RISK FACTORS

Risks relating to Colombia's political and regional environment

Colombia has experienced internal security issues that have had or could have 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, drug cartels and criminal bands known as *Bacrim*. From time to time, guerrillas target crude oil pipelines, including the Oleoducto Transandino, Caño Limón-Coveñas and Ocensa pipelines, and other related infrastructure disrupting our activities and those of our business partners. Over the last year, these attacks have intensified. On several occasions, guerilla attacks have resulted in unscheduled shut-downs of transportation systems in order to repair sections of pipelines that have been damaged and to undertake clean-up activities, as well as in deferral of production in certain fields. Guerrilla groups and other illegal armed groups also attacked natural gas transportation infrastructure. Although we do not have any interest in natural gas transportation assets, these attacks have affected our natural gas production. 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, assets or the environment, with resulting containment, clean-up and repair expenses. In the context of this situation, allegations and court judgments have been levied against members of the Colombian Congress 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 tensions between Colombia and some of its neighboring countries.

Events such as the Colombian Government-sponsored attacks on a Revolutionary Armed Forces of Colombia, or FARC, camp in Ecuador in 2008, which resulted in the death of one of the members of the FARC's Secretariat, or the signing in 2009 of a military treaty between Colombia and the United States (which was not ratified by the Colombian Constitutional Court in an August 2010 decision) have made the diplomatic relations between Colombia and some of its neighboring countries, in particular Ecuador and Venezuela, very tense. These political tensions were 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. Although relations with neighboring countries have stabilized recently, there can be no assurance that similar events could not occur again resulting in new and heightened tensions with Colombia's neighbors, which have had in the past, and could have in the future, a negative impact on Colombia's economy and general security situation.

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

Market prices of securities issued by Colombian companies, including us, are subject to the prevailing economic conditions in Colombia. A large portion 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.

Juan Manuel Santos was elected President of Colombia on June 20, 2010. The investment and security climate in the country will continue to be tied to how the results and performance of his administration and the application of its economic, security and social policies are perceived by foreign investors. During his first year as President, Juan Manuel Santos has continued policies to increase foreign investment in Colombia as well as to improve relations with neighboring countries, which have resulted in economic stability for Colombia. In 2011, Colombia's annual gross domestic product increased by 5.9% due principally to an increase of 14.3% in crude oil and mining production.

If the perception of improved overall security in Colombia deteriorates or if foreign direct investment declines, the Colombian economy may face a downturn, which could negatively affect our financial condition and results of operations. Furthermore, the market price of our shares and American Depositary Shares, or ADSs, may be adversely affected by changes in governmental policies, 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 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 these Latin American countries 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 past financial 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), the world financial crisis of 2009 and the current sovereign debt crises in certain European countries, investors may view investments in emerging markets with heightened caution. In the past, as a result of crises in other countries, flows of investments into Colombia have been reduced. Crises in other countries, especially in 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.

Our controlling shareholder's interests may be different from those of our minority shareholders.

The Nation is our largest shareholder controlling 88.47% 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, make decisions or announcements about its intentions related to its holding of our capital stock, which may not be in our best interest or in the best interest of our minority shareholders, including holders of our ADSs, and could impact the price of our shares or ADSs.

Additionally, the Nation through its majority voting right, may approve dividends at the ordinary general shareholders' meeting, notwithstanding the interests of minority shareholders, in an amount that results in us having to reduce our capital expenditures, thereby negatively affecting our prospects, results of operations and financial condition. See "Item 8. Financial Information—Dividends."

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 (*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. The commercialization activities of some of our products also have extensive regulation. Such regulation is subject to change by the applicable regulator affecting our ability to commercialize our products. See "Item 4. Information on the Company—Overview by Business Segment—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 in kind a percentage of our production to the Government as royalties. The oil and gas reserve figures included in this annual report are net of such 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. Since 2002, the royalty regime for contracts being entered into for crude oil is tied to a scale that begins at 8% for production of up to 5,000 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 an adverse effect on our future exploration and production contracts in Colombia.

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 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 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*), or FEPC. Similar to the approach followed by other countries, the FEPC 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 2010, oil refiners, including us, were entitled to fuel price differential payments based on trends in international prices. The payments made by the Ministry of Mines and Energy to us corresponded to the first three quarters of the year. However, the amount due to us by the Ministry, which includes the fuel price differential payment and the opportunity cost recognized to compensate the delay on the payments, as of December 31, 2010, amounting to Ps$163.4 billion, was not made until the fourth quarter of 2011. During 2011, the fuel price differential payments corresponding to the first three quarters of the year were not paid until December 2011. The fuel price differential payment due to us as of December 31, 2011, equal to Ps$571.7 billion, had not been made by the end of the first quarter of 2012.

Past delays in price differential payments make it difficult to determine when we will collect the amount of any fuel price differentials that become due in the future. Any material delay in the payment of these fuel price differentials by the Government or a significant amendment to Law 1151 of 2007 imposing additional responsibilities on us with respect to fuel price differentials could have a negative impact on our financial condition and results of operations. On September 30, 2011, the Ministry of Mines and Energy established a new methodology to calculate domestic prices of gasoline and diesel fuel, which sets the maximum monthly variation in refiners’ revenues at 1.5%. Currently, the Colombian Congress is discussing a bill to introduce a new methodology to calculate fuel price differentials, and determine the maximum retail price of gasoline and diesel, including the revenues for the Colombian refineries. There can be no assurance that this bill, if enacted into law, will not negatively affect the amount and timeliness of the fuel price differential payments, which in turn could affect our financial condition and results of operations.

New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia could adversely affect our results of operations and financial condition.

New tax laws and regulations, and uncertainties with respect to future tax policies, pose risks to us. In recent years, Colombian tax authorities have imposed additional taxes in a variety of areas, such as taxes on financial transactions and other taxes on net worth. Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties. In order to avoid double taxation, our subsidiaries usually distribute dividends from profits that have already been subject to income tax. These dividends are usually not taxable for us in Colombia, and dividends paid by us to our shareholders in Colombia from these sources of income also are usually not taxable, in each case provided that such profits have been taxed at the subsidiary level. This tax treatment may not be maintained in the future, and any change could have an adverse effect on our results of operations and financial condition.

Risks related to our business

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.

Reserves estimates are prepared using generally accepted geological and engineering evaluation methods and procedures. 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 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 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;
- natural events or disasters; and
- terrorism and global conflict.

As of December 2011, nearly 97% 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 consequently, 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 or a change 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.

Furthermore, some of our customers may be highly leveraged and subject to their own operating expenses. Therefore, the risk we face in doing business with these customers may increase. Other customers may also be subject to regulatory changes, which could increase the risk of defaulting on their obligations to us. For example, constraints on foreign currency transactions by the Venezuelan Government have resulted in delays by PDVSA Gas to make 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 an 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.

We describe our Strategic Plan under "Item 4. Information on the Company—The Company—Strategic Plan." 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 and production targets, and may have a negative effect on our results of operation and financial condition.

Our participation in deep water drilling in conjunction with our business partners involves certain risks and costs, which may be outside of our control.

In association with our business partners, we have undertaken deep water exploratory drilling in the U.S. Gulf Coast and in Brazil. Additionally, we are involved in 15 off-shore exploratory and production projects in Colombia that involve deep-water drilling, of which we act as operators in seven, while Equion acts as operator in two. Our deep water drilling activities present several risks such as the risk of spills, explosions in platforms and drilling operations and natural disasters. The occurrence of any of these events or other incidents could result in personal injuries, loss of life, severe environmental damage with the resulting containment, clean-up and repair expenses, equipment damage and liability in civil and administrative proceedings. Heightened risks and costs associated with deep water drilling may have a negative effect on our results of operations, financial condition and reputation.

As a result of the oil spill in the Macondo field in the U.S. Gulf Coast in April 2010, significant concerns regarding the safety of deep water drilling had been raised and regulation in different countries has changed. In association with our business partners, which act as operators, we are currently drilling and have plans to drill exploratory wells in the U.S. Gulf Coast and Brazil. 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 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 may be 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;
- theft;
- sabotage;
- terrorist attacks;
- equipment failures or accidents;
- fires, explosions, blow-outs and surface cratering;
- title problems;
- delays or cancellation of environmental licenses;

- other adverse weather conditions and natural disasters; 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 local and 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, receiving 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 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 local and foreign 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, and we could reduce our market share participation. If we fail to maintain our current market position in Colombia, our results of operations and financial conditions may be adversely affected.

Our future performance depends on the successful development and deployment of new technologies and the knowledge to apply and improve them.

Technology, knowledge and innovation are essential to our business, especially for improvements in the production of heavy crude oil and the exploitation of mature fields. If we do not develop the right technology or do not obtain the expertise to operate new technology or to improve our processes, do not have access to, or deploy the knowledge necessary to apply and improve such technology effectively, the execution of our Strategic Plan, our profitability and our earnings 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, Ecopetrol Oleo é Gas Do Brasil 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 Coast. 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, in August 2011, the Ministry of Mines and Energy of Brazil (*Ministério de Minas e Energía*) confirmed that the government would not sign any contract awarded in the 8th round of 2006, after the National Energy Policy Council (*Conselho Nacional de Política Energética*) decided to annul the bidding process. 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 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. As of December 31, 2011, we were a party to 2,697 legal proceedings relating to civil, administrative, environmental, tax, and labor claims filed against us of which 784 met the accounting threshold for an accrual provision. We allocate substantial amounts of money and time to defend these claims. These claims involve substantial sums of money as well as other remedies. See Notes 19 and 31 to our consolidated financial statements and Item 8. "Financial Information—Legal Proceedings."

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

The demand for natural gas has grown significantly in recent years. As a result of this growth, future demand for natural gas could exceed delivery capacity, resulting in possible supply shortages. When delivery shortages occur, we are required to compensate some 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. During 2009 and 2010, growth in demand was mainly driven by the natural weather phenomenon known as "El Niño," which led to an increase in the demand for natural gas during certain months. This resulted in supply shortages and led the Ministry of Mines and Energy to ration natural gas, giving priority to natural gas delivery to certain areas of consumption regardless of supply contracts we had with our clients, forcing us to pay penalties and other compensatory expenses to certain of our clients whose demand was cut. During 2011, the natural weather phenomenon known as "La Niña", which led to a more severe rain season, resulted in shortages in natural gas delivery caused by landslides which affected the transport infrastructure. During 2009, 2010 and 2011, the penalties paid in compensation for non-delivery of natural gas were Ps$27.8 billion (approximately US$14.5 million), Ps$85.2 billion (approximately US$44.5 million) and Ps$2.5 billion (approximately US$1.3 million), respectively.

We have long-term contracts to supply natural gas to power utilities and other large customers. In 2007, we signed an agreement with PDVSA Gas to supply natural gas to Venezuela and in December 2011 we extended this contract until June 2014. As a consequence of such extension, the gas supply from Venezuela that was expected to start in 2011 was rescheduled until July 2014, one month after the end of the exports from Colombia to Venezuela.

In the long term, 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. Additionally, if we do not deliver natural gas to supply our contract clients due to specific situations, such as cuts in operations or delays in the current expansion of transportation and other new projects, we may be required to compensate our contract customers for our failure to supply natural gas. Both situations may negatively impact our financial condition and results of operations.

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 transportation capacity is limited. 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 consequently there can be no assurance that the transportation capacity necessary to transport natural gas is built by third parties. We may be required to enter into agreements with natural gas transportation companies on 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 at the La Guajira fields. Our ability to provide natural gas to these clients at the delivery point is limited by the transportation capacity of the Ballena-Barranca pipeline. Thus, 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 obtain transportation services to ship natural gas from new 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 own and our industry's 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*, or 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 the 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*, or ADECO, and *Sindicato Nacional de Trabajadores de Empresas Operadoras, Contratistas*, *Subcontratistas de Servicios y Actividades de la Industria del Petróleo y Similares*, or SINDISPETROL. The new collective bargaining agreement was 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. *Sindicato Nacional de Trabajadores de Empresas Operadoras*, or SINCOPETROL, the Company's labor union, neither presented any list of claims to us nor objected to the bargaining agreement, and as a result, we do not have a labor conflict with SINCOPETROL. During 2011, there were two work stoppages promoted by USO in Barrancabermeja in support of the protests by employees at Pacific Rubiales, an unaffiliated oil and gas company in Colombia. See "Item 6. Directors, Senior Management and Employees—Employees."

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 wide strikes, work stoppages or even sabotage, our results of operations and financial condition could be negatively affected.

Our operations are subject to social risks

Our exploration and production activities are subject to social risks, including protests by communities surrounding our operations. While we are committed to operating in a socially responsible manner, we may face opposition from local communities with respect to our current and future development and exploration projects which could adversely affect our business, results of operations and financial condition.

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 expiration of retirement benefits, some of our managers and employees left the Company in 2010 to avoid losing those benefits. As a result, we faced difficulty in finding successors to our managers and employees with the required competence and leadership. In addition, we may face difficulty in keeping our key managers and employees because of the high levels of competition for human talent with experience and knowledge in the oil and gas market. Furthermore, we may not be able to acquire or develop the right set of human talent competencies required to reach and sustain our performance under international standards. These difficulties, in turn, may negatively affect our results. See "Item 6. Directors, Senior Management and Employees—Employees."

Our activities may be interrupted or affected by external factors, such as abnormal weather conditions, natural disasters and third-party acts.

We are exposed to several risks that may partially interrupt our activities. These risks include, among others, fire disasters, explosions, natural disasters such as earthquakes, landslides, volcanic eruptions, tropical storms, hurricanes and floods, criminal acts and acts of terror, malfunction of pipelines and emission of toxic substances.

For instance, last year we were affected by weather conditions that intensified the strength of the average rain season in Colombia, causing landslides due to the abnormal concentration of water in the soil. These abnormal landslides affected transportation of crude oil by trucks, transportation of crude oil, natural gas and products by pipelines and the normal operation of our production fields and Reficar, which experienced floods at its facilities also as a result of torrential rains.

As a result of the occurrence of any of the above, our activities could be significantly affected or paralyzed. These risks could result in property damage, loss of revenue, loss of life, pollution and harm to the environment, among others. If any of these occur, we may be exposed to economic sanctions, fines or penalties, which may adversely affect our financial condition and results of operations. On December 23, 2011, our Salgar-Cartago pipeline ruptured. We believe this incident occurred as a result of a creep movement as a consequence of severe weather conditions in the area, causing the surrounding soil to exercise strong pressure on the pipeline, causing it to rupture. The spilled gasoline from the pipeline subsequently came into contact with a heat source which ignited it causing several explosions, resulted in 33 fatalities, 77 injuries, and damaged and destroyed property. On December 11, 2011, our Caño Limón – Coveñas oil pipeline ruptured as a result of a soil motion caused by the heavy rainy season. While the accident did not result in any fatalities, it resulted in crude oil spilling into the Iscala creek. See "Item 4. Information on the Company—Transportation Infrastructure—Incidents at Transportation Facilities."

We conduct exploration and production activities in areas classified as indigenous reserves and Afro-Colombian lands.

We carry out and plan to carry out exploration and production activities in areas classified by the Government as indigenous reserves (*resguardos*) and Afro-Colombian 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 Afro-Colombian 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 19 years and nine years, respectively, and as of December 2011, 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 seven years as a result of the presence of the Kofan community who oppose our presence and activities in the reservation. We may be exposed to similar delays due to opposition from local communities in other countries where we carry out exploration activities in indigenous reserves, such as Peru. 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 an adverse effect on our financial condition and results of operations given that approximately 65% of our revenues are derived from foreign sales.

Approximately 65% 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. Also, our U.S. dollar denominated assets (U.S.$ 7.3 billion as of December 31, 2011) only provide a partial hedge for our U.S. dollar-denominated indebtedness (U.S.$ 3.7 billion as of December 31, 2011). We use financial instruments such as forwards, swaps, or futures contracts to partially mitigate the impact of currency fluctuations.

The Peso appreciated 2.6% on average against the U.S. dollar in 2011, and a further 7.8% in the first three months of 2012. When the Peso appreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, decrease. However, imported goods, oil services and interest on external debt denominated in U.S. dollars become less expensive for us. Conversely, when the Peso depreciates against the U.S. dollar, our revenues from exports, when translated into Pesos, increase, and our imports become more expensive.

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 and the authorizations we need before incurring any financial indebtedness.

We expect to make significant expenditures in capital and operations to reach the corporate goals established by our 2012 – 2020 Strategic Plan. See "Item 4. Information on the Company—The Company—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 on terms acceptable to us. In recent years, domestic and global financial markets and economic conditions have been weak and volatile and have contributed significantly to a substantial deterioration in the credit and capital markets. A new financial crisis or an expansion of the current European sovereign debt crisis could also make it more difficult for us and our subsidiaries to access international capital markets and finance our operations and capital expenditures in the future on terms acceptable to us. 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.

In addition, as the Nation is our controlling shareholder, the Government, through the Ministry of Finance and Public Credit, must authorize all of Ecopetrol's and its subsidiaries' indebtedness, except for those subsidiaries in which we hold minority interest as well as foreign subsidiaries. As such, we cannot assure you that such authorizations would be granted in a timely fashion or at all.

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

We can incur debt locally and in the international capital markets and, consequently, may 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. Financial markets have not recovered from the recent global economic crisis and remain vulnerable to the European sovereign debt crisis that affects the liquidity of commercial banks and investment funds. If recovery falters or takes a few years longer than expected, the costs of raising funds in debt and equity capital markets may increase and impair our ability to obtain capital on terms acceptable to us.

We are subject to extensive environmental regulations in Colombia and in the other countries in which we operate and under certain of our credit agreements, we are under an obligation to comply with international environmental standards

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, supply and marketing activities, as well as the biofuels we produce. These regulations establish, among others things, quality standards for hydrocarbon products, air emissions and greenhouse gases, 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. Currently, all exploratory projects drilling in areas that do not yet have a license must have an environmental impact assessment and must receive an environmental license from the Ministry of the Environment. 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 potential non-compliance with environmental laws.

We are also subject to regional environmental regulations issued by the *corporaciones autónomas regionales,* or regional environmental authorities, which oversee compliance with each region’s environmental regulations. 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. Information on the Company—Overview by Business Segment—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, and as new laws and regulations relating to climate change become applicable to us, we may need to reduce our investments on strategic projects in order to allocate funds to environmental compliance. We are exposed to delays in obtaining environmental licenses caused by the Ministry of the Environment, which can lead to cost overruns or to changes in the investment plans of the company. 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.

Under certain of our credit agreements, we are under an obligation to comply with international environmental standards established by our lenders or by multilateral institutions. Failure to comply with such environmental standards could result in an event of default under the relevant credit agreements that we, or our subsidiaries, have entered into, which would affect our financial condition. For instance, the credit agreements executed by Reficar for the financing of its expansion and modernization project, includes an obligation to comply with the U.S.-Exim Environmental Procedures and Guidelines, and the Organization for Economic Co-operation and Development (OECD) Common Approaches on Environment and Officially Supported Export Credits.

Our investments outside Colombia are exposed to political risk.

We own investments in different countries, including Peru, Brazil, Panama, the United States, the United Kingdom, Spain, Switzerland and Bermuda, through our subsidiaries and accordingly, our business, financial condition or results of operations could be affected by changes in their governments’ economic or other policies, or by other political, regulatory or economic developments in these countries.

As a result of the changes in the governments of these countries, it is uncertain whether the new governments will continue to pursue business-friendly and open - market economic policies or policies that promote private investment, stimulate economic growth and social stability. In addition, we cannot predict future governments positions on the oil and gas industry, land tenure, protection of private property, environmental regulation or taxation; nor can we assure you that future governments will maintain a generally favorable business climate and economic policies. Any changes in the economic policies or regulations by the governments of the countries where we own investments may adversely affect our business, financial condition and results of operations.

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

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 health issues faced by our workforce. Failure to comply with health and safety regulations may lead to investigations by health officials that could result in lawsuits or fines.

We may be required to incur additional costs and expenses to allocate funds to industrial safety and health compliance under Colombian law and industrial safety regulations. Additionally, if any operational incident occurs that affects local communities in nearby areas, we will need to incur additional costs and expenses in order to return affected areas to normality. 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 expected value.

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, (ii) manage disparate operations and integrate distinct corporate cultures and (iii) manage our objectives as a corporate group. 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 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 Peru, Brazil, Bermuda, Panama, the United Kingdom, Switzerland, Spain 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. Such factors that our international activities may encounter, including tax regulations in foreign countries, could adversely affect our results of operations in those countries and decrease the value of our investments.

Our subsidiaries Reficar and Oleoducto Bicentenario are currently engaged in their own construction projects. If they or any other material investment project is delayed or if its costs exceed our initial estimate, it could affect our operating results and financial condition.

Reficar has raised US$3.5 billion through a limited-recourse project financing. We have acted as sponsor and have provided both a construction guarantee and a debt service guarantee to the project lenders. If the functioning of the upgraded refinery is delayed because of operational problems in the development of the project, 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 guarantees and assume the payment obligations of Reficar, which would affect our operating results and financial condition. Delays in the implementation of the project may result in cost overruns, which could increase the overall cost of the project and impact our financial position.

Oleoducto Bicentenario is in the first phase of construction of the Araguaney -Coveñas pipeline, which connects the Araguaney and Banadía loading facilities. Its estimated investment of US$1,350 million is intended to be financed 30% by the equity participation of the project partners and 70% from loans from local banks. The first phase of the construction is expected to permit the evacuation of 120 thousand bpd, with 230 kilometers in length and a diameter of 42 inches. Delays in the completion of the first phase of this project could affect our production in certain fields that would be left without the necessary infrastructure for crude oil transportation, therefore impacting our financial position.

Investment projects that are part of our Strategic Plan could face similar planning and implementation problems, which could impact the competitiveness of our programs and projects, affecting our results and expected financial condition.

Our results may be affected by the performance of our business partners, as many of our operations are executed under association and joint venture agreements with business partners.

Many of our operations are executed through associations, joint ventures and other agreements with our business partners, and consequently, we depend on the performance of our business partners. The poor performance of any of our business partners, especially in those projects in which we do not act as operators, could negatively impact our results of operations and financial condition. In addition, we are exposed to the risk of not finding business partners with the appropriate skills and performance that we require for our projects.

Our insurance policies do not cover all liabilities and may not be available for all risks.

Our insurance policies do not cover all liabilities, and insurance may not be available for all risks. There can be no assurance that incidents will not occur in the future, that insurance will adequately cover the entire scope or extent of our losses or that we will not be found liable in connection with claims arising from these and other events, which could adversely affect our financial condition and results of operations.

A failure in our information technology systems or cyber security attacks may affect adversely our financial results.

We depend on the reliability and security of our information technology systems to conduct certain exploration, development and production activities, process and record financial and operating data, communicate with our employees and business partners, and for many other activities related to our business. Our information technology systems may fail or have other significant shortcomings due to operational system flaws or employee misuse, tampering or manipulation. In addition, we may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse affect on our financial results. Although we have not experienced any material losses relating to failure of our information technology systems or cyber incidents, there can be no assurance that we will not suffer such losses in the future.

Risks relating to 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 our 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 Superintendency of Corporations (*Superintendencia de Sociedades*). 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, it could adversely affect the value of such common shares and 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 American Depositary Receipt, or 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 be required to register their investment in the common shares as a foreign direct investment, if the investor does not own a portfolio of investments in Colombia, or as a portfolio investment, if 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 will only be allowed to transfer dividends abroad after their foreign investment registration procedure with the Colombian Central Bank has been completed. Investors withdrawing common shares could incur 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. See "Item 10. Additional Information-Exchange Controls."

Holders of our ADSs may not be 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 mixed economy company organized under the laws of Colombia. In addition, most 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 of 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 judgments against us or them in U.S. courts 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."

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.

ADRs do not have the same tax benefits as other equity investments in Colombia.

Although ADRs represent Ecopetrol's common shares, they are held through a fund of foreign capital in Colombia that is subject to a specific tax regulation regime. Accordingly, the tax benefits applicable in Colombia to equity investments, particularly, those relating to dividends and profits from sale, are not applicable to ADRs, including our ADRs. For more information see "Item 10. Additional Information—Taxation—Colombian Tax Considerations."

Judgments of Colombian courts with respect to our ADSs will be payable only in Pesos.

If proceedings are brought in the courts of Colombia seeking to enforce the rights of ADS holders of common shares, we will be required to discharge our obligations amounts in Pesos. Under Colombian laws, an obligation in Colombia to pay amounts denominated in foreign currency may only be satisfied in Colombian currency at the Representative Market Rate of the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date.