with Ecopetrol the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information or our acceptance of Ecopetrol's representations regarding such contractual information should be construed as a legal or accounting opinion on this matter.

Ryder Scott did not evaluate country and geopolitical risks in the countries where Ecopetrol operates or has interests. Ecopetrol's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and foreign trade and investment and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities.

The conclusions presented herein were based upon a detailed study of the properties in which Ecopetrol owns an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

The properties reviewed by Ryder Scott Company are located in the country of Colombia and do not represent the entire asset portfolio from Ecopetrol. Ecopetrol has indicated that the proved net reserves attributable to the properties that we reviewed account for 28 percent of their total proved net remaining hydrocarbon reserves.

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***Data, Methods and Procedures***

In performing our estimates, we have relied upon data furnished by Ecopetrol with respect to property interests owned, production and well tests from examined wells, historical costs of operation and development, product prices, geological structural and isochors maps, well logs, core analyses, and pressure measurements, etc. In general, the reserve estimates for the properties that we reviewed are based on data available through December 31, 2009.

These data were accepted as authentic and sufficient for determining the reserves unless, during the course of our examination, a matter of question came to our attention in which case the data were not accepted until all questions were satisfactorily resolved.

As prescribed by the Society of Petroleum Engineers in Paragraph 2.2(f) of the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information a reserves audit is defined as "the process of reviewing certain of the pertinent facts interpreted and assumptions made that have resulted in an estimate of reserves prepared by others and the rendering of an opinion about (1) the appropriateness of the methodologies employed, (2) the adequacy and quality of the data relied upon, (3) the depth and thoroughness of the reserves estimation process, (4) the classification of reserves appropriate to the relevant definitions used, and (5) the reasonableness of the estimated reserve quantities."

In general, the reserves included herein were estimated by performance method, volumetric or material balance methods; however, other methods were used in certain cases where characteristics of the data, in our opinion, indicated such other methods were more appropriate.

Our forecasts of future production rates are based on historical performance from wells now on production. Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by Ecopetrol. The future production rates from wells now on production may be more or less than estimated because of changes in market demand or allowables set by regulatory bodies. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates.

To estimate economically recoverable oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be demonstrated to be economically producible based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined as of the effective date of the report.

As previously stated, the hydrocarbon prices used herein are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

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Ecopetrol has informed us that the operating costs for the assets in this report are based on the operating expense reports of Ecopetrol and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the assets. When applicable for operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the assets. Development costs were furnished to us by Ecopetrol and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage was significant. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by Ecopetrol.

#### ***Summary of Ryder Scott Company Conclusions***

In our opinion, Ecopetrol's estimates of future reserves for the reviewed properties were prepared in accordance with generally accepted petroleum engineering and evaluation principles for the estimation of future reserves as set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information, and we found no bias in the utilization and analysis of data in estimates for these properties.

The overall proved reserves for the reviewed properties as estimated by Ecopetrol are, in the aggregate, reasonable within the established audit tolerance guidelines of equal or less than 10 percent as set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers.

#### ***Standards of Independence and Professional Qualification***

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy years. Ryder Scott is employee owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any publicly traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

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We are independent petroleum engineers with respect to Ecopetrol. Neither we nor any of our employees have any interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing this project, is included as an attachment to this letter.

**Terms of Usage**

This report was prepared for the exclusive use and sole benefit of Ecopetrol Company and may not be put to other use without our prior written consent for such use. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

**RYDER SCOTT COMPANY, L. P.**  
TBPE Firm Registration No. F-1580

/s/ Herman G. Acuña

Herman G. Acuña, P.E.  
TBPE License No. 92254  
Managing Senior Vice President–International

[SEAL]

HGA/sm

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**Professional Qualifications**  
**Herman G. Acuña**

The conclusions presented in this report for Ecopetrol for properties located in Colombia are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Herman G. Acuña was the primary technical person responsible for overseeing the independent estimation of the reserves, future production and income to render the audit conclusions of the report.

Mr. Acuña, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1997, is a Managing Senior International Vice President and serves as an Engineering Group Coordinator responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Acuña served in a number of engineering positions with Exxon. For more information regarding Mr. Acuña's geographic and job specific experience, please refer to the Ryder Scott Company website at [www.ryderscott.com](http://www.ryderscott.com).

Mr. Acuña earned a Bachelor (Cum Laude) and a Masters (Magna Cum Laude) of Science degree in Petroleum Engineering from The University of Tulsa in 1987 and 1989 respectively. He is a registered Professional Engineer in the State of Texas, a member of the Association of International Petroleum Negotiators (AIPN) and the Society of Petroleum Engineers (SPE).

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Acuña fulfills. As part of his 2009 continuing education hours, Mr. Acuña attended over 34 hours of formalized training and conferences including 10 hours dedicated to the subject of the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. In 2009, Mr. Acuña taught various company reserves evaluation schools in Argentina, Bolivia, China, Spain, U.S.A and Venezuela. Mr. Acuña has participated in various capacities in reserves conferences such as being a panelist at the 2008 Trinidad and Tobago's Petroleum Conference, delivering the reserves evaluation seminar during IAPG convention in Mendoza, Argentina in 2006 and chairing the first Reserves Evaluation Conference in the Middle East in Dubai, U.A.E in 2006.

Based on his educational background, professional training and 20 years of practical experience in petroleum engineering and the estimation and evaluation of petroleum reserves, Mr. Acuña has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

RYDER SCOTT COMPANY    PETROLEUM CONSULTANTS

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## PETROLEUM RESERVES DEFINITIONS

**As Adapted From:**  
**RULE 4-10(a) of REGULATION S-X PART 210**  
**UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

### *PREAMBLE*

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the “Modernization of Oil and Gas Reporting; Final Rule” in the Federal Register of National Archives and Records Administration (NARA). The “Modernization of Oil and Gas Reporting; Final Rule” includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The “Modernization of Oil and Gas Reporting; Final Rule”, including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the “SEC Regulations”. The SEC Regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions, as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the original document (direct passages excerpted from the aforementioned SEC document are denoted in italics herein).

Reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC Regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the Commission. The SEC Regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the Commission unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

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Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

**RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

**Reserves.** *Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.*

*Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).*

**PROVED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

**Proved oil and gas reserves.** *Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.*

(i) *The area of the reservoir considered as proved includes:*

(A) *The area identified by drilling and limited by fluid contacts, if any, and*

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*(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.*

*(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.*

**PROVED RESERVES (SEC DEFINITIONS) CONTINUED**

*(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.*

*(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:*

*(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and*

*(B) The project has been approved for development by all necessary parties and entities, including governmental entities.*

*(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.*

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## RESERVES STATUS DEFINITIONS AND GUIDELINES

As Adapted From:  
RULE 4-10(a) of REGULATION S-X PART 210  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

and

PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)  
Sponsored and Approved by:  
SOCIETY OF PETROLEUM ENGINEERS (SPE),  
WORLD PETROLEUM COUNCIL (WPC)  
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)  
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

### **DEVELOPED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

*Developed oil and gas reserves are reserves of any category that can be expected to be recovered:*

- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and*
- (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.*

### **Developed Producing (SPE-PRMS Definitions)**

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

#### **Developed Producing Reserves**

*Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.*

*Improved recovery reserves are considered producing only after the improved recovery project is in operation.*

RYDER SCOTT COMPANY    PETROLEUM CONSULTANTS

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**Developed Non-Producing**

*Developed Non-Producing Reserves include shut-in and behind-pipe reserves.*

**Shut-In**

*Shut-in Reserves are expected to be recovered from:*

- (1) completion intervals which are open at the time of the estimate but which have not yet started producing;*
- (2) wells which were shut-in for market conditions or pipeline connections; or*
- (3) wells not capable of production for mechanical reasons.*

**Behind-Pipe**

*Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.*

*In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.*

**UNDEVELOPED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

*Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.*

*(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.*

*(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.*

*(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.*

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SOP/bgh/C1774.00/gcah.133.10

June 9, 2010

Mr. Oscar Valbuena Amaris  
 Director de Control de Reservas  
**Ecopetrol, S. A.**  
 Edificio Principal, Piso 7  
 Bogota, Colombia

**Reserve Audit for Forty Two Fields in Colombia  
 As well as Ecopetrol's Participation in PetroTech Peruana SA (SAVIA)**

Dear Mr. Valbuena Amaris:

At the request of Ecopetrol, S.A. (Ecopetrol), a participant in forty two fields in the Inferior, Middle and Upper Magdalena Valley, Catatumbo and Putumayo Basins in Colombia; as well as Ecopetrol's participation on Petro-Tech Peruana (renamed Savia SA), Gaffney, Cline & Associates (GCA) has conducted an independent audit examination as of December 31, 2009 (the "effective date of our report") of the liquid hydrocarbons and natural gas reserves for the fields mentioned above. On the basis of technical and other information made available to us concerning these property units, we provided a reserve statement given in our report to Ecopetrol dated January 15, 2010; the results of which are shown in the table below. Total Proved Reserves, net to Ecopetrol interest, represent 19% of Ecopetrol's total Proved Reserves on a barrel oil equivalent (BOE) basis. This proportionate share was supplied by Ecopetrol.

**Statement of Hydrocarbon Reserves Volumes  
 Forty Two Fields in Colombia  
 As of December 31, 2009**

Reserves Category	Gross (100%) Field Volumes		Reserves Net to Ecopetrol Interest	
	Liquids (MMstb)	Gas (Bscf)	Liquids (MMstb)	Gas (Bscf)
<b>Proved</b>				
Developed Producing	273.2	92.9	162.8	37.5
Developed Non-Producing	9.8	0.1	6.6	0.1
<b>Total Developed</b>	<b>283.0</b>	<b>93.0</b>	<b>169.4</b>	<b>37.6</b>
Undeveloped	193.3	18.9	117.4	10.2
<b>Total Proved</b>	<b>476.3</b>	<b>111.9</b>	<b>286.8</b>	<b>47.8</b>

GCA prepared its reserve statement in accordance with the definitions of reserves set out in 17 CFR Part 210 Rule 4-10(a) of the United States Securities and Exchange Commission (the "SEC") and the disclosure guidelines contained in the SEC Final Rule titled "Modernization of Oil and Gas Reporting" dated December 31, 2008 and effective as of January 1, 2010 (the "2010 Oil and Gas SEC Final Rule").

UNITED KINGDOM      UNITED STATES      SINGAPORE      AUSTRALIA      ARGENTINA      BRAZIL      KAZAKHSTAN      RUSSIA      UAE

Hydrocarbon liquid volumes represent crude oil and condensate, natural gasoline and LPG estimated to be recovered during field separation and plant processing, and are reported in millions of stock tank barrels (MMstb). Natural gas volumes represent expected gas sales, and are reported in billions ( $10^9$ ) of cubic feet (Bscf) at standard conditions of 14.7 psia and 60 degrees Fahrenheit. These volumes have been reduced for fuel usage in the field. Royalties payable to the State have been deducted from reported net volumes.

It is GCA's opinion that the estimates of total remaining recoverable hydrocarbon liquid and gas volumes at December 31, 2009, are, in the aggregate, reasonable and have been prepared in accordance with the definitions for reserves set out in 17 CFR Part 210 Rule 4-10(a) of the SEC and the 2010 Oil and Gas SEC Final Rule.

This assessment has been conducted within the context of GCA's understanding of Ecopetrol's petroleum property rights as represented by Ecopetrol's management. GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties or interests.

This audit examination was based on reserve estimates and other information provided by Ecopetrol to GCA through December 2009, and included such tests, procedures and adjustments as were considered necessary under the circumstances to prepare this report. Field data and information provided by Ecopetrol varies from field to field, Ecopetrol provided production data sets, depending on the field, up to August, September, October, November, or December 2009. All questions that arose during the course of the audit process were resolved to our satisfaction. The reported hydrocarbon reserve is an estimate based on professional engineering judgment and is subject to future revisions, upwards or downwards, as a result of future operations or as additional information becomes available. Technical information and comments related to the methodology followed to audit the reserves volumes for each one of the fields, is presented in separate individual reports. As these reports are quite extensive and detailed, the significant points of the work performed are summarized below.

In order to confirm estimates of petroleum initially in place, the structural and stratigraphic descriptions of the accumulations, various reservoir limits, rock petrophysical parameters and reservoir fluid properties were reviewed checked for reasonableness and/or modified as appropriate based on information and data supplied by Ecopetrol. Reservoir and individual well performance was analyzed in order to assess the predominant reservoir drive mechanisms currently active in the fields and those expected to affect the future production performance.

Recoverable volume estimates as derived from profiles of expected future performance were checked for consistency with the development plans provided by Ecopetrol and verified on the basis of individual well decline analysis, typical well performance models, material balance calculations, reservoir simulation results, analogies, etc. as appropriate to the available information and category of the reserves.

Gross reserves and those net to Ecopetrol's interests were verified on the basis of the fiscal and contractual terms applicable in each case.

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The commerciality and economic tests for the December 31, 2009 Reserves volumes were based on a constant reference price for West Texas Intermediate (WTI) crude; these prices were obtained as the un-weighted average of the oil price the first day of each month, corrected for location and quality to a wellhead price for each field. Sales gas and plant product prices were advised by Ecopetrol according to existing contracts and/or regulations.

Future capital costs for the fields were derived from development program forecasts prepared by field operators. Recent historical operating expense data were utilized as the basis for operating cost projections. GCA has found that sufficient capital investments and operating expenses have been projected by the operators to produce the projected volumes.

GCA believes the assumptions, data, methods, and procedures used in its audit are appropriate for the purposes of this reserve statement.

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas reserve engineering and resource assessment must be recognized as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas reserves or resources prepared by other parties may differ, perhaps materially, from those contained within this report. The accuracy of any Reserve or Resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, Reserve and Resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

\* \* \* \* \*

For this assignment, GCA served as independent reserve auditors. The firm's employees have no direct or indirect interest holding in Ecopetrol. GCA's remuneration was not in any way contingent on reported reserve estimates. No representations are made herein in respect of property title or encumbrances thereon. This report has been prepared for Ecopetrol and Ecopetrol will obtain GCA's approval for the use and context of the use of any results, statements or opinions expressed to Ecopetrol, which are attributed to GCA. Such approval shall include, but not be confined to, statements or references in documents of a public or semi-public nature such as loan agreements, prospectuses, reserve statements, press releases, etc.

Very truly yours,

**GAFFNEY, CLINE & ASSOCIATES, INC.**

/s/ David K. Morgan  
David K. Morgan  
Senior Technical Manager

Attachment  
Appendix I: Statement of Qualifications

**APPENDIX I:**  
**Statement of Qualifications**

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**Statement of Qualifications**

One of GCA's Senior Technical Mangers was responsible for overseeing the preparation of the audit. This manager has over 40 years of diversified international industry experience mainly in reservoir-engineering, geology, reserves estimates, project development, economics and training in the assessment, classification and reporting of reserves and resources. Over the past 5 years he has been responsible for project review and oversight for GCA's Houston office as it pertains to exploration and production activities including the reserves audits conducted on behalf of Ecopetrol, S. A. He is a member of the Society of Petroleum Engineers (SPE) and holds a petroleum engineering degree from Marietta College.

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**DeGolyer and MacNaughton**  
5001 Spring Valley Road  
Suite 800 East  
Dallas, Texas 75244

June 24, 2010

Board of Directors  
Ecopetrol S.A.  
Calle 35 No. 7-21 Piso 1  
Bogota, D.C. Colombia

Gentlemen:

Pursuant to your request, we have conducted a reserves evaluation of the net proved crude oil, condensate, and natural gas reserves, as of December 31, 2009, the effective date of this report, of certain selected properties in North America and South America owned by Ecopetrol S.A. (ECOPETROL). ECOPETROL has represented that these properties account for 50 percent on a net equivalent barrel basis of ECOPETROL's net proved reserves as of December 31, 2009. The net proved reserves estimates prepared by us have been prepared in accordance with the reserves definitions of Rules 4-10(a) (1)-(32) of Regulation S-X of the Securities and Exchange Commission (SEC) of the United States. Our reserves evaluation was completed on January 21, 2010.

Reserves included herein are expressed as net reserves. Gross reserves are defined as the total estimated petroleum to be produced from these properties after December 31, 2009. Net reserves are defined as that portion of the gross reserves attributable to the interests owned by ECOPETROL after deducting all interests owned by others.

Estimates of oil, condensate, and natural gas should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

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Data used in this evaluation were obtained from reviews with ECOPETROL personnel, and from ECOPETROL files. In the preparation of this report we have relied, without independent verification, upon such information furnished by ECOPETROL with respect to property interests, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report. We believe the data used in this evaluation are appropriate for the purposes of this report.

### **Methodology and Procedures**

Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and the original gas in place (OGIP). Structure and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material balance and other engineering methods were used to estimate recovery factors. An analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production or to the limit of the production licenses as appropriate. We believe these methods are appropriate for the purposes of this report.

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**Definition of Reserves**

Petroleum reserves estimated by us included in this report are classified by degree of proof as proved and are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. Proved reserves classifications used by us in this report are in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the SEC. The petroleum reserves are classified as follows:

*Proved oil and gas reserves* – Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

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(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

*Developed oil and gas reserves* – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

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DeGolyer and MacNaughton

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

*Undeveloped reserves* – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in section 210.4–10 (a) Definitions, or by other evidence using reliable technology establishing reasonable certainty.

### **Primary Economic Assumptions**

The following economic assumptions were used for estimating existing and future prices and costs:

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*Oil and Condensate Prices*

ECOPETROL has represented that the oil and condensate prices were based on a 12-month average price (reference price), calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. ECOPETROL supplied differentials by field to a Brent reference price and the prices were held constant thereafter.

*Natural Gas Prices*

ECOPETROL has represented that the natural gas prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements based on specific market segments.

*Operating Expenses and Capital Costs*

Operating expenses and capital costs, based on information provided by ECOPETROL, were used in estimating future costs required to operate the properties. In certain cases, future costs, either higher or lower than existing costs, may have been used because of anticipated changes in operating conditions. These costs were not escalated for inflation.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the December 31, 2009, estimated oil and gas volumes. The reserves estimated in this report can be produced under current regulatory guidelines.

Our estimates of ECOPETROL's net proved reserves attributable to the reviewed properties are based on the definitions of proved reserves of the SEC and are as follows, expressed in thousands of barrels (Mbbbl), millions of cubic feet (MMcf), and thousands of barrels of oil equivalent (Mboe):

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<b>Net Proved Reserves as of December 31, 2009</b>			
	<b>Oil and Condensate (MMbbl)</b>	<b>Natural Gas (MMcf)</b>	<b>Oil Equivalent (MMboe)</b>
<b>North America</b>			
Proved Developed	4,651	2,576	5,110
Proved Undeveloped	0	0	0
<b>North America Total Proved</b>	<b>4,651</b>	<b>2,576</b>	<b>5,110</b>
<b>South America</b>			
Proved Developed	152,187	1,683,313	451,976
Proved Undeveloped	206,697	586,497	311,149
<b>South America Total Proved</b>	<b>358,884</b>	<b>2,269,810</b>	<b>763,125</b>
<b>Total Proved</b>	<b>363,535</b>	<b>2,272,386</b>	<b>768,235</b>

Note: Gas is converted to oil equivalent using a factor of 5,615 cubic feet of gas per 1 barrel of oil equivalent.

The assumptions, data, methods, and procedures used by DeGolyer and MacNaughton to conduct the reserves evaluation are appropriate for purposes of this report.

In our opinion, the information relating to estimated proved reserves of oil, condensate, natural gas liquids, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, and 932-235-50-9 of the Accounting Standards Update 932-235-50, *Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the Financial Accounting Standards Board and Rules 4-10(a) (1)–(32) of Regulation S-X and Rules 302(b), 1201, 1202(a) (1), (2), (3), (4), (8), and 1203(a) of Regulation S-K of the Securities and Exchange Commission.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature, we are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

DeGolyer and MacNaughton

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over 70 years. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in ECOPETROL. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of ECOPETROL.

Submitted,

DeGOLYER and MacNAUGHTON  
Texas Registered Engineering Firm F-716

/s/ R. M. Shuck, P.E.

R. M. Shuck, P.E.  
Senior Vice President  
DeGolyer and MacNaughton

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**CERTIFICATE of QUALIFICATION**

I, R. Michael Shuck, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am a Senior Vice President with DeGolyer and MacNaughton, which company did prepare the letter report addressed to ECOPETROL dated June 24, 2010, and that I, as Senior Vice President, was responsible for the preparation of this report.
2. That I attended University of Houston, and that I graduated with a Bachelor of Science degree in Chemical Engineering in the year 1977; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the International Society of Petroleum Engineers; and that I have in excess of 32 years of experience in the oil and gas reservoir studies and reserves evaluations.

SIGNED: June 24, 2010

/s/ R. M. Shuck  
R. M. Shuck, P.E.  
Senior Vice President  
DeGolyer and MacNaughton

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