

Performance evaluation of Ecopetrol's Board of Directors

In February 2021, the Board of Directors, through its Corporate Governance and Sustainability Committee, was provided the results of the external evaluation carried out by AT KEARNEY (independent consultant), the purpose of which was to perform a structural and formal analysis of the performance and corporate governance policies adopted by the Board of Directors of Ecopetrol as a collegiate body during 2019 and 2020.

The evaluation included criteria related to:

- Interaction of the board
- Composition of the board
- Duties of the board
- Board meetings
- Agenda
- Discussion and decision-making
- External communications
- Management of internal communications
- Board committees
- Strategic goals

This document is an abstract of the document "External Evaluation Report of the Board of Directors - Ecopetrol Group" prepared by AT KEARNEY who authorized his publication. It has three (3) sections: i) Introduction and context; (ii) main findings and iii) results of the Board of Directors performance assessment.

i) Introduction and context

Ecopetrol is the country's most important company and one of the leading oil companies in Latin America and the world. Ecopetrol currently operates in the exploration, development and production, transportation, refining and commercialization of oil and gas.

Ecopetrol is a mixed state-owned company governed by private law. In this context, one of the main corporate governance challenges for a mixed company is to find a balance between the interests of the state as shareholder and the effective management of the company for the benefit of all its shareholders.

Due to the relevance that Ecopetrol has for the country, it is viewed with more stringency than other national companies. Therefore, corporate governance standards are more demanding. Hence, this exercise focused on comparing Ecopetrol's corporate governance practices with international standards.

In the path towards the consolidation of value generation, Ecopetrol is committed to the task of strengthening Best Corporate Governance practices as a signal of ethics

and transparency towards the market and its shareholders. Thus, for several years Ecopetrol has set the goal of strengthening its governance structure with respect to international and national standards.

In line with Best Corporate Governance practices, Ecopetrol commissioned Kearney to develop the fourth external and independent assessment of its Board of Directors' (BD) performance as a collegiate Board of Directors. This assessment measures key aspects of the Board's performance and identifies strengths and areas for improvement.

The performance assessments provide a critical look at the current dynamics of the BD, and offers recommendations that raises the content of the discussion and redirects the role and dynamics of the BD to a higher stage and a more strategic focus.

The methodology used in conducting this assessment responds to the most advanced international standards. Regarding local standards, it is worth mentioning that after the update of the Country Code in 2014, local requirements were raised to much higher levels, bringing several aspects assessed to the level of international best practices¹.

Specialized literature and international best practices suggest a series of elements to be taken into account for the optimal functioning of the BD. The Kearney methodology gathers these aspects into four dimensions:

1. Structure / Government
2. Coordination
3. Interaction
4. Strategic Focus

The dimensions are broken down into ten (10) components that group specific performance elements, which are then assessed to obtain the Board of Directors' best practices compliance score.

To assess the performance of the Board of Directors as a governing body with respect to local and international best practices in the aforementioned elements, the Kearney consulting team conducted in-depth interviews with six (6) of the nine (9) members of the BD and with five (5) members of the Steering Committee who interact permanently with the Board (Table 1).

¹ The 2014 Country Code stems from Colombia's planned accession to the OECD, which established the updating of corporate governance standards for securities issuers as a requirement.

Table 1. Interviews conducted

Board members	Name	Position
	Luis Guillermo Echeverri	Chairperson of the Board – Independent member
	Esteban Piedrahita	Independent member
	Juan Emilio Posada	Independent member
	Sergio Restrepo	Independent member
	Santiago Perdomo	Independent member
	Carlos Gustavo Cano	Independent member
Executives		
	Felipe Bayon	CEO
	Alberto Consuegra	COO
	Jaime Caballero	CFO
	Juan Manuel Rojas	Vice President of Corporate Strategy and New Businesses

In addition, a detailed review of the complete documentation of the BD and its Support Committees was performed for the period between January 2020 and January 2021 (Table 2).

Documents that are not publicly available were reviewed remotely with the permissions granted by the team of the Ecopetrol Group’s General Secretary, and those that are public in their current version published on the Ecopetrol Group’s website.

Table 2. Documentation consulted and analyzed

Type of document	Date
General Shareholders’ Meeting Minutes (3)	2019-2020
BD Minutes (9)	Jan/20 – Mar/20
Audit and Risk Committee Minutes (12)	Jan/20 – Oct/20
Compensation, Appointment and Culture Committee Minutes (7)	Dec/19- Oct/20
Corporate Governance and Sustainability Committee Minutes (5)	Feb/20 – Aug/20
Technology and Innovation Committee Minutes (11)	Dec/19 – Oct/20
HSE Committee Minutes (1)	Jun/20
BD and Committee presentations	Several, random
External Assessment of the BD	2018
Corporate Bylaws	2020
BD Regulations	2018
Country Code Survey	2020
Corporate Governance Report	2019



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Management Report	2019
BD Work Plan	2020
Risk Map	2020
Induction Documents	Several, random
Documents sent prior to BD meetings	Several, random

Both during the interviews and in processing the requested information, we were able to verify the interest of those involved in providing information and their upfront opinions with respect to the consultant team's questions.

In addition, it is important to emphasize that the members of the Board of Director completed the self-evaluation.

Main findings

- i. The results obtained from the assessment of the Ecopetrol Group's Board of Directors are very positive. **Nine (9) of the ten (10) components assessed scored between 86 and 100, indicating a performance that exceeds international standards, best practices and requirements,** and are reaching the best practices identified in the specialized literature and in leading global case studies.

Similarly, **eight (8) of the ten (10) components assessed obtained a higher rating than that obtained in the BD assessment conducted in 2018;** the three (3) areas where the most significant improvements occurred were:

- a. **Internal information management:** An **induction process was defined**, consisting of five (5) sessions on strategy, business fundamentals, sectors of operation and the functioning of the company, as well as the **use of external advisors to support the BD** on industry-specific technical or legal issues.
 - b. **Committees:** The **comprehensive coverage of key topics** by the Support Committees together with a **clear delegation of roles** and processes has considerably improved the operation of the BD
 - c. **Action Plan:** The **definition of an annual action plan organized by topic** allows strategic issues to be addressed in a scheduled and proactive manner throughout the year.
- ii. **The change of seven (7) Board members during the last period represented a high risk in terms of Corporate Governance,** since a significant change in the composition of the Board could compromise the continuity of the strategy and generate uncertainty regarding the work dynamics and the effectiveness of its management as a collegiate Board of Directors. **However, this transition was successfully weathered, and the BD has acted as a cohesive collegial Board of Directors, making informed decisions, based on deliberation and transparency.** Faced with a steep learning curve and the magnitude of the Group's operations, the BD made

judicious use of external advisors on industry-specific technical and legal issues, facilitating the fulfillment of their duties.

The attendance of the BD members to meetings is close to 100% exceeding the minimum attendance criteria to 80%.

- iii. Ecopetrol Group was able to manage both the COVID-19 health emergency and the oil price drop in the first half of 2020 and maintain its long-term strategic agenda on course, in force and under constant discussion.

Two key figures have played a leading role in this task: the **Chairperson of the BD, ensuring the agile and efficient operation of the BD**, managing key stakeholders and coordinating with the CEO and the Steering Committee; and the **Group's General Secretary, who has positioned herself as an exceptional supporter of the BD** in ensuring its smooth operation.

- iv. The BD has implemented a **working structure** (taxonomies, timelines, pre-meeting material, among others) with the **Steering Committee** that, on the whole, has **improved the flow and strategic focus of the meetings**.
- v. In general terms, **the relationships between BD members, Chairperson of the BD, Steering Committee members and CEO, are characterized by a high level of trust, transparency, guidance and mutual support**.
- vi. Regarding the **Board of Directors' Committees**:
 - a. The **structuring of the Technology and Innovation Committee** has been useful for the review and strategic use of the technological structure and the emerging opportunities in the sector.
 - b. The **explicit inclusion of risk management in the Audit and Risk Committee** provides accountability, regularity and adds value to the risk management process.
- vii. **The quality, depth and relevance of the information provided (papers, reports, briefings) prior to the Board meetings is outstanding, and generates value for the attendees.**
- viii. In terms of high-performance BD's behaviors, the Group has a very good dispersion between the behaviors chosen by the Directors and the members of the Steering Committee. **There is a willingness to promote good behaviors in the BD based on the 5 high performance Board of Directors guiding values**, although two points are worth highlighting:
 - a. There is evidence of **strong and positive relationship dynamics**.
 - b. The **independent stance of the Board members** is valued and rewarded. This is reflected in instances such as: previous meetings between the Board and the CEO to exchange points of view and share

opinions; or meetings in which the Board comes together as a collegiate BD to discuss topics of interest.

- ix. **The strategic topics of interest for the BD are aligned with the Steering Committee's topics of interest**, the main items being:
- a. Energy transition and decarbonization
 - b. Long-term strategy and monitoring of the Group
 - c. Possible acquisitions and/or divestitures
- x. Other important issues are **succession plans, specifically for the Chief Executive Officer (CEO) and the Board members**, processes that gain importance due to the possible impact they may have on the Group's Corporate Governance.

Regarding the **critical questions** asked by the BD and the Steering Committee, it appears that these **are questions that are within the scope of the BD's functions**. The questions can be collected into three main groups: i) **Corporate strategy**, where the predominant questions correspond to the Group's role in **energy transition**; ii) **Competitive strategy**, where the main focus is on the strategy to better compete in the **traditional business**; and iii) **Organizations**, where the focus is on how to **maintain the good performance of the Board of Directors and the Group's Corporate Governance**.

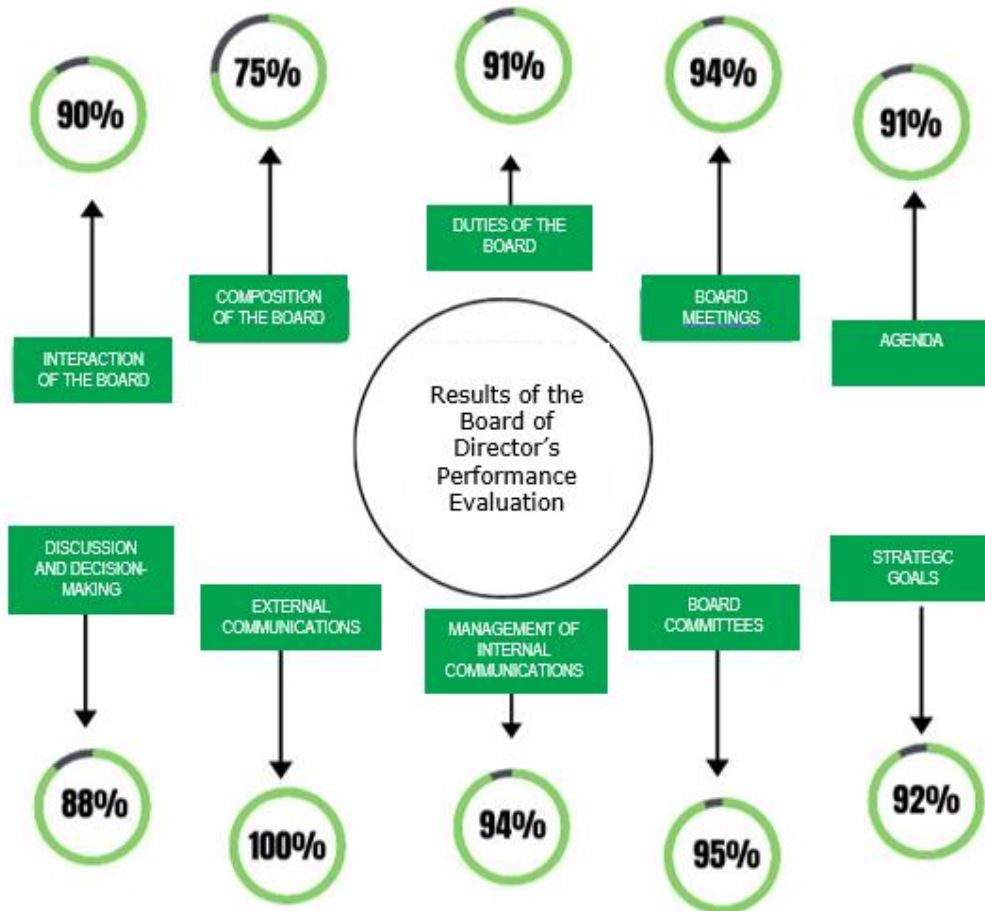
ii) Performance Assessment Results

Kearney's methodology is based on a performance matrix that describes the assessment dimensions for the BD with their respective components, defining the requirements for each stage of the process according to international standards to qualify performance. Based on the information gathered during the interview process and the documentary review detailed above, comparisons were made with international best practices to obtain the following results per assessed component (Table 3).

To interpret the scores for each component, consider the following information:

- A score between 01 and 50 indicates that the BD is achieving local standards, best practices and requirements for that component.
- A score between 51 and 85 indicates that the BD is achieving international standards, best practices and requirements for that component.
- A score between 86 and 100 indicates that the BD exceeds international standards, best practices and requirements for that component, and is achieving best practices identified in the specialized literature and global case or leader studies.

The scores received for each criteria are shown below:



In the next years Ecopetrol will analyze and implement the main recommendations and opportunities for improvement given by the consultant.