ECOPETROL GROUP CONFERENCE CALL 2Q 2020
OPERATIONAL AND FINANCIAL RESULTS AND 2020 - 2022 BUSINESS PLAN UPDATE

Operator: Good morning, my name is Hilda and I'll be your operator today. Welcome to Ecopetrol's Group second investor day. Today we will discuss the financial and operational results for the second quarter of 2020 and the 2020 and 2022 business plan update.

All lines have been muted. There will be a Q&A session at the end of the presentation. Before we begin, it is important to mention that the comments in this call by Ecopetrol's senior management include projections of the company's future performance. These projections do not constitute any commitment as to future results nor do they take into account risks or uncertainties that could materialize. As a result, Ecopetrol assumes no responsibility in the event that future results are different from the projections shared in this conference call.

The call will be led by Mr. Felipe Bayon, CEO of Ecopetrol; Alberto Consuegra, COO, and Jaime Caballero, CFO. Thank you for your attention. Mr. Bayon, you may begin your conference.

Felipe Bayon: Good morning everyone and thank you for joining us during this second Ecopetrol's investor day in 2020, where we will discuss operating and financial results for the second quarter of the year and the 2020-2022 business plan update. On behalf of Ecopetrol, we hope you and your families are keeping safe during this very difficult time. We reiterate our gratitude for your participation in this conference call and your permanent support in other events hosted by the company, especially under the current circumstances.

First of all, I would like to highlight that the life and wellbeing of our employees remain as our main priority to cope with the current challenges caused by this pandemic. Currently, about 80% of our employees continue to work remotely, thanks to our digital transformation. In order to ensure the wellbeing of our employees and their families, we have decided to maintain the remote working scheme for the rest of 2020 for those employees whose tasks allow it. For 2021, we will continue to assess a progressive and safe return of these employees to the workplace.

Since March, as part of our contingency plans, we adjusted our operations by reducing our drilling and project work fronts in Colombia from some 300 during the first quarter of the year to 50 work fronts in April. By the end of June, thanks to the progressive increase in activity levels, some 200 work fronts were active. Activity will continue to increase as we confirm favorable and safe conditions to operate.

As part of our commitment with the communities where we operate, we have already announced COP 88 billion in social investments through our social investment program named *Apoyo País* for COVID-19 contingency. This program is mainly focused on the delivery of food kits, biosafety elements, medical equipment, strengthening the health system and the country's support to technological initiatives and solidarity with those families that most need it in 21 departments where we operate. This has been possible thanks to strategic alliances with different entities.

Please let's move on to the next slide to discuss market conditions. In line with the guidance we provided on our previous earnings conference call, the second quarter has been, at this time, the most challenging period of the current crisis, with a reduction of 38% in Brent prices as compared to 2019 year-end. In April, prices reached their lowest level, decreasing 71%. Local demand of our main products, such as gasoline, diesel and jet fuel, had a steep drop, mainly during April and May. Since the month of June, we have seen a gradual recovery related to the easing of lockdown restrictions. The crude oil basket reported a significant decline during the first semester, reaching USD $29.8 per barrel, compared to USD $59.8 per barrel in the same period of 2019. Despite the unprecedented contraction in demand, our commercial strategies successfully positioned our crudes in the market and we were able to protect all the production that was profitable.

Let's move on to the next slide for a summary of our second quarter results. Despite the gradual improvement in oil prices and local demand for products since mid-May, our operating and financial results were strongly impacted, in line with the negative performance of the global economy and the industry. During the second quarter, Ecopetrol Group's production was 677,000 barrels of oil equivalent per day, in the high end of the range announced in the first quarter. This lower production, combined with the negative impact of oil prices, resulted in a 54% decrease in revenues in comparison to the same quarter of 2019.

Despite the exceptional environmental conditions, Ecopetrol Group reached an EBITDA of COP 2 trillion and a net income of COP 25 billion during this quarter.

I now give the floor to Alberto Consuegra, who will provide further details of our operational results for the semester.

Alberto Consuegra: Thanks, Felipe. On exploration, we completed the drilling of seven wells during the first half of the year, highlighting the successful completion of the Gato do Mato-4 well. Hocol announced the discovery of gas in the Merecumbe-1 well, in the Colombian department of Atlantico in July. Additionally, I would like to mention the official approval granted on June 12th by the Brazilian Ministry of Mines and the National Petroleum Agency to Ecopetrol's 30% interest in the Gato do Mato discovery.

On production, despite volatility in the price of crude and the impact of the pandemic and public order events, we reached 706 thousand barrels of oil equivalent per day during the first half of the year.

Drilling campaigns were impacted, so that we completed 148 wells during the first half of the year, in contrast to the 311 drilled and completed in the first semester 2019.

The key milestones were the closing of the acquisition by Hocol of 43% of the offshore gas assets in La Guajira; the entering into production of 18 wells in May in the Permian Basin; as well as the upturn of 11 thousand barrels of oil equivalent per day in June that were closed due to sustainability criteria in our Colombian fields. Our current production remains profitable at less than USD $30 per barrel.

Gas remains as a strategic pillar in our energy transition strategy, as well as in our production portfolio. During the quarter, we provided financial relief to end users in the amount of COP 168 billion. Additionally, we rapidly reacted to lower demand and the country's energy requirements in order to supply the thermal power sector.

With regards to the midstream segment, the transport of crude and refined products decreased, reflecting the effect of lower local production. Midstream companies offered commercial reliefs, such as discounts and financing of the transport tariffs up to six months and, in certain cases, in volume requirements and the ship-or-pay contracts were made more flexible.

In the downstream segment, results were affected by the contraction of both domestic and international demand for the main products. Our refineries have been adapting their operational schemes, implementing measures such as adjustments in throughputs and maintenance rescheduling, in order to guarantee the integrity and reliability of our operations. Our refineries reached a joint throughput of 255 thousand barrels per day during the first quarter and 300 thousand barrels per day during the first half of the year, with a growing trend since April's operating minimums.

Gross refining margin reached USD $6.2 per barrel during the quarter. However, we have seen a gradual recovery in demand and margins since mid-May.

On petrochemical side, Esenttia continues to deliver excellent financial and operational performance. In addition, due to the partnership with companies, both from the group and the national plastic industry, it has led initiatives to provide protective equipment during the pandemic. These results were feasible thanks to a proactive commercial strategy that enabled production above the minimum operating vital of our refineries, through agreements with new clients, and anticipated sales of crude and product surpluses within international markets.

Let's continue to the next slide to discuss our progress in terms of efficiencies. We have reacted appropriately to reduce costs and expenses to confront this new environment through the capture of significant savings and activity deferrals. The results of these measures were reflected during the second quarter, with May and June the months with the highest efficiencies. Lifting cost was USD $7.1 per barrel during the first half of the year, with efforts focused on tariff renegotiation, infrastructure optimization, energy metrics, and exchange rate impacts.

The cost per transported barrel was USD $3 during the first half of the year, slightly lower when compared to the same period of 2019, mainly due to the optimization of contracts, prioritization of activities, and exchange rate effect. The average purchase tariff of non-regulated energy portfolio was 29% below market price, as a result of the incorporation of bilateral contracts and self-generation optimization during the first half of the year.

I now give the floor to Jaime Caballero, who will share the group's main financial results.

Jaime Caballero: Thanks, Alberto. EBITDA margin stood at 31%, mainly due to the price juncture and the effects of declining demand. EBITDA per barrel was USD $15.3 and was adversely affected by a decrease in sale volumes, partially offset by lower prices and purchase volumes.

Despite the challenging market and operating conditions, production only decreased 3% as compared to the first half of 2019. The cash breakeven dropped to USD $19.9 per barrel, taking into account financing rates during the semester, which increased gross debt to EBITDA ratio to 2.4 times. Capex remained steady as compared to the first half of 2019. 68% of investments were allocated to growth projects within the E&P segment.

During the first half of 2020, net income decreased versus 2019, mainly due to: firstly, a negative impact of COP 5.95 trillion from the effect of lower prices, and secondly, a negative variation of COP 3 trillion, primarily driven by inventory fluctuations and higher operational expenses that were partially offset by lower costs, as a result of austerity measures implemented and the rephrasing of activities due to diminished operational levels.

Financial expenses increased COP 490 billion due to the increase in debt levels and peso devaluation. Tax provisions in 2020 were COP 3.1 trillion less than in 2019, prior to non-recurring events. Income before impairment and non-recurring events reached COP 80 billion. Non-recurring events for the first half of 2020 represented a positive effect of COP 1 trillion. It is important to highlight the income from business combination arising from the acquisition of offshore gas assets in La Guajira, partially offset by the voluntary retirement plan that was initially accepted by 122 employees, and the contributions to support the communities during the pandemic.

Net income for the first half of 2020, after the impairment of long-term assets recognized during the first quarter, amounted to COP 158 billion.

I will hand over now to Felipe Bayon, who will present the business plan update.

Felipe Bayon: Thank you, Jaime. We managed to promptly reassess the business plan that was initially announced to the markets in February, seeking to respond to the new market conditions and the impact of the COVID-19 global pandemic. We have strengthened our strict capital discipline, cash protection and cost efficiency pillars with no criteria for portfolio opportunities valuation, focused on profitable projects, Opex optimization initiatives throughout the company, and discipline debt management.

We maintain our strategic commitments to protect our production and reserves, such as all the exploratory activities, increased production within existing fields, development of the comprehensive research pilot projects for unconventional reservoirs in Colombia, and the international investments that are strategic to the group.

We reaffirm our commitment to make progress to the energy transition, growing our share in terms of gas, increasing renewable energy in our energy metrics, supported by fundamental enablers such as social and environmental investments, as well as technology.

Let's now move on to the next slide to deepen on each of the segments. The upstream remains as a key pillar of the Ecopetrol Group. In exploration, we plan to drill more than 30 wells within high materiality basins, mainly in Colombia. Likewise, we will continue the assessment and development of the offshore gas discoveries in the Colombian Caribbean, with investments that we estimate in some USD $180 million between 2020 and 2022.

In production, we will leverage the production increase in existing fields through enhanced recovery projects. We will also continue focused on building a portfolio that allows us to preserve our reserves, prioritizing our position in strategic assets. 78% of the investments will be allocated to Colombia and the remaining 22% to the positioning and development of our international operations, mainly in Brazil and the U.S.

Let's move on to the next slide. It is a priority to continue leveraging the future growth of reserves within the Ecopetrol Group. To do so, we have maintained our investments in order to build a strategic portfolio with significant contributions towards ensuring production and reserves. Among our main projects, I want to highlight the development of the Piedemonte gas trend, drilling activities in Rubiales and in the Caño Sur fields in Colombia, and the development of the Gato do Mato discovery in Brazil and the Permian in the U.S.

Our enhanced recovery program remains an essential source to increase reserves and production, supporting a large part of our growth and value generation strategy. I would like to mention water injection projects in the Middle Magdalena Valley and the fields in the Orinoquia.

Let's now move on to the next slide. In gas, we maintain our investment commitment and some USD $780 million with a potential upside of USD $870 million. That will enable us to grow to new demand, participate in new segments, and be part of the full energy chain integration.

Leverage on the competitiveness of our prices. We seek to maximize our efficiency and diversify and accelerate the time-to-market of gas and LPG. We'll focus our efforts on the development of offshore gas discoveries in the Caribbean, the development of the Piedemonte gas trend, and other onshore gas sources, mainly in the Middle Magdalena Valley and the Sinu-San Jacinto basin.

Let's move on to the next slide. We will continue to mature our short cycle assets. Regarding the development of the comprehensive research pilot projects, *Proyectos Piloto de Investigación Integral*, in Spanish, The Ministry of Mines and Energy published the corresponding technical regulation on July 7th, and in the coming months we expect the government to issue the environmental, civil and contractual regulations that will complete the regulatory framework and allow us to move forward with all the planning activities.

We will invest around USD $127 million and continue on the definition of the preliminary agreement we announced with Exxon recently, in order to work jointly on those pilots in the Middle Magdalena Valley.

Regarding our activities in the Permian Basin in Texas, and as a result of the recovery of prices, along with our partner, Oxy, we have decided to increase operations during the second half of 2020 and start drilling additional 22 wells. These 22 new wells will add up to the 22 wells already producing, which were completed earlier in the year. The new 22 wells will start production in the first quarter of 2021. We estimate that average net production for Ecopetrol will reach 5,500 barrels of oil equivalent per day by the end of 2020, higher than the 4,000 to 5,000 barrels of oil per day announced in the first quarter of the year.

Let's move on to the next slide. With regards to the midstream segment, our efforts will be focused on ensuring the integrity and reliability of our infrastructure, while simultaneously guaranteeing logistical flexibility and efficiency in the transport of heavy crudes. To this end, we will invest some USD $780 million to USD $830 million in maintenance, geotechnics, tank integrity, and operational storage of refined products. We expect that the transported volumes will remain stable during the next three years in a range of 1.0 to 1.025 million barrels per day, in line with the country's production forecast.

Let's move on to the next slide. In the downstream segment, we'll allocate between USD $1.2 billion and USD $1.3 billion in order to secure the reliability and sustainability of our operations, while generating greater value for the segment. The total refining throughput will be in the range of 300 thousand to 380 thousand barrels per day.

As for growth opportunities, we have maintained in our plan the investment to interconnect the original crude unit in Cartagena to Reficar. We have now postponed first operation and first production to 2022, due to the new operation of protocols implemented as a result of the pandemic. We are committed to deliver ever cleaner fuels to the country, prioritizing a plan that maintains diesel quality at low levels of between 10 to 15 parts per million of sulfur and a maximum of 50 parts per million of sulfur for gasoline by 2021.

Let's move on to the next slide to discuss more details on the investment plan. Organic investments for the planned period will be in the range between USD $11 and USD $13 billion, out of which USD $3 to USD $3.4 billion will be executed in the current year 2020. Most of the investment will go to the E&P segment. 80% of the investment will be in Colombia and 20% mainly in Brazil and the U.S.

Let's now move on to the next slide to discuss the cash situation. We'll concentrate on generating growing operational revenues adding to more than USD $11 billion by 2022. Some USD $4.5 billion of incremental debt are also incorporated into the plan. This already includes the successful financing achieved in 2020. Gross debt to EBITDA ratio for 2020 will be close to 3.5 times and will have a downward trend to 2.5 times in 2022.

Let's now move on to the next slide. During 2020, we have captured more than COP 3.5 trillion in savings, due to growing synergies among the segments, as well as our austerity and efficiency measures in each of our activities. Over the next two years, we will pursue some additional savings between COP 2.5 and COP 3 trillion. Our main challenge will be the total unit cost, where our focus will be on its stability and even its reduction. To this end, we have formulated aggressive strategies to maximize the value of our existing assets, ensuring safe, reliable, and efficient operations.

Let's move on to the next slide to discuss our main targets on TESG. Our commitment to technology, the environment, social and governance, TESG, remains resolute and we are working mainly around four aspects.

In the environmental front, our main goal is to achieve a 20% reduction in greenhouse gas emissions by 2030, emphasizing the capture and reduction of CO_2, increasing energy efficiency, and growing our capacity in renewable energy power generation. We will continue working to reduce routine flaring and fugitive emissions and venting.

On the social front, around COP 1.7 trillion will be allocated by 2024 in social and environmental investments, focused mainly in closing the social gaps and promoting the development and wellbeing of the communities in those areas where we operate. The projects in these areas are mainly around infrastructure, public services, education, sports and healthcare, and the encouragement of rural development, entrepreneurship, and business development.

In terms of governance, we remain determined to improve our information disclosure standards by prioritizing relevant company matters, such as the reentry to the DJSI or Dow Jones Sustainability Index, and fulfilling the projects defined by the Carbon Disclosure Project.

To boost our digital transformation, we will allocate nearly USD $158 million towards capturing unexpected returns related mainly to artificial intelligence, blockchain and bots, amongst others.

Let's now move on to the next slide to see the plan targets. In addition to the objectives mentioned throughout the presentation, I would like to highlight, on the financial front, a cash breakeven below USD $30 per barrel in 2020 and less than USD $40 per barrel by 2022. The reserve replacement targets are under evaluation and will be subject mainly to the evolution of the plan execution and the market conditions. On the other hand, aligned with our commitment to maintain a low carbon operation, we estimate a reduction of some 1.8 to 2 million tons of CO2 by 2022, according to the target set in the prior plan.

Let's move on to the next slide for our final remarks. During the first half of the year, as the rest of the companies worldwide, we have faced tough market conditions that have required swift and timely decisions. We implemented a package of measures focused on optimizing our investment plan and reducing costs and expenses, seeking a rapid adjustment to new market conditions while ensuring the long-term value and sustainability of the country. We updated our main operational, financial and TESG metrics for our 2020-2022 business plan, which protects the main pillars of our corporate strategy, guaranteeing group sustainability and ratifying our commitment to the energy transition.

Thank you again for joining us in the second investor day of the year. We fully appreciate your continued interest and support in the company, despite the very difficult current circumstances. Now, I would like to open the floor to Q&As.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star (*) and then one (1) using your touchtone phone. If you wish to be removed from the question 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.

So that we can take as many questions as possible, we ask that you please limit yourself to three questions.

Once again, if you have a question, please press star (*) one (1).

We have a question from Frank McGann, from Bank of America. Please go ahead.

Frank McGann: Okay, thank you very much. I was wondering if perhaps you could provide just a little bit more detail on the cash breakeven that you mentioned. What drives the increase from below USD $30 this year to the higher range that you're using for the plan?

Secondly, in terms of natural gas, how big do you see that getting as a portion of production over the planned period and perhaps longer term? What do you see as the possible upside there and as a percentage of EBITDA?

And then, on renewables, clearly that is becoming a bigger focus. How much upside is there beyond what you have in the current plan, if you wanted to become more aggressive in renewable investments? Thank you.

Felipe Bayon: Thanks, Frank, and good morning. Thanks for being here. I'll start with the last one, on renewables, and then I'll ask Jaime to talk a bit about the cash breakeven and Alberto, to talk about the natural gas.

So in terms of renewables, what we've said, Frank, is that we want to be in a place by 2022 where we have 300 megawatts of power generation capacity that will be used for our own operations. So right now we have 21 megawatts of our first solar plant. It's been working since October of last year. And both on the sides of reducing emissions, we're very pleased with that, but also in terms of the economics of the plant. And eventually, the savings could be at around $1 million for the year. So from that point of view, we're very happy. It was our first entry, if you will, into using renewables, and people ask me, so you're using solar energy to produce oil and gas? And the answer is absolutely yes. We can combine both things and things can actually coexist.

We are currently in the midst of looking at a second project, which would be around 50 megawatts and you should be hearing from that soon. And we're very enthused with that, because if that comes through, it would be the largest solar park for self-generating power in Colombia.

And then, we already have a lot of projects in the pipeline, both solar and wind. So that's roughly where we are. It's important for us, as I was saying, it's not only important for the environmental side of things and reduction in emissions, but also for cost savings and clearly where we are and with prices where we are, it's good to have sources of efficiency as well from energy as such.

So, Jaime, why don't you go ahead and take the breakeven one, and then Alberto. Thanks, Frank.

Jaime Caballero: Frank, thanks for your question. So with regards to cash breakeven, firstly, I'd start with a couple of brief definitions. The cash breakeven that we refer to, both in the KPIs and in the plan metrics are, we refer to the all-in price that we need in order to sustain our minimum level of cash. And what I mean by minimum level of cash is according to our analysis of our treasury position and the liquidity that we need, how do we sustain a level that gives us confidence, that can respond to no volatility, and unexpected conditions. That level currently is somewhere around USD $800 million at a group level. So that's kind of the baseline that we set ourselves that we don't want to go beneath.

The other component of this is that typically when we refer to this, certainly when we refer to that in the plan targets, we refer to it as an annual target. So we expect to be under $30 in 2020 and we expect to be in the range of $30 to $40 throughout the planned duration.

Felipe Bayon: Jaime? I think we may have lost Jaime.

Alberto, why don't you take the question on natural gas and we will allow Jaime to come back.

Jaime Caballero: Again, going back to definitions.

Sorry? Alo?

Felipe Bayon: We lost you for a minute.

Jaime Caballero: Okay. You lost me there. So I don't know exactly where you get me, but I was explaining that we have growth in that metric from 2020 to the next years in the plan, basically because we have incremental Capex over the next couple of years. So Capex is going to grow in 21 and 22. That has an effect on the metric. We also have debt payments through that period. And the relative impact that the initial cash position and the financing flow has on the metric is reduced in 21 and 22. So basically, those are the components of the cash breakeven evolution.

Alberto Consuegra: Frank, good morning.

Frank McGann: Yes, okay. That's very clear.

Alberto Consuegra: Frank, good morning. With regards to gas, gas is indeed absolutely strategic in our agenda. We see gas as the hydrocarbon for energy transition and right now, in our plan 20 to 22, gas will represent about 17% of the production share. We'll see a slight increase in terms of volume production. 2020, about 120 mbds equivalent, and going to 135 in 2022. But when you see our strategy, we want gas to represent about 30% to 35%. So we will be investing a lot in terms of exploration in order to ensure that volumes will begin to increase at the pace expected in the period 2024 to 2030.

So gas, in terms of EBITDA, when you compare to our numbers in 2019, it represents about 11% of the upstream EBITDA. But when you look at the period of April to June this year, it represented about 53% of the EBITDA. So EBITDA will basically be depending on oil price behavior but in the long term we are seeing that gas could be representing a very high portion of our upstream EBITDA.

Frank McGann: Okay. Thank you very, very much.

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

Barbara Halberstadt: Hi, good morning. So I have two questions. In your presentation, the indication for operating cash flow and considering what's the Capex plan, it suggested that we might see negative free cash flow for the next years. So I just wanted to confirm that and if you could provide additional color from that perspective.

And also, on the second point on working capital you said that this quarter you had a buildup in inventory, so I just wanted to confirm if we could expect a reversion for the end of the year. Thank you.

Felipe Bayon: Barbara, thanks for the questions. Thanks for being here. I'll ask Jaime to take both your questions. Jaime, please go ahead.

Jaime Caballero: Thank you, Barbara. Thanks for the question. With regards to the first question around cash flow, so there are two components of that. The first thing that I would say is kind of where are we mid-year, and what we've seen is positive operating cash flow from the business over the first half of the year but indeed we have seen negative free cash flow that's going beyond the operational cash flow and including the Capex outflows. That's been basically an outcome associated to the market conditions that we had, particularly during the second quarter. And also, the delayed effect of the cost optimization measures that we have been taking. By that I mean that, as you know, we enacted an intervention plan by the end of March and early April and the results, the full results of that, are actually weighted towards the second half of the year.

The outlook that we see for the second half of the year is one where operating cash flow and free cash flow is actually positive, both in 3Q and in 4Q, and for 2021 and 2022 we will continue with that trend. We will continue with that trend. Obviously, this is highly linked to the market conditions that we have. As you know, we have some price assumptions in this plan, going from 38 average this year to 45 next year and 50 the year after that. And of course, it's also linked to the success that we have with our cost optimization measures that we have announced. That's the overall picture with regards to cash.

Your second question was around inventories, right? And basically, let me set that baseline. We did have some movements in inventory in the second quarter. The context for this is that in late 1Q, we did make a significant provision around inventory devaluation, associated to the drop in prices that we're seeing. So basically, from an accounting standpoint, we basically were recognizing in our financial statements that the value of that inventory would likely fall over time, over the period. What we've seen is that with the uptake in prices, we have recovered a significant amount of that. We still have about COP 120 billion in an accounting provision associated to that and we expect to recover a significant amount. I would say, at this stage, possibly, somewhere between COP 70 billion to COP 90 billion of that COP 120 should be recovered over the next six months. I hope this answers your questions. Thank you, Barbara.

Barbara Halberstadt: It does. Thank you.

Operator: The next question comes from Ricardo Rezende, from JP Morgan.

Ricardo Rezende: Hi, Felipe. Hi, Alberto. Thanks so much for taking my question. Hope everything is well with you and your families. So a couple of questions on my side. First one is on lifting costs. If you look at the numbers that you guys reported on the second quarter, they were much lower than what you were running before, around USD $6 per barrel. So is that a normalized level going forward? Should we expect some kind of normalization from those USD $6 per barrel?

And then the second question would be on the realized prices. I know that you're still only a month on the third quarter, but if you could give us some color on how you're selling and marketing your crude, if we should see a discount narrowing on the third quarter and the fourth quarter, compared to what you had in the second quarter, that would be great. Thank you.

Felipe Bayon: Ricardo, thanks. And I'll ask Alberto to take the first one and give us his view on forward trends and how do we see lifting costs moving on. And in terms of the second question, I'll ask Pedro to provide a bit more color. But I'd like to give you the sense that we are seeing, coupled with the increase in the Brent as such, we have, as you were mentioning, a strengthening of the differentials and they are actually looking better, even though we're only in the mid of 3Q as such. So Alberto, why don't you take the first one? And then Pedro, you take the second one. Thanks, Ricardo.

Alberto Consuegra: Ricardo, good morning and thanks for the question. Our estimate is that lifting costs will be around USD $7 per barrel at year-end. Indeed, we were able to lower lifting down to USD $6, given that we faced a substantial reduction in activity because of the combined effect of both the pandemic and the oil price. We had to reduce operations to minimum vital, suspended and postponed well work activities, as well as surface maintenance work, closed production, optimized energy costs and contracting services.

Going forward, lifting costs should increase, given that we will have to bring production back, reinitiate well work, also facilities maintenance works, but given the level of interventions, optimizations that we are doing in several fronts, like energy tariffs, optimization of contract services, especially well work, water treatment, and we should see the benefit of the implementation of our digital projects. All in all, we should see a lifting costs in the range of USD $7 to USD $9 during the period, hoping to be closer to the lower end of the range.

Pedro Manrique: Thank you, Alberto. Ricardo, thank you for your question. Let me take the one, the marketing of the crudes and the realized price for this quarter. Our commercial strategy has been very successful at anticipating sales and focusing on our long-term customers and market diversification. That's what we've been doing for a while and it really worked during the second quarter, when we had the prices and demand crisis. But as opposed to the second quarter, we're basically focused on placing every barrel on the market. On the third quarter, what we saw was that demand was picking up and there was a lot of appetite for our crudes and, because we anticipated sales, we have already placed all our programs throughout the quarter, and that looks pretty strong, and that's basically in this lower single-digits on average. However, in the fourth quarter, this week we're already offering and we're seeing that the demand is weakening a little bit. So we are expecting that the fourth quarter might be somewhere in between what we already saw in the third quarter and the second quarter and that's basically what we are seeing in the market. Thank you.

Ricardo Rezende: Great, thanks so much.

Operator: Our next question comes from Lilyanna Yang, from HSBC.

Lilyanna Yang: Hi. Thank you for taking the call. Hope all is well with you all. Could you talk a little bit about your Capex plan? If you had to prioritize or rank the projects or if you had, let's say $6 billion as opposed to $10 billion for the period 2020 through 2022, what would be the one that come first as priority? And if you can give us an idea of, for instance, how much is maintenance Capex as well to keep production or to deliver the production target that you have for the near term? This is it.

Felipe Bayon: Lily, thanks. Is that your only question? With respect...

Lilyanna Yang: No, actually, I have a lot but let me put that all together. Also the other one is on Brazil deep water. You have the first exploratory well at Saturno, right? And it came out dry as per the local press. So what are the next steps there for Saturno area? And if you can give us an idea of how much was the cost of the well or how much you actually paid for the 10% of the block and what would you need to see before you would consider to write off such investment? That's one also on Brazil.

And on the same line, if you can give us an update on the bid process for the FPSO for Gato do Mato with Shell, where you have a 30% stake?

That's another one which is part of the bigger one, if you can give us color about the JV with Oxy. If you can tell us about the breakeven for these barrels and what have you been able to learn despite the joint venture that you think could be used in Colombia on your pilot projects for the unconventionals? That'll be one set of questions. Thank you, Felipe.

Felipe Bayon: Thanks, Lily. Thanks for being here. Thanks for participating. So I'll provide some context around the first one, on the Capex, and first thing is that what we actually did with recasting the business plan for 2020-2022 is precisely do a detailed prioritization of opportunities. So should there be more space going forward, and should there be additional inflow into the company in terms of revenues, we'll have the optionality to look at, is it going to be investment in Capex or are we going to do something else with the debt? So we have the flexibility from that point of view, but we've been very disciplined in terms of how we deploy the capital and how we actually execute the capital, and we have the ability to react very, very quickly. And I'll let Alberto probably expand a bit on this in a second. And as Alberto was mentioning, we have prioritized exploration. We want to keep on exploring gas. It's a very big part of what we do. EOR, Enhanced Oil Recovery. Near field. We've been very successful with near field in the past few years or so. So we want to do that. And as you rightly point out, we have a presence, both in the U.S. and in Brazil. I'll talk about Brazil a bit and I'll talk about the Oxy deal and then I'll go back to Alberto for the exploratory Capex.

In terms of Brazil, two things: you've talked about Gato do Mato and you've talked about Saturno. So in terms of Saturno, the well, from an operations point of view, extremely successful, very pleased with the performance in terms of the time and everything else, and has provided very significant information around the potential of the area. And you would know this, but the area in which we are exploring is the size of Rio de Janeiro. So it's a very big area where we see a lot of potential, so we will continue the assessment with our partners. We will continue to work with them and jointly decide the best path forward and what we do to uncap and assess the potential for the blocks.

In terms of Gato do Mato, the FPSO, very, very pleased with having four wells down, four wells that have been successful. The Brazilian authorities formally now granting the entry of Ecopetrol into the joint venture. Very, very pleased with that. And I can say that, based on the results, we are looking at around the first quarter of 2021 going out to tender for the FPSO. So we're looking at all the technical data. Obviously, the operator has been working with the markets and providers and everything else, but in that sense, we are already making some good progress. So we're very, very comfortable with that.

In terms of the Oxy deal, and being these short-cycled activities, we were very quick in terms of starting operations last year. It was only a year ago, July 31st, that we announced the deal. September we started drilling, November we already had oil in the tanks. So we had production very, very quickly and then came pandemic. And then came the price war around oil and in the middle of the second quarter, we decided to ramp down activities. And in that sense, we've had 22 wells already drilled, 22 wells that are producing. And seeing the outlook for prices going forward, we decided to restart operations. And we were thinking, Lily, to be restarting around probably August, September. We were actually able to do it in July. So we already have a drilling rig in operation, and we are bringing a second rig into operation. The plan is to drill another 22 wells and these wells will be put into production in the first quarter of next year.

In the material you saw that we talk about 5,500 barrels Ecopetrol net. In June, we actually had 18 thousand barrels of production in the Permian. So we're very, very pleased from the operations. Break-evens, you know that Permian is probably one of the best, if not the best in the U.S., and well below USD $40. So we're very comfortable with that. Every project is economic in itself, every set of wells.

And the other thing which is great is that the operational cost with everything included for this crude that is 40 API crude is between USD $7 and USD $10 per barrel. So if you ranked these operations in our portfolio, they would be amongst the five with the lower operating cost.

In terms of what we've learned, we're conducting formal technology and knowledge transfer sessions between our team, the Oxy team. We have people seconded into the operations with our people in Colombia, and we are providing a lot of remote support as well in things around drilling and completions, and things around fracking, and things around logistics, and things around proppant, and how the frack will actually take place, and how they are performing. In things around facilities, Oxy has been very, very good at very quickly, in a space of months, designing, building and putting into operation facilities, and that's part of the reason why we have production as quickly as we have. So all that knowledge is being transferred back into the teams, and as you rightly point out, will help us in all the work we're doing to underpin the *Proyectos Piloto*, the unconventional pilot projects in Colombia.

Alberto, can you go at the exploration one, please? Can you give us a bit more color? Thanks. Thanks, Lily.

Alberto Consuegra: Lily, good morning. First of all, in terms of upstream Capex breakdown during the period, we're going to be spending a USD $1.5 billion in exploration. In terms of production growth, it will be about USD $5.5 billion. In terms of facilities maintenance, it would be about USD $2.5 billion.

Specifically in exploratory Capex, we will be prioritizing investment in Colombia. That's in onshore gas, specifically Piedemonte. And then, offshore gas Colombia. And then, we will also have to fulfill our exploratory commitments in Brazil. So that covers up what we are planning to spend in terms of exploration. Thanks, Lily.

Operator: Thank you. As a reminder, so that we may take as many questions as possible, please limit yourself to three questions.

Our next question comes from Bruno Montanari, from Morgan Stanley.

Bruno Montanari: Hi, thanks for taking my questions and for being transparent in communicating the changes in strategy on the back of all the market developments. It's very helpful.

First question is about the sale of JV in the Permian. Quick one, are you considering hedging the U.S. sale price, taking advantage of the nice rebound in WTI prices?

Second question is about long-term production trend. I wanted to understand the production trajectory a little bit better. It's understandable that the 720 target is lower than the prior year's plan, the decline in the oil price, but if we assume that the JV in the U.S. will contribute with growth, we infer that your output in Colombia will actually be declining. Is that a fair assessment? And what could make you revise your domestic production curve higher in the medium to long term?

And the third question is about asset sales. You have a very strong balance sheet, so different from many other companies, don't really need to have a material disposal program, but would it make sense to divest of any businesses you have, purely on the perspective of them not contributing to the required return on capital employed within the current portfolio? Thank you very much.

Felipe Bayon: Bruno, thanks for being here. Thanks for attending the call and thanks for the questions. I'll take the last one on the assets, and then I'll ask Jaime to talk a little bit about the hedging, and then Alberto to talk about the production trajectory.

So one of the things that we've developed over the last few years is the ability to understand in detail the portfolio that we have and that allowed us largely to recast the plan very, very quickly, the 2020-2022 plan. So, in terms of any potential divestments, we have a very good understanding of the portfolio. We continuously look at opportunities and should they happen going forward, we'll communicate it in due time. You may remember, Bruno, that a couple of years back we talked about potential acquisitions and we've done quite a few things over the last 18 to 24 months. So, in a similar way, should something happen in terms of divestments, we will communicate them promptly.

Jaime, can you please respond or answer the first one? Thanks.

Jaime Caballero: Bruno, hi. Thanks for your question. With regards to hedging, all the decisions around hedging are under the umbrella of our general hedging strategy, which is evolving. Over the course of 2Q, we did use hedges with a view to ensure a floor for our pricing, an adequate floor for our pricing that could ensure the flow of profitable barrels for the organization. And as we look forward at a group level, we are basically focused on two things. We're focused from a Brent standpoint, particularly, because that's where we have the largest exposure as a group, to see if there is a business case to ensure or to get some downside protection if there is volatility. And what I mean by business case is, of course, you need to see what is the cost of these hedges, what level of protection do they give us, and of course, in the context of so much volatility, whether we would feel comfortable with that. That's one focus area.

And the other focus area is around the tactical hedges that we do in support of specific pointed transactions and we do a lot of those, and basically what they do is they give us risk protection for changes between the dates when we negotiate a particular transaction and the day where that transaction is executed. That's the umbrella for this conversation. When we think about WTI in that, the level of exposure that we have at a group level is relatively low. So the group's exposure to WTI, when you see it at a group level, is relatively low compared to Brent, for instance, or to diesel. Therefore, it is not a priority at this time. Having said that, we have started to look at whether hedges in the Permian transaction would make sense over the long run. And it's something that we need to study in more detail going forward. I hope this addresses your question, Bruno. Thank you.

Bruno Montanari: Sure does. Thank you.

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

Alberto Consuegra: Before that, we're going to answer Bruno's question around production. Bruno, good morning and thanks for your question. What we are considering in the plan with regards to Permian production is that production will be slightly increasing from the range of 5 to 6 thousand barrels per day oil equivalent this year to about 20 to 25 thousand barrels per day in 2022. So that means that our production in Colombia will remain flat. We're assuming in the plan a decline factor of about 17% in our mature fields. So in terms of growth for the future, we see several alternatives. One is being successful in our exploration efforts, specifically in offshore and onshore gas. Secondly, we want to be successful in the secondary and tertiary recovery projects. We have 51 projects in the plan that if assumed successful, will bring additional production. And also, we are betting on mature provinces where we still have space for growth. So by 2023 onwards, we will see that the Colombian production will be increasing as well.

Operator: Thank you. We will now move to Ms. Anne Milne's question. Please go ahead.

Anne Milne: Thank you very much for the call today. A couple of questions. The first one is: I know you had this quarter to reduce your refinery output due to lower demand. And I was just wondering if you could explain to us how you decide at what level each refinery is going to be and what the advantages and disadvantages of each of them are.

The second question is: I wanted to know if you have any new targets for leverage or liquidity. Ecopetrol's liquidity is still strong and your leverage is still below your peer group and I was just wondering if you have any new targets, since your leverage did go up this quarter.

And then just a quick question. There was a new loan that was disbursed. That was a treasury loan. Is that from the Colombian treasury and was that for a specific purpose? Thank you.

Felipe Bayon: Anne, thanks for the question. I'll take the first one and I'll ask Walter to give a little bit more detail around, and then Jaime can help us with leverage or liquidity and the treasury loan.

In terms of refineries, here's what would happen. We started the year with both Barrancabermeja and Cartagena running at capacity. Barranca, a little bit less than capacity but mainly some 220 thousand and Cartagena 150 to 160 thousand. And then back-end of March and April, we saw the dramatic reduction and destruction of demand. And so we had to adapt very, very quickly to cope with the new demand levels in the country and we've talked about it, but roughly, sales for products in a month would be around 300 thousand barrels, that's the main products, diesel, gasoline and jet. And in April, we were doing 100 thousand barrels. So that led us to adapt very, very quickly. And what we did, and we have a lot of flexibility in Barranca, and we have one of the most advanced refineries in Cartagena, so that combination proved to be very, very appropriate and we were able to cope with that need to reduce demand. So in Barranca, out of the 50 plants we had at some stage, some eight plants or nine plants running, and out of 5 or 6 thousand people that we would see every day in the refinery, we had 600 people. So we had to adapt very quickly. Demand and also, well, the biosafety and biosecurity protocols to operate.

So, Walter, why don't you give us a little bit more color around that?

Walter Canova: Thank you, Felipe. Thank you. Thank you, Anne, for your questions. Yes. As Felipe said, we were running both refineries at full rate by the middle of March. The demand for our products dropped significantly and then we needed to reduce Barranca to balance to the local demand so that refinery was running at around 50% capacity during second part of March, April and part of May also. And then after that, local demand started to grow and we started to increase rates at the Barrancabermeja, following the local demand.

Margin has been positive. So from that point of view, we didn't have a problem. The problem was mainly local demand for Barrancabermeja and now we are running at around 180 kbd, which is around 80% of the capacity of that refinery.

In the case of Cartagena, we need to reduce rates to around 70% of normal capacity. And that took place second part of March, April and also May. It seems that we have been going up in rates, following the local demand, but mainly, the ability to export. Our commercial group has been doing a great job with exports of our products at the Cartagena refinery, and this has allowed us to maintain that refinery running all the units. And currently we are at around 90% of capacity, supported mainly by exports. I hope, Anne, I answered your question.

Felipe Bayon: Walter, thanks. And before handing over to Jaime, I'd just like to add, Anne, that we were also able to perform some of our key maintenance on both refineries, even though some of them were in the middle of the response to the pandemic and everything else. We were able to adapt and we've carried them through, not only 2Q but 3Q as well.

Jaime, please go ahead.

Jaime Caballero: Thanks, Felipe. Thanks, Anne. Thanks for your questions. Let me provide a bit of color around liquidity and the loans. So, I guess, firstly, with regards to leverage, 2Q was a very active quarter. We actually subscribed about USD $3.1 billion of loans through the period and there was a combination. And there were basically three elements of that. There was a bond placed in the international market of about USD $2 billion. There was a line of credit that we had for about $600 million that we pulled in. It was an existing line of credit. And there were about USD $400 million to USD $500 million of what we called treasury lines, which I think there is a translation issue in that. Effectively there are short-term loans that have a 12 to 24 month-duration. Actually, typically less than 12 months. And in Spanish, they are called *créditos de tesorería*, which can be loosely translated as treasury loans. These are not loans that are received from the government. They are received from private banks, effectively. So I think that answers a bit the treasury loan question.

With regards to leverage targets, as you know, probably this crisis took us in a very strong both liquidity and gearing position compared to our peers. We know with these lines of credit that we pulled over the second quarter, we are seeing our leverage increase. 2.4 times debt is where we are today and we think that actually over the rest of the year that leverage ratio is probably going to grow, keeping under 3.5 times debt to EBITDA. The reason why that grows is that basically, when you look at the mix of our operating cash flow and the Capex requirements that we have plus dividend payments that we are going to make over the second half of the year, that ratio deteriorates a bit.

When we look longer term, what we see is that by 2022, as our operating cash flow improves, our free cash flow improves. Actually, on a sustained basis, we see that ratio is going to be below 2.5 times debt to EBITDA. Do we feel comfortable with that? We feel comfortable with that both from a context of the flexibility that we have within the plan to make changes. We believe that we have a lot of flexibility around that. The primary driver for this increase in leverage is actually discretionary Capex. So we can always pull on that lever if we need to. So that's one reason why we're comfortable. And I think the other reason why we're comfortable is that when we look at it from a peer standpoint, despite this increased leverage, we continue to be probably in the high second quartile of companies in the sector with the lowest leverage ratios. I hope this answers your question.

Anne Milne: Very clear. Thank you.

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

Christian Audi: Hi, Felipe and hi, Jaime. Just two questions, please. The first one on ROACE, the second one on dividends. On ROACE, you have always stood out in terms of generating a very impressive return on capital employed. Could you talk a little bit about the evolution you expect during the length of the plan? And any color as to these differences you expect in ROACE between upstream, midstream, and downstream?

And then secondly, on the dividend front, if you could talk a little bit, given all the adjustments that you have made to protect the company from market conditions, what should we expect in terms of your dividend payout for this year and during the duration of the plan? Thank you.

Felipe Bayon: Thanks, Christian. And thanks for your question. Thanks for being today in the call. I'll ask Jaime to give us a bit more color around the ROACE and how we're looking at the plan. And also, if he wants to add up on dividends. But I just wanted to say, in terms of dividends, we have a policy around dividends which is very clear. And the ultimate dividend decision will be based on the decision of the AGM, considerations and the assessments, and then the final decision of the AGM that will take place in 1Q of next year. Having said that, obviously, it will depend on how we end up the year and we've managed to go through a very, very, very complicated and tough second quarter. We're seeing a little more support for prices. You've seen how we've adjusted some of the operations that we are conducting. So it will depend on all those aspects. But Jaime, do you want to talk about ROACE and then expand on dividends? Please go ahead.

Jaime Caballero: Thank you, Felipe. Christian, thank you and thanks for your question. With regards to ROACE, as we've discussed in the past, our goal in Ecopetrol has been to deliver a return that exceeds cost of capital fundamentally, and over the last number of years, we had a very good brand with regards to creating a growing spread between that cost of capital and the ROACE that we deliver. With this plan, we continue with that aim. It is challenging. It will be extremely difficult to sustain ROACEs of double digits in the market price of that, with prices that we're assuming for the time. It is very challenging, but we can see, with this investment plan, we can see ourselves in 2022 with ROACEs in the very high single digits. I mean, 8% to 10%, which competes favorably with the cost of capital that we have as a company. That's what we're expecting, obviously to the extent that we have a price upside to our plan assumptions, and I might recall they're 38, 45, 50, to the extent that we have upside to that, ROACE is going to improve in a very direct way. That's what we're seeing.

If I were to give you a bit of color with regards to segment behavior on that, in the very near-term and I mean, 2020, clearly, both the upstream and the downstream are challenged because their EBITDA contribution this year relative to historical is going to be lower at the current price environment. Midstream remains essentially unchanged with regards to their historical contribution. And what we're seeing from an outlook standpoint, 21 and 22 is a very growing contribution from the upstream, a stable contribution from the midstream, and a gradual recovery from the downstream, particularly as the Cartagena interconnection kicks in that project, which I'm sure Walter is going to give us a little bit more color later on, kicks in, we're going to see that the ROACE in the downstream improves. That's the general color of that.

And with regards to dividends, Felipe has laid out the general framework, and from a planning standpoint what I would say is that, as we look at that range of 40% to 60% payouts, we believe that we move within that range, closely linked to the actual price environment. So given the price environment that we see for 2020 and 2021, which is 38 and 45, we see from a planning standpoint, we believe that we should be in the lower end of that range, and as we go to 2022, we are going to be on the high end of that range. But again, as Felipe said, this is going to be determined by the shareholders in due time. I hope this answers your question. Thank you, Christian.

Christian Audi: Very helpful. Thank you, Felipe and Jaime.

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

Luiz Carvalho: Hi, everyone. Hi, Felipe. Hi, Jaime. Thanks for taking the questions. And congratulations for being so active by addressing the company direction through the year during the crisis. I also have three questions. I'd like to come back on the dividend policy. It's clear that second quarter was very challenging. So just how the Capex allocation and the capital allocation would match with the dividend policy that the company currently has? That's the first one.

The second question is about potential acquisitions and M&A. I mean, the company has been quite active trying to increase production and keep the reserves in a very healthy level, but what's your take in potential acquisitions? I don't know, junior companies or some in a more advantaged stage that could boost your production/reserve's life in the more short term?

And the third question is more about the lower activity that we are seeing on the U.S. schedule. I mean, when we look to the rig count over the last 18 months, there is much lower activity. So just trying to understand what would be the potential benefits that business is bringing to your partnership with Oxy in the USA. These are the question from my end. Thank you.

Felipe Bayon: Thanks, Luiz and thanks for being here. I'll take the number two and three on acquisitions and the U.S., and then I'll ask Jaime to provide a bit more context on dividends and Capex allocation.

So in terms of M&A, and you've mentioned that we've been quite active and we've, I think, demonstrated that we've followed strategy in terms of where we want to go. We've gone into Brazil, we've gone into the Permian in the U.S., and we've done a few things in the Gulf of Mexico as well. So how I would think about this is that we've been able to exercise the muscle to very quickly assess opportunities, look at the market, see how things are progressing, and then should we see something that would fit the strategy, we would consider that in detail.

Having said that, as we all know, times are a bit stretched, in terms of the cash flows, in terms of… I mean, even, and I was looking at prices today, they are up a bit, but there is still uncertainty and eventually there will be some volatility. We don't know if in terms of demand and pandemic and lockdowns, we are going to see something that's very tough in the next few months or no. So we will continue to look at opportunities, both to continue to build on strategy, and as you rightly point out, look at production opportunities, but we'll see. I think we're being cautious right now with everything going on.

And in terms of the U.S., and I provided a bit of color around that, but I'll repeat some of the numbers. So being it short cycled, we very quickly started operations in the U.S., so we announced the deal July 31st last year, September we started drilling, November we had production. And we drilled 22 wells, we completed 22 wells, we fracked 22 wells, and we are producing those 22 wells, and in June, we reached 18 thousand barrels gross for the JV, which is very good. So very quickly we were able to see the benefits of a very, very good operational performance by Oxy, by the operator, and we are very pleased with that.

And we were able, because of the nature of this business, to slow down in May. Remember, April, when we saw a negative WTI, we stepped on the brakes, we adjusted things, and we were thinking about end of 3Q restarting around September or so, and we were able to bring the first week into operation back in July. I think the Permian and where we are is one of the areas with the highest potential. It has some of the best break-evens. Our operational costs are between USD $7 and USD $10 per barrel. It's very light crude. So it has all the right elements for it to be accretive in terms of what it brings.

And in addition to that, and I've answered this I think to Lily earlier, we're bringing a lot of know-how, technology expertise, by having our secondees in the JV, by having formal technology and knowledge transfer workshops and meetings and seminars and the like. So we're very comfortable with that and in the next few months, we'll work on putting the plan for next year and the following year in detail.

Thanks, Luiz. Jaime, if you want to take the dividend question. Thank you.

Jaime Caballero: Thank you, Felipe. Thank you, Luiz. Thanks for your questions. So with regards to dividend and how we think about it, I'd say, firstly, we look at that mix between dividends and Capex in the context of our capital structure. And when we look at that capital structure, what's the baseline position, low gearing ratio relative to our peers', as Anne was asking before, space to improve that gearing level importantly and growing operating cash generation over the next months and years. That's our expectation. In that context, 2Q is a tough quarter, but it's one that we believe that's the worst that should be expected and it's in the past. The outlook going forward is a better outlook.

So in that context, when we look at what should be the right level of capital allocation and what should be the right dividend assumption for the plan, and again, recognizing that we don't necessarily decide that, but what we would like to propose from a plan standpoint, what we saw is that as a company, we have full ability to honor the dividend commitments that have already been made, importantly, associated to the 2019 performance. So we had that capacity and we also have the capacity to sustain Capex levels when we compare them to the previous years. And of course, there is a strong value proposition associated to sustaining that level of Capex, as I think it was asked before, to the extent that we can sustain that level of Capex, we protect reserves, we generate between USD $5 to USD $6 billion of NPV associated to that too, and it is actually what drives the ROACE target, where aspiration, that I spoke about earlier, of being somewhere between 8% to 10%, and in any case, returning to our shareholders more than the cost of capital over the long run.

So that's the way that we thought about it and I think, thirdly, it is not part of our plan, but I think it's an important consideration, that when you look at our price assumptions, 38, 45 and 50, depending on where you sit. But I think that most of the feedback that we've received so far is that it could be conservative, it certainly looks conservative in the short term. We feel good about that because of the uncertainties and risks that Felipe has spoken about, but if these risks do not materialize, certainly, there is significant price upside and therefore, cash upside associated to this plan.

Ultimately, using the price assumptions, what you can see is that by the end of the 2022 period, we have USD $17 billion of available cash, of which between USD $11 and $13 billion go to Capex, even on a high case. So that allows for USD $4 to USD $5 billion of excess cash in potential distributions, if the shareholders see fit. I hope this answers your questions.

Luiz Carvalho: Yeah, pretty clear. Thank you very much, Jaime and Felipe.

Operator: Thank you.

As a reminder, if you have any questions, please press star (*) one (1) using your touchtone phone.

Our next question comes from Guilherme Levy, from Morgan Stanley.

Guilherme Levy: Hi. Good afternoon. I have just one question, actually. If you could elaborate on the opportunities to increase gas production, particularly in Colombia. And I refer here to the event chart on slide 17, if you can explore what can be done in the Piedemonte, in Guajira that wasn't tried before. And also, if you can elaborate on the timeline for the offshore projects so we can have any hint on when any potential production trend from there could enter the market. And lastly, those amounts in the chart still include any sort of production coming from Shell in Colombia? Thanks.

Felipe Bayon: Guilherme, thanks for the question and I'll give a very brief context and I'll ask Alberto to expand. But there is a few things that I think are important. One, in Piedemonte, over the years, we've become the 100% owner of the main fields: Cupiagua in 2011; Cusiana, 2016; and this year, Piedemonte, the Floreña and Pauto fields. So now we have full alignment in terms of ownership and operatorship of the full trend of the Piedemonte gas opportunity. So I think that's one element, and the second one in Guajira, we now have operatorship. So as Hocol bought the equity or the ownership from Chevron, Ecopetrol was the partner then, so now is Ecopetrol and Hocol, and we have a company that's operating offshore in this very important gas field. So those two elements I wanted to highlight because they've changed a bit the landscape and clearly provide not only alignment but opportunities going forward. So I'll ask Alberto to give us a bit more detail around your specific questions. Alberto, *adelante*. Go ahead.

Alberto Consuegra: Guilherme, good morning. Thanks for your question. So in terms of production, what we are including in our plan in terms of gas production, and when you look at 2020, our current production is around 120 thousand barrels of oil equivalent. And we want to increase production by 15 thousand barrels by 2022. In order to do so, we will have to cope the declining production in Chuchupa-Ballena. That's the Guajira assets recently acquired and operated by Hocol. The declining ratio would be about 17% by 2022, so we need to specifically do something in terms of ensuring reliability and trying to cope in terms of reducing pressure in compression facilities.

In Piedemonte, what we are planning is increase our activity in terms of bringing new wells, that's in Floreña and Pauto, and also the bottlenecking treatment on transportation systems. That will allow us to bring additional molecules of gas and also there will be activity in the Caribbean onshore by Hocol, where we are planning to increase our production by 10 tons of barrels of oil equivalent.

Going forward, when you look beyond 2022, we want to be successful in terms of our exploration activities and there are two areas of prioritization. One is offshore. And when you look at our plan by 2024-2025, we would like to bring the Orca project on stream. And also in Piedemonte, there will be aggressive activity in terms of exploration, looking to see all the trend. This is going from the Casanare to the Arauca areas. So there is going to be a lot of focus on gas, Guilherme, definitely.

Guilherme Levy: Perfect, thanks.

Operator: Thank you. And we have a question from Lilyanna Yang, from HSBC.

Lilyanna Yang: Hi. Thank you very much again. All very good questions and great answers. One follow-up on the refining and transportation segment. On the refining side, the Capex of USD $1.2-$1.3 billion for the 2002 period seems a bit high, but as Jaime mentioned, I think you guys have a little bit of flexibility here. So could you give us a breakdown of the investment in refining, meaning how much is for capacity expansion, if any, and timing, if you have any FID for the Cartagena refinery expansion project, and how much of that would be for increasing the refining complexity with production of cleaner fuels, which looks like it's mandatory by the end of next year. So anything on that front would be great.

And on transportation, midstream, in second quarter you announced a type of discounts with independent producers, you helping with the working capital. Those were under conditions of Brent being very low, below 40. So what is the status now? Did you end up negotiating any of the crude transportation contracts or the tariffs? And which terms? And also, if you can talk about what we can expect on the rate review for fuel transportation for next year. Thank you.

Felipe Bayon: Yes. Thanks for your questions. So I'll ask Walter to give us a bit more detail on some of the investments and the Capex that we're seeing forward and then I'll ask Milena to help us with transportation. Walter?

Walter Canova: Thank you, Felipe. And thank you, Lily, for your questions. Regarding Capex allocation for the downstream of, you know, this USD $1.2-$1.3 billion that you mentioned, the Capex has been focused on HSE, legal compliance, and to assure we have reliable operation for the following years. And as such, of that amount, I would say 50% to 55% is allocated on turnaround activities and a reliable improvement process. In this area, I would say that, for example, in the case of Cartagena, we are running in 2021 and 2022 in the first cycle of main turnaround activity for the main process units and as such we need to make sure that we secure them properly and we have Capex allocated for that.

In the case of Barranca, also, we have capital allocated for the main activities of Barranca. Mainly, we focus on the cracker units. Those units are running into a maintenance cycle and as such, they need an important Capex allocation to make sure that we do all the repairs and allow proper operation for those units in the following year. So that is 50% to 55% of the Capex. Then we have around 25% of the Capex allocation into HSE process and legal compliance, mainly at the

Barrancabermeja, to make sure that we keep compliance of the legal requirements, local legal requirements in terms of water disposition and emissions. And then, we have another 25% of this USD $1.2-$1.3 billion that is growth project and product quality. In the case of growth, we are talking about mainly the Cartagena refinery crude interconnection project and also, we do have some growth projects at Essentia. Essentia is our petrochemical affiliate.

In terms of product quality, the main focus is in some improvements we want to do in the following years at the Barrancabermeja. As I said, the case of the interconnection of the crude unit at the Cartagena, this project was approved at the end of 2019, and the project is progressing, is already in execution phase, and we are expecting to complete this project in the first half of 2022. That will allow the refinery to go from 150 kbd to 200 kbd approximately. This is a project that we checked in the current environment and it has very good return and this is one of the only, I would say, growth projects that we have in the downstream that we are progressing in current environment because it is very positive for the future economics of the refinery.

And for 2021, we are planning to reduce the sulfur content of our gasoline at country level. And as such, we are progressing some small projects this year at the Barrancabermeja refinery. But those projects would allow us to meet those 50 ppm maximums of gasoline. But with small investments and some cut changes so we are not planning in the short term to change the complexity of the refineries, although we are progressing between this year and 2022 some important, I would say, projects to improve the quality of our products and basically to make sure that we have all our diesel and gasoline less than 10 ppm countrywide, but those projects will be developed between this year and 2022 and the big investments for those projects will come mainly between 2023 and 2026. I hope, Lily, I answered your question.

Lilyanna Yang: Thank you so much.

Felipe Bayon: Milena?

Milena Lopez: Hi, Lily. Thank you for your question. So I'm going to break the question up into three components in terms of what we have done to support producers through this period. And basically one could break up what we have done into three different things: there were discounts offered over a two-month period, there were financings, and then there was alterations to a couple of contracts, which more than alterations to the contracts, I would say saw flexibilization of volumes for the year.

So in terms of the discounts, we had discounts during a two-month period. That two-month period has already expired. There were three requirements in order for the discounts to be in place, which were basically a minimum level of volumes going through the systems where there were discounts offered. Discounts were only offered if the FX rate was above a certain level, which was COP 3,600 to the dollar, and there was a moving scale, where discounts depended on where the FX was, and oil had to be below 40. So that took place through that two-month period. We do not foresee any discounts going forward at this point in time with the market where it is right now.

The second measure we had was we offered financing to our remittance and this basically had six months where we financed up to 50% of their bill. That financing is up to 12 months with a six-month grace period, after which you began amortizing the financing and the financing had an interest rate associated with it.

And then the third thing we did was in a couple of specific cases, where clients were not able to meet the volumetric requirements of ship-or-pay contracts, what we basically did was over those couple of months where they delivered fewer volumes than were expected, they need to compensate those volumes later on in the year.

So basically, when you look at this from a full-year perspective, the impact is marginal and we basically gave them this flexibility, given the current environment. So it's not a change in the terms of the contract of our ship-or-pay contract. It's not a facility that is recurring. It was something we flexibilized, so to speak, at this specific point in time in order to accommodate producers. So these were the three measures. So when you look at the flexibilization of contracts and the financing, there is no impact in terms of revenue for the company because these volumes you don't receive now, you receive later. And from the financing perspective, we still have an accounts receivable from all these companies, and as a matter of fact, revenues grew slightly up because we charge an interest on it. And then, the discounts, which only were valid during a two-month period.

Lilyanna Yang: Right. If I got it right, so the level of EBITDA dropped by first quarter, second quarter, part of it is because of these issues but part is also because the contract provision that allows for lower volume, right? So in the first or second quarter, can I already expect a recovery on the revenue, EBITDA, to something more like last year's numbers? Or I should be kind of closer to what we saw in the first half or second quarter?

Milena Lopez: So when you look at the change in revenues for the midstream and you compare first quarter to second quarter, there is really two large drivers in terms of what you see. The first one is, it's important to remember and these are rough numbers because they change with the FX rate, approximately 80% of the revenues come from dollar-denominated tariffs, which are oil pipeline. Between 20 and 25, depending on where the FX is, comes from refined product pipelines, whose tariff is in pesos. So the big impact in first quarter and second quarter is basically reduction in volumes, which is not associated to ship-or-pay contracts really. It's associated because the ship-or-pay contract flexibilization that was marginal. It's really associated from lower transported volumes, both because there was lower production, and because in the refined product pipeline, the measures taken by government requiring people to stay at home, reduced our transportation volumes of gasoline, diesel, etc. significantly during that period.

So when we look at what's going to happen going forward, you're going to see a sharper recovery in refined product transportation, just because of the dynamics of people no longer being under a stay-at-home order, so to speak. And then, a gradual recovery of volumes in lines to what you have heard from the upstream segment. Those are really the two largest moving factors between first quarter and second quarter. It's not related to the ship-or-pay contracts or the flexibilization.

Operator: Thank you. We have reached the allotted time that we had for questions. I would now like to turn the call back to Mr. Bayon for any final remarks.

Felipe Bayon: Thank you. And thanks everyone for participating. We have over 170 connections. That's something we appreciate, your interest and participation in following what we do at Ecopetrol. Your questions are very important to us. They can provide us some additional lenses that we need to use to see how we're doing, what we need to do, things that we may need to adjust. So we really appreciate it. We expect that you remain safe, that you take care of yourself, and that you and your families are safe throughout these very trying and difficult times.

We've gone from a very tough second quarter. You saw that in the results. We hope that probably the worst is behind us. We've managed to prepare what we think is a very comprehensive plan for the rest of the year and the next couple of years. And obviously, we'll continue to monitor conditions, how they evolve, how things change, and we'll continue to communicate promptly with you and we appreciate the comments that some of you've made around transparency of our communications, the frequency of our communications, and we also value your feedback. So with that, thanks again for participating, and I hope that everyone has a very good rest of the day. Goodbye.

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