



ACQUISITION OF 51.4% STOCK IN ISA: KEY ACCOUNTING ASPECTS

November 2 - 2021

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Key Topics

1

“Acquisition Method”

2

Key Accounting Definitions in the Acquisition Process

3

Main Changes in Ecopetrol’s Consolidated Financial Statements due to ISA’s Acquisition

4

Other Important Aspects



1. Business Combination: “Acquisition Method” – IFRS 3

ACQUISITION METHOD

Step 1: Identification of the “acquirer”



Step 2: Determination of the “acquisition date”



Step 3: Value of the consideration transferred



Step 4: Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI, formerly called minority interest) in the acquiree.



Step 5: Recognition and measurement of goodwill

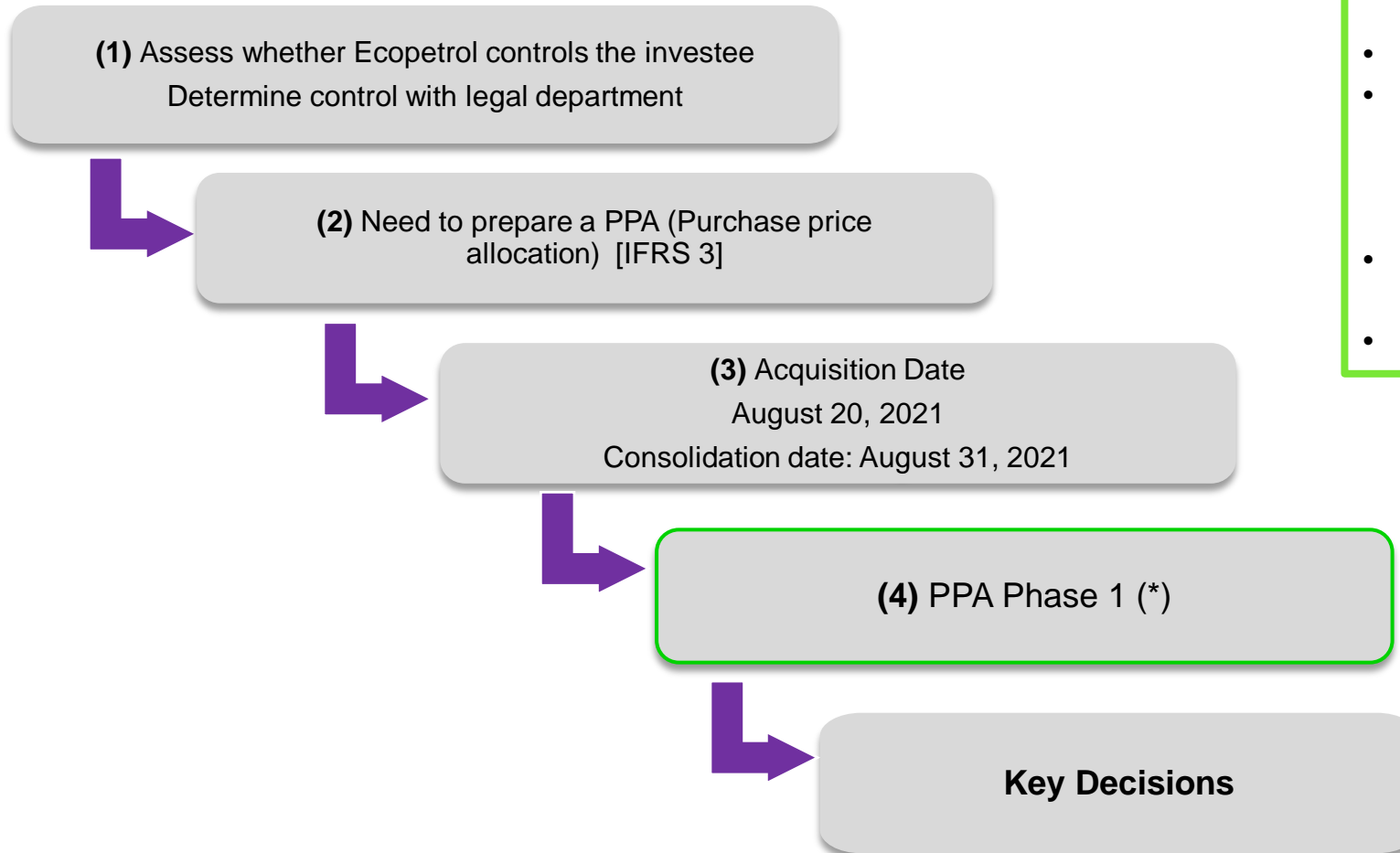
- The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed in accordance with IFRS 3
- Amount of non-controlling interests, fair value or the NCI's proportionate share of net assets of the acquiree.

Goodwill is the portion of the purchase price that is higher than the sum of the net fair value of all of the assets purchased in the acquisition and the liabilities assumed in the process.



2. Key Accounting Definitions in the Acquisition Process

ACQUISITION METHOD



PPA Phase 1

- High level valuation.
- Difference between payment and book value [after the associates and joint ventures valuation] will be recognized as goodwill as at Sep 30.
- Goodwill will be registered according to the countries's currencies valuation.
- Definition of ISA as a new segment.

* The PPA was distributed in two phases, Phase1 (Sep 30). High level valuation. Phase 2 (Dic 31). Assets and liabilities detailed valuation.



2. Consolidation Example

Example 1 Consolidation. The Group includes entity A [Parent] and entity B [subsidiary]

	A Book Value	B Book Value	Subtotal Book Value	Adjustments	Total Group Book Value
PPE	100	80	180		180
Investment in subsidiaries	500	-	500	(1) -500	-
Trade receivables	100	-	100	(2) -100	
Other current financial assets	-	700	700		700
Total Assets	700	780	1.480		880
Trade payables	-	-100	-100	(2) 100	-
Other payables	-100	- 180	-280		-280
Total Liabilities	-100	-280	-380		-280
Equity	-600	-500	-1.100	(1) 500	-600

(1) Eliminate the carrying amount of the parent's investment in the subsidiary and the parent's portion of equity in the subsidiary

(2) Eliminate related parties transactions.

IFRS 10: Consolidated Financial Statements



3. Business Combination: “Acquisition Method” – IFRS 3 (Example)

Example 2 Consolidation after business combination.

The Group includes entity A [Parent] and entity B [subsidiary]. The consideration transferred for the acquisition of B was 800 m.u.

	A Book Value	B Book Value	Subtotal Book Value	Adjustments Fair value	Total Group Fair value
PPE	100	80	180		180
Investment in subsidiaries	800	-	800	(1) -800	-
Trade receivables	100	-	100	(2) -100	-
Other current financial assets	-	700	700	(1) 100	800
Goodwill	-	-	-	(1) 200	200
Total Assets	1.000	780	1.780		1.180
Trade payables	-	-100	-100	(2) 100	-
Other payables	-400	- 180	-580		-580
Total Liabilities	-400	-280	-680		-580
Equity	-600	-500	-1.100	(1) 500	-600

(1) Offset (eliminate) the carrying amount of the parent's investment in the subsidiary and the parent's portion of equity in the subsidiary, the difference (FV) is recognized in the trade receivables for 100 m.u. and the goodwill for 200 m.u.

(2) Eliminate related parties transactions.



3. Main Changes in Ecopetrol's Consolidated Financial Statements



Assets.....	151,3
Cash and equivalents.....	5,0
Financial Assets.....	11,7
PPE.....	69,4
Natural and environmental resources.....	33,2
Intangibles.....	0,6
Investments in associates and joint ventures	3,3
Other assets.....	28,1
Liabilities	88,7
Loans and borrowings.....	50,0
Taxes.....	0,8
Other liabilities.....	37,9



Assets.....	62,6
Cash and equivalents.....	4,5
Financial Assets.....	28,6
PPE.....	12,6
Intangibles.....	9,6
Investments in associates and joint ventures	3,4
Other assets.....	3,9
Liabilities	40,7
Loans and borrowings.....	26,1
Deferred taxes.....	6,9
Other liabilities.....	7,7



Assets.....	213,9
Cash and equivalents.....	9,5
Financial Assets.....	40,3
Goodwill.....	*14,0
PPE.....	82,0
Natural and environmental resources.....	33,2
Intangibles.....	10,2
Investments in associates and joint ventures	6,7
Other assets.....	32,0
Liabilities	129,4
Loans and borrowings.....	76,1
Taxes.....	7,7
Other liabilities.....	45,6
Equity.....	14,0
Non-controlling interest.....	*14,0



1. Fair value of the identifiable assets acquired, and the liabilities assumed in the business combination
2. Obligations assumed for the purchase
3. Costs of transaction
4. Fair value of the non-controlling interest



3. Main Changes in Ecopetrol's Consolidated Financial Statements



Revenue	19,4
Cost of sales.....	(11,4)
Gross profit	8,0
Administration and operating expenses.....	(1,5)
Operating Income.....	6,5
Financial result	(0,8)
Share of profit of associates.....	0,1
Profit before income tax.....	5,8
Income tax.....	(1,8)
Net profit for the period.....	4,0
Net profit attributable to	
Owners of parent.....	3,7
Non controlling interest.....	0,3



Revenue	1,0
Cost of sales.....	(0,4)
Gross profit	0,6
Administration and operating expenses.....	(0,1)
Operating Income.....	0,5
Financial result	(0,2)
Share of profit of associates.....	0,1
Profit before income tax.....	0,4
Income tax.....	(0,2)
Net profit for the period.....	0,2
Net profit attributable to	
Owners of parent.....	0,1
Non controlling interest.....	0,1



Revenue	20,4
Cost of sales.....	(11,8)
Gross profit	8,6
Administration and operating expenses.....	(1,6)
Operating Income.....	7,0
Financial result	(1,0)
Share of profit of associates.....	0,2
Profit before income tax.....	6,2
Income tax.....	(2,0)
Net profit for the period.....	4,2
Net profit attributable to	
Owners of parent.....	3,8
Non controlling interest.....	0,4



★ Ecopetrol will include the income and expenses of ISA in the consolidated financial statements from September 1, 2021

★ After ISA consolidation process, all items of the consolidated statement of profit or loss will increase, especially the services revenue

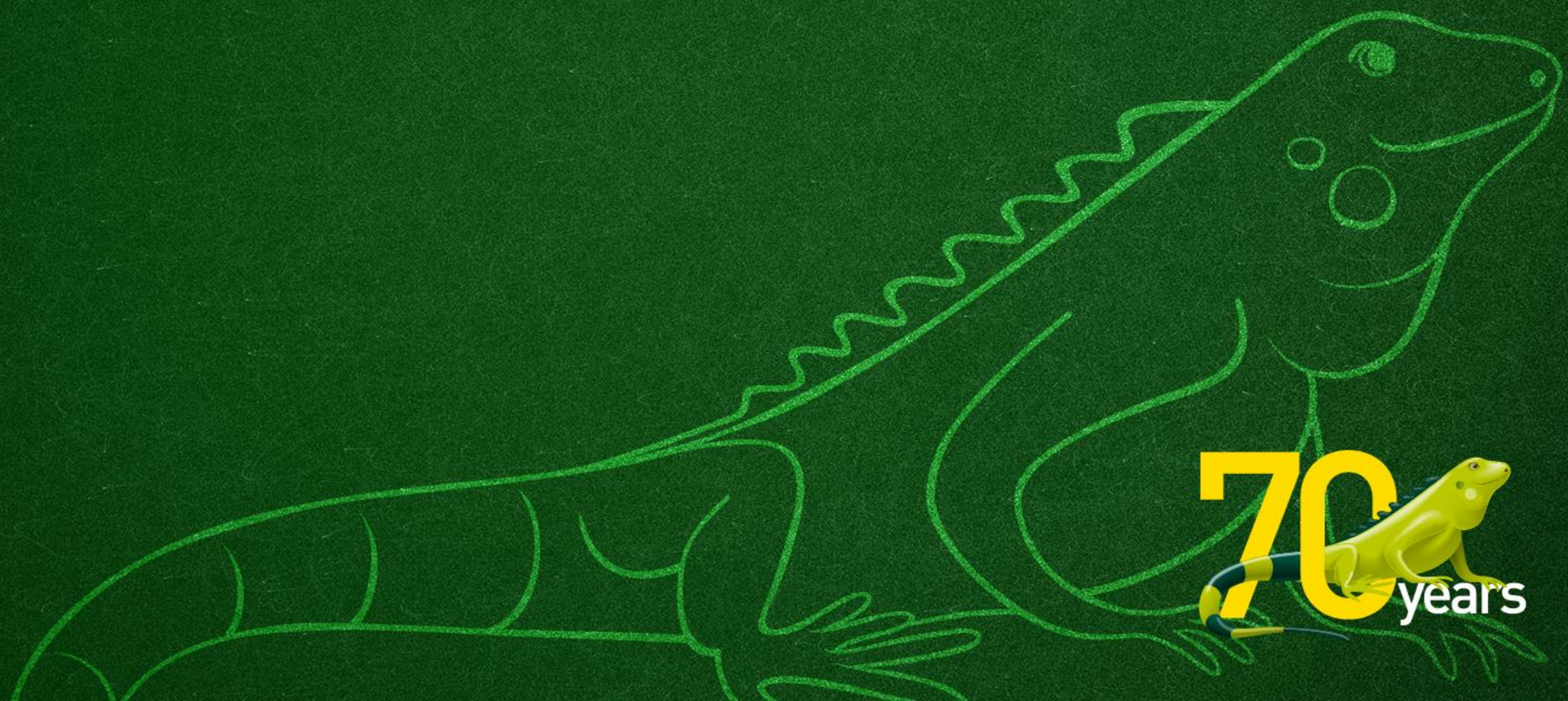


3. Other Important Aspects

- ★ **Ecopetrol will present ISA as a new segment**
- ★ **ISA new segment will include all the costs related to the acquisition debt**
- ★ **There are differences between EBITDA calculation used by Ecopetrol and ISA, the companies currently are in the conciliation process**
- ★ **Ecopetrol shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances, the companies are analyzing the main differences in order to adjust ISA accounting policies. No material differences have been found as of to date.**



Q&A



70 years



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———— **DE TODOS, PARA TODOS** ————

