

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's confirms Ecopetrol's Baa3 ratings; negative outlook

---

#### Global Credit Research - 04 May 2016

New York, May 04, 2016 -- Moody's Investors Service (Moody's) confirmed Ecopetrol S.A. (Ecopetrol)'s Baa3 senior unsecured ratings. The company's ba3 BCA (Baseline Credit Assessment) remained unchanged. The outlook on the ratings is negative.

This concludes Ecopetrol's ratings review initiated on January 16, 2016.

#### Confirmations:

..Issuer: Ecopetrol S.A.

.... Issuer Rating, Confirmed at Baa3

....Multiple Seniority Shelf, Confirmed at (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Confirmed at Baa3

#### Outlook Actions:

..Issuer: Ecopetrol S.A.

....Outlook, Changed To Negative From Rating Under Review

#### RATINGS RATIONALE

"Ecopetrol's ratings confirmation was based on Moody's view that, although the company's Exploration and Production (E&P) business will post weak operating metrics in the next couple of years given low oil prices, high cost structure and declining production, the company's midstream and downstream businesses will support stable cash flows, enough to sustain financial metrics in credit-protective levels," said Nymia Almeida, a Senior Credit Officer at Moody's. "Furthermore, Moody's continues to assume high probability of support from the Government of Colombia (Baa2 stable) and a moderate default dependence between the two entities. This assessment results in a three-notch uplift of Ecopetrol's senior unsecured rating to Baa3 from its ba3 BCA."

Ecopetrol's capex reduction of 38% in 2016 to around USD 3 billion is positive as a measure to protect liquidity. Going forward, investments in downstream will decline materially once the upgrade of the Cartagena refinery is completed. However, lower capex in 2016 will weaken production, which Moody's expects will decline by over 8% annually in 2016 and 2017. Longer term, lower capex will also put pressure on the company's reserve replacement, which is critical since Ecopetrol's reserve life as of December 2015 was only 7.4 years. Favorable results from the midstream business, which benefits from high capacity utilization and adequate tariffs, as well as the 25% higher refining capacity and efficiency improvements starting in June 2016, will contribute to Ecopetrol's ability to post flat to slightly positive free cash flow in the next couple of years, assuming no dividend payments in the period.

The company's Baa3 ratings and ba3 BCA continue to reflect Ecopetrol's status as Colombia's leading oil and gas producer, accounting for about two-thirds of the country's production and 100% of the supply of oil products. The ratings also take into consideration Ecopetrol's more stable cash flows from its midstream subsidiary, Cenit, which includes Ocesa (Baa3 negative).

Ecopetrol has a weak liquidity position that includes USD 2.2 billion of cash and cash equivalents as of December 31, 2015 to cover the company's short term maturities of about USD 1.2 billion for 2016 and 2017 plus interest and capex. Liquidity buffers include asset sales as the company has a wide portfolio of valuable core and non-core assets. In the current environment, divestitures of upstream assets pose challenges but midstream and downstream assets could be relatively easily monetized. Although about 85% of the company's debt is denominated in hard currencies, local currency devaluation risk is not high for Ecopetrol given that a large portion of its EBITDA is in US dollars.

The negative outlook on Ecopetrol's ratings reflects the weak results in its E&P business in terms of cash margin, production growth and reserve levels. Although its midstream and downstream business have supported Ecopetrol's consolidated results, a sustained negative performance in E&P will have a material negative effect on the company's credit profile in the medium to long term.

A ratings downgrade could occur if Ecopetrol's fails to post EBITDA in the USD 4 billion neighborhood in the next 12 months or if it faces liquidity constraints. In addition, because Ecopetrol's ratings benefit from implicit support from the government of Colombia, a downgrade of the government's rating or a change in Moody's assumptions about government support could lead to a downgrade of Ecopetrol's ratings. Conversely, a rating upgrade is not envisioned in the medium term but the outlook on Ecopetrol's ratings could be stabilized if during 2016 the company manages to reverse the trend of sharp decline in production and weak E&P margins as a result of achieving further operating or capital efficiencies.

The principal methodology used in these ratings was Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include the Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Ecopetrol is the largest integrated oil and gas company in Colombia. It is responsible for over 60% of total Colombian oil production and has a proved hydrocarbon reserve position of roughly 1.8 billion barrels of oil equivalent at the end of 2015. The company has three business segments, exploration and production (E&P, 51% of revenues and 56% of EBITDA), refining activities (34% of revenues and 5% of EBITDA), and transportation and logistics (15% of revenues and 39% of EBITDA). Its production averaged 761 mboed in 2015.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

Nymia C. Almeida  
VP - Senior Credit Officer  
Corporate Finance Group  
Moody's de Mexico S.A. de C.V  
Ave. Paseo de las Palmas  
No. 405 - 502  
Col. Lomas de Chapultepec  
Mexico, DF 11000

Mexico  
JOURNALISTS: 001-888-779-5833  
SUBSCRIBERS: 52-55-1253-5700

Steven Wood  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653



© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources

MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as

applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.