

ISSUER COMMENT

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Ecopetrol S.A.

Ecopetrol and Ocesa's Baa3 ratings are unaffected by Colombia's outlook change to negative

The change in the Government of Colombia's rating outlook to negative has not affected the Baa3 ratings or stable outlook of the state-owned company Ecopetrol S.A. and its subsidiary Oleoducto Central S.A. (Ocesa). Our expectations of government support for Ecopetrol are unchanged, and the company's fundamental performance is improving. Therefore a potential downgrade of Colombia's sovereign rating to Baa3 would not necessarily result in a downgrade of Ecopetrol's Baa3 rating.

On 22 February 2018 we affirmed the Government of Colombia Baa2 ratings and changed the rating outlook to negative from stable due to our expectation of a slower pace of fiscal consolidation and weakening fiscal metrics as well as the risk that the new government, post presidential elections, will not have an effective mandate to pass additional fiscal measures to preserve Colombia's fiscal strength.

Ecopetrol's Baa3 ratings and ba3 BCA continue to reflect the company'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 solid and relatively stable cash flows from its midstream subsidiary, Cenit SAS, which includes Ocesa. Furthermore, we assume high probability of support from the Government of Colombia 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 (baseline credit assessment), which reflects the company's intrinsic credit risk without support considerations.

Ecopetrol has been successful in reducing operating costs, thereby increasing its cash flow and reducing its financial leverage. The company's reserve replacement strategy appears to be gaining positive momentum as evidenced by its reserve replacement rate close to 130% in 2017. Ecopetrol's liquidity is good and its refinancing risk is low. The stable outlook reflects the company's underlying improving fundamentals and also assumes that the company would not be materially affected by the current investigations at Reficar.

Ocesa's Baa3 ratings and stable outlook are the same as Ecopetrol's, based on our view that Ocesa's credit profile is closely linked to that of its main shareholder and controlling entity. The company's rating reflects its leading industry position in Colombia and strategic importance to Ecopetrol as well as favorable industry dynamics in Colombia in terms of transportation demand for pipelines. The company's ratings also incorporate its tariff and contract structure that supports solid margins and predictable cash flow as well as a moderate financial leverage profile. These factors help offset its exposure as a single-asset

pipeline, its relatively small scale within the midstream peer group, and a high dividend payout policy.

Ecopetrol, 88.49% owned by the government of Colombia, is the largest integrated oil and gas company in the country. Its production averaged 715 mboed for the last twelve months ended on September 2017, when total assets amounted to \$38 billion. Ocesa is the largest crude oil pipeline and the only public-use pipeline in Colombia. Its pipeline is ~845 km in length with 745,000 bpd of capacity. The company is 72.65% owned by Ecopetrol through its wholly-owned midstream subsidiary, Cenit SAS. In September 2017, Ocesa's total assets amounted to \$1.9 billion.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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