

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's downgrades Ecopetrol to Baa3; places ratings on review for further downgrade

Global Credit Research - 18 Jan 2016

New York, January 18, 2016 -- Moody's Investors Service ("Moody's") downgraded Ecopetrol S.A. (Ecopetrol)'s senior unsecured ratings to Baa3 from Baa2. At the same time, the company's BCA (Baseline Credit Assessment) was lowered to ba3 from baa3. The ratings are on review for further downgrade.

Ecopetrol's ratings downgrade was triggered by persisting stressed oil prices, which will continue to negatively affect the company's cash flow generation and credit metrics, increasing its credit risk. While Ecopetrol has no material debt coming due in the next two years, weaker cash generation and higher leverage, coupled with limited funding availability overall for the oil industry, will hurt the company's ability to continue with its capital spending program to sustain reserves and production.

Moody's joint-default analysis continues to assume a high probability of support from the government of Colombia (Baa2 stable). In addition, the agency's assumption for default dependence between Ecopetrol and the government continues to be moderate. This assessment now results in a three-notch uplift of Ecopetrol's senior unsecured rating to Baa3 from its ba3 BCA.

Moody's review of Ecopetrol's Baa3 senior unsecured ratings and ba3 BCA will focus on the degree of the impact that depressed oil prices will have on the company's cash generation. The analysis will also consider opportunities that the company may have to reduce costs further, as well as on its flexibility to adjust capex down or sell assets in order to protect liquidity. In addition, Moody's will assess the government of Colombia's ability to support the company on a timely manner.

Downgrades:

..Issuer: Ecopetrol S.A.

.... Issuer Rating (Local Currency), Downgraded to Baa3 from Baa2; Placed Under Review for further Downgrade

....Multiple Seniority Shelf (Foreign Currency), Downgraded to (P)Baa3 from (P)Baa2; Placed Under Review for further Downgrade

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Downgraded to Baa3 from Baa2; Placed Under Review for further Downgrade

Outlook Actions:

..Issuer: Ecopetrol S.A.

....Outlook, Changed To Rating Under Review From Stable

RATINGS RATIONALE

Despite Ecopetrol's strong efforts to improve operating efficiencies and reduce capex to protect its liquidity position, the company's credit metrics will deteriorate further as a consequence of persistent low oil prices. "Moody's estimates that Ecopetrol's leverage will exceed 5 times by the end of 2017, from 3.3 times in September 2015, with low prospects of recovery in the medium term", said Nymia Almeida, a Vice president - Sr. Credit Officer at Moody's.

The company's Baa3 ratings and ba3 BCA continue to reflect Ecopetrol's status as Colombia's leading oil and gas producer, accounting for about two-thirds of the country's production and 100% of the supply of oil products. The ratings also take into consideration that Ecopetrol counts with stable cash flows from its midstream subsidiary, which includes Ocesa (Baa3 positive).

Late 2015, Ecopetrol announced a cut on its 2016 capex program to USD4.8 billion, which compares to the USD6.7 billion previously planned for the year, and to the USD7.4 billion spent in 2014. Ecopetrol's capex is

focused on exploration and production in over 60% of total. Lower annual capex starting in 2016 will be driven mostly by reduced investments in downstream, which will decline materially during the year as the upgrade of refinery Reficar approaches completion, expected by the company for the first half of 2016.

Moody's expects that, during this period of lower operating cash flows, the government take as a percentage of the company's net income will remain below the usual 80%; the rating agency notes that the dividend payout ratio in 2014 (paid in 2015) was 70%.

Ecopetrol has a weak liquidity position that includes USD3 billion of cash and cash equivalents as of September 30, 2015 to cover the company's short term maturities of about USD1 billion for 2016 and 2017 plus interest, capex and dividends. For the next twelve to eighteen months, Moody's expects a weakened EBITDA in the USD1.5 billion neighborhood, along with USD4.8 billion in annual capex, and around USD3 billion in interest, dividends and taxes. Further depreciation of the Colombian peso would affect the company's financial flexibility, despite it generating around half of revenues and EBITDA in US dollars, because about 85% of its debt is denominated in hard currencies. While Ecopetrol could sell certain non-core and core operating assets, this would be a challenge under current oil market conditions.

The principal methodology used in these ratings was Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include the Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Colombia, Ecopetrol S.A. (Ecopetrol) is the largest integrated oil and gas company in Colombia. It is responsible for over 60% of total Colombian oil production and has a proved hydrocarbon reserve position of roughly two billion barrels of oil equivalent at the end of 2014. For the twelve months September 30, 2015, the company generated revenues of USD22.5 billion and it had total assets of USD59 billion through three business segments, exploration and production (E&P, 51% of revenues and 56% of EBITDA for the last twelve months ended September 31, 2015), refining activities (34% of revenues and 5% of EBITDA), and transportation and logistics (15% of revenues and 39% of EBITDA). Its production averaged 740.9 mboed in the third quarter of 2015, 2% below that of the year before.

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