



## Fitch Affirms Ecopetrol's FC & LC IDRs at 'BBB'/'BBB+'; Outlook Stable

Fitch Ratings-Chicago-17 December 2015: Fitch Ratings has affirmed Ecopetrol S.A.'s local and foreign currency Issuer Default Ratings at 'BBB+' / 'BBB'. Concurrently, Fitch has affirmed the company's National scale short- and long-term ratings of 'F1+(col)' / 'AAA(col)'. The Rating Outlook for all ratings is Stable. A complete list of ratings follows at the end of this release.

Ecopetrol's ratings reflect its close linkage with the Republic of Colombia (FC and LC IDRs of 'BBB' / 'BBB+'), which owns 88.5% of the company, due to its strategic importance to the country. Recently, the company revised its growth strategy and associated capex plan to cope with the current environment of low oil prices.

### KEY RATING DRIVERS

#### Linkage to Sovereign:

Ecopetrol is of great strategic importance to Colombia given that it supplies virtually all liquids fuel demand in the country and it owns 100% of the country's refining capacity. In the past, the company relied on the receipt of funds from the Colombian government to offset the price difference from selling fuel in the local market instead of the export market. The receipts from the government stabilization fund, however, have declined significantly and in 2015 are only expected to amount to approximately USD30 to USD40 million, down from approximately USD500 million in 2013. Historically, Ecopetrol has generated approximately 10% to 15% of government revenues.

#### Strong Financial Profile:

Ecopetrol maintains a strong financial profile with USD7.5 billion of EBITDA and approximately USD17 billion of debt as of the latest 12 months (LTM) ended September 2015. This translates into a financial leverage ratio of approximately 2.3x, representing an increase of nearly one full turn year-on-year. The company reported moderately high leverage when measured by total proven reserves-to-total debt, of approximately USD8.1 per barrel. Ecopetrol's relatively sizable reserves, stable production levels, competitive cost structure and dominant domestic market share allow the company to generate consistently strong cash flows from operations and meet its obligations in a timely manner. Liquidity is adequate with USD3 billion of consolidated cash and equivalents as of Sept. 30, 2015.

#### Improving Operating Metrics:

The company's operating metrics have been improving during recent years and are considered in line with the assigned rating category. Ecopetrol's reserve life stood at approximately 8.6 years as of year-end 2014, which is considered moderately low for the rating category. Ecopetrol's reserve life and leverage, as measured by total debt-to-proved reserves, will weaken as a result of the downturn in hydrocarbon prices, as the company reserves could be revised downwards as of year-end 2015. The company's new growth strategy of reaching 870 thousand oil equivalent per day (boe/d) by 2020, which is down from the previous growth target of 1.3 million barrels of boe/d, is expected to put less pressure on the Reserve Replacement Ratio (RRR) required to maintain or improve reserve life. As of Dec. 31, 2014, Ecopetrol's average RRR was 146%.

The company's production has been relatively stable over the past few years and it averaged approximately 761 thousand boe/d during the first nine months of 2015. Ecopetrol's reserves continue to grow and as of Dec. 31, 2014 proved reserves (1P), net of royalties, stood at 2,084 million boe (+5.7% yoy). During the first nine months of 2015, the company's lifting cost decreased to USD7.3 per barrel from USD11.3 per barrel in 2014 due to Colombian peso depreciation and negotiations with suppliers; three-year average finding, and development (F&D) cost were approximately USD13 per barrel as of year-end 2014.

#### Manageable Capex Plan:

Ecopetrol plans to finance its USD39 billion capital expenditure program for 2015-2020 using internal cash flow generation for the most part, divestitures and debt issuances to a lesser extent. Although not currently envisioned by the company, a possible additional primary-equity offering might contribute modest additional funds to cover investments. These could increase Ecopetrol's total floating capital to as much as 20%. Due to the high dividend policy and projected capital expenditure plan, free cash flow is expected to be under pressure in the foreseeable future. In addition, debt could continue rising, while leverage is expected to remain within the assigned rating category.

#### RATING SENSITIVITIES

A downgrade could occur following a downgrade of Colombia's sovereign ratings and/or Fitch's perception of weakening linkage with the sovereign.

An upgrade could result from an upgrade of Colombia's ratings.

#### LIQUIDITY AND DEBT STRUCTURE

Ecopetrol's historically sound balance sheet is expected to be under pressure due to the effect lower international oil prices are expected to have on its cash flow generation, coupled with higher financing needs to fund capex. Liquidity is considered solid and is supported by its internal cash flow generation, cash on hand and manageable maturity schedule. As of September 2015, the company's consolidated cash and marketable securities amounted to USD3 billion, while its short-term debt was USD1.4 billion and its consolidated financial debt amounted to approximately USD17 billion.

Fitch has affirmed Ecopetrol's ratings as follows:

- Foreign currency IDR at 'BBB'; Outlook Stable;
- Local currency Issuer Default Rating (IDR) at 'BBB+'; Outlook Stable;
- Senior unsecured debt consisting of approximately US\$8.7 billion of notes outstanding at 'BBB';
- National short-term rating at 'F1+(col)';
- National long-term rating at 'AAA(col)'; Outlook Stable;
- COP1 trillion issuance program at 'AAA(col)';
- COP3 trillion commercial paper program at 'F1+(col)'.

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### **Applicable Criteria**

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=869362](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362))

### **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form

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