

2020



SUPPLY CHAIN SUSTAINABILITY ASSESSMENT



SUPPLY CHAIN MANAGEMENT (SCM)



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SUPPLIER CODE OF CONDUCT



Ecopetrol's Code of Ethics and Conduct outlines the basic and minimum standards of conduct expected for the Suppliers working on behalf of the Company or any of its subsidiaries. The Code establishes highest standards of integrity to be upheld in all business interactions with Suppliers in order to prevent corruption, bribery, fraud, money laundering, terrorism financing, violations of the FCPA, conflicts of interest, ethics conflicts and unfair competition.

The Code of Ethics and Conduct also states that the commitment to life is one of the principles that must rule the behavior of all the recipients of the Code. According to this principle, self-care actions inside and outside the work and hygiene, safety and environment rules set out by Ecopetrol are a mechanism for the defense of life, health, and the environment.

In addition, the principles of respect and commitment to life constrains the company to guarantee the defense and promotion of human rights, to prevent discrimination and to comply with the HSE regulations. Furthermore, the Code of Ethics and Conduct requires compliance with the law, which means that the recipients of the Code are committed to comply with regulations regarding fair labor practices and human rights, including prohibition of forced or child labor.

In 2020, the Code of Ethics and Conduct was updated to incorporate rejection to sexual harassment and discrimination; reaffirm prohibition against facilitation payments, contributions, political donations, lobbying services, social investment or sponsorships for political activities or activities unrelated to the purposes established by Ecopetrol and promote fair competition.



Fundamental Human Rights

Child labor, Fundamental human rights and Remuneration: Ecopetrol's internal document "Labor Aspects and Conditions" establishes the policy for these topics. This regulation is accepted and followed by all the suppliers.



Sustainable Procurement Policy

Ecopetrol's internal document "Local contracting of goods and services for the supply chain", establishes the frame and conditions for local contracting in which are included the Environment Management plans, requirements, relationship and promotion of local offer that suppliers and their own suppliers must accomplish. This regulation is optional according to each procurement strategy.



Occupational Health and Safety

Occupational Health and Safety: Ecopetrol's internal document "Promotion of a secure, clean and healthy labor" establishes the HSE policy, this regulation is accepted and followed by all the suppliers.



Environmental standards

Environmental standards for the suppliers' processes, products or services: it is mandatory that new and existing suppliers have to fulfil these environmental standards according to its procurement category (economic activity).



USEFUL FACTS

Ecopetrol's suppliers declare to understand and comply with the obligations of ethics, transparency and compliance in contracting, which are an essential part of the contract details and include, among others: Code of Corporate Governance, Code of Ethics and Conduct, anti-bribery laws, accounting regulations and internal control mechanisms. Failure of suppliers, their workers, subcontractors, agents and their respective workers to comply with ethical, transparency and compliance obligations, can lead to a serious breach of contract or to a contractual termination right exercised by Ecopetrol and the companies of Ecopetrol's Group.

CRITICAL SUPPLIERS



Ecopetrol identifies its critical suppliers through an annual supplier's segmentation which considers the suppliers' annual procurement spent and its respective operational risk/impact. In the identification of critical suppliers, Ecopetrol considers the following elements:

- 1 CRITICAL COMPONENT SUPPLIERS OR SIMILAR**
- 2 NON-SUBSTITUTABLE SUPPLIERS OR SIMILAR**
- 3 ANNUAL PROCUREMENT SPENT**

In 2020, Ecopetrol had **151** critical suppliers who represented the **80%** of the annual procurement spent.

Even though Ecopetrol does not have a segmentation of critical non tier 1 suppliers, the supply chain process allows a comprehensive segmentation in accordance with strategy, category of goods or services and the type of supplier. This means that in the identification of the procurement needs the process consider those factors and determines the critical activities that must be directly contracted and executed by its tier 1 suppliers and the non-critical activities that could be subcontracted or provided by third parties (non-tier 1 suppliers).

It is important to mention that Ecopetrol defines two types of non-tier 1 suppliers:



Natural or legal entity who carries out activities on behalf of Ecopetrol's suppliers that are an essential part of the object and scope of the contract executed for Ecopetrol. All the subcontracts must be authorized and approved by Ecopetrol. In 2020, Ecopetrol had **59*** subcontractors mainly for adaptation of facilities, specialized studies and civil works.

SUBCONTRACTOR

Natural or legal entity that performs activities on behalf of Ecopetrol's suppliers that are not an essential part of the scope and object of the contract executed for Ecopetrol. In 2020, Ecopetrol had **19.070** providers, mainly supporting transport and food services.



PROVIDER

**Data can not be comparable to 2020 information due to different applicable parameters.*

02



USEFUL FACTS

Ecopetrol segments its suppliers according to their procurement cost and the risks and impacts in the development of the business strategy (Strategic, Core, Lever and Routine Suppliers) and for the non-tier 1 suppliers' management, Ecopetrol has internal regulations, that includes subcontracting guidelines, relationship with those suppliers and other commercial and labor aspects.

SUSTAINABILITY RISK ASSESSMENT



Ecopetrol's Supply Chain Process is carried out through a strategic model which aims an effective, responsible and a sustainable long-term supply of goods and services, based on a segmented operation in terms of cost, opportunity, quality, and risk level.

To achieve harmony in operations and reduce sustainability risks, Ecopetrol makes an advance management and assessment of the environment to identify and mitigate social and economic conflicts. For this purpose, Ecopetrol develops and monitors different assessments procedures which allows the identification and classification of suppliers with a high-risk potential:

EARLY WARNING SYSTEM

Periodic monitoring of the suppliers' compliance through variables associated to claims and complaints, events reported in site, contract's economic deviations, late payments, garnishments, and insolvency. Likewise, this system also monitors the impact that non-compliance may have in Ecopetrol's operations, this impact is assessed by 3 components: 1. Concentration of contracts with Ecopetrol, 2. Estimated value of non-compliance of obligations with suppliers and 3. Number of Workers (Exclusive labor force).

INTERNAL RISK MANAGEMENT SYSTEM

Internal risk management system for contracting, designed by AON and used by ECOPETROL to identify and control risks associated with the hiring of third parties, including policy coverage design, negotiation with the insurance market, issuance and monitoring of policies, among others.

CRITICAL CONTRACTS

Monitors the historic suppliers' non-compliance of payment obligations to third parties by the contractor.

SUPPLIER'S SEGMENTATION

Identifies critical suppliers based on the operational impact/risk and the annual procurement spent. The impact/risk classification is a result of the risk/impact matrix in which each category (economic activity) is assessed by its procurement risk and operational impact.



USEFUL FACTS

Suppliers must be registered at Ecopetrol's Supplier System Information (SIPROE), in which the main criteria analyzed during the verification stage includes legal standing, commercial experience, financial capacity, HSE conditions, performance, compliance with previous contracts and commitment to ethics and transparency.

SUSTAINABILITY RISK MANAGEMENT



Ecopetrol defines risk as any event of uncertain occurrence that, if materialized, generates a positive or negative impact for the achievement of the organizational objectives at any level of the Company. In accordance with this definition, Ecopetrol’s supply chain process defines as a Sustainability High Risk any event or action with negative impacts in economic growth and social wellness. As mentioned before, to achieve harmony in operations and reduce sustainability risks, Ecopetrol makes an advance management and assessment of the environment to identify and mitigate social and economic conflicts with the procedures previously defined.

Ecopetrol performs sustainability risk assessments for its tier 1 and critical non-tier 1 suppliers as shown as follows:



TIER 1 SUPPLIERS
3.285

Ecopetrol evaluates its current suppliers in 5 different topics: 1. Operating efficiency, 2. Accomplishment of Deadlines, 3. Administrative Aspects, 4. HSE and 5. Environment Management to assure the Excellence and Operational Continuity. For potential suppliers Ecopetrol develop a procurement strategy in which those suppliers are been evaluated financially, technically and commercially, among others

 **100% ASSESSED**
IN THE LAST 3 YEARS



NON TIER 1 SUPPLIERS
19.129

Ecopetrol has internal regulations for the non-tier suppliers’ management that includes subcontracting guidelines, relationship with those suppliers and other commercial and labor aspects.

Ecopetrol defines two types of non-tier 1 suppliers:

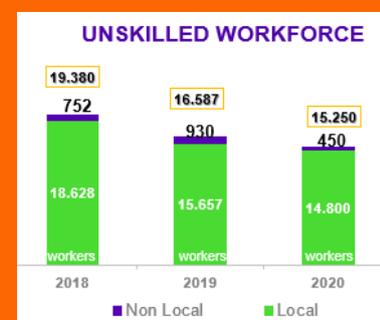
1. Subcontractors: 59
2. Providers: 19.070

 **100% ASSESSED**
IN THE LAST 3 YEARS



USEFUL FACTS

Local hiring fluctuates according to the requirements of the works and projects that Ecopetrol executes. In the last 3 years, majority of unskilled workforce has been local (**above 90%**).



Note 1: Data only includes Ecopetrol’s contractor’s workforce

Note 2: 2018 data corresponds to january - november; 2019 - 2020 data corresponds to january - december.

SUSTAINABILITY HIGH RISK SUPPLIERS



Ecopetrol has different procedures to identify and monitors high-risk suppliers. As a result, in 2020 Ecopetrol had **302** high-risk suppliers, segmented as follows:

151
CRITICAL
SUPPLIERS

95
INTERNAL RISK
MANAGEMENT SYSTEM

46
EARLY WARNING
SYSTEM

10
CRITICAL
CONTRACTS



Even though these suppliers do not represent a high participation in terms of volume, it is important to mention that critical suppliers represent the 80% in terms of annual procurement spent (151 suppliers) and the other 151 suppliers identified as high risk have the potential to perform an operational risk.

In addition, the Company has established different strategies to build strong and valuable relationships with suppliers and to develop new joint initiatives, such as Performance Review Meetings (PRM).

CORRECTIVE ACTION PLANS FOR SUPPLIERS

In accordance with the results of the Performance and Audit Assessments to the suppliers, both parties may agree in the development of a corrective action to improve the gaps identified. It is important to mention that the corrective plans are applied only for critical suppliers (according to suppliers segmentation). Its application depends on the supplier's performance and the mutual agreement between the two parties.

Suppliers make a proposal of their own corrective performance plans, prior to Ecopetrol's approval, according to the impact of the deviation and the contract's execution term. Ecopetrol monitors periodically the compliance of these corrective performance plans. In 2020, 57% of suppliers with corrective action plans improved their performance.

In addition, Ecopetrol establishes Performance Review Meetings (PRM's) for strategic suppliers that represents 40% of the annual procurement spent to develop long term relationships and promote a joint innovation, adding value in the contract's execution.



USEFUL FACTS

From the 151 critical suppliers of 2020, the development of a corrective action plan was only approved by Ecopetrol to 11 suppliers due to their performance assessment results in the execution of the contracts. All of these suppliers developed a corrective action plan according to the gaps identified, covering 100% of the suppliers which required corrective action plans.

RISK MANAGEMENT MEASURES



Ecopetrol defines a Performance Assessment Process which indicates that the existing suppliers must be assessed by 5 indicators: 1. Operating efficiency, 2. Accomplishment of Deadlines, 3. Administrative Aspects, 4. HSE and 5. Environment Management.

In this process, the Company gives a guideline about the assessments that have to be done during a contractual relationship, including frequency, aspects to be evaluated and other criteria. This process also indicates that for contracts whose execution term exceeds six (6) months and are classified as Medium (M), High (H) or Very High (VH) HSE Risk, it is mandatory to complement the Performance Assessment with at least one annual audit in the place where the contract is executed, preferably to be carried out during the first three (3) months of execution of the contract.

In addition to performance assessments, Ecopetrol develops different risk management measures:

LABOR VERIFICATIONS

In order to ensure compliance with labor obligations, visits are made to suppliers to identify breaches, occupational risks and early alarms to mitigate situations that can impact labor normality. These verifications are recorded in a standard report that allows the parameterization of findings and the inclusion of improvement actions. In 2020, **273** verifications were carried out.

INTERNAL RISK MANAGEMENT

As mentioned before, this system designed by AON is used by Ecopetrol to guarantee the management of risks associated with the hiring of third parties.

DUE DILIGENCE

In 2020 Ecopetrol carried out an internal due diligence of **54** suppliers in order to identify and mitigate possible risks of violations of the Code of Ethics and Conduct related to corruption, bribery, fraud, money laundering, terrorism financing, violations of the FCPA, conflicts of interest, ethics conflicts and unfair competition.

SUPPLIER VERIFICATION

As part of the supplier registration and verification process, Ecopetrol consults suppliers on national and international restrictive lists, such as OFAC Sanctions, the United Nations Security Council list and Police, Attorney General, General Prosecutor and General Comptroller National Database. If any supplier presents a finding in any of these lists, it is immediately blocked and cannot be invited to contracting processes or contracted by Ecopetrol.

 In 2020, **100%** of the critical and high sustainability risk suppliers were assessed through one or more of the measures mentioned.



In the last two years, more than the **20%** of the suppliers' local workforce has occupied senior levels.

Note: Data only includes Ecopetrol's suppliers workforce
Note 2: Data corresponds to January - December.



T-ESG INTEGRATION IN SCM STRATEGY



Ecopetrol's SCM is carried out through a strategic model which aims an effective, responsible and a sustainable long-term supply of goods and services, based on a segmented operation in terms of cost, opportunity, quality and risk level. In accordance with this model, Ecopetrol has defined the following 5 priorities of its SCM Strategy:

VALUE GENERATION

Articulate investment and supply plans in order to maximize the integral benefit of the SCM (saving, quality, opportunity cost), and the incorporation of new business models to face the Company's challenges.

EXCELLENCE AND OPERATIONAL CONTINUITY

Strengthen the supply process (end to end) optimization, guaranteeing an optimal inventory level and building alliances with main suppliers for the execution of innovation and efficiency initiatives.

RELATIONSHIP WITH THE ENVIRONMENT

Develop and improve the local and regional capacities and incorporate the productive vocation of the regions where Ecopetrol operates in the procurement strategy of the company.

CAPACITY DEVELOPMENT

Ensure the demand for the unconventional oil production, recovery and offshore operations with optimal contracts and improves the efficiency of the supply process through the digital transformation plan.

SUPPLY CHAIN EXTENDED TO CORPORATE GROUP

Deploy Ecopetrol's operational model to the Corporate Group in order to engage optimizations, standardize the process and establish a Corporate Governance Model that allows the assessment of the supply chain function as a Group.

KEY T-ESG OBJECTIVES 2020

1 Maximize the integrated supply chain value with a sustainability vision

- Increase local contracting of goods and services and the incorporation of environmental sustainability criteria in supplier selection.
- Develop an agenda which aims to promote environmental practices in the suppliers and ensure a sustainable SCM.

2 Guarantee a healthy, clean and safety operation (HSE)

- Measure safety performance indicators such as TRIF and implement campaigns to strengthen the HSE culture in the Company.

3 Competitiveness of the supply chain management

- Capture benefits from the Digital Supply Management Project.

07



USEFUL FACTS

- 1 The supply of goods and services at Ecopetrol is carried out through a transversal procurement strategic model aligned by the company's Contracting Manual. This model does not apply to raw materials and products, financial operations, new businesses, sponsorships, energy supply and non-procurement agreements, since these topics have their own specific processes in place.
- 2 Ecopetrol does not sign contracts with the Government for the supply of goods and services required for the operation of the Company.
- 3 Contract minutes executed by Ecopetrol are published in the Electronic System for Public Procurement (SECOP) for stakeholders and public consultation.
- 4 In 2020, Ecopetrol achieved savings of COP\$2.5 billion, exceeding the target of COP\$2.3 billion.

T-ESG FACTORS INTO SUPPLIER SELECTION



During the Supplier's registration, selection and assessment performance processes, Ecopetrol considers the following T-ESG factors:

- 1 Management systems, HSE and technical certifications:**  
Suppliers must be registered at Ecopetrol's Supplier System Information (SIPROE), meeting different requirements such as: management systems certifications, HSE and technical certifications, among others according to their procurement category (economic activity).
Weight: 100%
- 2 Promotion of the national industry:**  
National Government Legislation (Law 816 of 2003) aims to support the national industry through public procurement. During the selection process this is a mandatory evaluation factor.
Weight: 10%
- 3 Local Offer - Goods and Services:**  
Ecopetrol has in place a "Local contracting of goods and services for the supply chain policy" that promotes local contracting in the procurement strategies. This factor is optional and in accordance with each procurement strategy.
Average weight: determined according to the procurement strategy
- 4 Environmental Criteria:**  
During 2020, Ecopetrol implemented an environmental factor for the suppliers' selection process. 18 goods and services categories were identified with potential environmental factors. These factors were implemented in 4 of the major 2020 strategies (rigs, operation and maintenance, engineering and medications). Ecopetrol also established a "green clause" for the correct execution of contracts in terms of environmental responsibility.
Average weight: determined according to the procurement strategy
- 5 Performance Assessment:** 
Suppliers are evaluated by 5 indicators: 1. Operating efficiency, 2. Accomplishment of Deadlines, 3. Administrative Aspects, 4. HSE and 5.Environment Management.
Average weight: each factor has an individual weight of 100%

 Required for new suppliers  Required for existing suppliers



USEFUL FACTS

Colombian government dictated the Law 2046 of 2020 in which all the public entities and private entities that manage public resources in the national territory are obliged to acquire locally food purchased from small local agricultural producers in a minimum percentage of **30%** of the total value of the budget allocated to the purchase of food.

ACTIONS TO DEAL ECONOMIC CRISIS



Due to the sanitary emergency COVID-19, Ecopetrol's supply chain process developed and implemented different strategies to face this new context and to help its suppliers to overcome challenges, as well.

SUPPLIER'S CASH FLOW IMPROVEMENT MEASURES:

EARLY PAYMENT FOR SUPPLIERS

+1.500 Micro, Small and Medium Enterprises (45% of all Ecopetrol suppliers), covered by this mechanism for a payment of COP\$553 milliards.

GUARANTEE WITHHOLDING

110 suppliers received in advance the Guarantee Withholding for a value of COP\$116 milliards, in 145 contracts.

DISCOUNT OF ECONOMIC SANCTIONS:

COP\$6.7 milliards of economic sanctions were put on hold during the sanitary emergency.

WORKFORCE

During 2020, there were an average of 26.000 suppliers employees (exclusive dedication) of which, 84% were local workforce and 24% corresponded to diverse an inclusive employment (women, first job and people with disabilities).



USEFUL FACTS

- 1 83% of suppliers considered the early payment measure as a leverage for its cash flow
- 2 Only 8% of suppliers workers (exclusive dedication) had their employment contract closed during 2020

KEY SUSTAINABILITY CHALLENGES



Ecopetrol developed the T-ESG strategy which aims to assure a responsible management and execution of its business. This new vision is centered in the Environmental, Social and Governance dimensions, identifying the technology as a key lever for the organizational goals achievement.

T-ESG 2020 RESULTS:

TECHNOLOGY The market and technological changes requires to transform the SCM in terms of predictability, transactional automation, prospective and innovation. These emerging technologies encompass big data analytics, robotics, blockchain and smart contracts, among others.

PROCESS AUTOMATION

4 ROBOTS IMPLEMENTED

100% AUTOMATED INVOICES

96% AUTOMATED COUNTERPARTY COMPLIANCE CHECKLISTS

Advance Analytics Implemented

IN THE SUPPLY CHAIN STRATEGIES

Innovation with suppliers

THROUGH 21 PRM AND 30 SHOWROOMS MECHANISMS

ENVIRONMENT SCM looks for the reduction for the environmental impact by promoting the efficient use of resources, extending the life cycle of the goods and services required.

CIRCULAR ECONOMY

\$50 milliards savings by optimizing consumption

\$16.8 milliards in sale of non-hazardous waste

EMISSIONS BASELINE CONSTRUCTION

445,4 tCO₂e -> Logistics operator

ENVIRONMENTAL CRITERIA

18 goods and services with potential environmental criteria

SOCIAL SCM aims to leverage the socio-economic reactivation with the generation of inclusive and diverse employment, local contracting and the inclusion of productive entrepreneurship.

SOCIAL SUPPORT AND LEVERAGE

\$675 milliards in supplier's cash flow strategies

\$6.2 billions local goods and services (Ecopetrol + Suppliers)

92 businesses with productive entrepreneurship for a total of \$7.3 milliards

17% reduction of requests, complaints and claims

GOVERNANCE SCM seeks to guarantee the transparency and integrity of the process, risk mitigation and value generation through clear rules in a relationship of mutual benefits with the suppliers and stakeholders.

\$2.5Bn savings due to process optimization

91% favorability in supplier's and its workers perception of the SCM

100% supplier relationship plan carried out virtually

Creation of the Legality and Transparency Pact with the chambers of commerce of the main regions of operation to promote integrity and fight against corruption in local contracting of goods and services for the supply chain.

201% increased of suppliers participation in networking spaces



USEFUL FACTS

In 2020, the SCM developed the T-ESG Guide which integrates more than 20 process mechanisms for a supply chain sustainable management in terms of Technology, Environment, Social and Governance and strive for an excellent T-ESG performance.

2020: NAVIGATING THE NEW REALITY



Due to the sanitary emergency COVID-19, Ecopetrol's supply chain process developed and implemented different strategies to face this new context and help its suppliers to overcome the difficulties:



Application of Decree 491 of 2020 to maintain +5,000 Jobs in Contracts for catering, transportation and security services.



Monitoring of suppliers workforce.



Salary schedules in contracted activities were not modified.



5,265 food coupons for contractor's workers affected by contracts on hold and terminations.

ADVANCE ANALYTICS

Development of analytics models in the following themes:

- 1 Predictive planning of needs for the supply strategy (oil services)
- 2 Prospective analysis of the future supply chain
- 3 Analysis of the economic impact of local goods and services
- 4 Optimization models for sustainable mobility
- 5 Analysis of unconventional techniques for macroeconomic impact.
- 6 Creation of a "tariffs bank" to identify goods and services costs
- 7 Anticipated management of control entities requirements
- 8 Improve decision-making in contract management



USEFUL FACTS

The SCM is committed to the recovery and socioeconomic reactivation of communities through the following initiatives for 2021:

1. Generate **+1000** formal diverse and inclusive jobs.
2. **57%** of local contracting of goods and services.
3. Add **+20 new entrepreneurial businesses** in the supply chain.