

DE TODOS. PARA TODOS DE TODOS. PARA TODOS DE

**OPERATING AND FINANCIAL RESULTS CONFERENCE CALL**  
**ECOPETROL GROUP 1Q 2021**

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

All lines have been muted. There will be a question-and-answer session at the end of the presentation.

Before we begin, it is important to mention that the comments in this call by Ecopetrol's senior management include projections of the company's future performance. These projections do not constitute any commitment as to the 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 the future results are different from the projections shared on this conference call.

The call will be led by Mr. Felipe Bayon, CEO of Ecopetrol; Alberto Consuegra, COO; and Jaime Caballero, CFO.

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

**Felipe Bayon Pardo:** Good morning, everyone, and welcome to our first quarter 2021 results conference call. I am pleased to share with you an outstanding set of results for the Ecopetrol Group, which demonstrate the strength of our integrated business and our ability to generate value throughout market cycles.

After more than a year since the COVID-19 pandemic began, we continue to operate under challenging conditions and very strict biosafety protocols while ensuring the continuity of our operations and the wellbeing of our employees as our top priority.

This year, Ecopetrol is celebrating its first 70 years, and the results for the first quarter provide us with a very strong beginning. The Ecopetrol Group generated the best financial figures for our first quarter since the year 2016 with a consolidated revenue of COP 17.2 trillion, an EBITDA of COP 8.2 trillion and EBITDA margin of 48%, and a net income of COP 3.1 trillion. The EBITDA for the quarter was half the EBITDA for the full year 2020, and the net income was 1.8 times the net income of the 12 months of last year. These financial results were achieved even in the midst of operating conditions that will continue to affect production levels. Alberto Consuegra, Chief Operating Officer, will expand on this later.

As relevant milestones of the quarter, I want to highlight the following: first, the strengthening of the realization price for the crude export basket by 43% compared to the first quarter of 2020, evidencing our successful commercial strategy; second, the advance of our gas strategy with a production increase of 12% as compared to the first quarter of 2020; third, the positive performance of our refineries with an integrated margin per barrel achieving double digits; and fourth, the announcement of our net zero carbon emission targets for 2050, whose details I will further comment.

On other matters, we highlight a successful General Shareholders Meeting in a fully virtual setting for the second time, where a dividend of COP 17 per share was approved equivalent

to COP 0.7 trillion, ratifying our ability to generate profits even in very difficult conditions. We began to work in the due diligence process for the ISA acquisition and established a special committee of the Board of Directors of Ecopetrol to assess the valuation and the price of that potential transaction. In the Ecopetrol Group, we continue to learn from crisis and to overcome them in an agile, safe and efficient manner. Although there are still some risk constantly monitored, the results presented today are proved that we are moving in the right track.

Let's move on to the next slide.

Ecopetrol is committed to mitigate climate change, thus, seeking to advance on the energy transition and our T ESG agenda, we became the first oil and gas company in Latin America to commit to a net zero carbon emission target by 2050 for emissions in scope one and two, ratifying our commitment with both the sustainable development goals and the Paris agreement.

According to our decarbonization plan by 2030, Ecopetrol seeks to reduce its CO<sub>2</sub> emissions by 25% in scopes one and two compared to the 2019 baseline. This reduction represents between five million and six million tons equivalent of CO<sub>2</sub> less by year 2030, equivalent to the restoration of an area 13 times that of a city like Bogota in Colombia. In addition, Ecopetrol seeks to reduce 50% of its total emissions in scopes one, two and three by 2050 compared to the 2019 baseline.

Mature technologies that are currently available as well as emerging technologies were considered when setting the targets. In the short and medium term, that is, 2025 and 2030, respectively, we will focus on the maturation of solar, wind and geothermal energy projects as well as in energy efficiency, reduction of routine flaring in our operations, and methane emissions reduction projects. This will be complemented by a natural climate solutions portfolio under the highest standards.

By 2050, we plan to develop initiatives that might include hydrogen, carbon capture use and sequestration and energy storage through batteries, ensuring both the competitiveness and value potential generation of each of these alternatives. It is important to emphasize that in the 2021-2023 business plan, we have included already more than USD 600 million of investments for the decarbonization agenda, mainly destined to fund renewable energy projects as well as energy efficiency and fuels quality projects, among others. The short- and long-term initiatives and technologies included in this roadmap will always be evaluated and implemented under strict capital discipline criteria, essential pillar of our corporate strategy.

Let's move on to the next slide.

The decarbonization agenda just mentioned is part of the four pillars defined in our energy transition roadmap. During the first quarter of 2021, we made progress in all of them. In the competitiveness pillar, in the oil and gas business, our core business and our main focus, we continue to make efforts and put forward strategies to achieve a more efficient operation, which resulted in efficiencies of some COP 264 billion derived from actions focused on strengthening the EBITDA margin and CAPEX efficiencies.

Additionally, we've captured benefits of USD 12 million in the digital agenda, thanks to the progress in projects such as the digital investments management tool, human talent, gross refining margin and integrated fields.

In the diversification pillar, we continue to advance in the due diligence process in support of the potential acquisition of a controlling stake in ISA, a company that will contribute to the Ecopetrol Group with stable and predictable sources of income, solid alternatives of profitable growth and a unique positioning within the energy transmission sector in Colombia and in some Latin American countries.

Likewise, a hydrogen task force has been created dedicated to carry out this initiative. We started a research process to determine the potential for green hydrogen production.

We continue to advance in the construction of the San Fernando Solar farm, which is expected to start operations in the second half of this year.

Finally, I want to highlight a 52% reduction in routine gas flaring in our operations between 2017 and 2020.

In the TESG pillar, aligned with our strong corporate governance standards, I want to highlight the appointment of Cecilia Maria Velez White as the newest member of the Board of Directors of Ecopetrol. Also, I want to mention the establishment of a special committee for the valuation of the ISA transaction.

In line with our commitment to full and transparent disclosure of our sustainability and climate-related information, we have begun the incorporation of the following: a Sustainability Accounting Standards Board, SASB, in our Integrated Sustainable Management Report as well as in a stand-alone report; a Stakeholder Capitalism Metrics of the World Economic Forum in the Integrated Sustainable Management Report; and the recommendations of the Task Force on Climate-related Financial Disclosures, TCFD, in our 20-F report.

I will now turn the floor to Alberto Consuegra, who will explain the main operating results for the quarter.

**Alberto Consuegra:** Thank you, Felipe. In line with your remarks, most of the operational results in the first quarter continued to show a positive trend in the recovery of the activities towards pre-pandemic levels.

Regarding exploration, in 2021, the exploratory campaign kicked off with the success of Flamencos-2 and El Niño-1, two of the wells drilled in 2020. During this quarter, we completed the drilling of five wells. The Liria YW-12 and the Boranda Sur-2 wells are in the evaluation phase. The ESTR SN-8 well allowed further knowledge of the block's geology. The Boranda South-1 well was sealed and abandoned since it did not reach the geological target due to the technical problems and the Moyote-1 well in the Gulf of Mexico was declared dry hole.

In Brazil, we continue to make progress in commercial viability studies and other deliverables as part of the defining phase of the development plan for the Gato do Mato discovery in the Brazilian pre-salt.

Finally, production from the exploration activity reached an average volume of 5,309 barrels of oil equivalent per day, representing an increase of 39% compared to the volume registered in the same period of the previous year.

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

During the first three months of the year, Ecopetrol Group's production was 675,700 barrels of oil equivalent per day. Compared to the same period of the previous year, production decreased 8.1% and 2.7% compared to the fourth quarter of 2020.

In the first quarter, the good results in the Piedemonte gas assets and in the mid-Magdalena oil assets stand out. However, during this period, production was affected due to operational restrictions in the Castilla field, increasing BSW, basic sediment and water, in heavy oilfields as a consequence of the activity deceleration during 2020, divestments in Peru and operational and public order issues. Given these impacts, we estimate the production range for the year between 690,000 and 700,000 of oil equivalent per day, and we maintain a plan that aims to resume the growth path towards the production volumes goal announced for 2021.

Despite lower production volumes, EBITDA for the upstream segment in the first quarter was COP 5 trillion, which is the 80% of the total EBITDA generated in 2020. Additionally, the segment reached an EBITDA margin of 40%, doubling the previous year's result.

Let's go to the next slide to talk about the progress of the gas and hydrogen initiatives.

In this quarter, the gas and LPG business had a combined EBITDA margin of 53% and contributed about 11% of the EBITDA of the upstream segment. Gas and LPG production had a 12% increase compared to the same period of the previous year, mainly due to the higher production of Piedemonte, Permian and the strong results derived from the acquisition of Chevron's participation in the Guajira asset by Hocol. Gas and LPG production corresponded to a 23% of the business group's production during the quarter.

The first Q 2021 closed with the level of third-party total demand recovery of close to 100%, led mainly by the industrial sector. Regarding the development of our gas portfolio, Hocol is making progress in Arrecife-3 with the start of extensive testing in second Q. Also, Hocol is progressing the delimitation of the Bullerengue Porquero discovery and the extensive testing of Merecumbe field. In Piedemonte, progress was made in the pre-rig works of three new wells as in the maturation of seven more wells.

Regarding exploration, we are at the completion phase of the Liria YW-12 well and in the maturation and pre-rig works of the Cupiagua XD-45 well. Also during first quarter, the work plans for the exploratory and development phase of the COL5 block moved forward together with our partner Shell, with the aim of drilling at a delimitation well as part of the Gorgon appraisal phase. It should be noted that, thanks to the operational initiatives and synergies between the segments, a reduction of 88,980 metric tons of carbon dioxide equivalent was achieved during 1Q 2021.

We're moving along in the design of our hydrogen strategy based on five fronts: pilots, regulation and public policy, suppliers analyze, third-party commercialization, and the group's and country's road maps.

Let's go to the next slide to talk about the progress in unconventional.

On the unconventional reservoirs in Colombia, we made progress on activities related to our Kale pilot project. During this quarter, we carried out the first territorial dialogue in Puerto Wilches, led by the Ministry of Mines and Energy and the Hydrocarbons National Agency, ANH, for its acronym in Spanish, and we started the baseline monitoring work for the environmental impact assessment, EIA, which is expected to be filed by the end of the third quarter. The estimated time for the issuance of the environmental license is eight months after filing of the EIA.

Regarding the Permian Basin, in the United States, the results of our activities with our partner, Oxy, reflect the materialization of efficiencies despite some effects on the operation due to the strong winter at the beginning of the year. Net production after royalties for Ecopetrol was 5,100 barrels of oil equivalent per day, almost the same production achieved during 2020. The Rodeo joint venture drilled 20 wells and completed 28 wells, including the 22 wells not completed in 2020. Therefore, 44 wells were on production at the end of the quarter. For 2021, a peak production of approximately 18,000 barrels of oil equivalent per day net to Ecopetrol after royalties is expected to be achieved by the end of the year.

Next slide, please.

The transported volume of refined products increased due to a demand recovery. However, the transported volume of crude oil decreased compared to the first quarter of 2020 as a result of lower production levels in the country. In this period, no reversal cycles of the Bicentenario pipeline were conducted, completing 16 consecutive months in which the contingent alternative is not used. I would like to highlight that since February 1st, the total transition to the new operating model of the segment was completed. As a result, CENIT is now solely responsible for the operation of its hydrocarbon transportation systems and consolidates its position as leader of the Ecopetrol Group's transportation segment.

On the other hand, on March 24th, the General's Attorney Office issued a favorable concept of the agreement between CENIT, Bicentenario and Frontera. To date, the approval of the Cundinamarca Superior Administrative Court is pending, which will be the last instance in this case. The trend of transported crude oil volumes will be aligned with the results of production levels in the country.

Let's please move on to the next slide. The downstream segment's good results were supported by the demand recovery, with gasoline and diesel sales standing out. The levels of integrated gross margin of our refineries stand out compared to results presented during 2020, which evidence the segment's recovery, mainly explained by the strengthening of the product basket despite a more expensive diet due to the incremental trend of Brent price. The first quarter EBITDA result for the downstream segment is the best of the last five consecutive quarters, thanks to the efficiencies achieved during 2020, aimed at keeping costs and expenses under control despite the increase in operations and thanks to the strong margins and throughputs of our businesses.

The petrochemical business had a substantial contribution to the EBITDA of the Barrancabermeja refinery due to higher yields, supply of light crude and higher availability of the plants. During the quarter, we also successfully started the first maintenance cycle of our refineries which will last until the third quarter of this year.

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

Total operating costs and expenses reflect a decrease of 7% compared to the first quarter of 2020, demonstrating adjustment to the new operational activity levels and commitment to efficiency. The lifting cost was USD 7.50 per barrel, showing a decrease of 8.6% versus the same period of 2020, mainly explained by the efficiencies in the energy matrix, where the use of self-generated energy increased the optimization and the execution time for interventions and well services and lower production during the quarter.

The unitary dilution cost for the first quarter decreased by USD 0.18 per barrel versus the same period of the previous year, mainly explained by the lower purchase of naphtha barrels due to the lower production of heavy oil. Then again, the cost per transported barrel for this quarter was USD 3 per barrel, an increase of 2% compared to the first quarter of the previous year, mainly explained by the lower volumes transported.

The operating cash cost in the downstream segment presented a decrease of 4% versus the first quarter of 2020, which responds to the control of operational activities through drivers that develop sustainable savings under the premise of maintaining the integrity and efficiency in the processes. The total unit cost was USD 32.6 per barrel, slightly lower than in the same period of 2020, explained by the reduction of costs and expenses and the higher exchange rate partially offset by the increase in the component of purchases and imports due to the higher Brent price.

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

**Jaime Caballero Uribe:** Many thanks, Alberto. The net profit of COP 3.1 trillion in the first quarter reflects the interventions carried out during the crisis and the company's ability to capture a marked improvement in market conditions and a challenging operating environment.

The increase in net income compared to the first quarter of 2020 is primarily explained by a higher EBITDA of COP 2.9 trillion as a result of the following factors: first, improved prices and a greater impact of the exchange rate on income and purchases of about COP 1.7 trillion; second, a positive variation in inventory valuations of nearly COP 1.3 trillion, as a result of better market prices for crude oil and products; third, a lower cost of operational activity for COP 356 billion, which includes rescheduling of activities and realized efficiencies; fourth, a decrease in labor costs and expenses of COP 39 billion, mainly related to the lower average personnel given the voluntary retirement plan of previous year; fifth, a negative volumetric net effect of COP 257 billion, explained by lower production; sixth, higher exploration expenses of COP 130 billion mainly due to the recognition of the Moyote dry well in Mexico during February; and lastly, lower income from transportation services and others of COP 58 billion associated with the decrease in the country's production.

Likewise, the quarter includes the impact of three non-operational factors: an increase of COP 0.4 trillion in items such as depreciation, financial expense and FX expense. The latter is mainly explained by the higher net liability position in dollars; a higher income tax provision of COP 0.9 trillion; and a non-recurring positive effect of COP 0.4 trillion, resulting from exchange rate adjustments due to the sale of Savia Peru. When adjusting the result for these non-recurring events, net of taxes, the profit for the quarter stands at COP 2.8 trillion.

Relative to the fourth quarter of 2020, the increase in net income is primarily explained by an additional COP 3.9 trillion in EBITDA derived from the improved margin performance and increased inventory valuation previously explained. Other points of note include the effect of impairment recovery in 4Q 2020 of COP 0.4 trillion, a smaller impact of FX effects and others of COP 0.3 trillion, and a higher income tax expense of COP 0.9 trillion.

It is important to highlight that during the period no impairment recognitions were made and that, bearing no new disruptive market scenarios, this would only be carried out until year-end.

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

The EBITDA margin for the quarter was 47.6%, a level comparable with the group's best historical quarters. This was the result of improved realized prices, operational efficiencies and lower costs and expenses throughout the business. These same factors leverage a substantial increase in EBITDA per barrel, which captures the full benefit of the group's integrated business model. It is important to highlight that incremental costs could be incurred during the remainder of the year, in line with the expected increase in operational activity.

Net profit breakeven showed a considerable improvement compared to the end of 2020 and stood at USD 33.4 per barrel, mainly explained by the higher differentials of the basket compared to Brent and higher refinery throughput.

The company's main leverage indicator continues to improve compared to the end of 2020, thanks to the recovery of EBITDA and short-term debt prepayment executed during the third quarter of 2020. Ecopetrol continues to be one of the companies with the lowest leverage ratios in the sector, and with these quarterly results, the company is in close proximity of the year-end target established in the business plan.

Finally, ROACE, in line with the other indicators, has recovered from its lowest point observed in fourth quarter of 2020.

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

During the first quarter of the year, nearly USD 650 million were invested, mainly in the upstream. This represents a reduction of 31% compared to the same period of 2020. When adjusting for the effect associated with the acquisition of the Gato do Mato project, the reduction stands at 18%. This level of execution is in line with the estimates for the quarter and for 2021. It should be noted that when comparing against the period without pandemic effects and without extraordinary effects, such as the first quarter of 2019, execution was actually slightly higher and confirms the good pace of activities despite the challenging operational environment. 72% of the upstream's total investment was allocated to growth opportunities with a focus on increasing production and reserves. The investment range for the year remains in accordance with the goals announced in the plan. That is between USD 3.5 billion and USD 4 billion with a focus on increased activity within Colombia.

Please turn to the next slide to review the first quarter's cash flow.

The cash balance for the first quarter of the year closed at COP 8.1 trillion, with an operating cash flow of COP 2.9 trillion. This item shows a decrease compared to the fourth quarter of

2020, explained mostly by COP 1.4 trillion of income booked as accounts receivables from the Fuel Price Stabilization Fund, FEPC, as well as commercial receivables of nearly COP 0.6 trillion and COP 0.4 trillion of positive tax balances.

Separately, outflows were observed in relation to CAPEX of about COP 2.4 trillion. As for the financing component, there was a total outflow of COP 0.8 trillion, of which COP 0.6 trillion were allocated to debt service and COP 0.2 trillion correspond to dividend payments to minority shareholders of midstream subsidiaries. Finally, an inflow of COP 0.3 trillion associated with other items, mainly from financial income.

It is worth mentioning that Ecopetrol paid dividends to the totality of shareholders on April 22 for COP 0.7 trillion. The final balance is composed of COP 6.7 trillion of cash and equivalents and COP 1.4 trillion of short- and long-term portfolio investments. Of the total liquidity, 47% is denominated in dollars and 53% in pesos.

Free cash flow stands at USD 0.6 trillion, recovering from what was observed during the first quarter of 2020 and decreasing when compared to the second half of the same year due to the same factors that impacted the operating cash flow.

Now I hand over to the Chief Executive Officer for closing remarks.

**Felipe Bayon Pardo:** Thank you, Jaime. To conclude, I would like to reiterate that we are pleased to deliver solid results to our shareholders and stakeholders. We've made strong progress regarding the energy transition, such as the announcement of our decarbonization targets, the adoption of best practices for the disclosure of our sustainability and climate-related information and the advancements in the alternative of entry into the energy transmission sector through the ISA acquisition.

The life and safety of our employees continues to be our top priority. We will continue to operate under preventive approach and high biosafety standards. As part of the permanent support to face the pandemic and boost economic reactivation, the Ecopetrol Group will continue to allocate resources in the *Apoyo País* program, at least COP 60 billion this year, in addition to our investments in rural development, business development, road infrastructure and community, social infrastructure, education, sports and health.

Likewise, during the rest of 2021, we will continue to work towards the objective of restoring the growth path of both production and reserves, increasing competitiveness, laying the foundations of energy transition and deepening our TESG agenda, in line with the goals established in the 2021-2023 business plan. Again, thank you very much for being today in our conference call. With this, I open 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.

And our first question comes from Ricardo Rezende, from JP Morgan.

**Ricardo Rezende:** Hi. Good afternoon, Felipe, Jaime and Alberto. Thanks for taking my question. A couple questions on my side. The first one is a follow-up on something that you discussed on the conference call in Spanish. So, looking at the ISA transaction and cash



flow that should be a lot stronger than what you were expecting with Brent at USD 45, how does that change the funding for that transaction? Would you use all of the excess cash to help on funding the transaction? And if you had to choose, would you reduce the debt issuance or the equity issuance part of the transaction?

And then the second thing is on the production on Castilla. A question that we had was, when you looked at your new guidance for the year, total production, you also mentioned on the conference call in Spanish that May is a very important month, that there could be some delays on the works that you're doing in the Castilla region. So how relevant that could be if we see, for example, a delay from May to June, how could that impact your production for the year? Thank you.

**Felipe Bayon Pardo:** Ricardo, good morning, and thanks for being here today, and I fully appreciate that you're both in the Spanish and in the English conference call. Really appreciate following Ecopetrol.

And before we go into the detail about the questions, I want to provide some context to everyone on the call. And I think the first thing is that as has been reported, I think these are very good results for Ecopetrol in 1Q for the year, in the middle of still trying circumstances. And I want to highlight two things: One, we're not out of the COVID-19 crisis and pandemic. We have the third wave currently with us in Colombia, with ICU occupation levels at very, very high numbers. And in addition to that, as I'm sure you've been following for the last eight days or week, the country has been immersed in some social protest difficulties. So, we're working with the government, with the Ministry of Mines and Energy, in ensuring that we can, as a country, provide the food, the medical supplies, as well as the fuels and gasoline and diesel to the people that require it across the country. So, I just want to start it there.

And the second thing is I want to acknowledge all of our employees at the group level that have been working since last year, since we went to work remotely, supporting our operations in terms of being at the fields, being at all of our transportation systems for both crudes and products, at our refineries, at our ports. Everywhere. So big, big kudos to them and a big thank you.

And in terms of ISA, which I know it's been one of the questions, and you raising it, Ricardo. Just want to mention a couple things. And the first thing is that in terms of the potential acquisition of a controlling stake in ISA that we've announced in January, and as I've mentioned previously, we're doing both the due diligence process, and we are negotiating the terms of a potential transaction, the terms of that potential contract that we've described before. And both these activities are on track. So, I think that's the first thing.

And as you know, Ricardo, and everyone on the call, since both Ecopetrol and ISA are publicly listed companies, you will understand that I and we cannot share details until such processes are finished. So, I think that's a very important point that I want to just put out there.

In terms of sources of funding of the acquisition, I can confirm that the company continues to assess different sources. We are continuing to look at different sources, and we have different potential sources of funding for the transaction such as debt, cash and equity. The mix of those sources is not defined yet and will depend largely on the final terms of the transaction, market conditions and our cash position.

And the other thing that in terms of one of those potential sources, the equity issuance, you need to understand that I will not be able to comment on any specifics around the structure, the conditions, the timings of that transaction, as we have to comply with regulations that are applicable in the markets where we trade our shares. Information on these fronts will be made available to all of you and the markets through our relevant information channels. So with that, I want to take the question around ISA. And I just wanted to upfront share with you our views on where we are in terms of process and some of the sharing of information.

In terms of Castilla, and I will ask Alberto to provide a bit more detail, we've mentioned that we had some issues in Castilla. And I think, and I was saying this in our call in Spanish, we're on the right track in terms of moving ahead with resolving those issues, which I think it's good news. And I'll ask Alberto to provide a bit more detail. Alberto, if you can go ahead, please.

**Alberto Consuegra Granger:** Thanks, Felipe. Ricardo, good morning. As to what the situation is in Castilla, we're currently going through the evaluation of the permit reactivation with the environmental authority. And we understand this will be issued shortly, probably during the month of May. So, what we have estimated so far in terms of production impact or, saying another way, in terms of reducing the current gap, we see that if we sort the situation in Castilla, we will see about 6,000 to 7,000 barrels of oil per day benefit in terms of reducing the gap against the current production level.

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

**Luiz Carvalho:** Hi. Thanks for taking my question. I'd like to touch this in three points. And if you allow me to come back to, let's say, the macro conditions in Colombia, it seems to be kind of a challenging one from a fiscal perspective. So, the first question is, I'm trying to understand how the management foresees any potential impact either to the oil industry or to Ecopetrol specifically in terms of any potential new shape of the taxation framework, either for, I don't know, royalties or general taxes?

And also, how do you think that a potential decision from the controlling shareholder in order to try to increase dividends, for example, or even potentially, selling the 8% stake already approved by the Congress. Just trying to understand a bit better how the management sees these options and if one of them or each of them are under discussion.

The second question is about, coming back to the previous questions on ISA, I understand that you are analyzing a couple of options on the table right now, but just trying to get a sense in terms of how the management is concerned about any potential option that might be seen as potential dilutive or negative to the minority shareholders.

And last one, very quickly, is if you can provide any update on the fracking in Colombia and how this can benefit the company looking forward. Thank you.

**Felipe Bayon Pardo:** Thank you, Luiz, and again, thanks for being with us today. In terms of the overall situation in Colombia, and I think over the presentation we're highlighting things like our refinery loads and some of the sales that we've done. If you look at gasoline and diesel, they are at pre-pandemic levels, mainly. So, I think that's a very good sign of where we are and it's a reflection. It's a good proxy or thermometer of how the economy is going.

And I think with the exception of jet, we are at pre-pandemic level. So, I think that's point number one.

In terms of activity levels, you see our investment levels, our work fronts and the progress that we've made. And I think the results overall show that there has been recovery. And if you look at the underlying consensus, is of a recovery of the economy. So, I think that's the first thing I'd like to see and I'd like to share.

So, in that sense, I think we are cautiously optimistic, but I'd like to put out there that clearly, there's still uncertainty around COVID. We're at this third wave. I would say in my opening remarks during the Q&A that ICU levels are at an all-time high. Vaccination programs continue to progress, and we have received a significant number of vaccines. So, we're progressing with that. But I think that if you look at from our point of view, Luiz, in terms of our contribution overall, overall prices, with what Alberto was mentioning of us solving some of the issues around production, our outlook in terms of our contribution as Ecopetrol would or could imply that there could be more royalties, more taxes and results could eventually translate into more dividends.

And I think the other thing that is important to share is that there is an approved dividend policy that it's distributing between 40% and 60% of net income, and the final decision will be taken at the AGM in 1Q of next year.

In terms of taxation framework, which is the other thing that you're mentioning, and I'm sure you're following the news, but the previous tax reform project was withdrawn from the Senate and from the Chamber. And that's a process that as a formality is taking place today, but I think the government has announced that the project as was conceived initially has been withdrawn, there's no support for that. And you actually saw that there's been changes to the economic team at the government level, including the Minister of Finance. So what I'll say is that we would need to wait for a new project to be presented and in light of what's presented, provide an assessment of potential impact. So that's, I think, all I have to say about the taxation framework and I think I've touched on the other things that you're mentioning.

In terms of ISA, I will just go back to what I was saying. I just want to be very clear. In terms of the optionality, I was mentioning that we're looking at several options that would include or could include, in terms of sources of funding, debt, cash and equity. And I was saying earlier that the actual mix of those sources or potential sources has not been defined. That's point number one. Point number two will depend on the final terms of the transaction. And point number three, it will depend on market conditions. And I was talking about this earlier. Point number four, it will or could depend on other several things that will be taken into account.

And I think the other thing that you were asking about is an update on fracking in Colombia. And during the presentation, we're talking about our Proyecto Piloto de Investigacion Integral, our pilot project. We have continued with the assessment of all the environmental conditions in the area that will underpin or support or inform our submission in lieu or in pursuing an environmental license. So we continue to progress that. We've mentioned that we're actually measuring more than 200 different variables. There's different things that we're measuring, and we'll continue to do that. We've mentioned, and I'd just like to reemphasize that and I've said before, in terms of fracking in Colombia, this is not about doing it quickly or fast. It's about doing it well. In Spanish we would say "No se trata de

hacerlo rápido, se trata de hacerlo bien." And we've also said that it would be like operating inside the fish bowl. Everybody looking inside, you know, in terms of what we're doing, doing it openly, transparently with the stakeholders. So we're progressing in terms of the process.

Luiz, thank you so much for your questions. If we can take the next one, please?

**Operator:** The next question comes from Frank McGann, from Bank of America.

**Frank McGann:** Good morning, Thank you. Just a couple things just to follow-up on some of the comments based on your previous comments as well as the release. Related to the Castilla field and the issues there, I'm not exactly clear as to what the problem is related to the environmental issues or the river. If you could just explain what the problem was and what you're doing to actually overcome whatever those issues are that should, I think, you said be perhaps completed by May.

And then looking towards increasing production for the rest of the year, you also mentioned that you plan to anticipate some activities that had been planned for 2022 and bring those into 2021. Maybe you could provide a little bit more detail on what specific areas that might be and how that might increase costs and CAPEX in 2021.

And then lastly, there's a mention in the release about concerns or you mentioned possible risks for 2021. It's mentioned some risks associated with restrictions on water injection at the Quifa field. And I'm just wondering what the main issues and effects of that could be.

**Felipe Bayon Pardo:** Absolutely, Frank. And again, thanks for being here with us today. So before passing on the floor to Alberto, I'd like to say that we're making good progress in terms of solving the issues around Castilla. And I think that's good news. Very strong and very synchronized work with the authorities and such. So I'm positively optimistic in terms of solving the issues in the very near term, and that's good.

And in terms of activity, there is opportunities to drill additional wells. Obviously, always in the framework of being very disciplined about the quality of the opportunities and where we deploy the capital.

So Alberto, if you can take, please, the question from Frank, I'll pass over the floor to you. Thank you.

**Alberto Consuegra Granger:** Frank, good morning. Thanks for your question. First of all, Ecopetrol complies with the national environmental regulation and specifically for the Acacias wastewater, we are complying with all the parameters established at the national level for water discharges, but the local environmental authority, Cormacarena, has temporarily suspended the wastewater disposal permit in order to include environmental conditions and to ensure that the river flow reaches the disposal point so that adequate dilution takes place in that site. These activities have been agreed with the authority, but are currently being executed. And as Felipe mentioned, we are very optimistic that we can get the permit back sometime during the month of May. So that's the current situation there.

With respect to our plans to anticipate activity and what will be the impact in terms of production and costs, I would say that in terms of production, if we are able to drill at least 10 to 15 wells and execute about 35 workovers, this will provide us additional production of between 4,000 to 7,000 barrels. We have an optionality program that has identified so far

about USD 100 million in potential additional activities, mainly associated with bringing production in this year. So that's what I can tell you right now. In terms of costs, because of this activity that we see being done through the year, we don't anticipate major impacts in terms of our lifting costs.

**Felipe Bayon Pardo:** Thanks, Alberto. And before we move on to the next one, I'd just like to build on what Alberto was saying and a couple messages. And the first one is that our plan for 2021-2023 remains unchanged. So I think that's point number one. Point number two, our projection, the one that we've shared with you and in our report, reflects the challenges that we are dealing with currently, and we've talked a little bit about that. And we will, we are working and we'll continue to work to close the gaps to the plan and our full commitments there. So I just wanted to build on what Alberto was giving as detail. So thanks for the question. Can we move to the next one, please?

**Operator:** Our next question comes from Guilherme Levy, from Morgan Stanley.

**Guilherme Levy:** Hi, good afternoon. Thanks for taking my questions. My first one is on the lifting costs. So, in the past quarters, we have seen the lifting cost trend lower compared to the level that it used to trend until 2019. So, I was wondering how much of this reduction has to do with cost reduction itself and revision of contracts and how much could be linked to higher cost wells that were perhaps closed during the peak of the crisis that were not reopened yet.

And the second question is on refining. Production in this segment improved quarter-on-quarter, so I just wanted to get a sense of what the company is expecting through the end of the year. Thanks.

**Felipe Bayon Pardo:** Guilherme, thanks for the question. I will give you an opening on things, but then I'll ask Alberto to take on lifting costs and I will actually also ask Jaime to give us some additional thoughts around some of the things we're doing that are aimed at dealing with the structural nature of overall cost basis for the company. So things like zero-based budgeting and some other things that we're working that we want to share with you on where we are. So I think that's point number one. And then I'll ask Walter to talk about refining.

So Alberto, if you can help us with the first bit, then Jaime, and then we'll ask Walter. Please go ahead.

**Alberto Consuegra Granger:** Good morning, Guilherme. What we are seeing in terms of lifting costs is that this time, at an exchange rate of 3,600, our lift costs would be in the range of USD 7.5 to USD 8 per barrel. So we're seeing that uplift trend because we're going to execute plant maintenance work lagging from last year's stop because of the pandemic. We're going to increase well interventions activity to ensure that we are able to manage production decline in our main fields and also, there could be additional variable costs associated with reopening of production wells in Castilla because of the water disposal issue. However, we also anticipate that we're going to be materializing efficiencies, as you mentioned, coming from optimization of our energy matrix, renegotiation of service contracts and optimization of costs associated with water management. So all in all, we see that we're going to be able to maintain our guidance of anything between USD 7.5 and USD 8 per barrel throughout the year.

**Jaime Caballero Uribe:** Thanks, Alberto. And on the broader cost outlook and how we're approaching it, you might recall that in our 2021-2023 plan, we spoke about this. And the broader picture is, what is the challenge that we're facing? We're facing a challenge where we are increasing activity levels with a view to reach a production of 750,000 barrels a day in 2023 and in relation to that, increased activity level and that increased production, unmanaged, there would be an upward trends in cost. So that's the broader challenge that we are dealing within the company.

You might also recall that when we looked at that outlook, we set ourselves kind of two big targets. There's one around the total unitary cost of the company that integrates all the different variables. And there is a particular one around lifting costs, where our guidance has been that for this year, just like Alberto said, we have a ceiling of USD 8 per barrel. And for the plan, our aspiration and goal is that we never exceed USD 8.5 per barrel as we look into that ramp-up of activity and production over time. So that's the big picture.

So what are we doing on a structural basis for this? And essentially, we've launched a program within the company around how do we want to increase our competitiveness in costs. It's called actually Performance Plus and in the plans that we rolled out for you and that we've shared with you, the 2021-2023 plan, we actually have built in efficiencies of between COP 1.5 trillion and COP 2.2 trillion. That's the goal that we want to achieve.

What are the big levers behind that? There are four fundamental levers. The first lever is operational efficiencies, and Alberto has described them so I'm not going to cover that. There's a second fundamental lever, which is around supply chain. We are good at supply chain in Ecopetrol, but we think we can be better. And particularly, we have strong efforts around improving our demand management and with that, capturing better regional efficiencies. The third component is around organizational efficiency, and you might have seen in our results that we are starting to see the positive effects of the retirement plan that we launched last year. It is noticeable in the financial results. As a result of that plan, we have a smaller structure in Ecopetrol. And we believe that that's something that will gradually continue over the coming years. And then the fourth component is, of course, digital. It's a massive lever in this program and it's around how do we bring the benefits of technology into our processes and into the way that we operate. So all of this is part of that sustainable cost agenda.

From a process standpoint, one important component is that we've fully adopted a philosophy around zero-based budgeting. We started last year with some pilots around that matter in the different segments. Those pilots were successful, and we've taken the decision to roll them out throughout the group in its totality. So bottom line on this, we're conscious of the challenge around costs, but we feel confident that we are approaching it in a systematic way. Thank you.

Now over to Walter, who is going to speak about refining.

**Walter Canova:** Yes. Thank you, Jaime. Thank you, Guilherme, for your question. Regarding the downstream, I would say that, as it was communicated, we had a very solid first quarter for the downstream. On the refining side, we finished 360 kbd for the first quarter, of course, with an improvement versus the 355 kbd of the fourth quarter of last year and also an improvement versus the 345 kbd of the first quarter of 2020. And this is considering that, during the first quarter, starting in February, the Cartagena refinery did planned turnaround activities, mainly on the cracking units and alkylation units. For the following

months, we are projecting to sustain the 360 kbd to 365 kbd. Of course, we have a big question mark regarding the third wave for the pandemic with COVID-19. But if the situation maintains as it has been in the last month, we are projecting 360 to 365 kbd total for both refineries.

Regarding margins, as you saw, we finished at USD 10 – USD 10.1 per barrel for the first Q, and we think that we'll be around the high side of the one digit margin for the rest of the year. This is the projection for the downstream and refining business, mainly. I hope I answered your question, Guilherme.

**Felipe Bayon Pardo:** Thanks, Walter. If we can move on to the next one, please.

**Operator:** Our next question comes from Rodrigo Almeida, from Santander.

**Rodrigo Almeida:** Hi, Felipe, Alberto and Jaime. Thank you for the presentation. I just have a couple of additional more high-level questions here from my side. I think the first one is still related to ISA, going back a little bit and I just wanted to understand a little bit, looking more towards the medium to long-term strategy of the group as a whole. So if there are any preliminary comments that you could share with us on how the incorporation of ISA would impact the long-term business plan of the group, I think that would be nice to hear. I think it would be very helpful for us.

And another question that I have is on capital allocation and growth. Ecopetrol has expanded a little bit outside of Colombia over the past few years, increasing reserves and production. And I just wanted to understand if you continue to deploy capital into similar strategies going forward and how could we look into additional oil related expansions outside of Colombia. I think those are the two questions that I have. And by the way, congratulations again on the carbon-neutral target by 2050. That shows very well the commitment that you have for decarbonization. Congratulations.

**Felipe Bayon Pardo:** Thanks, Rodrigo. I think I've made some comments around ISA and where we are and some of the things that we can disclose and talk with you. But I think I'll start with your last comment. When you were saying that you congratulate us on our 2050 announcement, which by the way, we do believe it's a historical announcement from Ecopetrol, there's two massive trends in the world that are around decarbonization and electrification. So in that context and with our commitment to get to net zero CO2 emissions by 2050, you can see there's very good fit in terms of what we're doing, and we're very consistent, methodical, and I think we've been advancing nicely in that sense.

And if you look at some of the conversations we're having during the presentation, just go through some things that we're following, which is the first one, we need to be very competitive. We need to remain competitive and protect what we're doing right now. And I think just from the last question and listening to Alberto and Jaime, some of the things that we're doing short term and some of the things that we're doing structurally ensure that we remain competitive in terms of zero-based budgeting, for example, or the digital transformation, I think that's fundamental. We've talked about diversification in terms of businesses we're in and we've mentioned specifically ISA. We've talked about decarbonization and then we've talked about TESG.

And when we think about environmental, social and governance, we put technology at the heart of being a sustainable company, and it's to do with everything in terms of being, as we

said, sustainable long term. And I'd just like to add the advancements and progress we've made in terms of how we report and how we share data. And if we go back to our 20-F, if we go to SCM, within the umbrella of the World Economic Forum, the only Latin America company to be part of the announcement in January around Stakeholder Capitalism Metrics sort of endorsed by the World Economic Forum. More companies have joined. But I just want to highlight the commitment from Ecopetrol or when you think about SASB and TCFD, we're making very, very good progress. So I think that's your first question.

The second one, in terms of capital allocation, we have a plan around the 2021-2023 program. I know you've been following the company, and we've been providing updates and providing information when things and opportunities materialize. We've done it. And during the presentation, Alberto was giving us an update on the Permian, and we're talking about Gato do Mato and some of the things we're doing in Brazil and in the U.S., and I'd just like to highlight the following, which is not in the presentation, but I want to share this with you.

If you think about the Permian and the performance we've had, if we step back, we started production operations November 2019. So it's been 18 months. And in 18 months, with the crisis in March, April, May of last year, when even WTI prices sliced and dumped as they did, we ended up 1Q with 6,200 barrels of net Ecopetrol production, that's before royalties, and 5,100 barrels after royalties. The exit rate for March was 10,000 barrels. And I think that's a very important point.

And I'll give you additional data points. The first one, in April, the month of April, gross production for the JV in the Permian was 36,500 barrels. 36,500 barrels. And Ecopetrol's average production in April was 17,900 barrels. And I'm spending a bit more time just to provide color around something that we announced not even two years ago and just to show where we are in terms of the progress. And the exit rate for April was 22,100 barrels for Ecopetrol. So I think this is just showing you progress that we've made.

And again, thanks for your questions. We will come back whenever there's new things that we need to communicate.

I'm going to ask Alberto to give us a bit more color around production. We've given you the 690,000 to 700,000 range, and we've given you details on where we are on Castilla and some of the things that we're dealing with. And I'll ask Alberto to provide a bit more context. Alberto, please go ahead.

**Alberto Consuegra Granger:** Yes, Felipe. Rodrigo, good morning. And just to complement on what Felipe said, first, there are elements of uncertainty still in our recovery plan. So rather than providing you a ramp-up by quarters, I would rather prefer to give you the generalities of the recovery plan, which basically depends in sorting the water disposal issues in Castilla and successfully bringing into production the anticipated 2022 work that I already mentioned. And also in being able to stabilize wells with high BSW, basic sediment water content, at Chichimene, Castilla and La Cira. This will provide us the right production levels to fill the gap, but we still will have to manage risks associated to demand constraints for additional pandemic waves or social conflicts in our operational areas. So that's kind of the outlook for the year.

**Felipe Bayon Pardo:** Thank you, Alberto. Thanks for the detail. If we can take the next question please.



**Operator:** Our next question comes from Vicente Falanga, from Bradesco.

**Vicente Falanga:** Thank you, Felipe, Jaime, Alberto and congratulations on the efforts to transition to a lower emissions company. I had two questions. First of all, sorry to insist in Castilla, but can you provide more details on what Ecopetrol is effectively doing to expand the environmental licenses for water disposals? Are you working on irrigation projects? Or do you have to install more facilities to separate oil from water?

And my second question, could you provide an update on the financing that Ecopetrol provided on midstream tariffs during the pandemic for smaller players in Colombia? When do you expect to recover these funds? And has there been any delinquency on that front? Thank you very much.

**Felipe Bayon Pardo:** Vicente, again, thanks for the question, and thanks for being here today. And thanks for following Ecopetrol. I'm going to ask Alberto to give us, again, a bit more detail on Castilla and what we're doing and our views on water, which is a fundamental part of our operation. And then I'm going to ask Milena Lopez to help us with your question on some of the things that we did during last year in support of small producers in Colombia with respect to transportation tariffs. So Alberto and then Milena, please.

**Alberto Consuegra Granger:** Thank you. Good morning. With regards to Castilla, we already have mentioned that we are very optimistic that we're going to be able to get the permit reactivation. We already submitted the necessary paperwork for this, and we are currently executing work at the water disposal outlet at the Guayuriba River. We expect that these works will be completed throughout this month of May and hopefully, we get the permit back. So that's kind of the situation with that. And we hope also that this type of risk, particularly with the Cormacarena authority, we are going to be able to manage it in some other adjacent fields by constructing a healthy relationship with them. So we're kind of in an improved situation right now with regards to managing the water disposal issues.

**Felipe Bayon Pardo:** Thanks, Alberto. Milena?

**Milena Lopez:** Good morning. So when we had the situation last year with lower oil prices, we engaged in a series of measures aimed at helping producers, principally from a cash flow perspective. So these things basically had three components. We had payment terms that allowed producers to defer payment of transport tariffs up to six months. This was done across CENIT and its subsidiaries. We had certain measures in terms of allowing some flexibility of ship-or-pay contracts in the sense that if you did not transport during the first three months or four months or you transported lower volumes, you could compensate those by transporting higher volumes in the following months in terms of giving producers some flexibility. And in certain pieces of some of our pipelines, primarily at CENIT, we also had some discounts, but generally speaking, the largest measure was allowing payment terms for up to six months, which allowed producers to smooth their cash flow during the periods of extremely low oil prices. And there were also some segments where we had payment terms that were up to 12 months. But on average, they were generally up to six months.

**Felipe Bayon Pardo:** Thanks, Milena. We can take the next question please.

**Operator:** Our next question comes from Andres Duarte, from Corficolombiana.

**Andres Duarte:** Thank you and good morning. I wasn't able to ask questions during the Spanish call, so thank you for taking my questions. And of course, cheers for those outstanding results.

I have three short questions. The first one is related to production. You mentioned the problems that you had on this item and I wanted to understand how did you manage to increase gas production in around 11% yearly. That's the first question.

The second one is related to costs. There's a 52% increase in imported products with respect to the previous Q. I wanted to understand what explains this increase.

And finally, you're mentioning a goal with respect to renewable energy generation. That's around 400 megawatts for 2023. That's around El Timbo's capacity, pretty large. So I wanted to understand if this capacity is limited to self-consumption or were you expecting some regulatory changes in order to become like an actor on the local electricity market. Thank you and again, congratulations for the results.

**Felipe Bayon Pardo:** Andres, thanks for being here with us today, and I will pass on the message to the wider team. We really appreciate it. So in terms of gas, and I'm going to talk about renewables, but in terms of gas, I will ask Yeimy Baez, our Vice President for Gas, to take that question. In terms of products, I'm going to ask Pedro Manrique to take that question. And I'm going to start with your third question, which is renewables.

So the first thing is that we consume the equivalent, on a daily basis, the equivalent of an installed capacity of 800 megawatts. And roughly, or broadly, 55% of our energy comes from self-generation, and the rest is energy that we buy from the grid. So those are the numbers. The 400 megawatts, and I can confirm, it's self-generation only. So our view right now is that we will continue to increase our capacity. We've talked about San Fernando, the solar eco park from Ecopetrol that we're building, 46% progress in terms of construction, and we will continue to make announcements going forward in terms of when we have some other things landed. But yes, we're continuing with our solar programs. We're doing some geothermal options as well. And we started measuring wind near Cartagena, the Cartagena refinery. So that will continue to go ahead. So I'm going to ask, Yeimy, if you can take the first question, and then please hand over to Pedro, so he can talk about the imported products. Yeimy?

**Yeimy Baez:** Thank you very much, Felipe, and thank you, Andres, for your question. As you mentioned, the gas production increased about 12% in first quarter 2021 versus the same period in 2020. The main drivers that allowed us to deliver these results were, first of all, we increased the production in our assets located in the foothills area mainly in Cupiagua, Pauto and Floreña, and it was about 8,000 barrels equivalent per day. This is a result of increasing the operational efficiency in our gas plants, but also because we were able to materialize additional sales for power generation in Yopal.

Secondly, these results also reflect the relinquishment of the Equion license. The transition with Equion has been actually working really good, and we are being able to preserve the value and the production from those assets.

And finally, of course, we are also delivering the expected value of the acquisitions of Guajira assets by Hocol and this is actually leading us to position Hocol as an important producer in the Caribbean coast. These last two effects are about 13 barrels equivalent per day, so they

were pretty significant as well. Saying that, it is important to know that anyway, during the first quarter, we were facing significant challenge in terms of demand, especially in the mobility use of natural gas-related with the pandemic, and we continue to see how we can manage those effects that we expect to keep going during the rest of the day. And of course, we are committed to have the gas that is required for the economic industry in Colombia. Thank you very much, Andres.

**Pedro Fernando Manrique:** Thank you, Felipe, and thank you, Andres, for your question and for your interest in Ecopetrol. I'm going to answer your question on the increases in the imported products in the first quarter of this year, 2021. First of all, we are net importers of gasoline and the first reason why we are seeing that increase is because we had a maintenance program in our refinery system mainly in Cartagena, the FCC and the alkylation units were under maintenance so that required additional imports.

And the second reason why we had that increase is because as Felipe mentioned before, the first quarter of 2021, the local demand recovered actually to higher levels in gasoline to pre-pandemic levels. So the average that we have in this quarter was 124 kbd versus 150 kbd we had in pre-pandemic levels. So the actual recover made us import more gasoline. So that's basically what is driving that increase in importing products. Thank you.

**Jaime Caballero Uribe:** Thanks, Pedro, and thanks for the question. Can we take the next one, please?

**Operator:** Our next question comes from Lily Yang, from HSBC.

**Lily Yang:** Hello. Good to hear you all. Thank you for taking my question. One of them is, can you just give us very quick, any implications of the different tax reform proposals to Ecopetrol or to the oil sector or what you can get so far? Yes, we know this proposal seems to be much less structural, but would still mean maybe some COP 14 trillion in more revenue for the treasure. And I just wanted to make sure that there's nothing out there about increasing taxation at the oil sector. So that's a very quick one.

And another question is on the pricing policy for fuels, it's still export parity even when the country imports? So do you see any room to see the pricing model change towards international, but import parity anytime soon or what is the status of this discussion there?

And if I can add a third question, it's on midstream. Any news about the work for the rate review for pipelines on the fuel side and about the growth CAPEX? You indicated that the Energy Ministry is coming out with more indications of where they would need to see more investments. So if you can give us an idea about ballpark of CAPEX in which areas, timing, because, in our view, this business offers attractive returns and predictable returns. Thank you.

**Felipe Bayon Pardo:** Thank you, Lily, and good to have you here in the call. As always, thanks for following Ecopetrol. In terms of tax reforms, so the first thing is that formally, the tax reform project that was presented to Congress should be withdrawn officially from Congress today. So even though the government has said that they will basically pull the project back and refrain from having it discussed in both the Senate and the Chamber, the official withdrawal of the project will only happen today. So the thing, Lily, is that there's still no project that will replace the original project. So from that sense, anything that we say right now would be in the realm of speculation. So we can't provide any judgment because there's

no project yet. So I think that's probably a better way of saying it. And obviously, as soon as we have a proposal or draft or project that starts moving forward in Congress, we will need to do our assessment. So that's where I would leave it.

In terms of fuel price parity, I'm going to ask Pedro to give us a view or more detail, but as far as we know right now, policies remain unchanged. And that's something that we will continue to follow on. And I'll ask Pedro to give us some short views on that.

And in terms of midstream, I'm going to ask Milena to give us some updates on your questions.

So Pedro, if you can give us some more color around fuel price parity and then Milena, please?

**Pedro Fernando Manrique:** Alright. Sure, Felipe. Lilyanna, thank you for your question. Yes, certainly, the government has been entertaining this idea of moving from export parity to import parity prices, mainly for gasoline. So we are basically getting ready because that means there will be fully competition and fuels here in Colombia. So we, as a group, have been working for a while, but obviously, this is a government decision and the setup of the discussion is that we're just waiting for that decision to take place but again, what we're doing from our side is just preparing ourselves and getting ready for that decision that could benefit us, but we don't see in the near future the government making that decision because of current conditions in the country. Thank you.

**Felipe Bayon Pardo:** Milena?

**Milena Lopez:** Good morning, Lily. Thank you for your question. So when we look at regulation on the refined products pipeline side, as you recall, our regulator here is CREG, which is the Commission for Regulation of Energy and Gas. And in February of this year, they issued one of their decrees, which actually sets the methodology for calculating the weighted average cost of capital that should be applied to the calculation of tariffs for refined oil pipelines. And basically, what they did in this decree was alter the way that a couple of the inputs into the formula are calculated, changing sources and changing the time periods during which they are averaged. So no big changes there. And when we use this form and I calculate it, we get a weighted average cost of capital that will be applied to the pipeline business for refined product that is going to be somewhere between 12.3% and 12.8%. This is a rate denominated in pesos. It is a real rate and it is a before tax rate.

The other thing that is important and it's part of the reason I give you a range as opposed to an exact number is that the methodology for calculating the WAC has been set. However, the WAC only comes into effect once tariffs are recalculated and tariffs are only recalculated when we have a new methodology for tariffs. So the CREG has also announced that they will be issuing for comments from all interested parties the new formula and the new methodology for calculating tariffs in the refined product pipeline in the second half of this year. So once that is published, the market will have a chance to interact with the CREG in terms of comments and things of the sort.

And then eventually, once it comes into force and it is issued officially, at that point in time, that new methodology will be used to calculate tariffs, and it will use this new weighted average cost of capital, which at that point in time we expect to be somewhere between 12.3% and 12.8%. So that's on the WAC side.

And then additionally, obviously, this rate would also be the weighted average cost of capital that would be remunerating new investments.

And the other decree that was issued by the Ministry, and this one was published for comments, so it has not been issued formally yet, was the expansion plan for all of the refined product pipeline network. And what the Ministry has suggested is that it is looking at increasing capacity in eight of the systems that we currently operate. They expect this increased capacity to be ready at different time periods. So there are projects that are aimed at being ready end of next year and then some projects that go all the way through 2036. So it's a long-term plan. We have started analyzing many of these projects. A couple of them were projects we were working on before. Some of them are different. So I'm giving you a vague order of magnitude, but we expect this expansion plan to be somewhere between USD 400 million to USD 500 million worth of investments in terms of increasing the pipeline capacity for the country.

In addition to this and not specifically in the pipeline business, but closely related to it, the CREG has been working on the possibility of organizing regulation so that you can have strategic refined product reserves throughout the country. And so that's something they're working on, but that is not something that has been published for comments yet. So those are sort of the avenues we see for increased capacity and growth in the pipeline sector. It's certainly something we are looking at and very interested in, in line with your comments in terms of well remunerated investments with little risk from the demand side. So it's certainly something we're working on in the midstream segment.

**Felipe Bayon Pardo:** Thanks, Milena, can we take the next question please?

**Operator:** Our next question comes from Barbara Halberstadt, from JP Morgan.

**Barbara Halberstadt:** Hi, good morning. Thank you for the call. My question is regarding ratings. Ecopetrol, as we have seen, recent developments in Colombia are pressuring the sovereign rating. So I was wondering if the company has discussed with the rating agencies any possibility of, in the case of a downgrade of Colombia to non-IG rating of Ecopetrol, keeping its IG rating, if that has been a discussion you have had. Any color would be helpful?

**Felipe Bayon Pardo:** Thanks, Barbara. And eventually, any movement in terms of that non-IG rating could impact Ecopetrol. That's where I would start, but I'm going to ask Jaime to give you as much color as required because, obviously, it is a topic that is of relevance to us and for you guys. So Jaime.

**Jaime Caballero:** Hi, Barbara, thanks for your question. So I think the principles that go around this, the first principle is, of course, we can only focus on managing our stand-alone rating, and I think the conversation with agencies around this started a long time ago. Over the last number of years, we've been at that. Clearly, the link with the sovereign is a fundamental consideration in our rating. I cannot understate that. And to that degree, any changes in the sovereign will likely affect our rating. That's our understanding and I think it's fair to express it as such.

Having said that, I think there are a number of things that are in our favor, a number of factors that are in our favor that agencies are recognizing. Firstly, clearly, our gearing ratio and debt levels as a whole are probably in the first tier among the sector. We have a lot of

headroom for debt in the context of the sector in which we operate. Secondly, I think the improved price outlook is fundamentally changing the view of the sector. And thirdly, the results that we are showing are demonstrating kind of the ability that Ecopetrol has to bounce back from volatility. If you look at our EBITDA per barrel, for 1Q is probably one of the very, very, very highest in the oil and gas sector in the international oil and gas sector. So all those things are there and they play to our favor.

What's going to be the outcome of this? We don't know. I think we need to monitor the situation over the coming weeks and months. Volatility will be a factor as well. So we will see where that goes, but my message here is we're focusing on the variables that we can control. And in those, we are in a better position than we were maybe three, four, six months ago. Thank you.

**Felipe Bayon Pardo:** Thanks, Jaime. Can we go to the next question please?

**Operator:** Our next question comes from Carlos Rodriguez, from Porvenir.

**Carlos Rodriguez:** Good morning everyone. Thank you for the conference call. I have two questions. The first one is more focused on the long term. For an oil and gas company, what does exactly mean the statement of net zero emissions? Is that, revenues will not come from oil and gas and Ecopetrol becoming a company from another industry?

And my second question is in short-term focus, the impact of the current situation in Colombia and if the local sales will be hit and impacted and if the international sales should offset in order to maintain the overall number for the sales in crude oil and products? Thank you.

**Felipe Bayon Pardo:** Thanks, Carlos, and thanks for being here today with us. A couple things. One, I'll start with the second question in terms of the impact of the current situation. I was mentioning in my remarks when we opened up for Q&A that obviously, we're working very closely with government, with the Ministry of Mines and Energy and other authorities to ensure that there can be deliveries of food, it's about medicine, it's about fuels to different parts of the country. And as you well know, Carlos, there's different situations in different parts of the country. Some of them are more complicated in terms of logistics and the ability to provide through the value chain and the logistics the products to the people that need it. So depending on how long this takes, it could have some impact, but as you well point out, we have some flexibility in terms of where we place our products. And we were able to do that last year, even though we had some impact, but we adjusted very quickly in terms of markets and diverting some products and some crude in particular to the export markets when we were not able to place them in our own refineries.

My wish, Carlos, I'm talking now as a citizen of Colombia, not as CEO of a company, I do hope that common sense prevails, that people can understand that we're still in the middle of the COVID crisis, and that protection of lives and health in parallel with the recovery of the economy is absolutely paramount and it's fundamental. So hopefully, we can see some progress in that sense. But we will continue to operate in terms of our own commitments to ensure that we can provide the fuels and energy to the people.

In terms of the long term and our net zero emissions announcement, a couple things that I want to highlight. The first thing is that it means that we will reduce our emissions. And quarter-on-quarter for the last years or so, we've highlighted our progress in terms of how

we're actually reducing our emissions. So if you think about where we were in 2019, and we emitted 13.5 million tons of CO2 equivalent that year, if we hadn't done nothing and taken no action, the trend would mean that by 2030, that 13.5% would have turned into 16 million tons. Point number one. With the actions we're taking, it means that the 13.5% that would have been 16% would actually be 10 million tons by 2030. So point number one.

Point number two, that 10 million tons will become zero in 2050. So I just wanted to provide a bit of an additional explanation. Does that mean that we will not be in the oil and gas business? Definitely not. We will continue to work in the oil and gas business. And we've mentioned that the first thing is we need to protect what we're doing today, but we need to be more efficient. And it's absolutely fundamental that through processes, through technology, through different things, innovation and technology, particularly, we continue to be very competitive. So point number one.

Point number two, we will diversify. And that means, for example, the potential acquisition of ISA that we've made reference to.

The third thing is decarbonization. And it means that we will use existing technology as we will continue to assess ongoing technology that's being developed to ensure that we can reduce our emissions.

So in a nutshell, we will not change the sector. We will continue to be an oil and gas company, but I think you need to think about Ecopetrol as a company that's committed to energy transition. Not all the pathways for energy transition are the same for all companies, but eventually, I'm convinced you will see a different Ecopetrol.

Ecopetrol has shown that it can transform itself. People tell us, "Look, you've advanced quite fast in terms of your views, your ambitions, your commitments", and we will continue to do that. And I was saying earlier in one of the other questions that there's two things that are fundamental in terms of megatrends: first one, decarbonization; the second one, electrification. So I think that's roughly what we'll see. But definitely, we're not moving out of the sector. We will protect what we do. We will continue to be more efficient. We will diversify, we will decarbonize, and we will use as a lever our T ESG agenda, our technology, our environmental, social and governance agenda. Thanks for the question. Can we move to the next one please?

**Operator:** Our next question comes from Anne Milne, from Bank of America.

**Anne Milne:** Yes. Good morning, Felipe and team. Congratulations on the strong EBITDA in the quarter and also your leading example in adopting many global T ESG standards. I hope this is an example for other companies in the sector in Colombia. I just want to confirm that, I think the numbers that you talked about that you have USD 600 million in investments on this front throughout your business plans for this year and next year, and going forward, will that be the same or do you estimate that will be increasing or decreasing?

And then, Jaime, if you could just comment if there's any update on liability management exercise which has been independent of not knowing what's going to be the formula for ISA, if that transaction goes through? Thank you very much.

**Felipe Bayon Pardo:** Thanks, Anne, and thanks for the question, and thanks for being here. Yes, we've talked about USD 600 million in terms of our decarbonization agenda for the 2021-2023 time period. That's unchanged, and that's our commitment.

In terms of what comes after that, I think, as I was saying, some of the elements of the pathway in energy transition have been defined, but I think there's still a space for new innovation, new technology. There's other things that will be on the table for us to pick on and build on. So as we continue to provide updates to you guys on where we are in our next business plan, 2022-2024, whenever that comes, we will be able to provide as we move forward some additional details. But in a nutshell, additional investments over and above the USD 600 million are still to be defined. So I think that's the first thing.

And in terms of your second question, Jaime, if you want to take that?

**Jaime Caballero Uribe:** Yes. Anne, how are you? On the matter of liability management, the broad frame, to answer your question, has been provided by Felipe at the beginning, which is that we have multiple sources of funding for an eventual transaction involving ISA. And the mix of funds associated to that is yet to be determined, and it's going to depend on the final conditions of the transaction, market conditions, and of course, our own cash position.

In that broad context, what I can tell you about liability management is that it's an option. It's an option. Clearly, we do not require financing for our organic plan, but in the context of an eventual transaction that we could do, we might choose to take advantage of a market window to do some form of liability management. I cannot provide you any more details about that at this stage other than that it's an option that remains open. Thank you.

**Felipe Bayon Pardo:** Thanks, Jaime. If we can go to the next question, please?

**Operator:** Our next question comes from Andrew De Luca, from T. Rowe Price.

**Andrew De Luca:** Hi, thank you for the questions. Most of my questions have actually been answered, but I wanted to go back to something earlier. Just broadly speaking, what could the oil and gas sector do to support Colombia's fiscal situation? I'm just trying to understand. In the past, have there been any discussions around implementing higher taxes on the oil and gas sector more broadly, whether that's in the form of taxes or royalties? I know you can't talk about something that hasn't occurred yet, but any sort of insight into past discussions would be helpful. Thank you.

**Felipe Bayon Pardo:** Thanks, Andrew, and thanks for being here today. And first thing I'd say, and we've made several comments around this. And I think the first thing we can do is to ensure that we have the best possible operation in terms of it being safe, being efficient, being ethical operation, and that's our commitment from Ecopetrol. We see ourselves as being part of the backbone of the recovery of this very, very complicated situation.

When you see some of the announcements that were made recently by government, with over 40% of Colombians being below the poverty line, for example, for you that followed this and that have a connection to the country, it means that we may have gone back from years in terms of bringing people out of poverty and providing opportunity. So I think from our point of view, the best thing and the thing we need to do is to ensure that we deliver, that we have good performance. And I think the results from 1Q are a very, very good start in that road.



And there's things, as you're mentioning, around dividends eventually. We have better results. There's a very comprehensive dividend policy, and the AGM should decide on that. But clearly, if there's more or better results in terms of income, taxes will help. And if there is better prices on oil and production is in the range that we've estimated and that we've signaled, there could be some more royalties. So I think that's part.

The one thing I would say, Andrew, is that in addition to all of that, there's a lot that we do in the regions with our investments, with our presence. For your context, when we were in April, May, we're only with some 45 work fronts across Colombia. Today, it's closer to 300 work fronts, just to show the relevance of where we operate. We're everywhere in the country, we have a presence, and that helps in terms of goods and services and buying from local community. So there's an expanded role that we can play in terms of Ecopetrol.

So yes, very, very important question, obviously, as I was mentioning earlier, I think, it was to Lily maybe, we will continue to monitor progress around potential fiscal reform and the tax reform. And Andrew, we'll keep you guys posted whenever we have something that's formally presented and starts to be discussed, we'll be able to assess some impact. But thanks for that. I wonder if there's any additional questions.

**Operator:** No further questions.

**Felipe Bayon Pardo:** Okay. So before I close, I'd just like to ask Alberto if we can address Frank's question with regard to Quifa. So Alberto, if you can give us some views on Quifa, and then I'll close the call. Thanks.

**Alberto Consuegra Granger:** Yes. Felipe, our partner and operator in the Quifa field has voluntarily reduced production. That's about 2,600 barrels net Ecopetrol per day as it seeks to identify additional water disposal options. So, avoiding impacting reservoir pressures that could eventually, in the future, impact more production. So, these options have been identified and taken to be discussed at the Executive Committee of the association and will be executed during second and third quarters of this year. So, at that point in time, we should expect to see a recovery in the previous production levels.

**Felipe Bayon Pardo:** Thanks, Alberto. Thanks for providing that answer to Frank. So thanks again for being here today with us at our 1Q 2021 results call. We appreciate your presence. We also value that you follow the company, and as we've said in many, many occasions before, we value the challenges, the pushbacks, the comments, the reflections that you make.

It helps us in terms of improving the way in which we communicate and share our views and results, but it can also help us better understand some other things around our business and performance and especially how you guys view it from the outside. So, thanks again for being here today and please stay safe. Thank you so much and have a great day.

**Operator:** Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.