

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Below is a description of the risk factors that we face which may affect our future results and the overall performance of the Colombian oil industry. Prospective purchasers of our shares represented by American Depositary Receipts or ADRs should carefully consider the risks described below, as well as other information contained in this annual report, before deciding to invest in our ADRs. The risk factors described below are not the only ones that we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, may also become important factors that affect us.

Financial results and the operation of the business units could be affected by the occurrence of one or more of these factors resulting in a decline in the price of our shares, which may result in you losing some or all of your investment.

Risks relating to Colombia's political and regional environment

Colombia has experienced internal security issues that have had or could have in the future a negative effect on the Colombian economy and on us.

Colombia has experienced internal security issues, primarily due to the activities of guerrillas, paramilitary groups and drug cartels. In the past, guerrillas have targeted the crude oil pipelines, including the Oleoducto Transandino, Caño Limón-Coveñas and Ocesa pipelines, and other related infrastructure disrupting our activities and those of our business partners. On several occasions guerilla attacks have resulted in unscheduled shut-downs of the transportation systems in order to repair damaged sections and undertake clean-up activities. These activities, their possible escalation and the effects associated with them have had and may have in the future a negative impact on the Colombian economy or on us, which may affect our customers, employees or assets. In the context of the political instability, allegations have been made against members of the Congress of Colombia and on Government officials for possible ties with illegal groups. This situation may have a negative impact on the credibility of the Colombian Government which could in turn have a negative impact on the Colombian economy or on us in the future.

There have been certain events in Colombia and abroad, which have resulted in political tension between Colombia and some of its neighboring countries.

Events such as the Colombian government-sponsored attacks on a FARC camp in Ecuador (which resulted in the death of one of the members of the FARC's Secretariat) and the signing of military treaty between Colombia and the United States have made the diplomatic relations between Colombia and some of its neighboring countries, in particular Ecuador and Venezuela, very tense. This political tension is heightened by the Colombian Government's allegations that neighboring countries are supporting the guerilla groups. On other occasions allegations have been made by Venezuela that the Colombian army has entered foreign soil while in pursuit of FARC members. The Colombian army and air force continue to combat FARC members throughout Colombia, including Colombia's borders. Similar future events could result in new and heightened tensions with its neighbors, which could have a negative impact on Colombia's economy and general security situation.

Companies operating in Colombia, including us, are subject to prevailing economic conditions and investment climate in Colombia, which may be less stable than prevailing economic conditions in developed countries.

The market price of securities issued by Colombian companies, including us are subject to the prevailing economic conditions in Colombia. Substantially all of our assets and operations are located in Colombia, and most of our sales are currently derived from our crude oil and natural gas production and production of our refineries located in Colombia. In the past, economic growth in Colombia has been negatively affected by lower foreign direct investment and high inflation rates and the perception of political instability.

The Colombian government has changed monetary, fiscal, taxation, labor and other policies over time and has thus influenced the performance of the Colombian economy. We have no control over the extent and timing of government intervention and policies.

Presidential elections took place in Colombia on May 30, 2010 with Juan Manuel Santos of Party of the U receiving 46.56% of the vote and Antanas Mockus of the Green Party receiving 21.49% of the vote. Since no candidate received more than 50% of the vote, a second round was held on June 20, 2010. Juan Manuel Santos was elected President in this second round, having received 69.1% of the vote while Antanas Mockus received 27.5% of the vote. The investment and security climate in the country will be tied to how this new government is perceived by foreign investors.

If the perception of improved overall security in Colombia changes or if foreign direct investment declines, the Colombian economy may face a downturn which could negatively affect our financial condition and results of operation. Furthermore, the market price of our shares and ADSs may be adversely affected by changes in governmental policy, particularly those affecting economic growth, exchange rates, interest rates, inflation and taxes.

Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect the market price of Colombian securities, including our American Depositary Shares (ADSs).

Securities issued by Colombian companies may be affected by economic and market conditions in other countries, including other Latin American and emerging market countries. Securities issued by Colombian issuers are also likely to be affected by economic and political conditions in Colombia's neighbors: Venezuela, Ecuador, Perú, Brazil and Panama. Although economic conditions in such Latin American and other emerging market countries may differ significantly from economic conditions in Colombia, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Colombian issuers.

Due to crises in several emerging market countries (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis of 2001), and the recent world financial crisis, investors may view investments in emerging markets with heightened caution. As a result of the crisis in other countries, flows of investments into Colombia were reduced. Crises in other emerging market countries may hamper investor enthusiasm for securities of Colombian issuers. If Latin America experiences a new slow-down or if the price for securities of Latin American issuers falls, the price for our ADSs could follow this trend and could be adversely affected. A new financial crisis or an expansion of the current crisis could also make it more difficult for us and our subsidiaries to access the international capital markets and finance our operations and capital expenditures in the future on acceptable terms.

Our controlling shareholder's interests may be different from yours.

The Republic of Colombia, or the Nation, is our largest shareholder controlling 89.9% of our outstanding capital stock. Colombian law requires the Nation to maintain the majority of our outstanding capital stock, thus holding the right to elect the majority of the members of our Board of Directors. In the future, the Nation as our controlling shareholder may undertake projects which may not be in our best interest or in the best interest of our minority shareholders, including holders of our ADSs.

Before we, or any of our Colombian subsidiaries, can issue any debt in the international and local capital markets or incur any other type of indebtedness, the Government, through the Ministry of Finance and Public Credit, must authorize the issuance of such debt and we must register external debt with the Colombian Central Bank. However, this restriction is not applicable to foreign companies which have branch offices in Colombia, such as our subsidiaries Hocol or ODL. We cannot assure you that if we were to seek such an authorization, that the Nation would issue it in a timely fashion or at all.

Additionally our controlling shareholder may require our Board of Directors to declare dividends in an amount that result in us having to reduce our capital expenditures thereby negatively affecting our prospects, results of operations and financial condition.

Our operations are subject to extensive regulation.

The Colombian hydrocarbons industry is subject to extensive regulation and supervision by the Government in matters including the award of exploration and production blocks by the National Hydrocarbon Agency, or *Agencia Nacional de Hidrocarburos* or ANH, the imposition of specific drilling and exploration obligations, restrictions on production, price controls, capital expenditures and required divestments. Existing regulation applies to virtually all aspects of our operations in Colombia and abroad. See Item 4B “– Business Overview – Regulation”.

The terms and conditions of the agreements with the ANH under which we explore and produce crude oil and natural gas generally reflect negotiations with the ANH and other governmental authorities and may vary by fields, basins and hydrocarbons discovered.

We are required, as are all oil companies undertaking exploratory and production activities in Colombia, to pay a percentage of our production to the Government as royalties. The Government has modified the royalty program for crude oil and natural gas production several times in the last 20 years, as it has modified the regime regulating new contracts entered into with the Government. The royalty regime for contracts being entered into today for crude oil is tied to a scale starting at 8% for production of up to 5,000 barrels per day or bpd and increases up to 25% for production above 600,000 bpd. Royalties for natural gas production are also subject to a sliding scale depending on whether the field is on-or off-shore and range between 8% and 25%.

In the future, the Government may once again amend royalty payment levels for new contracts and such changes could have a material adverse effect on our financial condition or results of operation.

The Government may delay the reimbursement of the gasoline and diesel fuel price differentials.

The Government regulates domestic prices of liquid fuels according to international market conditions in order to align domestic prices with trends in international prices, with a one month lag. When domestic prices of liquid fuels are lower than international parity prices, the Government is responsible for reimbursing importers or refiners for the difference, which difference is called the fuel price differential pursuant to Law 1151 of 2007. The fuel price differential is calculated on a monthly basis and reported on a quarterly basis, with the corresponding cash payment to be made during the next subsequent quarter. In cases of payment delays, refiners are entitled to receive interest on past due amounts.

Historically, when domestic prices of liquid fuels were higher than international parity prices, the Government lowered domestic prices. However, towards the end of 2008 as international prices decreased, the Government decided not to lower domestic prices. Instead, the Government kept domestic prices high and allocated the positive difference between domestic fuel prices and the international parity prices to a Fuels Stabilization Fund (*Fondo de Estabilización de Precios de los Combustibles - FEPC*). Similar to the approach followed by other countries, this Fund is funded with these excess payments when international prices are low and depleted when international prices are high in order to mitigate domestic price volatility.

During 2008, refiners, including us, were entitled to fuel price differential payments based on trends in international prices. However, the payment by the Government of the 2008 fuel price differential was delayed and the Ministry of Mines and Energy issued a resolution by which it established a payment schedule relating to the 2008 fuel price differential. Under this payment schedule, the 2008 fuel price differential was paid in three installments in April, August and December 2009 and the Government recognized an opportunity cost with respect to these amounts.

During 2009, refiners, including us, were once again entitled to fuel price differential payments corresponding to the third and fourth quarters of the year. However, the fuel price differential for the third quarter of 2009 was not timely paid during the fourth quarter of 2009. Instead, the Government, through Decree 4839 of 2008, stated that all payments corresponding to the 2009 fuel price differential would be paid in 2010. Pursuant thereto, the price differential corresponding to the third quarter of 2009 was paid in February 2010, together with the fuel price differential for the fourth quarter of 2009.

Based on these past delays, we are unable to determine when we will collect the amount of any fuel price differentials that become due in the future. Any material delay in payment of these fuel price differentials by the Government or a significant amendment to Law 1151 imposing on us additional responsibilities with respect to the fuel price differentials could have a negative impact on our financial condition and results of operations.

Risks related to our business

Our business depends substantially on international prices for crude oil and refined products, and prices for these products are volatile. A sharp decrease in such prices could materially and adversely affect our business prospects and results of operations.

Crude oil prices have traditionally fluctuated as a result of a variety of factors including, among others, the following:

- Changes in international prices of natural gas and refined products;
- Long-term changes in the demand for crude oil, natural gas and refined products;
- Regulatory changes;
- Inventory levels;
- Increase in the cost of capital;
- Adverse economic conditions;
- Development of new technologies;
- Economic and political events, especially in the Middle East and elsewhere with high levels of crude oil production;
- The willingness and ability of the Organization of the Petroleum Exporting Countries or OPEC and its members to set production levels and prices;
- Local and global demand and supply;
- Development of alternative fuels;
- Weather conditions; and
- Terrorism and global conflict.

As of December 2009, nearly 96% of our revenues came from sales of crude oil, natural gas and refined products. Most prices for products developed and sold by us are quoted in U.S. dollars and fluctuations in the U.S. dollar/Peso exchange rate have a direct effect on our Peso-denominated financial statements.

A significant and sustained decrease in crude oil prices could have a negative impact on our results of operations and financial condition. In addition, a reduction of international crude oil prices could result in a delay in our capital expenditure plan, in particular delaying exploration and development activities, thereby delaying the development of reserves and affecting future cash flows.

We are exposed to the credit risks of our customers and any material nonpayment or nonperformance by our key customers could adversely affect our cash flow and results of operations.

Some of our customers may experience financial problems that could have a significant negative effect on their creditworthiness. Severe financial problems encountered by our customers could limit our ability to collect amounts owed to us, or to enforce the performance of obligations owed to us under contractual arrangements. In addition, many of our customers finance their activities through their cash flows from operations, the incurrence of debt or the issuance of equity.

The combination of declining cash flows as a result of declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction of our customers' liquidity and limit their ability to make payments or perform on their obligations to us. In addition, some of our customers may be highly leveraged and subjected to their own operating expenses, and as such the risk we face in doing business with these customers may increase. Other customers may be subjected to regulatory changes, which could increase the risk that they may default on their obligations to us. For example, due to a Venezuelan government constraint imposed on foreign currency transactions, PDVSA Gas has delayed payments to its providers, including us. Financial problems experienced by our customers could result in the impairment of our assets, a decrease in our operating cash flows and may also reduce or curtail our customers' future use of our products and services, which may have a material adverse effect on our revenues.

Achieving our long-term growth prospects depends on our ability to execute our strategic plan, in particular discovering additional reserves and successfully developing them, and failure to do so could prevent us from achieving our long-term goals.

The ability to achieve our long-term growth objectives depends on discovering or acquiring new reserves as well as successfully developing them. Our exploration activities expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs associated with drilling wells are often uncertain, and numerous factors beyond our control may cause drilling operations to be curtailed, delayed or cancelled.

If we are unable to conduct successful exploration and development of our exploration activities, or if we do not acquire properties having proved reserves, our level of proved reserves will decline. Failure to secure additional reserves may impede us from achieving our growth targets, production targets and may have a negative effect on our results of operations and financial condition.

Our deep water drilling operations carried out by us and in conjunction with our business partners involve certain risks and costs which may be outside of our control.

We, in association with our business partners, have undertaken deep water exploratory drilling in two blocks in the Gulf of Mexico. Additionally, we are acting as operators in five off-shore exploratory blocks in Colombia. In association with our business partners, we are also planning on undertaking deep water drilling in four blocks in Colombia, five blocks in the Gulf of Mexico, and two blocks in Brazil. These deep water drilling activities entail new and heightened risks as reserves are located at greater distances underneath the seabed. The heightened risks and costs associated with deep water drilling may have a negative effect on our results of operations and financial condition.

Furthermore, as a result of the recent oil spill in the Gulf of Mexico, significant concerns regarding the safety of deep water drilling have been raised and the U.S. Government has declared a six-month moratorium on drilling new deep-water wells in the Gulf of Mexico. In 2010 we, in association with our business partners which were to act as operators, had specifically planned the drilling of two exploratory wells in the Gulf of Mexico. Due to the above-mentioned moratorium, we will most likely be unable to complete the drilling of these wells. Since we have no control over these types of foreign government regulations, they may negatively impact the timing of our deep water drilling operations and consequently our results of operations and financial condition.

Our crude oil and natural gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time, which could adversely affect our ability to generate revenue.

Historical reserves estimates are prepared by the use of commonly used geological and engineering oil industry practices. Estimates are based on geological, topographic and engineering facts. Actual reserves and production may vary materially from estimates shown in this annual report, which could affect our results of operation.

Our drilling activities are capital intensive and may not be productive.

Drilling for crude oil and natural gas involves numerous risks, including the risk that we will not encounter commercially productive crude oil or natural gas reservoirs. The costs of drilling, completing and operating wells are high or uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- Unexpected drilling conditions;
- Pressure or irregularities in formations;
- Security problems;
- Equipment failures or accidents;
- Fires, explosions, blow-outs and surface cratering;
- Title problems;
- Other adverse weather conditions; and
- Shortages or delays in the availability or in the delivery of equipment.

Certain of our future drilling activities may not be successful and, if unsuccessful, this failure could reduce the ratio at which we replace our reserves, which could have an adverse effect on our results of operations and financial condition. While all drilling, whether developmental or exploratory, involves risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of hydrocarbons. Because of the percentage of our capital budget devoted to higher-risk exploratory projects, it is likely that we may in the future experience significant exploration and dry hole expenses.

Increased competition from foreign crude oil companies may have a negative impact on our ability to gain access to additional crude oil and natural gas reserves in Colombia.

The ANH is the governmental entity responsible for promoting oil and gas investments in Colombia, establishing terms of reference for exploration rounds and assigning exploration blocks to oil and gas companies. Prior to the enactment of Decree Law 1760 of 2003, we had an automatic right to explore any territory in Colombia and to enter into joint venture agreements with foreign and local oil companies. Under current regulations, we are entitled to bid for any exploration blocks offered for exploration by the ANH and we compete under the same conditions as other domestic and foreign oil and gas companies, that is, we receive no special treatment. We may also request the ANH to assign us exploration blocks which have not been previously reserved by that Agency. Our ability to obtain access to potential production fields also depends on our ability to evaluate and select potential hydrocarbon-producing fields and to adequately bid for these exploration fields.

Our strategies include international expansion where we may face competition from local market players and international oil companies that have experience exploring in other countries.

If we are unable to adequately compete with foreign and local oil companies, or if we cannot enter into joint ventures with market players with properties where we could potentially find additional reserves, we may be conducting exploration activities in less attractive blocks. If we fail to maintain our current market position in Colombia, our results of operations and financial conditions may be adversely affected.

We may be subject to substantial risks relating to our development of exploration activities outside Colombia.

We began exploration activities outside Colombia in 2006 through our Brazilian subsidiary, Oleo é Gas Do Brazil Ltda. Our foreign subsidiaries have subsequently entered into a number of joint venture exploration agreements with regional and international oil companies to explore blocks in Perú, Brazil and the U.S. Gulf of Mexico. The results of operations and financial condition of our subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and government actions.

We have limited experience exploring outside Colombia, where we are the incumbent operator. We may face new and unexpected risks involving environmental requirements that exceed those currently faced by us. Additionally, we may be exposed to legal disputes with foreign regulators. For example, we were awarded block Tucano-156 in Brazil in the 8th round of 2006. However, our award is currently suspended as a result of a governmental injunction against the 8th round award process. According to official publications, Brazil's *Agencia Nacional do Petroleo* (ANP) removed all blocks that did not receive offers during the 8th round. However, the publications do not specify what will be the result with respect to the 38 blocks which did receive winning offers, including Tucano-156. According to our consultations with the *Superintendência de Promoção de Licitações* (SPL), the awarding process has not yet been defined and the ANP is still waiting for further instructions from the Brazilian government. We may also experience the imposition of restrictions on hydrocarbon exploration and export, or increases in export tax or income tax rates for crude oil and natural gas.

If one or more of these risks described above were to materialize, we may not achieve the strategic objectives in our international operations, which may negatively affect our results of operations and financial condition.

We may incur losses and spend time and money defending pending lawsuits and arbitrations.

We are currently a party to several legal proceedings relating to civil, administrative, environmental, and labor claims filed against us. We are also subject to labor-related lawsuits filed by current and former employees in connection with pension plans and retirement benefits affecting the plaintiffs. These claims involve substantial sums of money as well as other remedies. See Notes 18 and 30 to our consolidated financial statements.

Our most relevant legal proceeding was brought by an association of former employees known by the acronym *Foncoeco*. See Item 4B – “Legal Proceedings” for a description of this proceeding.

Our operations may not be able to keep pace with the increasing demand for natural gas.

The demand for natural gas in Colombia has grown significantly in recent years. As a result of this growth, demand for natural gas could exceed production capacity, resulting in possible supply shortages. When production shortages occur, we are required to compensate industrial clients with whom we have supply contracts by paying penalties and other compensatory expenses detailed in the supply contracts.

Internal demand for natural gas has experienced strong growth during the last decade as a result of national campaigns for cleaner energy and more competitive tariffs for retail customers. We may not be able to keep up with local demand and industrial commitments if demand outpaces the rate of new gas developments and discoveries.

We have long-term contracts to supply power utilities and other large customers. In 2007, we signed an agreement with PDVSA Gas to supply natural gas to Venezuela until 2012, when it is expected that Venezuela will supply us with natural gas. It is uncertain whether Venezuela will be able to begin supplying us with natural gas by 2012.

Additionally, if our current expansion projects or new projects are delayed, we may be required to compensate our long-term contract customers for our failure to supply natural gas, which may negatively impact our financial condition and results of operation.

We are not permitted by law to own more than 25% of a natural gas transportation company, which may not allow us to transport new natural gas reserves to distribution points and to our customers.

We discovered natural gas reserves in the Cusiana and Cupiagua fields for which limited transportation capacity currently exists. New natural gas transportation infrastructure may not be available to transport natural gas from new or existing fields to consumption areas. Furthermore, we are prohibited by law from holding more than 25% of the equity of any natural gas transportation company and we cannot determine whether the necessary transportation capacity will be built by third parties to transport natural gas. We may be required to enter into agreements with natural gas transportation companies in terms that are not favorable to us.

We currently have long-term supply contracts with gas-fired power plants that require us to deliver natural gas in Barrancabermeja and not at La Guajira fields. Our ability to deliver the natural gas to these clients at the delivery point is limited by the Ballena-Barranca pipeline transportation capacity. If we are unable to acquire the necessary transportation, we may be unable to meet our obligation with power generators, which could result in us having to pay fines.

If we are unable to transport natural gas discoveries to our customers or to regions where natural gas is needed, we may not be able to develop these reserves, which may result in impairment of the related assets and would not allow us to recover the capital expenditures invested to make these natural gas discoveries.

Results could be affected by conflicts with the labor unions.

In the past, we have been affected by strikes and work stoppages promoted by our labor unions. These strikes have been both politically and contract-related, especially during collective bargaining negotiations. In April, 2009, we entered into an agreement with the Unión Sindical Obrera de la Industria del Petróleo (USO), one of our industry labor unions, to restore trust between USO and us with open communication and transparency as the main principles. Additionally, on August 22, 2009, as a result of consensual negotiations, we entered into a new five-year collective bargaining agreement with three of our most significant industry labor unions: USO, Asociación de Directivos Profesionales, Técnicos y Trabajadores de las Empresas de la Rama de Actividad Económica del Recurso Natural del Petróleo y sus Derivados de Colombia (ADECO) and Sindicato Nacional de Trabajadores de Empresas Operadoras, Contratistas, Subcontratistas de Servicios y Actividades de la Industria del Petróleo y Similares (SINDISPETROL). The new collective bargaining agreement is effective as of July 1, 2009 and covers salaries, healthcare, education, housing, transport, meals, cultural activities, union rights and guarantees, among other aspects. We consider reaching this agreement during consensual negotiations as a significant step towards the development of improved relations with our labor unions. SINCOPEPETROL, our company's labor union, neither presented any list of claims to us nor objected to the bargaining agreement. Thus, we do not have a labor conflict with SINCOPEPETROL.

However, we cannot assure you that we will not experience labor unrest in the future. In the event relations with our labor unions deteriorate, which could result in industry-general strikes, work stoppages or even sabotage, our results of operations and financial condition could be negatively affected.

We may not be able to achieve our corporate goals if we face difficulty in finding competent successors to our current management and employees.

Our growth strategy and the successful achievement of our corporate goals depend on the competence of our management and employees. Due to the upcoming expiration of retirement benefits, some of our managers and employees will leave the Company in order not to lose those retirement benefits. See Item 6D – “Employees”. As a result, we may face a difficulty in finding successors to our current managers and employees with the required competence and leadership. These difficulties, in turn, may negatively affect our results.

Interruption of activities caused by external factors.

We are exposed to several risks that may partially interrupt our activities. These risks include, among others, fire disasters, explosions, malfunction of pipelines and emission of toxic substances. As a result of the occurrence of any of the above, operational activities could be significantly affected or paralyzed. These risks could result in property damage, loss of revenue, cost of human lives, pollution and harm to the environment, among others. If any of these occur, we may be exposed to economic sanctions, fines or penalties.

We conduct exploration and production activities in areas classified as indigenous reserves and afrocolombian lands.

We carry out and plan to carry out exploration and production activities in areas classified by the Government as indigenous reserves (*resguardos*) and afrocolombian lands (*territorios colectivos*). We may not begin to explore for or produce hydrocarbons in these regions until we reach an agreement with the indigenous or afrocolombian communities living on these lands. Generally these consultations last between four and six months, but may be significantly delayed if we cannot reach an agreement. For example, we conduct operations in areas of the Northeastern region which are inhabited by the U'wa community. Commencement of operations on two blocks in this region have been delayed for 17 years and eight years, respectively, and as of December 2009, we have not received approval to undertake activities in these two blocks by the indigenous authorities. Similarly, some of our exploration operations in the Southern region have been delayed for over a year as a result of the presence of the Kofan community who oppose our presence and activities in the reservation. If our activities endanger the conservation and preservation of these cultural minorities or their identities or beliefs, we may not be able to explore regions with good prospects. We may face similar risks in other jurisdictions where we have initiated exploration activities which could have a negative effect on our operations.

Currency fluctuations and an appreciation of the Peso against the U.S. dollar could have a material adverse effect on our financial condition and results of operations because approximately 54% of our revenues came from foreign sales

Approximately 54% of our sales are made in the international markets. The impact of fluctuations in exchange rates, especially the Peso/U.S. dollar rate on our operations has been and may continue to be material. In addition, a substantial share of our liquid assets are held in U.S. dollars or indexed to foreign currencies and gain value when the Peso depreciates against the U.S. dollar and lose value when the Peso appreciates against the U.S. dollar. We use forwards, swaps or futures contracts to partially mitigate the impact of currency fluctuations in order to be able to balance our U.S. Dollar denominated assets and liabilities as our foreign currency indebtedness increases.

The Peso depreciated 9.7% on average against the U.S. dollar in 2009. When the Peso depreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, increase.

The Peso appreciated 11.9% and 5.4% on average against the U.S. dollar in 2007 and 2008, respectively. When the Peso appreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, decrease. However, imported goods and oil services denominated in U.S. dollars become cheaper for us.

Our ability to access the credit and capital markets on favorable terms to obtain funding for our capital projects may be limited due to the deterioration of these markets.

We expect to make significant expenditures to reach the corporate goals established by our 2008 - 2015 Strategic Plan. Our ability to fund these expenditures is dependent on our ability to access the capital necessary to finance the construction of these facilities. In recent years, domestic and global financial markets and economic conditions have been weak and volatile and contributed significantly to a substantial deterioration in the credit and capital markets. These conditions, along with significant write-offs in the financial services sector and the re-pricing of credit risk can make it difficult for us to obtain funding for our capital needs on favorable terms. As a result, we may be forced to revise the timing and scope of these projects as necessary to adapt to existing markets and economic conditions.

We may be exposed to increases in interest rates, thereby increasing our financial costs.

As a result of our initial public offering, we became a *Sociedad de Economía Mixta* or mixed economy company and can now incur debt locally and in the international capital markets and can be affected by changes in prevailing interest rates. If market interest rates increase, our financing expenses may increase, which could have an adverse effect on our results of operations and financial condition.

During recent periods, the cost of raising funds in debt and equity capital markets has increased while the availability of funds from those markets has diminished. Likewise, during recent periods, the cost of obtaining funds from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards and reduced, and in some cases ceased to provide, funding to borrowers. If the financial market's recovery from the recent crisis falters, our ability to obtain capital from credit facilities may be impaired.

We are subject to extensive environmental regulations in Colombia and in the other countries in which we operate.

Our operations are subject to extensive national, state and local environmental regulations in Colombia. Environmental rules and regulations are applicable to our exploration, production, refining, transportation and supply and marketing activities. These regulations establish, among others, quality standards for hydrocarbon products, air emissions, water discharges and waste disposal, environmental standards for abandoned crude oil wells, remedies for soil, water pollution and the general storage, handling, transportation and treatment of hydrocarbons in Colombia. Since the creation of the Ministry of the Environment in 1993 and the enactment of more rigorous laws, environmental regulations have substantially impacted our operations and business results. Currently, all exploratory project drilling in areas that do not yet have a license must have an environmental impact assessment and must receive an environmental license from the local authorities. The Ministry of the Environment routinely inspects our crude oil fields, refineries and other production sites and may decide to open investigations which may result in fines, restrictions on operations or other sanctions in connection with our non-compliance with environmental laws.

We are also subject to regional environmental regulations issued by the *corporaciones autonomas regionales* or regional environmental authorities, which oversee compliance with each region's environmental laws and regulations by oil and gas companies. If we fail to comply with any of these national or regional environmental regulations, we could be subject to administrative and criminal penalties, including warnings, fines and closure orders of our facilities. See Item 4 – "Business Overview – Environmental Matters".

Environmental compliance has become more stringent in Colombia in recent years and as a result we have allocated a greater percentage of our expenditures for compliance with these laws and regulations. If environmental laws continue to impose additional costs and expenses on us, we may need to reduce our investments on strategic projects in order to allocate funds to environmental compliance. These additional costs may have a negative impact on the profitability of the projects we intend to undertake or may make them economically unattractive, in turn having a negative impact on our results of operations and financial condition.

We are subject to foreign environmental regulations for the exploratory activities conducted by us outside Colombia. Failure to comply with foreign environmental regulations may result in investigations by foreign regulators, which could lead to fines, warnings or temporary suspensions of our operations, which could have a negative impact on our financial condition and results of operations.

Our activities face operational risks that may affect the health and safety of our workforce.

Some of our operations are developed in remote and dangerous locations which involve health and safety risks that could affect our workforce. Under Colombian law and industrial safety regulations we are required to have health and safety practices that minimize risks and healthy issues faced by our workforce. Failure to comply with health and safety regulations may derive investigations by health officials which could result in lawsuits or fines.

We may be obliged to incur additional costs and expenses to allocate funds to industrial safety and health compliance. These additional costs may have a negative impact on the profitability of the projects we may decide to undertake.

In addition, we may be subject to foreign health and safety regulations for our exploratory activities conducted outside Colombia. Foreign health and safety regulations may be more severe than those established under Colombian law and, therefore, we may be required to make additional investments to comply with those regulations.

We have made significant investments in acquisitions and we may not realize the value expected.

We have acquired interests in several companies in Colombia and abroad. See Item 4 - "Information on the Company". Obtaining the expected benefits of the acquisitions will depend, in part, on our ability to (i) obtain the expected operational and financial results from these acquisitions and (ii) manage disparate operations and to integrate distinct corporate cultures. These efforts may not succeed or may distract our management from operating our existing business. Our failure to successfully obtain the expected results from our recent acquisitions could adversely affect our financial condition and results of operations.

Our strategic plan contemplates the expansion of operations outside of Colombia where we will be subject to risks associated with investments in new countries.

As part of our strategic plan, we have begun to operate through business partners, subsidiaries or affiliates outside of Colombia. As of the date hereof, we have investments and subsidiaries incorporated in Perú, Brazil, Bermuda and the United States, and we are analyzing investments in other countries. In connection with making investments, we are and will be subject to risks relating to unstable economic and political conditions, governmental economic actions, such as exchange or price controls or limits on the activities to be performed by us, increases in tax rates, contractual changes, and social and environmental challenges. In addition, we have recently acquired 50% ownership interest in Offshore International Group Inc. (OIG), a company that has investments in Perú, and we have faced reputational risks arising from prior ownership of such company. These factors, among others that our international activities may encounter, could adversely affect our results of operations in those countries and decrease the value of our investments.

Our subsidiary, Refineria de Cartagena S.A. ("Reficar") is currently negotiating a project financing which, if delayed, could affect our operating results and financial condition.

Our subsidiary, Refineria de Cartagena S.A. ("Reficar") has entered into negotiations to raise approximately US\$ 3.4 billion through a limited-recourse project financing. We will act as sponsor and will provide a guarantee to the project lenders. We are targeting a November 2010 closing for the transaction. If for any reason the closing of the transaction is delayed, the targeted final completion of the project could also be delayed, which would result in higher capital expenditure requirements for Reficar and a decrease in our profitability. Additionally, if the start up of the upgraded refinery is delayed, or if the upgraded refinery does not reach the expected performance level in terms of the quality of products and/or volumes produced, the project lenders could request that we act on the guarantee and assume the payment obligations of Reficar, which would affect our operating results and financial condition.

Risks relating to our ADSs

The market for our ADSs has only started to develop recently. An active and liquid public market for our ADSs may not develop.

The number of our outstanding ADSs has increased significantly since they began trading on the New York Stock Exchange on September 18, 2008. Nevertheless, the number of outstanding ADSs is still relatively small when compared to the number of our total outstanding shares. Increases in the liquidity of the ADSs will depend on the creation of new receipts by investors in the international market, which will in turn depend largely on market conditions and the interest of new investors in our Company.

In addition, holders of ADSs may choose to cancel them and receive instead common shares in an amount equivalent to that of the ADSs previously held. Cancellation of a considerable number of ADSs may significantly influence the development of an actively liquid market for our ADSs, which may have a material adverse effect on the price of our ADSs.

Illiquid or inactive trading markets generally result in higher price volatility and lower efficiency in the execution of sale and purchase orders in the securities markets. The market price of the ADSs may fluctuate significantly in response to a number of factors, some of which may be beyond our control. In the event that the trading price of our ADSs declines, you may lose all or part of your investment in our ADSs.

Holders of our ADSs may encounter difficulties in exercising their voting rights.

Holders of our common shares are entitled to vote on shareholder matters. However, holders of our ADSs may encounter difficulties in exercising some of the rights of shareholders if they hold our ADSs rather than the underlying common shares. For example, holders of our ADSs are not entitled to attend shareholders' meetings, and can only vote by giving timely instructions to the Depositary in advance of a shareholders' meeting. Under Colombian law, we are not required to solicit proxies from our existing shareholders and, therefore, you may not receive notice in time to instruct the depositary to vote the shares.

We believe that the holders of the ADSs should be able to direct the Depositary to vote the common shares separately in accordance with their individual instructions, particularly as this is the current interpretation of the *Superintendencia de Sociedades* or Superintendency of Corporations; this issue has been the subject of differing regulatory interpretations in the past and may be subject to differing interpretations in the future. Under prior regulatory interpretations, the Depositary could be required to vote the underlying common shares in a single block (presumably reflecting the majority vote of the ADS holders). In the future, the Colombian regulatory authorities may change their interpretation as to how voting rights should be exercised by ADSs holders, and if this were to occur any such limitation or loss could adversely affect the value of such common shares and your ADSs.

Our ADSs holders may be subject to restrictions on foreign investment in Colombia.

Colombia's International Investment statute regulates the manner in which non-Colombian residents can invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Colombian Central Bank and outlines the necessary procedures to authorize certain types of foreign investments. Colombian law requires that certain foreign exchange transactions, including international investment in foreign currency between Colombian residents and non-Colombian residents, must be made through authorized foreign exchange market participants. Any income or expenses under our ADR program must be made through the foreign exchange market.

Investors acquiring our ADRs are not required to register with the Colombian Central Bank. Investors in ADRs who choose to surrender their ADRs and withdraw common shares would have to register their investment in the common shares as a foreign direct investment, in the event the investor does not own a portfolio of investments in Colombia; or as a portfolio investment, in the event the investor delivers such shares to a registered foreign capital investment fund. Non-Colombian residents cannot directly hold portfolio investments in Colombia, but are able to do so through a registered foreign capital investment fund. Investors would only be allowed to transfer dividends abroad after their foreign investment registration procedure with the Colombian Central Bank has been completed. Investors withdrawing the common shares may incur in expenses and/or suffer delays in the application process. The failure of a non-resident investor to report or register foreign exchange transactions with the Colombian Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or initiate an investigation that may result in a fine. In the future, the Government, the Congress of Colombia or the Colombian Central Bank may amend Colombia's International Investment Statute or the foreign investment rules, which could result in more restrictive rules and could negatively affect trading of our ADSs.

Additionally, Colombia currently has a free exchange rate system; however, other restrictive rules for the exchange rate system could be implemented in the future. In the event that a more restrictive exchange rate system is implemented, the depositary may experience difficulties converting Peso amounts into U.S. dollars to remit dividend payments.

Holders of our ADSs are not able to effect service of process on us, our directors or executive officers within the United States, which may limit your recovery in any foreign judgment you obtain against us.

We are a *sociedad de economía mixta* organized under the laws of Colombia. All of our directors and executive officers reside outside the United States. All or a substantial portion of our assets and the assets of these persons are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon us or these persons or to enforce against us or them in U.S. courts judgments obtained in such courts predicated upon the civil liability provisions of the U.S. federal securities laws. Colombian courts determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known as *exequatur*. For a description of these limitations, see "Enforcement of Civil Liabilities."

We may claim immunity under the Foreign Sovereign Immunities Act with respect to actions brought against us under the US securities laws and your ability to sue or recover may be limited.

We reserve the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 with respect to actions brought against us under United States federal securities laws or any state securities laws. Accordingly, you may not be able to obtain a judgment in a U.S. court against us unless the U.S. court determines that we are not entitled to sovereign immunity with respect to that action. Moreover, you may not be able to enforce a judgment against us in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act.

The protections afforded to minority shareholders in Colombia are different from those in the United States, and may be difficult to enforce.

Under Colombian law, the protections afforded to minority shareholders are different from those in the United States. In particular, the legal framework with respect to shareholder disputes is less developed under Colombian law than U.S. law and there are different procedural requirements for commencing shareholder lawsuits, such as shareholder derivative suits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our Directors or controlling shareholder than it would be for shareholders of a U.S. company.

The relative volatility and illiquidity of the Colombian securities markets may substantially limit our investors' ability to sell our ADSs at the price and time they desire.

Investing in securities that are traded in emerging markets, such as Colombia, often involves greater risk when compared to other world markets, and these investments are generally considered to be more speculative in nature.

The Colombian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than other securities markets. For example, the *Bolsa de Valores de Colombia* or BVC had a market capitalization of approximately Ps\$287,082 billion (US\$140.46 billion using the closing rate for 2009) as of December 31, 2009, a 47% increase when compared with the amount at the end of 2008, and a trading volume of approximately Ps\$114,380 million (US\$53.1 million, using the average exchange rate for 2009), a 151% increase when compared to the volume in 2008. In contrast, the New York Stock Exchange had a market capitalization of US\$11.8 trillion as of December 31, 2009, and a daily trading volume of approximately US\$70.6 billion in 2009.

As of December 31, 2009 our shares represented the highest market capitalization of the BVC with 35% of the total. In addition, they had the highest trading volume in the BVC averaging Ps\$24,613 million traded per day. Our shares represent 21.4% of the *Índice General de la Bolsa de Valores de Colombia* or IGBC stock market index, 12.5% of the COL20, a stock market index that includes the top 20 traded stocks in the BVC and 21.1% of the COLCAP, a stock price volatility index.

Given the current ownership of our shares, it may be difficult for you to purchase large quantities of shares from a single shareholder. We cannot assure you that a liquid trading market for our ADSs will develop or, if developed, will be maintained following this offering, which could substantially limit the ability of investors in our ADSs to sell them at the price and time you desire.

We are not required to disclose as much information to investors as a U.S. issuer is required to disclose.

We are subject to the reporting requirements of the Superintendency of Finance and the BVC. The corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. issuer and, as a result, you may receive less interim information about us than you would receive from a U.S. issuer.