

**Rating Action: Moody's affirms Ecopetrol's Baa3 ratings and downgrades its BCA to ba3; outlook remains negative**

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24 Aug 2022

New York, August 24, 2022 -- Moody's Investors Service ("Moody's") affirmed Ecopetrol S.A.'s ("Ecopetrol") Baa3 senior unsecured ratings. Simultaneously, Moody's downgraded Ecopetrol's Baseline Credit Assessment (BCA) to ba3 from ba1 due to the company's elevated refinancing risk, reflecting aggressive financial policy in a context of high global geopolitical risk and volatile commodities prices, as well as weaker government policy framework. The ratings outlook remains negative.

Affirmations:

..Issuer: Ecopetrol S.A.

... Issuer Rating, Affirmed Baa3

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

Downgrades:

..Issuer: Ecopetrol S.A.

... Baseline Credit Assessment, Downgraded to ba3 from ba1

Outlook Actions:

..Issuer: Ecopetrol S.A.

...Outlook, Remains Negative

RATINGS RATIONALE

The downgrade of Ecopetrol's Baseline Credit Assessment (a measure of the company's intrinsic credit risk without support considerations) to ba3 from ba1 was primarily based on the extended time that the company has taken to refinance close to \$5.1 billion in debt maturing in September 2023. The BCA downgrade also considered the new government's energy and environmental priorities, which may include changes such as i. restrictions on exploration and production based on hydraulic fracturing in Colombia; ii. limitations on new concessions or permits for oil exploration; and iii. new taxes on the oil and gas industry, as per the tax reform proposal.

Ecopetrol's Baa3 ratings continue to reflect the company's status as Colombia's leading oil and gas producer, accounting for over 60% of the country's production and close to 100% of the supply of oil products, as well its large power transmission business in Colombia and other countries in Latin America. 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.

Ecopetrol's refinancing risk is elevated but manageable. Robust oil and gas prices have helped Ecopetrol's cash generation in 2021-22. For 2023-2024 Moody's believes that, based on an estimated average Brent price of \$68-58 dollars per barrel, the company's cash flow will decline from 2022 levels. However, despite commodities prices volatility, Moody's believes that the company will be able meet its financial obligations in 2023 supported by i. access to global and Colombian capital markets, ii. its \$1.2 billion committed banking credit facility available until August 2023; and iii. government support. Ecopetrol's Baa3 ratings also take into consideration the solid and relatively stable cash flow from its power transmission company, Interconexión Eléctrica S.A. E.S.P. (ISA, Baa2 stable) and its midstream subsidiary, Cenit SAS, which includes Oleoducto Central S.A. (Baa3 stable).

The negative rating outlook is based on Moody's view that Ecopetrol's refinancing risk may remain elevated in

the next months for a Baa3 rating category.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ecopetrol's rating outlook would be stabilized if the company is able to refinance upcoming debt maturities in a timely fashion. In turn, an upgrade of Ecopetrol's ba3 BCA or Baa3 rating is unlikely in the next 12 months given the negative rating outlook. However, if the company manages to strengthen its financial policies and simultaneously demonstrates ability to reduce financial leverage while growing production and keeping proved reserve life stable, its rating could be upgraded. Specifically, its rating could be upgraded if the company's Leverage Full Cycle Ratio remains at 1.5 times, which would indicate stable finding and development costs, and retained cash flow/net debt would have to be over 40% and the Government of Colombia's rating would have to be sustained at Baa2 because in Moody's views it is unlikely that Ecopetrol would be rated above the sovereign rating.

A ratings downgrade could occur if Ecopetrol faces liquidity constraints; if its reserve life declines significantly on a sustained basis; or if retained cash flow/net debt declines to around 20%. In addition, because Ecopetrol's ratings benefit from implicit support from the Government of Colombia, a negative action on the government's rating 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 Integrated Oil and Gas Methodology published in September 2019 and available at <https://ratings.moody.com/api/rmc-documents/64319> , and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moody.com/api/rmc-documents/64864> . Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of these methodologies.

Ecopetrol, 88.5% owned by the government of Colombia, is the largest enterprise and the largest oil and gas company in the country, with upstream, midstream and downstream businesses. Through ISA, Ecopetrol participates in energy transmission, in management of real-time systems (XM), and in a highway concession. At the international level, Ecopetrol has a stake in strategic basins in the American continent, with drilling and exploration operations in the United States (Permian basin and the Gulf of Mexico), Brazil, and Mexico and, through ISA and its subsidiaries, Ecopetrol holds leading positions in the power transmission business in Brazil, Chile, Peru, and Bolivia, road concessions in Chile, and the telecommunications sector. Its gross oil and gas production averaged close to 624 mboed in 2021, as calculated by Moody's, and its total assets amounted to \$63.7 billion on June 30, 2022.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions> .

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Nymia C. Almeida  
Senior Vice President  
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: 1 888 779 5833  
Client Service: 1 212 553 1653

Marcos Schmidt  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

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