MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms Ecopetrol's Baa3 ratings; negative outlook

Global Credit Research - 04 May 2016

New York, May 04, 2016 -- Moody's Investors Service (Moody's) confirmed Ecopetrol S.A. (Ecopetrol)'s Baa3 senior unsecured ratings. The company's ba3 BCA (Baseline Credit Assessment) remained unchanged. The outlook on the ratings is negative.

This concludes Ecopetrol's ratings review initiated on January 16, 2016.

Confirmations:

..Issuer: Ecopetrol S.A.

.... Issuer Rating, Confirmed at Baa3

....Multiple Seniority Shelf, Confirmed at (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Confirmed at Baa3

Outlook Actions:

..Issuer: Ecopetrol S.A.

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

RATINGS RATIONALE

"Ecopetrol's ratings confirmation was based on Moody's view that, although the company's Exploration and Production (E&P) business will post weak operating metrics in the next couple of years given low oil prices, high cost structure and declining production, the company's midstream and downstream businesses will support stable cash flows, enough to sustain financial metrics in credit-protective levels," said Nymia Almeida, a Senior Credit Officer at Moody's. "Furthermore, Moody's continues to assume high probability of support from the Government of Colombia (Baa2 stable) and a moderate default dependence between the two entities. This assessment results in a three-notch uplift of Ecopetrol's senior unsecured rating to Baa3 from its ba3 BCA."

Ecopetrol's capex reduction of 38% in 2016 to around USD 3 billion is positive as a measure to protect liquidity. Going forward, investments in downstream will decline materially once the upgrade of the Cartagena refinery is completed. However, lower capex in 2016 will weaken production, which Moody's expects will decline by over 8% annually in 2016 and 2017. Longer term, lower capex will also put pressure on the company's reserve replacement, which is critical since Ecopetrol's reserve life as of December 2015 was only 7.4 years. Favorable results from the midstream business, which benefits from high capacity utilization and adequate tariffs, as well as the 25% higher refining capacity and efficiency improvements starting in June 2016, will contribute to Ecopetrol's ability to post flat to slightly positive free cash flow in the next couple of years, assuming no dividend payments in the period.

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 Ecopetrol's more stable cash flows from its midstream subsidiary, Cenit, which includes Ocensa (Baa3 negative).

Ecopetrol has a weak liquidity position that includes USD 2.2 billion of cash and cash equivalents as of December 31, 2015 to cover the company's short term maturities of about USD 1.2 billion for 2016 and 2017 plus interest and capex. Liquidity buffers include asset sales as the company has a wide portfolio of valuable core and non-core assets. In the current environment, divestitures of upstread assets pose challenges but midstream and downstream assets could be relatively easily monetized. Although about 85% of the company's debt is denominated in hard currencies, local currency devaluation risk is not high for Ecopetrol given that a large portion of its EBITDA is in US dollars.

The negative outlook on Ecopetrol's ratings reflects the weak results in its E&P business in terms of cash margin, production growth and reserve levels. Although its midstream and downstream business have supported Ecopetrol's consolidated results, a sustained negative performance in E&P will have a material negative effect on the company's credit profile in the medium to long term.

A ratings downgrade could occur if Ecopetrol's fails to post EBITDA in the USD 4 billion neighborhood in the next 12 months or if it faces liquidity constraints. In addition, because Ecopetrol's ratings benefit from implicit support from the government of Colombia, a downgrade of the government's rating or a change in Moody's assumptions about government support could lead to a downgrade of Ecopetrol's ratings. Conversely, a rating upgrade is not envisioned in the medium term but the outlook on Ecopetrol's ratings could be stabilized if during 2016 the company manages to reverse the trend of sharp decline in production and weak E&P margins as a result of achieving further operating or capital efficiencies.

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 published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

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 1.8 billion barrels of oil equivalent at the end of 2015. The company has three business segments, exploration and production (E&P, 51% of revenues and 56% of EBITDA), refining activities (34% of revenues and 5% of EBITDA), and transportation and logistics (15% of revenues and 39% of EBITDA). Its production averaged 761 mboed in 2015.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Nymia C. Almeida
VP - Senior Credit Officer
Corporate Finance Group
Moody's de Mexico S.A. de C.V
Ave. Paseo de las Palmas
No. 405 - 502
Col. Lomas de Chapultepec
Mexico, DF 11000

Mexico
JOURNALISTS: 001-888-779-5833
SUBSCRIBERS:52-55-1253-5700

Steven Wood
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.