

Rating Action: Moody's affirms Ecopetrol's Baa3 rating; changes outlook to stable

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New York, September 21, 2017 -- Moody's Investors Service (Moody's) affirmed Ecopetrol S.A. (Ecopetrol)'s Baa3 senior unsecured ratings and changed the outlook to stable from negative based on lower reserve replacement risk, solid credit metrics, and limited downside risk to the company from investigations around Reficar. The company's ba3 BCA (Baseline Credit Assessment) remained unchanged.

Outlook Actions:

..Issuer: Ecopetrol S.A.

...Outlook, Changed to Stable

Affirmations:

..Issuer: Ecopetrol S.A.

.... Issuer Rating, Affirmed Baa3

...Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

RATINGS RATIONALE

In 2014-2016, Ecopetrol's finding and development costs were high, which affected returns and reserve replacement rates, reducing reserve life. However, since late 2016, higher oil prices combined with better operating and capital efficiency have helped Ecopetrol improve credit metrics and cash flow. "The rating action was based on our view that, although Ecopetrol's 6.7 years of reserve life as of 2016 is low, its reserve replacement strategy is solid", said Nymia Almeida, a Senior Credit Officer in Moody's. The company plans to i) continue entering into associations with large technology-savvy companies, which will help it optimize exploration process and reduce costs; ii) invest in small to mid-size onshore assets that can add reserves with little capital; iii) develop unconventional fields, especially in the Magdalena basin, in association with third parties; iv) grow inorganically outside Colombia, primarily in deep waters projects in Mexico and Brazil, in joint-venture with experienced partners.

The rating action was also based on Ecopetrol's solid balance sheet and management's commitment to protect credit metrics, which supports its capital investment strategy. Management's maximum limit for debt/EBITDA is 3 times but it foresees that the financial ratio will be below 2 times before the end of 2018. Moody's believes that this credit metric will be at 2 times in December 2017.

Regarding ongoing administrative and criminal investigations of certain ex-employees around cost overruns involving the expansion and upgrade of Ecopetrol's refinery Reficar, Moody's believes that the company's access to capital markets or its operations will not be materially affected as a result and it is unlikely that Ecopetrol would be fined by authorities. Since 2014, Ecopetrol has impaired about USD1.8 billion in assets. In addition, the company has been under investigation since a few years with no material adverse findings regarding its internal controls or corporate governance practices.

Ecopetrol's Baa3 ratings and ba3 BCA continue to reflect the company'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 solid and relatively stable cash flows from its midstream subsidiary, Cenit S.A.S. (unrated), which includes Oleoducto Central S.A. (Baa3 negative). Furthermore, Moody's assumes 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, which reflects the company's intrinsic credit risk without support considerations.

Ecopetrol's liquidity position is good and refinancing risk is low. Cash on hands of USD2.6 billion as of June 2017 favorably compared to maturing debt in the amount of USD247 million in the remainder of 2017 and USD904 million in 2018. In addition, operating results for the first half of 2017 were positive and, based on an assumption of 50-55 dollars per barrel, the company should not need external funding for the next 12-18 months.

The stable rating outlook is based on Moody's view that Ecopetrol will be successful in reducing operating costs further, increasing reserve replacement rate, and at least sustaining reserve life at current levels. The stable outlook also assumes that the company would not be materially affected by the current investigations at Reficar.

A positive rating action could occur if the company manages to gradually but efficiently increase its reserve life by using mostly cash on hands and internally generated cash, thus protecting its credit metrics. Specifically, if reserve life increases and retained cash flow/net debt is sustained at above 25%, Ecopetrol's ratings could be upgraded.

A ratings downgrade could occur if Ecopetrol's faces liquidity constraints, its reserve life takes a negative trend or if retained cash flow/net debt is below 20% for the foreseeable future. Furthermore, any material adverse consequence on the company's operating or financial risk profile from the Reficar investigations could prompt a rating downgrade. In addition, because Ecopetrol's ratings benefit from implicit support from the government of Colombia, a negative action on the government's rating or outlook, or a change in Moody's assumptions about government support, could lead to a negative action on Ecopetrol's ratings.

The methodologies used in these ratings were Global Integrated Oil & Gas Industry published in October 2016, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ecopetrol, 88% owned by the government of Colombia, is the largest integrated oil and gas company in the country. Its production averaged 710 mboed for the last twelve months ended on June 2017, when total assets amounted to USD38 billion.

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