

The Oil & Gas Industry in Colombia and the Ecopetrol Partial Privatization



**Dallas Bar Association - International Law
Section**

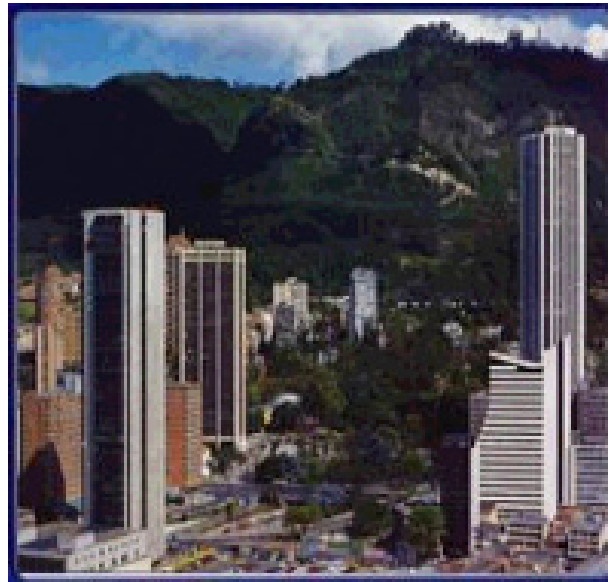
March 18, 2008

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I

Doing Business in Colombia



Background



Geographic and Demographic Background

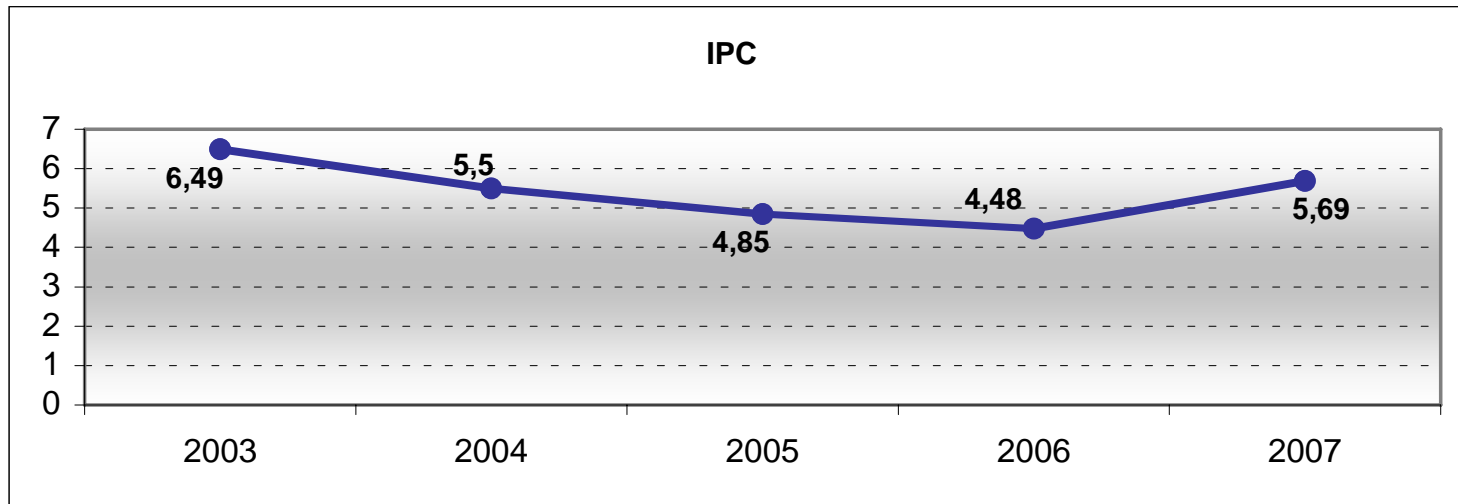
1. **Area:** 1.14 million sq. km. (440,000 sq. mi.); about three times the size of Montana; fourth-largest country in South America in terms of size.
2. **Main Cities:** *Capital* - Bogota (pop. approx: 7.1 million). Other major cities include Medellin, Cali, Barranquilla and Cartagena.
3. **Colombia's Population:** 44 million as of July 2007

Economic Background

1. **GDP (2006):** \$131 billion
2. **Annual growth rate (2007):** 6.65%.
3. **Natural resources:** Coal, petroleum, natural gas, iron ore, nickel, gold, silver, copper, platinum, emeralds

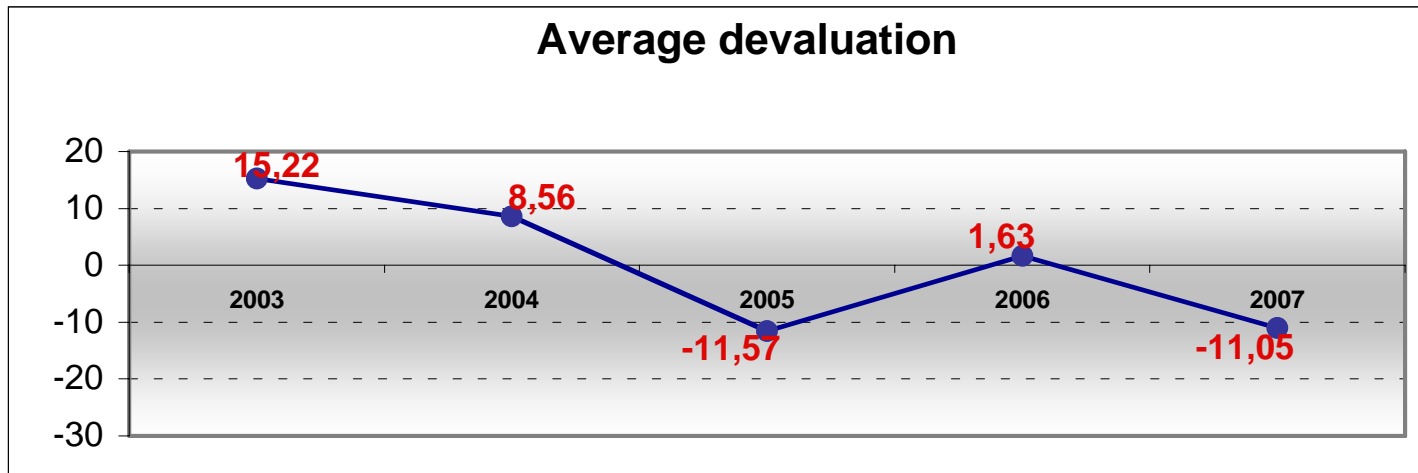
Average Inflation

YEAR	2003	2004	2005	2006	2007
Consumer index	6,49	5,5	4,85	4,48	5,69
Change	-0,500	-0,990	-0,650	-0,370	1,210



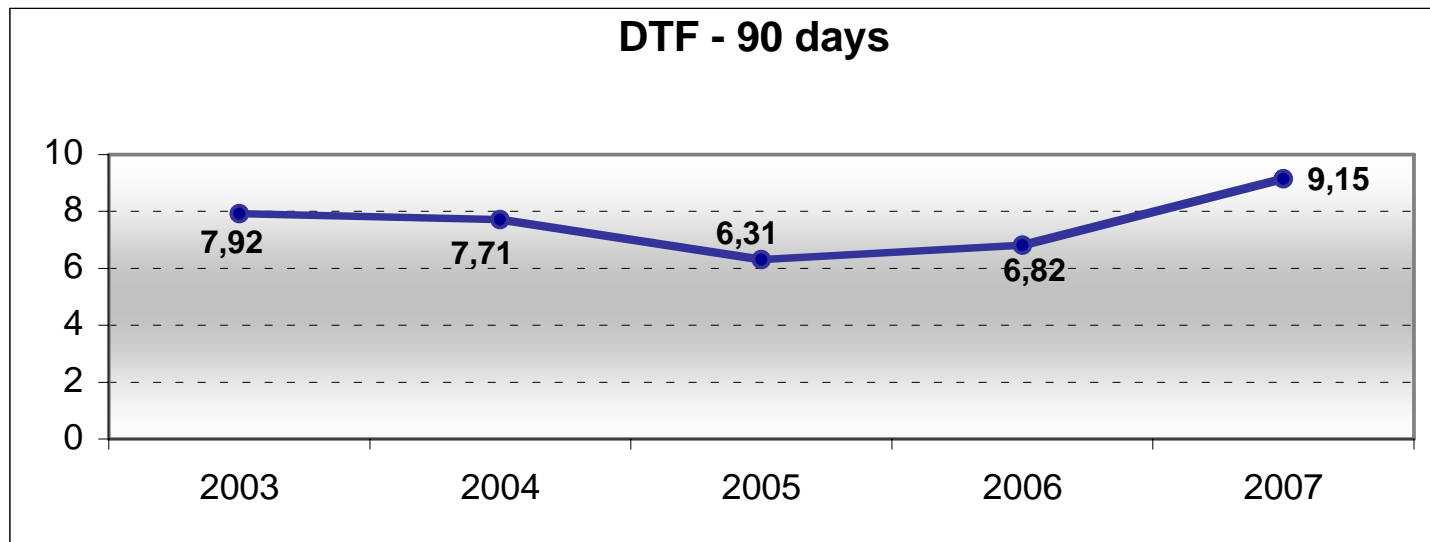
Average Devaluation

YEAR	2003	2004	2005	2006	2007
Average devaluation	15,22	8,56	-11,57	1,63	-11,05
Change	6	-6,66	-20,13	13,2	-12,68



Commercial Interest Rate Earned on Deposits (DTF)

YEAR	2003	2004	2005	2006	2007
Interest rate (DTF)	7,92	7,71	6,31	6,82	9,15
Change	0,22	-0,21	-1,4	0,51	2,33



The Move to a Market Economy

1. Colombia is a market economy with commercial and investment ties to the United States.
2. Transition to a less regulated economy has been underway for more than 15 years.
3. Unlike many of its neighboring countries, Colombia has *not* suffered any dramatic economic collapses (i.e. extreme currency devaluations, sovereign debt default, etc) in modern times.

Economic Improvement

Factors contributing to economic growth:

1. Increase in domestic security
2. Low inflation
3. Stable currency (Colombian peso)
4. Increased exports to neighboring countries and the US

Foreign Investment in Colombia

1. U.S. is largest source of foreign direct investment (FDI) in Colombia, particularly in areas of coal and petroleum.
2. In 2006 FDI totaled \$6.3 billion, an increase of 294% from 2002.
3. Most new investments are in mining and oil and gas sectors.

Stability Agreements under Law 963 of 2005

- Legal and regulatory conditions applicable to contract at moment of its execution shall remain applicable during the time determined for its performance
- Foreign investors pay a yearly fee of 1% over annual investments to Colombian Secretary of Treasury
- Regulatory stability is ensured for a period of 3 years to 20 years

Stability Agreements under Law 963 of 2005

44 Requests	20 Approved 8 Signed contracts
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As of February 2008

2008	20 Requests 14 Signed contracts
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Projected

- Bavaria, Alpina, Proficol Andina, Divco, Almacenes Éxito, Sofasa, and Comertex have signed stability agreements.

Free Trade Agreement US-Colombia

- Free Trade Agreement currently pending approval before the US Congress
- Colombia's Congress has approved the FTA
- Constitutional Court ruling is pending

Improving Security

1. Ongoing civil conflict with socialist guerrillas (FARC, ELN) and paramilitary organizations
2. By 2004, the government had reestablished its presence in all of the country's 1,099 municipalities.



Reduction in Hostilities and Criminal Activities

1. Attacks by insurgents against rural towns decreased by 91% from 2002 to 2005
2. Between 2002 and 2006, Colombia saw a drop in homicides (37%), kidnappings (78%), terrorist attacks (63%), and attacks on the country's infrastructure (60%)

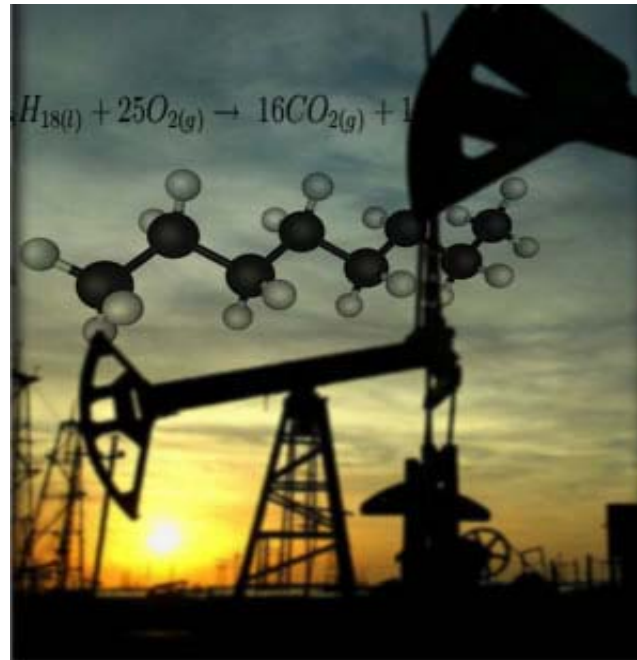
Recent Developments

1. Successful military strike against high-ranking FARC member Raul Reyes
2. Border incident with Ecuador, which led into diplomatic dispute with Ecuador, Venezuela, and Nicaragua
3. Diplomatic relations were reestablished after the Rio Convention in the Dominican Republic (March 2008)



II

Colombian Oil & Gas Background Information



The Colombian Oil & Gas Sector

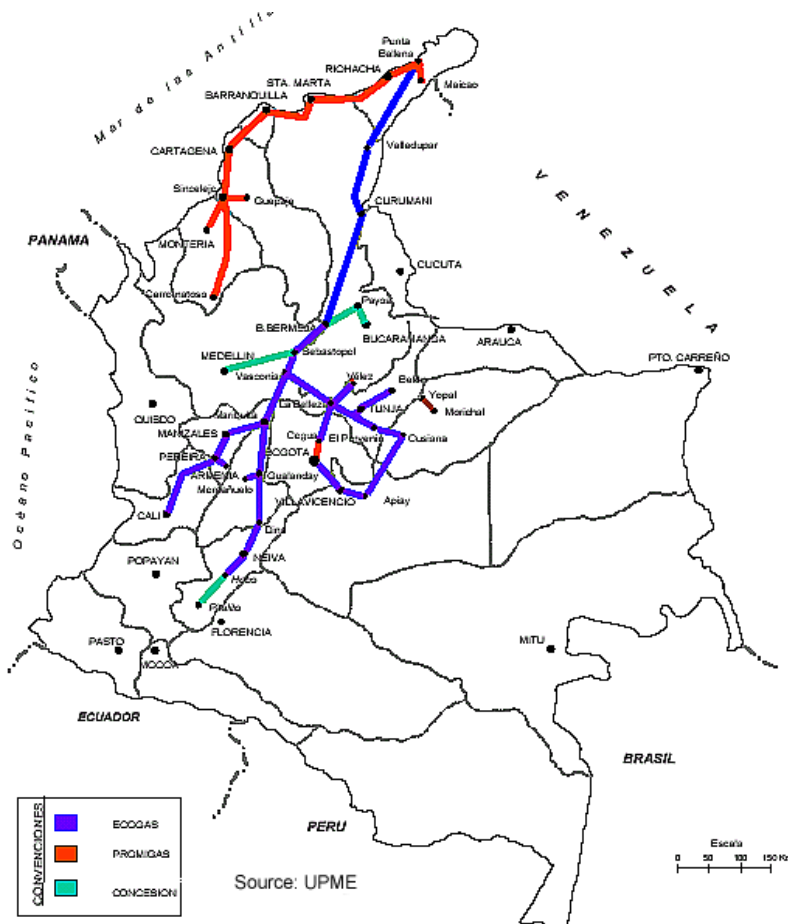
- Improved security measures and new drilling activity have moderated the decline in production
- The projection is for Colombia to be a net exporter through 2011 (given current production estimates)
- Colombia is trying to revitalize its oil and gas reserves and production



Service Station Gasxi 76 (Barranquilla)

Venezuela/Colombia Gas Pipeline

- Sale of Colombian gas to Venezuela
- First section: 225 kilometers
- Construction start date: July 2006
- Total investment: US\$325 million
- Capacity: 500 million cubic feet of natural gas per day



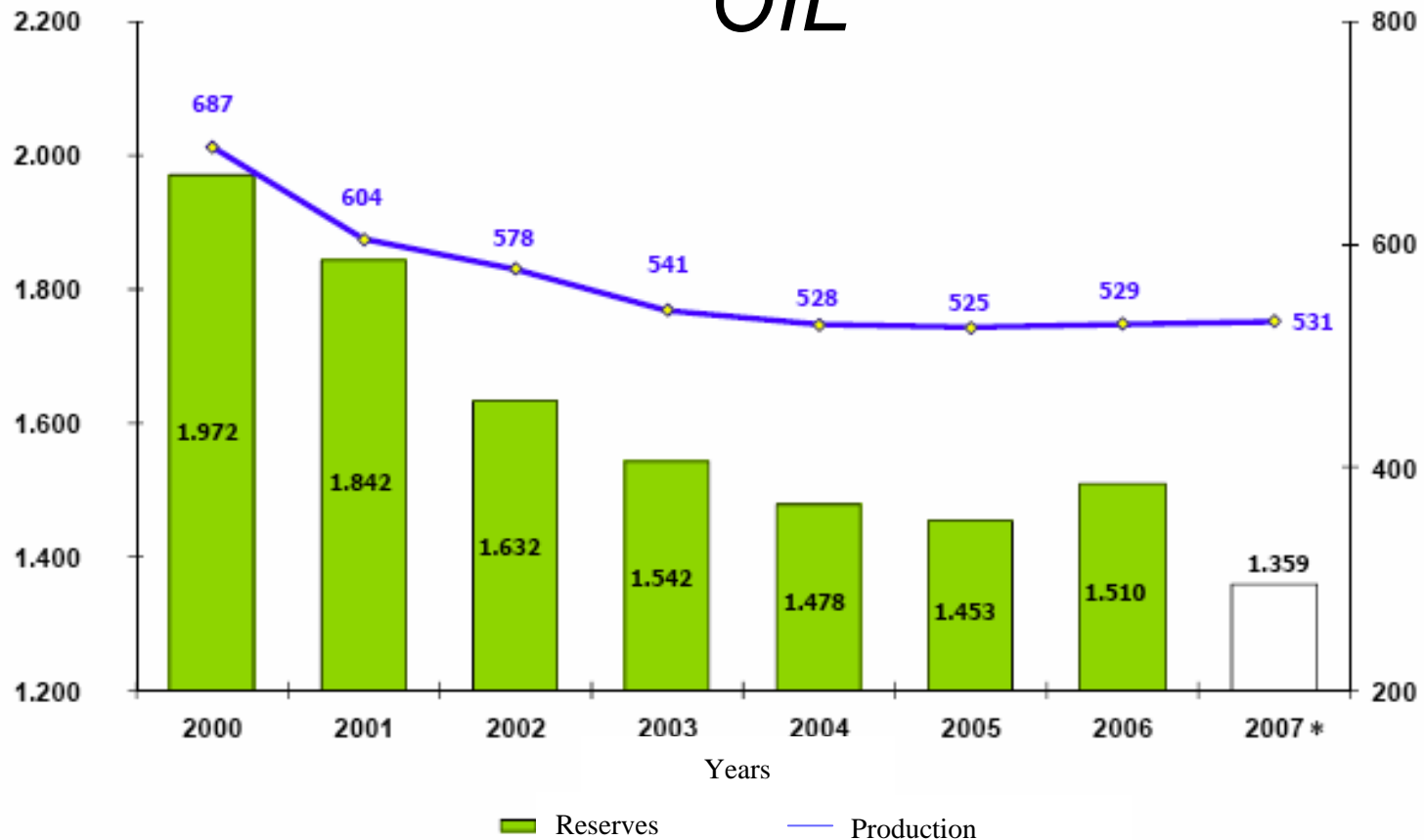
Average Oil and Gas Production

Year	OIL (million barrels per day)	GAS (million cubic feet per day)
2000	687	575
2001	604	597
2002	578	603
2003	541	578
2004	528	601
2005	525	648
2006	529	680
2007	531	730

Reserves (in million of barrels)
-noted in green-

Average Production (in thousands
of barrels per day)
-noted in blue-

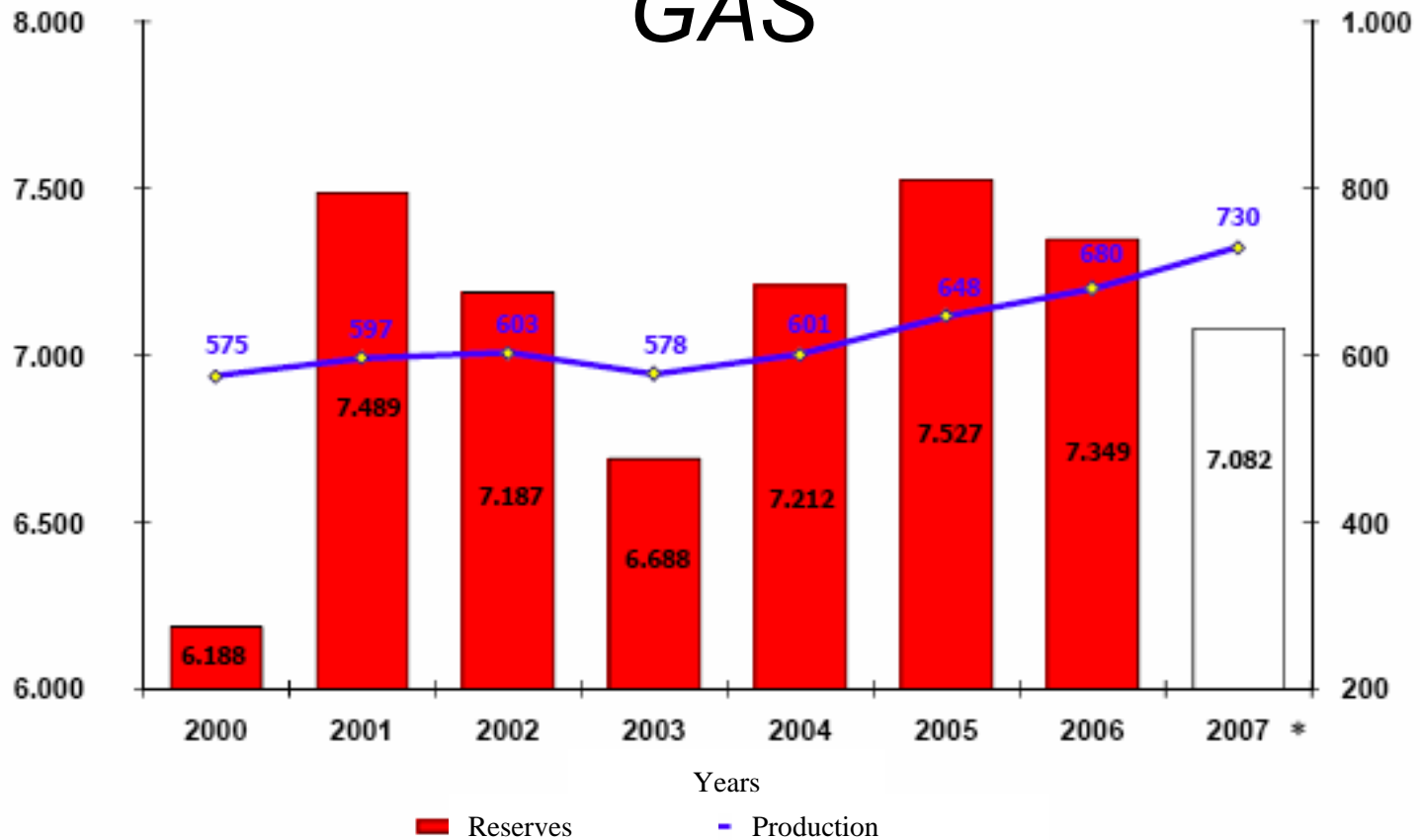
OIL



Reserves (cubic gigafeet)
-noted in red-

Average Production
(mm of cubic ft. per day)
-noted in blue-

GAS





Colombia Oil and Gas Pipeline System

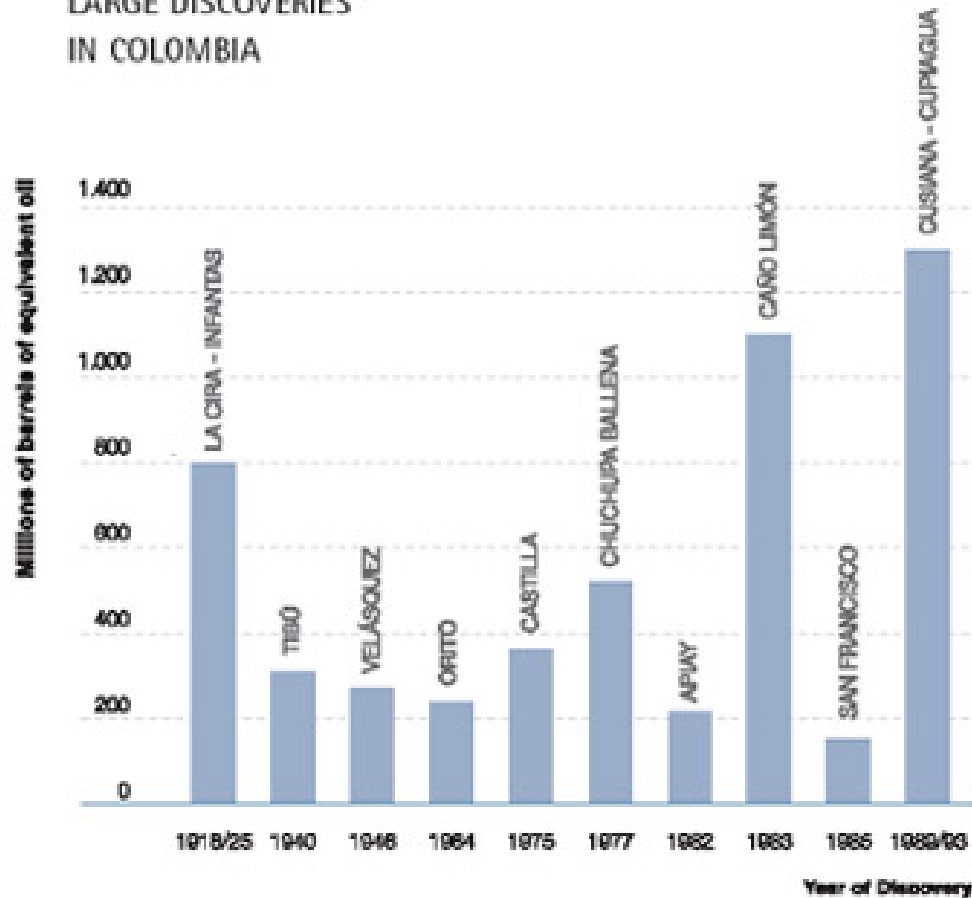
Red de Transporte	Áreas Asignadas	
<ul style="list-style-type: none"> — Combustoleoducto — Gasoducto — Oleoducto — Poliducto — Tubería de Propano — Sin definir 	Exploración <ul style="list-style-type: none"> ■ Con ANH 8'141,649 Ha ■ En asociación con Ecopetrol 2'588,611 Ha ■ Ecopetrol directamente: 1'894,163 Ha ■ Acuerdo de Evaluación Técnica 8'110,109 Ha ■ Área Especial ANH 13'216,074 Ha 	Producción <ul style="list-style-type: none"> ■ Ecopetrol directamente: 787,812 Ha ■ En asociación con Ecopetrol 857,142 Ha ■ Concesión 17,144 Ha
	Libre para Contratar Total Disponible 68'750,456 Ha	

Oil Fields and Gas Pipelines



Major Oil Field Discoveries

LARGE DISCOVERIES
IN COLOMBIA



III

Ecopetrol Partial Privatization



Company History

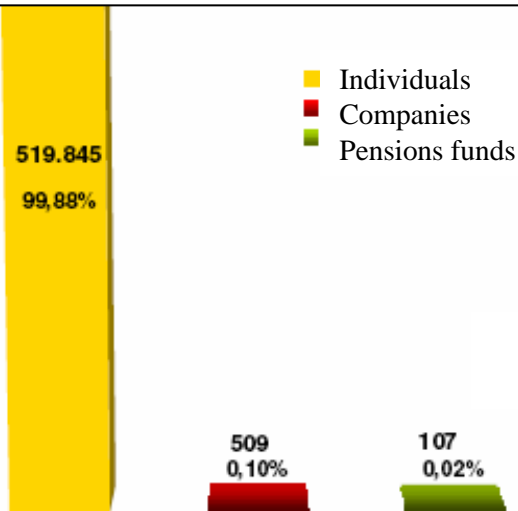
1. Ecopetrol was formed in 1951 as the national oil company
2. In 2003, Ecopetrol was converted into a wholly owned stock company (Decree 1760)
3. In 2006, Ecopetrol was authorized to carry out an IPO on Colombian Stock Exchange for 10% of its common stock (Law 1118)
4. In December 2007, Ecopetrol was listed on Colombian Stock Exchange, raising US\$5.7 billion
5. The law authorizes subsequent public offerings for the issuance of up to an additional 10% of Ecopetrol's common stock

Subscription of Ecopetrol IPO's Shares

- Law 226 of 1995 provides a preemptive right in favor of current and former workers, pensioners, trade unions for privatized companies

Composition of Publicly Traded Shares in Ecopetrol

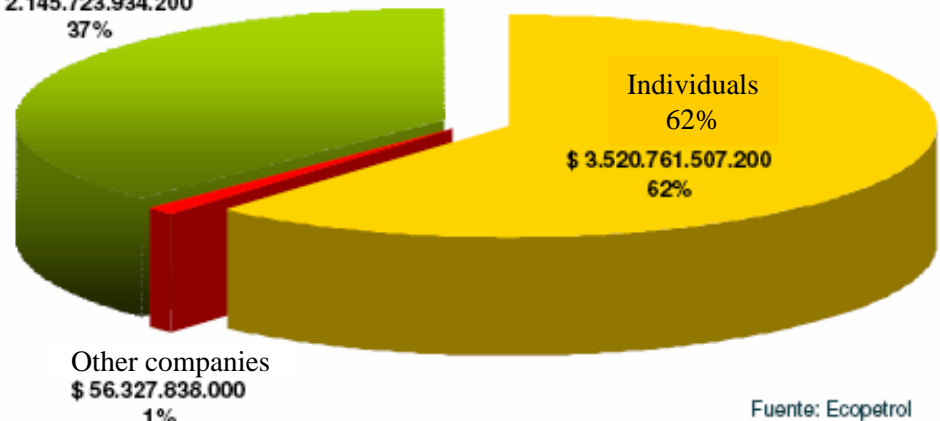
Total number of shareholders: 482,941 at time of IPO



Pensions funds

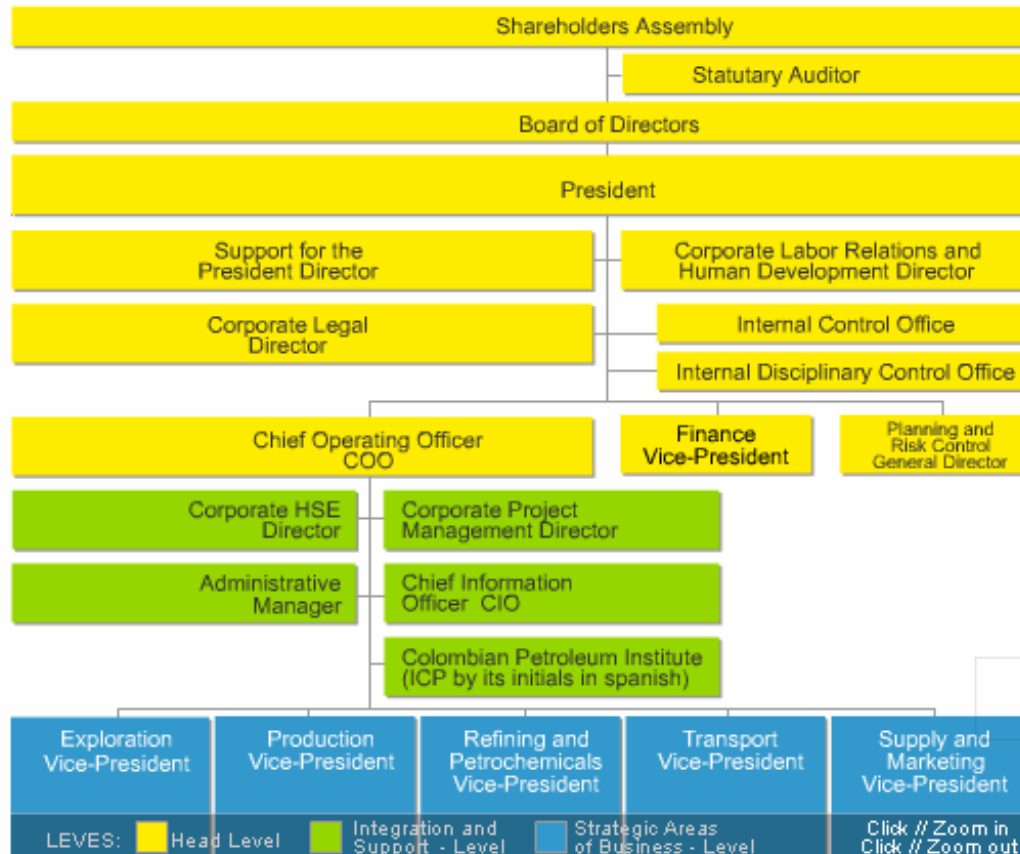
37%
fondos pensiones y Cesantias
\$ 2.145.723.934.200
37%

Monto Adjudicado por Tipo de Inversionista
Total: \$5.7 billones



Ecopetrol's Corporate Structure

Organizational Chart



Ecopetrol Upper Management and Board

CEO: Javier Gutierrez

CFO: Adriana Echeverry

PRINCIPALS	ALTERNATES
Fabio Echeverri Correa	Roberto Silva Salamanca
Hernán Martínez Torres (Minister of Mines and Energy)	Andrés Felipe Arias Leyva (Minister of Agriculture)
Ignacio Sanín Bernal	Gloria Inés Cortés Arango
Oscar Iván Zuluaga	Julio Andrés Torres García
Gustavo Gaviria Ángel	Andrés Escobar Arango
Carolina Rentería Rodríguez	María Elena Velásquez Restrep
Omar A. Baquero Soler	William Escaf Escaf

Ecopetrol's Corporate Regulation

- Colombian Securities Regulation (Law 964 of 2005)
- By-laws
- Corporate Governance Code
- Special rules for the shareholders' meeting
- Special rules for the board of directors

Ecopetrol's Present and Future Projects

- Propilco S.A.
- Modernization of refineries
- International investments
- Ecobiodiesel Colombia S.A.
- Plans to invest US\$17.5 billion between 2008 and 2015*
- US\$3.76 billion to be invested in 2008*

*Source: *Reuters*

Ecodiesel Colombia S.A.

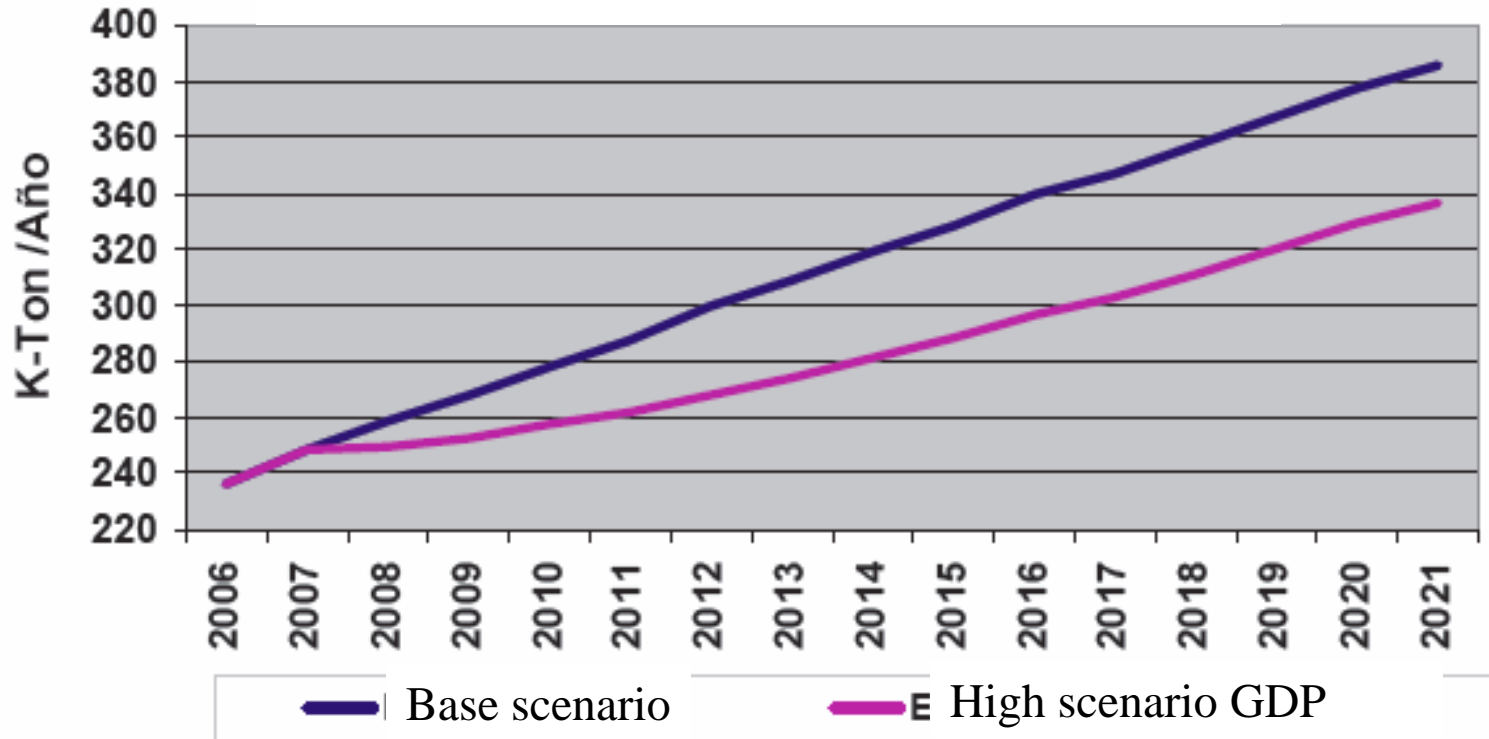
Diversification into alternative energy sources

Joint venture between Ecopetrol and palm growers to create Ecodiesel Colombia S.A. (biodiesel project)

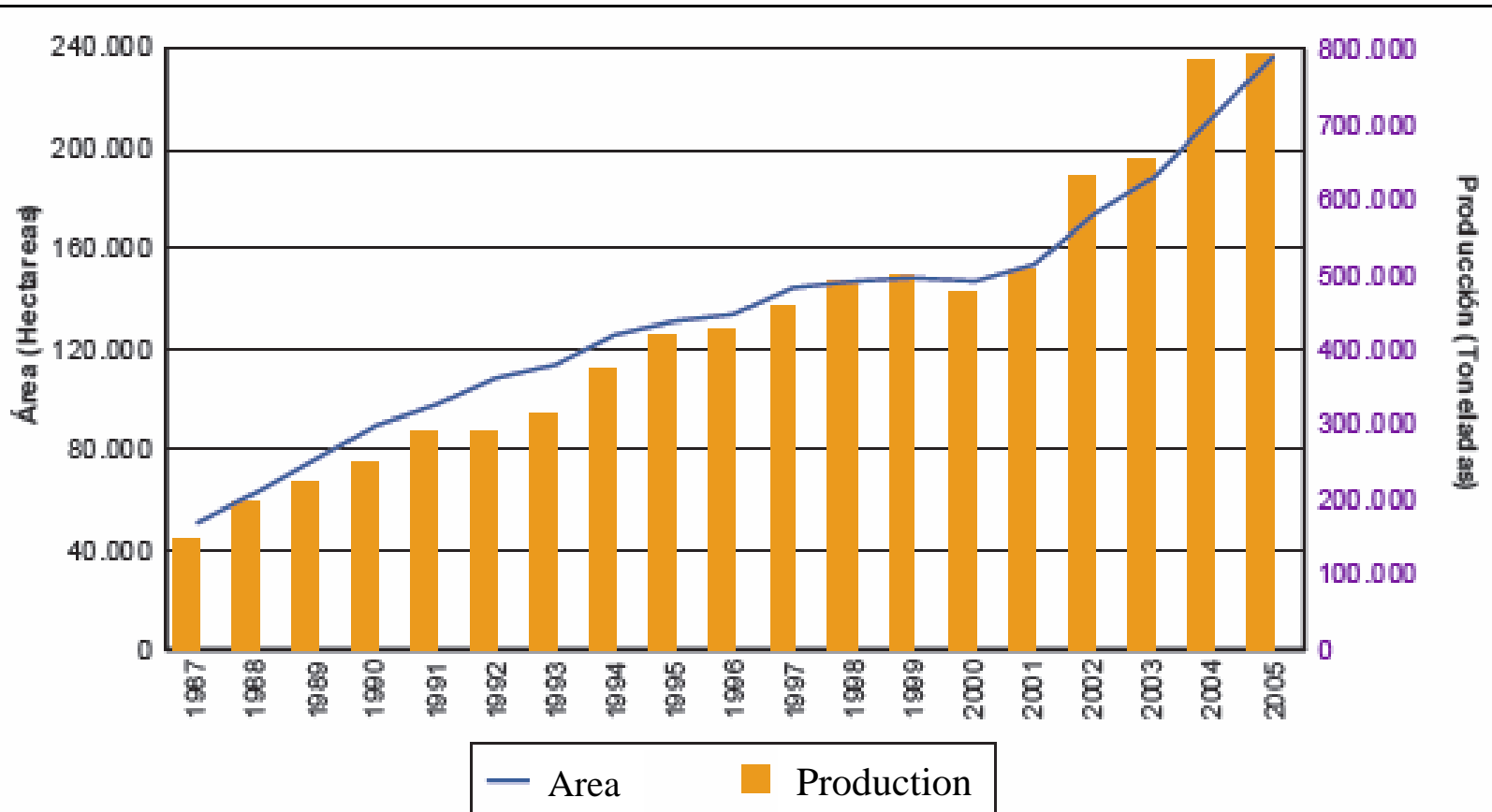
Equity contributions: 50% Ecopetrol
- 50% Palm growers



Projected Biodiesel Demand in Colombia



Production of Palm Oil



Propilco S.A.

Ecopetrol has signed an agreement to acquire 100% of the Colombian firm Propilco S.A. based in Cartagena

Propilco is a processor of Polypropylene



Propilco S.A.



Propilco has annual capacity of 320,000 metric tons divided in two plants

Plant 1

Technology: Unipol PP
Capacity: 140,000 mtons/year
Products: Homopolymers, Impact Copolymers and Random Copolymers

Plant 2

Technology: Novolen
Capacity: 180,000 metric tons/year
Products: Homopolymers and Random Copolymers.

Ecopetrol International Expansion Plans



Ecopetrol Oil Refinery Facilities - Cartagena Refinery



Glencore International AG (51% for US\$654 million) is Ecopetrol's partner (49%) for the refinery's modernization project (2006 selected)

Oil Refinery Facilities - Barrancabermeja Plant for Hydrotreatment of Fuels



In October 2006, Ecopetrol and Consortium Technip Italy and Tipiel entered into agreement for management of Barrancabermeja plant

Ecopetrol's Gulf of Mexico Project

- Deep water exploration in the Gulf of Mexico
- In December 2007, Ecopetrol America Inc. signed agreement for the exploration of blocks 777 and 778 located in the Garden Banks area
- Shell Offshore, Inc. 65% (Operator)
- Ecopetrol America, Inc. 25%
- Newfield Exploration Company 10%

IV

Other Important Actors in Colombian Oil & Gas Industry



National Agency of Hydrocarbons (ANH)

- Manages country's hydrocarbon reserves (Decree 1760 of 2003)
- Provides geological information
- Authorizes hydrocarbon exploitation
- Grants exploration and exploitation rights to private entities

Energy and Gas Regulatory Commission (CREG)

Governmental agency which oversees regulation in the downstream area (Law 142 of 1994, Art. 73)

Ecogás

- Operates approx. 3,644 kms of natural gas trunk pipelines in Colombia
- In 2006, ECOGAS was privatized (i.e., purchased by the Empresa de Energia de Bogota) for US\$1.44 billion

Superintendency of Public Utilities

Governmental agency that carries out administrative supervision and control over public utility companies and acts as a bankruptcy court for such companies

Foreign Companies

Including Texaco, BP, and Triton, which are important actors in the Colombian oil and gas sector

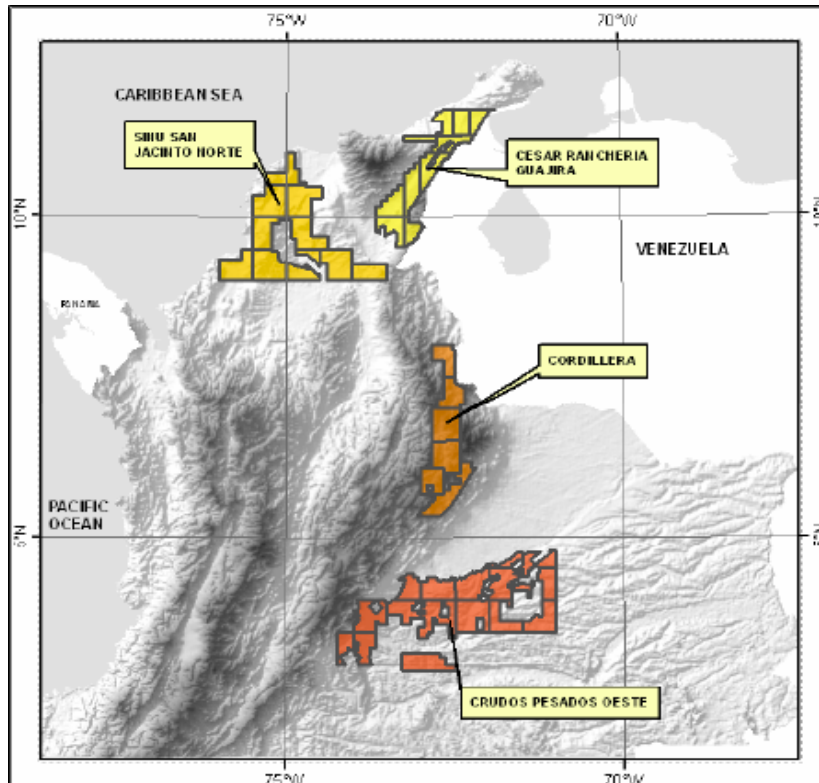
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Colombia Round 2008





- Bidding process being carried out by ANH
- 43 exploration blocks offered in 4 different basins
- Road shows in March and April 2008, Bogota, Houston (March 26), and London



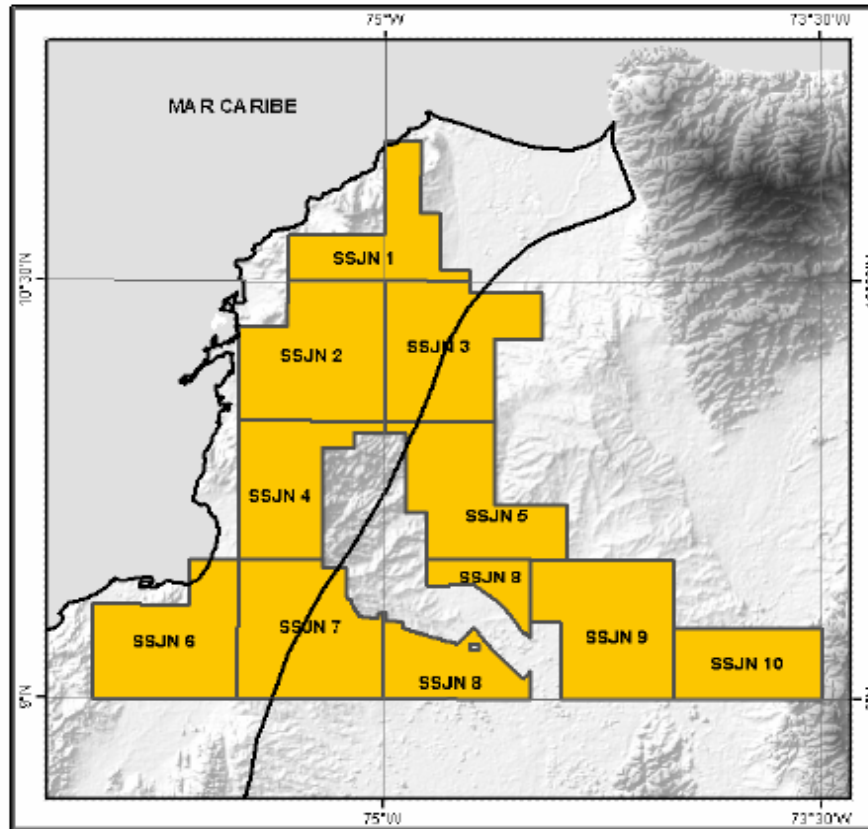
Areas that are being offered



Pre-Qualification Requirements

- Payment of US\$100,000 bid package fee
- Corporate legal requirements
- Technical and Operational qualifications
- Adequate financial condition
- Certain qualifications waived for companies within the Petroleum Intelligence Weekly Top 100 List

Sinú – San Jacinto basin



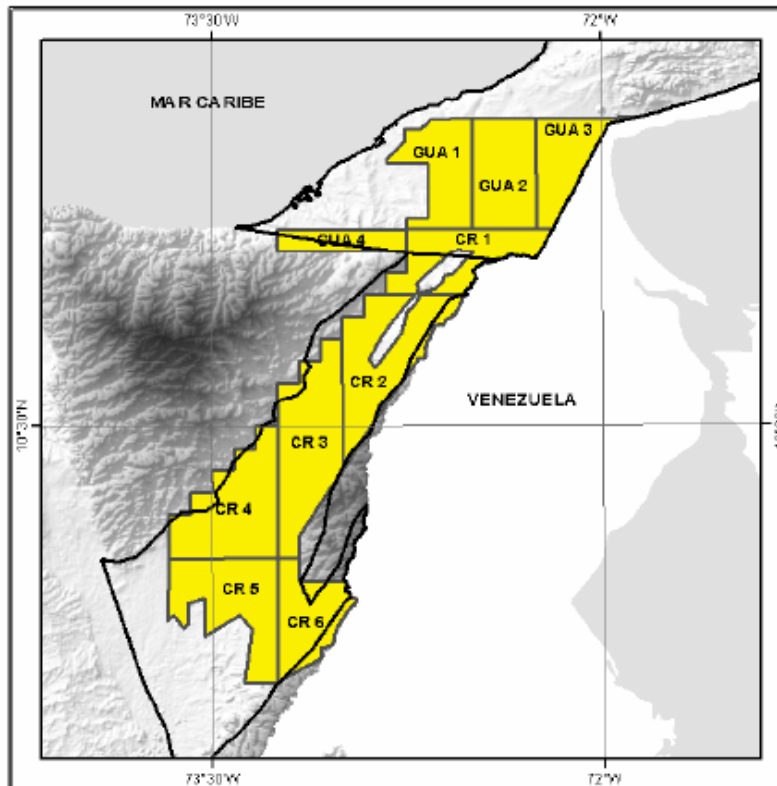
Blocks	AREA (Ha)
SSJN 1	167.274
SSJN 2	269.699
SSJN 3	256.718
SSJN 4	195.761
SSJN 5	230.854
SSJN 6	236.337
SSJN 7	270.702
SSJN 8	181.653
SSJN 9	264.767
SSJN 10	154.318
TOTAL	2.228.083

Seismic lines		Well
Number	Length (Km)	Number
648	7.928	122

AGENCIA NACIONAL DE HIDROCARBUROS



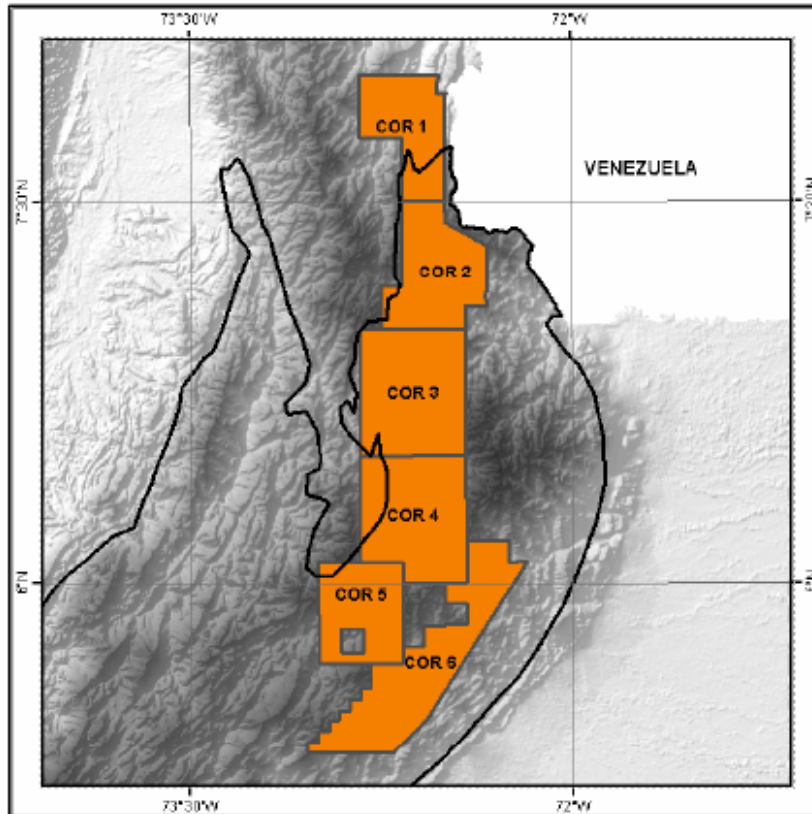
Cesar Ranchería / Guajira basin



Blocks	AREA (Ha)
CR 1	107.649
CR 2	162.524
CR 3	185.083
CR 4	168.327
CR 5	148.413
CR 6	102.656
GUA 1	106.265
GUA 2	125.832
GUA 3	89.764
GUA 4	50.321
TOTAL	1.246.833

Seismic lines		Well
Number	Length (Km)	Number
357	4.180	17

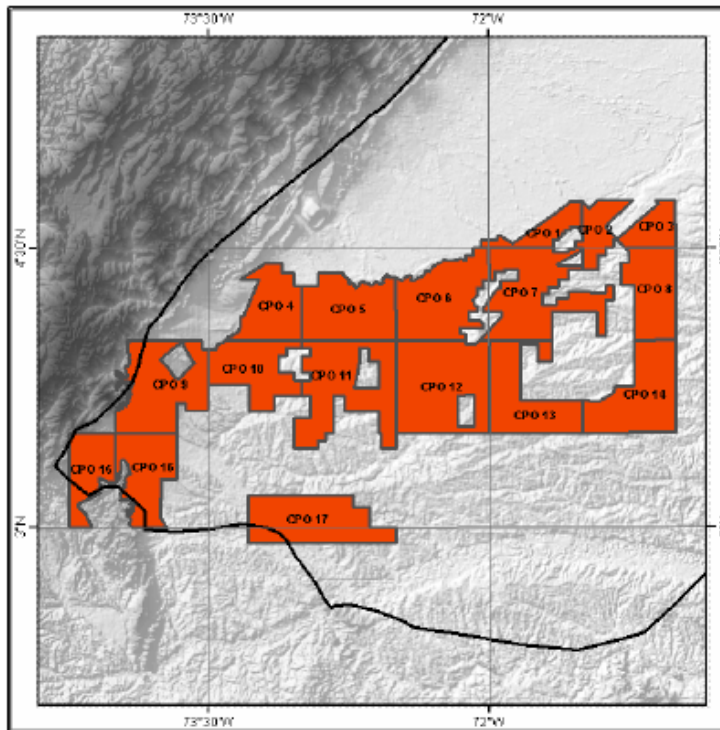
Eastern Cordillera basin



Blocks	AREA (Ha)
COR 1	150.212
COR 2	185.761
COR 3	254.871
COR 4	238.119
COR 5	153.342
COR 6	261.615
TOTAL	1.243.921

Seismic lines		Well
Number	Length (Km)	Number
120	964	4

Llanos basin / Heavy oil - West



Blocks	AREA (Ha)
CPO 1	61.776
CPO 2	70.154
CPO 3	64.525
CPO 4	139.859
CPO 5	199.248
CPO 6	219.887
CPO 7	254.059
CPO 8	149.927
CPO 9	227.089
CPO 10	157.454
CPO 11	258.758
CPO 12	286.827
CPO 13	188.855
CPO 14	209.488
CPO 15	112.777
CPO 16	151.141
CPO 17	210.385
TOTAL	2,962.210

Seismic lines		Well
Number	Length (Km)	Number
1210	12.867	61

Conclusion

- Contrary to other countries in region, Colombia has rejected resource nationalism
- 2003 reforms provided important legal reform of dividing roles of regulator and commercial actor
- 2007 Ecopetrol's partial privatization may give rise to better corporate governance (professional management vs. state owned company) and increased capital expenditures
- Improvement in Colombia's domestic situation and economic growth has increased attraction for foreign investors in oil and gas sector



Setting precedent.

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