

FITCH AFFIRMS ECOPETROL'S FOREIGN AND LOCAL CURRENCY IDRS AT 'BBB'; OUTLOOK NEGATIVE

Fitch Ratings-Chicago-12 December 2016: Fitch Ratings has affirmed Ecopetrol S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BBB'. The Rating Outlook is Negative. Fitch has also affirmed the company's National Long and Short-term at 'AAA(col)'/F1+(col)'. The Rating Outlook for the National Long-term rating is Stable. A complete list of ratings follows at the end of this release.

Ecopetrol's ratings reflect the close linkage with the Republic of Colombia (Foreign and Local Currency IDRs of 'BBB'/Outlook Negative), which currently owns 88.5% of the company. Ecopetrol's ratings also reflect the company's strategic importance for the country as well as its ability to maintain a solid financial profile despite the decrease in hydrocarbon prices. Ecopetrol's recently revised its growth strategy and associated capex plan are considered adequate for the company credit quality and cash flow generation ability. Ecopetrol is expected to maintain a financial and credit profile consistent with the assigned rating. Fitch sees Ecopetrol's standalone credit profile in line with a 'BBB-' rating, excluding the company's majority ownership by Colombia and the financial support it receives from the Colombian government.

KEY RATING DRIVERS

Linkage to Sovereign

Ecopetrol's ratings are linked to the credit profile of the Republic of Colombia, which owns 88.5% of the company's total capital. The company is also of great strategic importance to the country given that it supplies virtually all liquids fuel demand in Colombia and owns 100% of the country's refining capacity. In the past, the company also 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 have declined significantly. Although Ecopetrol's contribution to central government have decrease significantly since the decline in oil prices, the company historically generated approximately 10% to 15% of government revenues.

Strong Financial Profile

Ecopetrol maintains a strong financial, which Fitch sees in line with a 'BBB-' on a standalone basis. The company's strong credit profile is supported by robust cash flow generation and adequate capital structure. The company reported approximately USD5.2 billion of adjusted EBITDA and USD18.0 billion of debt as of the latest-12-months (LTM) ended September 2016. This translates into a Fitch calculated financial leverage ratio of approximately 3.5x in dollar terms, which Fitch expects to decline going forward as a result of modest improving global prices and the company's revised business plan. The company reported high leverage when measured by total proven reserves (1P) to total debt, of approximately USD9.8 of debt per barrel. Ecopetrol 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 USD2.7 billion of consolidated cash and equivalents as of Sept. 30, 2016 compared with short-term debt of USD1.7 billion as of the same period.

Stable Operating Metrics

The company's operating metrics have been relatively stable during recent years and are considered somewhat in line with the assigned rating category. Ecopetrol's reserve life stood at approximately 7.1 as of year-end 2015, which is considered low for the rating category. Ecopetrol's reserve life and leverage, as measured by total debt-to-proved reserves, have weakened as a result of the downturn in hydrocarbon prices as the company reserves were revised downwards as of yearend 2015. The company's new growth strategy of reaching 760 thousand boe/d by 2020, which is down from the previous growth target of 870 thousand boe/d, is expected to put lower pressure in the Reserve Replacement Ratio (RRR) required to maintain or improve reserve life.

The company's production has been relatively stable over the past few years and it averaged approximately 718 thousand barrels of oil equivalent per day (mboe/d) during the first nine months of 2016, down from 760mboe/d year over year.

Ecopetrol's reserves decrease as a result of the decline in oil prices and as of Dec. 31, 2015 proved reserves (1P), net of royalties, stood at 1,849 million boe, down from 2,084 million boe as of year-end 2014. During the first nine months of 2016, the company's lifting cost decreased to USD5.8 per barrel from USD7.3 per barrel during first nine months of 2015 and from USD11.3 per barrel in 2014 due to Colombian Peso depreciation and negotiations with suppliers.

Manageable Capex Plan

Ecopetrol plans to finance its USD13 billion capital expenditure program for 2017 - 2020 using internal cash flow generation for the most part and divestitures to a lesser extent. The company could also raise funds from a possible equity issuances that could increase Ecopetrol's total floating capital to as much as 20%. Ecopetrol's free cash flow (FCF) is expected to be neutral to marginally positive in foreseeable future as a result to the revisions to the company's dividend policy and projected reduced capital expenditures. Ecopetrol's leverage is projected to have peaked in 2016 and to decrease going forward under Fitch's base case price assumptions of a moderate price recovery to USD65/bbl in the long term.

KEY ASSUMPTIONS

Ecopetrol's ratings assume the implicit support from the government given the company's strategic importance would materialize should the company need it.

Fitch assumes West Texas Intermediate crude prices to average approximately USD45 per barrel in 2017 and to slowly recover to approximately USD65 per bbl in the long-term.

Ecopetrol's ratings assume the company's production to remain relatively flat or moderately grow to the company's revised target production level of 760 thousand boe/d by 2020 from current production of 723 thousand boe/d.

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

Ecopetrol's historically sound balance sheet was instrumental for the company to overcome the effect low international oil prices on its cash flow generation. Liquidity is considered adequate for the assigned rating and is supported by its internal cash flow generation, cash on hand and manageable maturity schedule. As of Sept. 30, 2016, the company's consolidated cash and

marketable securities amounted to USD2.7 billion, while its short-term debt was USD1.7 billion, and its consolidated financial debt was approximately USD18.0 billion.

Fitch has affirmed Ecopetrol's ratings as follows:

- Long-Term Foreign Currency IDR at 'BBB'; Outlook Negative;
- Long-Term Local Currency IDR at 'BBB'; Outlook Negative;
- Senior unsecured 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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Date of Relevant Rating Committee: Dec. 9, 2016

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016)
<https://www.fitchratings.com/site/re/885629>
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)
<https://www.fitchratings.com/site/re/886557>

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