

FITCH TAKES ACTIONS ON COLOMBIAN CORPS; DOWNGRADES MEXICO'S SOE'S LCS

Fitch Ratings-Chicago-26 July 2016: Fitch Ratings has taken select rating action on Colombian corporates following the country's sovereign Rating Outlook revision to Negative from Stable and the downgrade of Colombia's Long-Term Local-Currency Issuer Default Rating (IDR) to 'BBB' from 'BBB+'.

Fitch has also downgraded the Long-Term Local Currency IDR of Mexico's state owned enterprises (SOEs) Petroleos Mexicanos (Pemex) and Comision Federal de Electricidad (CFE) to 'BBB+' from 'A-'. These rating action follows Mexico's sovereign Long-Term Local-Currency IDR downgrade to 'BBB+' from 'A-'.

Fitch has taken the following rating actions:

Ecopetrol S.A. (Ecopetrol)

--Long-Term Foreign-Currency IDR affirmed at 'BBB'; Rating Outlook Revised to Negative from Stable;

--Long-Term Local-Currency Long Term IDR downgraded to 'BBB' from 'BBB+'; Rating Outlook Revised to Negative from Stable.

Empresas Publicas de Medellin E.S.P. (EPM)

--Long-Term Foreign-Currency IDR affirmed at 'BBB+'; Rating Outlook Revised to Negative from Stable.

Interconexion Electrica S.A. E.S.P. (ISA)

--Long-Term Foreign-Currency IDR affirmed at 'BBB+'; Rating Outlook Revised to Negative from Stable.

Petroleos Mexicanos (Pemex)

--Long Term Local-Currency IDR downgraded to 'BBB+' from 'A-'; Rating Outlook Stable;

--MXN Global Notes downgraded to 'BBB+' from 'A-'.

Comision Federal de Electricidad (CFE)

--Long Term Local-Currency IDR downgraded to 'BBB+' from 'A-'; Rating Outlook Stable.

--MXN Global Notes downgraded to 'BBB+' from 'A-'.

KEY RATING DRIVERS

The downgrades of the Local Currency rating for Ecopetrol, Pemex and CFE, reflect Fitch's recent downgrade of Colombia and Mexico's Long-Term Local-Currency IDRs. The credit quality of these sovereign owned entities (SOEs) is linked to those of their sovereigns given their strategic importance for the countries they operate within. The sovereign rating action reflects the updated guidance contained in Fitch's revised Sovereign Rating Criteria dated July 18, 2016. As part of a broader portfolio review, Fitch concluded that the credit profile of Colombia and Mexico no longer supports a notching up of their Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. This reflects Fitch's view that neither of the two key factors cited in the criteria that support upward notching of the Long-Term Local-Currency IDR are present for Colombia and Mexico. Those two key factors are: (i) strong public finance fundamentals relative to external

finance fundamentals, and (ii) previous preferential treatment of Local Currency creditors relative to Foreign Currency creditors.

The Negative Rating Outlook for Ecopetrol, EPM and ISA reflects the recent revision of Colombia's Rating Outlook to Negative. EPM's and ISA's Foreign-Currency Ratings are at the same level as Colombia's Country Ceiling Rating of 'BBB+' and could be negatively impacted by a downgrade of the country's sovereign ratings and country ceiling. Colombia's Negative Rating Outlook reflects the country's increasing vulnerability to changes in investor sentiment and external financing conditions as current account deficit reached 6.4% of GDP in 2015. Colombia's Negative Outlook also reflects the agencies expectation that external indebtedness will remain high over the forecast period as foreign direct investment (FDI) could finance only half the current account deficit, and the negative impact of a the central government deficit and Colombian Peso's (COP) sharp depreciation could have on credit metrics.

RATING SENSITIVITIES

The main factors that could lead to a downgrade of Colombia's sovereign ratings include:

- Failure to reduce the fiscal deficit and stabilize the government's debt burden;
- Persistence of large external imbalances;
- Persistence of macroeconomic imbalances that undermine the credibility of the policy framework.

The Rating Outlook is Negative.

Consequently, Fitch's sensitivity analysis does not currently anticipate developments with a high likelihood of leading to a positive rating change. Future developments that could individually, or collectively, result in a stabilization of the Rating Outlook include:

- Faster than anticipated reduction in Colombia's current account deficit;
- Reduced fiscal deficits leading to improved debt trajectory;
- A higher growth trajectory that supports improved debt dynamics and reduces Colombia's income gap with higher-rated sovereigns.

A downgrade of Colombia's sovereign ratings will likely result on a rating downgrade for Ecopetrol and would create negative pressure for EPM's and ISA's ratings.

LIQUIDITY

FULL LIST OF RATING ACTIONS

Fitch has taken the following rating actions:

Ecopetrol S.A. (Ecopetrol)

- Long-Term Foreign-Currency IDR affirmed at 'BBB'; Rating Outlook Revised to Negative from Stable;
- Long-Term Local-Currency IDR downgraded to 'BBB' from 'BBB+'; Rating Outlook Revised to Negative from Stable.

Empresas Publicas de Medellin E.S.P. (EPM)

- Long-Term Foreign-Currency IDR affirmed at 'BBB+'; Rating Outlook Revised to Negative from Stable.

Interconexion Electrica S.A. E.S.P. (ISA)

--Long-Term Foreign-Currency IDR affirmed at 'BBB+'; Rating Outlook Revised to Negative from Stable.

Petroleos Mexicanos (Pemex)

--Long-Term Local-Currency IDR downgraded to 'BBB+' from 'A-'; Rating Outlook Stable;

--MXN Global Notes downgraded to 'BBB+' from 'A-'.

Comision Federal de Electricidad (CFE)

--Long-Term Local-Currency IDR downgraded to 'BBB+' from 'A-'; Rating Outlook Stable.

--MXN Global Notes downgraded to 'BBB+' from 'A-'.

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Date of Relevant Rating Committee: [July 25, 2016.]

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362

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