

CONFERENCE CALL

OPERATING AND FINANCIAL RESULTS 2T 2021

Operator: Good morning. My name is Hilda and I will be your operator today. Welcome to Ecopetrol's earnings conference call in which we will discuss the main financial and operational results for the second quarter 2021.

All lines have been muted. There will be a Q&A session at the end of the presentation.

Before we begin, it is important to mention that the comments in this call by Ecopetrol senior management include projections of the company's future performance. These projections do not constitute any commitment as to future results, nor do they take into account risks or uncertainties that could materialize. As a result, Ecopetrol assumes no responsibility in the event that future results are different from the projections shared in this conference call. The call will be led by Mr. Felipe Bayon, Chief Executive Officer of Ecopetrol; Alberto Consuegra, Chief Operating Officer; and Jaime Caballero, Chief Financial Officer.

Thank you for your attention. Mr. Bayon, you may begin your conference.

Felipe Bayon: Good morning, everyone, and welcome to our second quarter 2021 results conference call. We hope you and your families are well and continue to stay safe as the world aims to recover from the effects of the COVID-19 pandemic.

The results of the second quarter and the first half of the year reiterate our ability to capture value in a favorable fundamental scenario and despite challenging environment conditions. We keep our commitment to cost optimization, efficiencies and improvement in our commercial strategy. Social unrest during May and June caused a complex situation locally, resulting in mobility restrictions and some operational disruptions. Ecopetrol activated a contingency plan to guarantee the security and continuity of its operations and mitigate the impacts across our value chain.

During the quarter, we generated a consolidated revenue of COP 19.4 trillion and Ebitda of COP 9.4 trillion, a 49% Ebitda margin and a net income of COP 3.7 trillion. These financial results are historically high on a quarterly basis for Ecopetrol. These outstanding results ratify the resilience that the company has consistently demonstrated amidst challenging environment conditions to which the following milestones can be added.

We joined the program of the *Asociación Nacional de Empresarios (ANDI)* that allowed the acquisition of vaccines by the private sector, ratifying our commitment to the protection of life and care of our workers, their families and our allies. Under this program, we acquired nearly 26,000 doses of Sinovac vaccine, with which to date more than 3,400 first doses have been administered. With this program, along with the government's national vaccination plan, around 40% of our employees have completed the immunization program.

We announced the creation of a new trading company based in Singapore. This to consolidate the positioning of our crude and refined products in the Asian market, capitalizing on our diversification strategy.

We announced to the market the extension until the end of August of the exclusivity agreement with the Ministry of Finance and Public Credit for the potential acquisition of 51.4% of the shares in ISA. In addition, on July 30th, pursuant to an authorization from our Board of Directors, we submitted a binding offer to the ministry. Its conditions are subject to reserve due to the non-disclosure agreement that governs the process.

We resumed normal operations in the Castilla field with an increase in production of 9,000 barrels at the end of June compared to the production of the field at the end of May.

Let us now turn to the next slide to see some aspects of the market context. In line with the progress of the vaccination plans and the progressive reactivation of the economic activity at a global level, we observed a significant recovery of the market. During the second quarter, domestic demand for natural gas averaged 945 gbtuds per day. In June, there was an 8% recovery in demand compared to May, a month in which demand was most affected by the public order situation in country.

As for LPG, demand reached an average of 22,300 barrels per day during the quarter and in June an increase of 30% compared to the previous month. In terms of our product sales in the domestic market, there was a reduction of around 5% during the second quarter versus the one observed in the first quarter of 2021. In general, we have observed a recovery in demand to around pre-pandemic levels, except in jet fuel, where there is still room for recovery.

It is worth highlighting the improvement in the realization prices of our crude oil basket, which have recovered significantly against the Brent price. After having registered levels close to USD \$30 per barrel during the first half of 2020, our crudes were sold to close to USD \$62 per barrel for the same period in year 2021.

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There are different actions that allowed us to generate a counterweight to the effects of the operative disruptions and deliver positive results in this quarter. Our commercial strategy contributed with more than USD \$120 million to the group's Ebitda during the quarter, mainly as a result of the purchase of new crudes for the refineries, increased asphalt sales, and energy cost savings. Also, we observed a strengthening of around USD \$45 per barrel in absolute prices of crude oil exports as compared to the second quarter of 2020, stable flow of exports to the U.S. Gulf Coast, and greater share of market volume in the Asian continent.

As an integrated company, Ecopetrol materialized synergies between its different segments in the different business, giving us the flexibility to face volatile contexts. An example of this is the strategy to maximize Cartagena's refinery throughput with our own domestic crude oil versus imported crude oil. This allowed us to capture benefits of around USD \$5.5 million in Ebitda during the first half of year 2021.

The diversification of our production and reserves portfolio, through the consolidation of business lines such as gas and the unconventional reservoirs in the United States. In the case of the Permian Basin, in Texas, we can observe its outstanding results. We registered an average net production for Ecopetrol of 21,200 barrels per day during this quarter. Our gas and LPG business showed an Ebitda growth of 32% compared to the same period of the previous year and reached an Ebitda margin of 54%. It also represented 21% of our total production.

Our cost efficiency plan, aligned with a strict capital discipline standard, has allowed us to incorporate efficiencies for approximately COP 1 trillion during the first semester of this year. To date, we have captured COP 197 billion derived from the implementation of the zero-based budgeting pilots applied in different subsidiaries of the group.

I will now pass on the word to Alberto Consuegra, who will elaborate on the main operating milestones for the quarter.

Alberto Consuegra: Thank you, Felipe.

On exploration, three exploratory wells were drilled and completed, with a total of eight wells year-to-date. By the end of the year, we estimate a total of 14 wells, five additional wells compared to the plan set for 2021.

Cumulative production in initial tests, extensive tests and exploratory wells in post commercialization reached 908,535 barrels of oil equivalent, an increase of 15% as compared to the first half of 2020.

Regarding gas, the Arrecife-3 well appraisal of the Arrecife-1 sidetrack discovery, confirmed the presence of gas. Initial testing yielded gas production between 2.5 and 9.5 million cubic feet per day. Extensive tests will be carried out to determine its commerciality. The drilling campaign for the remainder of the year will be focused mainly on gas exploration in Northern Colombia and Piedemonte.

On the other hand, we highlight the strengthening of the partnership between Ecopetrol and Parex resources through the assignment of 50% of the Ecopetrol stake in the Arauca and Llanos 38 blocks, promoting the reactivation of exploration in an important oil area of the country. In the Arauca block, it is expected to resume production of light crude between 38 and 41 degrees API by drilling two development wells. Meanwhile, initial activity in the Llanos 38 block will be focused on drilling an exploratory well in 2022 and acquiring 3D seismic data to assess the area's potential.

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During the second quarter, Ecopetrol Group's production was 661,000 barrels equivalent per day, reaching 668,000 barrels equivalent per day year-to-date. When compared to the same period of the previous year, production decreased 5.3% due to the lower production of the Castilla field and the public order issues mentioned by Felipe. The operating restrictions related to water management in the Castilla field were resolved in June, allowing a production increase of 9,700 barrels per day at the end of the second quarter.

Production has restored its growth path, with levels above 680,000 barrels equivalent per day by the beginning of July, maintaining an estimated production range between 690,000 and 700,000 barrels equivalent per day for 2021.

Gas and LPG production increased 8% compared to the same quarter of the previous year, leveraged mainly on higher production from Piedemonte, Permian and Hocol's fields, a 7% decrease versus the previous quarter due to the effects on the evacuation of LPG in Piedemonte caused by the social unrest, which led to the maximum levels of storage of this product. As of today, there is a recovery in production due to higher demand.

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On the Colombian and conventional reservoirs front, on June 17th, the National Hydrocarbons Agency approved the alliance with ExxonMobil for the development of research pilots. The assignment of cross-participation interest with ExxonMobil in the Kale and Platero special research project contracts was also approved, resulting in Ecopetrol as operator with a 62.5% participation interest in Kale and 37.5% in Platero.

Regarding Kale, we continue to make progress on the environmental impact studies. As for Platero, the first territorial dialogue was held, and the monitoring and environmental impact studies began.

As for the Permian Basin, during the second quarter, 26 wells were drilled for a total of 47 wells drilled so far this year, reaching a net production after royalties for Ecopetrol of 16,100 barrels of oil equivalent per day.

In line with our T ESG commitment, Rodeo has adopted both drilling and completion equipment, aiming to reduce diesel consumption by up to 20%. In addition, we are continuing with our zero routine flaring initiative.

With the production levels and efficiencies obtained during the first half of the year, Ecopetrol Permian generated a cumulative Ebitda of USD \$74 million, an Ebitda margin of 79%, and a CapEx execution of USD \$371 million, in accordance with the plan.

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The volume of transported refined products increased by 86,000 barrels of oil equivalent per day as compared to the second quarter of 2020 due to the recovery of local demand. On the other hand, the volume of crude transported decreased by 52,000 barrels of oil equivalent per day.

As a result of the operating restriction caused by the public order situation in the country, it was necessary to suspend pumping in some refining systems. In response to the aforementioned, a contingency plan was executed in order to mitigate the impact of fuel supply to the different regions of Colombia.

In this period, no reversal cycles of the Bicentenario pipeline were conducted, completing 19 consecutive months in which the contingent alternative is not used.

On April 27, the new TLU-2 platform for loading crude oil was inaugurated at the Coveñas terminal, the country's main crude export port. This new infrastructure allowed to almost double the monthly cargo capacity of ships from 18 to 34, thus transferring heavier crude oils and incorporating the highest technology to serve 2 million barrel tankers for the next 20 years in harmony with the environment.

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The integrated gross margin of the refineries remained at pre-pandemic levels as a result of the strengthening of the product basket despite a more expensive feedstock, the lower

availability of domestic crude and the execution of the first cycle of scheduled major maintenance at the Cartagena refinery.

The highest quarterly Ebitda in the last seven years was achieved, supported by the capture of good margins, stable throughput, strict operating cost control, outstanding performance of the Barrancabermeja refinery and Esenttia margins, and good performance of Invercolsa and the Cartagena refinery, managing to mitigate potential effects derived from the public order situation.

Esenttia achieved a historical quarterly Ebitda of COP 210 billion, quarterly polypropylene margin of USD \$437 per ton, results underpinned by leveraging market conditions, sales volume and cost and expense control.

Let's move on to the next slide, please.

During the first half of the year, we achieved efficiencies close to COP 1 trillion.

The total unit cost increased USD \$7.4 per barrel as compared to the same period in 2020. Of this increase, 84% is explained by a higher variable cost due to the recovery of the Brent price. 11% is associated with production impacts during the first half of the year, and the remaining 5% by the recovery of operational activity in fields, refineries and transport systems.

The lifting cost increased versus the same period in 2020, mainly explained by the increase in subsoil maintenance and higher energy costs. We highlight the execution of efficiency measures, such as continuity of the dilution strategy, fee optimization and contract renegotiation.

The cost per barrel transported was USD \$2.9 per barrel, remaining stable compared to the previous period, thanks to the control of fixed and variable costs given the lower transported volumes. By the end of the year, this cost is expected to be around USD \$3.3 per barrel.

The refining cash cost decreased by 13% compared to the first half of 2020, mainly explained by the increase in throughput and the control of fixed and variable costs of operational activities. Efficiency levers include savings in energy management and industrial services, operations logistics and maintenance costs.

For the second half of the year, we foresee an increase in costs associated with greater activity and within the ranges established in the business plan for the year.

I will open the floor to Jaime Caballero, who will talk to you about the main financial results of the Ecopetrol Group.

Jaime Caballero: Thanks, Alberto. During the first half of 2021, Ecopetrol's net income was COP 6.8 trillion, exceeding the result for the entire 2020 of COP 1.69 trillion.

This increase relative to the first semester of 2020 is mainly due to a higher generation of Ebitda of COP 10.4 trillion, primarily explained by, first, a contribution of COP 7.7 trillion associated to the commercial strategy to capture higher price differentials.

With respect to volume, it's worth to highlight the contribution of the Permian business and the recovery of domestic and foreign demand, which helped to offset the decrease in crude oil sales from the Castilla field and the effects of the public order situation in the country. Second, a positive inventory valuation of COP 2.9 trillion as a result of higher prices in crude oil and products. Third, an increase of COP 123 billion in operating costs, mainly due to increased maintenance activities deferred from 2020 and the corresponding raw material consumption.

In addition, the semester includes the impact of three non operational factors: firstly, a non recurring positive item of COP 362 billion recognized in January 2021 associated with exchange rate adjustments due to the divestment of Savia Peru; second, an increase of COP 0.9 trillion in items such as depreciation, financial expense and exchange difference; and third, higher income tax for COP 2.9 billion associated with improved results.

During 2021, no impairment recognitions have been made and in the absence of new disruptive market scenarios, the corresponding analysis will be carried out by the end of the year.

Relative to the first quarter of 2021, the second quarter continues to consolidate the company's financial strength with an increase in net income, mainly explained by the generation of COP 1.2 trillion in Ebitda due to improved price realizations and the increasing valuation of inventories, as mentioned above. This positive result helped to offset the effects of protests and social unrest in Colombia, valued at COP 403 billion in terms of Ebitda and COP 279 billion with respect to net income.

The following points stand out on this particular matter. The upstream segment experienced a lower level of production of crude oil, gas and white products, along with deferred operational activities and higher expenses associated with the control of the emergency. These elements are valued at COP 264 billion in terms of Ebitda. This segment recorded lower refined product sales in the local market affecting the Barrancabermeja refinery, a decrease in polypropylene deliveries by Esenttia and lower revenues from LPG and natural gas by Invercolsa. These items resulted in an impact of COP 78 billion for the Ebitda of that segment. Finally, the midstream segment experienced a decrease in transported oil and refining products valued at COP 61 billion in Ebitda.

Please turn to the next slide to see the main financial indicators.

The financial results achieved during the first half of the year confirm that the company has resumed its successful growth path, aligned with the objectives of the 2021-2023 business plan.

By the end of the first semester, Ebitda margin reached 48.1%, among the highest levels recorded historically. This is the result of better price realizations, along with an annual variation in costs and expenses in a smaller proportion. These factors raised the Ebitda per barrel to USD \$40.2 per barrel, exceeding the levels registered prior to the pandemic.

The evolution of unitary costs is also noteworthy as they remain below pre-COVID levels and are expected to continue in line with those established in the business plan despite activity displacement for the second half of the year and seasonal OpEx cycles.

The leverage ratio is currently below the year-end target established within the business plan, providing a favorable position to leverage 100% of the ISA transaction through debt resources.

Please turn to the next slide to review the main investment figures.

CapEx execution is historically high despite the operative restrictions linked with the pandemic and the public order situation. As of June, the deployed investments were USD \$1.4 billion, representing the second highest level in the last five years. Upstream investments accounted for 77% of total CapEx, mainly in growth opportunities with a focus on increasing production and reserves. Even though challenging operating conditions remain, we expect a significant rise in the execution pace throughout the second half of the year and for the year-end CapEx level to be near the bottom of the investment range announced to the market previously. In this regard, a larger share of investment outside Colombia is also expected compared to what was initially forecasted driven by a higher execution at the Permian.

Please turn to the next slide to review 2021 first half cash flow.

The cash balance for the first half of the year closed at COP 6.4 trillion and our main source was the operating cash flow that contributed with COP 6.2 trillion. That's without considering the account receivable from the fuel price stabilization fund, FEPC, for its Spanish acronym, which to date totals COP 3.8 trillion. For its part, the investment component had an outflow of COP 5.2 trillion related to CapEx, driven by the good pace of execution outside Colombia on a higher FX effect.

As for the financing component, an outflow of COP 2 trillion for capital repayment and interest payments was registered. No additional leverage was required during the course of the year due to better price realizations and the evolution of the company's cash flow.

On the other hand, as of today, dividends for COP 1.2 trillion have been paid to Ecopetrol shareholders and non-controlling shareholders of the subsidiary companies. The final cash flow consists of cash resources and equivalents for COP 5 trillion and short-term investment portfolios for COP 1.4 trillion. Of the total liquid resources, 45% is denominated in dollars and 55% in pesos. The free cash flow as of June stands at COP 1.1 trillion. To the extent that less tax and dividend payments are foreseen for the second half of the year, we expect the free cash flow to continue moving through a solid path.

Finally, it is relevant to highlight the recent authorization to sign a contingent loan agreement for USD \$1.2 billion as a continuation of the strategy used in the past to obtain certainty of funds for the company to finance its operations and organic growth as well as to mitigate the risks associated with unforeseen unexpected fluctuations in the market environment.

Now I hand over to the CEO for closing remarks.

Felipe Bayon: Thank you, Jaime. The structural performance drivers are supported by the company's sustainability vision. I want to share some details with you.

On the technological front, we have implemented digital transformation projects which have allowed us to capture and certify benefits of around USD \$20.5 million in the first semester.

Regarding our environmental initiatives, we highlight the progress in renewable energy projects, such as the Castilla solar farm in the Meta department, which to date has achieved a reduction of CO2 equivalent emissions of more than 16,000 tons and savings in terms of operational cost more than USD \$1.6 million.

Also, the expansion of the generation capacity of the San Fernando solar farm that through technology and engineering allowed us to move from 59 megawatts to 61 megawatts capacity. We've also made good progress in terms of measurement of wind generation capacity in some of our areas of operation.

Regarding our social investment, in addition to the continuity of our social investment program called *Apoyo País*, we have implemented initiatives to generate employment, such as the 51% increase in local purchases of goods and services versus 2Q 2020, the hiring of 180 young trainees in our teams on the *Somos Colombia* rounds thanks to which we have now closed deals with micro, small and medium enterprises for more than COP 16.7 billion.

Finally, in terms of governance and some of its milestones, we once again made official our interest in participating in the Dow Jones Sustainability Index. We published the first report that responds to the stakeholder capitalism metrics of the World Economic Forum, and we updated and disclosed the succession policies for both the Board of Directors and the President of Ecopetrol.

We announced that Ecopetrol voluntarily adopted the recommendations issued by the TCFD, the Task Force on Climate-Related Financial Disclosures, as part of our effort to provide a better disclosure of information on issues related to climate change and presented for the first time a specialized report aligning the company's disclosure under these guidelines.

Let us now move on to the next slide to share the progress on the potential transaction of ISA.

With the extension of the exclusivity agreement and the submission of a binding offer to the Ministry of Finance and Public Credit, I would like to highlight the following developments.

In order to ensure the payment of the potential acquisition through 100% debt structure, Ecopetrol is advancing the required approval procedures before authorities for such purpose. The due diligence process was carried out exhaustively by expert advisors in each area. More than 30 sessions were held with executives of ISA and of its main subsidiaries.

Regarding this potential transaction, since the middle of 2019, Ecopetrol's Board of Directors has reviewed topics related to this opportunity in 30 of its main sessions and in 32 of its committee's sessions. As a sign to our firm commitment to a strong corporate governance practices and to our cultural principle of being always ethical, the non-independent board member did not participate in safe board meetings and likewise was not involved in the pricing process.

Let's now move on to our conclusions.

This quarter, we were able to demonstrate that the measures adopted last year to overcome the crisis were the right ones. We had to face new environmental shocks with their consequent effects throughout our value chain. Despite the above, we achieved outstanding

quarterly results unparalleled in the company's history. This positions us very well for the remainder of 2021.

We will continue to focus on resuming the path of the operating activity recovery with the aim of reaching the objectives established for 2021, always complying with a strict capital discipline, efficiency captures, cash protection and investment sustainability.

We continue to work decisively on the potential transaction for the stake acquisition in ISA, which we firmly believe is a unique opportunity for Ecopetrol's energy transition, its diversification and its medium and long-term sustainability.

Finally, we reiterate our commitment for the socioeconomic reactivation of the country, ratifying our strength as a fundamental pillar of the national energy security and our capacity to continue supplying the country with the energy necessary for its development. Once again, we thank you all for participating today in this call and with this, I will open up the Q&A session.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star (*) and then one (1) on your touch-tone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star (*) and then one (1) on your touch-tone phone.

We have a question from Guilherme Levy, from Morgan Stanley.

Guilherme Levy: Hi. Good morning, everyone. Congrats on the results and thank you for taking my questions. I have two questions. The first one is on lifting costs. So I just wanted to understand what should we expect in terms of evolution for this line until the end of the year, considering that on one hand, you have grown production, but on the other hand, you might have additional costs due to some activity that got delayed from the first half due to the social unrest in the country.

And then the second question is on downstream. Part of the strong results that we have seen this quarter was driven by very healthy petrochemical figures. So I was just wondering if you can tell us what you are seeing in the coming months and quarters regarding demand for polypropylene in inventory levels and what should we expect in terms of spread normalization for this business going forward. Thank you.

Felipe Bayon: Thanks, Guilherme, and thanks for being here today with us in the call. And I'll ask Alberto to tell us a bit more around expectations and our view going forward on lifting costs. And in terms of what we're seeing also in terms of downstream, in terms of operations, and then I can ask Walter to talk about specifically what we see in terms of inventory levels, and we can talk about spreads. So Alberto, please go ahead.

Alberto Consuegra: Guilherme, good morning. In terms of lifting costs, what we have said is that our lifting cost by the end of the year should be in the range of USD \$8.5 per barrel. That means that we're going to see a slight jump from where we are at the second quarter to the end of the year and this is because of the ramp-up in activities. As you mentioned, definitely, we're going to see more activity, subsurface activities, specifically related to workovers, well interventions, as well as more maintenance work in our facilities, all of these

in order to manage a production decline and incremental production that should be coming in the next months.

Felipe Bayon: Thank you, Alberto. Walter, in terms of what's coming up for the downstream and then what are we seeing in terms of spreads and the likes?

Walter Canova: Yes. Thank you, Felipe. Thank you, Guilherme, for asking the question. Regarding the downstream, as you have seen, we have a very good second quarter for this year. And I would say we achieved an average of 360 kbd between both refineries. We are projecting for the rest of the year to be around 350 to 360. Of course, we are considering that we still need to have a few turnaround activities at the Cartagena refinery and also at Barranca.

Regarding the inventory levels, I think that our refinery production is aligned with local demand mainly, especially at the Barrancabermeja and we are basically running the crude at Barranca as per the local demand, which we expect for the second half of this year to be strong, as we have mentioned before.

Regarding the spread, we foresee a spread for the refinery margin on the high side of one digit in the combined for Cartagena and Barranca. And regarding the petrochemical, we did have a very strong second quarter, but we foresee for the following months to go down a little. So we see that probably the third quarter and fourth quarter will not be as strong for Esenttia as it was the second quarter of this year. So this is in overall how we see the following months for the downstream. I hope I answered your question, Guilherme. Thank you very much.

Guilherme Levy: Okay. Thank you.

Operator: Thank you. We have another question from Declan Hanlon, from Santander.

Declan Hanlon: Hello, everyone. Thank you for the call. Just a quick question on your commentary around credit lines or bank loans to fund the potential acquisition of ISA. Should we read that as a conventional long-term three- to five-year syndicated loan? Or is this more likely to be something of the bridge loan category so banks have a bit more time to anticipate how to place this in the public market in the advance? How should we understand the plans around this?

Felipe Bayon: Thanks, Declan, for the question. Jaime?

Jaime Caballero: Thanks, Felipe. Hi, Declan. With regards to how we're thinking about ISA, we're thinking about a specific purpose credit line with a duration of two to three years that's going to be materially replaced by some form of longer-term bond. That's how we're thinking about it. We are well advanced in that conversation so we are quite certain, if you will, about the sort of terms that we would be obtaining for that. That's what I can reveal at this time. Thank you, Declan.

Declan Hanlon: Thank you very much. Appreciate it.

Operator: Thank you. Our next question comes from Frank McGann, from Bank of America.

Frank McGann: Hi. Good morning or good day. Just to follow up on the comments you have made on ISA earlier. Just in terms of timing, when you think we might get more information on the structure of the deal or the price that you're paying and the other issues?

And then secondly, you've indicated that it's not contingent on an equity offering. I'm wondering how you're seeing an equity offering right now. Is that something that could be part of the financing here, either directly as far as the ISA financing or done at a separate time? Or is that something that's been put on hold for now?

Felipe Bayon: Thanks, Frank, and thanks for being here today. In terms of the deal itself, we're currently, after having presented the binding offer, waiting for the ministry to do its assessments and analysis and hopefully, we'll be getting a response.

We need to remind ourselves that we are currently under an exclusivity period until the end of August. That gives us some guidelines on how to treat the information in terms of confidentiality and the likes. So in that sense, we'll wait for them to continue with their analysis and hopefully, there's an answer, and hopefully, it's an answer with an affirmative in terms of accepting the offer. If that happens, there should be the signing of an agreement between the parties, and that will be further on followed by closing of the transaction. So that's sort of the timing. It's still not precise in terms of the days, but I think we're, on our side, two years of having studied this, we're not rushing anything. We want to make sure that both parties and both sides are comfortable and at the end of the day, feel that this is a, one, an offer that has been held, that has been sort of strengthened by the due diligence process that we've done over the last few months. And again, we're convinced this is a very competitive offer. So we should wait to hear from the counterpart in terms of where we are.

And in terms of the additional equity offering, we continue to work in that front. So it's something that the teams are continuing to pursue. We're moving ahead at a very good pace, and we are not conditioning the closing on the ISA transaction on the equity offering. So that's point number one and Jaime has very explicitly mentioned what we are thinking in terms of how to fund the transaction itself.

And in addition to that, I could say that we believe that the equity offering is a good option that we have. It would be good for additional shareholders, and it will ultimately depend on the right market conditions and if we find that we see the right windows in the market, we will go ahead with that. But we're working on that in parallel with everything else that we're doing around ISA. Thanks for the question.

Frank McGann: Great. Thank you.

Operator: Thank you. The next question comes from Anne Milne, from Bank of America.

Anne Milne: Good morning. Thank you very much for the call today and congratulations on the good results. A question, partly was asked by one of the previous callers, which was on the funding for the ISA acquisition. But I guess one related question is, do you have a maximum leverage that you think you'll go to?

And then the second question is slightly different, but it's on the recent credit downgrade, which was, of course, triggered by the sovereign downgrade of Colombia. Does this change anything for Ecopetrol in terms of your strategic plan, whether it's your CapEx budget, your funding, your debt or leverage levels, production or anything else on that front? Thank you.

Felipe Bayon: Thanks, Anne, and thanks for being here. And I'll start by saying that we don't foresee any changes in terms of the plan that we've shared with the market. In terms of our activity levels, where we're focusing our activities, our agenda around energy transition, our 3.5 billion to 4 billion CapEx for the year, so that hasn't changed. That hasn't changed at all and we have demonstrated today that we are very resilient and we can withstand changes and indeed demand disruption or prices or even things like the social unrest that we had to go through in 2Q so that hasn't changed. I'd like to ask Jaime if he wants to add anything else in terms of the credit downgrade and if he wants to give you his views around the funding. Jaime, please go ahead.

Jaime Caballero: Thank you, Felipe. Hello, Anne. A couple of notes. On the matter of the credit downgrade, I think, three specific proof points, I guess, to what Felipe just mentioned. Firstly, we've had conversations about our stand-alone credit rating, and it remains unchanged. That's important.

Secondly, as you can imagine, in light of the committed credit facility and in light of the ongoing conversations about ISA funding, we've been closely in touch with the market around the credit conditions that we would get and we've seen that they are very, very competitive, and they are unchanged, I'd say, with regards to where they were prior to the sovereign rating update.

And thirdly, we've also been monitoring the behavior of our bonds in the market and after the short-term market reactions, we've seen a clear trend towards stability and investor confidence. So all this to say that we don't have any reason to believe that our plans should change in any way because of the recent sovereign credit downgrade.

With regards to your question around ISA funding, as you know, Anne, when we shared our business plan late last year or early this year, we made reference to an updated target of keeping our leverage below 2.5 times gross debt to Ebitda. And at the time, it was fundamentally an organic plan, and it was linked to our organic activities and what we've seen is that with the robust performance of the company and the improved perspective with regards to market environment, we actually believe that we can stay within that limit, including significant inorganic activity, such as ISA. That's why we believe, and we've shared it actually in the presentation today, that with 100% finance transaction, we would be in a range of perhaps 2.1, 2.2 times debt to Ebitda, and that is well within that ceiling of 2.5 times that we mentioned in the past. We have been benchmarking that with regards to our industry and other comparables and we've also seen that that level of leverage is substantiated. And more importantly, when we stress test it, we feel that we're in a good place. I hope this helps, Anne. Thank you.

Anne Milne: Thank you very much. Yes, it helps very much.

Operator: Our next question comes from Luiz Carvalho, from UBS.

Luiz Carvalho: Hi. Thanks for taking the question. Hi, Felipe, Jaime, Alberto. Basically, two questions from my end here. The first one is, I'm trying to understand the rationale between Ecopetrol trying to attempt to maintain the exclusivity through the ISA acquisition process instead of the government having, for example, an open negotiation with several players for the stake, which could be more accretive for the country in a certain extent. It'd be a more competitive process and a bit more transparent as well to the general investors' community.

So what is the reason that maybe you guys had, for example, a kind of exclusivity, let's say, priority to negotiate the asset?

The second question is more on the fiscal situation of the country and I would like to have two follow-ups here. The first one is that, do you guys have any issue assessment on how the government projects may impact the company or the industry, the oil industry in general? And the second one is if you have any sense on how the company might fit into the controlling shareholders' funding plan other than this acquisition, could it have a bit higher dividends or has this been so long discussed a potential follow-on for the government to sell the stake, if there's any discussion on that front. Thank you.

Felipe Bayon: Thank you, Luiz, and thanks for the opportunity to talk about the overall process in terms of the ISA potential acquisition. And what I'd like to share with you is that, as I've mentioned before during the call and publicly in statements, we've been assessing this opportunity for more than two years. So there's a lot of detailed work that has been going on in terms of, one, understanding the merits of the strategic feed for Ecopetrol, the positive impact that this potential opportunity would have in terms of our agenda around energy transition, and we're convinced, in that sense, it's extremely accretive. And the fact that the transaction is good not only for Ecopetrol shareholders, but it's good for Colombia itself. Remember that through this transaction, which is fully compliant with the legal framework, we would or the country would retain the ownership of strategic assets that are absolutely critical in relevance and importance, not only to energy transition but to the country itself. So in the context of having these megatrends that are currently occurring in the world that have been accelerated by COVID-19, when you think about decarbonization and electrification, we see ourselves with the ability of doing in one transaction and not in several transactions and over a very extended period of time something that will be transformational, not only for Ecopetrol, but for Colombia.

So in that sense, we've done everything in terms of communicating timely to the market where we are, when we presented the nonbinding offer, when the exclusivity agreement was signed, when it's finalizing in terms of the dates. So we're quite comfortable. And as I've mentioned before, we hope that the ministry continues to do its assessment and hopefully, we can get to a good place sometime soon. So we do believe, as I've mentioned, it's extremely competitive in terms of the offer and the details will be disclosed to the market in due course when, hopefully, the transaction closes.

Jaime, if you want to talk about the fiscal projects or, if I understand, the tax reform that's being presented to Congress and how we're viewing that. Please, Jaime, go ahead.

Jaime Caballero: Indeed, Felipe. Thank you. And yes, of course, this is a project, and it has to go through the different legislative steps. But from an awareness angle and from a sensitivity angle, we've looked at the numbers. I think the interesting component about this particular reform is that it's actually straightforward. It's very straightforward in terms of how can you calculate the impact on the company. And generally speaking, what I can tell you at this stage is that essentially, if the reform proceeds as planned, as presented, we would be looking at increased tax contributions in the order of, I'd say, a range between COP 400,000 million and COP 600,000 million. That's what we're looking at right now.

It is largely a function of three components. The primary component is the corporate tax rate, the headline tax rate that goes up to 35%. That's starting next year. There's a second component that is about the impact that that rate has on deferred tax calculations, which we

use particularly for impairment purposes. And there's a third lesser component, which is around the ICA, which is a smaller punctual tax that we have here in Colombia.

So that's what we're seeing, COP 400,000 million to COP 600,000 million. It is not a fundamental game changer in terms of our effective tax rate, but it does increase the government take and the transfers that we make to the nation, so from that angle, it's a good thing in terms of providing fiscal stability. So I hope that helps.

And I would like to stress an important thing. Felipe spoke about the broader picture of dividends, which remain unchanged and we don't have any knowledge whatsoever of any other plans. There are no changes to the FEPC, there are no changes on any other matter that affects Ecopetrol's balance sheet. Thank you.

Luiz Carvalho: Okay. Thank you, Felipe. Thank you, Jaime.

Operator: Thank you. Our next question comes from Christian Audi, from Santander.

Christian Audi: Thanks. Hello, Felipe. Hello, Jaime. I had a few questions. The first one focused on production. If you could give us a sense and an update, given the positive results of the second quarter, how you envision reaching or not your target for 2021 in terms of production. And if you could speak more specifically about the evolution of production in the Permian. And if you could provide an update of when you could potentially see first oil for Brazil.

The second question in terms of uses of cash was just to get a sense of, and Jaime touched a bit on this, on the dividend front given all that's happening, you're pursuing ISA and etc. Where do you see that dividend payout being in the 40% to 60% range that you've used in the past? And also on the CapEx front, where do you see, given how things are evolving, for you to fall in terms of total CapEx for this year?

And then the third and final question. You've always done an extremely good job in terms of generating high returns on capital employed. So I was just wondering how you see your ROACE evolving after the numbers that we saw in this first half of the year of around 9.1%, please? Thank you.

Felipe Bayon: Sorry. Thanks, Christian. I was having issues with my microphone. So quite a few topics here. So I'll give you a broader context, and I'll ask Alberto to touch on some of the production things, so we can go into a bit more detail. And I'll ask Jaime to talk about ROACE and how do we see that evolving going forward.

So in terms of production, I just want to go back to some of the numbers that we've shared with you. So 661,000 barrels 2Q; 686,000 barrels at the exit rate for 2Q. So those are two important numbers. We continue to envision the range of 690,000 to 700,000 barrels as the average for the year. And in a second, I'll hand over to Alberto, who can give us more detail.

In terms of the Permian itself, I just want to provide a bit more color. So you've seen some of the good results in terms of Ebitda margin and the like. So we currently have four rigs running, and we have 75 wells on production. So that's very good. And remember that we've only been operating there -- or we've been in that JV for 20 months. So in less than three years, we've reached a very good level with a very extensive and deep crisis last year. And this is great about the assets in the Permian and kudos to our partner and operator, Oxy, in

terms of their ability to step on the brakes in a safely manner and then restart very quickly operations.

So if you look at where we are today, we had in 2Q just north of 21,000 barrels of production in the Permian. Exit rate is north of 23,000 barrels. This is net Ecopetrol. So if you think about the growth numbers, that's north of 48,000 barrels of production for the JV at the end of the month, which is very good. And I can share with you that we've already gone over and above 50,000 barrels. So it's actually working very well. We have these four rigs running, and we see actually not only good performance, good opportunity. We are learning a lot in terms of the operations. And hopefully, we'll be able to bring some of that expertise back home. So that in terms of the Permian.

In terms of Gato do Mato, we continue to work with our partners in the project. We're very enthused by what we see, and we're aiming to have FID and commerciality, hopefully, next year. And there's a lot of activity that the operator, Shell, is doing on behalf of the partnership, around engineering, design and contracting of the equipment and the kit that's required. And we envisage initial operation in 2025 or around 2025. So very, very good news, very good progress. And obviously, we'll update the market when things occur going forward.

Alberto, if you want to provide a bit more color on support for production and how do we see that forward. And then we'll hand over to Jaime. Go ahead, please.

Alberto Consuegra: Thanks, Felipe. Good morning, Christian. Thanks for the question. Regarding production, and building on what Felipe said already, how we see the revamp? First, gas demand should increase, allowing additional cash sales, which will represent about 5,000 barrels of oil equivalent per day addition. Then we have subsurface activities, mainly workovers and well interventions that will help manage base production decline. Then we have incremental production coming from facilities and drilling activities. That will add that 3,000 to 5,000 barrels per day. And then we have exploration wells currently in evaluation that will add additional production during the second semester. Then we have the reversion of the Nare field in November 4th, and that will add additional barrels to Ecopetrol. However, we still have risks. We have challenges to manage in terms of managing weather, social unrest and productivity in work fronts because of the pandemic.

Felipe Bayon: Thanks, Alberto. Jaime?

Jaime Caballero: Yes. Thank you, Felipe. Christian, hello. With regards to ROACE, you've seen our second quarter ending position at around 9%, which is actually quite healthy. It's been quite a recovery. And as you know, we've been very disciplined with regards to our capital allocation over a number of years. But particularly over the last year, as you know, we made a number of punctual interventions associated to adjusting that CapEx to changing market circumstances. And also, we've been very disciplined as well with regards to our capital efficiency agenda. And with that in mind, what we are seeing is that with the short-term price outlook that we expect, we will be back at double-digit or we should be back at double-digit ROACEs very soon, very soon. And by the end of the year and, of course, depending on how market environments evolve, we're going to be in that sweet spot where we were a couple of years ago, if not higher. So the perspectives on ROACE are very positive. Thank you.

Operator: Thank you. Our next question comes from Bruno Amorim, from Goldman Sachs.

Bruno Amorim: Hi. Good morning, everyone. Thank you for taking my question. I have a question, which is somehow related with the ISA acquisition. But more broadly speaking, this seems to be one step towards a long-term view that the company should move towards different segments within the energy space. And this type of transition sometimes implies some additional uncertainty around the level of returns on the capital to be deployed going forward. So what I wanted to hear from you is your view on this trade off right, balancing the transition into new segments, which long term can be the right decision with the need to deliver more high returns throughout it. Thank you.

Felipe Bayon: Bruno, this is Felipe. I just want to make sure that I understood the question because the volume wasn't great. So in terms of a long-term view around the ISA transaction, and especially in terms of returns from that transaction? Can you just clarify?

Bruno Amorim: Yes. I'm talking about this transaction as well, but I'm asking more broadly speaking, I guess, this transaction is the first of maybe a series that you are going to make throughout the next several years, right? So the question is a broader one in terms of what do you expect in terms of returns on the marginal investments going forward. Is this the returns that you deliver now under your existing operations given that you are probably going to have to invest in segments where you do not invest today?

Felipe Bayon: Okay. Okay. Thanks for that. That's very helpful. So if you step back from a more holistic view, there's four things that we need to do as a group. The first one is, in our core business, continue to be as competitive as we can and that means the use of technology, processes, transfer of good lessons learned, everything else, in terms of protecting and enhancing the value that's generated by the organic, if you will, investments that we have on oil and gas with some of the color that Alberto was providing in terms of further deepening our presence, for example, in gas, and that's part of that first lens that I would actually use. And Jaime was just referring in terms of the prior question on how do we see returns. And clearly, we've seen that we can come back or rebound very quickly, and a combination of being very disciplined with our investments, regardless of their being organic or inorganic, but extremely disciplined with our investments, plus all the work that we're doing on efficiencies and savings obviously work to support what I've just described. So that's the first lens.

The second lens is around diversifying our business, and that's where things like the ISA transaction come into play. But it also includes things like our presence in hydrogen, for example, or CCUS. And we are currently the largest hydrogen producer in Colombia. I think 99.9% of the hydrogen that's produced in country is produced by Ecopetrol. So we're thinking going into blue and green hydrogen, both, we're analyzing the opportunities and the options and the merits. And there's still a big question not only for us but worldwide in terms of scale and in terms of doability and the cost of such investments. And in this diversification lens is where we have ISA. And again, we will continue to explore opportunities going forward. But on a general basis, we will inform of any potential transaction when we have made a decision around those transactions as we did in Brazil, for example, in Saturno or Gato do Mato, or as we did in the Permian, or as we did with, initially, the nonbinding offer and then the binding offer last week. And I'd just like to say that in this space, if you look at for example, the Ebitda margins and how do we view returns, Ecopetrol has broadly 45% of Ebitda margin. ISA has, on average, 65% over the last five years. So ensuring that these things are accretive from day one is a fundamental thing.

So lens number three is around decarbonization. So we will continue to look at things, and there's nature-based solutions, for example. There's eco reserves. There's things around our pledge to become carbon neutral by 2050. So a lot of work.

And the last lens that we are looking at is the lens of T ESG, technology, environmental, social and governance. And there's lots of things that we're doing there, obviously around technology, around how do we relate to the environment, things around our water footprint, for example, not only our CO2 footprint, and there's things around our social investment in the areas where we operate, and things to continue to strengthen our corporate governance.

So that's how we see ourselves going forward. Obviously, we will look at each and every opportunity in its own merits and then make the corresponding recommendations to the Board, and decisions will be taken in that sense. But obviously, as we've shared with you today, our view is that we need to continue to ensure that we provide value with operations that are safe, that are responsible, that are ethical and that are efficient. Thank you, Bruno.

Operator: Thank you. The next question comes from Badr Alami, from Barclays.

Badr Alami: Yes. Thank you so much for taking my question. Congrats on this 2Q earnings. So two quick questions on my end. The first one is, can we get an update on the account receivables, and especially the Fuel Price Stability Fund? So I just wanted to understand how much do you guys expect in terms of cash outflow in the second part of the year, especially if oil prices and also pump prices were to go higher. And when are you expecting potentially the government to pay you back on that?

And my second question was partially answered before. It's about bond issuance. So my understanding is that you guys have COP 1.4 billion approved by Hacienda for potential issuance. Can you give us a sense of when this approval is going to expire? And also, how are you thinking about the bond maturing in 2023 with 1.8 billion? Is the plan to replace both the credit facility that you spoke about with ISA, plus refinancing the '23s at the same time over the next year? Or are you planning to first of all refinance the credit facility with the potential bond, then look at the '23s? Thank you so much.

Felipe Bayon: Thanks, Badar, for the question. And I'll ask Jaime. Jaime, if you want to provide some update on both FEPC and the receivables and then a potential bond issuance. Please go ahead, Jaime.

Jaime Caballero: Thank you, Felipe. Badr, let's cover the accounts receivable. I think the general background of this is that accounts receivable grew over the first half of this year, particularly as a function of the growing FEPC bonds. That FEPC balance has grown because of the increasing delta between international prices and the prices that are kind of recognized at the pump, if you will, here locally. That balance is at COP 3.8 billion. We believe the balance will continue to grow over the coming months as we expect, all things considered a certain stability, if you will, in prices, whether it's because of the headline price or whether it's because of the exchange rate. But at the end of the day, those two balance each other. Therefore, we expect some growth on that. What we've indicated is that we wouldn't be surprised if the balance by the end of the year could be in the COP 6.5 billion to COP 7.5 billion range. That's where we think it could end up, and that's the sort of conversation that we've been having with the governmental entities that manage this process.

When you think about the account receivable and when can we expect payment, the first thing that you need to look into is the track record. And the track record on this matter is impeccable. This is a fund that has worked consistently over a number of years, and the balances get recognized. The timing of that recognition does fluctuate a bit. At its best, it can occur in around six to eight months' time. At its worst, it has occurred, say, 18 months down the line, right? So we operate with that window in mind as we plan our cash flow, and I'd say that we operate on the conservative end of that window.

So with that in mind, we are not expecting any cash inflows this year associated to the balance. We do expect that an important component of the balance is going to be recognized this year and perhaps some remainder in 2023 and that's how we've been planning our cash in that regard. We are working very closely with the Ministry of Mines and the Ministry of Finance on this matter, and that gives us a lot of confidence around when can we expect these payments to occur. And of course, in time, we do have decisions to make with regards to dividends and other matters that we're going to take into consideration how this balance evolves.

With regards to the bond issuance, a couple of things, two or three things. You've seen a number of news outflows on this regard. And the one that you mentioned is the 1.4 resolution from the Ministry of Finance. I just want to remind you all that because of our regulation here in Colombia, we do need to get like a pre-emptive approval for financing from the Ministry of Finance. It's always been that way. And what we try to do is that every three years, linked to our business plans, we like to update our approvals. It's like a blanket approval with a view to make sure that there's strong alignment and that we have the regulatory approvals in place when we do want to reach the market. We got that first approval for COP 1.4 billion already. It's in service of the organic plan. That's important. So this has nothing to do with ISA. This is in service of our organic plan. And the way we think about it is that that particular amount would serve in our interest of refinancing some of the debt that we have right now, in terms of getting longer terms and perhaps actually getting even better terms because of the market environment. We don't have any short-term plans to do that. Of course, as always, we remain open and flexible to tap the market, but we don't have any immediate plans to do that because we don't have any need to do it right now.

The second news that you saw was around the committed contingent facility. It is, as its name indicates, a contingent facility so it's something that's just there to be used if circumstances require us to do so. We don't have plans to tap it in, but it gives us some comfort that it's there should market conditions change. That's the purpose of that. Again, that contingent line, I want to be very specific about it, is for organic purposes. It has nothing to do with ISA. So the 1.4 and the 1.2 are for our ongoing business, which continues and will continue to be kind of the heartland, if you will, of our operation, and it has nothing to do with ISA. With regards to the timing of what do we intend to do first, I think we're going to be flexible around that. But I would say that at this time, and as you would expect, our priority is to close the ISA transaction to secure that financing and that's where our eye is at the moment. Thank you very much.

Badr Alami: Thank you so much, guys.

Operator: Thank you. And at this moment, I would like to turn the call back to Mr. Bayon for final remarks.

Felipe Bayon: Thank you. And thanks again, everyone, for participating in today's conference call around our second quarter 2021 results. Thanks for your feedback. Thanks for your questions. Thanks for the interest in terms of following Ecopetrol, as I've said sometimes before. Thanks because your questions help us continue to improve in terms of how do we communicate and some of the specifics and clarity around some of the issues that we have. I hope that everybody stays safe. I hope that your loved ones and everybody else around you, your co-workers, stay safe as well. And hopefully, we'll be able to see you sometime soon in one of our next conference calls. So thanks again, and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.