**OFFERING MEMORANDUM**

# US$50,000,000

# AI Candelaria (Spain), S.L.U.
## 7.500% Senior Secured Notes due 2028

We are offering $50,000,000 aggregate principal amount of 7.500% Senior Secured Notes due 2028 (the "New Notes"). The New Notes are being offered as additional notes under an indenture pursuant to which we previously issued $650,000,000 aggregate principal amount of our 7.500% Senior Secured Notes due 2028 (the "Existing Notes" and, together with the New Notes, the "Notes"). The New Notes and the Existing Notes will be fungible and will be treated as a single series under the indenture governing the Notes and will have the same terms as the Existing Notes, other than their date of issue and their initial price to the public. The New Notes and the Existing Notes will vote as one class on all matters under the indenture governing the Notes. Immediately after giving effect to the issuance of the New Notes offered hereby, we will have $700,000,000 aggregate principal amount of our 7.500% Senior Secured Notes due 2028 outstanding.

We will pay interest on the Notes semi-annually in arrears on June 15 and December 15 of each year (each, a "Payment Date"), commencing on June 15, 2019. Interest on the New Notes will accrue from October 25, 2018. We will pay principal on the Notes in consecutive semi-annual installments commencing on December 15, 2022. The Notes will mature on December 15, 2028. The Notes are our secured and unsubordinated debt obligations and will rank *pari passu* in right of payment with all of our other obligations that are not, by their terms, expressly subordinated in right of payment to the Notes. The holders of the Notes (each, a "Noteholder") will have the benefit of a Debt Service Reserve Account (as defined below) which we will fund with an amount equal to the product of (i) an amount sufficient to provide for the payment in full of interest and principal, if any, due on the next succeeding scheduled Payment Date and (ii) 1.25 (or obtain a letter of credit with respect to that amount). The net proceeds from this offering will be used to (i) fund the Debt Service Reserve Account, (ii) pay fees and expenses relating to this offering and (iii) pay a dividend to affiliates of Advent. We may prepay some or all of the Notes before September 15, 2028 (three (3) months prior to the maturity date of the Notes) at a prepayment price of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to but not including the prepayment date, plus a "make whole" premium. At any time on or after September 15, 2028 (three (3) months prior to the maturity date of the Notes), we may prepay some or all of the Notes at a prepayment price of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to but not including the prepayment date. In addition, upon the occurrence of specified tax events, we may choose to prepay the Notes, in whole but not in part, at any time at a prepayment price equal to 100% of the outstanding principal amount thereof, plus additional amounts, if any, and any accrued and unpaid interest, if any, to but not including the prepayment date. We may also be required to make an offer to purchase the Notes upon the sale of certain assets and upon certain events defined as constituting a change of control. If we sell shares in Ocensa that constitute collateral we will prepay a portion of the Notes with the proceeds of such asset sale at a prepayment price of 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the prepayment date.

We are a holding company whose primary asset as of the date hereof is a 22.352% ownership interest in Oleoducto Central S.A. ("Ocensa"), a capital stock corporation (*sociedad anónima*) incorporated under the laws of the Republic of Colombia and the owner and operator of the Ocensa Pipeline. Our obligations under the Notes are secured by a perfected first-priority lien on (i) all Ocensa shares owned by us as of the date of the issuance of the Existing Notes (the "Ocensa Pledged Shares") and (ii) the cash and cash equivalents on deposit in the Debt Service Reserve Account. See "Description of the Notes."

**Investing in the Notes involves risks that are described in the "Risk Factors" section beginning on page 30.**

**We have not registered the Notes under the Securities Act of 1933, as amended (the "Securities Act") or under any state securities laws. Therefore, we may not offer or sell the New Notes within the United States, or to or for the account or benefit of any U.S. person, unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, we are only offering the New Notes (1) to certain qualified institutional buyers (as defined in Rule 144A under the Securities Act) that are also "Qualified Purchasers" (as defined in Section 2(a)(51)(A)) of the Investment Company Act of 1940, as amended (the "Investment Company Act") and (2) outside the United States to non-U.S. persons (within the meaning of the Investment Company Act and Regulation S) in compliance with Regulation S under the Securities Act. Each purchaser of the New Notes in making its purchase will be deemed to have made certain acknowledgements, representations and agreements as set forth under "Transfer Restrictions" elsewhere in this offering memorandum. See "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions.**

**None of the U.S. Securities Exchange Commission (the "SEC"), any state securities commission or other regulatory agency has approved or disapproved the New Notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is unlawful.**

The Existing Notes are currently traded on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and we have received approval-in-principle to increase the principal amount of Notes listed on the SGX-ST to include the New Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Notes. The Existing Notes are, and the New Notes will be, in denominations of US$250,000 each or integral multiples of US$1,000 in excess thereof. The Existing Notes are, and the New Notes will be, traded on the SGX-ST in a minimum board lot size of US$250,000 (or its equivalent in foreign currencies) for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. There can be no assurance that a trading market in the Notes will be maintained.

The delivery of the New Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company ("DTC") for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), on or about May 9, 2019.

The Notes have not been and will not be registered in the *Registro Nacional de Valores y Emisores* (the Colombian National Registry of Securities and Issuers), managed by the Colombian Superintendence of Finance, and may not be offered or sold publicly or otherwise be subject to brokerage activities in Colombia, except as permitted by Colombian law.

This offering has not been registered with the *Comisión Nacional del Mercado de Valores* and, therefore, the Notes may not be offered or sold or distributed in Spain except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 35 of the Securities Market Act (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*), as amended and restated, or pursuant to an exemption from registration in accordance with Royal Decree 1310/2005 as amended (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), and any regulations developing it which may be in force from time to time.

Price: 104.889% plus accrued interest from (and including) October 25, 2018, to (but excluding) May 9, 2019

*Joint Bookrunning Managers*

**Citigroup** **Credit Suisse**

May 2, 2019

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This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any New Notes offered by this offering memorandum by any person in any jurisdiction in which it is unlawful for that person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made under this offering memorandum will under any circumstances imply that there has been any change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

This offering memorandum does not constitute an offer to any other person or the public in general to subscribe for or otherwise acquire the New Notes. Distribution of this offering memorandum by you to any person other than those persons retained to advise you is unauthorized. By accepting delivery of this offering memorandum you agree to the foregoing and to make no photocopies of this offering memorandum, and, if you do not purchase the New Notes or the placement is terminated for any reason, to return this offering memorandum to: Latin America Investment Banking, Citigroup Global Markets Inc., 388 Greenwich Street, New York, NY 10013 or Latin America IBCM, Credit Suisse Securities (USA) LLC, 11 Madison Avenue, New York, NY 10010. Copies of the documents referred to in this offering memorandum may be obtained from Advent International Corporation, Avenida Calle 82 #10-33, Of.702, Bogota, Colombia.

We have prepared this offering memorandum solely for use in connection with the offer of the New Notes and take responsibility for its contents. No other person is responsible for its contents. We and other sources we believe to be reliable have furnished the information contained in this offering memorandum. Nothing contained in this offering memorandum is or shall be relied upon as a promise or representation, whether as to the past or the future; and the opinions and intentions expressed in this offering memorandum with regard to us are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and all reasonable inquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

The initial purchasers are not making any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained in this offering memorandum.

You must comply with all laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the New Notes, and you must obtain any required consent, approval or permission for the purchase, offer or sale by you of the New Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make purchases, offers or sales, and neither we nor the initial purchasers have any responsibility for those transactions. See “Transfer Restrictions.”

You acknowledge that (1) you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum, (2) you have not relied on us, the initial purchasers or any person affiliated with us or the initial purchasers in connection with your investigation of the accuracy of the information or your investment decision, and (3) we and the initial purchasers have not authorized anyone to provide any information other than that contained in this offering memorandum. We and the initial purchasers take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. The New Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is unlawful. The New Notes may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Risk Factors,” following the “Summary,” for a description of specified factors relating to an investment in the New Notes. Neither we, the initial purchasers, nor any of our or their respective representatives is making any representation to you regarding the legality of an investment by you under appropriate legal investment

or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the New Notes.

**IF ANY PERSON HOLDING AN INTEREST IN THE NEW NOTES IS NOT (1) A QUALIFIED INSTITUTIONAL BUYER AND, IN THE CASE OF A U.S. PERSON, A QUALIFIED PURCHASER AT THE TIME OF ACQUIRING SUCH INTEREST OR (2) A NON-U.S. PERSON, THE ISSUER MAY REGARD THE TRANSACTION AS NULL AND VOID AND OF NO EFFECT. IN SUCH CIRCUMSTANCES, SUCH PERSON MAY BE FORCED TO TRANSFER OR SELL SUCH INTEREST TO A PERMITTED TRANSFEREE MEETING THE REQUIREMENTS SET FORTH UNDER THE CAPTION "TRANSFER RESTRICTIONS—REPRESENTATIONS OF PURCHASERS" IN THIS OFFERING MEMORANDUM.**

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Statements

In this offering memorandum, all references to "AI Candelaria," "the Company," "the Issuer," "we," "our," "ours," and "us" refer to AI Candelaria (Spain), S.L.U. and all references to "Ocensa" refer to Oleoducto Central S.A. except as otherwise provided. We treat Ocensa as an equity method investee and do not consolidate Ocensa's financial statements in our financial statements.

All references to "$," "US$," "U.S. dollars" and "dollars" are to United States dollars, all references to "pesos" or "Ps$" are to Colombian pesos.

Our financial information as of December 31, 2016, 2017 and 2018 and for each of the three years in the periods ended December 31, 2016, 2017 and 2018 has been derived from our financial statements prepared in accordance with accounting principles generally accepted in Spain ("Spanish GAAP") and audited by Grant Thornton, S.L.P.. These financial statements, contained elsewhere in this offering memorandum, are stated in U.S. dollars.

Ocensa's financial information as of and for the six months ended December 31, 2018 and 2017, the six months ended June 30, 2018 and 2017 and the years ended December 31, 2017 and 2016 has been derived from Ocensa's financial statements prepared in accordance with the accounting and financial information principles and standards accepted in Colombia ("NCIF"), which was based on International Financial Reporting Standards ("IFRS"), along with their interpretations, conceptual reference framework, basis for conclusions and application guidelines authorized and issued by the International Accounting Standards Board ("IASB") and audited by Ernst & Young Audit S.A.S. These financial statements, contained elsewhere in this offering memorandum, are stated in U.S. dollars.

### Accounting Principles

Our financial statements are reported based on Spanish GAAP. Accordingly, the presentation of our financial statements may differ from presentations by non-Spanish companies and other companies that apply other accounting principles. No reconciliation of any of our financial statements to generally accepted accounting principles in the United States ("U.S. GAAP") has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences. A summary of significant differences between Spanish GAAP and U.S. GAAP is set forth below:

- **Deferred taxes**: Under Spanish GAAP, deferred tax assets and deferred tax liabilities are recognized on the balance sheet at their realizable value as non-current assets or liabilities, regardless of the expected date of realization or liquidation. To be able to recognize a deferred tax asset, it must be likely that the company will have future tax benefits which will allow it to compensate such negative tax bases within a period not exceeding the period provided by the tax legislation. Under Spanish GAAP there is also a limitation on the recognition of deferred tax assets that are expected to be realized beyond ten years from the date of incurring the losses, unless strong evidence can be provided that its recovery will be probable in longer term or in those cases in which the tax legislation allows to compensate in longer term or does not establish a temporary limitation to offset these tax bases. Under U.S. GAAP deferred tax assets are recognized in full and a valuation allowance is separately recognized to reduce the value to the amount that is more likely than not to be realized.

- **Investments in the equity of group and associated companies**: Under Spanish GAAP, group companies are considered to be those connected to a company by a relationship of control. The investment we have in Ocensa is considered an investment in an associated entity because control does not exist. These investments are initially recorded for the value of the consideration paid plus the direct costs of the transaction. Thereafter, they are valued at cost less the accumulated amount of any losses for impairment. These impairment losses are calculated as the difference between the book value and the recoverable value; the latter is the higher of the fair value less any selling costs and the present value of the future cash flows

expected from the investment. Unless other evidence exists concerning the recoverable value, the net equity of the business in which the investment has been made is taken into account together with any excess of fair values over book values existing at the valuation date, including any goodwill that might exist. The changes in value due to impairment adjustments and, if applicable, any reversions, are recorded as an expense or income respectively in the profit and loss account. Like in Spanish GAAP, U.S. GAAP defines equity-method investees as an entity over whose operating and financial policies the investor has significant influence, but not control. Like in Spanish GAAP, U.S. GAAP defines "significant influence" as the ability to significantly influence the operating and financial policies of an investee, with the rebuttable presumption that if an entity holds 20 percent or more of the voting rights of another corporate then it does not have a controlling financial interest. Investment in associated companies are accounted for following the equity method of accounting under U.S. GAAP.

Ocensa's financial statements are reported based on NCIF. Accordingly, the presentation of Ocensa's financial statements and the calculation of reported earnings based on its financial statements may differ from presentations by non-Colombian companies and other companies that apply other accounting principles. No reconciliation of any of Ocensa's financial statements to IFRS has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences.

Colombia's Contaduría General de la Nación determined on January 18, 2016 that, beginning in fiscal year 2014, Ocensa should not comply with International Accounting Standard ("IAS") 12 Income Tax, paragraphs 38 to 45 relating to the treatment of deferred tax, as the deferred tax from variations in the exchange rate resulting from computing assets and liabilities in terms of U.S. dollar to the tax bases in Colombian pesos should not be recognized.

***EBITDA***

This offering memorandum includes Ocensa's earnings before interest, tax and depreciation and amortization, or EBITDA, which Ocensa calculates as net profit plus depreciation and amortization, current income tax and financial (income) expenses, net. EBITDA is not a measure recognized under NCIF, does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies either in Colombia or in other jurisdictions. In addition, Ocensa has not calculated EBITDA in accordance with the guidelines adopted by the SEC on presentation of non-U.S. GAAP financial measures. We disclose EBITDA because we use it as a measure of Ocensa's operating performance. EBITDA should not be considered in isolation or as a substitute for net profit or loss or as an indicator of operating performance or cash flow or as a measure of liquidity or our ability to service debt obligations.

**Industry and Market Data**

The information in this offering memorandum also includes statistical data regarding the Colombian crude oil and gas industry, including crude oil transportation logistics. Ocensa generated some of this data internally and we obtained some data from independent industry and governmental publications and reports that we believe to be reliable sources, including, among others identified herein, the Colombian Central Bank (*Banco de la República*), the Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público*), the National Hydrocarbon Agency (*Agencia Nacional de Hidrocarburos*) (the "ANH"), Colombian Petroleum Association (*Asociación Colombiana del Petróleo*) (the "ACP"), the Ministry of Mines and Energy (*Ministerio de Minas y Energía*) (the "MME"), the Colombian National Bureau of Statistics (the "DANE") (*Departamento Administrativo Nacional de Estadística*), the BP Statistical Review of World Energy 2017, and Business Monitor International Ltd., as well as from general publications. We have sourced certain data on Ocensa's competitive position from market research prepared for us by Wood Mackenzie Inc. ("Wood Mackenzie"), a research and consultancy business for the natural resources sector. We have not independently verified the data obtained from external sources nor sought the consent of any organizations, other than Wood Mackenzie, to refer to their reports in this offering memorandum. We have not participated in the preparation or compilation of any of such information.

**Certain Definitions and Abbreviations**



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In this offering memorandum, except where otherwise indicated or the context otherwise requires, references to:

- "contracted capacity" means the amount of crude oil transportation capacity in kbpd (as defined below) that we have agreed to make available to shippers in the Ocensa Pipeline (as defined below) pursuant to our transportation agreements.

- "effective capacity" means the actual crude oil transportation capacity of all or a segment of the Ocensa Pipeline taking into consideration any factors that would impact transportation capacity.

- "AD600 Heavy Crude Project" means the project to increase the ability of the Ocensa Pipeline to accommodate extra heavy crude oils (up to 600 cSt viscosity).

- "Cenit" means Cenit Transporte y Logística de Hidrocarburos S.A.S., a wholly-owned subsidiary of Ecopetrol.

- "CLC" means Oleoducto Caño Limon Coveñas pipeline, a competitor pipeline to Ocensa.

- "Ecopetrol" means Ecopetrol S.A., the Colombian national crude oil and gas company and Colombia's largest producer of crude oil and gas.

- "FARC" means the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*), a terrorist group in Colombia.

- "Fitch" means Fitch Ratings Inc. and its successors.

- "Hocol" means Hocol S.A., an oil and gas company in Colombia.

- "initial shippers" means Cepsa Colombia S.A., or CEPSA, Ecopetrol S.A., or Ecopetrol, Equión Energía Limited, or Equión, Santiago Oil Company, Talisman (Colombia) Oil & Gas, Talisman Santiago A.G., Talisman SO A.G., Total E&P Colombie, and Transporte & Marketing S.A.S. (or their respective successors and assignees), which have entered into transportation agreements with Ocensa dated March 31, 1995, as amended from time to time.

- "km" means kilometers.

- "Moody's" means Moody's Investors Service, Inc. and its successors.

- "OBC Reversion Project" means the joint project between Ocensa and Oleoducto Bicentenario (as defined below) that allowed the temporary reversal of Oleoducto Bicentenario's flow whenever it is inoperative.

- "Ocensa Pipeline" means the pipeline owned and operated by Ocensa pursuant to the Pipeline Concession (as defined below).

- "Oleoducto Bicentenario" or "OBC" means Oleoducto Bicentenario de Colombia, a competitor pipeline to Ocensa.

- "Oleoducto de Colombia" means Oleoducto de Colombia S.A., a competitor pipeline to Ocensa.

- "Pipeline Concession" means the governmental concession granted to Ocensa to build, use, operate and exploit the Ocensa Pipeline and provide the public service of transporting hydrocarbons for a term of 50 years commencing on March 21, 1996.

- "Port Concession" means the governmental concession granted to Ocensa to build and operate a terminal facility in Coveñas to load crude oil for exportation that expires in 2036.

- "Project Delta 35" means Ocensa's expansion project in 2014 that increased the reliability of the Ocensa Pipeline and added 35 kbpd and 40 kbpd of capacity to Segments II and III of the Ocensa Pipeline, respectively, bringing the total capacities of these segments to 610 kbpd and 415 kbpd, respectively.

- "Project Potencia 135" means Ocensa's expansion project in 2016 that added an additional three stations and 135 kbpd of capacity to Segments I, II and III of the Ocensa Pipeline.

- "S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and its successors.

- "Taxes" means all taxes, levies, customs duties, imposts, fees, assessments or other charges, including all net income, gross income, gross receipts, sales, use, ad valorem, value added, turnover, transfer, franchise, profits, license, withholding, payroll, employment, social contributions, excise, estimated, severance, stamp, occupation, property, import, export, asset or other taxes, levies, customs duties, imposts, fees, assessments or charges of any kind whatsoever, together with any interest, penalties, adjustments for inflation, monetary corrections, additions to tax or additional amounts imposed by any governmental authority.

- "TLU-2" means the tanking loading unit operated and administered by Ocensa in connection with the Port Concession.

- "TLU-3" means the tanking loading unit operated and administered by Ecopetrol in connection with the Port Concession.

- "UPME" means the Mining Energetic Planning Unit (*Unidad de Planeación Minero Energética*) of the MME.

The following is a list of crude oil and natural gas measurement abbreviations commonly used throughout this offering memorandum:

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|---|---|
| bbl | Barrel with a capacity of 42 U.S. gallons |
| boe | Barrels of crude oil equivalent |
| bpd | Barrels per day |
| bph | Barrels per hour |
| cSt | Centi-stoke, equivalent to viscosity of 1 $mm^2/s$ |
| kbpd | Thousand barrels per day |
| mbpy | Million barrels per year |

## ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad limitada unipersonal* under the laws of Spain. Our directors reside in Spain and in Luxembourg. In addition, all or a substantial portion of the assets of these persons and of AI Candelaria are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States or otherwise obtained in U.S. courts.

We have appointed CT Corporation as our authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York, arising out of or based upon the Indenture (as defined below) governing the Notes or the Notes themselves. See "Description of the Notes."

A final judgment obtained against us outside of Spain (and, in particular, in the United States), other than a country bound by the provisions of EU Regulation 1215/2012 of the European Parliament and of the Council, would be recognized and enforced by the courts of Spain (unless such judgment contravenes principles of Spanish public policy) pursuant to the following regimes:

- according to the provisions of any applicable treaty (there being none currently in existence between Spain and the United States for these purposes); and

- in the absence of any such treaty, the judgment would be enforced in Spain if it satisfies all of the following requirements in compliance with and subject to Article 523 of the Spanish Civil Procedure Act (*Ley 1/2000, de 7 de enero de Enjuiciamiento Civil*) and subject to Law 29/2015, of July 30, on International Legal Cooperation in Civil Matters (*Ley 29/2015, de 30 de julio, de Cooperación Jurídica Internacional en materia civil*) (the "*Law on International Legal Cooperation in Civil Matters*") which repeals Articles 951 to 958 of the former Spanish Civil Procedure Act of 1881 (*Real Decreto de Promulgación de 3 de febrero de 1881 de Enjuiciamiento Civil*):

    - such U.S. judgment is final and conclusive (*firme*);

    - such U.S. judgment was rendered by a court having jurisdiction over the matter since the dispute is clearly connected to the United States and the choice of the court is not fraudulent;

    - the judgment is not contrary to Spanish public policy or mandatory provisions and the obligation to be fulfilled is legal in Spain;

    - the documentation prepared for the purposes of requesting the enforcement is accompanied by a literal, authentic, sworn Spanish translation;

    - the copy of the judgment presented before the Spanish Court is duly apostilled;

    - there is not a pending previous proceeding between the same parties and in relation to the same issues in Spain;

    - there is not an incompatible judgment rendered in Spain or previously rendered in another country-when this last judgment meets the requirements to be eventually recognized in Spain;

    - where rendering the judgment, the courts rendering it did not infringe an exclusive ground of jurisdiction provided for under Spanish law or based their jurisdiction on exorbitant grounds and the choice of court is not fraudulent;

    - the rights of defense of the defendant were protected where rendering the judgment, including, but not limited to, a proper service of process carried out with sufficient time for the defendant to

prepare its defense and the U.S. judgment was not rendered by default (i.e., without appearance or without the possibility to appear for the defendant); and

- although reciprocity is not a legal requirement, if it were proven that the U.S. jurisdiction in which the judgment was obtained does not recognize judgments issued by Spanish courts on a general basis, then the Spanish courts could be compelled to deny the recognition of the U.S. judgment in Spain.

Law on International Legal Cooperation in Civil Matters expressly prohibits that a foreign judgment is reviewed as to its substance (*revision del fondo*) by the Spanish competent court.

Any party wishing to have a U.S. ruling recognized or enforced in Spain must file an application seeking declaration of enforceability of the U.S. resolution (*exequatur*) with the relevant Spanish Judge of First Instance (*Juzgado de Primera Instancia*) or Commercial Court (*Juzgado de lo Mercantil*).

The Spanish courts may express any such order in a currency other than euro in respect of the amount due and payable by the Issuer, but in case of enforcement in Spain, the court costs and interest will be paid in euros. Any judgment obtained against the Issuer in any country bound by the provisions of EU Regulation 1215/2012 of the European Parliament and of the Council would be recognized and enforced in accordance with the terms set forth thereby.

The enforcement of any judgment in Spain entails, among others, the following actions and costs: (a) translation fees for documents in a language other than Spanish, which must be accompanied by a sworn translation into Spanish; (b) certain professional fees for the verification of the legal representative of a party litigating in Spain, if needed; (c) judicial tax and fees; and (d) the procedural acts of a party litigating in Spain must be directed by an attorney at law and the party must be represented by a court agent (*procurador*), and (e) the content and validity of foreign law must be evidenced to the Spanish courts. In addition, please note that Spanish civil proceedings rules cannot be amended by agreement of the parties and will, therefore, prevail notwithstanding any provision to the contrary in the Notes.

Substantially all of our assets are shares of Ocensa, a Colombian company. Additionally, the Share Pledge Agreement (as defined below) is governed by Colombian law.

We have been advised by Brigard & Urrutia Abogados S.A.S., our Colombian counsel, that the Supreme Court of Justice of Colombia (*Corte Suprema de Justicia de Colombia*), determines whether to recognize a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as *exequatur*. The Supreme Court of Justice of Colombia will recognize a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of articles 605 through 607 of Law 1564 of 2012, (*Código General del Proceso*), which provide that the foreign judgment will be enforced if:

- a treaty or convention exists between Colombia and the country where the judgment was granted relating to the recognition and enforcement of foreign judgments or in absence of such treaty there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;

- the foreign judgment does not relate to "*in rem* rights" vested in assets that were located in Colombia at the time of the commencement of the proceeding in the foreign court which issued the judgment;

- the ruling does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;

- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal and a copy of the judgment provided to the Supreme Court of Justice of Colombia must be authenticated and legalized by a Colombian consul and translated into Spanish by an authorized translator duly registered at the Ministry of Foreign Affairs;

- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;

- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties;

- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served properly in accordance with the law of such jurisdiction and in a manner reasonably designated to give the defendant an opportunity to defend against the action; and

- the Supreme Court of Justice of Colombia has granted *exequatur* upon the foreign judgment.

In the course of the *exequatur* proceedings, both the plaintiff and the defendant are granted the opportunity to request the production of evidence in connection with the requirements listed above. In addition, before the judgment is rendered, each party may file final allegations in support of such party's position. In other words, once the recognition petition is filed, the court must serve its admission to all the interested parties, foreign or Colombian domiciliaries, for such parties to present their considerations regarding the petition. Thereafter, the court will decide upon the evidence request and will set a date for a hearing where the evidence will be collected and closing arguments must be presented prior to its final decision. The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. However, the Colombian Supreme Court has generally accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. Nevertheless, such enforceability decisions are considered by Colombian courts on a case-by-case basis.

Once the Supreme Court of Justice grants the *exequatur* to the relevant foreign judgment, the party seeking its enforcement can initiate a judicial collection claim before the competent local court.

Colombia is party to international treaties such as the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), the 1975 Inter-American Convention on International Commercial Arbitration, and the 1965 Washington Convention for the Settlement of Disputes between States and Nationals of Other States.

As of the enactment of Law 1563 of 2012, in force as of October 13, 2012, international arbitration awards issued by arbitral tribunals sitting in Colombia are not subject to *exequatur* or recognition proceedings to be recognized, except when the parties waived their right to request the annulment of the award.

Recognition of international arbitration awards may only be denied pursuant to the grounds described in article 112 of Law 1563 of 2012:

when it is proved by the party against which recognition is sought that:

- the party to the arbitration agreement was, under the applicable law, under some incapacity, or said agreement is not valid under the law to which the parties have subjected it or, in the event the law has not been specified, under the law of the country where the award was made; or

- the party against whom the award is enforced was not given proper notice of the appointment of an arbitrator or of the initiation of the arbitration proceeding or was otherwise unable to present its rights in the case; or

- the subject matter of the award is a dispute not included within the terms of the submission to arbitration or it contains decisions on matters beyond the scope of the submission to arbitration (if the decisions on matters submitted to arbitration can be separated from those not submitted, the first may be recognized and enforced); or

- the integration of the arbitration tribunal or the arbitral procedure was not in accordance with the agreement of the parties, or in the event such agreement has not been made, in accordance with the law of the country where the arbitration took place; or

- the award has not yet become binding for the parties or has been set aside or suspended by a judicial authority of the country in which the award was issued; or

when the competent judicial authority verifies that:

- in accordance with Colombian law, the matter may not be subject to arbitration (Article 62 of Law 1563 of 2012 provides that the special regulation on international arbitration contained in the Third Section does not affect any other local law that excludes the arbitrability of certain matters); or

- the recognition or enforcement of the award would be contrary to Colombian international public policy. The Supreme Court of Colombia has consistently held that the notion of public policy under the New York Convention is limited to the basic or fundamental principles of legal institutions, such as the prohibition to exercise rights abusively, good faith, the arbitral tribunal's impartiality and due process. Thus, the contravention of a mandatory rule does not necessarily fall within the scope of article V.2.b. of the New York Convention. Therefore, the contravention of a mandatory provision of the *exequatur* judge's forum does not entail itself a violation of the international public policy, in accordance with the Colombian Supreme Court's decision of July 27, 2011.

If there is an annulment petition or a motion for suspension filed before a judicial authority of the country where the arbitration is located, then the Colombian judicial authorities may suspend its ruling on the award's recognition, as, in accordance with article 1112 of Law 1563 of 2012, the Supreme Court of Colombia has the power to decide whether to suspend the recognition proceeding in Colombia.

The above events are similar to the ones regulated in article V(a)(b) of the New York Convention.

## CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This offering memorandum contains statements that are or may constitute forward-looking statements. Many of the forward-looking statements contained in this offering memorandum can be identified by the use of forward-looking words such as "anticipate," "believe," "will," "could," "expect," "should," "plan," "seek," "intend," "estimate" and "potential," among others. These forward-looking statements are primarily based on current expectations and projections about future events and financial trends that affect, or may affect, our business, financial condition, results of operation, liquidity and prospects, and include, without limitation, statements regarding our expectations and estimates concerning our and Ocensa's future financial performance and liquidity; financing plans; anticipated trends and competition; and the anticipated impact of legal and administrative proceedings. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us. Investors should understand that the following important factors, in addition to those discussed in this offering memorandum, including in the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations of AI Candelaria," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ocensa," "Industry and Regulatory Overview" and "Business" could affect our future results and could cause our results to differ materially from those expressed in such forward-looking statements:

- Dependence on cash dividends due to being a holding company;

- Increases in interest rates, downgrades in credit ratings and changes to international currency and tax legislation;

- Influence of the Colombian government (the "Colombian Government") and the Colombian Central Bank;



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- Trends in political and economic conditions in Colombia and the United States affecting our and Ocensa's financial condition or results of operations;
- Limitations on deductibility due to provisions on Spanish CIT in Spanish tax legislation;
- Changes of control of Ocensa;
- Dependence on customers' discovery of, access to, and extraction and transport of, crude oil reserves;
- Majority of Ocensa's contracts are "ship and pay" contracts, which do not require minimum volumes to be transported;
- Credit and concentration risks of Ocensa's customers;
- Volatile nature of international prices for crude oil and refined products;
- Changes in tariffs established charged for the transport of crude oil through pipelines;
- Ocensa's ability to successfully complete its expansion and optimization projects, capture new business opportunities and refinance its indebtedness;
- Changes in the availability of drag reducing agents to Ocensa;
- Risks related to litigation and other administrative or regulatory proceedings;
- Operational and market risks specific to transporting crude oil;
- Extensive local and international environmental and other regulations to which Ocensa is subject;
- Investments by Ocensa's competitors or failure to capture new business opportunities;
- Changes to Ocensa's dividend policy;
- Ocensa's access to, and extraction and transport of, crude oil reserves;
- Investments by Ocensa's competitors in increased transportation capacity;
- Operational and market risks specific to transporting crude oil;
- Changes in the participation of each shareholder in Ocensa, the amendment or termination of the shareholders' agreement signed on January 17, 2013 (the "Shareholders' Agreement," as described in "Principal Shareholders—Shareholders' Agreement"), or any other factor that may result in a change of control of Ocensa; and
- Other factors that are described in "Risk Factors."

The forward-looking statements included in this offering memorandum are made only as of the date hereof. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this offering memorandum to conform these statements to actual results or to changes in our expectations.



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You should read this offering memorandum with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

## SUMMARY

*You should read the following summary together with the more detailed information regarding Ocensa, us and each of our financial statements and notes appearing elsewhere in this offering memorandum. This summary highlights selected information from this offering memorandum and may not contain all the information that is important to you. For a more complete understanding of Ocensa, us and the New Notes offered pursuant to this offering memorandum, you should read this entire offering memorandum, including the risk factors and the financial statements appearing elsewhere herein.*

### AI Candelaria

#### *Company Organization*

We are a holding company whose sole activity since our incorporation in November 2013 has been to invest in shares of Ocensa. As of the date of this offering memorandum, we own 1,153,139 or 22.352% of Ocensa's Capital Stock, which have been pledged to secure the obligations under the Notes. This interest in Ocensa represents all of our assets from which we derive our income. We do not hold shares of any other operating company; however, we may acquire shares of other operating companies in the future or purchase additional shares of Ocensa, but any such shares are not required to be pledged as additional collateral to secure our obligations under the Notes.

We are wholly owned by AI Candelaria (Luxembourg) S.à r.l., a s*ociété à responsabilité limitée,* incorporated and existing under the laws of the Grand Duchy of Luxembourg ("AI Lux"), having its registered office at 2-4 rue Beck, L-1222 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Trade and Companies Register under number B 181699, and controlled by Advent International Corporation ("Advent").

Our principal sources of cash flows have historically been Ocensa's dividends, which we register as net sales in our financial statements. Dividend payments from Ocensa are subject to a time lag at the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. For the years ended December 31, 2018, 2017 and 2016, we had net sales of US$135.4, US$85.2 million and US$146.7 million, respectively. The operating costs to maintain our structure are minimal. As such, we reported operating income of US$134.4, US$84.7 million and US$146.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. On March 12, 2019, Ocensa declared and paid dividends of $US355.8 million, attributable to net income accumulated during the six months between July 1, 2018 and December 31, 2018. AI Candelaria effectively received US$79.5 million, corresponding to our 22.352% stake.

We enforce our rights as shareholders in accordance with the Shareholders' Agreement, which contains corporate governance provisions establishing the relationship among ourselves, other shareholders of Ocensa and Ocensa. Because we own 22.352% of Ocensa's capital stock, we may nominate, and effectively control, the appointment of, two board members using the electoral quotient (*cuociente electoral*) system, and we have effective veto rights on critical decisions that require qualified majorities relating to Ocensa's operations and financial condition and on changes to Ocensa's existing dividend policy. We will maintain this effective veto right so long as our ownership does not fall below 10% of Ocensa's capital stock. The Shareholders' Agreement regulates, among others, the following matters:

#### *Qualified Majorities in Shareholders' Meetings*

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 90.1 % of Ocensa's total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over the following decisions:

- approve that a particular issuance of shares, of any class, be offered and traded without being subject to preemptive rights;



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- create or issue any shares other than common shares;

- approve the creation of temporary reserves (*reservas ocasionales)* for an amount equal to or higher than 10% of the net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly;

- approve any profit distribution other than 100% of available distributable earnings;

- order the payment of dividends in the form of paid-in shares of any class of Ocensa, or in kind;

- approve amendments to our by-laws seeking to: (1) modify Ocensa's corporate purpose; (2) modify Ocensa's dividends distribution policy; (3) include in Ocensa's by-laws the preferential rights in the negotiation of shares or establish any restriction to the free marketability of shares; (4) declare Ocensa's voluntary wind-up, merger, spin-off or dissolution; (5) modify the number of members composing the Board of Directors of Ocensa or any of the qualifying majorities to adopt decisions in the shareholders' meeting or in the Board of Directors, as provided in the Shareholders' Agreement and the by-laws; or (6) modify any of the qualifying majorities set out in the Shareholders' Agreement;

- approve the listing of Ocensa's shares on a stock exchange and the corresponding initial public offering; and

- approve repurchasing any of Ocensa's outstanding shares.

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 85% of Ocensa's total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over the following decisions:

- create reserves under Ocensa's corporate by-laws; and

- transfer or sell any of Ocensa's assets which are worth at least US$50 million.

Moreover, any issuance of shares representing Ocensa's capital stock must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 80% of our total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over such decisions.

The following decisions must be approved by a majority of shareholders comprising the greater of (1) Cenit (or any of its affiliates) and at least one additional shareholder, or (2) more than 50% Ocensa's total outstanding shares:

- amending Ocensa's by-laws for purposes of changing the legal entity under which it was incorporated;

- transfer any of Ocensa's assets with a market price equal to or greater than US$25 million but less than US$50 million;

- approve any public offering of securities issued or secured by Ocensa other than the listing and initial public offering of Ocensa's shares on a stock exchange;

- approve the valuation of in-kind contributions to Ocensa;

- approve temporary reserves of an amount lower than 10% of net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly; and



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- approve amendments to an agenda of extraordinary shareholders' meetings.

***Board of Directors***

Appointment and qualified majorities

In accordance with the Shareholders' Agreement, Ocensa's board members are nominated and appointed in the following proportion: (1) Cenit and its affiliates may nominate three members of the board of directors, two of which must be independent members pursuant to criteria set forth in Article 44 of Law 964 of 2005; and (2) based on our 22.352% minority ownership, we may nominate, and effectively control, the appointment of, two members total using the electoral quotient (*cuociente electoral*) system.

Pursuant to the Shareholders' Agreement a qualified majority of at least four of Ocensa's five board members is required to:

- approve Ocensa's business plan and any amendments thereto;
- approve projects that involve amounts greater than US$100 million;
- approve Ocensa's corporate governance code and any amendments thereto;
- delegate any decisions or functions of the board to any of its members, to legal representatives of the company or any of its employees or agents;
- approve the rules for issuing and placing (*reglamento de emisión y colocación de acciones*) any of Ocensa's shares or other securities for a price lower than the fair market value;
- approve transactions involving amounts higher than US$500 thousand to be carried out between Ocensa and any shareholder or any affiliate thereof (except for transactions related to services rendered by Ocensa and based on regulated tariffs);
- approve any amendments to Ocensa's transporter's manual or to the regulations governing operating or technical conditions at its terminal at the Port of Coveñas; and
- approve Ocensa's involvement in new lines of business that are substantially different from its current activities and that are not contemplated in its current business plan.

***Dividend Policy***

Pursuant to the Shareholders' Agreement, Ocensa must prepare financial statements at June 30 and December 31 of each year and, if applicable, distribute as dividends to its shareholders 100% of net income after funding any legal and applicable reserves, unless otherwise instructed unanimously by its shareholders at a shareholders' meeting.

Dividend payments from Ocensa are subject to a time lag with respect to the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. The following diagram sets forth an illustrative timeline regarding the dividend payment process.



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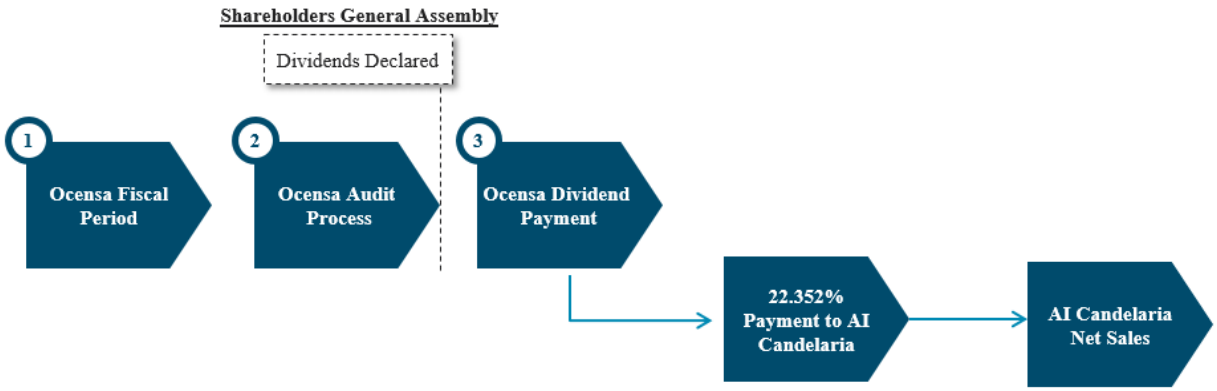


In 2016, dividends were declared and paid by Ocensa to all its shareholders four times for an aggregate amount of US$656.3 million, attributable to net income generated by Ocensa for the last quarter of 2015 and the period between January 1, 2016 and September 30, 2016. In 2017, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$381.3 million, attributable to net income generated by Ocensa for the last quarter of 2016 and the period between January 1, 2017 and June 30, 2017. In 2018, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$605.5 million, attributable to the period between July 1, 2017 and June 30, 2018. We received our pro rata share of all these dividends distributions at the declared times and recognized them as net sales.

It is important to highlight that in 2017 Ocensa declared and paid the equivalent of nine months of net income, while in 2016 and 2018, they declared and paid the equivalent of 12 months. Consequently, in 2017, the amount AI Candelaria recorded in net sales was representative of only nine months of net income instead of 12 months.

On March 12, 2019, Ocensa declared and paid dividends of $US355.8 million, attributable to net income accumulated during the six months between July 1, 2018 and December 31, 2018. AI Candelaria effectively received US$79.5 million, corresponding to our 22.352% stake.

In the past three years, Ocensa has declared dividends representing 100% of the net income generated and has not declared the funding of any legal or applicable reserves.

***Tag Along Rights***

Subject to certain conditions stipulated in the Shareholders' Agreement, we are entitled to tag along rights in the event a current shareholder or a third party acquires a controlling interest in Ocensa's capital stock.

***Term***

In accordance with its terms, the Shareholders' Agreement is valid and binding until the registration of Ocensa's shares on the Colombian National Registry for Securities and Issuers and the listing of Ocensa's shares on the Colombian stock exchange in connection with an initial public offering.

Moreover, if as a result of a transfer of Ocensa's shares by any of its shareholders, Ocensa ceases to have a majority shareholder, its then existing shareholders must renegotiate the Shareholders' Agreement to ensure its functionality under the new ownership structure.

For additional information regarding the provisions of the Shareholders' Agreement governing Ocensa's crude oil transport operations, see "Business—Material Agreements—Shareholders' Agreement."



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**Ocensa**

Ocensa, incorporated in 1994, owns and operates (i) the Ocensa Pipeline, the largest crude oil pipeline in Colombia, covering 836 km on land and 12 km underwater and (ii) one of the largest crude export terminals in Colombia (the Port of Coveñas). The Ocensa Pipeline, Ocensa's primary asset, was completed and became operational in 1998 and has a maximum current capacity of 745kbpd, based on transportation of crudes with viscosity of up to 300cSt, at the largest segment of the pipeline. Ocensa completed capacity expansion projects in 2014 and 2016 that increased the reliability and the capacity at the largest segment of the pipeline by 170kbpd. In 2017, the Ocensa Pipeline transported approximately 68% of Colombia's total crude oil production, and exported through the Port of Coveñas, approximately 51% of Colombia's total oil exports, according to proprietary information and information compiled from the DANE. The Ocensa Pipeline transports crude oil ranging from light crude oil and intermediate blends to heavy crudes, on behalf of crude oil producers, connecting Colombia's most prolific basins, the Llanos basin and the Magdalena basin (together, 89% of Colombia's crude oil production and 87% of its reserves in 2017), with the country's two main refineries (Barrancabermeja and Cartagena) and the Port of Coveñas, Colombia's primary public crude oil export facility.

Ocensa's majority shareholder, with approximately 73% of its equity, is Cenit, a wholly-owned subsidiary of Ecopetrol, the Colombian national crude oil and gas company and Colombia's largest producer of crude oil and gas. Ecopetrol has accounted for approximately 60% of Colombia's total crude oil production, on average, over the past five years according to the ANH and ACP. Of Ocensa's remaining equity, AI Candelaria directly holds 22.352% and AI Lux owns one share (0.00002% of Ocensa's capital stock). Additionally, 5.000% of Ocensa's equity is held by Banco de Bogotá (Panamá) S.A. Fideicomiso Acciones Ocensa and Transporte Registrado S.A., vehicles in which Darby Private Equity, a private equity investment vehicle of Franklin Templeton, holds an interest.

In 2017, Ocensa's revenue totaled US$1.3 billion, compared to US$1.2 billion in 2016, while its EBITDA totaled US$1.1 billion in 2017, compared to US$1.0 billion in 2016. In the six months ended June 30, 2018, Ocensa's revenue totaled US$674.3 million, compared to US$606.7 million in the six months ended June 30, 2017. In the six months ended December 31, 2018, Ocensa's revenue totaled US$726.4 million, compared to US$718.1 million in the six months ended December 31, 2017.

***Competitive Strengths***

Ocensa is a leading pipeline transporter of crude oil in Colombia and believes its main competitive strengths include:

*Resilient business model with significant and predictable cash flow*

The stable regulatory framework in Colombia and Ocensa's strong competitive position result in stable and strong cash generation. Throughout the oil price cycle (2014 to 2017), Ocensa's transported volumes remained practically stable (601kbpd in 2014 to 581kbpd in 2017), while national oil production decreased by approximately 14%, according to the ANH.

Despite the oil and gas sector downturn, Ocensa's operating cash flow remained strong, as evidenced by measures such as its EBITDA of US$598.1 million for the six months ended December 31, 2018 and US$567.8 million for the six months ended June 30, 2018, compared to US$1.1 billion in 2017 and US$1.0 billion in 2016, respectively. At the same time, Ocensa has worked on increasing its profitability through several efficiency initiatives and its operating costs (fixed and variable costs, including administrative expenses) were US$232 million, US$204 million and US$175 million in 2018, 2017 and 2016, respectively. These factors have contributed to Ocensa's favorable EBITDA margins of 82.3%, 81.4% and 85.2% in the corresponding years. Ocensa's strong cash flow generation capacity, low operating costs and high margins have allowed it to self-fund a substantial portion of its capital expenditures, provide it with resources for the payment of financings and pay dividends of 100% of net income every year. Dividend distributions have been US$605.5 million, US$381.3 million and US$656.3 million for 2018, 2017 and 2016, respectively. Ocensa expects to continue using its cash flow generation capacity to fund its future capital expenditures and maintain its dividend policy of 100% of net income without resorting to significant use of leverage.



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*Stable regulatory framework*

The regulation of oil pipeline transportation is governed by the Petroleum Code of 1953 and regulation issued by the MME, as amended, which states that a fair profit must be ensured to the transporter. Transportation tariffs are calculated according to a formula established by the MME 2014 Resolution, which provides remuneration for (i) investments required for the construction of the pipeline; (ii) maintenance, use and administration of the pipeline; and (iii) a fair return to investors. The tariffs are initially set in US dollars, adjusted annually pursuant to the formula contained in the MME 2014 Resolution.

Ocensa operates as a regulated profit center under a rate of return model, a framework that has been widely adopted by developed nations to regulate their midstream sector.

*Recently completed expansion with firm "ship or pay" contracts*

In December 2016, Ocensa completed the expansion project of Project Potencia 135 and in July 2017, the "ship or pay" contracts related to this project became effective. Under "ship or pay" contracts, Ocensa receives monthly contractual payments regardless of whether a shipper effectively delivers crude oil and Ocensa is obligated to reserve transportation capacity only upon payment from a shipper. "Ship or pay" contracts range from eight to ten years, and services under the "ship or pay" contracts are paid regardless of the effective use of the capacity or the segment by which the crude enters or exits the pipeline. Each contractual tariff is adjusted every year.

*Strong competitive position driven by unique cost competitive position and reliability*

Colombia has become an active crude oil and gas market in Latin America, with the Colombian Government having initiated several policies to encourage foreign investment in the Colombian crude oil and gas industry. According to BP's World Oil Review 2017 and the ANH, Colombia is the fourth largest crude oil producer in South and Central America and the sixth largest holder of proven crude oil reserves, with crude oil reserves having increased from 2,100 million bbl in 2009 to 1,782 million bbl in 2017, while crude oil production increased from 669kbpd in 2009 to 865kpbd in 2018.

As the owner of the largest crude oil pipeline in Colombia, Ocensa benefits from limited competition from other pipelines and from other crude oil transportation alternatives. Competitor pipelines include the OBC pipeline and the Oleoducto de Colombia pipeline (that only competes with Ocensa's segment III) which are not expected to increase transportation capacity in the near term. The Oleoducto de Colombia pipeline is also operating at full capacity. Significant barriers to entry exist for the development of new competitor pipelines, which are subject to strict government and environmental licensing that may require several years to obtain. These projects are also subject to construction risks, right of way permits and cost overruns, with the cost of building pipeline infrastructure having increased in recent years. Ocensa also faces competition from trucking transportation and integrated logistics systems of trucks and barges through the Magdalena River, the other alternatives for the transportation of crude oil in Colombia.

Ocensa's competitive strength in the market is evidenced by the fact that, in 2018, 74% of Colombia's total crude oil production was transported through the Ocensa Pipeline and 50% of the total exports of liquid bulk cargo from Colombia was crude oil exported by Ocensa at the Port of Coveñas.

Ocensa believes that its unique cost-competitive position and reliability will continue to drive its leading market positioning and support its revenue and cash flow growth over the near to medium-term.

*Strategically located, high-quality assets*

Measuring approximately 836 km on land and 12 km underwater, the Ocensa Pipeline is strategically located to benefit from stabilized oil production in the Colombian crude oil and gas industry. The Ocensa Pipeline currently transports crude oil from Colombia's most prolific basins, the Llanos basin and the Magdalena Basin, which in 2018 accounted for 74% and 19% of Colombia's crude oil production, respectively, to the Port of Coveñas, Colombia's primary crude oil export facility. Ocensa believes that because current oil and gas exploration in



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Colombia is concentrated in the Llanos and Middle Magdalena Valley basins, transportation systems running from these basins to export terminals, such as the Ocensa Pipeline, will become even more strategic to Colombian crude oil and gas companies. Moreover, the Ocensa Pipeline is strategically located near other important crude oil infrastructure, including the two largest refineries in Colombia, the Cartagena refinery and the Barrancabermeja refinery, which Ocensa believes will continue to drive demand for the Ocensa Pipeline.

In addition, Ocensa's asset base is comprised of modern, high-quality stations and equipment. Ocensa's high-quality assets include state-of-the-art storage, pumping and pressure reducing stations, high capacity storage tanks and loading tanker vessels with individual upload capacities of up to 2 million barrels. Ocensa believes that the quality of its asset base provides it with distinct advantages over its competitors. For example, the Ocensa Pipeline is currently capable of handling crude oil of different qualities, ranging from light crude oil and mixtures to extra heavy crudes, allowing Ocensa to meet the evolving transportation demand of crude oil producers in Colombia. In 2017, Ocensa started transporting heavier crudes (300cSt and up to 600cSt) and started charging an incremental tariff of US$0.35/bbl to shippers to transport this type of crude.

As Ocensa continues to invest in the Ocensa Pipeline, it believes that the quality of its assets will continue to provide it with a competitive advantage.

*Experienced management team*

Members of Ocensa's senior management team have twenty or more years of experience in the Colombian crude oil and gas industry in their respective areas of expertise, with a strong focus on financial performance and operational efficiency, and they are committed to attaining solid and sustainable financial results in a socially and environmentally responsible manner. Ocensa's management practices are also focused on its relationships with stakeholders (including its shareholders and current and prospective customers) so as to leverage its competitive position. Ocensa believes that the specialized experience of its professionals and their in-depth knowledge of its company and its stakeholders contribute significantly to its cost-effective and efficient operations.

Ocensa's track record of growth with robust results over the last four years reflects the effectiveness of its management team, management systems and organizational culture.

***Business Strategy***

Ocensa intends to focus on achieving steady and sustained growth, keeping its costs competitive and building on its competitive strengths in order to maintain and improve its market share. The principal components of Ocensa's strategy are to:

*Capture additional growth opportunities*

Ocensa intends to focus on achieving further integration of the transportation system in Colombia and offering tailor-made solutions to crude oil producers in the country. Ocensa will focus on investments to increase the volume of heavy and extra heavy crude oil transported within the Ocensa Pipeline, charging an incremental tariff to the transporters. Ocensa is especially well-positioned to act as a consolidator of the midstream sector in Colombia, building an integrated platform that maximizes investor returns.

*Enhance Ocensa's profitability and margins through gains in operational efficiency*

Ocensa intends to continue to focus on increasing its operational efficiency in order to enhance its profitability and profit margins. Ocensa is focused on further improving the efficiency and sustainability of its operations by investing further in advanced pipeline transportation technologies and enhancing the capacity of its facilities in order to reduce per unit transportation costs. For example, Ocensa is currently implementing Project PROTON, an integrated transportation platform aimed at further optimizing the pipeline planning process and materializing cost reduction opportunities in areas such as drag reducing agent savings, energy savings and savings related to the streamlining of tasks that are currently performed manually. In order to achieve increased operational efficiency, Ocensa plans to focus on three pillars:



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- *Consolidate Ocensa's organizational development model to focus on efficiency and competitiveness*. Ocensa believes that it will further maintain its track record of improving cost efficiency through disciplined cost management policies and by leveraging its know-how and technical expertise. Ocensa will seek to consolidate standards of efficiency, safety and reliability throughout its organization, through continuous investment in the optimization of its operating processes by establishing challenging performance goals for its personnel.

- *Develop an asset repositioning program.* Ocensa intends to formulate and implement an asset repositioning program based upon technology designed to improve the maintenance, reliability and availability of its assets as well as foster environmental responsibility.

- *Strengthen Ocensa's corporate governance to ensure operational excellence in the management of its projects.* Ocensa intends to reinforce and monitor the proper execution of its corporate governance principles (and foster compliance among its employees) in order to help eliminate management bottlenecks and inefficiencies that might hinder the successful completion of its projects.

*Continue to identify and enter into new strategic partnerships*

In order to increase Ocensa's pipeline operations (either through expansion projects or through strategic acquisitions) while reducing its financial and operational risk, Ocensa intends to continue identifying and entering into relationships with new strategic partners within the Colombian crude oil and gas industry, including other pipelines owners and/or operators, private equity investors as well as upstream/downstream crude oil and gas companies. Ocensa intends to continue to partner with well-established companies of domestic and international repute, including its controlling shareholders and potential customers, with which it may form joint ventures in order to allow it to gain market share and continue to take advantage of the market opportunities in Colombia.

*Continue Ocensa's focus on health, safety, environmental awareness and social responsibility*.

Ocensa intends to continue to improve its health, safety environmental awareness and social responsibility initiatives, which it believes to be essential to the sustainability of its operations. In particular, Ocensa will continue to promote a culture of prevention and emphasize continuous improvement risk management policies in order to:

- Ensure the health and safety of all employees associated with the operation of the Ocensa Pipeline and its surrounding communities, including through accident prevention programs and the strengthening of each of Ocensa's worksites through worksite diagnostics; and

- Promote environmental initiatives, including those directed towards:

  - soil protection and basins (geotechnical protection programs as well as erosion and landslide prevention, due to the heavy rains that affect the area surrounding the Ocensa Pipeline),

  - the reduction of emissions,

  - waste management,

  - water preservation and

  - biodiversity.

In 2015, Ocensa implemented the "CARE" strategy, an integrated, stakeholder-focused framework for the treatment of health safety, environmental awareness and social responsibility. Pursuant to the "CARE" strategy, policies with respect to each of six stakeholder groups are considered, including the following:

- Our People (Ocensa employees): Respecting and promoting, without limitation, the rights of the people associated with the business. Between 2016 and 2018, Ocensa reduced the number of



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registerable accidents requiring medical treatment by 89%, and the number of man hours worked by 38.5%.

- Our Community (Communities engaging with Ocensa's influence): Establishing trust-based relationships with communities in the pipeline's area of influence, with an emphasis on women's development. In 2017, Ocensa invested over US$3 million in partnership programs with communities, including over US$2 million committed to women's development programs focused on education scholarships, home improvements and civic participation.

- Our Environment (The environment within Ocensa's influence): Developing projects to mitigate Ocensa's environmental impact and adapt to climate change, including conservation, spill prevention and remediation strategies. In 2017, Ocensa implemented the REPO Project to replace crude and diesel engines with gas powered turbines in El Porvenir, substantially decreasing noise and carbon dioxide emissions.

- Our Allies (Ocensa's clients, shareholders and contractors): Adding value to customer services and capturing new business opportunities. Over the last three years, Ocensa has completed several capacity expansion projects such as Project Delta 35 and Project Potencia 135, in addition to several integration and competiveness projects.

- Our Assets (Ocensa's infrastructure, reputation and knowledge): Establishing policies and processes to protect Ocensa's pipeline infrastructure, maintenance systems and reputation. Ocensa identifies new project opportunities and improvement initiatives, such as accident prevention initiatives, as well as caring and maintaining the knowledge and expertise of Ocensa's personnel, and efficiently allocates capital to them.

- The Institutions (Governmental and regulatory authorities): Maintaining positive relationships with authorities and a high quality standard to ensure the continued availability of government authorization and contracts. In 2017, Ocensa established a Risk and Compliance department to manage its governance, risk and control functions in an integrated manner, including compliance with applicable regulations.

***Corporate Structure***

The chart below depicts a summary of our ownership structure and holdings in Ocensa.



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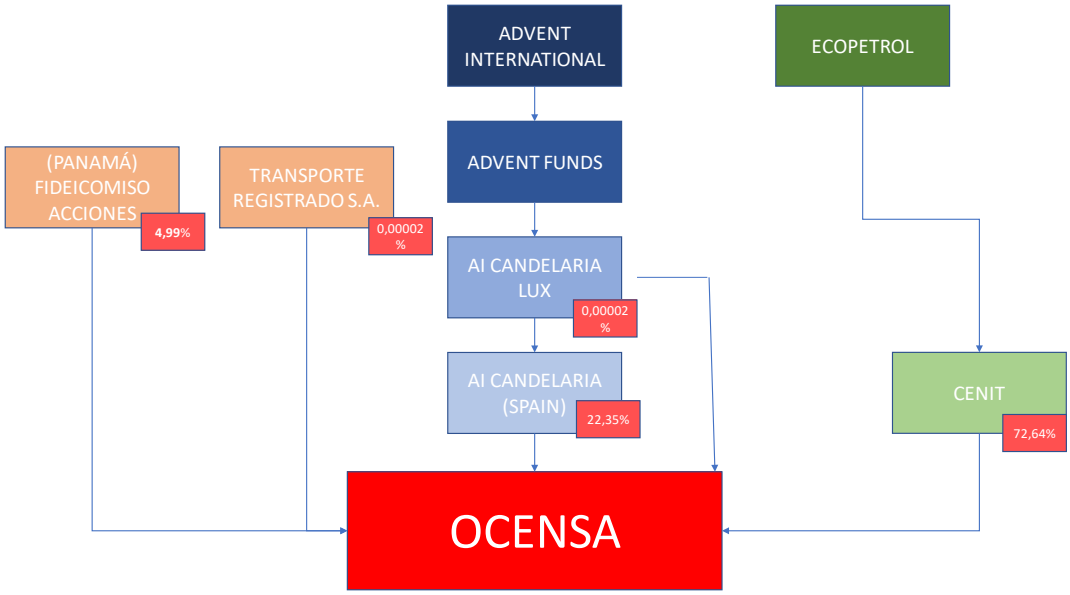


**Advent**

AI Candelaria S.L.U. is a Spanish *sociedad limitada unipersonal*, wholly owned by certain funds managed by Advent. Founded in 1984, Advent is one of the largest and most experienced global private equity firms. Since launching its investment strategy in 1989, Advent's managed funds have invested in 345 transactions over 41 countries, and as of December 31, 2018, had $36.0 billion in assets under management. Advent's current portfolio is comprised of investments across five sectors: Retail, Consumer & Leisure; Business & Financial Services; Industrial; Technology, Media & Telecom; and Healthcare. The Advent team includes 195 investment professionals across Europe, North America, Latin America and Asia.

## THE OFFERING

*The following is a brief summary of some of the terms of this offering. The terms and conditions described below are subject to important limitations and exceptions. For a more complete description of the terms of the Notes and the related security documents, see "Description of the Notes" in this offering memorandum.*

| | |
|---|---|
| Securities ..... | US$50,000,000 aggregate principal amount of 7.500% Senior Secured Notes due 2028 are being offered as an additional issuance under the Indenture pursuant to which we previously issued the Existing Notes. The New Notes will be treated as a single series with the Existing Notes and will have the same terms as the Existing Notes, other than the date of issue and their initial price to the public. The New Notes and the Existing Notes will vote as one class on all matters under the Indenture governing the Notes. |
| Interest..... | The Notes will bear interest at a fixed rate of 7.500% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, or, if such date is not a business day, the next succeeding business day (each, a "Payment Date"), commencing on June 15, 2019. Interest on the Notes is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the New Notes will accrue from October 25, 2018. |
| CUSIP Numbers..... | On the issue date, the New Notes offered hereby will have the same CUSIP numbers as the Existing Notes, except for the New Notes sold pursuant to Regulation S which will, on the 40th day following the issue date of the New Notes offered hereby, have the same CUSIP numbers. On the 40th day following the issue date of the New Notes offered hereby, the CUSIP numbers for the Regulation S New Notes offered hereby will be automatically merged with the CUSIP numbers for the Existing Notes. After the CUSIP numbers for the Regulation S New Notes offered hereby are merged with the CUSIP numbers for the Existing Notes, we expect that such New Notes will be fungible with the Existing Notes. |
| Principal Amortizations..... | The principal amount of the Notes will be payable as pro rata pass-through distributions in consecutive equal semi-annual installments commencing on December 15, 2022 and on each Payment Date thereafter up to the last Payment Date before final maturity. The final installment of the principal will, in any event, equal the then outstanding aggregate principal balance of the Notes and will be payable together with the accrued and unpaid interest thereon and any other amounts then owing by us under the Notes. |
| Final Maturity Date ..... | December 15, 2028. |
| Use of Proceeds..... | The net proceeds of this offering are estimated to be US$52.2 million. We intend to use the net proceeds from this offering to (i) fund the Debt Service Reserve Account, (ii) pay fees and expenses relating to this offering and (iii) pay a dividend to affiliates of Advent. See "Use of Proceeds" and "Description of the Notes–Debt Service Reserve." |
| Ranking ..... | The Notes are senior secured obligations of the Issuer and rank: |



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- *pari passu* amongst themselves and equal in right of payment with all of our other present and future obligations that are not subordinated to the Notes;
- senior in right of payment to all our existing and future obligations that are subordinated to the Notes; and
- senior in right of payment to all our existing and future unsecured indebtedness to the extent of the value of the collateral;
- effectively subordinated to obligations preferred by statute or operation of law; and
- structurally subordinated to all of Ocensa's existing and future indebtedness and other liabilities, including trade payables.

As of December 31, 2018, on an as adjusted basis to give effect to this offering of New Notes and the application of proceeds as described in "Use of Proceeds," we would have had outstanding US$700 million of senior indebtedness, comprising the Notes, all of which is secured.

Security..... The Notes are secured by a perfected first-priority lien on (i) the Ocensa Pledged Shares pursuant to a share pledge agreement to be amended on the issue date of the New Notes to provide that the New Notes will share in the Ocensa Pledged Shares (the "Share Pledge Agreement") and (ii) the Debt Service Reserve Account pursuant to a deposit account control agreement (the "Deposit Account Control Agreement") as further described under "Description of the Notes— Collateral" and "Description of the Notes— Debt Service Reserve." The Ocensa Pledged Shares represent 22.352% of Ocensa's outstanding capital stock as of the date of this offering memorandum.

To the extent that the Indenture permits us to incur additional debt (including Additional Notes), such additional debt may share in the collateral. We can also incur additional debt secured by collateral that will not secure the Notes.

The Share Pledge Agreement is governed by Colombian law and the Deposit Account Control Agreement is governed by New York law.

Debt Service Reserve Account..... We have established a separate U.S. dollar-denominated account (the "Debt Service Reserve Account") in the United States, which account is pledged to the U.S. Collateral Agent for the benefit of itself, the Trustee and the holders. On the issue date of the New Notes, the amount contained in the Debt Service Reserve Account shall equal the product of (i) an amount sufficient to provide for the payment in full of interest and principal, if any, due on the Notes (including the New Notes) on the next succeeding scheduled Payment Date and (ii) 1.25. See "Description of the Notes—Debt Service Reserve."

Optional Prepayment..... We may prepay some or all of the Notes before September 15, 2028 (three (3) months prior to the maturity date of the Notes) at a prepayment price of 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the prepayment date, plus a "make whole" premium. On or after September 15, 2028 (three (3) months prior to the maturity date of the Notes), we may prepay some or all of the Notes at a prepayment price of 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the prepayment date. Each payment of principal through the applicable



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| | procedures of DTC will be a pro rata pass-through distribution of principal. |
| Change of Control ..... | If we experience a defined change of control event, we are required to offer to repurchase the Notes at a price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchase. See "Description of the Notes—Change of Control." |
| Mandatory Offer to Repurchase Following Certain Asset Sales ..... | If we sell certain assets, then under certain circumstances we must offer to repurchase the Notes at par, plus accrued and unpaid interest to, but not including, the date of purchase as described under "Description of the Notes—Covenants—Asset Sales." If we sell any Ocensa Pledged Shares or cause any Ocensa Pledged Shares to be sold, then we will prepay a portion of the Notes with the proceeds of such asset sale at a prepayment price of 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the prepayment date. We will only have the right to sell Ocensa Pledged Shares so long as after giving effect to such sale we continue to hold at least 10% of the issued and outstanding shares of Ocensa (calculated based off of the number of shares of Ocensa issued and outstanding on October 25, 2018), so that we will continue to maintain our effective veto right on changes to Ocensa's dividend policy. |
| Certain Covenants ..... | The Indenture contains certain covenants that restrict our ability, with certain exceptions, to:<br>• incur, assume or permit to exist additional indebtedness (including guarantees thereof);<br>• pay dividends or certain other distributions on our capital stock or repurchase our capital stock or prepay subordinated indebtedness;<br>• incur liens on assets;<br>• make certain investments or other restricted payments;<br>• engage in certain lines of business;<br>• engage in transactions with affiliates; and<br>• sell certain assets or merge or consolidate with or into other companies.<br>These covenants are subject to important exceptions and qualifications. See "Description of the Notes—Covenants." |
| Withholding Taxes; Tax Prepayment ... | All payments of principal, prepayment amount and interest in respect of the Notes will be made without withholding or deduction for any Taxes or other governmental charges imposed by Spain and any political subdivision or governmental authority of Spain having the power to tax or any other jurisdiction in which the Issuer is doing business or from or through which payment is made or deemed made by or on behalf of the Issuer (including the jurisdiction of any paying agent for the Notes) or any political subdivision thereof or therein), unless such withholding or deduction is required by law. In that event, |



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subject to certain exceptions, we will pay such additional amounts (the "Additional Amounts") as are necessary to ensure that the holders of the Notes receive the same amounts as they would have received without such withholding or deduction. See "Description of the Notes—Payment of Additional Amounts."

If certain changes in the law of any relevant taxing jurisdiction become effective , or the Spanish Tax Authorities consider that Singapore market (SGX-ST) is not an organized market under Law 10/2014, that would impose withholding taxes or other deductions on the payments on the Notes, and as a result we become obligated to pay Additional Amounts as described above, we may prepay the Notes in whole, but not in part, at any time, at a prepayment price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, from the end of the most recent interest period to but not including the prepayment date and all Additional Amounts, if any, then due. See "Description of the Notes—Optional Prepayment—Tax Prepayment."

Under Royal Decree 1065/2007 and Spanish Law 10/2014 of 26 June, on organization, supervision and solvency of credit institutions )"Law 10/2014"(, each as amended, income obtained in respect of the Notes will not be subject to withholding tax in Spain, provided certain requirements are met, including that the Paying Agent provides us, in a timely manner, with a duly executed and completed statement providing details relating to the Notes (the "Payment Statement"(. See "Taxation—Spanish Tax Considerations— Disclosure of information in connection with the Notes".

The Payment Statement shall contain certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain, which, in the case of the Notes, shall be DTC.

The Indenture in respect of the Notes provides for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and will set forth certain procedures agreed by us and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See "Taxation—Spanish Tax Considerations— Disclosure of information in connection with the Notes".

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of Spanish withholding tax, currently at the rate of 19%. If this were to occur due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to us no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures described in "Taxation—Procedures for direct refund from



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| | the Spanish tax authorities." **We will not pay Additional Amounts (as defined herein) in respect of any such withholding tax**. |
| Listing..... | The Existing Notes are currently listed on the SGX-ST and we have received approval-in-principle to increase the principal amount of the Notes listed on the SGX-ST to include the New Notes. Listing is expected to occur within 30 days after delivery of the Notes.<br><br>The Issuer shall use commercially reasonable efforts to obtain and maintain listing of the Notes on a regulated market, multilateral trading facility or another organized market as those terms are referred in First Additional Provision of Law 10/2014 of 26 June, 2014 on the regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*). |
| Trustee, Registrar, U.S. Collateral Agent, Paying Agent and Transfer Agent..... | Wilmington Trust, National Association. |
| Colombian Collateral Agent ..... | TMF Group New York LLC, which has appointed its affiliate, TMF Colombia Ltda, to act as sub-agent in accordance with the Indenture (together with the U.S. Collateral Agent, the "Collateral Agents"). |
| Transfer Restrictions ..... | The New Notes have not been and will not be registered under the Securities Act or the securities laws of any state in the United States and are subject to certain restrictions on transfer and resale. See "Transfer Restrictions." Any sale or transfer in violation of such transfer restrictions will be of no force and effect.<br><br>In addition, all U.S. persons who hold the New Notes or interests therein must be Qualified Purchasers. Each purchaser in making its purchase of the New Notes will be deemed to make the representations, warranties and agreements set forth in "Transfer Restrictions–Representations of Purchasers." To enforce the restrictions on transfers of the Notes and interests therein, we may demand that any Noteholder or holder of an interest therein who is not (i) a qualified institutional buyer and a Qualified Purchaser or (ii) a non-U.S. person (within the meaning of the Investment Company Act and Regulation S) sell to a holder that meets such criteria, and if the Noteholder or interest therein does not comply with such demand, we may sell such holder's Note or interest therein on such terms as we may choose. |
| Governing Law ..... | The Indenture, the Notes and the Deposit Account Control Agreement are governed by the laws of the State of New York. The Share Pledge Agreement is governed by Colombian law. |
| Clearance and Settlement..... | The New Notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream, and will trade in DTC's Same-Day Funds Settlement System. The New Notes will be represented by Global Notes registered in the name of a nominee of DTC. Owners of beneficial interests in Notes held in book-entry form will not be entitled to receive physical delivery of certificated Notes except in certain limited circumstances. For a description of certain factors relating to clearance |



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| | |
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| | and settlement, see "Description of the Notes– Book-Entry System; Delivery and Form; Certificated Notes." |
| Form and Denomination ..... | The New Notes will be issued in fully registered form without interest coupons attached and will be issued in denominations of US$250,000 and integral multiples of US$1,000 in excess thereof. |
| Risk Factors ..... | You should carefully consider the risk factors discussed under the caption "Risk Factors" and the other information contained in this offering memorandum. |

## SUMMARY FINANCIAL INFORMATION OF AI CANDELARIA

The following tables present our summary historical financial data as of and for the years ended December 31, 2018, 2017 and 2016, which were derived from our audited financial statements, prepared in accordance with Spanish GAAP. The selected financial data should be read in conjunction with "Presentation of Financial and Other Information," "Selected Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations of AI Candelaria" and our financial statements and notes thereto, included elsewhere in this offering memorandum.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | (in millions of U.S. dollars, except ratios) | | |
| **Income Statement** | | | |
| Net sales | $135.4 | $85.2 | $146.7 |
| Operating income (loss) | 134.4 | 84.7 | 146.2 |
| Income before taxes | 123.5 | 98.4 | 135.3 |
| Exchange gain (loss) | (1.8) | 3.0 | (0.2) |
| Investment income | (10.9) | 13.7 | (10.9) |
| Income for the year | $123.5 | $98.0 | $135.3 |

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | (in millions of U.S. dollars, except ratios) | | |
| **Balance Sheet** | | | |
| Total current assets | $ 94.0 | $ 61.4 | $ 99.4 |
| Non-current assets | 1,068.7 | 1,068.7 | 1,058.0 |
| Total assets | 1,162.7 | 1,130.1 | 1,157.4 |
| Total current liabilities | 9.0 | 0.2 | 13.8 |
| Non-current liabilities | 642.0 | — | — |
| Total equity | 511.6 | 1,129.9 | 1,143.6 |
| Total liabilities and equity | 1,162.7 | 1,130.1 | 1,157.4 |
| **Other Items** | | | |
| Net dividends received[1] | $134.4 | $84.7 | $146.2 |

(1) Net dividends received is defined as dividends received minus unconsolidated administrative and selling expenses, calculated on an unconsolidated basis in accordance with GAAP, and is equivalent to the calculation for Operating income (loss).



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## SUMMARY FINANCIAL INFORMATION OF OCENSA

The following tables present Ocensa's summary historical financial data as of and for the years ended December 31, 2017 and 2016, which were derived from Ocensa's audited financial statements, and as of and for the six months ended December 31, 2018 and 2017 and June 30, 2018 and 2017, which were derived from Ocensa's audited financial statements, prepared in accordance with NCIF. The selected financial data should be read in conjunction with "Presentation of Financial and Other Information," "Selected Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ocensa" and Ocensa's financial statements and notes thereto, included elsewhere in this offering memorandum.

| | As of and for the year ended December 31, | | As of and for the six months ended December 31, | | As of and for the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| | (in millions of U.S. dollars, except ratios) | | | | | |
| **Statement of Income and Comprehensive Income** | | | | | | |
| Revenues from ordinary activities | $1,324.8 | $1,213.8 | $726.4 | $718.1 | $674.3 | $606.7 |
| Gross profit | 1,064.1 | 1,000.0 | 567.8 | 580.1 | 536.3 | 484.0 |
| Operating profit | 982.6 | 956.0 | 543.0 | 509.4 | 518.1 | 473.1 |
| Profit before income taxes | 950.3 | 960.2 | 538.5 | 499.0 | 513.9 | 451.3 |
| Income tax expense | (397.6) | (408.3) | (182.7) | (207.4) | (200.0) | (190.3) |
| Net profit from continued operations | 552.6 | 551.9 | 355.8 | 291.7 | 313.9 | 261.0 |
| Net gain (loss) from hedges of cash flow, net of taxes | 11.9 | 10.4 | (13.6) | 2.8 | (3.0) | 9.2 |
| Net loss (gain) from exchange difference in translation | (0.1) | (2.1) | 10.2 | (1.5) | (1.1) | 1.3 |
| Net comprehensive income | $ 564.4 | $ 560.2 | $352.4 | $293.0 | $309.9 | $271.4 |
| **Statement of Financial Position** | | | | | | |
| Total current assets | $465.9 | $241.3 | $436.6 | $465.9 | $240.4 | $191.1 |
| Non-current assets | 1,613.7 | 1,649.7 | 1,579.2 | 1,613.7 | 1,610.6 | 1,638.6 |
| Total assets | 2,079.6 | 1,891.0 | 2,015.8 | 2,079.6 | 1,851.0 | 1,829.7 |
| Total current liabilities | 337.5 | 306.5 | 229.3 | 337.5 | 108.0 | 108.3 |
| Non-current liabilities | 606.9 | 632.4 | 594.5 | 606.9 | 589.5 | 618.2 |
| Total liabilities | 944.4 | 938.9 | 823.8 | 944.4 | 697.5 | 726.5 |
| Total equity | 1,135.2 | 952.1 | 1,192.0 | 1,135.2 | 1,153.5 | 1,103.2 |
| Total liabilities and equity | 2,079.6 | 1,891.0 | 2,015.8 | 2,079.6 | 1,851.0 | 1,829.7 |
| **Other Items (audited)** | | | | | | |
| Amortization and Depreciation | 95.9 | 77.7 | 55.1 | 46.9 | 49.7 | 49.1 |
| Net margin[1] | 41.7% | 45.5% | 48.9% | 40.6% | 46.5% | 43.0% |
| **Other Items (unaudited)** | | | | | | |
| Operating margin[2] | 74.2% | 78.8% | 74.7% | 70.9% | 76.8% | 78.1% |
| EBITDA [3] | 1,078.5 | 1,033.7 | 598.1 | 556.2 | 567.8 | 522.9 |
| EBITDA margin [4] | 81.4% | 85.1% | 82.3% | 77.5% | 84.2% | 86.2% |



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| | As of and for the year ended December 31, | | As of and for the six months ended December 31, | | As of and for the six months ended June 30, | |
|---|---|---|---|---|---|---|
| Outstanding debt/EBITDA ratio [5] | 0.46X | 0.48X | 0.42X | 0.45X | 0.44X | 0.48X |
| Volume transported (in kbpd) | 581 | 566 | 641 | 595 | 633 | 565 |
| Total transportation cash cost [6] | 342.3 | 258.1 | 183.4 | 208.8 | 156.1 | 133.5 |
| Number of employees | 297 | 288 | 279 | 297 | 267 | 280 |

(1) Net margin is calculated as net profit divided by revenue, expressed as a percentage.

(2) Operating margin is calculated as operating profit divided by revenue, expressed as a percentage.

(3) EBITDA is calculated as net profit plus depreciation and amortization, current income tax and financial (income) expenses, net. EBITDA is not a measure of financial performance according to NCIF or generally accepted accounting practices adopted in Colombia or the United States and should not be considered in isolation or as an alternative to net profit, as an indicator of operating performance, or to operating cash flows as an indicator of liquidity. EBITDA does not have a standardized definition and the EBITDA definition presented herein may not be consistent with EBITDA used by other companies. EBITDA has certain limitations as a measure of Ocensa's profitability in that it does not consider certain of Ocensa's recurring costs that may have a significant impact on its net profit, including net financial expenses, taxes, depreciation, amortization and depletion. See "Presentation of Financial and Other Information—EBITDA." For a reconciliation of Ocensa's net profit to EBITDA, see "Selected Financial and Other Information."

(4) EBITDA margin is calculated as EBITDA divided by revenue, expressed as a percentage.

(5) Outstanding debt/EBITDA ratio is calculated as the outstanding amount of Ocensa 2021 Notes for the period divided by EBITDA for the period, and is presented on an annualized basis for the six months ended December 31, 2018 and 2017 and June 30, 2018 and 2017.

(6) Total transportation cash cost is equivalent to Ocensa's operational and administrative expenses for the period, comprising Ocensa's maintenance and repairs, services, depreciation, personnel, leases, fees, amortization and other expenses.



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## RISK FACTORS

*You should carefully consider the risks and uncertainties described below and the other information in this offering memorandum before making an investment in the New Notes. The risks described below are not the only ones facing us or investments in Colombia in general. Our and Ocensa's businesses, financial condition or results of operations could be materially adversely affected by any of these risks. There are a number of factors, including those described below, which may adversely affect our ability to make payments on the Notes. Additional risks not presently known to us or that we currently deem immaterial may also impair our or Ocensa's business operations.*

*This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our and Ocensa's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum. See "Cautionary Disclosure Regarding Forward-Looking Information."*

### Risks Relating to Our Business

***We are a holding company and, as a result, we are dependent on cash dividends from Ocensa to fund all of our operations and expenses, including interest payments.***

We are a holding company whose principal corporate purpose is investing in and managing equity securities of non-Spanish entities. Consequently, we do not have any income from operations or expect to generate income from operations in the future. As a result, our ability to service our debt obligations, including our obligations under the Notes, substantially depends upon the cash flow and payment of funds to us in the form of cash dividends from Ocensa. Although we have established the Debt Service Reserve Account, the amount on deposit in the Debt Service Reserve Account is only equal to the product of (i) the amount required to pay in full the next succeeding payment of interest and principal, if any, and (ii) 1.25. In addition, the payment of dividends to us may be subject to contractual or policy restrictions.

***Our interest in Ocensa is our only relevant asset and source of income.***

As of the date of this offering memorandum, we own 1,153,139 shares, or 22.352%, of Ocensa's capital stock. This interest in Ocensa represents substantially all of our assets from which we derive substantially all of our income. Our ability to meet our financial obligations, including making interest and principal payments on the Notes, depends entirely on the receipt of cash dividends from Ocensa and/or our ability to sell Ocensa shares. Therefore, dividends from Ocensa may not be sufficient to pay debt service on the Notes and on other financial obligations.

***A downgrade in our credit rating could increase our cost of capital and limit access to capital.***

Rating agencies evaluate AI Candelaria, and their ratings of our long-term and short-term debt are based on a number of factors. This includes their perception of our financial strength as well as other factors not entirely within our control, including among others conditions affecting Ocensa, the crude oil pipeline industry generally, and the state of the Colombian and/or Spanish economy generally. We cannot guarantee that one or more of our credit ratings will not be downgraded. Our borrowing costs and ability to raise funds may be impacted by downgrades in our credit ratings.

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

AI Candelaria may incur debt locally and in the international capital markets and, consequently, may be affected by changes in prevailing interest rates to the extent we incur floating rate indebtedness in the future. If market interest rates increase, our financing expenses may increase, which could have an adverse effect on our results of operations and financial condition.

***Economic conditions in European countries whose common currency is the euro (the "Eurozone") can have a direct impact on our business.***

Existing concerns relating to credit risks (including those relating to sovereign securities and entities exposed to sovereign securities) may still intensify over the coming months. In particular, concerns have been raised with respect to current economic, monetary and political conditions in the Eurozone. If such concerns persist and/or such conditions further deteriorate (including, inter alia, by actions of a relevant credit rating agency, any default or restructuring of indebtedness by one or more governments or institutions, any changes to the Eurozone, including any disruptions thereto), such matters may cause further severe stress in the financial system generally and/or may adversely affect our business.

Given the current uncertainties and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters would not adversely affect the rights of the noteholders, the market value of the Notes and/or the ability of us to satisfy our obligations under the Notes.

***Spanish tax legislation may limit the deductibility for Spanish corporate income tax purposes of the financial expenses incurred on our indebtedness. This could negatively affect our financial position and reduce our available cash flows.***

Under Spanish corporate income tax ("CIT") rules, net financial expenses incurred by CIT taxpayers exceeding 30% of their operating profit (including dividend income from qualifying subsidiaries) for the relevant tax year are not deductible. However, net financial expenses not deducted in a given tax year may be carried forward and used in the following years subject to the same general limitation. For these purposes, "net financial expenses" are defined as the difference between the financial expenses (generally, the expenses derived from financings granted to the CIT payer such as interest expenses) and the income derived from financing to third parties (typically, interest income) in a given tax year, excluding non-deductible financial expenses or financial expenses derived from qualified financial instruments (i.e., intra-group profit participating loans).

In addition, a specific limitation applies to the deductibility of intra-group financial expenses incurred to acquire interests in the share capital in other group companies or to make contributions to the capital or equity of other group companies. These financial expenses are not deductible for Spanish CIT purposes unless evidence exists of valid economic reasons for implementing such intra-group transactions.

Finally, the deductibility of financial expenses derived from indebtedness incurred to carry out intra-group transactions, including dividend distributions, have been scrutinized and, in some specific cases, challenged by the Spanish tax authorities, and occasionally those challenges have been upheld in Spanish courts.

The impact of the above rules and interpretations on our ability to deduct financing expenses incurred in our current and future indebtedness could increase our tax burden and, thus, have a negative effect on our financial condition and operating results, and reduce our cash flow available to service debts or invest in our business or for other purposes.

Although we believe that our tax policy is in material compliance with applicable tax laws and regulations, financial expenses are an area of particular scrutiny by the Spanish tax authorities and we may be subject to a reassessment requiring us to reduce or cancel such tax credits. Any change in our ability to use such tax credits could materially affect our business, results of operations, financial condition, cash flows and prospects.

It is important to highlight that from a CIT perspective, the dividends received from Ocensa should be exempt from taxation in Spain according to the participation exemption governed under article 21 of the CIT Spanish legislation and the application of the Spanish holding company regime (*Entidad de Tenencia de Valores Extranjeros*). Consequently, any deductibility, or lack thereof, of interest expenses should not necessarily represent an increase or decrease in effective taxes paid by us, considering the main source of income of Candelaria should be exempt from taxation.

***Changes in taxes and other assessments may adversely affect us.***

The legislatures and tax authorities in the tax jurisdictions in which we operate regularly enact reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in tax rates and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The tax authorities may have a different interpretation of the legislation than the one applied by us. In particular, any change in the Spanish participation exemption regime or in the special regime applicable to "Spanish holding companies" (*entidades de tenencia de valores extranjeros*) or in the interpretation of the foreign exchange tax treatment applied by us may affect the tax status and position of the Company in Spain. Changes to tax treaties ratified by Spain and Colombia may also occur. The effects of these changes and any other changes that result from enactment of additional tax reforms cannot be quantified and there can be no assurance that any such reforms would not have an adverse effect upon our business, results of operations, financial condition, cash flows and prospects.

***A change of control of Ocensa could impact our ability to influence its operations.***

We own 1,153,139 shares, or 22.352%, of Ocensa's capital stock and, pursuant to the shareholders' agreement, we may nominate, and effectively control, the appointment of, two board members using the electoral quotient (*cuociente electoral*) system, and we have effective veto rights on critical decisions relating to Ocensa's operations and financial condition and on changes to Ocensa's existing dividend policy. We will maintain this effective veto right so long as our ownership does not fall below 10% of Ocensa's capital stock. For further detail on our rights per Ocensa's shareholders' agreement and our control and veto rights, please refer to "Principal Shareholders—Shareholders' Agreement." Although the terms of the Indenture governing the Notes limit our ability to reduce our ownership interest in Ocensa, our interests in Ocensa may not be maintained in the future as a consequence of a sale of our ownership interest. Any decrease in our control of Ocensa could adversely impact our ability to influence Ocensa's policies and operations, with the exception of Ocensa's dividend policy, given that we are restricted by the terms of the Indenture governing the Notes from reducing our ownership stake in Ocensa below 10%. A change in Ocensa's financial condition and business could adversely impact our ability to satisfy our obligations under the Notes.

***Advent may seek to sell its ownership of us, or the Ocensa shares it holds through us.***

We are controlled by Advent. As a private equity firm, Advent is in the business of making investments in companies, and ultimately selling those investments. As a result, Advent may seek to sell its ownership of us, or of the Ocensa shares it holds through us, which may trigger a Change of Control under the Notes, or a mandatory prepayment of a portion of the Notes. See "Description of the Notes—Change of Control Offer" and "—Limitation on Asset Sales".

**Risks Relating to Ocensa's Business and Industry**

***Ocensa's results of operations are dependent upon the ability of Colombian crude oil companies to find, acquire or gain access to crude oil reserves (pursuant to valid concession agreements or otherwise), extract the crude oil and consequently transport additional volumes of crude oil.***

As a transporter of crude oil for Colombian crude oil producers under both "ship or pay" and "ship and pay" agreements, Ocensa's results of operations are dependent on the ability of crude oil producers to find, acquire or gain access to additional crude oil reserves (pursuant to valid concession agreements or otherwise) and subsequently transport additional volumes of crude oil. There can be no assurance that Colombian crude oil producers will be successful in the exploration, appraisal, development and commercial production of crude oil, or that they will obtain the same level of success as previously achieved.

In particular, it is not possible for Colombian crude oil producers to predict in advance of drilling and testing whether any particular prospect will definitely contain crude oil, or, if it does contain crude oil, it will be in sufficient quantities or quality to recover drilling or completion costs or to be economically viable. Regardless of the quantities in which any crude oil is found in prospects, construction costs of infrastructure, including crude oil pipelines or floating production systems, as applicable, and transportation costs may prevent the prospects from

being economically viable. Colombian crude oil producers may terminate their drilling programs for a prospect if data, information, studies and previous reports indicate that the possible development of resources is not commercially viable and, therefore, does not merit further investment.

If the prospects of Colombian crude oil producers do not prove to be successful, Ocensa may experience a decrease in the volume of crude oil it transports through the Ocensa Pipeline, and its business, financial condition and results of operations would be materially adversely affected.

***The business of Ocensa's customers, who consist of Colombian crude oil producers, depends substantially on international prices for crude oil and refined products, and prices for these products are volatile.***

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

- competition among crude oil producers;
- long-term changes in the demand for crude oil and refined products;
- regulatory changes;
- inventory levels;
- increase in the cost of capital;
- adverse economic conditions;
- global or regional financial crises;
- development of new technologies;
- global and regional economic and political developments in crude oil producing regions, particularly in the Middle East;
- the willingness and ability of the Organization of the Petroleum Exporting Countries ("OPEC"), and its members to set production levels and prices;
- the impact of increasing U.S. shale oil production on the global price and supply and demand dynamics of crude oil;
- local and global demand and supply for crude oil, crude oil products and natural gas;
- trading activity in crude oil and transactions in derivative financial instruments related to crude oil and gas;
- development or availability of alternative fuels;
- weather conditions;
- natural events or disasters; and
- terrorism and armed conflict.

A material decline in the price of the crude oil Ocensa's customers produce would materially adversely affect their business, results of operations and financial condition, and they may consequently decrease the volume of crude oil they transport through the Ocensa Pipeline, which may adversely affect Ocensa's business, results of

operations and financial condition given that Ocensa transports crude oil pursuant to certain of its transportation agreements under a "ship and pay" module. See "—The majority of Ocensa's current transportation agreements are based upon the "ship and pay" module, which does not require that shippers transport a minimum volume of crude oil through the Ocensa Pipeline."

***Ocensa is vulnerable to the development of a viable market alternative to the transportation of crude oil through pipelines.***

Currently, the transportation of crude oil through pipelines is the most efficient and least expensive transportation method in Colombia, with transportation by trucking and barge the only other available alternatives. Should trucking transportation, barge transportation and/or providers of other pipelines become more efficient and economical, or other efficient and economical transportation methods arise in Colombia, Ocensa may face increased competition as customers transport their crude oil through these alternative methods or competitors' pipelines, which may materially adversely affect Ocensa's business, results of operation and financial condition.

***The majority of Ocensa's current transportation agreements are based upon the "ship and pay" module, which does not require that shippers transport a minimum volume of crude oil through the Ocensa Pipeline.***

As of December 31, 2018, Ocensa's transportation agreements are "ship and pay" contracts in respect of approximately 600 kbpd of its current transportation capacity and "ship or pay" with respect to 135 kbpd of its current transportation capacity.

Pursuant to Ocensa's current "ship and pay" agreements with initial shippers, which expire in 2093, shippers are not required to ship a specified volume of crude oil. Ocensa, on the other hand, is required to make available to each shipper a specified contracted capacity irrespective of whether a shipper transports a volume of crude oil that is lower than the shipper's contracted capacity. To the extent that a shipper with "ship and pay" contracts transports less crude oil than its contracted capacity, and provided that Ocensa complies with the requisite nomination process, Ocensa may make this capacity available to other shippers without a long-term contract. If the prospects of Colombian crude oil producers do not prove to be successful, Ocensa may experience a decrease in the volume of crude oil from the shippers with contracted "ship and pay" capacity or other shippers without long-term firm contracts, and its business, financial condition and results of operations would be materially adversely affected.

***Ocensa is exposed to the credit risks of its customers, and any material nonpayment or nonperformance by its customers could adversely affect its cash flow and results of operations.***

Ocensa's customers may experience financial problems that could have a significant negative effect on their creditworthiness. Severe financial problems encountered by Ocensa's customers could limit Ocensa's ability to collect amounts owed to it, or to enforce the performance of obligations owed to it under contractual arrangements. In addition, many of Ocensa's 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 Ocensa's customers' liquidity and limit their ability to make payments or perform on their obligations to it.

Furthermore, some of Ocensa's customers may be highly leveraged and subject to their own operating expenses. Therefore, the risk Ocensa faces in doing business with these customers may increase. Financial problems experienced by Ocensa's customers could result in the impairment of its assets, a decrease in its operating cash flows and may also reduce or curtail Ocensa's customers' future use of its products and services, which may have an adverse effect on its revenues.

***A significant portion of Ocensa's transportation volume, and consequently revenue, is concentrated among certain customers.***

In 2017, according to company estimates, Ocensa's five largest customers by shipping volume accounted for approximately 95% of the volume of crude oil it transported along the Ocensa Pipeline, with Ecopetrol accounting for approximately 77% by itself. Consequently, these customers accounted for a significant portion of Ocensa's revenue. If a number of these customers were to shift their transportation of crude oil to one of Ocensa's competitors, for any reason or no reason, and Ocensa was unable to replace these customers with customers requiring similar transportation volumes, its business, results of operations and financial condition would be materially adversely affected.

***Ocensa has entered and may continue to enter into certain significant transactions with affiliates or other related parties, which transactions may result in conflicts of interest.***

Ocensa has entered and may continue to enter into significant transactions with companies controlled by Ecopetrol and affiliates of Cenit, including in respect of the transportation of crude oil produced by Ecopetrol. See "Business—Material Agreements," "Principal Shareholders—Shareholders' Agreement" and "Related-Party Transactions" for additional information about Ocensa's related-party transactions.

Any such transactions may not be on terms as favorable as those Ocensa could have obtained or may be able to obtain with unaffiliated third parties. While Ocensa believes such transactions have been and will be negotiated on an arm's length basis, and at least the affirmative vote of one (1) of the members of the board of directors designated by AI Candelaria will be required in order to approve such related party transactions, there can be no assurance that such transactions could not give rise to conflicts of interest that could adversely affect Ocensa's financial condition and results of operations.

***Ocensa's inability to refinance its indebtedness could materially affect its ability to distribute dividends for a limited period and to react to changes in its business and its ability to incur additional indebtedness to fund future needs.***

As of December 31, 2018, Ocensa had US$500 million aggregate principal amount of indebtedness outstanding pursuant to its 4.000% Senior Notes due 2021 (the "Ocensa 2021 Notes"). Should Ocensa be unable to refinance its indebtedness relating to the Ocensa 2021 Notes, its indebtedness, combined with its other financial obligations and contractual commitments, could:

- make it more difficult for Ocensa to satisfy its obligations with respect to its indebtedness, and any failure to comply with the obligations under any of its debt instruments, including restrictive covenants, could result in an event of default under the indenture governing the Ocensa 2021 Notes and the agreements governing such other indebtedness, which could in turn limit the ability of Ocensa to distribute dividends for a limited period;

- require Ocensa to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, thereby temporarily reducing funds available for dividend payments, working capital, capital expenditures, acquisitions, and other purposes;

- limit Ocensa's flexibility in planning for, or reacting to, changes in its business and in the Colombian crude oil industry;

- prevent Ocensa from raising the funds necessary to repurchase all Ocensa 2021 Notes tendered to it upon the occurrence of certain changes of control, which would constitute a default under the indenture governing the Ocensa 2021 Notes.

As of December 31, 2018, Ocensa's ratio of net indebtedness to EBITDA was less than 0.5X and Ocensa had cash on hand of US$239.4 million. The occurrence of any one of these events, however, could have an adverse effect on Ocensa's business, financial condition and results of operations.

***Ocensa may be unable to capture new business opportunities that arise in connection with the discovery of new crude oil wells or production fields distant from the Ocensa Pipeline, and as a consequence of the latter Ocensa's inability to transport any crude oil from these new discoveries may materially adversely affect its business, results of operation and financial condition.***

In an effort to identify new crude oil reserves, Colombian crude oil producers are currently exploring various fields throughout Colombia, including fields that are not proximate to the Ocensa Pipeline. To the extent major crude oil discoveries are made in fields that are not proximate to the Ocensa Pipeline and Ocensa is unable to expand the Ocensa Pipeline into these fields or develop new pipeline systems to accommodate any new discoveries, it would be unable to capture the additional opportunities provided by these discoveries.

***Ocensa is subject to changes in tariffs established in accordance with the regulations of the MME and to non-competitive rates for the transportation of crude oil from Vasconia to Coveñas (Segment III).***

Ocensa primarily derives its revenue from tariffs charged to crude oil producers for the transport of crude oil through its pipeline. These tariffs are established by the resolutions issued by the MME for a four-year term. The regulation provides for a revision of the tariffs every four years, with the last revision executed in 2015 and valid until June 30, 2019. Each revision period, tariffs are adjusted through a tariff adjustment rate based on a series of macroeconomic factors on an annual basis.

In the event that (1) the MME modifies the methodology pursuant to which Ocensa's tariffs are regulated and any such modification reduces the tariffs Ocensa charges; (2) the MME reduces the tariffs Ocensa charges in the next four year revision period beginning June 30, 2019, or (3) the MME decreases the tariff adjustment rate based on macroeconomic factors in Colombia and the United States, Ocensa's business, results of operations and financial condition may be materially adversely affected.

In compliance with MME 2014 Resolution and Resolution 72145 of 2014, on March 12, 2019, Ocensa filed before the Hydrocarbons Director of the MME the document through which the new tariffs for the period between 2019 and 2023 are supported. This new tariff period shall commence on July 1, 2019. However, in the event the new tariffs have not been set by July 1, 2019, Ocensa will continue to use the current tariffs until the tariffs for the period between 2019 and 2023 have been set.

In addition, Ocensa's tariffs for the transportation of crude oil from Vasconia to Coveñas are approximately US$1.00 higher than those charged by its competitor, Oleoducto de Colombia, which may discourage Ocensa's customers who are not obligated to ship a specified volume through the Ocensa Pipeline in that segment of the pipeline under the "ship and pay" contract module. A resulting decrease in volume would thereby materially adversely affect Ocensa's business, results of operations and financial condition. Any such decrease in volumes for Ocensa will be limited to Oleoducto de Colombia's transportation capacity of 236,000 bpd. In 2017, Oleoducto de Colombia transported an average of 202,859 bpd.

Additionally, pursuant to an agreement reached between Ocensa, Vitol Colombia CI S.A.S. ("Vitol"), Frontera Energy Colombia Sucursal Colombia ("Frontera"), Ecopetrol, and BP Latin America LLC, the MME has approved special tariffs for the crude oil shipped by such companies through the extended capacity of the pipeline via Project Potencia 135 and "ship or pay" contracts. Such tariffs are valid through July 1, 2027, after which they will be adjusted to the tariff applicable to the basic capacity of the pipeline.

***Drag reducing agents ("DRAs") are a critical supply for Ocensa's pipeline operation and a disruption in the supply of DRAs could affect Ocensa's transportation capacity.***

Ocensa utilizes drag reducing agents (which in 2018 represented 12% of Ocensa's total costs) in connection with the operation of the Ocensa Pipeline. Drag reducing agents are additives in pipelines that increase pipeline capacity by reducing turbulence and therefore allowing the crude oil to flow more efficiently through the pipeline system. As of the date of this offering memorandum, Ocensa currently obtains drag reducing agents from three primary suppliers and maintains a minimum DRA inventory level for one month's worth of operations. However, in the event that these suppliers are unable fulfill Ocensa's drag reducing agent supply requirements, for any reason or for no reason, Ocensa may be required to obtain drag reducing agents from other supplier and there can be no

guarantee that it will be able to do so at a reasonable cost and in a timely fashion. Any failure to obtain drag reducing agents for Ocensa's pipeline operations may materially adversely affect its business.

***Ocensa's concession agreements may not be renewed or may be terminated prior to their respective maturity dates, or the Government of Colombia may exercise its call option to purchase the Ocensa Pipeline.***

Ocensa owns and operates the Ocensa Pipeline and operates the Port of Coveñas pursuant to concession agreements executed with the Colombian Government. Pursuant to the Pipeline Concession, Ocensa may operate the Ocensa Pipeline through March 2046, subject to renewal for additional 20-year terms thereafter.

However, (i) the Pipeline Concession may be terminated prior to its termination date subject to certain conditions and events and (ii) the Colombian Government, through the MME, may exercise its right to purchase the assets comprising the Ocensa Pipeline at any time from March 2026 onwards.

Ocensa operates under a concession as a pipeline of public use, which was authorized by the MME through a Pipeline Concession agreement. Because the Ocensa Pipeline is an oil pipeline for public use, pursuant to Article 50 of the Petroleum Code and Clause 8.3 of the Pipeline Concession, the Colombian Government has the option to purchase the pipeline. The government can exercise this option by the end of the first 30 years of the Pipeline Concession (in the year 2026), or at the expiration date of the Pipeline Concession (in the year 2046) or its extensions.

There can be no assurance that the Pipeline Concession will not be terminated prior to its termination date, that the Colombian Government will not exercise its right to purchase the Ocensa Pipeline assets or that any consideration Ocensa receives will sufficiently compensate Ocensa for the loss of these assets upon any such exercise. In accordance with the Petroleum Code, the Colombian Government and Ocensa must negotiate the sale price of the Pipeline. If an agreement is not reached, the fair sale price will be set by three expert witnesses: one elected by the MME, one by Ocensa and one agreed between the parties. Moreover, there can be no guarantee that Ocensa will be able to timely and efficiently identify substitute pipeline opportunities, if at all, or that these opportunities will provide similar returns in an adequate timeframe.

***Ocensa may be adversely affected by disruptions to the Ocensa Pipeline.***

Ocensa is subject to operating hazards that may substantially affect the Ocensa Pipeline, including earthquakes, floods, fires and other adverse weather conditions. The occurrence of any such operating hazards could result in substantial damage to or destruction of our facilities and/or injury or death of our personnel. Any disruption to the Ocensa Pipeline resulting from weather-related events, fire, an act of terrorism or any other cause could damage Ocensa's transportation capacity and materially impair Ocensa's ability to service its customers.

***Ocensa's operations are subject to certain operational risks that, if materialized, may result in the disruption or shutdown of its operation activities, as well as in damages to the environment and to third parties.***

Transporting crude oil involves specific operating risks, some of which are beyond Ocensa's control. Ocensa's operations may be curtailed, delayed or cancelled due to adverse or abnormal weather conditions, natural disasters, equipment failures or accidents, crude oil spills or leaks, shortages or delays in the availability or in the delivery of equipment, delays or cancellation of environmental licenses or other government authorizations, fires, explosions, blow-outs, surface cratering, pipeline failures, theft and damage to Ocensa's transportation infrastructure, sabotage, terrorist attacks and criminal activities.

The occurrence of any of these operating risks could result in substantial losses or slowdowns to Ocensa's operations, including injury to its employees, destruction of property, equipment and infrastructure, clean-up responsibilities, third-party liability claims, government investigations and imposition of fines, withdrawal of environmental licenses and other government permits, suspension or shutdown of Ocensa's activities and loss of revenue.

The occurrence of any of these risks along the Ocensa Pipeline may materially and adversely affect Ocensa's business, results of operations and financial condition.

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

Ocensa may incur losses and spend time and money defending pending litigation and administrative proceedings. Ocensa is currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against it. These claims involve substantial amounts of money and other remedies. Ocensa has established provisions for all amounts in dispute that represent a probable loss in the view of its legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2018, Ocensa provisioned a total aggregate amount of US$4.7 million in respect of its legal proceedings.

In the event that claims involving a material amount were to be decided against Ocensa, or in the event that the losses estimated turn out to be significantly higher that the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on Ocensa's financial condition and results of operations. In addition, Ocensa's management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on its core business. Depending on the outcome, certain litigation could result in restrictions in Ocensa's operations and have a material adverse effect on its business, result of operations and financial condition.

***Ocensa is subject to extensive environmental regulations in Colombia and is under an obligation to comply with international environmental standards.***

Ocensa's operations are subject to extensive national, regional and local environmental regulations in Colombia. These regulations establish, among other things, quality standards for hydrocarbon transportation, soil protection, water pollution and the general storage, handling, transportation and treatment of hydrocarbons in Colombia. The National Authority of Environmental Licenses (*Autoridad Nacional de Licencias Ambientales*, or the "ANLA"), the government agency in charge of issuing environmental licenses, normally inspects Ocensa's pipeline transportation facilities in order to verify compliance with environmental laws and applicable environmental authorizations. The regulation applying to soil protection and water pollution is set forth in Decree 1076 of 2015 and Resolution 631 of 2015. However, as of the date of this offering memorandum, there are no specific environmental regulations that apply to remedies for soil and water pollution that occur as a consequence of oil spills.

Ocensa is also subject to regional environmental regulations issued by the Regional Autonomous Corporations (*Corporaciones Autónomas Regionales*), which supervise compliance with the environmental regulations and authorizations granted by them. If Ocensa fails to comply with any of these national or regional environmental regulations or with the obligations set forth in any applicable environmental authorizations, it could be subject to administrative and criminal penalties, including warnings, fines, injunctions and closure orders of its facilities.

Environmental compliance has become more rigorous in Colombia in recent years and, as a result, Ocensa has allocated a greater percentage of its capital expenditures for compliance with these laws and regulations. If environmental laws continue to impose additional costs and expenses on Ocensa, and as new laws and regulations relating to climate change become applicable to it, Ocensa may need to reduce its investments in strategic projects in order to allocate funds to comply with any applicable environmental regulation. Ocensa is exposed to delays in obtaining environmental licenses from the ANLA, which can lead to cost overruns or to changes in Ocensa's investment plans. These additional costs may have a negative impact on the profitability of the projects Ocensa intends to conduct or may make them economically unattractive, in turn materially adversely affecting Ocensa's business, results of operations and financial condition.

***Ocensa's operations are subject to social unrest and disturbances.***

While Ocensa has not experienced a material attack on the Ocensa Pipeline since 2004, its activities are subject to social unrest, including protests by communities surrounding its operations that may disrupt, inconvenience or suspend its operations for an indefinite period of time. For example, in November 2013, Ocensa suffered an attack to one of its valves that did not affect the integrity of the Ocensa Pipeline nor result in environmental damage. To date, no individual or group has claimed responsibility nor identified the reason for the

attack. Ocensa may also face opposition from local communities with respect to its current and future projects and operations resulting in protests and social disturbances that may materially adversely affect its business, results of operations and financial condition.

***Ocensa is subject to government regulation and audit including public health and safety laws and regulations.***

Ocensa is subject to a wide range of national, regional and municipal regulations and supervision generally applicable to companies engaged in business in Colombia, including laws and regulations pertaining to taxation, labor, social security, public health, consumer protection and competition. There can be no assurance that existing or future legislation and regulation will not require material expenditures by Ocensa or otherwise have a material adverse effect on its operations. There can be no assurance that a governmental agency in Colombia will not impose new or amended regulations, or conduct an audit, that would adversely affect Ocensa's business, financial condition or results of operation. Such effects could have a material adverse impact on the level of revenues collected through dividends thereby affecting our ability of to meet our obligations under the Notes.

***Ocensa's operations are subject to health and safety risks relating to its workforce and local communities.***

Certain of Ocensa's operations are located in remote regions of Colombia and are subject to health and safety risks that could affect its workforce. Under Colombian law and industrial safety regulations, Ocensa performs accident and historical risk analysis in order to implement health and safety practices that minimize risks faced by its workforce. Failure to comply with health and safety standards may lead to administrative investigations that could result in lawsuits or fines.

Ocensa implements programs to reduce health and safety risks faced by its workforce and complies with Colombian law and industrial safety regulations. Ocensa has focused on training its workforce to prove adequate attention in case of emergencies and, if any operational incident occurs that affects local communities in nearby areas, Ocensa is able to enforce control and remediation strategies. In case an operational incident occurs, Ocensa will need to incur costs and expenses in order to return affected areas to normality. The occurrence of any of these operating risks could also result in substantial losses or slowdowns to Ocensa's operations, including injury to its employees, malfunction or destruction of property, equipment and infrastructure, clean-up responsibilities, third-party liability claims, government investigations and imposition of fines, withdrawal of environmental licenses and other government permits, suspension or shutdown of Ocensa's activities and loss of revenue, any which may have a negative impact on the profitability of the projects Ocensa may decide to undertake.

***The insurance policies that Ocensa holds may be insufficient to cover any damage or losses it may incur.***

Natural disasters, adverse weather conditions, human error and other events may result in, among other consequences, damage to Ocensa's properties, plant and equipment, interruptions to its business and pollution or environmental damage. Ocensa engages in crude oil transportation where design, construction or systems failures can result in substantial injury or damage to third parties or its customers.

There can be no assurance that Ocensa's insurance policies are or will be suitable and/or sufficient in all circumstances or against all risks. The occurrence of a significant loss that is not insured or indemnified, in full or in part, may have a material adverse effect on Ocensa's business, results of operations or financial condition. In addition, even when Ocensa purchases insurance for specified risks, its policies may have deductibles that it is required to pay prior to receiving any amounts for claims. Furthermore, there can be no guarantee that Ocensa will be able to purchase or renew insurance policies at commercial rates and on reasonable and acceptable terms in the future.

***The loss of members of Ocensa's management or its inability to hire and retain qualified employees or properly train its personnel may negatively affect it.***

Ocensa's ability to maintain its competitive position depends in large part on the experience of its management. There can be no assurance that Ocensa will be able to retain current members of its management and the loss of any member of its senior management or the inability to attract and retain experienced executives may materially adversely affect Ocensa's business, results of operation and financial condition.

Additionally, Ocensa may experience difficulties in retaining professionals if it is not able to maintain an attractive corporate culture and competitive levels of remuneration. Ocensa believes that the hiring, training and retention of skilled labor is a critical factor for business success and growth in the long-term and unsatisfactory implementation or failure of this strategy may materially adversely affect its business, results of operations or financial condition.

***Ocensa's operations could be affected by conflicts with labor unions.***

In the past, Ocensa has been affected by strikes and work stoppages promoted by its contractors' employees who are represented by industry labor unions. Ocensa cannot guarantee that it will not experience labor unrest in the future. In the event relations with its labor unions deteriorate, which could result in strikes, work stoppages or even sabotage, Ocensa's results of operations and financial condition could be negatively affected.

***Ocensa's policies and procedures may not be able to detect money laundering and other illegal or improper activities incompatible with its ethics and compliance standards fully or on a timely basis.***

As Ocensa enters into contractual relationships with various local and foreign clients, suppliers and contractors, Ocensa is subject to the risk that its shareholders, managers, directors, employees, clients, suppliers, contractors, or any person having relations with them may misappropriate its assets, manipulate its assets or information, make improper payments or capital contributions or engage in money laundering, the financing of terrorism, or other illegal activities for such person's personal or business advantage.

Ocensa is required to comply with applicable anti-money laundering laws, anti-terrorism financing, international anti-bribery laws and other regulations in Colombia. If Ocensa does not comply with these laws, it may be subject to sanctions including the inability to contract with Colombian public entities, the unilateral termination of its long-term concession agreement and the risk of the concession agreement being declared void and null for violating rules of public order, among others. While Ocensa has adopted policies and procedures aimed at detecting and preventing money laundering and other illegal activities by terrorists, terrorist-related organizations and individuals, generally such policies and procedures may not completely eliminate instances where they may be used by other parties to engage in money laundering and other illegal or improper activities.

In addition, Ocensa's systems for identifying and monitoring these risks may not be effective to fully mitigate them in all situations. If Ocensa fails to fully comply with applicable laws and regulations, Colombian and other relevant governmental authorities have the power to impose fines and other penalties. In addition, any such acts may result in material financial losses or reputational harm to Ocensa.

***Ocensa's future performance depends on its ability to prevent information technology failures or cyber security attacks and the successful development and deployment of new technologies and the knowledge to apply and improve them.***

Ocensa depends on the reliability and security of its information technology systems to conduct crude oil transportation activities, process and record financial and operating data, communicate with its employees and business partners, and for many other activities related to its business. Ocensa's information technology systems may fail or have other significant shortcomings due to operational system flaws or employee misuse, tampering or manipulation.

In addition, Ocensa 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. A cyber-attack may involve a hacker, a virus, malware, phishing or other actions for the purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. Unauthorized access to Ocensa's proprietary information could lead to data corruption or communication or operational disruptions. A cyber-attack directed at oil and gas distribution systems could damage those assets or the environment, delay or prevent delivery of production to markets and make it difficult or impossible to accurately account for transported products. As cyber-attackers become more sophisticated, Ocensa may be required to expend significant additional resources to continue to protect its business or remediate the damage from cyber-attacks. Furthermore, the continuing and evolving threat of cyber-attacks has resulted in increased regulatory focus on

prevention. To the extent Ocensa faces increased regulatory requirements, it may be required to expend significant additional resources to meet such requirements. Any of these occurrences could disrupt Ocensa's business, result in potential liability or reputational damage or otherwise have an adverse effect on its financial results. Although Ocensa has not experienced any material losses relating to failure of its information technology systems or cyber incidents, there can be no assurance that it will not suffer such losses in the future.

Moreover, technology, knowledge and innovation are essential to Ocensa's business, especially for improvements in pipeline transportation systems. If Ocensa does not develop the right technology or does not obtain the expertise to operate new technology or to improve its processes, does not have access to, or deploy the knowledge necessary to apply and improve such technology effectively, its business, results of operations and financial condition may be materially adversely affected.

***A downgrade in Ocensa's credit rating could increase its cost of capital and limit access to capital.***

Rating agencies evaluate Ocensa, and their ratings of its long-term and short-term debt are based on a number of factors. This includes their perception of Ocensa's financial strength as well as other factors not entirely within Ocensa's control, including conditions affecting the crude oil pipeline industry generally, and the state of the Colombian economy generally. Ocensa cannot guarantee that one or more of its credit ratings will not be downgraded. Ocensa's borrowing costs and ability to raise funds may be impacted by downgrades in its credit ratings.

***Ocensa may be exposed to increases in interest rates, thereby increasing its financial costs.***

Ocensa may incur debt locally and in the international capital markets and, consequently, may be affected by changes in prevailing interest rates to the extent it incurs floating rate indebtedness in the future. If market interest rates increase, Ocensa's financing expenses may increase, which could have an adverse effect on its results of operations and financial condition.

***Ocensa is subject to currency fluctuations given that approximately 99% of its revenues are in U.S. dollars or are referenced to U.S. dollars.***

Approximately 99% of Ocensa's sales are denominated in U.S. dollars. The impact of fluctuations in exchange rates, especially the Colombian peso/U.S. dollar rate, on Ocensa's operations has been and may continue to be material. Appreciation of the Colombian peso against the U.S. dollar adversely affects Ocensa's results of operations due to the fact that Ocensa's revenues are paid in U.S. dollars but a substantial part of its costs are generated in Colombian pesos. While in the ordinary course of business Ocensa enters into local hedging arrangements with local financial institutions to mitigate its exposure to exchange rate variations, there can be no assurance that these arrangements will offset sufficiently or at all any losses Ocensa may incur as a result of currency fluctuations.

**Risks Relating to Colombia's Political and Regional Environment**

***A substantial portion of Ocensa's revenues are earned in Colombia and all of its assets are located in Colombia. Thus, it is highly dependent on economic and political conditions in Colombia and is subject to various risks associated with Colombia as well as to other emerging markets countries.***

Ocensa is a mixed capital company (*sociedad de economía mixta*) organized under the laws of Colombia. All or a substantial portion of its assets, operations and customers are located in Colombia and, as with all assets and operations in an emerging market country, Ocensa's assets and operations are subject to political, economic and other uncertainties, including expropriation, nationalization, renegotiation or nullification of existing contracts, currency exchange restrictions and international monetary fluctuations. Ocensa's financial condition and operating results may be affected by the occurrence of any such events.

Colombia's fiscal deficit and growing public debt could adversely affect the current or future state of the Colombian economy. The Colombian fiscal deficit was 2.3% of Colombia's gross domestic product ("GDP") in 2016, a deficit of 2.7% of GDP in 2017 and a deficit of 2.3% of GDP in 2018. In addition, the U.S.

dollar/Colombian peso exchange rate has shown some instability in the last four years, particularly with the Colombian peso experiencing significant fluctuations during the last twelve months. Ocensa cannot assure you that measures adopted by the Colombian government and the Colombian Central Bank, will suffice to control this instability or that the Colombian peso will not depreciate or appreciate relative to other currencies in the future. Ocensa also cannot predict the effects that such policies will have on the Colombian economy.

Additionally, the administration of President Iván Duque that took office in August 2018 has inherited high levels of spending, and Standard & Poor's downgrade of the rating of Colombia's long-term foreign currency sovereign credit ratings from "BBB" to "BBB-" in December 2017 highlights the risks ahead. We expect that President Duque will likely be reluctant to reduce investments in a significant manner. This will make it difficult for his administration to meet the fiscal deficit targets.

Due to financial and economic crises that may occur in countries around the world and recent turmoil in emerging markets economies, such as Turkey, South Africa and Argentina, investors may view investments in emerging markets with heightened caution. As a result of such financial and economic crises, flows of investments into Colombia may be reduced. Crises in other countries may hamper investors' enthusiasm for securities of Colombian issuers, which may, in turn, adversely affect market prices for the Notes and make it difficult for Ocensa to access the international capital markets and finance its operations and capital expenditures.

In addition, Colombian companies may be affected by economic and market conditions in other countries, including the United States, other Latin American and emerging market countries. Colombian companies are also likely to be affected by economic and political conditions in Colombia and in neighboring countries. 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 companies, and may have an adverse effect on the results of operations and financial condition of Colombian companies, including Ocensa.

Because of the characteristics of the Colombian crude oil pipeline industry (which require significant investments in operating assets) and Ocensa's financing needs, if access to the capital and credit markets is limited, it could face difficulties in completing its investment plans and refinancing its obligations. Additionally, despite the recovery of Colombia's economy over the past several years, Ocensa cannot assure you as to whether current growth and relative stability will be sustained. A deterioration of the Colombian economy could adversely affect Ocensa's financial condition and results of operations and impair its ability to make dividend payments to us, which in turn may affect our ability to make payments under the Notes.

***The Colombian Government and the Colombian Central Bank exercise significant influence on the Colombian economy. Political and economic conditions can have a direct impact on Ocensa's business.***

The Colombian Government and the Colombian Central Bank intervene in the country's economy and occasionally make significant changes in monetary, fiscal and regulatory policy. Ocensa's business, results of operations or financial condition may be adversely affected by changes in government policies, as well as by:

- fluctuations in exchange rates;
- inflation;
- instability of prices;
- changes in interest rates;
- taxes redeemed;
- fiscal policy;
- liquidity of domestic capital and lending markets;

- controls on capital flow;
- the international investments and exchange regime;
- deposit requirements on foreign borrowings;
- limits on foreign trade; and
- other political, diplomatic, social and economic developments, which may affect Colombia or the international markets.

The Colombian Central Bank has in the past required that a certain percentage of indebtedness incurred (depending on the maturity of the indebtedness) be deposited in Colombian pesos or in foreign currency with the Colombian Central Bank in a non- interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). Although currently the percentage to be deposited with the Colombian Central Bank is zero percent (0%) of the disbursements made under indebtedness, the Colombian Central Bank may increase this percentage at any time.

Measures by the Colombian Government to maintain economic stability, such as the deposit requirements described above and speculation regarding its future actions, can generate uncertainties in the Colombian economy and increase volatility in the domestic capital markets and exchange rate markets, which could have a material adverse effect on Ocensa's cash flows, results of operations and financial condition and could impair its ability to make payments and distributions to its shareholders, including AI Candelaria. We cannot predict what policies will be adopted by the Colombian Government and whether those policies will have a negative impact on the Colombian economy, our business, financial condition and results of operations.

The Colombian peso has also been subject to fluctuating devaluations and appreciations in the past and may be subject to similar fluctuations in the future. The Colombian peso depreciated 11.2%, appreciated 3.3% and depreciated 0.2% on average against the U.S. dollar in 2016, 2017 and 2018, respectively. However, any international conflicts or related event has the potential to create an exchange mismatch, given the vulnerability and dependence of the Colombian economy on external financing and its vulnerability to any disruption in its external capital flows and its trade balance.

A devaluation of the Colombian peso relative to the U.S. dollar could create inflationary pressures in Colombia and result in the adoption by the Colombian government of measures such as increasing interest rates. Restrictive macroeconomic policies could adversely affect the stability of the Colombian economy, as well as adversely impact our results of operations and profitability. A significant devaluation or appreciation of the Colombian peso in relation to the U.S. dollar could adversely affect the Colombian economy, which could have a material adverse effect on our financial condition and results of operations. Furthermore, there can be no assurance that the Colombian peso will not depreciate or appreciate relative to other currencies in the future.

Although the Colombian Government has not imposed foreign exchange restrictions since 1990, Colombia's foreign currency markets have historically been extremely regulated. Colombian law permits the Colombian Central Bank to impose foreign exchange controls to regulate foreign investment and the proceeds thereof in the event that the foreign currency reserves of the Colombian Central Bank fall below a level equal to the value of three months of imports of goods and services into Colombia. The Colombian Central Bank may intervene by, among other actions, (1) imposing direct exchange controls that may limit Ocensa's ability to possess, utilize or remit foreign currency such as the U.S. dollar or (2) utilizing international reserves or borrowing from international institutions or other nations to obtain the currency required to intervene in the foreign exchange. An intervention that precludes Ocensa from possessing, utilizing or remitting U.S. dollars could temporarily impair its ability to make payments in U.S. dollars to its existing shareholders, in particular its foreign investors, including AI Candelaria.

***Political conditions in the United States may adversely affect Ocensa's results of operations and financial condition.***

The Colombian economy and the market value of securities issued by Colombian issuers and issuers with operations in Colombia may be, to varying degrees, affected by economic and market conditions in the United States. Furthermore, economic conditions in Colombia are correlated with economic conditions in the United States as a result, among other things, of the United States-Colombia Free Trade Agreement ("USCOFTA"), and increased economic activity between the two countries.

Adverse economic conditions in the United States, the termination or re-negotiation of free trade agreements, including USCOFTA, or other related events could have an adverse effect on the Colombian economy. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Colombia, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Colombian assets. There can be no assurance that future developments in the United States, over which we have no control, including the re-negotiation of free-trade agreements such as USCOFTA, will not have a material adverse effect on Ocensa's ability to service its debt, which could impair its ability to make dividend payments.

***Colombia has experienced several periods of violence and political instability and such instability could affect the Colombian economy and Ocensa.***

Colombia has experienced several periods of criminal violence over the past four decades, primarily due to the activities of guerrilla groups and drug cartels and Bacrim (*las bandas emergentes en Colombia o bandas criminals emergentes)*. In response, the Colombian government has implemented various security measures and has strengthened its military and police forces by creating specialized units. Despite these efforts, drug-related crime and guerrilla activity continue to exist in Colombia. For example, although the Colombian Government and the National Liberation Army ("ELN") have been in talks since February 2017 to end a five-decade war, the Colombian Government has suspended the negotiations after a series of rebel attacks. On January 17, 2019, a car with explosives burst through the gates at a police academy in Bogotá resulting in 21 people dead and many injured. The Colombian Defense Minister subsequently confirmed that the terrorist attack was perpetrated by the ELN. Any possible escalation in the violence associated with this terrorist attack and/or these activities may have a negative impact on the Colombian economy or on our assets or projects. In addition, given that the peace protocols to be applied in the event of a suspension of peace negotiations were entered into by the prior administration, the current administration has not honored these protocols, on the grounds that these protocols are only binding to the administration that agreed to them. This situation could result in escalated violence by the ELN and may have a negative impact on the credibility of the Colombian Government which could in turn may have a negative impact on the Colombian economy or on Ocensa in the future.

Ocensa has taken measures that are standard industry practices in Colombia to protect itself and its assets against acts of violence. Examples of these measures include hiring specialized private security, implementing security technology and procuring insurance against terrorism, fire, strikes and vandalism, among other measures.

In the context of 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 Ocensa's business, future financial condition, results of operations and ability to make payments and distributions to its shareholders, including AI Candelaria.

***Companies operating in Colombia, including Ocensa, 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.***

All of Ocensa's assets and operations are located in Colombia and all of the crude oil it transports is obtained from Colombian fields and it is delivered in Colombian ground. Accordingly, Ocensa's financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from

time to time in Colombia and on the rates of exchange between the Colombian peso and the U.S. dollar, with respect to certain operating and capital expenditure expenses.

In the past, economic growth in Colombia has been negatively affected by lower foreign direct investment, high inflation rates and the perception of political instability. Ocensa cannot assure you that growth achieved in recent years by the Colombian economy will continue in future periods. If the perception of improved overall stability in Colombia deteriorates or if foreign direct investment declines, the Colombian economy may face a downturn, which could negatively affect Ocensa's results of operations.

The investment and security climate in Colombia has been tied to the results and performance of former President Juan Manuel Santos's economic, security and social policies and the perception of such policies by foreign investors. Since his election in 2011 and reelection in 2014, President 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. Following the election of Iván Duque in the May 2018 election, these policies look to continue, but any changes in the ruling government, oil and gas or investment regulations and policies or a shift in political attitudes in Colombia are beyond its control and may significantly hamper its ability to expand its operations or operate its business at a profit.

If the perception of improved overall security in Colombia deteriorates, including as a result of the policies of the new administration, or if foreign direct investment declines, the Colombian economy may face a downturn, which could negatively affect Ocensa's financial condition and results of operations.

***Ocensa is subject to adverse developments in the global economy, which may constrain credit markets.***

Downturns in the world's major economies over the past several years and the constraints in the credit markets have heightened, and could continue to, or in the future, heighten, a number of material risks to Ocensa's business, results of operations and financial condition, as well as its future prospects. Continued weakness in, and uncertainty about, global economic conditions, and in particular the economic conditions in the United States, could cause businesses to postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which could have a material adverse effect on the demand for goods and international trade which, in turn, could adversely affect the demand for products related to crude oil and gas.

The economic problems that affected the banking system and financial markets and the recent uncertainty in global economic conditions resulted in a number of adverse effects including tightening in the credit markets, a low level of liquidity in many financial markets, extreme volatility in credit, equity, currency and fixed income markets, instability in the stock market and high unemployment.

***Ocensa is subject to changes in the tax regime of Colombia due to a tax reform approved on December 28, 2018.***

Colombia has gone through three tax reforms in the last five years and budgetary constraints could lead to future tax reforms, with potential adverse consequences on the financial results of Ocensa. The latest tax reform, Law 1943, was passed on December 28, 2018. Accordingly, the Corporate Income Tax ("CIT") rate is set to decrease gradually as follows: 33% for 2019 (same rate for 2018), 32% for 2020, 31% for 2021 and 30% from 2022 onwards. The CIT surcharge is eliminated from 2019 onwards (for 2018, a surcharge of 4% was charged on taxable income exceeding approximately USD 266,000).

Income tax withholding rates for payments made to foreign entities increased to a general rate of 20% (from the prior 15%). Foreign indebtedness exceeding one year maintains the 15% withholding rate.

Dividends paid out of profits that were subject to CIT are subject to a withholding tax of 7.5% (increased from 5%). This dividend tax is not applicable under the Spain/Colombia Double Tax Treaty if a Spanish company owns more than 20% of the shares in a Colombian company, in which case the 7.5% is reduced to 0%; if the Spanish company owns less than 20% of the shares in a Colombian company, the 7.5% is limited to 5%. This is the case of the Company with regard to the shares of Ocensa.

Dividends paid out of profits that were not subject to CIT are subject to a withholding tax of 33% for 2019, 32% for 2020, 31% for 2021 and 30% for 2022 onwards (i.e. equalization tax), plus the foregoing 7.5% (0% or 5% under the Spain/Colombia Double Tax Treaty), which applies to the amount remaining after the 33%, 32%, 31% or 30% withholding is applied.

According to the Spain/Colombia Double Tax Treaty, the 33%, 32%, 31% or 30% withholding (equalization tax) could be reduced to 0% if profits out of which dividends are paid are reinvested for a three-year term and if such profits were deemed as exempt income at the level of the Colombian entity. The withholding tax is to be applied, and only after the requirements are fully met should the shareholder be entitled to request a refund of this tax to the Tax Office.

The reform also includes the taxation of the indirect transfer of shares in a Colombian entity (this should be reviewed on a case by case basis in light of the applicable Double Tax Treaties), a new Colombian holding company regime (a Colombian participation exemption regime) and a mutual agreement procedure before the tax administration with the possibility to reduce interest and penalties in connection with tax disputes by 70% to 80%. In addition, the reform established that input-VAT paid in an acquisition, import, creation or construction of real productive fixed assets may be treated as a credit for income tax purposes.

Due to the Spain/Colombia Double Tax Treaty, we are not subject to the non-resident dividend tax. However, new tax laws and regulations, and uncertainties in the interpretation with respect to existing and future tax policies pose risks to us. Any 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 and tax courts may interpret tax regulations differently than Ocensa or AI Candelaria do, which could result in tax litigation and associated costs and penalties to Ocensa or AI Candelaria.

***A failed implementation of the peace agreements between the Colombian Government and FARC may affect Colombia's security and Ocensa's operations.***

Although the FARC's guerrilla actions against Ocensa's operation and infrastructure have diminished, since the beginning of the negotiations of the peace agreements executed between the Colombian Government and the FARC on August 24, 2016, the process of implementation entails some risks that may affect Ocensa's operations in the future, such as the emergence of new criminal structures composed of dissident members of the FARC and the resulting increase in criminal activity, especially in urban areas, new requests for restitution of land stripped during the conflict, areas with high presence of antipersonnel mines, the formation of a new political party composed by ex-guerrilla members, along with the emergence of new political forces throughout regions in which Ocensa operates, and the strengthening of social pressure groups. Should any of these risks materialize, the development of new projects could be slowed or discontinued, and/or could lead to a scenario of socio-political instability, which may increase demands of social and economic investment to the companies operating in the energy sector such as Ocensa.

In addition, on March 10, 2019, President Duque objected to six of the articles contained in the Special Peace Jurisdiction Law (*Ley Estatutaria de la Jurisdicción Especial para la Paz*), created as a result of the peace agreement with the FARC. It is unclear whether the objections will be sustained or denied and what effect any of these changes may have on the implementation of the peace agreement.

***The peace agreement signed with FARC may result in the enactment of new laws and regulations, the impact of which on Ocensa's operations is unpredictable.***

The implementation of the peace agreement with the FARC will require the enactment of new laws and regulations, which may impact Ocensa's activity in ways we cannot anticipate. Recently, legislation was enacted in connection with the implementation of the Rural Reform (*Reforma Rural Integral*) as provided under the peace agreement, such legislation included the creation of a Land Fund for the Rural Reform (*Fondo de Tierras para la Reforma Rural Integral*), and set forth certain parameters to grant land to certain benefited populations and which properties are subject to be granted. The impact of such new legislation is still unknown, and further regulations may be required for such legislation to be implemented. The National Land Agency (*Agencia Nacional de Tierras*)

announced this year the acceleration of the clarification of rural property proceedings. This may have an impact on Ocensa. Furthermore, new laws or regulations enacted in connection with the implementation of the peace agreement may impact Ocensa's activity and may have a negative effect on Ocensa's financial condition and results of operations and its ability to make dividend payments.

***Any downgrade in the credit rating of Colombia could adversely affect the Colombian economy, Ocensa's credit rating and ultimately AI Candelaria's credit rating.***

The outlook of Colombia's credit rating was changed to negative by S&P and Fitch in 2016. However, in March 2017 Fitch upgraded its rating outlook for Colombia from negative to stable due to the perceived reduction in macroeconomic imbalances as a result of the sharp reduction in the current account deficit, diminished uncertainties surrounding Colombia's fiscal consolidation path due to the tax reform measures passed in December 2016, and the expectation that inflation will meet the Colombian Central Bank's target. In December 2017, S&P downgraded the rating of its long-term foreign currency sovereign credit ratings on Colombia from "BBB" to "BBB-," on the grounds of Colombia's weakened fiscal and external profiles generating diminished policy flexibility. In February 2018, Moody's Investors Services affirmed its "Baa2" sovereign rating for Colombia but lowered its Outlook from stable to negative. According to Moody's, the uncertainty surrounding the new administration under President Iván Duque, challenges adhering to the so-called fiscal rule, and the risk of economic growth remaining below potential were the key reasons for the negative outlook. Moody's cited the risk that the next government has a "weak mandate" that prevents it from adopting additional fiscal measures to preserve Colombia's fiscal strength. As of the date of this offering memorandum, Colombia's long-term debt denominated in foreign currency is rated "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. Colombia's economic outlook is more positive for 2019 and the prices of oil have increased. Although the Colombian economy is expected to experience a modest recovery in growth in 2019, along with a decrease in the current account deficit and a marginal increase in debt in the coming three years, we cannot assure you that this will be the case. Any further downgrade of Colombia's credit rating could adversely affect the Colombian economy and adversely affect Ocensa's business, financial situation and results. Moreover, as one of the factors in assessing Ocensa's credit rating is Colombia's credit rating, any change in the credit rating of Colombia could impact Ocensa's credit rating and subsequently AI Candelaria's credit rating.

***Natural disasters, acts of war or terrorism, or other external events could affect Ocensa's assets and operations.***

Colombia is exposed to natural disasters, such as earthquakes, volcanic eruptions, tornadoes, tropical storms and hurricanes. Heavy rains or abnormally low rainfall in Colombia, attributable in part to the La Niña and El Niño weather patterns, have resulted in severe flooding and mudslides, and prolonged droughts in the past and may continue to contribute to flooding, mudslides, droughts or other natural disasters on an equal or greater scale in the future. These events could impact Ocensa's ability to transport crude oil. In addition to severe weather and natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business and may, among other things, cause significant property damage, cause us to incur additional expenses and/or result in loss of revenue. In the event of such circumstances, our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our businesses. Furthermore, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised. Natural disasters, acts of war or similar events could also result in substantial volatility in our results of operations.

***The Colombian Government could seize or expropriate Ocensa's assets under certain circumstances.***

Pursuant to Article 58 of the Colombian constitution, the Colombian Government may exercise its eminent domain powers in respect of Ocensa's assets in the event such action is deemed by the Colombian government to be required in order to protect public interests. According to Law 388 of 1997, eminent domain powers may be exercised through: (1) an ordinary expropriation proceeding (*expropiación ordinaria*), (2) an administrative expropriation (*expropriación administrativa*) or (3) an expropriation for war reasons (*expropiación en caso de guerra*). In all cases, Ocensa would be entitled to a fair indemnification for the expropriated assets. However, indemnification may be paid in some cases years after the asset is effectively expropriated, and the indemnification may be lower than the price for which the expropriated asset could be sold in a free market sale or the value of the asset as part of an ongoing business.

**Risks Relating to the Notes**

***We will have to withhold Spanish withholding tax from any payment on the Notes unless certain requirements are met.***

There are risks related to Spanish withholding tax, including in conjunction with the provision of certain documents from the Paying Agent. Under the regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain provided certain requirements are met, including that the Paying *Agent pro*vides us, in a timely manner, with a duly executed and completed Payment Statement. See"Taxation—Spanish Tax Considerations— Disclosure of information in connection with the Notes".

The Indenture in respect of the Notes provides for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See "Taxation—Spanish Tax Considerations—Disclosure of information in connection with the Notes". However, these procedures may prove ineffective, and if so, we will make the relevant Spanish withholding tax (currently at the rate of 19%) from any income payment with respect to the Notes. Furthermore, changes in Spanish tax laws or regulations or in the administrative interpretation thereof may render these procedures inadequate or insufficient to allow payments of income under the Notes to be made free and clear of Spanish withholding tax. Prospective investors should note that none of the initial purchasers, the Trustee, the Paying Agent, Collateral Agents or us accept any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the initial purchasers, the Trustee, the Paying Agent, Collateral Agents or us will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax (currently at the rate of 19%) because these procedures prove ineffective. Moreover, we will not pay any Additional Amounts (as defined herein) with respect to any such withholding. See "Description of the Notes—Payment of Additional Amounts." If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, beneficial owners may have to apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures described in "Taxation—"*Procedures for direct refund from the Spanish tax authorities*."

Notwithstanding the above, in the case of Notes held by Spanish tax resident individuals (and, under certain circumstances, by Spanish entities subject to CIT and deposited with a Spanish resident entity or with a permanent establishment within the Spanish territory acting as depositary or custodian), payments in respect of such Notes may be subject to withholding by such depositary or custodian (currently 19%).

***We cannot assure you that the Singapore market is an organized market for purposes of Law 10/2014.***

The exemption foreseen in Law 10/2014 for non-resident investors that do not obtain income through a permanent establishment in Spain (See "Taxation—"Spanish Tax Considerations") requires that the Notes be listed in an organized market. Although there is no clear precedent, we believe that the Singapore market will be considered an organized market for those purposes, and consequently, the aforementioned requirement will be met. If the tax authorities or courts take a view different from ours, income derived from the Notes (including interest and income from their transfer, prepayment or amortization) would be subject to the corresponding taxation in Spain (currently at a tax rate of 19%) depending on the tax residency of the Noteholders and the fulfilment of the corresponding formal obligations. Specific exemption or reduced rates may apply to Noteholders depending on their specific tax position. In such event, we will pay such Additional Amounts as are necessary to ensure that Noteholders receive the same amounts as they would have received without such withholding or deduction (subject to the limitations set out in "Description of the Notes—Payment of Additional Amounts").

***The Notes are with limited recourse.***

The Notes are solely the obligation of AI Candelaria and are not obligations of, or guaranteed by, Ocensa or any of its subsidiaries. The sole recourse of the holders of the Notes upon the occurrence of an event of default is against AI Candelaria.

In addition, since our interests in Ocensa constitute all of our assets and source of income, a material adverse change in Colombia's political and macroeconomic environment, the oil and gas industry or the business or financial condition of Ocensa could adversely affect Ocensa's ability to pay dividends or make other cash distributions to its shareholders, including us, which, in turn, would adversely affect our ability to make payment on the Notes. If Ocensa fails to pay dividends or make cash distributions to its shareholders, we may not be able to make scheduled payments of interest and principal on the Notes or pay the principal amount of the Notes upon the occurrence of an event of default that results in acceleration.

***The Volcker Rule treatment of the Notes may change or affect the ability of banking entities to purchase or retain the Notes.***

Section 13 of the Bank Holding Company Act and regulations adopted by U.S. banking and markets regulators to implement the statute (colloquially known as the "Volcker Rule"), among other things, prohibits "banking entities" from engaging in certain proprietary trading activities (known as the proprietary trading provisions) and restricts banking entities from sponsorship or acquiring or retaining "ownership interests" in "covered funds" (known as the covered fund provisions). The definition of "covered fund" in the Volcker Rule includes (generally) any entity that would be an investment company under the Investment Company Act but for the exemption provided under Sections 3(c)(1) or 3(c)(7) thereunder. Because we will rely on Section 3(c)(7) of the Investment Company Act, we expect to be a "covered fund" within the meaning of the Volcker Rule. We do not expect, however, that the Notes would be viewed as "ownership interests," and thus the purchase or retention of the Notes by a banking entity should not trigger application of the covered fund provisions of the Volcker Rule.

However, the Volcker Rule and interpretations thereunder are still uncertain. Each investor in the Notes must make its own determination as to whether it is subject to the Volcker Rule, whether its investment in the Notes would be restricted or prohibited under the Volcker Rule, and the potential impact of the Volcker Rule on its investment and any liquidity required in connection therewith and on its portfolio generally. Investors in the Notes are responsible for analyzing their own regulatory position and none of the Issuer, the Trustee, the Paying Agent, the Collateral Agents, the initial purchasers nor any of their affiliates makes any representation to any prospective investor or purchaser of the Notes regarding the application of the Volcker Rule to the Issuer, or to such investor's investment in the Offered Securities on the closing date or at any time in the future.

***The value of the Ocensa Pledged Shares or the amounts in the Debt Service Reserve Account may not be sufficient to satisfy our obligations in respect of the Notes.***

The Notes are secured by a perfected first-priority lien on (i) the Ocensa Pledged Shares owned directly or indirectly by us on October 25, 2018 and (ii) the amounts on deposit in the Debt Service Reserve Account.

The value of the Ocensa Pledged Shares will fluctuate from time to time depending on many factors, including Ocensa's results and financial condition, and extraordinary dividend payments or distributions to Ocensa's shareholders. Because Ocensa is not a party to the Indenture, the Share Pledge Agreement or the Deposit Account Control Agreement, Ocensa is not subject to any covenants or other restrictions on its ability to take any actions that may cause the value of the Ocensa Pledged Shares to decline, such as an extraordinary dividend payment resulting from the sale of a business. Furthermore, by its nature, some or all of the collateral may be illiquid and might have no readily ascertainable market value. Some of the collateral may have no significant independent value apart from the other pledged assets or could be impaired or fluctuate in the future as a result of changing economic and market conditions. Some of the collateral may not be readily saleable or, if saleable, there may be substantial delays in their liquidation or foreclosure. In addition, the Indenture provides only limited covenant protections with respect to the collateral and might not protect you against actions that we or Ocensa could take that could impair the value of the collateral.

Each of these factors could adversely affect the amount of any proceeds from the sale of the collateral in the event of foreclosure, liquidation, bankruptcy or similar proceeding. There can be no assurance that the value of the collateral will not decline over time or that the proceeds from the sale of the collateral in the event of a foreclosure or otherwise would be sufficient to satisfy our obligations in respect of the Notes.

***Problems related to the creation or perfection of a security in the collateral may make it difficult to enforce your security interest on the collateral securing the Notes.***

The security interest with respect to the Ocensa Pledged Shares is subject to practical problems generally associated with the realization of security interests in collateral. For example, problems related to the creation or perfection of the security interest on the Ocensa Pledged Shares may arise, and we cannot assure you that all parties will have taken all actions necessary to create properly perfected security interests, which may result in the loss of priority of the security interest in favor of holders of the Notes to which they would otherwise have been entitled or otherwise limit or restrict the ability of the holders of the Notes to foreclose.

***The ability of holders of the Notes to realize upon the collateral will be subject to certain bankruptcy law limitations in the event of our bankruptcy.***

Due to our domicile in Spain, Ocensa's domicile in Colombia and the jurisdictions governing the transaction documents, holders of the Notes should be aware of applicable bankruptcy laws in the United States, Spain or Colombia.

United States: Under applicable federal bankruptcy laws in the United States, upon the commencement of a bankruptcy case, an automatic stay goes into effect which, among other things, suspends the commencement or continuation of any action or proceeding against us that was or could have been commenced before the commencement of our bankruptcy case to recover a claim against us that arose before the commencement of our bankruptcy case; any act to obtain possession of, or control over, our property or that of the bankruptcy estate; any act to create, perfect or enforce any lien against property of the bankruptcy estate; and any act to collect or recover a claim against the debtor that arose before the commencement of our bankruptcy case. Thus, upon the commencement of a bankruptcy case in the United States, secured creditors are prohibited from, among other things, exercising rights with respect to the collateral of a debtor, absent bankruptcy court approval. Moreover, applicable federal bankruptcy laws in the United States generally permit debtors to continue to use, sell or lease collateral in the ordinary course of its business even though the debtor is in default under the applicable debt instruments. Upon request from a secured creditor, the U.S. bankruptcy court will prohibit or condition such use, sale or lease of collateral as is necessary to provide "adequate protection" of the secured creditor's interest in the collateral. The meaning of the term "adequate protection" may vary according to the circumstances, but is intended generally to protect the value of the secured creditor's interest in the collateral at the commencement of the bankruptcy case and may include cash payments or the granting of additional security to protect against the diminution in the value of the collateral as a result of the debtor's use, sale or lease of the collateral during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term "adequate protection" and the broad discretionary powers of a bankruptcy court, we cannot predict whether payments under the Notes would be made following commencement of and during a bankruptcy case, whether or when the Collateral Agents under the Indenture could foreclose upon or sell the collateral or whether or to what extent holders of the Notes would be compensated for any delay in payment or loss of value as a result of the use, sale or lease of their Collateral through the requirement of "adequate protection." A creditor may seek relief from the stay from the bankruptcy court to take any of the acts described above that would otherwise be prohibited by the automatic stay. U.S. bankruptcy courts have broad discretionary powers in determining whether to grant a creditor relief from the stay.

Spain: In the event of an insolvency of AI Candelaria, an insolvency proceeding may be initiated in Spain and governed by Spanish law. Under the Spanish Insolvency Act, detrimental acts that have been entered into by a debtor during the two preceding years to the insolvency declaration may be rescinded if considered detrimental to the debtors estate. Judges have considered detrimental payments made by an insolvent company prior to a declaration of insolvency, determining that in some situations a debtor could not be compelled to repay its obligations at the time of payment, because it was already unable to regularly pay debts as they came due. There is no need of proving actual or constructive fraud; it just must be proven that the transaction was detrimental to the estate. The consequence of the court resolution rescinding a prejudicial act is that the parties involved are required to

return their reciprocal considerations with any accrued rents or interest and the guarantees and security interests are cancelled (concerning bilateral contracts, otherwise, the only party obliged to return is the non-insolvent one). Such claims are regarded as claims against the estate, except if there is bad faith of the relevant creditor, in which case its claims will be subordinated. Moreover, subject to the ordinary Spanish Civil Code (*Código Civil*) based actions, the insolvency administrator or any creditor may bring an action to rescind a contract or agreement provided that it is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. The statute of limitations of these actions is four years.

Notwithstanding the foregoing, pursuant to article 208 of the Spanish Insolvency Act, acts and transactions governed by laws other than Spanish law will not be subject to clawback actions if such act or transaction cannot be rescinded or challenged by any means and under any grounds whatsoever (i.e., not only in insolvency scenarios) under the relevant non-Spanish applicable laws. Procedurally, counterparties of the insolvent debtor can be sued, but the Spanish court should dismiss the clawback action on the merits if such counterparty proves (i) that the act or transaction at issue is subject to foreign law and (ii) that such act or transaction is unavoidable under the circumstances pursuant to such foreign law. See "Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interest—Spain—Hardening periods."

Additionally, the Collateral Agents' ability to foreclose on the collateral on your behalf may be subject to the consent of third parties, prior liens and practical problems associated with the realization of the Collateral Agents' security interest in the collateral. Moreover, the debtor or trustee in a bankruptcy case may seek to void an alleged security interest in collateral for the benefit of the bankruptcy estate. It may successfully do so if the security interest is not properly perfected or was perfected within a specified period of time (generally 120 days or longer, depending on the specific jurisdiction of incorporation of a subsidiary) prior to the initiation of such proceeding. In the case of Spain, security interest in collateral may be declared void if such collateral has been created within the Spanish hardening period of two years and the act causes a detriment (*perjuicio patrimonial*) to the debtor's estate. See "Limitations on Validity and Enforceability of the Notes and the Security Interest—Spain—Hardening periods." Under such circumstances, a creditor may hold no security interest and be treated as holding a general unsecured claim in the bankruptcy case. It is impossible to predict what recovery (if any) would be available for such an unsecured claim if we became a debtor in a bankruptcy case.

Colombia: In the event that AI Candelaria is admitted to an insolvency proceeding in a jurisdiction other than Colombia, and such proceeding is recognized by a Colombian court as a foreign main insolvency pursuant to Law 1116, such recognition will imply an automatic stay regarding the enforcement of the security interests over assets located in Colombia, such as the shares over Ocensa. Moreover, even though the proceeding is not recognized as main foreign proceeding, the Colombian Insolvency Court has ample powers and authority to take all measures necessary to protect, guard and recover the assets of the debtor, including ordering a stay from enforcing security interests over assets located in Colombia and ordering a stay from collecting obligations accrued before the filing of the insolvency petition. Such actions could delay or affect the holders of the Notes from enforcing pledges on the collateral.

***In the event of our bankruptcy, holders of the Notes may be deemed to have an unsecured claim to the extent that our obligations in respect of the Notes exceed the fair market value of the collateral securing the Notes.***

In any bankruptcy proceeding, it is possible that the bankruptcy trustee, the debtor-in-possession or competing creditors will assert that the fair market value of the collateral with respect to the Notes on the date of the bankruptcy filing was less than the then-current principal amount of the Notes. Upon a finding by the bankruptcy court that the Notes are under-secured, the claims in the bankruptcy proceeding with respect to the Notes would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the collateral. In such event, the secured claims of the holders of the Notes would be limited to the value of the collateral. Other consequences of a finding that the Notes are under-secured would be, among other things, a lack of entitlement on the part of the Notes to receive post-petition interest on any unsecured portion of the claim and a lack of entitlement on the part of the unsecured portion of the claim to receive other "adequate protection" under the U.S. Bankruptcy Code. In addition, if any payments of post-petition interest had been made at the time of such a finding that the Notes are under-secured, those payments could be recharacterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the Notes.

***Liability rules generally apply to the shareholders of a Colombian company in insolvency.***

In the event the Colombian Collateral Agent forecloses on the Ocensa Pledged Shares and a holder of the Notes becomes the shareholder of a Colombian entity, and that entity becomes insolvent, such holder will assume the relevant consequences set forth by Colombian law.

Pursuant to article 61 of Law 1116 there is a rebuttable presumption of subsidiary liability pursuant to which the insolvency of the subsidiary is deemed to have been caused by the parent company, provided the impossibility of the subsidiary to comply with its obligations with its own assets. For purposes of rebutting this presumption, the parent or controlling shareholder of an insolvent company will be required to prove conclusively that the insolvency and liquidation of the subsidiary is due to circumstances beyond its control, and that such circumstances are not connected to any actions or omissions of the parent or controlling shareholder which knowingly triggered the economic destabilization of the subsidiary. Also, pursuant to article 82 of Law 1116, if the debtor's equity is reduced as a result of willful or negligent conduct attributable to the shareholders, directors, auditors or employees, these parties shall be liable for the payment of the outstanding debts of the corporation in liquidation. Nonetheless, shareholders that did not have knowledge about the action or omission, or who voted against it and did not take part in its implementation, will not be subject to this kind of liability.

***Relevant insolvency laws in jurisdictions other than the United States may provide you with less protection than U.S. bankruptcy law.***

AI Candelaria is organized under the laws of Spain and Ocensa is organized under the laws of Colombia. See "Enforcement of Civil Liabilities." In the event that AI Candelaria experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Any enforcement of the security or the collateral after bankruptcy or an insolvency event in such other jurisdictions will be subject to the insolvency laws and to the jurisdiction of the courts of the relevant entity's jurisdiction of organization or other jurisdictions. The insolvency and other laws of each of these jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the collateral in these jurisdictions and limit any amounts that you may receive.

***There are circumstances other than repayment or discharge of the Notes under which the collateral securing the Notes will be released automatically, without your consent or the consent of the Trustee.***

Under various circumstances, the collateral securing the notes will be released automatically, including:

- with respect to any Ocensa Pledged Shares, upon the sale or other disposition (including by way of consolidation, amalgamation or merger) of the issuer of the shares or membership interests, as the case may be, constituting such Ocensa Pledged Shares (other than to AI Candelaria or a Restricted Subsidiary) otherwise permitted by the Indenture;

- upon payment in full of the principal of, accrued and unpaid interest, if any, and premium, if any, on, the Notes; and

- defeasance or discharge of the Indenture.

See "Description of the Notes—Release of Collateral."

***Our substantial indebtedness under the Notes and other obligations could impair our financial flexibility, competitive position and financial condition and could prevent us from fulfilling our obligations under the Notes.***

We have a substantial amount of indebtedness. As of December 31, 2018, after giving effect to the offering of the New Notes and the application of proceeds as described in "Use of Proceeds," we would have had total indebtedness of US$700 million, comprising the Existing Notes and the New Notes offered hereby. See

"Capitalization." We may also be able to incur substantial additional indebtedness in the future pursuant to the terms of the Indenture, within certain limits. An inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business, financial condition and results of operations.

Our substantial indebtedness under the Notes and other or future obligations could have other important consequences for investors in the Notes. For example, they:

- may make it more difficult for us to satisfy our obligations under the Notes;
- may limit our ability to obtain additional funding for acquisitions, investments and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
- may require our management team to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;
- make us more vulnerable to economic downturns, industry conditions and catastrophic external events; and
- limit our ability to respond to business opportunities, to pursue strategic acquisitions and to withstand operating risks.

If new indebtedness is added to our current debt levels, the related risks that we now face could intensify. In the worst case, an actual or impending inability by us to pay debts as they become due and payable could result in our insolvency.

***Despite restrictions in the Indenture, we may still be able to incur substantial additional indebtedness, including secured debt. This could further exacerbate the risks to our financial condition described above.***

We may be able to incur a significant amount of additional indebtedness in the future, including additional secured indebtedness. Although covenants under the Indenture limit our ability and the ability of future restricted subsidiaries to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. In addition, the Indenture will not prohibit us from incurring obligations that do not constitute indebtedness as defined therein. See "Description of the Notes." To the extent that we incur additional indebtedness or such other obligations, the risk associated with substantial additional indebtedness described above, including our possible inability to service our debt, will increase.

The Notes are our senior obligations, secured by a first lien on the collateral, and will rank equally in right of payment to all of our existing and future senior debt (except those obligations preferred by operation of applicable law). Subject to the limitations contained in the Indenture governing the Notes, we are permitted to incur additional secured indebtedness. Certain types of this permitted indebtedness (including the issuance of "Additional Notes" as such term is defined in the Indenture) may rank equally in right of payment with the Notes and will share in the collateral that will secure the notes. Thus, the holders of the Notes will receive distributions from any foreclosure proceeds of our assets constituting collateral for the Notes on a *pro rata* basis with certain other existing and future senior secured creditors. This may reduce the benefits of the collateral to noteholders and the ability of noteholders to control certain actions taken with respect to the collateral. Furthermore, if new indebtedness or other liabilities are added to our debt levels, the related risks that we now have could intensify. We can also incur additional debt secured by collateral that will not secure the Notes.

***The Indenture governing the Notes restricts our financial and operating flexibility.***

The Indenture includes a number of restrictive covenants that limit, among other things, our ability to:

- incur or guarantee additional indebtedness;

- pay dividends or distributions on capital stock or repurchase capital stock;
- sell or transfer assets;
- create liens on assets;
- make investments;
- merge or consolidate with another company; and
- engage in a different business activity.

These covenants could limit our ability to plan for or react to market conditions or to meet our operational or capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some operations to maintain compliance.

In addition, our failure to comply with these covenants could result in a default under our debt agreements, which could permit the holders to accelerate our obligation to repay the debt and may be cross-defaulted to other debt, including the Notes. Our assets or cash flow may not be sufficient to fully repay borrowings under our outstanding debt agreements if accelerated upon an event of default, and there is no guarantee that we would able to repay, refinance or restructure the payments on those debt agreements.

***The Notes may not be freely transferred.***

We have not registered, and will not register, the New Notes under the Securities Act or any other applicable securities laws. Rather, the offering of the New Notes will be made pursuant to exemptions from, and in transactions not subject to, the registration provisions of the Securities Act and from state securities laws that limit who may own the New Notes. In addition, the offering of the New Notes will be made pursuant to an exemption from the registration provisions of the Investment Company Act. Accordingly, the New Notes are subject to certain restrictions on resale and other transfer thereof. In particular, all U.S. persons who acquire the New Notes or interests therein must also be Qualified Purchasers.

To enforce the restrictions on transfers of the New Notes and interests therein, we may demand that any Noteholder or of interest therein who is not (i) a Qualified Purchaser and a QIB or (ii) a non-U.S. person sell to a holder that meets such criteria, and if the Noteholder or interest therein does not comply with such demand, we may sell such holder's New Note or interest therein on such terms as we may choose. If a Noteholder or interest therein is forced to sell its Note or interest therein, or if we sell a Noteholder's Note or interest therein, the price such Noteholder may receive for the sale could be lower than the price you paid for the Note. See "Transfer Restrictions." Consequently, a Noteholder and an owner of beneficial interests in those New Notes must be able to bear the economic risk of their investment in the New Notes for the term of the Notes.

***An active trading market may not be maintained for the Notes.***

The Existing Notes are currently listed on the SGX-ST and we have received approval-in-principle to increase the principal amount of the Notes listed on the SGX-ST to include the New Notes, but we cannot provide you with any assurances as to the future development of a market for the Notes, continuation of this listing, the ability of holders of the Notes to sell their Notes, or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the Notes, which will depend on a number of factors, including:

- the number of holders of Notes;
- our operating performance and financial condition;
- the market for similar securities;

- the interest of securities dealers in making a market in the Notes; and
- prevailing interest rates.

The initial purchasers have advised us that they currently intend to make a market for the Notes following the completion of the offering. However, the initial purchasers are not obligated to do so, and any market-making with respect to the Notes may be discontinued at any time without notice.

***U.S. and Colombian securities laws impose certain restrictions on the resale of the Notes.***

The New Notes are being offered in reliance upon an exemption from registration under the Securities Act and applicable state securities laws. Thus, the Notes have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered, sold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The offering of the New Notes is not a public offering of securities in Colombia. Therefore, the Notes may not be offered, sold or otherwise transferred in Colombia, except under circumstances which do not constitute a public offering or distribution of securities under applicable Colombian laws and regulations.

***Different disclosure requirements in Colombia and the United States may provide you with different or less information about us than you expect.***

Securities disclosure requirements in Colombia differ from those applicable in the United States. The Notes will be exempt from registration with the Colombian Superintendence of Finance and Ocensa is not a registered issuer of securities in Colombia. Accordingly, the information about Ocensa available to you may not be the same as the information available to security holders of a company that is public in the United States. There may be less publicly available information about Ocensa than is regularly published about companies that are public in the United States and certain other jurisdictions. Neither Ocensa nor AI Candelaria is subject to the periodic reporting requirements of the Exchange Act or the Colombian securities regulations and, therefore, is not required to comply with the information disclosure requirements imposed by the Exchange Act or by Colombian securities regulations.

***It may be difficult to enforce civil liabilities against us or our directors and executive officers.***

The majority of our assets and those of our directors and executive officers, all of whom are non-residents of the United States, are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States on such persons with respect to matters arising under U.S. federal securities laws, or to enforce outside the United States judgments obtained against us or such persons in U.S. courts, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. See "Enforcement of Civil Liabilities."

***We may not be able to repurchase the Notes upon a change of control repurchase event.***

Upon the occurrence of a change of control event as set forth in "Description of the Notes—Change of Control", we will be required to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, if any. The source of funds for any such purchase of the Notes will be our available cash or cash generated from other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the Notes upon a change of control repurchase event because we may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control repurchase event. Our failure to repurchase the Notes upon a change of control event would cause a default under the Indenture governing the Notes. Any of our future debt agreements may contain similar provisions.

***Our credit ratings may not reflect all risks of your investments in the New Notes.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes.

These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

***We cannot assure you that the credit ratings for the Notes will not be lowered, suspended or withdrawn by the rating agencies.***

The ratings of the Notes may change after issuance and we are under no obligation to maintain such rating. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. There is no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant.

Any lowering, suspension or withdrawal of such ratings may have an adverse effect of the market price and marketability of the Notes.

***You may not be able to influence our actions with respect to the Notes.***

You may be unable to influence or otherwise control our actions with respect to the Notes, and, as a result, you may be unable to stop actions that are adverse to you. You may need the approval or consent of other persons to take or direct various actions relating to us. Further, the interests of such other persons may not coincide with your interests, making it more difficult (or impossible) for you to achieve your desired results in a situation requiring the consent or approval of other persons.

In addition, we and the Trustee may amend the Indenture without your consent in the circumstances described in this offering memorandum. Any of the foregoing could result in a delay or reduction in payments on the Notes.

***The proposed financial transactions tax may have a negative effect on holders of the Notes ("FTT").***

On February 14, 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Commercial Paper (including secondary' market transactions) in certain circumstances. The issuance and subscription of Commercial Paper should, however, be exempt. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Commercial Paper where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

On June 17, 2016, the Economic and Financial Affairs Council (the "ECOFIN Council") discussed the issue regarding (i) the application of "issuance" and "residence" principles and the territorial scope for the FTT, (ii) the exemption from FTT and (iii) the scope of transactions in derivatives contracts. However, the ECOFIN Council decided that work would continue between the now ten participants (excluding Estonia) and therefore, as indicated in the June 2017 report, further work is still required.

On October 28, 2016, the Council of the European Union published document No. 13608/16 concerning the status of the FTT at that time, according to which a certain degree of progress in the FTT negotiations have been observed. However, further work at the Council and its preparatory bodies will be required before a final agreement can be reached among the participating Member States that respects the competences, rights and obligations of the

Member States not participating in the FTT. The ECOFIN Council indicated on December 6, 2016 and on June 12, 2017, that the ten Participating Member States agreed to pursue the on-going work and discussions on the main features of the FTT. The June 2018 report reiterated that further work is still required before a final agreement can be reached.

Thus, the Commission's proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## EXCHANGE RATES

The Federal Reserve Bank of New York does not report a noon-buying rate for Colombian pesos. The SFC calculates the representative market rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by foreign exchange rate market intermediaries including financial institutions for the purchase and sale of U.S. dollars.

The following table sets forth the annual high, low, average and period-end exchange rate for Colombian pesos/U.S. dollar representative market rate for each year starting in 2013 and on a monthly basis for the previous six months.

| | Exchange Rates | | | |
|---|---|---|---|---|
| | **High** | **Low** | **Average** | **Period-End** |
| **Year:** | | | | |
| 2013 | Ps$1,952 | Ps$1,758 | Ps$1,869 | Ps$1,927 |
| 2014 | Ps$2,446 | Ps$1,846 | Ps$2,000 | Ps$2,392 |
| 2015 | Ps$3,356 | Ps$2,361 | Ps$2,743 | Ps$3,149 |
| 2016 | Ps$3,435 | Ps$2,834 | Ps$3,051 | Ps$3,001 |
| 2017 | Ps$3,093 | Ps$2,838 | Ps$2,951 | Ps$2,984 |
| 2018 | Ps$3,290 | Ps$2,705 | Ps$2,956 | Ps$3,250 |
| **Month:** | | | | |
| January 2019 | Ps $3,250 | Ps $3,121 | Ps $3,165 | Ps $3,163 |
| February 2019 | Ps $3,155 | Ps $3,072 | Ps $3,116 | Ps $3,072 |
| March 2019 | Ps $3,191 | Ps $3,077 | Ps $3,129 | Ps $3,175 |
| April 2019 | Ps $3,248 | Ps $3,096 | Ps $3,156 | Ps $3,248 |

Source: SFC for historical data, *Banco de la República,* or the Colombian Central Bank, and internal calculation for averages.

This offering memorandum contains conversions of certain Colombian peso amounts into U.S. dollars solely for the convenience of the reader. Unless otherwise indicated, U.S. dollar amounts that have been converted from Colombian pesos have been so converted at an exchange rate of Ps$3,248 per US$1.00, based on the representative market rate calculated by SFC for December 31, 2018. No representation is made that the Colombian peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all.

On April 30, 2019, the representative market rate was Ps$3,248 per US$1.00.

## USE OF PROCEEDS

The net proceeds of this offering are estimated to be US$52.2 million. The net proceeds from this offering will be used to (i) fund the Debt Service Reserve Account, (ii) pay fees and expenses relating to this offering and (iii) pay a dividend to affiliates of Advent.

## CAPITALIZATION

The following table sets forth our capitalization at December 31, 2018:

- on an actual basis; and
- on an as adjusted basis giving effect to the offering of the Notes offered hereby and the use of the gross proceeds therefrom. See "Use of Proceeds."

This table should be read in conjunction with, and is qualified in its entirety by reference to, "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations of AI Candelaria" and our financial statements and notes thereto included elsewhere in this offering memorandum.

| | As of December 31, 2018 (in millions of U.S. Dollars) | |
|---|---|---|
| | **Actual** | **As adjusted** |
| Cash and short-term investments | $ 45.4 | $ 46.8[1] |
| Total debt | 651.0 | 703.4 |
| Shareholder's equity | 511.6 | 511.6 |
| Total net capitalization | $ 1,162.6 | $ 1,215.0 |

(1) Includes funds deposited into the Debt Service Reserve Account pledged to the U.S. Collateral Agent for the benefit of itself, the Trustee and the holders.

On March 25, 2019 AI Candelaria Spain distributed a US$60 million dividend to AI Candelaria Luxembourg, its sole shareholder. There have been no further material changes in our capitalization since December 31, 2018.

## SELECTED FINANCIAL AND OTHER INFORMATION OF AI CANDELARIA

The following tables present our selected historical financial data as of and for the years ended December 31, 2018, 2017 and 2016, which were derived from our audited financial statements, prepared in accordance with Spanish GAAP. The selected financial data should be read in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations of AI Candelaria" and our financial statements and notes thereto included elsewhere in this offering memorandum.

### Income Statement

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | **(audited)** | |
| | **(in millions of U.S. dollars, except ratios)** | | |
| Net sales | $135.4 | $ 85.2 | $ 146.7 |
| Other operating expenses | (0.9) | (0.5) | (0.3) |
| Outside services | (0.9) | (0.5) | (0.3) |
| **Operating income (loss)** | **134.4** | **84.7** | **146.2** |
| **Investment expenses** | **(9.1)** | **(0.0)** | **(0.0)** |
| For debts with third parties | (9.1) | (0.0) | (0.0) |
| **Exchange gain (loss)** | **(1.8)** | **3.0** | **(0.2)** |
| **Impairment and income (loss) from disposal of financial instruments** | **—** | **10.7** | **(10.7)** |
| **Investment income** | **(10.9)** | **13.7** | **(10.9)** |
| **Income before taxes** | **123.5** | **98.4** | **135.3** |
| **Income for the year** | **$123.5** | **$98.0** | **$135.3** |

### Balance Sheet

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | **(audited)** | |
| | **(in millions of U.S. dollars)** | | |
| **Assets** | | | |
| **Cash and cash equivalents** | **$ 4.9** | **$ 20.4** | **$ 82.0** |
| Cash in hand and at bank | 4.9 | 20.4 | 82.0 |
| **Trade and other accounts receivable** | **48.6** | **40.9** | **17.3** |
| Other accounts receivable | — | — | 0.0 |
| Current tax assets | 48.6 | 40.9 | 17.3 |
| **Short-term Investments** | **40.5** | — | — |
| **Total current assets** | **94.0** | **61.4** | **99.4** |
| **Long-term financial investments** | **1,068.7** | **1,068.7** | **1,058.0** |
| Equity instruments | 1,068.7 | 1,068.7 | 1,058.0 |
| **Non-current assets** | **1,068.7** | **1,068.7** | **1,058.0** |
| **Total assets** | **$1,162.7** | **$1,130.1** | **$1,157.4** |
| **Liabilities and Equity** | | | |
| **Trade accounts and other accounts payable** | **0.1** | **0.2** | **13.5** |
| Sundry accounts payable | 0.1 | 0.2 | 0.0 |
| Current tax liabilities | 0.1 | — | 13.5 |
| Other tax payables | — | — | 0.0 |
| Short-term provisions | — | — | 0.3 |
| Short term debt | 9.0 | 0.0 | — |
| Financial liabilities | 9.0 | 0.0 | — |
| **Total current liabilities** | **9.0** | **0.2** | **13.8** |

| | As of December 31, | | |
|---|---|---|---|
| **Long-term Debt** | **642.0** | **—** | **—** |
| **Total liabilities** | **651.1** | **0.2** | **13.8** |
| **Shareholder's equity** | **511.5** | **1,129.9** | **1,143.6** |
| **Capital** | **82.5** | **82.5** | **82.5** |
| Authorized capital | 82.5 | 82.5 | 82.5 |
| **Issue premium** | **—** | **334.5** | **334.5** |
| **Reserves** | **116.6** | **116.6** | **16.5** |
| Legal and statutory | 16.5 | 16.5 | 16.5 |
| **Income (negative income) from previous years** | **(3.5)** | **(24.9)** | **(24.9)** |
| **Other shareholder contributions** | **256.3** | **599.8** | **599.8** |
| **Income for the year** | **123.5** | **98.0** | **135.3** |
| **(Interim dividend)** | **(63.9)** | **(76.5)** | **—** |
| **Adjustments for changes in value** | **0.0** | **0.0** | **0.0** |
| Other | 0.0 | 0.0 | 0.0 |
| **Total equity** | **511.5** | **1,129.9** | **1,143.6** |
| **Total liabilities and equity** | **$1,162.7** | **$1,130.1** | **$1,157.4** |

## SELECTED FINANCIAL AND OTHER INFORMATION OF OCENSA

The following tables present Ocensa's selected consolidated historical financial data as of and for the years ended December 31, 2017, 2016, and 2015, which were derived from Ocensa's audited consolidated financial statements, as of and for the six months ended December 31, 2018 and 2017, and as of and for the six months ended June 30, 2018 and 2017, which were derived from Ocensa's audited financial statements, prepared in accordance with NCIF. The selected financial data should be read in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ocensa" and Ocensa's consolidated financial statements and notes thereto, included elsewhere in this offering memorandum.

### Statement of Income and Comprehensive Income

| | For the year ended December 31, | | For the six months ended December 31, | | For the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| | (in millions of U.S. dollars, except ratios) | | | | | |
| **Continued operations** | | | | | | |
| Revenues from ordinary activities | $1,324.8 | $1,213.8 | $726.4 | $718.1 | $674.3 | $606.7 |
| Cost of sales | (260.7) | (213.8) | (158.6) | (138.0) | (138.0) | (122.6) |
| Gross profit | 1,064.1 | 1,000.0 | 567.8 | 580.1 | 536.3 | 484.0 |
| Operations and project expenses | (15.7) | (12.8) | (11.7) | (10.3) | (5.1) | (5.4) |
| Administrative expenses | (23.7) | (26.3) | (10.8) | (10.4) | (12.9) | (13.3) |
| Other operating (expenses) income, net | (42.2) | (4.9) | (2.3) | (50.0) | (0.2) | 7.8 |
| Operating profit | 982.6 | 956.0 | 543.0 | 509.4 | 518.1 | 473.1 |
| Financial income | — | — | — | — | — | — |
| Financial costs, net | (21.8) | 11.1 | (8.4) | (11.7) | (9.2) | (10.1) |
| (Loss) gain from exchange difference, net | (10.5) | (6.9) | 4.0 | (1.3) | 4.9 | (11.8) |
| Profit before income taxes | 950.3 | 960.2 | 538.5 | 499.0 | 513.9 | 451.3 |
| Income tax expense | (397.6) | (408.3) | (182.7) | (207.4) | (200.0) | (190.3) |
| Net profit from continued operations | 552.6 | 551.9 | 355.8 | 291.7 | 313.9 | 261.0 |
| Net gain (loss) from hedges of cash flow, net of taxes | 11.9 | 10.4 | (13.6) | 2.8 | (3.0) | 9.2 |
| Net (loss) gain from exchange difference in translation | (0.1) | (2.1) | 10.2 | (1.5) | (1.1) | 1.3 |
| Total net comprehensive income | 564.4 | 560.2 | 352.4 | 293.0 | 309.9 | 271.4 |

## Statement of Financial Position

| | As of December 31, | | As of December 31, | | As of June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| | (in millions of U.S. dollars) | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | $236.4 | $71.8 | $239.4 | $236.4 | $30.7 | $31.7 |
| Trade and other accounts receivable | 196.7 | 126.7 | 169.7 | 196.7 | 203.6 | 131.7 |
| Inventories | — | — | 24.4 | — | — | — |
| Derivative financial instruments | 8.5 | 15.5 | — | 8.5 | 0.4 | — |
| Other assets | 5.5 | 5.4 | 3.1 | 5.5 | 5.7 | 7.3 |
| Non-current assets held for sale | 18.8 | 21.9 | — | 18.8 | — | 20.4 |
| **Current assets** | **465.9** | **241.3** | **436.6** | **465.9** | **240.4** | **191.1** |
| Trade and other accounts receivable | 4.2 | 5.6 | 3.3 | 4.2 | 4.0 | 5.5 |
| Other non-financial assets | — | — | 0.7 | — | — | — |
| Property, plant and equipment | 1,595.2 | 1,641.2 | 1,551.3 | 1,595.2 | 1,590.7 | 1,629.0 |
| Intangibles, net | 14.3 | 3.0 | 23.8 | 14.3 | 15.9 | 4.2 |
| **Non-current assets** | **1,613.7** | **1,649.7** | **1,579.2** | **1,613.7** | **1,610.6** | **1,638.6** |
| **Total assets** | **2,079.6** | **1,891.0** | **2,015.8** | **2,079.6** | **1,851.0** | **1,829.7** |
| **Liabilities and Equity** | | | | | | |
| Debts and loans bearing interest | 20.2 | 20.1 | 20.0 | 20.2 | 20.1 | 20.1 |
| Trade accounts and other accounts payable | 89.9 | 105.1 | 72.7 | 89.9 | 69.3 | 83.9 |
| Tax liabilities | 170.7 | 177.3 | 105.1 | 170.7 | 12.7 | — |
| Derivative financial instruments | — | — | 25.4 | — | — | 0.7 |
| Deferred revenues | 6.7 | 4.0 | 4.7 | 6.7 | 5.9 | 3.7 |
| Provisions | 50.0 | — | 1.4 | 50.0 | — | — |
| **Current liabilities** | **337.5** | **306.5** | **229.3** | **337.5** | **108.0** | **108.3** |
| Debts and loans bearing interest | 480.2 | 479.5 | 481.0 | 480.2 | 480.6 | 480.0 |
| Trade and other accounts payable | 4.4 | 6.4 | 4.6 | 4.4 | 3.9 | 7.0 |
| Deferred revenues | 7.7 | 11.3 | 3.4 | 7.7 | 5.6 | 11.3 |
| Provisions | 31.3 | 24.5 | 43.8 | 31.3 | 32.4 | 26.1 |
| Tax liabilities | 0.9 | 0.3 | 0.9 | 0.9 | 0.9 | 0.3 |
| Deferred tax liabilities | 82.4 | 110.2 | 60.8 | 82.4 | 66.1 | 93.4 |
| **Non-current liabilities** | **606.9** | **632.4** | **594.5** | **606.9** | **589.5** | **618.2** |
| **Total liabilities** | **944.4** | **938.9** | **823.8** | **944.4** | **697.5** | **726.5** |
| Subscribed and paid-in capital | 81.7 | 81.7 | 81.7 | 81.7 | 81.7 | 81.7 |
| Legal reserve | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 |
| Accumulated profits | 928.3 | 756.9 | 992.4 | 928.3 | 950.5 | 897.6 |
| Other comprehensive income | 84.3 | 72.6 | 77.0 | 84.3 | 80.4 | 83.0 |
| **Total equity** | **1,135.2** | **952.1** | **1,192.0** | **1,135.2** | **1,153.5** | **1,103.2** |
| **Total liabilities and equity** | **$2,079.6** | **$1,891.0** | **$2,015.8** | **$2,079.6** | **$1,851.0** | **$1,829.7** |

## Other Items

| | As of December 31, | | As of December 31, | | As of June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| | (in millions of U.S. dollars) | | | | | |
| **Audited** | | | | | | |
| Amortization and Depreciation | 95.9 | 77.7 | 55.1 | 46.9 | 49.7 | 49.1 |
| Net margin[1] | 41.7% | 45.5% | 49.0% | 40.6% | 46.5% | 43.0% |
| **Unaudited** | | | | | | |
| Operating margin[2] | 74.2% | 78.8% | 74.7% | 70.9% | 76.8% | 78.1% |
| EBITDA [3] | 1,078.5 | 1,033.7 | 598.1 | 556.2 | 567.8 | 522.9 |
| EBITDA margin [4] | 81.4% | 85.2% | 82.3% | 77.5% | 84.2% | 86.2% |
| Outstanding debt/EBITDA ratio [5] | 0.46X | 0.48X | 0.42X | 0.45X | 0.44X | 0.48X |
| Volume transported (in kbpd) | 581 | 566 | 641 | 595 | 633 | 565 |
| Total transportation cash cost [6] | 340.7 | 258.1 | 183.4 | 208.8 | 156.1 | 133.5 |
| Number of employees | 297 | 288 | 279 | 297 | 267 | 280 |

(1) Net margin is calculated as net profit divided by revenue, expressed as a percentage.

(2) Operating margin is calculated as operating profit divided by revenue, expressed as a percentage.

(3) EBITDA is calculated as net profit plus depreciation and amortization, current income tax and financial (income) expenses, net. EBITDA is not a measure of financial performance according to NCIF or generally accepted accounting practices adopted in Colombia or the United States and should not be considered in isolation or as an alternative to net profit, as an indicator of operating performance, or to operating cash flows as an indicator of liquidity. EBITDA does not have a standardized definition and the EBITDA definition presented herein may not be consistent with EBITDA used by other companies. EBITDA has certain limitations as a measure of Ocensa's profitability in that it does not consider certain of Ocensa's recurring costs that may have a significant impact on its net profit, including net financial expenses, taxes, depreciation, amortization and depletion. See "Presentation of Financial and Other Information—EBITDA." We calculate EBITDA as follows:

| | As of December 31, | | As of December 31, | | As of June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| Net profit from continued operations | $552.6 | $551.9 | $355.8 | $291.7 | $313.9 | $261.0 |
| (+)Depreciation and amortization | 95.9 | 77.7 | 55.1 | 46.7 | 49.7 | 49.1 |
| (+)Current income tax | (397.6) | (408.3) | (182.7) | (207.4) | (200.0) | (190.3) |
| (+)Financial (income) expenses, net | (32.3) | 4.2 | (4.5) | (10.3) | (4.2) | (21.9) |
| EBITDA | $1,078.5 | $1,033.7 | $598.1 | $556.3 | $567.8 | $522.9 |

(4) EBITDA margin is calculated as EBITDA divided by revenue, expressed as a percentage.

(5) Outstanding debt/EBITDA ratio is calculated as the outstanding amount of Ocensa 2021 Notes for the period divided by EBITDA for the period, and is presented on an annualized basis for the six months ended December 31, 2018 and 2017 and June 30, 2018 and 2017.

(6) Total transportation cash cost is equivalent to Ocensa's operational and administrative expenses for the period, comprising Ocensa's maintenance and repairs, services, depreciation, personnel, leases, fees, amortization and other expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF AI CANDELARIA

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements as of and for the years ended December 31, 2018, 2017 and 2016 and the related notes thereto, each included elsewhere in this offering memorandum, as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of AI Candelaria," and the information regarding Ocensa and its financial statements and notes contained elsewhere in this offering memorandum.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in these estimates and forward-looking statements as a result of various factors, including, without limitation, those set forth in "Cautionary Disclosure Regarding Forward-Looking Information" and "Risk Factors."*

### *Sources of Cash Flow*

Our main sources of cash flows were dividends from Ocensa of US$135.4 million, US$85.2 million and US$146.7 million, in the years ended December 31, 2018, 2017 and 2016, respectively. Our principal sources of cash flows have historically been Ocensa's dividends. In addition, in the year ended December 31, 2018, we issued US$650.0 million aggregate principal amount of 7.500% Senior Secured Bonds on the SGX-ST.

In the future, we could raise additional cash by selling our shares of Ocensa's capital stock; however, we have no intention to do so at this time.

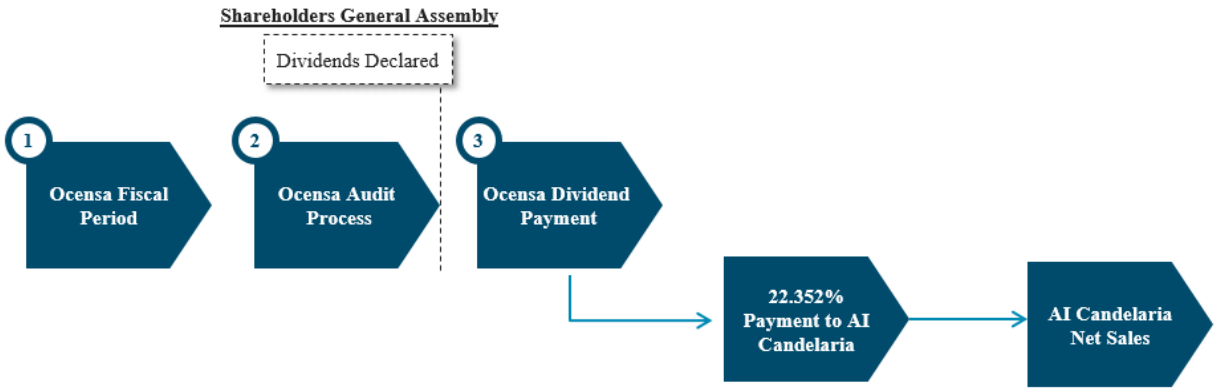
Ocensa Dividend Policy

Pursuant to Ocensa's Shareholders' Agreement, Ocensa must prepare financial statements at June 30 and December 31 of each year and, if applicable, distribute as dividends to its shareholders 100% of net income after funding any legal and applicable reserves, unless otherwise instructed unanimously by its shareholders at a shareholders' meeting. The following table sets forth certain information regarding Ocensa's payment of dividends. The table below reflects payment of dividends on 1,153,139 shares of Ocensa.

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (in thousands of U.S. dollars, except percentages) | |
| Dividends paid by Ocensa to its shareholders | 605,578 | 381,321 | 656,299 |
| ***Attributable to net income of Ocensa accumulated during:*** | **12 months from July 1 2017 to June 30, 2018** | **9 months from Oct 1, 2016 to Jun 30, 2017** | **12 months from Oct 1, 2015 to Sep 30, 2016** |
| Percentage of ownership interest in Ocensa of AI Candelaria at the date of dividend | 22.352% | 22.352% | 22.352% |
| Dividends received by AI Candelaria | 135,359 | 85,232 | 146,695 |

On March 12, 2019, Ocensa declared dividends of US$355.8 million to its shareholders, attributable to net income accumulated during the six months between July 1, 2018 and December 31, 2018. Of the US$355.8 million in dividends declared, we are entitled to US$79.5 million in dividend payments, corresponding to our 22.352% ownership stake in Ocensa.

Dividend payments from Ocensa are subject to a time lag at the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. The following diagram sets forth an illustrative timeline regarding the dividend payment process.




Financing Activities

On October 25, 2018, AI Candelaria issued US$650.0 million aggregate principal amount of the Existing Notes on the SGX-ST. Proceeds were used to (i) fund the Debt Service Reserve Account, (ii) pay fees and expenses relating to the issuance of the Existing Notes, (iii) pay a dividend to AI Candelaria Lux, our direct parent company, in order for it to repay all amounts outstanding under the AI Lux Credit Agreement, comprising US$418.8 million principal amount outstanding, plus accrued and unpaid interest from June 29, 2018 through the settlement date of the offering of the Existing Notes and other associated costs, and (iv) pay a dividend to affiliates of Advent.

The following table sets forth our current and non-current financial liabilities as of December 31, 2018, 2017, and 2016.

| | Financial Liabilities as of | | |
|---|---|---|---|
| | **Dec. 31, 2018** | **Dec. 31, 2017** | **Dec. 31, 2016** |
| | | (in thousands of US dollars) | |
| Current Financial Liabilities | US$8,939 | US$0 | — |
| Non-Current Financial Liabilities | US$642,088 | — | — |
| **Total** | **US$651,027** | **US$0** | **US$ —** |

***Uses of Cash Flow***

Our main uses of cash flows were US$747.4 million, US$153.1 million and US$166.7 million in the years ended December 31, 2018, 2017 and 2016, respectively. Our primary uses of cash flows have historically been:

- the payment of operating expenses;
- the payment of tax advances to Spanish authorities;
- the funding of the Debt Service Reserve Account; and
- the payment of dividends.

Operating Expenses

In the ordinary course of business, our operating expenses are mainly related to the ownership, maintenance and operation of AI Candelaria.

In the years ended December 31, 2018, 2017 and 2016, we incurred operating expenses of US$0.9 million, US$0.5 million and US$0.3 million, respectively.

Corporate Income Tax Payments on Account

Under the tax treaty entered into Spain and Colombia (the "Spain/Colombia tax treaty"), dividends paid by Ocensa to us from taxed profits are not subject to additional taxation in Colombia, such as the 5% tax on dividend distributions established in the 2016 Colombian Tax Reform, according to article 10 since we are the beneficial owner of the dividends distributed and we hold at least 20% of the share capital of Ocensa.

From a CIT perspective, the dividends received from Ocensa are exempt from taxation in Spain, according to the participation exemption governed under article 21 of the CIT Spanish legislation and the application of the Spanish holding company regime (*Entidad de Tenencia de Valores Extranjeros*).

Corporate Income Tax payments on account ("CIT payments on account") are paid to the Spanish authorities three times a year, by the twenty-first day of April (the tax base for CIT purposes is generated between January and March), by the twenty first-day of October (the tax base for CIT purposes is generated between January and September, net of the payment in April), and by the twenty-first day of December (the tax base for CIT purposes is generated between January and November, net of the first two payments). We annually submit a CIT self-assessment of the corresponding tax period in July of the subsequent year, in which the payments on account are deducted from the final tax debt. Spanish tax authorities have a six month period to effectively carry out the refund. If it takes longer than six months, then late payment interest is added. To date, we have not experienced any delays in payment from the Spanish tax authorities.

The following table sets forth our current tax asset balances as of December 31, 2018, 2017 and 2016.

| | Tax Assets as of | | |
|---|---|---|---|
| | **Dec. 31, 2018** | **Dec. 31, 2017** | **Dec. 31, 2016** |
| | | **(in thousands of US dollars)** | |
| Current Tax Assets | US$48,562 | US$40,910 | US$17,322 |
| **Total** | **US$48,562** | **US$40,910** | **US$17,322** |

Dividend Payments

In the years ended December 31, 2018, 2017 and 2016, we paid cash dividends to our shareholders of US$741.9 million, US$111.7 million and US$149.1 million, respectively.

***Cash and Cash Equivalents***

Changes in cash and cash equivalents correspond to dividends paid in by Ocensa and dividends paid out by us to AI Lux and our operating costs.The following table sets forth our cash and cash equivalent balances as of December 31, 2018, 2017 and 2016.

| | Cash and cash equivalents as of | | |
|---|---|---|---|
| | **Dec. 31, 2018** | **Dec. 31, 2017** | **Dec. 31, 2016** |
| | | **(in thousands of US dollars)** | |
| Cash | US$4,862 | US$20,441 | US$82,049 |
| **Total** | **US$4,862** | **US$20,441** | **US$82,049** |

### *Current Financial Investments*

On October 25, 2018, pursuant to the conditions set forth in the Indenture, we funded the Debt Service Reserve Account, which as of December 31, 2018 constitutes our only current financial investment. The following table outlines our current financial investments balances as of December 31, 2018, 2017, and 2016.

| | Current Financial Investments as of | | |
|---|---|---|---|
| | **Dec. 31, 2018** | **Dec. 31, 2017** | **Dec. 31, 2016** |
| | | **(in thousands of US dollars)** | |
| Other Financial Assets ..... | US$40,514 | US$ — | US$ — |
| **Total**..... | **US$40,514** | **US$ —** | **US$ —** |

### *Investment Income*

Every year, as part of our audit process we perform an impairment or revaluation test on our non-current assets. Considering our main non-current asset is our investment in Ocensa, we do an internal valuation exercise of our shares, based on different valuation methodologies commonly used for said purpose. Variations as a consequence of this exercise on the non-current assets are reflected in the income statement line of Investment Income.

The following table sets forth our non-current assets as December 31, 2018, 2017 and 2016.

| | Non-Current Assets as of | | |
|---|---|---|---|
| | **Dec. 31, 2018** | **Dec. 31, 2017** | **Dec. 31, 2016** |
| | | **(in thousands of US dollars)** | |
| Equity Instruments ..... | US$1,068,732 | US$1,068,732 | US$1,058,000 |
| **Total**..... | **US$1,068,732** | **US$1,068,732** | **US$1,058,000** |

In the years ended December 31, 2018, 2017 and 2016, we registered an income(loss) on Investment Income of US$0.0 million, US$10.7 million and US$(10.7) million, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OCENSA

*The following discussion and analysis of Ocensa's financial condition and results of operations should be read in conjunction with Ocensa's audited financial statements as of and for the years ended December 31, 2017, 2016 and for the six months ended December 31, 2018 and 2017 and June 30, 2018 and 2017 and the related notes thereto, each included elsewhere in this offering memorandum, as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of Ocensa."*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Ocensa's actual results may differ materially from those discussed in these estimates and forward-looking statements as a result of various factors, including, without limitation, those set forth in "Cautionary Disclosure Regarding Forward-Looking Information" and "Risk Factors."*

### Overview

Ocensa, incorporated in 1994, owns and operates (i) the Ocensa Pipeline, the largest crude oil pipeline in Colombia, covering 836 km on land and 12 km underwater and (ii) one of the largest crude export terminals in Colombia (the Port of Coveñas). The Ocensa Pipeline, Ocensa's primary asset, was completed and became operational in 1998 and has a maximum current capacity of 745kbpd, depending on the viscosity and the quality of the crude oil, at the largest segments of the pipeline. Ocensa completed expansion projects in 2014 and 2016 that increased the reliability and the capacity at the largest segments of the pipeline by 170 kbpd. In 2017, the Ocensa Pipeline transported approximately 68% of Colombia's total crude oil production, and exported through the Port of Coveñas, approximately 51% of Colombia's total oil exports, according to proprietary information and information compiled from the ANH and ACP. The Ocensa Pipeline transports crude oil ranging from light crude oil and intermediate blends to heavy crudes, on behalf of crude oil producers, connecting Colombia's most prolific basins, the Llanos basin and the Middle Magdalena basin (collectively, 89% of Colombia's crude oil production and 87% of its reserves in 2017), with Colombia's two main refineries (Barrancabermeja and Cartagena) and the Port of Coveñas, Colombia's primary public crude oil export facility.

In 2017, Ocensa's revenue totaled US$1.3 billion, compared to US$1.2 billion in 2016, while its EBITDA totaled US$1.1 billion in 2017, compared to US$1.0 billion in 2016. In the six months ended June 30, 2018, Ocensa's revenue totaled US$674.3 million, compared to US$606.7 million in the six months ended June 30, 2017. In the six months ended December 31, 2018, Ocensa's revenue totaled US$726.4 million, compared to US$718.1 million in the six months ended December 31, 2017. Ocensa's results in the last three years were negatively impacted by the decrease in Colombian oil production resulting from the fall in international oil prices. In 2018, Ocensa's financial results improved due to a slight recovery both in Colombian oil production and in international oil prices, together with a shift in Ocensa's commercial strategy to transporting heavier and more viscous crudes.

Ocensa's majority shareholder, with 72.648% of its equity, is Cenit, a wholly-owned subsidiary of Ecopetrol, the Colombian national crude oil and gas company and Colombia's largest producer of crude oil and gas. Ocensa has been part of Ecopetrol's business group since May 2, 2013. In 2017, Ecopetrol has accounted for approximately 56% of Colombia's total crude oil production. Of Ocensa's remaining equity, we directly hold 22.352%. Concurrent with the closing of the offering of the Existing Notes, we transferred one share of Ocensa held directly by us to AI Lux (0.00002% of Ocensa's capital stock), which was not pledged as collateral to secure our obligations under the Notes. Additionally, 5.000% of Ocensa's equity is held by Banco de Bogotá (Panamá) S.A. Fideicomiso Acciones Ocensa and Transporte Registrado S.A., vehicles in which Darby Private Equity, a private equity investment vehicle of Franklin Templeton, holds an interest.

Ocensa derives its revenues from:

*Shipments of Crude Oil via Ocensa Pipeline*. Ocensa primarily derives its revenue (97.4% in 2018) from tariffs charged to crude oil producers for the transport of crude oil through the Ocensa Pipeline, which it owns and operates pursuant to a long-term concession agreement with the Colombian Government for an initial duration of 50 years commencing in March 1996 and subject to renewal for additional 20-year terms thereafter, according to the conditions stablished in Article 49 of the Petroleum Code. These tariffs are calculated in accordance with the

methodology established by the MME and are structured to remunerate the pipeline operator at a specified rate of return, with additional returns permitted for improvements and expansions to pipelines, from which Ocensa has benefitted due to its recently completed expansion projects. Currently, tariffs are revised every four years (adjusted annually for inflation), providing Ocensa with predictable time horizons in which tariffs are fixed. The current tariffs were reviewed and approved in November 2015 pursuant to the procedure established by the MME and they are expected to be valid until June 30, 2019.

In compliance with MME 2014 Resolution and Resolution 72145 of 2014, on March 12, 2019, Ocensa filed before the Hydrocarbons Director of the MME, the document through which the new tariffs for the period between 2019 and 2023 are supported. This new tariff period shall commence on July 1, 2019. However, in the event the new tariffs have not been set by July 1, 2019, Ocensa will continue to use the current tariffs until the tariffs for the period between 2019 and 2023 have been set.

In addition, pursuant to regulations currently in effect, tariff rates for the transport of crude oil along segments of a pipeline resulting from expansion projects may be established by commercial agreements between the parties and these tariffs will be applicable to all shippers that utilize the additional transportation capacity resulting from the expansion. Moreover, given that regulated tariffs are determined independent of commodity prices, the revenue derived from "Ship and Pay" contracts has no direct commodity price exposure.

*Operation of the Port of Coveñas*. Ocensa also derives revenue (1.3% in 2018) from tariffs it charges for the transfer, operational storage and loading of crude oil for export at the Port of Coveñas, which it operates pursuant to a long-term concession agreement with the Colombian Government for an initial duration of 20 years commencing in December 1996, which was renewed in 2016 for another 20 years, and is subject to renewal for an additional 20 years thereafter.

**Financial Presentation and Accounting Policies**

***Presentation of Financial Statements***

Ocensa's financial statements have been prepared in accordance with NCIF, together with the interpretations, conceptual reference framework, conclusion bases and application guidelines authorized and issued by the IASB as established by decree 2615 of December 17, 2014, decree 2420 of December 14, 2015, amended by decree 2496 of December 23, 2015; and other legal provisions applicable to entities supervised and/or controlled by the Superintendency of Corporations (*Superintendencia de Sociedades*), and by the Contaduría General de la Nación that may differ in certain aspects from those established by other governmental bodies.

***Critical Accounting Policies and Estimates***

The preparation of Ocensa's financial statements requires it to use certain assumptions and/or estimates derived from both its experience as well as a number of other factors that Ocensa believe to be reasonable and relevant. Critical accounting policies are those that, in addition to being important to reflect Ocensa's financial condition and results of operations, require Ocensa's management to make subjective or complex judgments, often with respect to future assumptions and matters that are inherently uncertain. Critical accounting policies usually require the judgment of Ocensa's management in connection with matters relating to the value of its assets and liabilities and results of operations. Settlement of transactions involving these estimates may affect Ocensa's financial condition and shareholders' equity, as well as Ocensa's results of operations, if they result in values that are materially different from the estimates.

Set forth below is a discussion of what we consider to be Ocensa's critical accounting policies, including some of the variables, assumptions and sensitivities to which these estimates are subject.

*Materiality*

An economic event is material when due to its nature or quantity and based on the circumstances, its non-disclosure or disclosure could significantly affect the financial decisions of those relying upon such information. Consequently, when preparing Ocensa's financial statements the breakdown of items is made pursuant to the legal

regulation, or if there is no regulation, we consider the items that represent 5% or more of Ocensa's total assets, current assets, total liabilities, current liabilities, working capital, equity and income, as appropriate. Items with lesser value are included if they may contribute to a better interpretation of the financial information.

*Cash and cash equivalents*

Cash and cash equivalents comprise money that is available as cash on hand or bank deposits, plus highly-liquid short-term investments. Ocensa's short-term investments represent rights that it has acquired as a result of carrying out its principal business activities. Ocensa enters into such investments in order to maintain liquidity and meet applicable commercial and legal requirements. In accordance with Ocensa's internal policies applicable to liquidity surpluses, these shall be invested through a fiduciary trust.

*Inventories*

Inventories are appraised at the lesser of either the acquisition cost or market value. If required, provisions are created. Inventories are intended exclusively for the maintenance of Ocensa's pipeline system. Ocensa's current inventory comprises consumables used during regular operations, and its non-current inventory comprises spare parts used to maintain its assets.

Provisions for obsolescence are determined through inventory rationalization analyses, taking into account materials that are not being used and are not relevant to Ocensa's current operations. These analyses also consider the importance of the equipment and inventory rotation.

*Properties, plant, and equipment*

Property, plant and equipment are depreciated by following the linear method during the estimated useful life. Technical useful lives are revised annually considering reasons such as: Additions or improvements (upon replacement of parts or critical components for asset operation), technological advances, obsolescence or other factors. The effect of these changes are recognized as a change in accounting estimate from the date of change. Depreciation of assets starts when they are under conditions of use.

The useful life is determined under foreseen asset use criteria, its expected physical wear and tear, technical or commercial obsolescence, and legal limits or restrictions of asset use.

The estimated useful lives range between the following ranks:

| | |
|---|---|
| Ducts, networks and lines | 10 – 59 years |
| Buildings | 19 – 55 years |
| Transportation equipment | 7 – 46 years |
| Fluvial equipment | 5 – 20 years |
| **Others:** | |
| Furniture and Appliances | 1 – 29 years |
| Office equipment | 1 – 26 years |
| Telecommunications equipment | 2 – 22 years |
| Cars and trucks | 7 – 23 years |
| Leasing vehicles | 1 – 3 years |

Land is recorded independently from buildings or facilities and has an indefinite life; therefore, it is not subject to depreciation. The useful life of leased assets depends on contract duration.

Depreciation methods and useful lives are reviewed annually and adjusted if required. Leasehold improvements are depreciated at the lower amount between the lease term and the useful life of the improvement.

Ocensa records profit or loss from the sale or disposal of properties, plant, and equipment within its income statement for the year in which the transaction occurs. Normal disbursements for maintenance and repairs are recorded under expenses. Significant expenses that improve efficiency or extend useful life are capitalized.

Ocensa's crude oil pipeline system's line fill equivalent is 2,615,312 barrels, as of December 31, 2018. Considering that the crude oil pipeline is essential for the operations of the income generating unit and not available to third parties for commercial use, it has been depreciated to the equivalent of the system's useful life.

*Assets Value Impairment*

In order to assess the recoverability of tangible assets and intangible assets, Ocensa carrying value is compared to the value recoverable thereof at least on the period closing date or earlier in the event of identifying indications of asset impairment.

To analyze the impairment, assets are grouped in cash generating units (CGU), provided that such assets individually considered do not generate any cash flows which, to a great extent, are independent from those generated by other assets or CGU. Grouping assets in various CGU implies professional judgment and taking into consideration, among other parameters, business segments.

The Company has one single cash generating unit (CGU), corresponding to the crude oil transport system.

*Labor obligations*

Ocensa records financial liabilities that originate from existing contractual relationships with its employees. At the end of each financial period these liabilities are adjusted to determine an amount per employee based on the applicable legal requirements.

*Taxes, liens and encumbrances*

Ocensa's provision for current income tax is calculated at the official rates using the accrual method, based on presumptive income or earnings before income tax (ordinary income), whichever is higher, adjusted to the permanent difference with taxable net profit. Current income tax is presented net, after deducting advance payments and amounts withheld in accordance with Colombian law. For purposes of this offering memorandum, income tax refers to the CIT in Colombia.

The effects of differences over time that require the payment of more or less income tax during the current year are recorded as a deferred tax credit or debit, respectively, as long as there is a reasonable expectation that such differences will be reversed and enough taxable income will be generated during the financial year for the differences to be reversed.

*Foreign currency transactions*

The exchange risk management is framed-up on the principle that the peso/dollar exchange rate is subject to highly-volatile and unpredictable changes. In this sense, the objective of hedge strategies defined by the Company is to mitigate movements in those variables upon the use of derivative instruments acquired in financial markets. The exchange rate risk refers to economic effects resulting from fluctuations of the exchange rate which the Company is exposed to. In the case of Oleoducto Central S.A., most revenues from services rendered are computed and collected in United States dollars; however, some expenses and all tax obligations are paid in Colombian pesos as the Company operates in Colombia. For this reason, Company's cash flows are exposed to peso/US dollar fluctuations in the exchange rate. For that purpose, Oleoducto Central S.A. uses hedge operations upon contracting derivative instruments, mainly Forwards, aiming to mitigate the effects that, upon peso/dollar movements, are originated in respect of the budget of expenses in pesos and tax obligations not exceeding one year. The Colombian peso to U.S. dollar exchange rates as of December 31, 2018 and 2017, June 30, 2018 and 2017 and December 31, 2017, and 2016 were Ps$3,249.75, Ps$2,984.00, Ps$2,930.80, Ps$3,038.26, Ps$2,984.00 and Ps$3,000.71, respectively, per US$1.00. The following table sets forth the value of Ocensa's assets and liabilities held in foreign currencies, which Ocensa records under their equivalent in Colombian pesos.

| | As of December 31, | | As of December 31, | | As of June 30, | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2018 | 2017 | 2018 | 2017 |
| | (in millions of U.S. dollars) | | | | | |
| Cash and cash equivalents | $13.9 | $5.2 | $12.3 | $13.9 | $21.1 | $5.1 |
| Accounts receivable | 17.5 | 17.9 | 13.2 | 17.5 | 53.8 | 63.9 |
| Other assets | 1.6 | 4.1 | 0.7 | 1.6 | 2.5 | 2.7 |
| **Total foreign currency assets** | **33.0** | **27.2** | **26.2** | **33.0** | **77.4** | **71.7** |
| Suppliers | (54.2) | (120.6) | (51.1) | (54.2) | (43.8) | (66.4) |
| Income taxes | (170.7) | (165.9) | (105.1) | (170.7) | - | - |
| Other financial liabilities | - | - | - | - | - | (0.7) |
| Debts and loans | (0.2) | (0.2) | - | (0.2) | (0.1) | (0.2) |
| Provisions | (31.3) | (24.6) | (45.2) | (31.3) | (32.5) | (41.0) |
| Advances received from third parties | (0.5) | (0.4) | (0.4) | (0.5) | (0.5) | (0.4) |
| **Total foreign currency liabilities** | **(256.8)** | **(311.7)** | **(201.8)** | **(256.8)** | **(76.9)** | **(108.7)** |
| **Foreign currency assets (liabilities), net** | **(223.9)** | **(284.5)** | **(175.6)** | **(223.9)** | **0.5** | **(37.0)** |

Solely for the convenience of the reader, Colombian peso amounts as of and for the six months ended December 31, 2018, the six months ended December 31, 2017, the six months ended June 30, 2018, the six months ended June 30, 2017, the years ended December 31, 2017 and 2016 have been converted into U.S. dollars at the rate of Ps$2,930.80, Ps$3,038.26, Ps$3,249.75, Ps$2,984.00 and Ps$3,000.71, respectively, per US$1.00, which corresponds to the representative market rate as of June 30, 2018 and 2017, December 31, 2018, 2017 and 2016, respectively, as certified and reported by the SFC.

*Off-balance sheet arrangements*

For a description of Ocensa's off-balance sheet arrangements, see Notes 18.5 and 18.6 to Ocensa's audited financial statements as of and for the year ended December 31, 2017 and December 31, 2018 included elsewhere in this offering memorandum.

*Revenue and expense recognition*

Ocensa's revenue is mainly derived from hydrocarbon transportation services, recognized in accordance with rules established by the MME, transportation contracts entered into with the initial shippers, and tariffs established for the Port of Coveñas. Revenue also includes revenue from the unloading services provided at Cusiana Station. Costs and expenses are recognized when generated through the accrual method of accounting.

*Net earnings per share*

Net earnings per share are calculated on the basis of the average weighted number of outstanding shares at the time.

*Changes in accounting regulations*

IFRS 9-15

Significant accounting regulations in the last three years include the implementation of IFRS in 2015, specifically the implementation of IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers." These changes were significant because prior to this date, and until December, 2014, Ocensa applied Colombian GAAP in its accounting regulations. For a description of Ocensa's changes in accounting regulations, see Note 6 to Ocensa's audited financial statements, "New Standards and Regulatory Changes," as of and for the year ended December 31, 2017 included elsewhere in this offering memorandum."

IFRS 16

This standard issued in January 2016 establishes the principles for the recognition, measurement, presentation and disclosures of leases. The new standard replaces IAS 17 Leases, IFRIC 4 "Determination of whether an agreement contains a lease," the SIC-15 "Operating Leases - Incentives" and SIC -27 "Evaluation of the essence of the Transactions that Adopt the Legal Form of a Lease.

The standard presents a control model for the identification of leases and their treatment in the financial statements for lessees, separating an asset identified as the object of the lease and the services corresponding to the service contract as such, the Company could recognize more assets and liabilities, mainly derived from the rental of construction equipment and offices. The main changes for the lessee lie in the elimination of the differentiation of financial and operating leases and instead a single lease model is recognized in which all the leases are recognized in the statement of financial position as an asset of right of use and a lease liability, with the exception of leases in which the underlying asset is of low value and short-term leases. Additionally, the interest expense of the liability and the depreciation expense of the recognized asset must be recognized separately in the income statement.

The lessees must make reclassifications of the liability on certain occasions (e.g. a change in the lease period, changes in the future lease flows). These reclassifications of the liability will generally be recorded as an adjustment to the right of use of the asset. The new standard does not bring major changes in recognition, measurement and disclosure for landlords.

For the lessor, leases continue to be classified as financial and operating leases. The standard will be effective for annual periods beginning on or after January 1, 2019 with limited possibilities for early implementation. The Company does not expect to adopt the mentioned norm in advance, and it is currently evaluating the potential impacts that the mentioned norm will generate.

The Company has begun a potential assessment of the impacts on its financial statements. The most significant impact identified to date is the recognition of assets and liabilities of its operating lease agreements, especially properties used in the operation of offices, vessels used in the operation of the port in Coveñas, use of helicopters in the operation and the right to use a gas pipeline. In addition, the nature of the expenses corresponding to operating lease contracts as a lessee will change with IFRS 16, from lease expenses to charges for depreciation of rights to use the asset and financial expenses in lease liabilities

The Company will apply IFRS 16 as of January 1, 2019, using the modified retrospective approach, recognizing an asset for right of use at the date of initial application for the leases previously classified as an operating lease under IAS 17, which will be equal to the value of the lease liability.

The Company has decided to use the exemptions allowed by the leasing standard for contracts in which the execution period is less than twelve (12) months and the contracts in which the underlying asset is considered to be of low value. The Company has evaluated the estimated impact that the initial application of IFRS 16 will have on its consolidated financial results as of January 1, 2019, as follows: the final impacts of adoption may vary, since the new accounting policies and estimates are subject to change until the Company presents its first financial statements in 2019.

The Company will recognize new assets and liabilities derived from its operating leases mainly for the following types of assets:

- Property
- Ships
- Machinery and equipment
- Helicopters
- Vehicles
- Land

In the case of lands, the expiration date will be defined over the lower between the term of the contract and the useful life of the pipeline.

**Principal Factors Affecting Ocensa's Results of Operations**

Ocensa's results of operations are primarily affected by the following factors:

***Crude Oil Transportation Tariffs***

Ocensa primarily derives its revenue from:

- Tariffs charged to crude oil shippers for the transport of crude oil under "ship and pay" contracts through the Ocensa Pipeline, which Ocensa operates pursuant to a long-term concession agreement with the Colombian Government with an initial duration of 50 years commencing in March 1996, subject to renewal for additional 20-years terms thereafter; and

- Tariffs Ocensa charges for the use of facilities at the Port of Coveñas, pursuant to a long-term concession agreement with the Colombian Government with an initial duration of 20 years commencing in December 1996, and which was renewed in 2016 for another 20 years.

The "ship and pay" tariffs charged for the transportation of crude oil through the Ocensa Pipeline are calculated based on the methodology established by the MME and are structured to remunerate the transporter at a determined rate of return, with additional returns permitted for improvements and expansions to pipelines. With respect to the Port of Coveñas, shippers pay a different tariff depending on whether they export through TLU-2 and TLU-3. Currently, transportation tariffs are revised every four years (adjusted annually for inflation), providing Ocensa with predictable time horizons in which tariffs are fixed. Current transportation tariffs are expected to be valid until June 30, 2019.

In compliance with MME 2014 Resolution and Resolution 72145 of 2014, on March 12, 2019, Ocensa filed before the Hydrocarbons Director of the MME, the document through which the new tariffs for the period between 2019 and 2023 are supported. This new tariff period shall commence on July 1, 2019.

However, in the event the new tariffs have not been set by July 1, 2019, Ocensa will continue to use the current tariffs until the tariffs for the period between 2019 and 2023 have been set. Pursuant to regulations currently in effect, tariff rates for the transport of crude oil along segments of a pipeline resulting from expansion projects, including the recently completed Project Potencia 135, may be established, under certain circumstances, by commercial agreements between the parties and these tariffs will be applicable to all shippers that utilize the additional transportation capacity resulting from the expansion. For a description of "ship or pay" tariffs, see "Business—Transportation Agreements—"Ship or Pay" contracts."

All other factors remaining constant, an increase or decrease by the MME in the tariffs Ocensa charges its customers would result in a related increase or decrease in Ocensa's results of operations.

The following table sets forth the established tariffs for each segment of the Ocensa Pipeline and for the Port of Coveñas for the periods indicated:

| | **For the following periods** | | |
|---|---|---|---|
| | **July 1, 2018 – June 30, 2019** | **July 1, 2017 – June 30, 2018** | **July 1, 2016 – June 30, 2017** |
| | | *(in US$/bbl)* | |
| Segment 0 | 0.5058 | 0.4923 | 0.4722 |
| Segment I | 0.5489 | 0.5387 | 0.5271 |
| Segment II | 3.4877 | 3.4185 | 3.3347 |
| Segment III | 3.0117 | 2.9533 | 2.8838 |
| Port of Coveñas | 0.5086 | 0.5086 | 0.5086 |

***Crude Oil Transportation Volumes***

Ocensa's results of operations are directly impacted by the volume of crude oil Ocensa transports via the Ocensa Pipeline and that Ocensa transfers, stores and loads at the Port of Coveñas. Pursuant to Ocensa's Shareholders' Agreement and transportation agreements, each of Ocensa's initial shippers and their assignees has the right to transport a fixed volume of crude oil measured in number of barrels per day. In the event the aggregate contracted capacity of Ocensa's shippers is less than the effective capacity of the Ocensa Pipeline, Ocensa may offer and allocate the excess capacity among other customers and the initial shippers. In the case of third parties, these services are provided in accordance with Ocensa's transporter's manual and applicable regulations.

In addition, pursuant to Colombian regulations, the Colombian Government holds a preferential right to transport up to 20% of the total transport capacity of crude oil pipelines to transport the Colombian Government's share of crude oil production, for which Ocensa receives compensation at the applicable tariff rate.

Under the "ship and pay" module and all other factors remaining constant, an increase or decrease in the volume of crude oil transported via the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas would result in a related increase or decrease in Ocensa's results of operations.

The table below sets forth the aggregate volume of crude oil transported via the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas for the periods indicated:

| | **For the year ended December 31,** | | | | **For the six months ended December 31,** | | | | **For the six months ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | | **2016** | | **2018** | | **2017** | | **2018** | | **2017** | |
| | *Transported Capacity* | *Effective Capacity* | *Transported Capacity* | *Effective Capacity* | *Transported Capacity* | *Effective Capacity* | *Transported Capacity* | *Effective Capacity* | *Transported Capacity* | *Effective Capacity* | *Transported Capacity* | *Effective Capacity* |
| Segment 0 ..... | 15.9 | 198.0 | 17.5 | 198.0 | 14.8 | 198.0 | 16.1 | 198.0 | 14.1 | 198.0 | 15.6 | 198.0 |
| Segment I ..... | 308.4 | 745.0 | 261.8 | 622.0 | 363.8 | 745.0 | 327.8 | 745.0 | 370.1 | 745.0 | 288.6 | 745.0 |
| Segment II ..... | 580.6 | 745.0 | 565.0 | 622.0 | 641.0 | 744.0 | 596.5 | 745.0 | 633.1 | 745.0 | 565.2 | 745.0 |
| Segment III ..... | 341.9 | 550.0 | 350.8 | 415.0 | 387.9 | 550.0 | 361.8 | 550.0 | 372.0 | 550.0 | 321.7 | 550.0 |
| Port of Coveñas ..... | 409.0 | N/A | 370.3 | N/A | 386.4 | N/A | 385.2 | N/A | 343.9 | N/A | 432.7 | N/A |

*Composition of Transported Crude Oil*

The Ocensa Pipeline is currently capable of handling crude oil of different qualities, ranging from light crude oil and intermediate blends to heavy crude oil. The transport of higher quantities of heavy crude oil in relation to light or intermediate crude oils, however, reduces the effective capacity of the Ocensa Pipeline resulting, in a lower volume of crude oil transported via the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas. In the event an increase in the quantity of heavy crude oil delivered or to be delivered through the Ocensa Pipeline reduces the effective capacity of the Ocensa Pipeline to below the aggregated contracted capacity of Ocensa's shippers, Ocensa has the right, for the duration of the reduction in effective capacity, to reduce the contracted capacity as agreed in their responsive transportation agreements.

To the extent the percentage of heavy crude oil to light/intermediate crude oils transported via the Ocensa Pipeline reduces effective capacity of the Ocensa Pipeline and consequently the volume of crude oil transported by Ocensa's customers, Ocensa's results of operations may be negatively affected.

The table below sets forth the average ratio of heavy crude oil to light/intermediate crude oils transported via the Ocensa Pipeline for the years presented:

| | **For the year ended December 31,** | | **For the six months ended December 31,** | | **For the six months ended June 30,** | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2018** | **2017** | **2018** | **2017** |
| Heavy Crude Oil ..... | 60.13% | 69.06% | 53.47% | 60.00% | 52.70% | 63.30% |
| Light/Intermediate Crude Oils . | 39.87% | 30.94% | 46.53% | 40.00% | 47.30% | 36.70% |

***Ability to Obtain Additional Financing***

The implementation of Ocensa's strategy will require additional investment and result in increased capital requirements. As with other companies in its industry, Ocensa requires capital investment to satisfy its capital expenditure requirements and remain competitive.

Additionally, Ocensa may experience an increase in its operating costs and administrative expenses, due to, among other things:

- expenses related to Ocensa's expansion,
- a labor shortage,
- increased cost of equipment, and
- Ocensa's growth, requiring that Ocensa obtain additional funding.

Ocensa intends to utilize bank financings, cash generated by Ocensa's operations and issuances of securities in the capital markets to meet these needs, but there can be no assurance that adequate funding will be available or available to us on favorable terms.

***Colombian Macroeconomic Environment***

As all of Ocensa's operations are in Colombia, Ocensa's results of operations and financial condition are also affected by Colombia's general economic conditions.

The following is a summary of key economic indicators for Colombia:

- From 2015 to 2018, Colombia enjoyed real GDP growth every period. Real GDP grew by 3.1% in 2015, 2.1% in 2016, 1.4% in 2017 and 2.7% in 2018.
- Inflation, as measured by the change in the consumer price index ("Consumer Price Index"), was 6.8% in 2015, 5.7% in 2016, 4.1% in 2017 and 3.2% in 2018.
- The Colombian Central Bank's interest rate as of the end of each year was 5.75% in 2015, 7.5% in 2016, 4.75% in 2017 and 4.25% in 2018.

Colombia is currently rated investment grade by Moody's (Baa2 with a negative outlook), S&P (BBB- with a stable outlook) and Fitch (BBB with a stable outlook). Credit ratings are not a recommendation to buy, sell or hold securities and may be subject to downward revision, suspension or withdrawal at any time by the relevant rating agencies. Each rating should be evaluated independently of any other rating.

The following table sets forth information regarding additional economic indicators for Colombia:

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Population (million) | 48.2 | 48.7 | 49.1 |
| Annual GDP at 2005 constant prices (billions of Ps$) | 557,600 | 569,000 | 579,100 |
| Annual real GDP growth | 3.0% | 2.1% | 1.4% |
| Inflation | 6.8% | 5.7% | 4.1% |
| Unemployment | 8.9% | 9.2% | 9.4% |
| Central Bank of Colombia's interest rate | 5.75% | 7.5% | 4.75% |

*Sources:* The DANE, the Colombian Central Bank, the Ministry of Finance and Public Credit

**Description of Principal Income Statement Line Items**

The following is a brief description of the principal line items that comprise Ocensa's statement of operations:

***Revenues from ordinary activities***

Revenues from ordinary activities comprises primarily income Ocensa derives from the transportation of crude oil along the Ocensa Pipeline, transfer, storage and loading of crude oil for export at the Port of Coveñas and other income related to services such as unloading facilities, dilution of crude oil and third party operating contracts.

In connection with its provision of crude oil transportation services, Ocensa enters into transportation agreements under two different modules:

- a "ship or pay" module, pursuant to which Ocensa receives monthly contractual payments irrespective of whether a shipper effectively delivers crude oil to Ocensa for transportation along the Ocensa Pipeline and Ocensa is obligated to reserve transportation capacity only upon payment from a shipper; and

- a "ship and pay" module, pursuant to which Ocensa is required to make available to each shipper a specified contracted capacity irrespective of whether a shipper transports a volume of crude oil that is lower than the shipper's contracted capacity and Ocensa receives payment based only upon the actual volume of crude oil transported.

In 2018, "ship and pay" contracts accounted for 76% of Ocensa's consolidated revenues and "ship or pay" contracts accounted for 17.3% of Ocensa's consolidated revenues. In 2017, "ship and pay" contracts accounted for 87.9% of Ocensa's consolidated revenues and "ship or pay" contracts were executed only in the second half of 2017 in connection with the Project Potencia 135 expansion.

***Cost of Sales***

The costs of sales include mainly the fixed costs, maintenance and variables and other costs incurred by Ocensa in relation to the provision of its services.

***Operating and Administrative Expenses***

Operating and administrative expenses comprise primarily employee compensation as well as maintenance expenses and expenses Ocensa incurs in connection with the provision of its services.

***Other Operating Income (Expenses), Net***

Other income/net operating expenses include income and expenses not related to sales costs or operating and administrative expenses.

***Financial Income***

Financial income comprises primarily income generated as a result of the application of cash and cash equivalents in short-term investments.

***Financial Expenses***

Financial expenses comprise primarily interest payments made in connection with Ocensa's indebtedness.

***Exchange Profit (Loss)***

Exchange profit (loss) comprises gains earned or losses in relation to Ocensa's foreign currency-denominated assets and liabilities incurred in connection with exchange rate variations between the U.S. dollar and the Colombian peso.

***Other Income (Expenses)***

Other income (expenses) comprise income generated or expenses incurred in connection with activities unrelated to the transportation of crude oil, including the recovery of equipment and materials previously committed to projects, the establishment or reversal of provisions recorded in connection with probable liabilities and certain expenses incurred in connection with derivative instruments.

***Income Tax Expense***

Income tax expense comprises taxes paid to the Colombian Government on the revenue Ocensa earns in a fiscal year. Until fiscal year 2016, Ocensa was subject to income tax at the Colombian statutory CIT rate of 25% and the statutory special income tax called CREE tax at a rate of 9%, plus a surcharge on CREE tax at 5% for fiscal year 2015. In 2016, income tax applied at 25% and CREE applied at 9% with a CREE surcharge at 6%. In 2017, CREE was repealed and income tax applied at 34% in 2017 with a 6% surcharge. In 2018, income tax expense applies at 33% with a 4% surcharge. For 2019, based on the current tax framework, income tax applies at 33% with a 0% surcharge. The 2017 and 2018 income tax surcharge only applies on taxpayers' net income in excess of US$266.7 million.

Ocensa was subject to a wealth tax from 2015 through 2017. This taxed levied entities with a net wealth of Ps$1,000,000,000 as of January 1, 2015. This tax is no longer applicable, as it was only in force until 2017.

**Results of Operations**

The following discussion of Ocensa's results of operations is based on Ocensa's audited financial statements prepared in accordance with NCIF. In the following discussion, references to increases or decreases in any year are made by comparison with the corresponding prior year, except as the context otherwise indicates.

***Six Months Ended December 31, 2018 Compared to Six Months Ended December 31, 2017***

The following table sets forth Ocensa's financial information for the six months ended December 31, 2018 and December 31, 2017.

| | For the Six Months Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **% Change** |
| | *(in millions of US$, unless otherwise indicated)* | | |
| **Income statement data:** | | | |
| Revenues from ordinary activities | $726.4 | $718.1 | 1.1% |
| Cost of sales | (158.6) | (138.0) | 14.9% |
| Operating and administrative expenses | (22.5) | (20.7) | 8.7% |
| Other operating income (expenses), net | (2.3) | (50.0) | (95.4)% |
| **Operating profit** | 543.0 | 509.4 | 6.6% |
| **Financial costs, net:** | | | |
| Financial expenses | (10.0) | (9.1) | (9.9)% |
| Exchange profit (loss) | 4.9 | 1.3 | 276.9% |
| Other income (expenses), net | 0.6 | (2.6) | n.m. |
| **Profit before income tax** | 538.5 | 499.0 | 7.9% |
| Income tax expense | (182.7) | (207.4) | (11.9)% |
| **Net profit** | 355.8 | 291.7 | 22.0% |

*Revenues from ordinary activities*

Revenues from ordinary activities increased by 1.1% to US$726.4 million in the six months ended December 31, 2018 from US$718.1 million in the six months ended December 31, 2017, primarily as a result of:

- an increase in the volume of oil transported along the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas. The table below sets forth the average daily volume of crude oil transported along the Ocensa Pipeline and through the Port of Coveñas for the six months ended December 31, 2018 and 2017:

| | For the six months ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| | (in kbpd) | |
| Segment 0 | 14.8 | 16.1 |
| Segment I | 363.8 | 327.8 |
| Segment II | 641.0 | 596.5 |
| Segment III | 387.9 | 361.8 |
| Port of Coveñas | 386.4 | 385.2 |

*Cost of sales*

Cost of sales increased by 14.9% to US$158.6 million in the six months ended December 31, 2018 from US$138.0 million in the six months ended December 31, 2017, primarily as a result of higher oil prices according to the Brent pricing classification, which directly impacted the costs arising from the increase in the volumes of crude oil transported along the Ocensa Pipeline.

*Operating and administrative expenses*

Operating and administrative expenses increased by 8.7% to US$22.5 million in the six months ended December 31, 2018, from US$20.7 million in the six months ended December 31, 2017, primarily as a result of the implementation of strategies directed towards making costs and expenses more efficient.

Operating and administrative expenses as a percentage of revenue increased to 3.1% in the six months ended December 31, 2018, from 2.9% in the six months ended December 31, 2017.

*Other operating (income) expenses, net*

Other operating (income) expenses, net decreased to US$2.3 million in the six months ended December 31, 2018, from US$50.0 million in the six months ended December 31, 2017. This decrease in expenses was caused by the provision recorded in 2017 of the tariff process of Project Potencia 135.

*Operating profit*

As a result of the foregoing, Ocensa's operating profit increased by 6.6% to US$543.0 million in the six months ended December 31, 2018, from US$509.4 million in the six months ended December 31, 2017.

As a percentage of revenue, operating profit increased to 74.7% in the six months ended December 31, 2018, from 71.0% in the six months ended December 31, 2017.

*Financial expenses*

Financial expenses increased by 9.9% to US$10.0 million for the six months ended December 31, 2018, from US$9.1 million for the six months ended December 31, 2017, primarily as a result of higher exchange rate difference and higher financial expenses resulting from asset retirement obligations in 2017.

*Exchange profit (loss)*

Ocensa recorded a foreign exchange profit of US$4.9 million for the six months ended December 31, 2018 compared to a US$1.3 million profit for the six months ended December 31, 2017, primarily as a result of a decrease in the value of the U.S. dollar as compared to the Colombian peso, which negatively affected Ocensa's net U.S. dollar-denominated liabilities position.

*Other income (expenses), net*

Other income (expenses), net decreased to US$0.6 million for the six months ended December 31, 2018, from US$(2.6) million for the six months ended December 31, 2017. This decrease in expenses was caused by the provision recorded in 2017 of the tariff process of Project Potencia 135.

*Profit before income tax*

As a result of the foregoing, profit before income tax increased by 7.9% to US$538.5 million in the six months ended December 31, 2018, from US$499.0 million in the six months ended December 31, 2017.

*Income tax expense*

Ocensa's income tax expense decreased by 11.9% to US$182.7 million in the six months ended December 31, 2018, from a current income tax of US$207.4 million in the six months ended December 31, 2017, primarily because in 2018, the Colombian national government issued Law 1943, of which certain substantial aspects were modified. The general rate of income tax applicable to national companies, permanent establishments and foreign entities will be: (i) 33% in 2019, (i) 32% in 2020, (iii) 31% in 2021 and (iv) 30% in 2022 and beyond. For the years 2019 and 2020, the applicable rate for purposes of calculating the income tax under the presumptive income system will be 1.5% of the taxpayer's net worth for the year immediately preceding and as of the year 2021, the applicable rate will be 0%. This law had an impact on deferred tax expense in 2018.

*Net profit*

As a result of the foregoing, net profit increased by 22% to US$355.8million in the six months ended December 31, 2018, or 49.0% of revenue, compared to US$291.7 million in the six months ended December 31, 2017, or 40.6% of revenue.

***Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017***

The following table sets forth Ocensa's financial information for the six months ended June 30, 2018 and June 30, 2017.

| | For the Six Months Ended June 30, | | |
|---|---|---|---|
| | **2018** | **2017** | **% Change** |
| | *(in millions of US$, unless otherwise indicated)* | | |
| **Income statement data:** | | | |
| Revenues from ordinary activities | $674.3 | $606.7 | 11.1% |
| Cost of sales | (138.0) | (122.6) | 12.6% |
| Operating and administrative expenses | (17.9) | (18.7) | (4.3)% |
| Other operating (income) expenses, net | (0.2) | 7.8 | n.m. |
| **Operating profit** | 518.1 | 473.1 | 9.5% |
| **Financial costs, net:** | | | |
| Financial expenses | (8.6) | (8.7) | (1.1)% |
| Exchange profit (loss) | 4.0 | (11.9) | n.m. |
| Other income (expenses), net | 0.4 | (1.3) | n.m. |
| **Profit before income tax** | 513.9 | 451.3 | 13.9% |
| Income tax expense | (200.0) | (190.3) | 5.1% |

| | For the Six Months Ended June 30, | | |
|---|---|---|---|
| **Net profit** | 313.9 | 261.0 | 20.3% |

*Revenues from ordinary activities*

Revenues from ordinary activities increased by 11.1% to US$674.3 million in the six months ended June 30, 2018 from US$606.7 million in the six months ended June 30, 2017, primarily as a result of:

- an increase in the volume of oil transported along the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas. The table below sets forth the average daily volume of crude oil transported along the Ocensa Pipeline and through the Port of Coveñas for the six months ended June 30, 2018 and 2017:

| | For the six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | (in kbpd) | |
| Segment 0 | 14.1 | 15.6 |
| Segment I | 370.1 | 288.6 |
| Segment II | 633.1 | 565.2 |
| Segment III | 372.0 | 321.7 |
| Port of Coveñas | 343.9 | 432.7 |

*Cost of sales*

Cost of sales increased by 12.6% to US$138.0 million in the six months ended June 30, 2018 from US$122.6 million in the six months ended June 30, 2017, primarily as a result of higher oil prices according to the Brent pricing classification, which directly impacted the costs arising from the increase in the volumes of crude oil transported along the Ocensa Pipeline.

*Operating and administrative expenses*

Operating and administrative expenses decreased by 4.3% to US$17.9 million in the six months ended June 30, 2018, from US$18.7 million in the six months ended June 30, 2017, primarily as a result of the implementation of strategies directed towards making costs and expenses more efficient.

Operating and administrative expenses as a percentage of revenue decreased to 2.6% in the six months ended June 30, 2018, from 3.1% in the six months ended June 30, 2017.

*Other operating (income) expenses, net*

Other operating (income) expenses, net decreased to US$ 0.2 million in the six months ended June 30, 2018, from US$7.8 million in the six months ended June 30, 2017. This decrease in expenses was caused by an indemnity Ocensa received pursuant to a contract that regulated the payment of the restitution of the negative balance for the line filling. This indemnity corresponded to 442,330 barrels of a total volume of 3,057,000 barrels.

*Operating profit*

As a result of the foregoing, Ocensa's operating profit increased by 9.5% to US$518.1 million in the six months ended June 30, 2018, from US$473.1 million in the six months ended June 30, 2017.

As a percentage of revenue, operating profit decreased to 76.8% in the six months ended June 30, 2018, from 78.1% in the six months ended June 30, 2017.

*Financial expenses*

Financial expenses decreased by 1.1% to US$8.6 million for the six months ended June 30, 2018, from US$8.7 million for the six months ended June 30, 2017, primarily as a result of higher interest generated in cash management.

*Exchange profit (loss)*

Ocensa recorded a foreign exchange gain of US$4.0 million for the six months ended June 30, 2018 compared to a US$11.9 million loss for the six months ended June 30, 2017, primarily as a result of a decrease in the value of the U.S. dollar as compared to the Colombian peso, which negatively affected Ocensa's net U.S. dollar-denominated liabilities position.

*Other income (expenses), net*

Other income (expenses), net increased to US$0.4 million for the six months ended June 30, 2018, from US$(1.3) million for the six months ended June 30, 2017.

*Profit before income tax*

As a result of the foregoing, profit before income tax increased by 13.9% to US$513.9 million in the six months ended June 30, 2018, from US$451.3 million in the six months ended June 30, 2017.

*Income tax expense*

Ocensa's income tax expense increased by 5.1% to US$200.0 million in the six months ended June 30, 2018, from a current income tax of US$190.3 million in the six months ended June 30, 2017, primarily as a result of the increase in Ocensa's taxable income.

*Net profit*

As a result of the foregoing, net profit increased by 20.3% to US$313.9 million in the six months ended June 30, 2018, or 46.6% of revenue, compared to US$261.0 million in the six months ended June 30, 2017, or 43.0% of revenue.

***Year Ended December 31, 2017 Compared to Year Ended December 31, 2016***

The following table sets forth Ocensa's financial information for the years ended December 31, 2017 and 2016.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **% Change** |
| | *(in millions of US$, unless otherwise indicated)* | | |
| **Income statement data:** | | | |
| Revenues from ordinary activities | 1,324.8 | 1,213.8 | 9.1% |
| Cost of sales | (260.7) | (213.8) | 21.9% |
| Operating and administrative expenses | (39.4) | (39.1) | 1.0% |
| Other operating (income) expenses, net | (42.2) | (4.9) | 761.2% |
| **Operating profit** | **982.5** | **956.0** | 2.8% |
| **Financial costs, net:** | | | |
| Financial expenses | (22.5) | 11.4 | 297.4% |
| Exchange profit (loss) | (10.5) | (6.9) | 52.2% |
| Other income (expenses), net | 0.7 | (0.3) | n.m. |
| **Profit before income tax** | **950.3** | **960.2** | (1.0)% |
| Income tax expense | (397.6) | (408.3) | (2.6)% |
| **Net profit** | **552.6** | **551.9** | 0.1% |

*Revenues from ordinary activities*

Revenues from ordinary activities increased by 9.1% to US$1,324.8 million in 2017 from US$1,213.8 million in 2016, primarily as a result of:

- An increase in the volume of oil transported along the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas. The table below sets forth the average daily volume of crude oil transported along the Ocensa Pipeline and through the Port of Coveñas in 2017 and 2016:

| | For the year ended December 31, | |
|---|---|---|
| | **2017** | **2016** |
| | (in kbpd) | |
| Segment 0 | 15.9 | 17.5 |
| Segment I | 308.4 | 261.8 |
| Segment II | 580.6 | 565.0 |
| Segment III | 341.9 | 350.8 |
| Port of Coveñas | 409.0 | 370.3 |

- Other operating revenues increased 2.5% mainly due to higher volumes of dilution in the facilities of Cusiana.

*Cost of sales*

Cost of Sales increased by 21.9% to US$260.7 million in 2017, from US$213.8 million in 2016, primarily as a result of the increase in crude oil transported along the Ocensa Pipeline and transferred, stored and loaded at the Port of Coveñas, which resulted in an increase in associated costs, including:

- Operation and maintenance costs, which increased to US$80.7 million in 2017, from US$76.4 million in 2016 as a result of the new stations related to Project Potencia 135; and

- Variable costs associated with an increase in crude oil transported and heavier and more viscous crudes being transported.

That increase was partially offset by lower energy costs associated with operational optimizations.

Cost of sales as a percentage of revenue increased to 19.7% in 2017, from 17.6% in 2016, principally driven by new stations.

*Operating and administrative expenses*

Operating and administrative expenses increased by 1% to US$39.4 million in 2017, from US$39.1 million in 2016 due to variable changes relating to inflation, changes in the exchange rate and salaries.

*Other operating (income) expenses, net*

Other operating (income) expenses, net increased by 761.2% to US$42.2 million in 2017, from US$4.9 million in 2016, primarily as a result of a US$ 50.0 million provision for an in arbitration process against Ocensa by Project Potencia 135 contracts.

*Operating profit*

As a result of the foregoing, Ocensa's operating profit increased by 2.8% to US$982.5 million in 2017, from US$956.0 million in 2016.

As a percentage of revenue, operating profit decreased to 74.2% in 2017, from 78.8% in 2016.

*Financial expenses*

This amount increased to US$22.5 million in 2017, from US$11.4 million in 2016, primarily as a result of Project Potencia 135 becoming operational in 2017 that implied assuming as financial expense the interests of the corporate bond that in previous years was taken as the highest cost of the project.

*Exchange profit (loss)*

Ocensa recorded a foreign exchange loss of US$10.5 million in 2017 compared to US$6.9 million in 2016, primarily as a result of an increase in the value of the U.S. dollar as compared to the Colombian peso, which negatively affected Ocensa's net U.S. dollar-denominated liabilities position.

*Other income (expenses), net*

Ocensa recorded other income, net of US$0.7 million in 2017 compared to other income, net of US$(0.3) million in 2016, primarily as a result of a forwards contract in 2016 that generated profits for US$16.1 million.

*Profit before income tax*

As a result of the foregoing, profit before income tax decreased by 1.0% to US$950.3 million in 2017, from US$960.2 million in 2016.

*Income tax expense*

Ocensa's income tax expense decreased by 2.6% to US$397.6 million in 2017, from a current income tax of US$408.3 million in 2016, primarily as a result of the increase in Ocensa's taxable income.

*Net profit*

As a result of the foregoing, net profit increased by 0.1%, to US$552.6 million in 2017, or 41.7% of revenue, compared to US$551.9 million in 2016, or 45.5% of revenue.

**Liquidity and Capital Resources**

Ocensa's principal cash requirements consist of the following:

- capital expenditures in connection with Ocensa's expansion projects;
- working capital requirements;
- dividend payments to Ocensa's shareholders; and
- tax payments.

Ocensa's principal sources of liquidity have traditionally consisted of the following:

- revenue Ocensa derives from the transportation of crude oil via the Ocensa Pipeline;
- revenue Ocensa derives from the transfer, storage and loading of crude oil at the Port of Coveñas; and
- proceeds from financings.

In 2018, cash flow generated by operations was used primarily to service Ocensa's outstanding debt obligations, for working capital requirements and payment of dividends. As of December 31, 2018, Ocensa's consolidated cash and cash equivalents totaled US$239.4 million.

***Cash Flows***

The following table sets forth the elements of Ocensa's cash flows for the years presented.

| | For the year ended December 31, | | For the six months ended December 31, | | For the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2018** | **2017** | **2018** | **2017** |
| Cash flows provided by operating activities ..... | $681.6 | $670.3 | $575.7 | $526.1 | $157.3 | $158.0 |
| Cash flows used in investing activities .... | (115.6) | (252.1) | (42.9) | (52.0) | (60.6) | (66.1) |
| Cash flows used in financing activities ... | (400.9) | (677.0) | (323.4) | (270.6) | (301.2) | (130.4) |
| **Increase (decrease) in cash and cash equivalents** ..... | **165.1** | **(258.9)** | **209.5** | **203.6** | **(204.5)** | **(38.5)** |
| Effect of the variation in change rate on cash in foreign currency | (0.6) | 11.3 | (0.8) | 1.1 | (1.2) | (1.7) |
| Cash and cash equivalents at the beginning of the period..... | 71.8 | 319.4 | 30.7 | 31.7 | 236.4 | 71.8 |
| **Cash and cash equivalents at the end of the period** ..... | **236.4** | **71.8** | **239.4** | **236.4** | **30.7** | **31.7** |

*Cash flows provided by operating activities*

Cash flows provided by operating activities increased by US$49.6 million, or 9.4%, to US$575.7 million in the six months ended December 31, 2018 compared to US$526.1million in the six months ended December 31, 2017. This increase was mainly due to:

- the net effect of higher revenues received from a higher volume of oil transported, higher costs generated by heavier volumes and taxes paid from previous periods;
- a tax payment decrease to US$11.4 million in the six months ended December 31, 2018 compared to US$11.8 million in the six months ended December 31, 2017;
- a US$17.3 million decrease in Ocensa's accounts receivable in the six months ended December 31, 2018 compared to US$110.5 million in the six months ended December 31, 2017; and
- a US$6.1 million decrease in payments to suppliers in the six months ended December 31, 2018 compared to US$18.7 million in the six months ended December 31, 2017, primarily as a result of Ocensa's payment policies to suppliers who have been decreasing their rotation.

Cash flows provided by operating activities decreased by US$0.7 million, or (0.4)%, to US$157.3 million in the six months ended June 30, 2018 compared to US$158.0 million in the six months ended June 30, 2017. This decrease was mainly due to:

- the net effect of higher revenues received from a higher volume of oil transported, higher costs generated by heavier volumes and taxes paid from previous periods;
- a tax payment increase to US$452.2 million in the six months ended June 30, 2018 compared to US$436.6 million in the six months ended June 30, 2017 related to the increase in profits;

- a US$44.4 million increase in Ocensa's accounts receivable in the six months ended June 30, 2018 compared to US$41.5 million in the six months ended June 30, 2017; and

- a US$19.4 million decrease in payments to suppliers in the six months ended June 30, 2018 compared to US$18.9 million in the six months ended June 30, 2017, primarily as a result of Ocensa's payment policies to suppliers who have been decreasing their rotation.

Cash flows provided by operating activities increased by US$11.3 million, or 1.7%, to US$681.6 million in 2017 compared to US$670.3 million in 2016. This increase was mainly due to:

- the net effect of higher revenues received from a higher volume of oil transported, higher costs generated by heavier volumes and taxes paid from previous periods; maintaining the same trend in 2015; and

- a US$68.9 million increase in Ocensa's accounts receivable in 2017 compared to a US$37.3 million decrease in its accounts receivable in 2016.

*Cash flows used in investing activities*

Cash flows used in investing activities decreased by US$9.1 million, or (17.5)%, to US$42.9 million in the six months ended December 31, 2018 compared to US$52.0 million in the six months ended December 31, 2017. This decrease was mainly due to:

- the finalization and capitalization of Project Potencia 135 in the first half of 2017; and

- lower investment in capitalizable maintenance and other commercial projects.

Cash flows used in investing activities decreased by US$5.5 million, or (8.4)%, to US$60.6 million in the six months ended June 30, 2018 compared to US$66.1 million in the six months ended June 30, 2017. This decrease was mainly due to:

- the finalization and capitalization of Project Potencia 135 in the first half of 2017; and

- lower investment in capitalizable maintenance and other commercial projects.

Cash flows used in investing activities decreased by US$136.5 million, or (54.1)%, to US$115.6 million in 2017 compared to US$252.1 million in 2016. This decrease was mainly due to:

- the finalization and capitalization of Project Potencia 135 in the first half of 2017; and

- lower investment in capitalizable maintenance and other commercial projects.

*Cash flows used in financing activities*

Cash flows used in financing activities increased by US$52.8 million, or 19.5%, to US$323.4 million in the six months ended December 31, 2018 compared to US$270.6 million in the six months ended December 31, 2017. This increase was mainly due to:

- Higher payment of dividends in 2018 decreed in the third quarter of 2018.

Cash flows used in financing activities increased by US$170.8 million, or (131.0)%, to US$301.2 million in the six months ended June 30, 2018 compared to US$130.4 million in the six months ended June 30, 2017. This increase was mainly due to:

- a higher payment of dividends in 2018 decreed in the first quarter of 2018.

Cash flows used in financing activities decreased by US$276.1 million, or (40.8)% to US$400.9 million in 2017 compared to US$677.0 million in 2016. This decrease was mainly due to:

- a higher payment of dividends in 2016 decreed and additional dividends were paid in the third quarter of 2016; in 2017, dividends were only paid in the first and third quarters of 2017.

**Contractual Obligations**

Ocensa enters into various commitments and contractual obligations that may require future cash payments. The following table summarizes Ocensa's contractual obligations as of December 31, 2018:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Less than 1 Year** | **1 to 3 years** | **3 to 5 years** | **More than 5 years** | **Total** |
| | | | *(in millions of US$)* | | |
| Contract service obligations | 32.3 | 4.6 | — | — | 36.9 |
| Natural gas supply agreements | 3.2 | — | — | — | 3.2 |
| Purchase obligations | 8.9 | — | — | — | 8.9 |
| Capital expenditures | 26.3 | — | — | — | 26.3 |
| Build, Operate, Maintain and Transfer contracts | 1.2 | — | — | — | 1.2 |
| Capital (finance) lease obligations | 0.8 | — | — | — | 0.8 |
| Bonds | 20.0 | 481.0 | — | — | 501.0 |
| **Total** | 92.7 | 485.6 | — | — | 578.3 |

**Capital Expenditures**

In the ordinary course of Ocensa's business, it invests in the maintenance and improvement of the Ocensa Pipeline and the facilities at the Port of Coveñas through a variety of expansion projects. For a description of Ocensa's current expansion projects, see "Business—Expansion and Optimization Projects." In 2018, 2017 and 2016, Ocensa's capital expenditures totaled US$103.4 million, US$115.6 million and US$252.1 million, respectively.

**Indebtedness**

On May 7, 2014, Ocensa issued the Ocensa 2021 Notes. The Ocensa 2021 Notes were issued at an issue price of 99.367% of the principal amount of the Ocensa 2021 Notes and will mature on May 7, 2021. The interest rate of 4.000% is fixed in accordance with market conditions prevailing on May 7, 2014, the bond placement date, thus complying with the maximum limits for the external indebtedness rates defined by the Colombian Central Bank. The Ocensa 2021 Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF market of the Luxembourg Stock Exchange. As of December 31. 2018, the outstanding principal balance of the Ocensa 2021 Notes was US$500 million.

The Ocensa 2021 Notes will be redeemable, in whole or in part, at any time or from time to time prior to their maturity, on at least 30 days' but not more than 60 days' notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such Ocensa 2021 Notes and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon, discounted to the redemption date on a semiannual basis at the Treasury Rate (as defined in the underlying indenture) plus 25 basis points, plus in each case any Additional Amounts (as defined in the underlying indenture) and accrued interest to, but not including, the date of redemption. If Ocensa experiences a Change of Control (as defined in the underlying indenture) it must offer to repurchase all or any portion of the Ocensa 2021 Notes then outstanding at 101% of the principal amount of the Ocensa 2021 Notes to be repurchased, plus accrued and unpaid interest thereon and any Additional Amounts. The underlying indenture for the Ocensa 2021 Notes also contains covenants that limit, among other things, Ocensa's ability to grant liens on our assets and merge, consolidate or transfer, lease or dispose of substantially all of our assets. The above covenants are subject to a number of exceptions and qualifications set forth in the underlying indenture.

**Off-Balance Sheet Arrangements**

Ocensa's off-balance sheet arrangements comprise transactions with third parties that do not impact its results of operations, including contingent rights and responsibilities, differences between general ledger accounts and fiscal accounts, as well as fully depreciated properties, plant and equipment. For a description of Ocensa's off-balance sheet arrangements, see Notes 18.5 and 18.6 to Ocensa's audited financial statements as of and for the year ended December 31, 2018 included elsewhere in this offering memorandum.

**Qualitative and Quantitative Information About Market Risk**

The primary market risk to which Ocensa is exposed in the ordinary course of its operations derives from exchange rate risk.

***Exchange Rate Risk***

Ocensa's exposure to exchange rate risk derives from assets and liabilities denominated in currencies other than the Colombian peso, primarily the U.S. dollar, which Ocensa records in its financial statements. Specifically, as of December 31,2018, Ocensa's foreign currency-denominated assets comprised cash and cash equivalents and amounts receivable primarily relating to crude oil transportation services it provides, while its foreign currency-denominated liabilities, comprised amounts due to suppliers, mounts payable primarily relating to the purchase of goods and services and amounts due as consideration under the Port Concession.

As of December 31, 2018, Ocensa estimates that an increase of 10% in the value of the U.S. dollar as compared to the Colombian peso, would increase its foreign currency denominated assets by Ps$10.132 million and its foreign currency denominated liabilities by Ps$9.997 million. In the ordinary course of its business, Ocensa enters into local hedging arrangements with local financial institutions pursuant to master agreements currently in force in order to mitigate its exposure to exchange rate risk. However, there are no outstanding balances under these agreements as of the date of this offering memorandum.

## INDUSTRY AND REGULATORY OVERVIEW

### *Global Crude Oil and Natural Gas Industry*

2014 was the last year of record crude oil prices, with average prices for the year just below $100/bbl. Substantial supply growth by non-OPEC nations, mainly the United States, coupled with low consumption growth, driven by a slowdown of Chinese consumption, led to prices starting to drop in the fall of 2014. By the end of the year, the price of crude oil had reached $57/bbl, down from $110/bbl at the beginning of the year.

The supply / demand imbalance continued in 2015, as OPEC nations, particularly Iraq and Saudi Arabia, increased output and the United States added 1 mmbpd of shale production. Consumption grew at a slower pace, driving down the overall price of crude to an average for the year of $53/bbl.

In 2016 low prices fueled demand and affected production. In particular, the United States and China suffered significant declines. The market moved broadly into a supply/demand balance in the second half of the year. However, inventories remained at elevated levels and prices continued to be depressed. OPEC, together with 10 non-OPEC producers announced an agreement to cut output (1.8 mmbpd) to help reduce inventories to normal levels and boost prices.

Production in 2017 remained mostly stable; as OPEC countries confirmed their cuts, United States producers increased their output, offsetting OPEC's decline. Global demand rose and prices ended the year at $67/bbl.

During 2018, prices reached levels not seen in three years, above the $80/bbl mark. This recovery in oil prices was primarily supported by the production restraint agreement between OPEC and non-OPEC countries in force since early 2017 and the continued strong global oil demand growth estimated by the EIA at about 1.5 mm barrels per day during 2018. Additionally, production grew at a slower pace, as Iran and Venezuela, relevant producing countries in the global context, experienced internal crises that disrupted their production. This was exacerbated by civil unrest in Iraq, Libya and Nigeria, and Saudi Arabia's reluctance to broadcast a strong message on supply.

During the first quarter of 2019, the oil price volatility seen in the markets has been attributed to weaker oil demand growth, the US-China trade war uncertainty and OPEC's efforts to stabilize the world's oil supply. Oil prices remained at around the $60/bbl mark. Towards the end of the quarter, oil prices have rebounded to just about the $64-69/bbl mark, explained mainly by the tight supply from OPEC countries and continued geopolitical risk in Venezuela and Libya.

### *Colombian Crude Oil and Natural Gas Industry*

Colombia has encouraged crude oil and gas exploration since the late 1800s and first recorded a commercial discovery in 1918. Exploration and production activity fluctuated along with economic and political conditions throughout the last century, but the country has remained open to private investment. The Colombian Government has encouraged foreign participation in new exploration projects through the introduction of exploration and production contracts that meet international standards. Pursuant to these exploration and production contracts, 100% of new production flows to the producing company less the participation of the ANH in the event of actual production, subject to an initial 8% royalty, certain ANH economic rights, including service fees, windfall profit fees, additional interests over production and transfer of technology, and income taxes. In addition, the Colombian Government also introduced technical evaluation agreements, pursuant to which companies are afforded a right of first refusal to evaluate and select desirable exploration lands through work commitment proposals on those lands. Accordingly, these companies are provided low cost access to larger areas for preliminary evaluation prior to committing to broader exploration programs, subject to the payment of a service fee. Service fees are established via special technical evaluation contracts.

As a result of these developments, Colombia has become one of the most attractive crude oil and gas markets in Latin America, and crude oil and gas has become an important industry for the Colombian economy, accounting for approximately 22% and approximately 21% of Colombia's foreign direct investment in 2017 and

2018, respectively. In recent years the government has addressed many of the issues that previously hindered foreign investment in its crude oil and gas industry. In 2003, the Colombian Government restructured Ecopetrol in order to make it more competitive globally. Ecopetrol became a public stock-holding corporation, initially 100% owned by the state, while its regulatory functions were transferred to the newly-created ANH. These measures helped to modernize Colombia's hydrocarbon sector and increase the competitiveness of Ecopetrol. In 2018, Ecopetrol's royalties paid to the Colombian Government represented approximately 1.7% of the Colombian Government's income in 2018, while total oil and gas royalties paid in Colombia represented approximately 2.5%.

In 2006, the Colombian Congress authorized Ecopetrol to issue up to 20% of its capital stock in Colombia, subject to the condition that the state would control at least 80% of the company's capital stock issued in such an offering. On November 13, 2007, Ecopetrol placed 4,087,723,771 shares on the Colombian Stock Exchange, raising approximately Ps$5.7 trillion in proceeds. In April 2013, Ecopetrol completed the transfer of its hydrocarbon transport and logistics assets to a wholly-owned subsidiary, Cenit, Ocensa's largest shareholder. Today, the structuring of Ecopetrol's business model focuses on meeting the transportation needs of Colombia's producers, providing greater transparency by separating the roles of owner, planner, operator and shipper, ensuring that the transport network is available for all the producers, fostering participation of non-producer investors in the transport business, and further developing Colombia's crude oil and gas infrastructure and industry.

Other upstream sector initiatives implemented by the Colombian Government to attract investment include allowing foreign crude oil companies to own a 100% interest in crude oil ventures and compete with Ecopetrol, establishing a lower, sliding-scale royalty rate on crude oil projects, and granting longer exploration licenses. Additionally, Colombia has also promoted private investment in its state controlled companies by implementing initiatives to improve corporate governance of government owned companies. Since 2013, the Colombian Government has worked together with the Organization for Economic Cooperation and Development ("OECD"), as part of its process to become a member country, completed in 2018, to centralize all company ownership functions under a single, autonomous entity. These factors have combined to attract a significant volume of foreign direct investment to Colombia's crude oil and gas industry.

Colombia is one of the top five suppliers of crude oil to the United States, and together with Venezuela and parts of Ecuador, shares the La Luna crude oil-source rock, which is one of the most prolific in the world. Colombian crude oil producers have also been resilient in the face of economic slowdown. Despite the global decrease in oil prices in 2014 and 2015, producers in the Llanos and Magdalena basins rebounded by increasing operational efficiency. Colombian crude oil producers' netbacks rebounded from 2015 lows with a netback increase of an approximate 46% compound annual growth rate from 2016 to 2018. In 2018, in the context of higher crude oil prices, netbacks have been growing by double digits for all major producers.

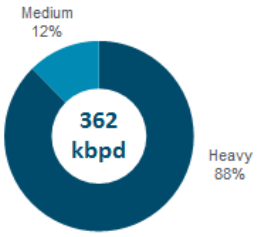
Notable crude oil and gas companies with interests in Colombian resource basins include Ecopetrol, Frontera, Occidental Petroleum Corporation, or Occidental, Chevron Corporation, or Chevron, Equión Energía, Talisman Energy Inc., Compañía Española de Petróleos S.A.U., LUKOIL Overseas Holding Ltd., Perenco Petróleo e Gás do Brasil Participações S.A., or Perenco, Hocol Petroleum Ltd., VETRA Exploración y Producción Colombia S.A.S., or Vetra, Emerald Energy PLC Sucursal Colombia, Total, Exxon Mobil Corporation, or ExxonMobil and Shell Corporation, or Shell, among others.

Reserves and Production of Crude Oil and Natural Gas

According to BP's World Oil Review 2017 and the ANH, Colombia is the fourth largest crude oil producer in South and Central America and the sixth largest holder in South and Central America of proven crude oil reserves. As of December 31, 2017, Colombia had 1,782 million bbl of proven crude oil reserves and crude oil production reached 865kbpd as of December 31, 2018.

In Colombia, Ecopetrol accounted for approximately 61% of total crude oil production during the year ended December 31, 2018. Additionally, several other companies produce oil in Colombia at levels above 10,000bpd in fields that have been in operation for several years. In the past decade, however, production has evolved from having a few producers in mid and large size fields to an important number of producers in small to midsize fields. There is significant demand from both large and small to midsize producers for transportation capacity of heavier crude oil, and Ocensa is capable of transporting heavy and extra heavy crudes. This demand is

exacerbated by the increased focus on exportation of heavy and extra heavy crudes as fewer pipelines have the capacity to support the transportation of heavy and extra heavy crudes. The breakdown of exports by crude type as of June 2018 is reflected below:




Source: The UPME.

In addition to existing production, there has been increased licensing and exploration activity in Colombia since the creation of the ANH in 2004. In 2014, the ANH introduced new regulations to foster exploration and production of unconventional hydrocarbons, such as raising the base price that triggers the high price royalty for unconventional hydrocarbon production from US$43.37 to US$87.48, establishing a 40% discount over royalty rates for unconventional hydrocarbon production and extending the production period to 30 years. In February 2014, ANH licensed new blocks during Colombia's 2014 licensing round, offering 95 additional blocks, 26 of which received bids. Of the 26 blocks, 11 blocks were with undeveloped fields, nine blocks were conventional onshore blocks and six blocks were for unconventional hydrocarbons. Successful bidders in the 2014 licensing round included large offshore area work commitments from ExxonMobil, Anadarko, Repsol, Statoil and Ecopetrol.

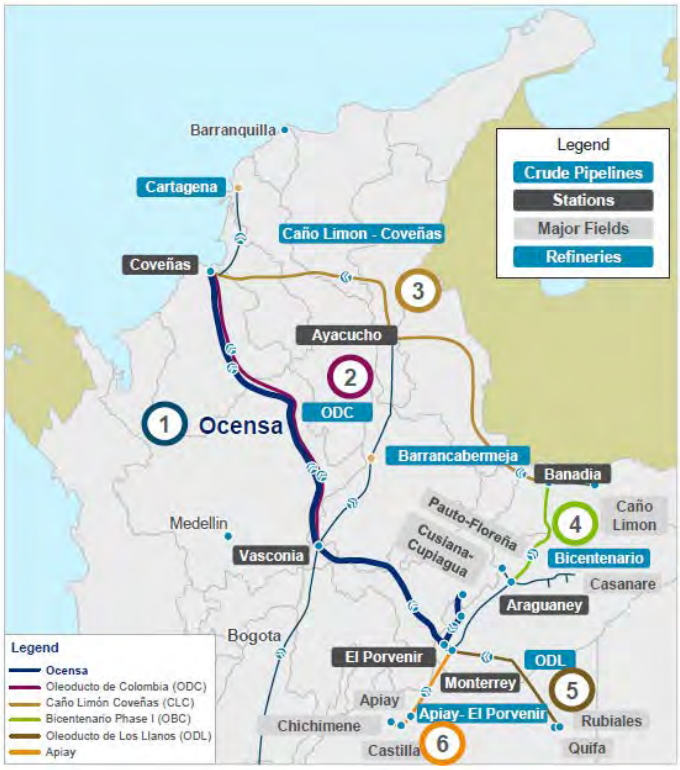
In 2017, the ANH took several measures to further incentivize investments and exploration activity. In May 2017, the ANH issued new regulations for awarding oil and gas blocks, as well as new criteria to enter into exploration and production contracts. The changes included making blocks available on a continuous basis that results in competitive bidding processes, whereby companies can propose work programs for blocks at any time, subject to the compliance of the requirements and conditions set forth by the ANH. The changes also addressed oil price, social and environmental conditions, and company qualifications while incentivizing investments. In September 2017, the ANH launched another exploration round, including 15 exploration blocks onshore in the Sinu-San Jacinto basin, of which 13 blocks were in emerging areas. The 15 blocks were the first group to be licensed in a 40-block licensing program designed to reactivate exploration activity and incentivize the number of exploratory and appraisal wells. In December 2017, the MME, issued a decree to stimulate exploration and production investments in hydrocarbons and minerals through a tax refund certificate. The tax refund certificate is designed to incentivize investments in growing reserves and increase proved reserves or new recoverable reserves. However, on December 13, 2018 the board of directors of the ANH cancelled the 2017 Sinu-San Jacinto round due to the withdrawal of qualified companies from the competitive process.

Since 2014, 209 exploration wells have been drilled in Colombia, with the Llanos basin accounting for approximately 60% of that activity. Because production and exploration activities are concentrated in the Llanos basin and Middle Magdalena Valley basin, with approximately 83% of Colombia's crude oil production coming from those areas in total, we believe that transportation systems running from the Llanos basin to export terminals, such as the Ocensa Pipeline, will become even more strategic to crude oil companies in Colombia. Since early 2016 exploratory capital expenditures and rigs in operation in Ocensa's area of influence have been on the rise; capex and drilling programs by the country's major E&P players have increased significantly (2016-2019E CAGR of 43%) according to public filings.

Colombia has a strong track record of Reserve Replacement Ratio (RRR) above 100% when crude oil prices are above the $55/bbl mark. Its Reserve Life Index (RLI) had been historically stable, around 7 years, until the price shock of 2014-2016. The recovery in prices experienced since 2017 has enhanced the Llanos Basin producers' ability to extend their RLI, and their RRRs are back above 100%.

Infrastructure

The following map sets forth the current state of Colombia's crude oil infrastructure.




*Source*: Company information.

**Crude Oil**

Colombia has a well-developed crude oil infrastructure system, comprising over 8,000 km of pipelines for crude oil and its derivative products. The focus of this system is the transport of crude oil from the main producing basins (Llanos and the Magdalena), via a central hub at Vasconia in the interior, to Colombia's main crude oil export terminal at the Port of Coveñas on the Caribbean coast. Additionally, the CLC is a key line that runs from the Caño Limón field near the Venezuelan border to the Port of Coveñas. The OBC connects from the Llanos basin to the CLC, which makes the OBC-CLC route the only other pipeline alternative to Ocensa out of the Llanos basin.

**Transportation**

Pipelines are the main method of transportation for crude oil in Colombia. Most of Colombia's pipelines are of a private nature (*oleoductos de uso privado*) and were constructed by the country's main crude oil and gas producers to transport production from their largest crude oil fields. In 2017, according to company estimates, approximately 82% of Ocensa's total transported volume corresponded to fields directly connected to its pipeline network. The main fields producing crude oil in Colombia are directly connected to the Ocensa Pipeline, such as Rubiales, Quifa, Chichimene, Castilla and Cusiana-Cupiagua. Ocensa's infrastructure facilities in the Port of Coveñas have a maximum estimated loading rate of approximately 38,000 bph for heavy crude oil and 43,000 bph for intermediate crude oil through the TLU-2.

Colombia has six major crude oil pipelines, three of which connect production fields to the export terminal at the Port of Coveñas:

| Pipeline | Length | Capacity | Ownership |
|---|---|---|---|
| | *(in km)* | *(in bpd)* | |
| Ocensa | 836 | 745,000 | Ecopetrol/Cenit 72.648%; Advent 22.352%, Darby Private Equity 5.0% |
| Oleoducto de Colombia | 483 | 236,000 | Ecopetrol/Cenit 73%; Frontera: 1% Others 26% |
| Oleoducto Caño Limón-Coveñas | 766 | 250,000 | Ecopetrol/Cenit 100% |
| Oleoducto de Bicentenario | 229 | 150,000 | Ecopetrol/Cenit 56%; Frontera: 43% Others 1% |
| Oleoducto de los Llanos | 235 | 340,000 | Ecopetrol/Cenit 65%; Frontera 35% |
| Apiay-Monterrey | 120 | 300,000 | Ecopetrol/Cenit 100% |

Aside from pipelines, trucks and, to a lesser extent, barges are alternative methods of transportation for crude oil in Colombia. Trucking transportation costs are, however, significantly higher than pipeline transportation costs, with trucking transportation costs in 2017 averaging approximately US$18.0/bbl compared to an approximate range of between US$11.3-14.5/bbl for the Ocensa Pipeline according to information compiled from Ocensa and Wood Mackenzie. This represents a difference of between US$3.5-6.7 per bbl, which makes Colombian crude oil production transported by truck more vulnerable to fluctuations in the price of crude oil on the international market. Moreover, truck transportation is more prone to loss and theft. It is estimated that an important volume of crude oil remains shut-in due to a lack of economically feasible transportation, and in recent years, trucks have lost market share to pipeline transport due to increased pipeline capacity, especially in the transportation of heavy crudes.

The OBC-CLC route is the only pipeline alternative to the Ocensa out of the Llanos basin. The OBC currently has a transportation capacity of 150kbpd and the CLC currently has a transportation capacity of 250kbpd. However, the OBC-CLC route is approximately US$5.4-5.8 per bbl more expensive than Ocensa, due to higher transportation tariffs and additional costs of dilution needed to comply with the pipelines' viscosity specifications, a cost that increases the heavier the crude transported. Given the strategic significance of pipeline transportation capacity, there are ongoing initiatives to expand Colombia's capacity. However, the primary initiatives of Ocensa's competitor pipelines, such as the OBC, the Oleoducto de Colombia pipeline and the Oleoducto al Pacifico pipeline, are not expected to increase transportation capacity in the near term. In addition, Ecopetrol and other potential investors are currently studying the feasibility of a pipeline project named "OAP" connecting the main pipeline system to the Pacific Ocean. Conceived as a pipeline transporting heavy crude oil to the Pacific Ocean, with a possible exit through Buenaventura or Tumaco, the OAP would open up a new export window for Colombian crude oil, particularly south of the Llanos, Caqueta and Putumayo basins. The OAP is still under pre-feasibility studies and is currently on hold. It is not expected to become operational in the short- or medium-term future. Given the significant barriers to entry for the development of new competitor pipelines, Ocensa believes it will continue to be a significant strategic asset for Colombia's growing crude oil industry.

***Colombian Crude Oil Transportation Regulatory Framework***

Relevant Regulatory Entities and Other Relevant Organizations

**Ministry of Mines and Energy**

Decree 968 of 1940, as amended, created the MME, which is responsible for implementing the Colombian Government's policies on: (1) the exploration, production, transportation, processing and distribution of minerals and hydrocarbons in Colombia; and (2) the development of the Colombian mining and energy sectors.

**Mining and Energy Planning Unit**

By Decree 2119 of 1992, as amended, the National Commission of Energy became the Mining and Energy Planning Unit, and this new entity was delegated the role of special administrative unit for the MME. The Mining and Energy Planning Unit is responsible for developing and updating the National Energy Plan and the National Electric Reference Expansion Plans. The Mining and Energy Planning Unit is also responsible for forecasting Colombia's overall energy requirements, planning and developing means to satisfy these energy requirements, and establishing programs to optimize energy use.

**ANH**

The Colombian hydrocarbons sector was restructured in 2003. The ANH was established by Decree 1760 of 2003, as amended, as a response to the energy crisis the country faced—Colombia was suffering from rapidly decreasing petroleum reserves, which could have eventually turned the country into a crude oil importer. This restructuring also focused on making Ecopetrol more competitive, separating its double role as a regulatory entity and a crude oil and gas company. Accordingly, the ANH assumed the administrative and regulatory role and responsibilities from Ecopetrol, thereby initiating the transformation of the Colombian crude oil and gas sector, making the industry an attractive prospect for domestic and foreign investors. The ANH is also responsible for creating and maintaining attractive conditions for private investments in the hydrocarbon sector and for designing, bidding rounds for exploration blocks. Any crude oil company selected by the ANH to explore a specific block must execute an exploration and production contract or a technical evaluation agreement with the ANH. All royalty payments in connection with the production of hydrocarbons are made to the ANH in-kind unless the ANH grants a specific waiver to effectuate royalty payments in cash.

ANH's main goals are: (1) managing hydrocarbons in Colombia and assigning them for exploration and production through land tenure policies; (2) executing royalty policies; and (iii) performing the necessary actions to support national hydrocarbon demand.

**ANLA**

The ANLA is an administrative body created by Decree 3573 of 2011, as amended, and is responsible for the issuance of environmental licenses and permits and supervising the fulfillment of minimum environmental conservation standards as set forth by the applicable Colombian regulations. The ANLA's duties include conducting environmental investigations and supporting the development of environmental regulations.

**ACP**

The ACP is a non-governmental association entity that brings together private crude oil companies in Colombia. ACP's members develop exploration, production, transportation and distribution of crude oil and natural gas derivatives. The ACP's main purpose is to represent and promote the common interest of the private hydrocarbon industry, enhancing such areas where the sector generates the most value and creating an optimal environment that allows investment and brings growth to the sector and country.

Transportation Regulations

Hydrocarbon transportation is deemed a public service in Colombia and is therefore subject to governmental supervision. Accordingly, the transportation and distribution of crude oil, natural gas and refined products must comply with the Petroleum Code (*Decreto 1056 de 1953 – Código de Petróleos*) and the regulations issued by the MME.

Transport systems, classified as crude oil pipelines and multipurpose pipelines, may be privately owned. The building, operation and maintenance of hydrocarbon transportation pipelines must comply with environmental, social, technical and economic requirements under national and international standards. Transportation networks must follow specific conditions regarding design and specifications while complying with the quality standards of the crude oil and gas industry.

The transportation of crude oil through pipelines is regulated in Colombia through the following laws:

- Petroleum Code, Chapter VIII, which establishes the general framework for the transportation of crude oil;
- Law 141 of 1994 (as amended), which established the national royalties regime;
- Resolution 72-145 of 2014 promulgated by the MME, which regulates crude oil transportation through the pipelines in general terms;

- Resolution 72 146 of 2014 promulgated by the MME, which establishes the methodology for the calculation of tariffs for the transportation of crude oil through pipelines; and

- Resolution 72 216 of 2014, Resolution 31 325 of 2015 and Resolution 31 285 of 2016, which modify tariff calculation details in Resolution 72 146 of 2014.

The principal matters governed by the Petroleum Code (Decree 1056 of 1953) and addressed in the MME Resolution 72 146 of 2014, as modified by Resolution 72 216 of 2014, Resolution 31 325 of 2015 and Resolution 31 285 of 2016, (the "MME 2014 Resolution") are:

- access to pipelines and pipeline connections;

- changes in the nominal capacity of pipelines;

- allocation processes for installed capacity and transportation plans; and

- issues related to the measurement of the quality and quantity of crude oil.

The MME 2014 Resolution also introduced new elements to the tariff framework to support crude oil transporters and to promote crude oil pipeline transportation expansion projects. To grant transporters flexibility in the face of competition with other modes of transport, the resolution provided that transporters can set surcharges to tariffs based on the quality of the crude oil shipped and can grant commercial discounts to the tariff. In order to promote expansion projects and construction of new pipeline segments, the resolution also provided that transporters and shippers may agree to differentiated transport tariffs for new segments and for additional capacity.

**Access to Pipelines and Connections**

According to Article 45 of the Petroleum Code, public access pipelines, such as the Ocensa Pipeline, are defined as pipelines built and operated by a person or legal entity, public or private, for the purpose of publicly providing crude oil transportation services. The Colombian Government has the preferential right to use up to 20% of the total capacity of any public access pipeline to transport its share of production. However, for both private and public access pipelines, the ANH must cover any tariff expenses to transport this production.

A shipper interested in securing transportation capacity through a given pipeline must send an application to the transporter, which will evaluate the request based on the pipeline's installed capacity. Once the application is accepted, the transporter may also allow its shippers to build connections along the pipeline, with prior approval of the MME. Connections must fulfill technical requirements and may be located wherever sanctioned by the required licenses and permits. Connections may be refused due to reasons relating to safety or capacity, but any rejection must be justified.

A shipper must have previously entered into a transportation agreement with the relevant transporter, and accepted the relevant terms and conditions set forth in the transporter's manual, in order to present an application to that transporter. If no final agreement is reached regarding the amount of crude oil to be transported, the MME will act as a mediator between the shipper and the transporter.

**Changes in Nominal Capacity**

Changes in a private pipeline's nominal capacity are the sole responsibility of the transporter; public pipeline's change in nominal capacity shall be previously authorized by the MME. If any changes to the nominal capacity occur, the transporter must publish the date of entrance into force of the new capacity, the new tariff, and make public the technical and economic requirements (capital expenditures, maintenance expenses and new capacity, among other requirements), for the purpose of updating the tariff rate (see "—Tariff Regulation").

The tariff fixed for the delta of the design capacity shall apply only to the additional capacity, and can coexist with the tariffs of other segments previously existing

With respect to private pipelines, the transporter is not obligated to finance extensions required in connection with changes in a pipeline's nominal capacity. If the transporter agrees to an extension of the pipelines by a third party, the parties may freely determine the financing conditions and investment parameters. On the other hand, all public pipelines are considered public transportation companies and are subject to the applicable regulations on transportation companies.

**Allocation Process and Transportation Plan**

Each month, a transporter will make public the final transportation program for the current month and the tentative transportation program for the next five months based on the effective capacity and the nominations made by the shippers.

In this respect, two months before the month of operation, shippers and the ANH (for its preferential right) must inform the transporter of their transportation requirements (nomination) for the next five months. With this information, the transporter will calculate the effective capacity and remaining capacity. If there is excess capacity after the initial allocation, subject to the transportation manual, third parties and shippers with exceeding volume can place a request for transportation under the capacity. The transporter can allocate such excess capacity to third parties through a transportation contract.

Before the end of each tariff year, transporters must prepare a transportation plan (the "TP"), applicable for the following five calendar years after its publication. Pursuant to the TP, utilized as an input in allocation determinations, an estimate of the total capacity of the pipeline is prepared for the next five years.

**Quality and Quantity of Crude Oil to Be Transported**

The transporter must install the required equipment to meet the quantity and quality of the crude oil to be transported, according to international standards, such as those established by the American Petroleum Institute, the American Society of Mechanical Engineers or ASTM International. The transporter or shipper may require the presence of quality and quantity inspectors to verify the transporter's measurements.

The transporter must make public the minimum requirements of the quality of crude oil it deems acceptable, with which shippers must comply. The transporter may reject crude oil that, given its quality, may affect efficiency of operations; however, a transporter and shipper may agree to circumstances under which crude oil with lower quality could be accepted. As such, the transporter may reject crude oil that exhibits:

- high volumes of salt, water, pour point or sediments;
- high density, viscosity or water levels;
- high levels of temperature and steam pressure that could threaten the pipeline operations; or
- extreme levels of metal contaminants and sulfur that lower the quality of the mixture

In comingled pipeline systems, such as the Ocensa Pipeline, crude oil of varying quality and market value are transported simultaneously through the pipeline. As a result, some shippers will receive crude oil more valuable than the crude oil they delivered for transport along the pipeline, while other shippers will receive crude oil of lower value than the crude oil they delivered.

Accordingly, a "quality bank" was established in order to compensate shippers for the degradation of the oil they receive in comparison with the crude oil they delivered by charging additional compensation in volume from those shippers that receive crude oil of higher value than the crude oil they delivered in such a way that the final volumetric balances are equal to zero. The transporter will be the liquidator and mediator of the compensation for an adjustment. As transporter and operator of the Ocensa Pipeline, Ocensa provides services in respect of the quality bank, but it receives no financial benefit from its operation.

The transporter receives fair compensation for transportation services and accordingly is not affected by the fluctuations that normally occur in the quality and quantity of the transported crude oil.

Unidentified losses that do not exceed a tolerance range of 0.5% of the total transported volume must be assumed by the shippers. If losses exceed the tolerance range, Ocensa must cover the losses that are not the product of force majeure, quality of the product, or were caused by the shippers or a third party.

Tariff Regulation

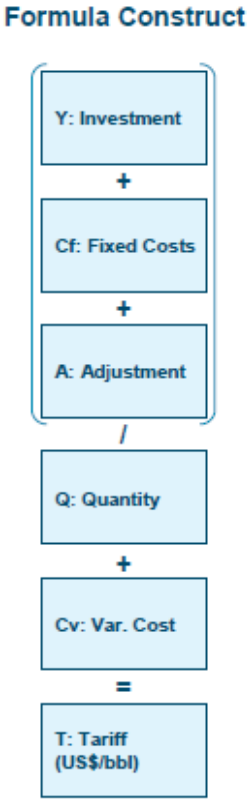
In Colombia, the Petroleum Code of 1953 governs the applicable regulation for oil pipeline transportation. Currently, tariffs are revised every four years (adjusted annually for inflation), providing Ocensa with predictable time horizons in which tariffs are fixed. The current tariffs were reviewed and approved in November 2015 pursuant to the procedure established by the MME and they are expected to be valid until June 30, 2019.

In compliance with MME 2014 Resolution and Resolution 72145 of 2014, on March 12, 2019, Ocensa filed before the Hydrocarbons Director of the MME, the document through which the new tariffs for the period between 2019 and 2023 are supported. This new tariff period shall commence on July 1, 2019. However, in the event the new tariffs have not been set by July 1, 2019, Ocensa will continue to use the current tariffs until the tariffs for the period between 2019 and 2023 have been set.

Pipeline transportation tariffs are calculated based on methodology established by the MME set forth in the MME 2014 Resolution, as amended. This resolution provides for the calculation of crude oil transportation tariffs for public access pipelines.

Tariffs are set in US dollars and are not adjusted by oil prices.

Each pipeline segment has its own tariff. For each pipeline segment, the transporter must present to the MME a projection of 8 years including all the variables that are used to calculate the tariff formula, including but not limited to: expected fixed and variables costs, current asset base to be remunerated and future capex program, and expected volumes.



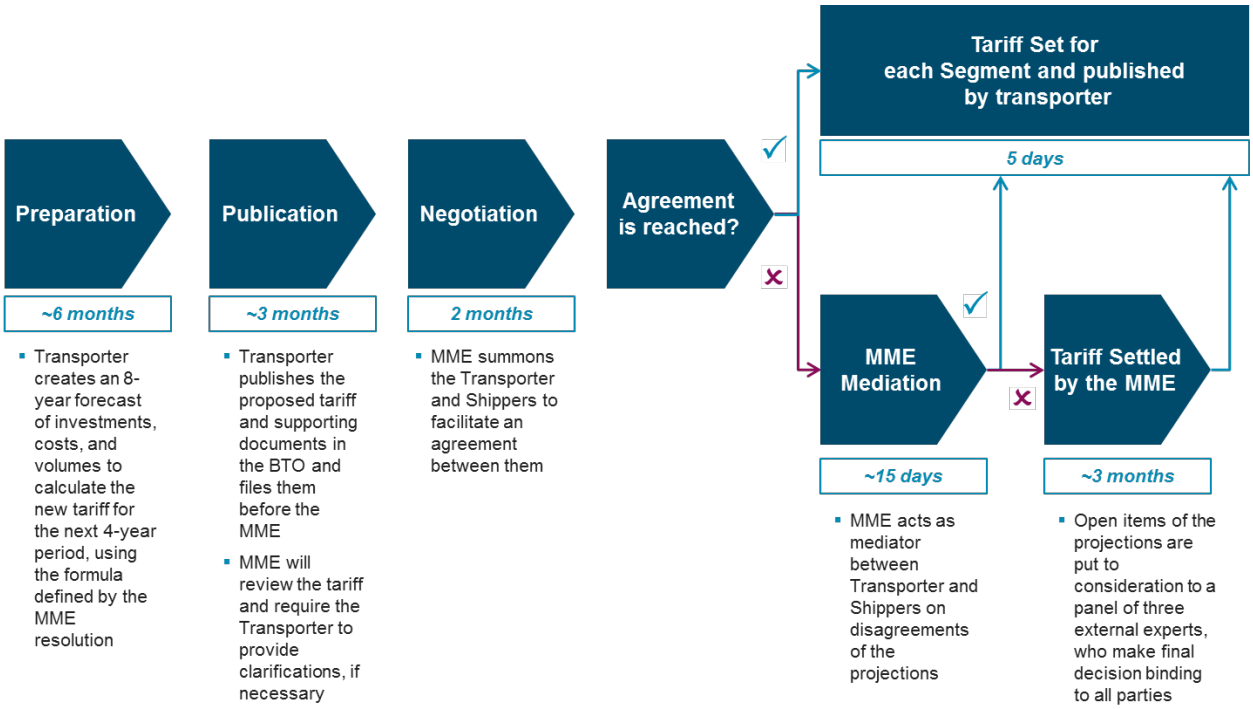

The main tariff components are:

1. Y Factor
    a. Based on an annuity to remunerate invested capital/asset base and future capital expenditures.
    b. During initial recovery period (said period is established by the transporter), the formula remunerates 100% of the asset base at the regulatory WACC.
    c. Initial recovery period for OCENSA pipeline was set in 15 years, starting in 2011.
    d. After initial recovery period, asset base is reset at depreciated reposition cost.
2. Costs (Cf and Cv)
    a. Fixed and variable costs, remunerated at regulated WACC.
3. A Factor: Adjustment for actual vs. forecast variations.
    a. Adjustment factor to compensate for deviations higher than +/- 10% of revenues due to difference between the forecast used to establish the tariff and the actual figures, once the 4-year period has passed.
    b. A-Factor is calculated at the end of the 4-year period, and if applicable is included as an adjustment to the tariff for the subsequent regulatory period.
4. Quantity:
    a. Transforms on a per barrel basis the Investments, Costs and A Factor to be remunerated using the projection of estimated Volumes that will go through the applicable segment.

5. Return:
    a. Provides a fair return based on a WACC.
    b. Post-tax real WACC of 9.39% for the 2015-2019 period and 8.43% for the 2019-2023 period.

The MME approves the maximum tariff to be charged. Once approved, tariffs are automatically adjusted annually by inflation and currency variations with a predefined formula set forth in the MME 2014 Resolution. However, tariff adjustments can be agreed between the transporter and shippers during the tariff setting process.

The tariff setting process encompasses five steps and is illustrated below.




0. **Preparation:** The transporter engages in internal diligence process to structure a new tariff for the incoming tariff period. Diligence can include preliminary meetings with MME and regulatory advisors. Information must include documentation supporting the proposed tariff.
1. **Publication:** No later than the first business day of the quarter immediately prior to the start of the next tariff period, the tariff setting process must be started. First, the transporter publishes a base proposed tariff and support documentation and files them before the MME. Within the following 15 calendar days, the MME will verify and review the consistency of the information and request clarifications or additions to the information provided by the transporter. The transporter must respond within 15 business days after receipt of any clarification request. The MME will have two months to analyze the transporter's calculations and clarifications.
2. **Negotiation**: The MME summons the transporter and the shippers to a meeting to reach an agreement on the tariff between the parties. The negotiation stage cannot last more than two months. The agreement may also include, besides the tariff amount: (i) the Monetary Conditions applicable to the time period in which the tariff will apply and (ii) annual tariff raises, among others.
3. **Agreement:** The negotiation stage ends when there is an agreement between the transporter and the shipper for the tariff of each segment. The new tariff (and any Monetary Conditions / tariff raises) must be formalized in writing and sent to the MME within five business days following the agreement.
4. **MME Mediation:** In the event that after two months of direct negotiation, or before, the parties do not reach an agreement on the tariff and Monetary Conditions, the MME will act as mediator. The MME mediation stage cannot last more than 15 calendar days.

5. **Tariff Settled by the MME:** If the MME mediation does not result in a final agreement between the transporter and shippers, tariff will be set by a panel of three experts and finally established by the MME. The tariff must be settled in no longer than three months. The tariff settled by the MME will be revised at least every four years, unless the MME, the transporter or shippers request an earlier review, as defined in the MME 2014 Resolution. The tariff and Monetary Conditions must be published by the transporter in the BTO within five days after being set.

Other matters that are regulated by the MME include:

*Access to Pipelines and Connections.*

Public access pipelines, such as the Ocensa Pipeline, are defined as pipelines built and operated by a person or legal entity, public or private, for the purpose of publicly providing crude oil transportation services. The Colombian Government has a preferential right to use (paying the regulated tariff) up to 20% of total capacity of any public or private pipeline to ship its oil production (ANH covers tariff costs related to the Colombian Government's transported oil).

*Changes in Nominal Capacity*

Changes in nominal capacity require prior authorization from the MME and will be made under the sole responsibility and as decided by the transporter. The transporter must make public the technical and economic requirements (e.g. capex, maintenance expenses, new capacity) to eventually update the tariff.

*Quality and Quantity of Oil to be Transported*

The transporter will not be affected by the fluctuations that normally occur in the quality and quantity of the transported crude oil. The transporter must make public the minimum requirements in the quality of oil that it considers acceptable.

*Monetary Conditions*

Monetary Conditions are surcharges and discounts that the transporter can agree with shippers. Monetary conditions apply to the tariff fixed by the MME (for existing segments) or to tariffs agreed between the transporter and shippers and are based on: (i) the quality of the crude shipped (e.g., light, medium, heavy crude); (ii) variation in the contractual conditions; or (iii) other commercial matters (e.g., length of contract for expanded capacity). The monetary conditions can only be modified by mutual agreement of the parties.

*New Segments and Expanded Capacity*

In order to assist with viable expansion projects or construction of new segments, transporter and shippers may agree to different transport tariffs for new segments and for additional capacity of existing segments. Differentiated tariffs between the transporter and shipper are to be maintained for only one period of ten years (after operations start). After such period, the new segment / expanded capacity will be subject to the ordinary tariff setting process.

For additional details on the tariff regulation, please refer to the Petroleum Code of 1953 as well as to the following MME resolutions and amendments:

- Resolution 72 146 of 2014—regulates and sets the calculation of crude oil transportation tariffs for public access pipelines
- Law 141 of 1994 – establishes the national royalties regime
- Resolution 9-035 of 1994 – sets forth the transportation tariffs of Ecopetrol pipelines

- Resolution 72 216 of 2014, Resolution 31 325 of 2015, Resolution 31 489 of 2015 and Resolution 31 285 of 2016 – modify Resolution 72 146 of 2014, introducing / modifying concepts such as tariff negotiation between shippers and transporter, Monetary Conditions, commercial discounts, and other tariff calculation details

**Tariffs applicable to expansion projects**

Pursuant to regulations currently in effect, tariff rates for the transport of crude oil along new segments of a pipeline built as a result of expansion projects may be established by commercial agreements between the parties and these tariffs will be applicable to all shippers that utilize the additional transportation capacity resulting from the expansion. However, if no agreement is reached, the tariffs for the expansion shall be determined based on the tariff formula applicable to the rest of the pipeline as detailed above. On the other hand, if an original segment is expanded, the tariff of the delta of the design capacity will be determined in accordance with the following formula:

$$T = max\{T^{TE}, T^{\Delta Q}\}$$

Where:

$T$ is the applicable tariff for the delta of the design capacity in US$/bbl;

$T^{TE}$ is the tariff per bbl of the original segment;

$T^{\Delta Q}$ is the tariff per bbl in the delta of the design capacity, using the applicable capital compensation parameters ("*tarifa por barril de crudo en el delta de la capacidad de diseño*").

***Environmental Regulation – General Regulatory Framework***

Under Colombian Law, particularly under Law 99 of 1993, Decree 2811 of 1974 and Decree 1076 of 2015, certain companies, including crude oil companies, are required to obtain environmental permits, authorizations, concessions and licenses prior to undertaking any activity that could negatively impact the environment, natural resources, human health or landscapes. As a result, certain companies, including crude oil companies, must obtain an environmental license prior to undertaking any activity for exploration, exploitation, transportation, handling and storage of hydrocarbons and construction of refineries, except for certain seismic exploration activities. As part of the process for obtaining the environmental license, companies must file an environmental impact study before the National Authority of Environmental Licenses. This environmental impact study must include among other matters, an environmental management plan, a study of natural resources required for the project or activity and proof of the mechanisms established to prevent, compensate, correct and mitigate the impacts on the environment, natural resources, human health and/or landscapes.

The Ministry of Environment and Sustainable Development is the national environmental authority in Colombia responsible for establishing national environmental policies, regulations and programs. At the national level, the National Authority of Environmental Licenses is responsible for granting environmental licenses and permits for projects that have a great impact on natural resources and the landscape. At a regional level, regional environmental authorities such as the regional autonomous corporations are the highest environmental authorities of each regional jurisdiction. These organizations are responsible for executing and overseeing all policies, regulations, and programs issued by the Ministry of Environment and Sustainable Development. However, in certain cities, the regional environmental authority may be different from regional autonomous corporation, as is the case of the cities of Bogotá, Cali, Bucaramanga, Santa Marta, Barranquilla and Cartagena.

The Colombian Government also regulates the use of natural resources, and all companies, including crude oil companies, must obtain an environmental authorization, permit or concession for specific activities, including the use of large amounts of water for consumption, discharge of industrial wastewater into the water sources including coastlines or rivers, exploitation of forest reserves or production of atmospheric emissions of gases. If the activities or projects require an environmental license, those permits will be included in the license. Pursuant to Article 43 of

Colombian Law 99 of 1993, Articles 2.2.9.3.1.1. - 2.2.9.3.1.17 of the Decree 1076 of 2015 and its modifications (Decree 2099 of 2016, Decree 1120 of 2017, Decree 075 of 2017) and Resolution 1051 of 2017, companies that use natural water resources must assign 1% of their investments (as defined in Decree 2099 of 2016) to the preservation, conservation, recovery and supervision of the natural water resources taken from the water basin that serves the project. If a company requires an environmental license for its operations but does not use natural water resources, it will not be subject to this obligation.

If a company fails to comply with Colombian environmental regulations, or permits or causes damages, the environmental authorities may initiate an environmental sanction proceeding against the company. In the event that the environmental authorities find that the company has breached its environmental obligations, or permits or has caused damages to the environment, they may impose sanctions which can include:

- daily fines of up to an amount equivalent to 5,000 minimum monthly legal wages (equal to US$1.3 million at an exchange rate of US$1 = Ps$3,248);
- closure (either provisional or definite) of the establishment, buildings or services;
- revocation of environmental licenses;
- demolition of the building site;
- confiscation of the goods used in connection with the environmental violation;
- restitution of the wild fauna or flora; and
- community work.

## BUSINESS

### AI Candelaria

***Company Organization***

We are a holding company whose sole activity since our incorporation in September 2013 has been to invest in shares of Ocensa. As of the date of this offering memorandum, we own 1,153,139 shares of Ocensa (22.352% of Ocensa's capital stock). We do not hold shares of any other operating company; however, we may acquire shares of other operating companies in the future or purchase additional shares of Ocensa, but any such shares are not required to be pledged as additional collateral to secure our obligations under the Notes.

We are wholly owned by AI Lux, which is 100% owned by funds affiliated with Advent.

Our principal sources of cash flows have historically been Ocensa's dividends, which we register as net sales in our financial statements. Dividend payments from Ocensa are subject to a time lag at the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. For the years ended December 31, 2018, 2017 and 2016, we had net sales of US$135.3 million, US$85.2 million and US$146.7 million, respectively. The operating costs to maintain our structure are minimal. As such, we reported operating income of, US$134.4 million, US$84.7 million and US$146.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

We enforce our rights as shareholders in accordance with the Shareholders' Agreement, which contains corporate governance provisions establishing the relationship among ourselves, other shareholders of Ocensa and Ocensa. Because we own 22.352% of Ocensa's capital stock, we may nominate, and effectively control, the appointment of, two board members using the electoral quotient (*cuociente electoral*) system, and we have effective veto rights on critical decisions that require qualified majorities relating to Ocensa's operations and financial condition and on changes to Ocensa's existing dividend policy. We will maintain this effective veto right so long as our ownership does not fall below 10% of Ocensa's capital stock. The Shareholders' Agreement regulates, among others, the following matters:

***Qualified Majorities in Shareholders' Meetings***

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 90.1 % of Ocensa's total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over the following decisions:

- approve that a particular issuance of shares, of any class, be offered and traded without being subject to preemptive rights;
- create or issue any shares other than common shares;
- approve the creation of temporary reserves (*reservas ocasionales)* for an amount equal to or higher than 10% of the net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly;
- approve any profit distribution other than 100% of available distributable earnings;
- order the payment of dividends in the form of paid-in shares of any class of Ocensa, or in kind;
- approve amendments to our by-laws seeking to: (1) modify Ocensa's corporate purpose; (2) modify Ocensa's dividends distribution policy; (3) include in Ocensa's by-laws the preferential rights in the negotiation of shares or establish any restriction to the free marketability of shares; (4) declare Ocensa's voluntary wind-up, merger, spin-off or dissolution; (5) modify the number of members

composing the Board of Directors of Ocensa or any of the qualifying majorities to adopt decisions in the shareholders' meeting or in the Board of Directors, as provided in the Shareholders' Agreement and the by-laws; or (6) modify any of the qualifying majorities set out in the Shareholders' Agreement;

- approve the listing of Ocensa's shares on a stock exchange and the corresponding initial public offering; and

- approve repurchasing any of Ocensa's outstanding shares.

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 85% of Ocensa's total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over the following decisions:

- create reserves under Ocensa's corporate by-laws; and

- transfer or sell any of Ocensa's assets which are worth at least US$50 million.

Moreover, any issuance of shares representing Ocensa's capital stock must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) shareholders representing at least 80% of our total outstanding shares. As a result of our 22.352% ownership of Ocensa, we have effective veto rights over such decisions.

The following decisions must be approved by a majority of shareholders comprising the greater of (1) Cenit (or any of its affiliates) and at least one additional shareholder, or (2) more than 50% Ocensa's total outstanding shares:

- amending Ocensa's by-laws for purposes of changing the legal entity under which it was incorporated;

- transfer any of Ocensa's assets with a market price equal to or greater than US$25 million but less than US$50 million;

- approve any public offering of securities issued or secured by Ocensa other than the listing and initial public offering of Ocensa's shares on a stock exchange;

- approve the valuation of in-kind contributions to Ocensa;

- approve temporary reserves of an amount lower than 10% of net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly; and

- approve amendments to an agenda of extraordinary shareholders' meetings.

***Board of Directors***

Appointment and qualified majorities

In accordance with the Shareholders' Agreement, Ocensa's board members are nominated and appointed in the following proportion: (1) Cenit and its affiliates may nominate three members of the board of directors, two of which must be independent members pursuant to criteria set forth in Article 44 of Law 964 of 2005; and (2) based on our 22.352% minority ownership, we may nominate, and effectively control, the appointment of, two members total using the electoral quotient (*cuociente electoral*) system.

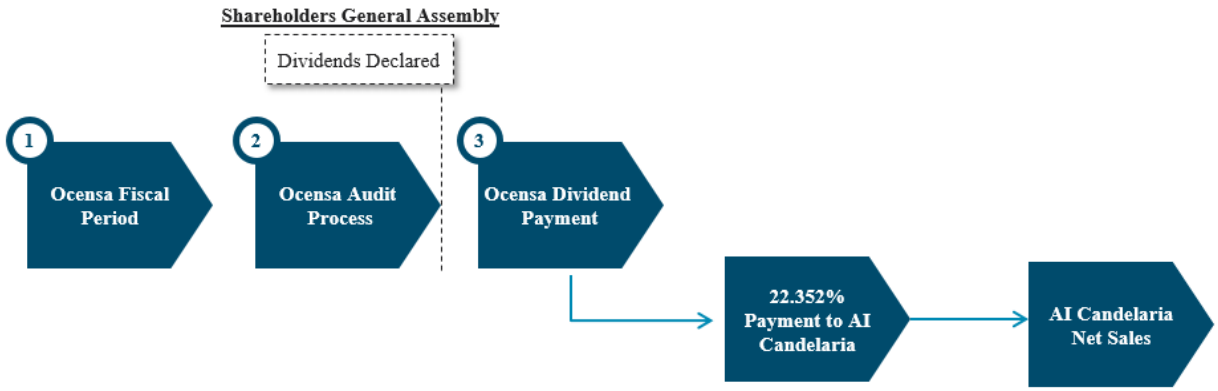
Pursuant to the Shareholders' Agreement a qualified majority of at least four of Ocensa's five board members is required to:

- approve Ocensa's business plan and any amendments thereto;
- approve projects that involve amounts greater than US$100 million;
- approve Ocensa's corporate governance code and any amendments thereto;
- delegate any decisions or functions of the board to any of its members, to legal representatives of the company or any of its employees or agents;
- approve the rules for issuing and placing (*reglamento de emisión y colocación de acciones*) any of Ocensa's shares or other securities for a price lower than the fair market value;
- approve transactions involving amounts higher than US$500 thousand to be carried out between Ocensa and any shareholder or any affiliate thereof (except for transactions related to services rendered by Ocensa and based on regulated tariffs);
- approve any amendments to Ocensa's transporter's manual or to the regulations governing operating or technical conditions at its terminal at the Port of Coveñas; and
- approve Ocensa's involvement in new lines of business that are substantially different from its current activities and that are not contemplated in its current business plan.

***Dividend Policy***

Pursuant to the Shareholders' Agreement, Ocensa must prepare financial statements at June 30 and December 31 of each year and, if applicable, distribute as dividends to its shareholders 100% of net income after funding any legal and applicable reserves, unless otherwise instructed unanimously by its shareholders at a shareholders' meeting.

Dividend payments from Ocensa are subject to a time lag with respect to the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. The following diagram sets forth an illustrative timeline regarding the dividend payment process.




In 2016, dividends were declared and paid by Ocensa to all its shareholders four times for an aggregate amount of US$656.3 million, attributable to net income generated by Ocensa for the last quarter of 2015 and the

period between January 1, 2016 and September 30, 2016. In 2017, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$381.3 million, attributable to net income generated by Ocensa for the last quarter of 2016 and the period between January 1, 2017 and June 30, 2017. In 2018, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$605.5 million, attributable to the period between July 1, 2017 and June 30, 2018. We received our pro rata share of all these dividends distributions at the declared times and recognized them as net sales.

It is important to highlight that in 2017 Ocensa declared and paid the equivalent of nine months of net income, while in 2015 and 2016, they declared and paid the equivalent of 12 months. Consequently, in 2017, the amount AI Candelaria recorded in net sales was representative of only nine months of net income instead of 12 months.

On March 12, 2019, Ocensa declared and paid dividends of US$355.8 million, attributable to net income accumulated during the six months between July 1, 2018 and December 31, 2018. AI Candelaria effectively received US$79.5 million, corresponding to our 22.352% stake.

In the past three years, Ocensa has declared dividends representing 100% of the net income generated and has not declared the funding of any legal or applicable reserves.

***Tag Along Rights***

Subject to certain conditions stipulated in the Shareholders' Agreement, we are entitled to tag along rights in the event a current shareholder or a third party acquires a controlling interest in Ocensa's capital stock.

***Term***

In accordance with its terms, the Shareholders' Agreement is valid and binding until the registration of Ocensa's shares on the Colombian National Registry for Securities and Issuers and the listing of Ocensa's shares on the Colombian stock exchange in connection with an initial public offering.

Moreover, if as a result of a transfer of Ocensa's shares by any of its shareholders, Ocensa ceases to have a majority shareholder, its then existing shareholders must renegotiate the Shareholders' Agreement to ensure its functionality under the new ownership structure.

For additional information regarding the provisions of the Shareholders' Agreement governing Ocensa's crude oil transport operations, see "Business—Material Agreements—Shareholders' Agreement."

**Ocensa - Overview**

Ocensa, incorporated in 1994, owns and operates (i) the Ocensa Pipeline, the largest crude oil pipeline in Colombia, covering 836 km on land and 12 km underwater and (ii) one of the largest crude export terminals in Colombia (the Port of Coveñas). The Ocensa Pipeline, Ocensa's primary asset, was completed and became operational in 1998 and has a maximum current capacity of 745kbpd, based on transportation of crudes with viscosity of up to 300cSt, at the largest segment of the pipeline. Ocensa completed capacity expansion projects in 2014 and 2016 that increased the reliability and the capacity at the largest segment of the pipeline by 170kbpd. In 2017, the Ocensa Pipeline transported approximately 68% of Colombia's total crude oil production, and exported through the Port of Coveñas, approximately 51% of Colombia's total oil exports, according to proprietary information and information compiled from the DANE. The Ocensa Pipeline transports crude oil ranging from light crude oil and intermediate blends to heavy crudes, on behalf of crude oil producers, connecting Colombia's most prolific basins, the Llanos basin and the Magdalena basin (together, 89% of Colombia's crude oil production and 87% of its reserves in 2017), with the country's two main refineries (Barrancabermeja and Cartagena) and the Port of Coveñas, Colombia's primary public crude oil export facility.

In 2017, Ocensa's revenue totaled US$1.3 billion, compared to US$1.2 billion in 2016, while its EBITDA totaled US$1.1 billion in 2017, compared to US$1.0 billion in 2016. In the six months ended June 30, 2018, Ocensa's revenue totaled US$674.3 million, compared to US$606.7 million in the six months ended June 30, 2017.

In the six months ended December 31, 2018, Ocensa's revenue totaled US$726.4 million, compared to US$718.1 million in the six months ended December 31, 2017.

Ocensa's majority shareholder, with approximately 73% of its equity, is Cenit, a wholly-owned subsidiary of Ecopetrol, the Colombian national crude oil and gas company and Colombia's largest producer of crude oil and gas. Ecopetrol has accounted for approximately 60% of Colombia's total crude oil production, on average, over the past five years according to the ANH and ACP. Of Ocensa's remaining equity, AI Candelaria holds 22.352% and AI Lux holds one share (0.00002% of Ocensa's capital stock), which was not pledged as collateral to secure our obligations under the Notes. Additionally, 5.000% of Ocensa's equity is held by Banco de Bogotá (Panamá) S.A. Fideicomiso Acciones Ocensa and Transporte Registrado S.A., vehicles in which Darby Private Equity, a private equity investment vehicle of Franklin Templeton, holds an interest.

Ocensa derives its revenue from:

*Shipments of Crude Oil via Ocensa Pipeline*. Ocensa primarily derives its revenue (97.4% in 2018) from tariffs charged to crude oil producers for the transport of crude oil through the Ocensa Pipeline, which it owns and operates pursuant to a long-term concession agreement with the Colombian Government for an initial duration of 50 years commencing in March 1996 and subject to renewal for additional 20-year terms thereafter. These tariffs are calculated in accordance with the methodology established by the MME and are structured to remunerate the pipeline operator at a specified rate of return, with additional returns permitted for improvements and expansions to pipelines, from which Ocensa has benefitted from in recent years upon the completion of its expansion projects. Currently, tariffs are revised every four years (adjusted annually for inflation), providing Ocensa with predictable time horizons in which tariffs are fixed. The current tariffs were reviewed and approved in November 2015 pursuant to the procedure established by the MME and are valid until June 30, 2019. In addition, pursuant to regulations currently in effect, tariff rates for the transport of crude oil along segments of a pipeline resulting from expansion projects may be established by commercial agreements between the parties and these tariffs will be applicable to all shippers that utilize the additional transportation capacity resulting from the expansion. The tariff rates for the 135 kbpd of expanded capacity resulting from Ocensa's capacity expansion projects completed in 2016 are currently set under "Ship or Pay" contract agreements that establish a uniform tariff with a discount or surplus based on crude quality, the type of and the duration of the contract. Ocensa also charges a differential tariff of approximately $0.35 per barrel for transporting crudes with viscosities above 300cSt and up to 600cSt. Moreover, given that tariffs are determined independent of commodity prices, the Ocensa Pipeline has no direct commodity price exposure. See "Industry and Regulatory Overview—Tariff Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Ocensa's Results of Operations—Tariff Regulation."

*Operation of the Port of Coveñas*. Ocensa also derives revenue (1.3% in 2018) from tariffs it charges for the transfer, operational storage and loading of crude oil for export at the Port of Coveñas, which Ocensa operates pursuant to a long-term concession agreement with the Colombian Government that expires in 2036.

**Ocensa's Primary Assets**

***Ocensa Pipeline***

As illustrated in the graphic below, the Ocensa Pipeline connects one of the most prolific oil basins of the country with the two largest refineries in Colombia, the Cartagena refinery and the Barrancabermeja refinery, and the largest export terminal in Colombia, in Coveñas:


*Source*: Company information.

The Ocensa Pipeline passes through 45 municipalities in six Colombian states (known in Colombia as *departamentos*), and comprises:

- 10 stations (for the storage, pumping, pressure reducing and boosting of crude oil), including three stations that were completed as part of the Project Potencia 135 expansion in 2016,
- a base for coordination of maintenance activities in the city of Tunja,
- tanks for the storage of up to 4.5 million barrels of crude oil, and
- a control center located in the city of Bogotá.

As set forth in the table below, the Ocensa Pipeline is divided into four segments and terminates in the Port of Coveñas.

| Segment | Route | Length | Diameter | Transport Capacity | % of Total Revenue Derived from Segment in 2017(1) |
|---|---|---|---|---|---|
| | | *(in kilometers)* | *(in inches)* | *(in kbpd)* | |
| Segment 0 ..... | Cupiagua – Cusiana | 39 | 16 | 198 | 0.2% |
| Segment I..... | Cusiana – El Porvenir | 33 | 30 | 745 | 4.7% |
| Segment II..... | El Porvenir - Vasconia | 287 | 30 – 36 | 745 | 52.7% |
| Segment III..... | Vasconia – Port of Coveñas | 477 | 30 | 550 | 31.2% |
| Port of Coveñas ..... | Port of Coveñas | 12 | 42 | 25 time slots per month to load vessels | 5.8% |

(1) Revenue percentage excludes extra heavy crude, unloading, port and dilution services, water batching, delegated maintenance and other revenues, and may not add to 100%.

***Port of Coveñas***

Ocensa's assets at the Port of Coveñas comprise both onshore facilities located within the port and offshore facilities located in the Gulf of Morrosquillo and provide Ocensa with storage, transfer and export capabilities. In 2017, approximately 51% of the liquid bulk cargo exported from Colombia was crude oil exported by Ocensa at the Port of Coveñas. The remainder of Colombian crude oil was exported mainly at the Ports of Cartagena, Pozos Colorados and Tumaco, according to proprietary information and information compiled from the ANH and the General Superintendence of Ports and Transportation (*Superintendencia General de Puertos y Transporte*).

**Republic of Colombia and Macroeconomic Environment**

With a GDP of US$737 billion in 2018, Colombia is the fourth largest economy in Latin America and, as the longest standing democracy in the region, has traditionally been one of the most stable economies in the region. From 2010 to 2018, Colombia's GDP growth was on average 1.5% higher than its Latin American peers, and it is expected to grow on average 3.2% during 2019 to 2023. Since May 2011, Colombia's governmental long-term debt has remained investment grade (rated as Baa2 by Moody's) and its sovereign credit rating is BBB- by Standard & Poor's and BBB by Fitch. Colombia has 13 bilateral investment agreements and 15 free trade agreements in force, including the U.S. Colombia Trade Promotion Agreement, a free trade agreement negotiated between Colombia and the United States in May 2012, each of which has contributed to further growth in Colombia.

We believe that a tax-friendly environment and improved security have helped to encourage an influx of international companies and foreign investment in Colombia. In recent years, Colombia has experienced increased political and economic stability, which has resulted in significant increases in foreign direct investment in the country. With an average of 4.0% of foreign direct investment as a percent of GDP during 2010 to 2018, Colombia is the third largest recipient of foreign direct investment in Latin America, behind Brazil and Mexico.

With respect to its crude oil and gas industry, Colombia is the fourth largest crude oil producer in South and Central America and the sixth largest holder of proven crude oil reserves in South and Central America, according to BP's World Oil Review 2017 and the ANH. Since restructuring state-owned Ecopetrol and establishing the ANH in 2003-2004, Colombia has experienced increased exploration and production activity, with crude oil reserves having increased from 1,453 million bbl in 2005 to 1,782 million bbl in 2017, while crude oil production increased from 669kbpd in 2009 to 865kbpd in 2018. According to the Mining Energetic Planning Unit (*Unidad de Planeación Minero Energética*) of the MME, Colombian proven reserves may reach an estimated 11.4 billion boe by 2030.

**Competitive Strengths**

Ocensa is a leading pipeline transporter of crude oil in Colombia and believes its main competitive strengths include:

***Resilient business model with significant and predictable cash flow***

The stable regulatory framework in Colombia and Ocensa's strong competitive position result in stable and strong cash generation. Throughout the oil price cycle (2014 to 2017), Ocensa's transported volumes remained practically stable (601kbpd in 2014 to 581kbpd in 2017), while national oil production decreased by approximately 14%, according to the ANH.

Despite the oil and gas sector downturn, Ocensa's operating cash flow remained strong, as evidenced by measures such as its EBITDA of US$598.1 million for the six months ended December 31, 2018 and US$567.8 million for the six months ended June 30, 2018, compared to US$1.1 billion in 2017 and US$1.0 billion in 2016, respectively. At the same time, Ocensa has worked on increasing its profitability through several efficiency initiatives and its operating costs (fixed and variable costs, including administrative expenses) were US$232 million, US$204 million and US$175 million in 2018, 2017 and 2016, respectively. These factors have contributed to Ocensa's favorable EBITDA margins of 82.3%, 81.4% and 85.2% in the corresponding years. Ocensa's strong cash flow generation capacity, low operating costs and high margins have allowed it to self-fund a substantial portion of its capital expenditures, provide it with resources for the payment of financings and pay dividends of 100% of net income every year. Dividend distributions have been US$605.5 million, US$381.3 million and US$656.3 million for 2018, 2017 and 2016, respectively. Ocensa expects to continue using its cash flow generation capacity to fund its future capital expenditures and maintain its dividend policy of 100% of net income without resorting to significant use of leverage.

***Stable regulatory framework***

The regulation of oil pipeline transportation is governed by the Petroleum Code of 1953 and regulation issued by the MME, as amended, which states that a fair profit must be ensured to the transporter. Transportation tariffs are calculated according to a formula established by the MME 2014 Resolution, which provides remuneration for (i) investments required for the construction of the pipeline; (ii) maintenance, use and administration of the pipeline; and (iii) a fair return to investors. The tariffs are initially set in US dollars, adjusted annually pursuant to the formula contained in the MME 2014 Resolutions.

Ocensa operates as a regulated profit center under a rate of return model, a framework that has been widely adopted by developed nations to regulate their midstream sector.

***Recently completed expansion with firm "ship or pay" contracts***

In December 2016, Ocensa completed the expansion project of Project Potencia 135 and in July 2017, the "ship or pay" contracts related to this project became effective. Under "ship or pay" contracts, Ocensa receives monthly contractual payments regardless of whether a shipper effectively delivers crude oil and Ocensa is obligated to reserve transportation capacity only upon payment from a shipper. "Ship or pay" contracts range from eight to ten years, and services under the "ship or pay" contracts are paid regardless of the effective use of the capacity or the segment by which the crude enters or exits the pipeline. Each contractual tariff is adjusted every year.

***Strong competitive position driven by unique cost competitive position and reliability***

Colombia has become an active crude oil and gas market in Latin America, with the Colombian Government having initiated several policies to encourage foreign investment in the Colombian crude oil and gas industry. According to BP's World Oil Review 2017 and the ANH, Colombia is the fourth largest crude oil producer in South and Central America and the sixth largest holder of proven crude oil reserves, with crude oil reserves having increased from 2,100 million bbl in 2009 to 1,782 million bbl in 2017, while crude oil production increased from 669kbpd in 2009 to 865kbpd in 2018.

As the owner of the largest crude oil pipeline in Colombia, Ocensa benefits from limited competition from other pipelines and from other crude oil transportation alternatives. Competitor pipelines include the OBC pipeline and the Oleoducto de Colombia pipeline (that only competes with Ocensa's segment III) which are not expected to increase transportation capacity in the near term. The Oleoducto de Colombia pipeline is also operating at full capacity. Significant barriers to entry exist for the development of new competitor pipelines, which are subject to

strict government and environmental licensing that may require several years to obtain. These projects are also subject to construction risks, right of way permits and cost overruns, with the cost of building pipeline infrastructure having increased in recent years. Ocensa also faces competition from trucking transportation and integrated logistics systems of trucks and barges through the Magdalena River, the other alternatives for the transportation of crude oil in Colombia.

Ocensa's competitive strength in the market is evidenced by the fact that, in 2018, 74% of Colombia's total crude oil production was transported through the Ocensa Pipeline and 50% of the total exports of liquid bulk cargo from Colombia was crude oil exported by Ocensa at the Port of Coveñas.

Ocensa believes that its unique cost-competitive position and reliability will continue to drive its leading market positioning and support its revenue and cash flow growth over the near to medium-term.

***Strategically located, high-quality assets***

Measuring approximately 836 km on land and 12 km underwater, the Ocensa Pipeline is strategically located to benefit from stabilized oil production in the Colombian crude oil and gas industry. The Ocensa Pipeline currently transports crude oil from Colombia's most prolific basins, the Llanos basin and the Magdalena Basin, which in 2018 accounted for 74% and 19% of Colombia's crude oil production, respectively, to the Port of Coveñas, Colombia's primary crude oil export facility. Ocensa believes that because current oil and gas exploration in Colombia is concentrated in the Llanos and Middle Magdalena Valley basins, transportation systems running from these basins to export terminals, such as the Ocensa Pipeline, will become even more strategic to Colombian crude oil and gas companies. Moreover, the Ocensa Pipeline is strategically located near other important crude oil infrastructure, including the two largest refineries in Colombia, the Cartagena refinery and the Barrancabermeja refinery, which Ocensa believes will continue to drive demand for the Ocensa Pipeline.

In addition, Ocensa's asset base is comprised of modern, high-quality stations and equipment. Ocensa's high-quality assets include state-of-the-art storage, pumping and pressure reducing stations, high capacity storage tanks and loading tanker vessels with individual upload capacities of up to 2 million barrels. Ocensa believes that the quality of its asset base provides it with distinct advantages over its competitors. For example, the Ocensa Pipeline is currently capable of handling crude oil of different qualities, ranging from light crude oil and mixtures to extra heavy crudes, allowing Ocensa to meet the evolving transportation demand of crude oil producers in Colombia. In 2017, Ocensa started transporting heavier crudes (300cSt and up to 600cSt) and started charging an incremental tariff of US$0.35/bbl to shippers to transport this type of crude.

As Ocensa continues to invest in the Ocensa Pipeline, it believes that the quality of its assets will continue to provide it with a competitive advantage.

***Experienced management team***

Members of Ocensa's senior management team have twenty or more years of experience in the Colombian crude oil and gas industry in their respective areas of expertise, with a strong focus on financial performance and operational efficiency, and they are committed to attaining solid and sustainable financial results in a socially and environmentally responsible manner. Ocensa's management practices are also focused on its relationships with stakeholders (including its shareholders and current and prospective customers) so as to leverage its competitive position. Ocensa believes that the specialized experience of its professionals and their in-depth knowledge of its company and its stakeholders contribute significantly to its cost-effective and efficient operations.

Ocensa's track record of growth with robust results over the last four years reflects the effectiveness of its management team, management systems and organizational culture.

**Business Strategy**

Ocensa intends to focus on achieving steady and sustained growth, keeping its costs competitive and building on its competitive strengths in order to maintain and improve its market share. The principal components of Ocensa's strategy are to:

***Capture additional growth opportunities***

Ocensa intends to focus on achieving further integration of the transportation system in Colombia and offering tailor-made solutions to crude oil producers in the country. Ocensa will focus on investments to increase the volume of heavy and extra heavy crude oil transported within the Ocensa Pipeline, charging an incremental tariff to the transporters. Ocensa is especially well-positioned to act as a consolidator of the midstream sector in Colombia, building an integrated platform that maximizes investor returns.

***Enhance Ocensa's profitability and margins through gains in operational efficiency***

Ocensa intends to continue to focus on increasing its operational efficiency in order to enhance its profitability and profit margins. Ocensa is focused on further improving the efficiency and sustainability of its operations by investing further in advanced pipeline transportation technologies and enhancing the capacity of its facilities in order to reduce per unit transportation costs. For example, Ocensa is currently implementing Project PROTON, an integrated transportation platform aimed at further optimizing the pipeline planning process and materializing cost reduction opportunities in areas such as drag reducing agent savings, energy savings and savings related to the streamlining of tasks that are currently performed manually. In order to achieve increased operational efficiency, Ocensa plans to focus on three pillars:

- *Consolidate Ocensa's organizational development model to focus on efficiency and competitiveness*. Ocensa believes that it will further maintain its track record of improving cost efficiency through disciplined cost management policies and by leveraging its know-how and technical expertise. Ocensa will seek to consolidate standards of efficiency, safety and reliability throughout its organization, through continuous investment in the optimization of its operating processes by establishing challenging performance goals for its personnel.

- *Develop an asset repositioning program.* Ocensa intends to formulate and implement an asset repositioning program based upon technology designed to improve the maintenance, reliability and availability of its assets as well as foster environmental responsibility.

- *Strengthen Ocensa's corporate governance to ensure operational excellence in the management of its projects.* Ocensa intends to reinforce and monitor the proper execution of its corporate governance principles (and foster compliance among its employees) in order to help eliminate management bottlenecks and inefficiencies that might hinder the successful completion of its projects.

***Continue to identify and enter into new strategic partnerships***

In order to increase Ocensa's pipeline operations (either through expansion projects or through strategic acquisitions) while reducing its financial and operational risk, Ocensa intends to continue identifying and entering into relationships with new strategic partners within the Colombian crude oil and gas industry, including other pipelines owners and/or operators, private equity investors as well as upstream/downstream crude oil and gas companies. Ocensa intends to continue to partner with well-established companies of domestic and international repute, including its controlling shareholders and potential customers, with which it may form joint ventures in order to allow it to gain market share and continue to take advantage of the market opportunities in Colombia.

***Continue Ocensa's focus on health, safety, environmental awareness and social responsibility.***

Ocensa intends to continue to improve its health, safety environmental awareness and social responsibility initiatives, which it believes to be essential to the sustainability of its operations. In particular, Ocensa will continue to promote a culture of prevention and emphasize continuous improvement risk management policies in order to:

- Ensure the health and safety of all employees associated with the operation of the Ocensa Pipeline and its surrounding communities, including through accident prevention programs and the strengthening of each of Ocensa's worksites through worksite diagnostics; and

- Promote environmental initiatives, including those directed towards:

- soil protection and basins (geotechnical protection programs as well as erosion and landslide prevention, due to the heavy rains that affect the area surrounding the Ocensa Pipeline),
- the reduction of emissions,
- waste management,
- water preservation and
- biodiversity.

In 2015, Ocensa implemented the "CARE" strategy, an integrated, stakeholder-focused framework for the treatment of health safety, environmental awareness and social responsibility. Pursuant to the "CARE" strategy, policies with respect to each of six stakeholder groups are considered, including the following:

- Our People (Ocensa employees): Respecting and promoting, without limitation, the rights of the people associated with the business. Between 2016 and 2018, Ocensa reduced the number of registerable accidents requiring medical treatment by 75%, and the number of man hours worked by 26%.

- Our Community (Communities engaging with Ocensa's influence): Establishing trust-based relationships with communities in the pipeline's area of influence, with an emphasis on women's development. In 2018, Ocensa invested over US$1.97 million in partnership programs with communities, including over US$1.61 million committed to woman's development programs focused on education scholarships, home improvements and civic participation.

- Our Environment (The environment within Ocensa's influence): Developing projects to mitigate Ocensa's environmental impact and adapt to climate change, including conservation, spill prevention and remediation strategies. In 2017, Ocensa implemented the REPO Project to replace crude and diesel engines with gas powered turbines in El Porvenir, substantially decreasing noise and carbon dioxide emissions.

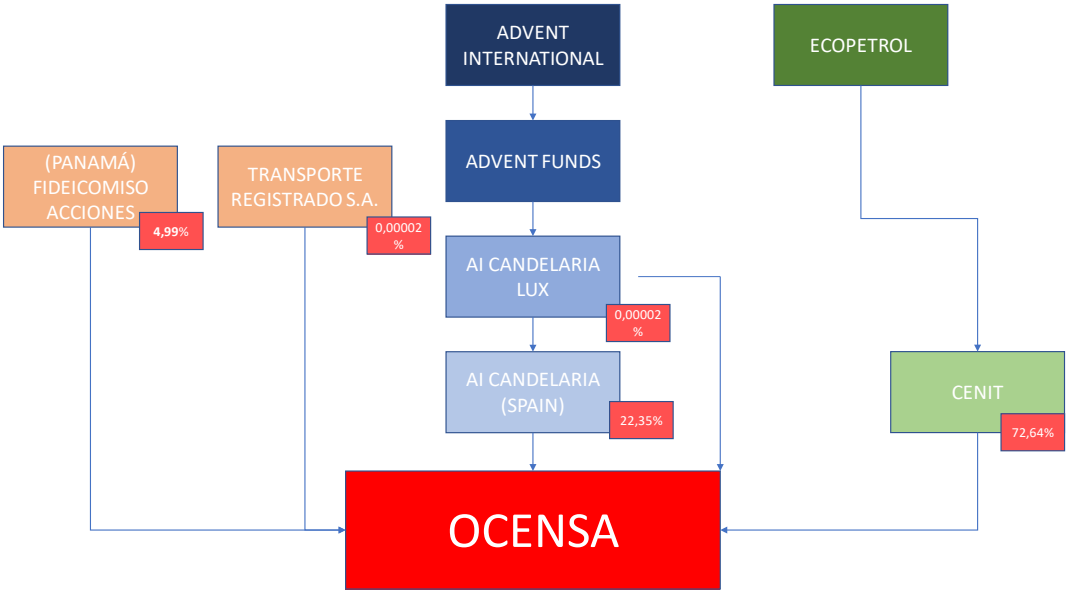
- Our Allies (Ocensa's clients, shareholders and contractors): Adding value to customer services and capturing new business opportunities. Over the last three years, Ocensa has completed several capacity expansion projects such as Project Delta 35 and Project Potencia 135, in addition to several integration and competiveness projects.

- Our Assets (Ocensa's infrastructure, reputation and knowledge): Establishing policies and processes to protect Ocensa's pipeline infrastructure, maintenance systems and reputation. Ocensa identifies new project opportunities and improvement initiatives, such as accident prevention initiatives, as well as caring and maintaining the knowledge and expertise of Ocensa's personnel, and efficiently allocates capital to them.

- The Institutions (Governmental and regulatory authorities): Maintaining positive relationships with authorities and a high quality standard to ensure the continued availability of government authorization and contracts. In 2017, Ocensa established a Risk and Compliance department to manage its governance, risk and control functions in an integrated manner, including compliance with applicable regulations.

**Corporate Structure**

As of the date of this offering memorandum, Ocensa has no subsidiaries. The following diagram sets forth the equity interests of its shareholders in Ocensa:




(1) A wholly-owned subsidiary of Ecopetrol.
(2) Shares held directly by AI Candelaria.

Ocensa's outstanding capital stock is fully subscribed and amounts to US$81.7 million as of December 31, 2018, represented by 5,159,000 shares with a par value of US$15.84 each. All its outstanding shares are ordinary, nominative and confer upon their holders the same rights.

**Corporate Governance**

In support of Ocensa's strong relationship with its controlling shareholders, it has established a thorough corporate governance structure to guide major decision-making. Central to this corporate governance structure is its Shareholders' Agreement, pursuant to which Ocensa has five board members, two of whom are statutorily required to be independent. Each of the board members has an alternate member. Based on our 22.352% minority ownership, we hold the right to appoint, and effectively control, the appointment of, two board members and two alternates (including the chairman of the board) based on the electoral quotient system (*cuociente electoral)* and Cenit and its affiliates hold the right to appoint three board members and three alternates, two of whom must be independent. Ocensa's Shareholders' Agreement establishes significant decision-making approval processes, such as:

- Approval by a qualified majority of at least four board members of significant decisions, including:
  - Ocensa's business plan and any amendments to the plan,
  - projects valued at over US$100 million and related party transactions over US$500,000,
  - Ocensa's involvement in new business lines substantially different from those contained in its business plan, and
  - The rules for the issuance and placement of shares (*reglamento de emisión y colocación de acciones*) or other securities below their respective fair market value.

- Shareholder approval thresholds for certain significant decisions, including an 85% shareholder support threshold to sell any of Ocensa's assets worth at least US$50 million and an 80% shareholder support threshold to issue any Ocensa shares.

For additional information regarding Ocensa's Shareholders' Agreement, see "Principal Shareholders—Shareholders' Agreement."

On October 22, 2013, Ocensa's board of directors adopted its corporate governance code, which applies to its management, employees, and shareholders. Its corporate governance code contains rules governing its board of directors and shareholders' meetings, composition of its board, compensation of executive officers, internal controls, risk management, committees of its board of directors, conflicts of interest and social responsibility, among other matters.

**Brief History**

In the early 1990s, crude oil deposits were discovered in the Cusiana and Cupiagua stations in the Llanos basin. At the time, Colombia had only the Oleoducto de Colombia and Oleoducto de los Llanos pipelines, owned by Ecopetrol, which could transport crude oil from these fields. The Oleoducto de Colombia, however, did not have sufficient capacity to meet the imminent increase in production from the Llanos basin following the discovery of the deposits.

In response to these developments, in December 1994, the owners of the producing fields (Ecopetrol, Triton Pipeline Colombia Inc., BP Colombia Pipelines Ltd. and Total Colombia Pipeline) as well as two Canadian companies with expertise in the transportation of hydrocarbons Enbridge, and Transcanada, through IPL Enterprises and TCPL International, respectively, incorporated Ocensa in order to design, build, operate and manage a pipeline.

The Ocensa Pipeline was completed and became operational in 1998. By this time, production from the Cusiana and Cupiagua stations had reached production of nearly 500,000bpd, three times the amount produced when Ocensa was incorporated in 1994.

By 2006, the Ocensa Pipeline had become an established transport system for crude oil of various types, successfully transporting heavy crude oil from the El Porvenir station to the Port of Coveñas. In 2008, the rise in crude oil prices increased production at the Castilla and Rubiales fields and Ocensa began transporting crude oil from these prolific fields to the Port of Coveñas.

In 2013, Ocensa's shareholders shifted its operational structure from a cost center to a profit center.

In December 2013, AI Candelaria acquired a 22.352% minority interest in Ocensa through the purchase of Ocensa's equity capital from its former shareholders Santiago, New Santiago, Total Colombia Pipeline and Cepcolsa.

In March 2014, Darby Private Equity, a private equity investment vehicle of Franklin Templeton, acquired Inversiones Sol's 5% equity interest in Ocensa.

In 2014, Ocensa completed Project Delta 35, which expanded its transportation capacity in Segments II and III of the Ocensa Pipeline to 610kbpd and 415kbpd, respectively.

In 2016, Ocensa completed Project Protencia 135, which added three new pumping stations and upgraded four existing pumping stations, expanding transportation capacity in Segments I and II of the Ocensa Pipeline to 745kbpd and Segment III to 550 kbpd.

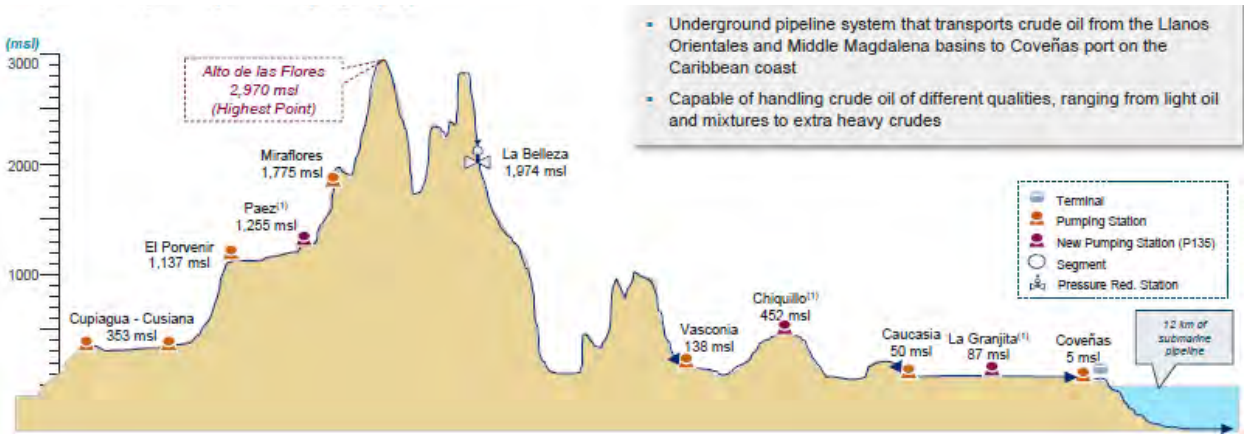
In 2016, Ocensa completed the AD600 Heavy Crude Project, which increased the ability of the Ocensa Pipeline to accommodate extra heavy crude oils (up to 600 cSt viscosity) and generated an important competitive advantage for Ocensa.

In 2017, Ocensa and Oleoducto Bicentenario completed a joint project to allow for the temporary reversal of Oleoducto Bicentenario's flow into the Ocensa Pipeline whenever the CLC is inoperative, generating additional volumes through the Ocensa Pipeline.

**Ocensa's Principal Assets and Operations**

Ocensa divides its principal assets and operations into four segments: Segment 0 spans between the Cupiagua and Cusiana stations of the Ocensa Pipeline; Segment I spans between the Cusiana and El Porvenir stations of the Ocensa Pipeline; Segment II spans between the El Porvenir and Vasconia stations of the Ocensa Pipeline, passing through the municipalities of Miraflores and La Belleza; and Segment III spans between the Vasconia station of the Ocensa Pipeline and the Port of Coveñas, passing through municipality of Caucasia.

The Port of Coveñas comprises both Ocensa's onshore facilities at the port as well as offshore facilities located at the Caribbean Sea in the Gulf Morrosquillo. The following graphic illustrates the length, topography and facilities that comprise Ocensa's operations.




The following table sets the forth route, length, pipeline diameter, storage capacity and transport capacity of Ocensa's operational segments.

| Segment | Route | Length | Diameter | Storage Capacity | Transport Capacity |
|---|---|---|---|---|---|
| | | *(in km)* | *(in inches)* | *(in kbbl)* | *(in kbpd)* |
| Segment 0 ..... | Cupiagua – Cusiana | 39 | 16 | 80 | 198 |
| Segment I..... | Cusiana – El Porvenir | 33 | 30 | 1,240 | 745 |
| Segment II..... | El Porvenir – Vasconia | 287 | 30 – 36 | 300 | 745 |
| Segment III..... | Vasconia – Port of Coveñas | 477 | 30 | 135 | 550 |
| Port of Coveñas ..... | Port of Coveñas | 12 | 42 | 2,757 | 25 time slots per month to load vessels |

***The Ocensa Pipeline***

Spanning approximately 836 km on land and 12 km underwater, the Ocensa Pipeline is the largest and, we believe, most strategic crude oil pipeline in Colombia. Fully operational since 1998, the Ocensa Pipeline transports crude oil from the Llanos basin to the Port of Coveñas on the Caribbean coast where it is exported via tanker vessels to various crude oil importing countries. The Ocensa Pipeline passes through 45 municipalities in six Colombian states, and is comprised of 10 stations, a base for maintenance coordination in Tunja, tanks for operative storing of up to 4.5 million barrels of crude oil throughout the pipeline system and main and back-up control centers located in the city of Bogotá.

The Ocensa Pipeline was originally built to transport light crude oil (from the Cusiana and Cupiagua stations). Due to a production decline in the Cusiana field and a recent production increase in the Llanos basin, the

majority of the crude oil Ocensa has transported for the last three years is heavy crude. Ocensa is currently capable of handling crude oil of different grades, ranging from light crude oil and intermediate blends to extra heavy crudes, providing it a competitive advantage in meeting the needs of Colombian crude oil producers and their evolving transportation demands.

Moreover, Ocensa bases its transport capacity estimates on a conservative mix of heavy and light crude oil, and as a result, it has historically operated above its installed capacity. The following table presents the average daily and total annual amount of crude oil Ocensa transported for the years indicated, based on transported volume in Segment 2.

| Field and Type Transported | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| | *(in mbpy)* | *(in kbpd)* | *(in mbpy)* | *(in kbpd)* | *(in mbpy)* | *(in kbpd)* |
| Castilla (heavy crude) ..... | 124.34 | 340.66 | 127.2 | 348.5 | 142.6 | 390.7 |
| Mezcla (intermediate crude)..... | 90.64 | 248.33 | 80.6 | 220.7 | 57.9 | 158.6 |
| Cusiana (light crude)..... | 17.54 | 48.06 | 4.2 | 11.6 | 6.2 | 17.0 |
| **Total oil transported**..... | 232.52 | 637.05 | **212.0** | **580.9** | **206.7** | **566.3** |

As set forth in the table below, reflecting transportation in Segment 2, in 2017 Ocensa transported approximately 68% of Colombia's total crude oil production, representing a significant increase from 2013, when it transported 59% of Colombia's total crude oil production.

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | | | *(in %)* | | |
| Transportation by Ocensa ..... | 61 | 62 | 64 | 68 | 74 |
| Transportation by other pipelines. | 39 | 38 | 36 | 32 | 26 |

Segment 0

As shown in the map below, Segment 0 transports crude oil from the Cupiagua station to the Cusiana station, spanning a length of 39km with a diameter of approximately 16 inches.


Segment 0 has an installed transport capacity of 198.0kbpd. In accordance with the methodology established by the MME, the current tariff for Segment 0 is US$0.5058/bbl, effective July 1, 2018 to June 30, 2019.

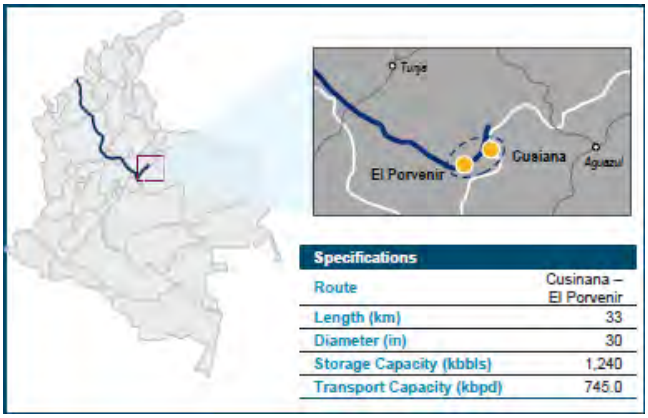
The table below sets forth Segment 0's contracted capacity pursuant to the terms of the corresponding transportation agreements Ocensa has entered into with these customers.

| | As of December 31, 2018 |
|---|---|
| | *(in kbpd)* |
| Ecopetrol ..... | 138.8 |

| | As of December 31, 2018 |
|---|---|
| Repsol | 19.2 |
| Total | 10.3 |
| Equion | 9.9 |
| Frontera | 9.9 |
| CEPSA | 9.9 |
| **Total contracted capacity** | **198.0** |

Segment I

As shown in the map below, Segment I transports crude oil from the Cusiana station to El Porvenir station and spans a length of 33km with a diameter of approximately 30 inches.




Segment I has an installed transport capacity of 745.0kbpd. In accordance with the methodology established by the MME, the current tariff for Segment I is US$0.5489/bbl, effective July 1, 2018 to June 30, 2019. Since 2010, Ocensa has increased the effective capacity for Segment I through improvements to system efficiency, including Project Delta 35 in 2014 and Project Potencia 135 in 2016.

The table below sets forth Segment I's contracted capacity pursuant to the terms of the corresponding transportation agreements Ocensa has entered into with these customers.

| | As of December 31, 2018 |
|---|---|
| | *(in kbpd)* |
| Ecopetrol (1) | 496.2 |
| Frontera (1)(2) | 79.2 |
| Repsol | 56.6 |
| CEPSA | 29.2 |
| Total | 6.3 |
| Equion | 29.2 |
| Vitol (1) | 41.5 |
| BP/Gunvor (1) | 10.0 |
| **Total contracted capacity** | **748.2** |

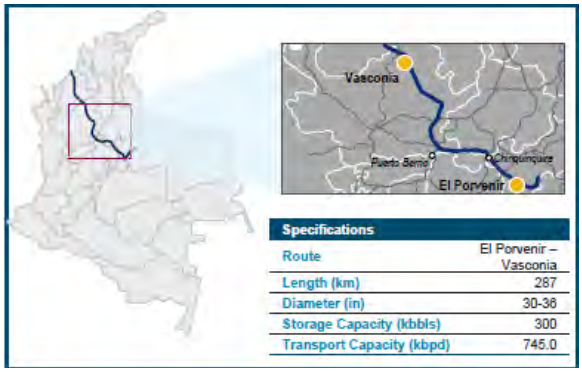
(1) 87.5 kbpd of Ecopetrol's contracted capacity, 30.0 kbpd of Frontera's contracted capacity and all of BP/Gunvor's contracted capacity is pursuant to "ship or pay" contracts, and Vitol's contracted capacity is pursuant to "ship or pay" and "ship and pay" contracts.

The following table represents historical volumes of crude oil transportation at Segment I on an annual basis:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| | | *(in kbpd)* | | |
| Volume transported ..... | 302 | 287 | 262 | 308 |

Segment II

As shown in the map below, Segment II transports crude oil from the El Porvenir station to the Vasconia station and spans a length of 287km with a varying diameter that ranges from 30 to 36 inches.




Segment II currently has an installed transport capacity of 745.0kbpd. In accordance with the methodology established by the MME, the current tariff for Segment II is US$3.4877/bbl, effective July 1, 2018 to June 30, 2019.

The table below sets forth Segment II's contracted capacity, pursuant to the terms of the corresponding transportation agreements Ocensa has entered into with these customers.

| | **December 31, 2018** |
|---|---|
| | *(in kbpd)* |
| Ecopetrol (1) ..... | 496.2 |
| Frontera(1) ..... | 79.2 |
| Repsol ..... | 56.6 |
| CEPSA ..... | 29.2 |
| Total ..... | 6.3 |
| Equion ..... | 29.2 |
| Vitol(1) ..... | 41.5 |
| BP/Gunvor(1) ..... | 10.0 |
| **Total contracted capacity** ..... | **777.3** |

(1) 70.0 kbpd of Ecopetrol's contracted capacity, 30.0 kbpd of Frontera's contracted capacity and all of BP/Gunvor's contracted capacity is pursuant to "ship or pay" contracts, and Vitol's contracted capacity is pursuant to "ship or pay" and "ship and pay" contracts.

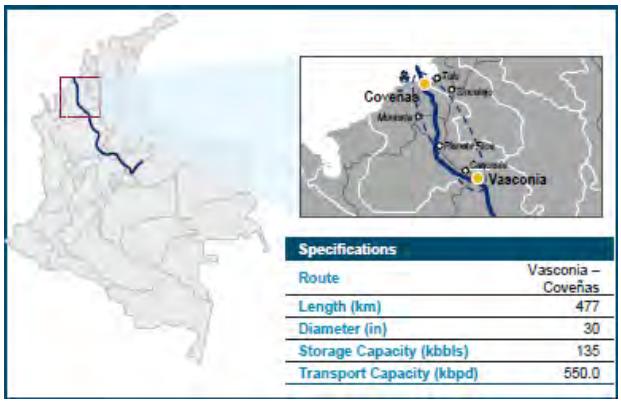
The following table represents historical volumes of crude oil transportation at Segment II on an annual basis:

| For the Year Ended December 31, | | | | |
|---|---|---|---|---|
| **2014** | **2015** | **2016** | **2017** | **2018** |
| | | *(in kbpd)* | | |

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| Volume transported ..... | 602 | 619 | 565 | 581 | 637 |

Segment III

As shown in the map below, Segment III transports crude oil from the Vasconia station to the Port of Coveñas, and spans a length of 477km with a diameter of approximately 30 inches.




Segment III currently has an installed transport capacity of 550kbpd. In accordance with the methodology established by the MME, the current tariff for Segment III is US$3.0117/bbl, effective July 1, 2018 to June 30, 2019.

The table below sets forth Segment III's contracted capacity, pursuant to the terms of the corresponding transportation agreements Ocensa has entered into with these customers.

| | As of December 31, 2018 |
|---|---|
| | *(in kbpd)* |
| Ecopetrol (1) ..... | 358.8 |
| Frontera(1) ..... | 69.4 |
| Repsol ..... | 37.5 |
| Total ..... | 6.1 |
| CEPSA ..... | 19.4 |
| Equion ..... | 19.4 |
| Vitol(1) ..... | 31.5 |
| BP/Gunvor(1) ..... | 10.0 |
| **Total contracted capacity** ..... | **552.1** |

(1) 70.0 kbpd of Ecopetrol's contracted capacity, 17.5 kbpd of Vitol's contracted capacity, 30.0 kbpd of Frontera's contracted capacity and all of BP/Gunvor's contracted capacity is pursuant to "ship or pay" contracts.

The following table represents historical volumes of crude oil transportation at Segment III on an annual basis:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | | *(in kbpd)* | | |
| Volume transported ..... | 403 | 350 | 342 | 380 |

In connection with Project Potencia 135, Ocensa added the following stations to Segment III, bringing the total capacity, taking into consideration the capacity increases achieved under Project Delta 35, to 550,000bpd.

- Chiquillo Station, with four 6,000 hp pumps and a 18MW diesel generation plant

- La Granjita, with three 6,000 hp pumps and a 13MW gas generation plant

Ocensa Pipeline Stations

The following stations along the Ocensa Pipeline store, pump and direct crude oil through the system:

Cupiagua Station: a pumping station that transfers crude oil and water from the central processing facility, located at the Cupiagua field through the 16 inch Cupiagua-Cusiana pipeline to storage tanks at the Cusiana station.

Cusiana Station: a pumping station that stores crude oil prior to pumping it to the El Porvenir station. This station relies on four principal pumping units in addition to four booster pumping units that can be utilized as operational requirements and conditions demand. The storage capacity and tank truck unloading capacity of this station are approximately 1,240,000bbl and 88,000bpd, respectively.

El Porvenir Station: a pumping station that receives and stores various types of crude oil from various pipelines and sources prior to pumping the crude oil through Ocensa Pipeline according to sequences programmed into the pumping equipment. This station relies on eight principal pumping units in addition to four booster and five re-booster pumping units. This station has six storage tanks capable of holding approximately 260,000bbl. In addition to serving as a point-of-origin for crude oil entering the Ocensa Pipeline, when the Cusiana station pumps crude oil, the El Porvenir station functions as a re-pumping station.

Paez Station: a pumping station with four principal pumping units.

Miraflores Station: an intermediate (booster) pumping station with 8 principal pumping units. This station only has storage capacity for crude oil deriving from relief valves and drains. Between the Miraflores station and La Belleza station, the diameter of the pipeline increases from a diameter of 30 inches to a diameter 36 inches.

La Belleza Station: a pressure reduction station designed to control and discharge pressure and crude oil flow in order to safely maintain the lower sections of the Ocensa Pipeline that run from the La Belleza station to the Vasconia station. This station has two control valves that can be used simultaneously based on operational requirements. The La Belleza station serves two important functions: (1) it prevents crude oil fumes from reaching stations upstream; and (2) it protects the downstream stretch of pipeline from La Belleza to Vasconia from abrupt changes in altitude, which directly impact the pressure this portion of pipeline can support.

Vasconia Station: a pumping station situated at a critical intersection for crude oil from the Ocensa Pipeline and the other lines to which the Ocensa Pipeline is connected. This station is equipped to pump crude oil through the Ocensa Pipeline or redirect the flow of crude oil to stations in other parts of Colombia. In addition to receiving the flow of crude oil from the La Belleza station, the Vasconia station has the ability to perform the following operations: (1) pump crude oil downstream through the Ocensa Pipeline (relying on four principal pumping units); (2) direct crude oil to the Barrancabermeja Refinery using a high pressure gate; and (3) direct crude oil into the Oleoducto de Colombia pipeline using a high pressure gate. Because the flow of crude oil between the El Porvenir and Vasconia stations within Segment II is much greater than the existing flow between the Vasconia and Coveñas stations within Segment III, it is imperative that the Vasconia station receive a permanent flow of reduced pressure crude oil in order to guarantee optimal operation of the pipeline system within safe operating parameters.

Chiquillo Station: a pumping station with four principal pumping units.

Caucasia Station: a booster station with four principal pumping units.

Las Granjita Station: a booster station with three principal pumping units.This is the last pumping station on the Ocensa Pipeline before the Port of Coveñas.

***The Port of Coveñas***

As shown in the map below, Ocensa's operations at the Port of Coveñas comprise both onshore facilities located in the Port of Coveñas and offshore facilities located at the Caribbean Sea in the Gulf of Morrosquillo.


Ocensa's facilities at the Port of Coveñas have operational storage, transfer and export capabilities. Once crude has reached the Port of Coveñas, the crude oil is stored until it is exported or transferred. The total storage capacity at the Port of Coveñas is 2.8 million barrels and Ocensa may have access to other tanks owned by Cenit or Bicentenario for additional storage. This facility also executes and receives crude oil transfers to other facilities or storage tanks that Ocensa owns. Through the facilities of the Port of Coveñas, Ocensa is able to load tanker vessels with a loading capacity between 500,000 and 1,000,000bbl.

Ocensa's offshore crude oil terminal is located 12 km off the Port of Coveñas and is situated in an area where weather conditions are relatively stable year round. The pipeline that connects the onshore facilities to the offshore crude oil terminal is 42 inches in diameter and has a maximum estimated loading rate of 38,000 bph for heavy crude oil and 43,000 bph for intermediate crudethrough the TLU-2. In 2017, approximately 51% of the total exports of liquid bulk cargo from Colombia was crude oil exported by Ocensa at the Port of Coveñas.

The tariff for the terminal at Coveñas is currently US$0.5086/barrel through 2022.

The following table represents historical volumes of crude oil throughput at Port of Coveñas on an annual basis:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | | *(in kbpd)* | | |
| Volume transported ..... | 512 | 403 | 403 | 392 |

**Expansion and Optimization Projects**

In order to expand Ocensa's operations and benefit from both favorable tariff returns on capital expenditures on Ocensa's pipeline and from increased demand for crude oil transportation in Colombia, Ocensa continually seeks investment opportunities that meet its rigorous investment criteria to increase its current transport and operational storage capacity, providing significant upside potential for additional cash flow generation. Ocensa's short term efforts will be focused on several projects that are intended to increase its operational efficiency, dependability and profitability as a whole.

Ocensa believes that its project approval and selection criteria processes are well-defined and enable it to (1) help to minimize execution time, and (2) optimize technical and economic efficiencies, utilizing drag reducing agents, minimizing capital expenditures and maximizing capacity.

In the past three years, Ocensa has successfully completed the following projects:

*Project Potencia 135* (2016): Project Potencia 135 was an expansion project involving the addition of three new pumping stations (Paez, Chiquillo and La Granjita) and upgrades of existing pumping stations. Project Potencia 135 added an additional 135 kbpd of capacity to Segments I, II and III, bringing the total capacity, taking into consideration the capacity increases achieved under Project Delta 35, of Segments I and II to 745,000bpd. Ocensa's total investment in Project Potencia 135 was US$554 million.

*AD600 Heavy Crude Project* (2016): In 2016, Ocensa completed tests and infrastructure upgrades to transport heavier crude oil (300cSt to 600 cSt) and generated an important competitive advantage for Ocensa through the charging of an incremental tariff of US$0.35/bbl on heavy crude (300 cSt viscosity or higher). Even with the incremental tariff, the initiative is estimated to save up to US$3/bbl for customers in dilution cost and logistics. Ocensa's total investment in the AD600 Heavy Crude Project was US$21.5 million.

*OBC Reversion Project* (2017): OBC Reversion Project was a joint project to allow for the temporary reversal of OBC's flow into the Ocensa pipeline whenever the CLC is inoperative, generating additional volumes through the Ocensa Pipeline and avoiding shutdown of production in the Caño Limón field when the pipeline is shut down. This project generated additional volumes of 83kbpd during 2017, of which 12kbpd came from the Caño Limón field. Ocensa's total investment in the OBC Reversion Project was US$3.6 million.

***Other expansion opportunities***

In addition, Ocensa's management is currently analyzing potential expansion projects in relation to:

Access: Ocensa's management is currently considering the implementation of new infrastructure solutions that will allow its trunk system to receive greater production volumes;

Midstream consolidation opportunities: Ocensa's management is currently considering different opportunities including joint pipeline operation, integration of port operations, sharing of best practices and operational solutions for crude oil companies in Colombia; and

Operating other pipeline infrastructure systems in Colombia: Ocensa's management is currently evaluating opportunities to operate other pipeline infrastructure systems in Colombia.

**Material Agreements**

The primary agreements governing Ocensa's pipeline transportation operations are:

- the Pipeline Concession and Port Concession agreements,
- the transportation agreements Ocensa enters into with each of its customers, including truck unloading agreements, and
- strategic supplier agreements, such as for drag reducing agents, maintenance operations, fuel and energy supply, quality and quantity certifications, telecommunications and port services.

***Pipeline Concession***

On February 29, 1996 Ocensa entered into the Pipeline Concession agreement with the Colombian Government acting through the MME in order to plan, build, operate and maintain a public pipeline crossing certain municipalities and departments in Colombia, and for the provision of hydrocarbon transport services. The Pipeline Concession became effective on March 21, 1996, and was amended on December 26, 1997 in order to incorporate

certain improvements to the technical description of the Ocensa Pipeline. This amendment became effective on April 16, 1998. The Pipeline Concession is valid for an initial duration of 50 years commencing on March 21, 1996 and subject to renewal for additional terms of 20 years.

The Pipeline Concession was granted to build, operate and perform maintenance on the Ocensa Pipeline from the municipality of Aguazul, located in the department of Casanare, to the municipality of Tolú, located in the department of Sucre (sections Cusiana – La Belleza and Vasconia – Coveñas). Additionally, the Pipeline Concession authorizes Ocensa to request that the Colombian Government expropriate any real property, or impose easements or rights of ways, that are necessary to perform the activities granted in the concession agreement. Moreover, subject to obtaining any required environmental permits, Ocensa is entitled to build any ways, roads and telephone lines that are necessary in order to perform the activities described in the Pipeline Concession.

Pursuant to the Pipeline Concession, Ocensa is obligated to provide crude oil transportation services to its customers uniformly and equally, provided that the Colombian Government shall have the preferential right to use 20% of the Ocensa Pipeline's daily capacity. The applicable tariffs are determined at all times pursuant to the procedures established by the MME for such purposes, which should be set per barrel for each segment in compliance with the Petroleum Code and the MME 2014 Resolution.

In accordance with the Pipeline Concession, the Colombian Government holds a preferential right to purchase the Ocensa Pipeline pursuant to local regulations on the thirtieth anniversary of the Pipeline Concession or upon expiration of the term of the Pipeline Concession or any extension thereof, at a price to be agreed to between Ocensa and the Colombian Government and, if not agreed, to be determined by three expert witnesses, one elected by the MME, one by Ocensa and one by an impartial third party.

Pursuant to the Pipeline Concession, Ocensa is obligated to provide the Colombian Government with all the information necessary to calculate the transport tax. In the event of a breach by Ocensa of its obligations under the Pipeline Concession, Ocensa is subject to penalties of US$5,000 per case or breach administered by the Colombian Government. In order to secure compliance with the terms of the Pipeline Concession and payment of any due amounts or penalties, Ocensa delivered a surety guarantee to the Colombian Government in the aggregate amount of Ps$17,553,386. In addition, in case of breach of the obligations arising from the Petroleum Code, the MME has the power to impose fines on Ocensa, ranging between 2,000 and 100,000 minimum monthly wages.

Because the Colombian Government did not grant exclusivity rights to Ocensa under the Pipeline Concession, competitor pipelines may be developed in the same regions as the Ocensa Pipeline.

Pursuant to the applicable regulation and the Pipeline Concession, Ocensa must contribute annually the equivalent of 400 monthly minimum wages to a scholarship trust held by the MME. In 2018, the aggregate contribution paid by Ocensa was Ps$312,496,800.

In accordance with the Pipeline Concession, the Colombian Government may terminate the Pipeline Concession prior to its termination date in the event:

- Ocensa does not provide the transport services to the Colombian Government in accordance with the Pipeline Concession and the rights of the Colombian Government;

- Ocensa does not transport hydrocarbons for more than 120 days in a calendar year, except in the event of force majeure, acts of God, acts by third parties or with the permission of the Colombian Government;

- Ocensa assigns its rights under the agreement to a foreign government or entities that depend on a foreign government, or to any third parties without the express consent of the MME;

- Ocensa does not provide the stipulated services in accordance with the Pipeline Concessions;

- Ocensa charges tariffs higher than those determined pursuant to the procedures established by the MME;

- Ocensa refuses to sell the Ocensa Pipeline to the Colombian Government in accordance with its preferential right;

- Ocensa is declared insolvent;

- Ocensa does not submit any technical disputes to a resolution by experts, as provided in the local regulation;

- any of Ocensa's officers or delegates contributes to any payment for the release of an abducted Ocensa officer or employee, or in the event Ocensa pays any amount resulting from extortion; and

- any of the events included in article 82 of Law 104 from 1993, relating to certain acts or omissions in respect of organized crime organizations or guerrilla groups, including but not limited to, (1) undertaking, tolerating, failing to act in respect of or ceding unjustifiably to threats from organized crime or guerrilla groups, (2) receiving, delivering, investing, financing, transferring or retaining money or property derived from or directed to organized crime or guerrilla groups, (3) assisting or collaborating with organized crime or guerrilla groups in any way, (4) building, assigning, providing or transferring property to assist these groups to shelter people, (5) significantly ceasing, suspending or diminishing compliance of its contractual obligations following the instructions of organized crime or guerilla groups, or (6) omitting to report any offenses by these organized crime or guerrilla groups.

Ocensa may terminate the Pipeline Concession at any time upon three months prior notice.

***Port Concession***

On December 6, 1996, Ocensa entered into the Port Concession with the General Superintendence of Ports and Transportation (*Superintendencia General de Puertos y Transporte*) pursuant to which Ocensa was granted the right to build and operate a crude oil export facility at the coast of Coveñas. The Port Concession was amended on (i) April 28, 2004 in accordance with Decree 1800 of 2003 and Decree 2053 of 2003, in order to assign it to the National Concessions Institute (*Instituto Nacional de Concesiones*, currently the National Infrastructure Agency, or *Agencia Nacional de Infraestructura*), (ii) October 24, 2011, among other things, in order to change the Port Concession from private to public (iii) December 5, 2016 in order to, among other things, modify the area granted in concession, establish a new investment plan, extend the term initially agreed upon by the parties, and modify the Port Concession fees pursuant to CONPES 3744 and (iv) December 4, 2018 in order to, among other issues, modify the value of the investment plan and its schedule as it was established in the amendment of 2016, as well as to amend the fees pursuant to CONPES 3744.

Pursuant to the Port Concession, as amended, Ocensa undertook the obligation to comply with the port concession fee regime established by the Superintendence of Ports and Transportation. Under the Port Concession, Ocensa has paid the Colombian Government consideration fees equal to a sole payment of US$3,081,481.62. The October 24, 2011 amendment to the Port Concession required Ocensa to pay additional consideration equal to US$2,885,334, which was paid in five installments, the first of which was US$781,735 followed by four subsequent annual payments of US$702,322.

Notwithstanding the above, on April 15, 2013 the Colombian Government issued CONPES 3744 (which was given effect under the Colombian legal system through the Decree 1099 in 2013). CONPES 3744 establishes a new methodology for calculating the fees payable under port concession agreements. This methodology is applicable to (1) new port concession agreements granted after the enactment of Decree 1099 of 2013 or (2) port concession agreements executed prior to the enactment of the decree but that are subsequently and substantially amended pursuant to Article 17 of Law 1 of 1991. Ocensa requested an amendment to the Port Concession in August 23, 2012 in order to exclude 40 meters of beach from the area granted under the Port Concession and on August 2, 2013, the ANI informed Ocensa that the new methodology would be applicable to the Port Concession and requested certain financial information from Ocensa in order to determine the new consideration payable under the Port Concession. Ocensa withdrew its request and entered into an arbitration against the ANI disputing the ANI's decision to recalculate the Port Concession fees pursuant to the CONPES 3744 methodology and requiring Ocensa to pay the outstanding difference. This arbitration concluded in 2018, and the arbitral award declared that

Ocensa breached certain obligations relating to the calculation of royalties under the CONPES 3744 methodology. Notwithstanding this decision, Ocensa was not ordered to make any payment as a result of the breach. Consequently, it is possible that the ANI could initiate an action claiming the payment of the sums resulting from Ocensa's declared breach in relation to the calculation of fees. Ocensa pursued the annulment of the arbitral award, a claim that was rejected. Ocensa is currently calculating the amount that could potentially be owed to the ANI for the port fees discussed under this proceeding.

Ocensa's main obligations under the Port Concession are, among others, to (1) duly operate and maintain the port facilities, (2) pay the Port Concession fees referred to above, (3) grant the guarantees established therein, (4) duly pay its employees, (5) allow the Superintendence to perform surveillance tasks, (6) comply with any legal requirements that are applicable as established by any authority, (7) obtain all permits and authorizations required for the operation of the facilities, and (8) lawfully carry out its operations generally. Any breach of Ocensa's obligations under the Port Concession may result in (1) penalties by the National Infrastructure Agency, which depend on the type of default, but which should not surpass 20% of the value of the contract, (2) interventions in the operation of the port facilities or (3) early termination, as prescribed by local regulation. The Third Amendment to the Port Concession modified the sanctions for a breach of Ocensa's obligations.

The Port Concession is valid for a term of 20 years as of December 6, 1996 and may be renewed for an additional term of 20 years, subject to (1) Ocensa's submission of a renewal request at least six months prior to the scheduled termination of the Port Concession, (2) an agreement with the Colombian Government on the renewal and (3) the extension of the guarantees described below. The concession was renewed on December 6, 2016 for an additional 20 year term. However, the extension for successive periods is not a possibility under Colombian law. As of ruling C-068 of 2009 of the Colombian Constitutional Court, Port Concession Agreements cannot be successively extended and, as a general rule, they can only be extended once. Therefore, once the mentioned extended term elapses, the Port Concession will expire.

The Port Concession may be suspended in the event of force majeure and unilaterally terminated by the National Infrastructure Agency at any time upon the occurrence of any of the following events, among others:

- a default by Ocensa that materially and directly affects port operation under the Port Concession;
- the assignment of Ocensa's rights under the Port Concession without the National Infrastructure Agency's consent; or
- Ocensa's repeated default under the Port Concession such that the public interest is materially affected.

In the event the Port Concession is terminated by the National Infrastructure Agency following the occurrence of any of the foregoing events, Ocensa will be obligated to pay compensation in an amount equal to 10% of the total consideration payable by it under the Port Concession.

In order to secure compliance with Ocensa's obligations under the Port Concession, including but not limited to timely and proper payment of the surveillance rate, amounts due under the Port Concession and port maintenance costs, Ocensa is required to grant a surety guarantee to the National Infrastructure Agency in an amount equal to 3% of the amount of the investment plan approved pursuant to the agreement, but not exceeding 100 minimum legal wages. This guarantee must be obtained and/or renewed periodically every five years and be valid for the entire term of the Port Concession and six additional months.

In accordance with the Port Concession, Ocensa is required to maintain an insurance policy to indemnify the National Infrastructure Agency against any civil liabilities and torts resulting from damages caused by the operation of the port terminal. The insurance must (1) cover an amount equivalent to 10% of the amount of the investment in the plan approved pursuant to the agreement, (2) be obtained and/or renewed periodically every five years and (3) be valid for the entire term of the Port Concession and for six additional months.

In order to secure the timely and proper payment of salaries, social security items and any applicable indemnification of Ocensa's personnel, Ocensa is required to grant a surety guarantee to the National Infrastructure

Agency equal to 5% of the Port Concession's fee. This guarantee must be valid for the complete term of the Port Concession and three additional years.

In order to secure the quality of the maintenance works performed on the port, Ocensa is required to grant a surety guarantee to the National Infraestructure Agency equal to 5% of the amount of the assets subject to reversion but not exceeding 100 minimum legal wages. This guarantee must be valid for 2 years after the execution of the reversion minute.

Upon expiration of the Port Concession, all assets and facilities under the concession will revert to the National Infrastructure Agency.

***Transportation Agreements***

Agreements with initial shippers

Ocensa has entered into transportation agreements with shippers of crude oil, including the initial shippers, that govern the crude oil transportation services it provides. Ocensa entered into transportation agreements with the initial shippers on March 31, 1995, amended and restated on January 17, 2013, and these agreements terminate on December 31, 2093. Except for transportation capacity assigned to a particular initial shipper, the terms and conditions of each of the transportation agreements executed with an initial shipper are identical.

Pursuant to the terms of Ocensa's transportation agreements and transporter manual, an initial shipper must inform Ocensa of the daily average amount of crude oil to be transported during a calendar month, with two months of advance. The shipper must deliver the crude oil to a designated entry point and collect the crude oil at an identified exit point along the Ocensa Pipeline. Upon prior notice to Ocensa, the rights and obligations of an initial shipper under a transportation agreement may be extended to its affiliates up to the contracted capacity of the initial shipper, provided that the shipper and its affiliate are jointly responsible for the initial shipper's obligations under the transportation agreement. In addition, an initial shipper may temporarily or permanently assign its contracted capacity to a non-affiliated third party, provided that the assignee complies with the obligations set forth in the transportation agreement and due notice is provided to Ocensa.

To the extent an initial shipper does not fully utilize its contracted capacity in any given calendar month, Ocensa is permitted to allocate the remaining contracted capacity at its discretion for that calendar month.

Ocensa's transportation agreements with the initial shippers are based upon the "ship and pay" module, pursuant to which Ocensa is required to make available to each shipper a specified contracted capacity irrespective of whether the initial shipper transports a volume of crude oil that is lower than the initial shipper's contracted capacity. Tariffs under the transportation agreements are paid to Ocensa per each barrel received from a shipper. In the event any amounts owed to Ocensa become due and payable for over 60 days, in addition to applying a penalty interest rate on such amounts, Ocensa is entitled to sell the initial shipper's crude oil under market conditions, or, in the event Ocensa is unable to sell such crude oil, to cease receiving crude oil from the initial shipper for transportation until (1) Ocensa has received payment in full of any amounts owed, and (2) the initial shipper establishes an irrevocable surety guaranty for any payment the initial shipper may owe to Ocensa over the following six months. During the suspension of an initial shipper, Ocensa may choose to allocate such initial shipper's contracted capacity in its discretion. Ocensa may also suspend service to any initial shipper if it owes any amounts due and payable for over 90 days.

Transportation agreements may be terminated by an initial shipper prior to the contract term upon six months prior notice by the initial shipper.

Ocensa may terminate a transportation agreement upon notice to an initial shipper in the event:

- an initial shipper delivers less than 85% of the crude oil previously informed to Ocensa in a calendar month, for at least four months in a calendar year, affecting its programmed capacity and its ability to fulfill its obligations with other initial shippers;

- of a delay in payment of more than 60 days more than four times in a calendar year;
- (1) failure to pay any invoice for a term of over 180 days or (2) upon the suspension of shipments to an initial shipper for more than 90 days;
- failure of an assignee to accredit or maintain any applicable rating and other condition necessary for the assignment, and such failure occurs for more than 60 days; or
- upon a change of control of an initial shipper that results in an assignment of the transportation agreement, if the requirements for any such assignment under the transportation agreement are not satisfied within the 60 days following the change of control.

Pursuant to Ocensa's transportation agreements with the initial shippers, it may not enter into new transportation agreements that affect in any way the rights of the initial shippers without their prior consent. In addition, Ocensa may contract with third parties to sell any excess transportation capacity under its transportation agreements with the initial shippers, and its relationships with these third parties are governed by its transporters manual.

Ocensa anticipates that it will continue to execute, transportation contracts in connection with certain of its expansion projects based upon a "ship or pay" module.

"Ship or Pay" contracts

In 2014, Ocensa entered into "ship or pay" contracts with five shippers in connection with the expansion of capacity granted by Project Potencia 135 in December 2016 for a total of 135kbpd, plus reserve capacity contracts of 10kbpd for Segments I, II and III of the Ocensa Pipeline. "Ship or pay" contracts range from eight to ten years, and services under the "ship or pay" contracts are paid regardless of the effective use of the capacity or the segment by which the crude enters or exits the pipeline. The initial contractual tariff agreed upon by the parties was of US$8.3382/bbl for 2016 adjusted by (i) type of crude transported and (ii) length of each contract. This tariff was adjusted annually, until the expiration of the contracts, by a fixed rate of 2.57%.

On April 2017, two shippers filed a request for an arbitration proceeding, claiming the illegality of the tariff mentioned above. As a result of the proceeding, the parties entered into a conciliatory agreement approved on July 12, 2018, which was reflected in amendments to the "ship or pay" agreements with the five shippers. The tariffs included in such amendments are detailed in the table below:

| Tariff US$/bbl | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| Segment I | 0.48335 | 0.4958 | 0.5086 | 0.5216 | 0.5351 | 0.5488 | 0.563 |
| Segment II | 3.06728 | 3.1462 | 3.2272 | 3.3102 | 3.3954 | 3.4828 | 3.5725 |
| Segment III | 2.64987 | 2.7181 | 2.788 | 2.8598 | 2.9334 | 3.0089 | 3.0863 |
| **Total** | **6.2005** | **6.3601** | **6.5238** | **6.6917** | **6.8639** | **7.0405** | **7.2217** |

Shareholders' Agreement

On March 31, 1995, Ocensa entered into a shareholders' agreement, which was later terminated. A new shareholders' agreement was entered into on January 17, 2013 and subsequently amended on June 27, 2013. The Shareholders' Agreement will remain valid until the date Ocensa's shares are (1) registered in the Colombian National Registry for Securities and Issuers and (2) listed on the Colombian stock exchange in connection with an initial public offering. In addition to corporate governance matters, Ocensa's Shareholders' Agreement governs certain operational matters, including the contractual capacities of the initial shippers who are Ocensa shareholders along the Ocensa Pipeline. For a discussion of certain corporate governance provisions under Ocensa's Shareholders' Agreement, see "Principal Shareholders – Shareholders' Agreement."

**Contracted Capacities**

*"Ship and Pay" contracts:*

Under "ship and pay" contracts, each shipper has transportation rights valid until 2093. Total contracted volumes amount to 198.0 kbpd, 603.0 kbpd, 603.2 kbpd and 407.0 kbpd for Segments 0, I, II and III of the Ocensa Pipeline, respectively, as illustrated below. Under "ship-and-pay" contracts, the shippers pay for the transportation services based on the actual capacity used on a monthly basis. The tariff for "ship-and-pay" contracts is settled according to MME regulations.

| **Contracted Capacities** *(in kbpd)* | **Segment** | | | |
|---|---|---|---|---|
| | **0** | **I** | **II** | **III** |
| Ecopetrol | 138.8 | 408.7 | 408.7 | 271.3 |
| Frontera | 9.9 | 49.2 | 49.2 | 39.4 |
| Repsol | 19.2 | 56.6 | 56.6 | 37.5 |
| CEPSA | 9.9 | 29.2 | 29.2 | 19.4 |
| Total | 10.3 | 30.3 | 30.3 | 20.1 |
| Equion | 9.9 | 29.2 | 29.2 | 19.4 |
| **Total contracted capacity** | **198.0** | **603.2** | **603.2** | **407.1** |

*"Ship or Pay" contracts:*

In 2014, in connection with Project Potencia 135, Ocensa entered into "ship or pay" contracts with five offtakers for a total of 135 kbpd for Segments I, II and III. Before Project Potencia 135 contracts were established, BP and Gunvor made an advance payment to secure capacity. The table below sets forth the contracted capacity by shipper for the "ship or pay" contracts.

| **Shipper** | **Capacity** *(in kbpd)* |
|---|---|
| Ecopetrol | 70.0 |
| Frontera | 30.0 |
| Hocol | 17.5 |
| BP/Gunvor | 10.0 |
| Vitol | 17.5 |
| **Total contracted capacity** | **145.0** |

Other Material Agreements

Among other material agreements, Ocensa has entered into:

- an operation agreement in March 2016 with Ecopetrol for the pumping stations in Porvenir, Miraflores, Caucasia and Vasconia. Ocensa pays monthly payments of US$163,000 plus applicable taxes and variable costs in connection with this agreement. This agreement expired on March 31, 2019. The parties entered into a new agreement which expires on June 30, 2019.

- a maintenance agreement with Ecopetrol for a pumping station in Vasconia. Ocensa pays monthly payments of US$11,000 plus applicable taxes and variable costs. This agreement will be in force until November 30, 2018. This agreement was extended until March 31, 2019. The parties entered into a new agreement on April 1, 2019, which will expire on July 2, 2019 with the same objective. The total value of this new agreement is Ps$71,290,224.

- a maintenance agreement with Morelco for a pumping station in Vasconia. Ocensa pays monthly payments of US$26,000 plus applicable taxes and variable costs. This agreement was extended until March 31, 2019. Currently a new contractor (Consorcio SKF-OMIA) is performing these activities. This agreement expires on March 31, 2022, and its estimated value is of Ps$4,700,996,140.

- a lease agreement with Oleoducto Bicentenario, for tank storage capacity, dated as of January 24, 2014, pursuant to which Oleoducto Bicentenario will make available for lease (i) up to 500,000 barrels per month of nominal capacity storage in the tanks of Oleoducto Bicentenario and (ii) up to 1,080,000 barrels, after deduction of the surplus of the bicentenario tanks, as the total storage of Oleoducto Bicentenario in its tanks. Ocensa pays a fixed monthly amount of US$102,800 plus a variable amount per barrel. This agreement has a five-year term since the initiation minute, which is dated June 12, 2015.

- a lease agreement with Ecopetrol, dated as of December 16, 1996, pursuant to which Ecopetrol leases certain assets located in the Los Llanos region of the Ocensa Pipeline to Ocensa in exchange for consideration of US$585,000 per month. Pursuant to its terms, this lease agreement is valid until Ocensa is fully responsible for the transportation of crude oil using any of the facilities leased under the agreement. On April 1, 2013, Ecopetrol assigned its rights and obligations under this lease agreement to Cenit. In accordance with a third amendment to this lease agreement, Cenit granted Ocensa the option to acquire the property leased to it under the agreement. Ocensa has exercised this option and will become owner of the assets leased to it under the agreement by April 2014.

- a maintenance agreement with Ismocol de Colombia S.A., ("Ismocol"), dated as of October 12, 2016, pursuant to which Ismocol provides the Ocensa Pipeline preventive and corrective maintenance, as well as service and care in case of emergencies. This agreement is valid for three years and may be renewed for one additional year. The consideration paid by Ocensa pursuant to this agreement for the first three years is estimated to total Ps$73,754,803,547, plus the corresponding value added tax for services provided to Ocensa under the agreement. On March 4, 2019, the parties entered into an amendment to the agreement pursuant to which they increased its estimated value by Ps$21,883,405,607, plus the corresponding value added tax, and they negotiated a discount on the monthly global fixed fee for the emergency system. This agreement will be in force until October 31, 2019.

- a take or pay agreement with Gas Natural S.A. E.S.P., dated as of October 27, 2015, for the delivery of gas to the El Porvenir, Páez and Miraflores stations of the Ocensa Pipeline. Pursuant to this agreement Ocensa is obligated to consume or pay for 70% of the contracted volume of gas totaling 3,377,329 m3/month for the El Porvenir station and 1,033,200 m3/month for the Miraflores station. The term of the agreement is seven years as from December 1, 2015.

- as an affiliate of Ecopetrol, Ocensa is a beneficiary of the tariffs charged to Ecopetrol for drag reducing agents set forth in an agreement between Ecopetrol and Delrio Industrias Inversiones Servicios del Rio S.A. ("Delrio"), pursuant to which Delrio supplies Ocensa with drag reducing agents for crude oil. Ocensa executed purchase order No. 4517378 for a sum of Ps$78,942,930,289.00 in connection with the drag reducing agents supplied to it pursuant to this agreement. On April 3, 2019, Ocensa entered into an amendment to this agreement with Delrio, in which they increased the estimated value of the agreement by US$5,128,393.

- in 2012, Ocensa signed an agreement with Cepcolsa, Ecopetrol, Meta Petroleum and Petrominerales Colombia Ltd. pursuant to which Ocensa unloads up to 30,000 bpd of crude oil and/or dilutents transported by truck to the Ocensa Pipeline via its unloading facilities located at the Cusiana station. In 2013 and 2014, Ocensa signed additional agreements with Cepcolsa, Ecopetrol, Equion, Meta Petroleum, Santiago Oil Company, Talisman Colombia and Total to unload up to 11,631 bpd of crude oil and/or dilutents, comprising a total unloading capacity of 41,631 bpd. The tariff under these additional agreements applicable for unloading the oil and dilutents is US$1.5225 per bbl, adjusted annually on January 1 according to the United States consumer price index, and corresponds to the initial tariff adjusted and valid at the signature date. The users follow a process to nominate monthly

the number of barrels to be unloaded. The payment process is subject to an "unload or pay" mechanism while the facilities operate at less than full capacity and an "unload and pay" mechanism when operating at full capacity. These agreements have terms of five years from the date on which the unloading facilities begin working in full capacity (which occurred on May 1, 2013). To date, Ocensa holds unload agreements for up to 29,631 bpd of crude oil and/or dilutents. In addition, up to 17,500 bpd of crude oil and/or dilutent under the "unload or pay" mechanism and up to 10.000 bpd of crude oil and/or diluent under the "unload and pay" mechanism were committed through Ocensa's Project Potencia 135 transport agreements.

- a maintenance agreement with Massy Energy Colombia S.A.S., dated March 29, 2019, for pumping stations in Cupiagua, Cusiana, Porvenir, Paez, Miraflores, La Belleza, Chiquillo, Caucasia, La Granjita and Coveñas. This agreement has a three-year term and will be in force until March 31, 2022.

- an operation and maintenance agreement with MASA VEPICA for the pumping stations in Porvenir, Paez and la Garnjita. Ocensa has paid, to date, US$7,067,498.. This agreement will be in force until September 30, 2019. This agreement was amended on December 14, 2018, with the purpose of clarifying the applicable tariffs and the scope of the services covered by the agreement.

- an operation and maintenance agreement with SOENERGY for the pumping station in Chiquillo. Ocensa has paid, to date, US$3,758,115. This agreement will be in force until August 31, 2019. This agreement was amended on November 30, 2018 with the purpose of amending the applicable fees to be paid pursuant to such agreement.

Transporter's Manual

The administration and operation of the Ocensa Pipeline are subject to Ocensa's transporter's manual, which was established by Ocensa on January 14, 2011 and which is valid indefinitely beginning March 14, 2011. Ocensa's transporter's manual governs commercial relationships among Ocensa, shippers and any third parties that request its service and transport crude oil through the Ocensa Pipeline but are not counterparty to a transportation agreement with it.

Ocensa's transporter's manual establishes, among other details of the operation of the Ocensa Pipeline, (1) the procedures that must be followed in order for shippers to nominate an amount of crude oil to be transported, which nomination shall be done two months before the relevant month of operation and (2) the guidelines pursuant to which Ocensa must allocate transportation capacity along the Ocensa Pipeline to shippers.

Pursuant to Ocensa's transporter's manual, Ocensa must prioritize its allocation of transportation capacity along the Ocensa Pipeline as follows:

1. the preferential right by the government of Colombia to transport 20% of the Ocensa Pipeline's capacity, as set forth in the Petroleum Code, the Pipeline Concession and in the transportation agreements, if applicable;

2. shippers that are a party to a transportation agreement with respect to their respective contracted capacities and in accordance with the rules of allocation provided in such agreements; and

3. other allocations (a) from shippers that have contracted with Ocensa by means of a transportation contract; and (b) third parties.

Ocensa's transporter's manual also details the manner in which crude oil must be delivered and collected by shippers and the penalties to be imposed in the event the agreed volume of crude oil is not actually delivered by shippers.

In accordance with the procedures set forth in Ocensa's transporter's manual and notwithstanding any guarantees provided separately to Ocensa, in the event a shipper fails to pay any amounts due to Ocensa, Ocensa

may be entitled to (1) sell the crude oil delivered by the relevant shipper to it in an amount necessary to cover any such shortfall and (2) cease transporting crude oil on behalf of such shipper until Ocensa has received payment in full or the corresponding shortfall has been fully guaranteed.

**Health, Safety and Environmental Responsibilities**

Ocensa has achieved high levels of health, safety and environment ("HSE") standards, having obtained Occupational Health and Safety Management System Certification, ("OHSAS 18001:07"), and Environmental Management System Certification ("ISO 14001:04"), since 2005. Moreover, Ocensa continuously audits and examines its operations in order to ensure that it effectively protects the health and safety of its employees and its contractors' employees and the integrity of the environment. Ocensa intends to continue to improve its corporate HSE policies by structuring and identifying processes and risks that impact control, improving emergency preparedness responses and applying OHSAS 18001:07 and ISO 14001:04 standards.

***Health and Safety***

The health and safety of Ocensa's employees and its contractors' employees is a key focus of Ocensa's operations. Ocensa promotes a culture of prevention and emphasizes continuous improvement in the process of risk management, seeking to preserve the integrity of its employees and its contractors' employees and of the communities located near its assets.

Each year, Ocensa consolidates management and intervention programs for accident prevention and diseases into an annual program that addresses occupational HSE. The annual program, based on compliance with national legislation, industry agreements and technical guidelines relating to prevention and protection, is intended to mitigate the principal risks and identified impacts of Ocensa's operations and to increase preparedness for emergencies, both by Ocensa's employees and third-party service providers.

Based on the results of Ocensa's annual evaluations, Ocensa develops diagnostic tools for each worksite and conducts outreach programs in order to generate information that it may analyze and to strengthen health and safety at the individual and corporate level.

To maximize discourse and action on health and safety, Ocensa has formed the Joint Committee on Occupational Health (*Comité Paritario de Salud Ocupacional*) ("COPASO"). COPASO is registered with the Ministry of Social Protection and is comprised of representatives from Ocensa's management (2 principals with alternates) located in the city of Bogotá and employee representatives (2 principals with alternates) located in the cities of Bogotá, Tunja and Coveñas.

Ocensa has also developed training programs and manuals directed at its employees and contractors based on the "Safestart" regime (developed by Dupont) in order to strengthen safety awareness. The regime is focused on recognizing and preventing behaviors that result in errors before they occur.

The table below sets forth certain HSE metrics for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| HSE Metrics: | | | |
| Recordable injury frequency(1) | 0.09 | 0.09 | 0.26 |
| Absenteeism rate - general illness(2) | 55.74 | 72.09 | 44.36 |
| Rate of days lost(3) | 14.48 | 9.32 | 62.84 |
| Rate of Occupational disease rate(4) | 0 | 0 | 0 |
| Number of fatalities | 0 | 0 | 0 |
| Vehicular accidents | 0 | 0 | 0 |
| Number of onshore spills | 1 | 0 | 1 |
| Number of offshore spills | 0 | 1 | 0 |
| Number of Incidents resulting in damage greater than US$5,000.00 | 0 | 0 | 0 |

(1) Corresponds to Recordable Injury Frequency ("RIF"), of Ocensa's contractors, given that the RIF of Ocensa's employees is 0. Calculated as total accidents divided by total hours worked multiplied by 200,000.
(2) Calculated as total absent days divided by total hours worked multiplied by 200,000.
(3) Includes days lost due to accidents of contractors. Calculated as total days lost divided by total hours worked multiplied by 200,000.
(4) Calculated as total cases of occupational diseases divided by total hours worked multiplied by 200,000.

***Environmental Matters***

One of Ocensa's main objectives is to prevent and control the negative impacts of its operations on natural resources and the environment. In addition to Ocensa's environmental license, which was granted in 1995 by the then Ministry of the Environment, and the acquisition of environmental licenses for each of its stations, Ocensa invests heavily in environmental initiatives. Between 2016 and 2018, Ocensa invested more than Ps$69.9 billion in environmental initiatives, a portion of which was directed towards soil protection and basins (geotechnical protection works, erosion and landslides prevention), due to the heavy rains that affected the area surrounding the Ocensa Pipeline.

In Ocensa's environmental management plan, which was approved by the Ministry of Environment and Sustainable Development (*Ministerio de Ambiente y Desarrollo Sostenible*) through the resolution 952 dated August 31, 1995, as amended, Ocensa outlines the activities necessary to prevent, mitigate, correct and compensate for environmental impacts generated by a project over the course of its various stages. Ocensa's environmental protection efforts include:

- reducing emissions;
- managing waste;
- energy efficiency;
- water preservation;
- biodiversity; and
- spill prevention and remediation.

Waste management

Ocensa complies with applicable national legislation and seeks optimal alternatives for the management and disposal of waste in order to prevent contamination of resources or compromise its employees' health. Ocensa takes particular care with hazardous wastes produced by its operations. Approximately 98% of this hazardous waste is disposed of through incineration, and the remaining 2% of this hazardous waste is sent to manufacturers for recycling or secure storage for later disposal.

Energy efficiency

Ocensa utilizes various strategies to maximize energy efficiency, such as solar technology and visual aids that remind employees to turn off the lights or shut down equipment that is not being used. The majority of Ocensa's energy use comes from its administrative centers, particularly in the city of Bogotá, where Ocensa established a new office with more natural light in order to reduce energy use.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Energy Consumption by Facility:** | *(in million kilowatt hours)* | | |
| Cupiagua | 32.9 | 15.2 | 18.5 |
| Cusiana | 353.8 | 364.3 | 365.4 |

| | For the Year Ended December 31, | | |
|---|---|---|---|
| El Porvenir | 656.7 | 633.7 | 523.2 |
| Paez | 165.8 | 143.5 | 14.1 |
| Miraflores | 317.0 | 382.9 | 425.1 |
| La Belleza | 235.1 | 0.2 | 0.2 |
| Vasconia | 51.9 | 47.9 | 49.2 |
| Caucasia | 109.1 | 116.9 | 146.2 |
| Chiquillo | 74.1 | 45.8 | 5.4 |
| La Granjita | 134.1 | 96.8 | 2.9 |
| Port of Coveñas | 16.8 | 15.7 | 14.2 |
| **Total** | 1,912.9 | 1,862.9 | 1,561.2 |

*Water consumption*

Water is an essential resource for Ocensa's operations. It is principally consumed at Ocensa's administrative center in the city of Bogotá and by the sanitary and fire prevention systems of each station. The water required to meet Ocensa's needs is obtained from municipal water and water concessions. Ocensa emphasizes the efficient use of all water resources and monitors all rivers, creeks and streams in the Ocensa Pipeline's area of influence in order to prevent adverse effects that may derive from the pipeline.

In accordance with Ocensa's environmental license No. 952 and due to its use of water from natural sources during the construction of the Ocensa Pipeline, Ocensa was obligated to contribute 1% of the capital invested in the Ocensa Pipeline for the recovery and preservation of hydrographic basins. This obligation remains in effect for projects not related to the ordinary operation of the Ocensa Pipeline, including expansions and improvements to the pipeline, to the extent any such project requires water from natural sources.

Biodiversity

Although the Ocensa Pipeline does not significantly impact surrounding ecosystems because of its underground design, Ocensa promotes the development of biodiversity in the Ocensa Pipeline's area of influence through both mitigation and compensation. Mitigation seeks to restore the environment to its original conditions before the commencement of a project by fostering conservation and soil protection, thereby helping to prevent erosion and landslides. Compensation establishes protected areas with reforestation of land in the area of influence of the Ocensa Pipeline.

Spill prevention and remediation

Ocensa has significant remedies in place to prevent offshore and onshore spills. In the past three years, Ocensa has experienced two onshore spills and one offshore spill, which were remediated in a timely manner through activation of Ocensa's established contingency plans. The first onshore spill occurred in March 2015 and resulted from overpressure in the Bicentenario tanks. This incident resulted in the spillage of 73 bbl of crude oil and 6m3 of bare soil contamination. The second onshore spill occurred in July 2016 and resulted from a manual valve failure. This incident resulted in the spillage of 1.73 bbl of crude oil and 0.14m3 of bare soil contamination.The aggregate clean-up costs associated with the onshore spills totaled approximately US$44,500 and US$252,000, respectively, and were accounted for as an emergency cost. The offshore spill occurred in October 2017 and resulted from activating the MBC system. This incident resulted in the spillage of 13.45 bbl of crude oil. The aggregate clean-up costs associated with this spill totaled US$1.86 million and was accounted for as an emergency cost. In July 2018, an onshore spill occurred in Puerto Boyacá, which resulted in the spillage of 44.4 gallons of crude oil and the source of the emergency was controlled in 74 hours. The aggregate clean-up costs associated with the onshore spill were approximately US$428,589.

**Employees**

The table below sets forth the number of Ocensa's employees, Ocensa's turnover and Ocensa's turnover ratio as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Number of Employees ..... | 279 | 297 | 288 |
| Turnover ..... | 12 | 9 | 8 |
| Turnover Ratio(1) ..... | 4.3% | 3.1% | 2.7% |

(1) Calculated as turnover divided by number of employees, expressed as a percentage.

Under the guidance of Ocensa's senior management and through its selection process, Ocensa has access to talented employees, having also established successful retention measures and implemented beneficial labor practices. As a result of these efforts, Ocensa's labor environment index was rated very satisfactory in 2017, as published by Great Place to Work Colombia, a global research, consulting and training firm.

***Ocensa's Relationships with Labor Unions***

As of the date of this offering memorandum, Ocensa has not entered into any collective bargaining agreements with its employees, and none of its employees are represented by unions.

However, Ocensa's labor relationships may be influenced by the Syndicated Labor Union of the Petroleum Industry (*Unión Sindical Obrera de la Industria del Petróleo,* or the "USO"). While this union originally represented only Ecopetrol's employees, it is currently an "industry union," as regulated under Colombian law, and represents employees of contractors that render services to oil and gas companies. In accordance with its terms, employees of contractors may be covered under and are beneficiaries of the collective bargaining agreement established between the USO and Ecopetrol, with the costs of any compliance with the collective bargaining agreement assumed by the contractor or direct employer.

The USO yields significant influence in Ocensa's industry's labor relationships and has been instrumental in the transformation of the collective legal framework for trade unions in Colombia.

***Third-Party Service Providers***

In the ordinary course of Ocensa's operations, it contracts third-party service providers, including related parties, to assist it in conducting its business. Material third-party service providers include:

- *Ecopetrol:* operation and maintenance of the El Porvenir, Miraflores, Vasconia and Caucasia stations; operation of the TLU-3 at the Coveñas terminal; joint collaboration in the operation of certain of Ocensa's and Equión's assets; and gas supply agreements;

- *Cenit:* joint operation of the TLU-3 at the Coveñas terminal; dock usage rights at Coveñas and Cenit property usage rights;

- *Ingeant*: civil and geotechnical works;

- *Level 3 Colombia S.A*: telecommunications services;

- *Intertug S.A*: offshore support and maintenance of the Port of Coveñas terminal;

- *Ismocol*: general maintenance and emergency response of the Ocensa Pipeline between the Cupiagua Station and the Port of Coveñas;

- *Helistar S.A.S.*: helicopter transportation services; and

- *Bombas y Montajes*: preventative and corrective maintenance of Ocensa's stations. See also "—Material Agreements" and "Related-Party Transactions."

**Properties, plant and equipment**

Ocensa's main assets consist of its crude oil transportation pipeline and its related terminals, stations and facilities, including facilities located at the Port of Coveñas. See "—Ocensa's Principal Assets and Operations" for a description of Ocensa's properties, plant and equipment.

As of December 31, 2018, the net book value of Ocensa's properties, plant and equipment totaled US$1,551.3 million, representing 77.0% of its assets.

**Intellectual property**

Ocensa's intellectual property rights portfolio includes trademarks which are used as strategic tools in the generation of new ways to produce and optimize its process and to protect its business activities. Ocensa aims to protect the value of its intellectual property by establishing its ownership rights through trademarks and other relevant conventions and agreements and by using legal and regulatory recourse in the event of infringement by a third party.

**Insurance**

Ocensa believes that it currently maintains insurance of the types and amounts that are generally considered the most complete in the oil pipeline transportation industry. It has "all risk" coverage against physical damage to its facilities, including the Ocensa Pipeline, pumping stations, maritime terminal and crude oil in storage and in the pipeline. It also has third-party liability coverage over the risks of pollution on and offshore, with deductibles adjusted in accordance with normal practices and commercial deductibles in the oil and gas international insurance markets.

Ocensa identifies, evaluates, controls, when possible, and transfers the risks that affect people, assets and income related with its business. Ocensa implements a risk focus method to evaluate potential risks. Once a risk is identified and measured in terms of frequency and severity, Ocensa decides whether the risk should be transferred (either to an insurance company or to another party) or whether it should assume the risk in light of preventive measures available to it.

**Legal and Administrative Proceedings**

Ocensa is party to various legal proceedings in the ordinary course of its business. Other than as disclosed in this offering memorandum, Ocensa is not currently involved in any litigation or arbitration proceedings, including any proceedings that are pending or threatened of which it is aware, that Ocensa believes will materially adversely affect it. Other legal proceedings that are pending against or involving Ocensa, are routine in nature to the conduct of its business. See "Risk Factors—Risks Relating to Ocensa's Business and Industry—"Ocensa may incur losses and spend time and money defending pending lawsuits and arbitrations."

As of December 31, 2018, Ocensa was a party to 25 administrative and civil proceedings as defendant (which include four constitutional actions before Colombian courts), for an approximate aggregate amount of claims of US$5.2 billion.

As of December 31, 2018, Ocensa provisioned a total aggregate amount of US4.7 million for legal claims. Ocensa is unable to determine the amount involved in certain of its legal proceedings given their nature and/or current stage.

The following is a summary of certain material legal proceedings brought against Ocensa as of the date of this offering memorandum. U.S. dollar amounts that have been converted from Colombian pesos have been so converted at an exchange rate of Ps$3,100 per US$1.00.

***Constitutional Action Proceedings***

As indicated above, Ocensa is party to various constitutional actions for the protection of collective rights.

Ocensa is a defendant in a constitutional action initiated against it, Ecopetrol and Oleoducto de Colombia S.A.S., by Alberto Jiménez. The plaintiff requests the protection of several collective rights that are alleged to have been violated by the defendants, specifically, the right to (1) security, (2) public health, (3) prevention of disasters, and (4) construction of buildings and facilities in compliance with applicable regulations. Pursuant to the complaint, the plaintiff requests that (1) the defendants be ordered to submit a proposal to the owners of these lands (located within a 250 meter radius of the limits of Caño Limón-Coveñas pipeline terminal) in order to acquire them and (2) the relevant area be declared a danger zone in order to prevent its future habitation. A settlement hearing (*audiencia de pacto de cumplimiento*) is currently pending in this proceeding, which is currently in the initial stage prior to the gathering of evidence. Ocensa's outside counsel has advised that it is not possible to determine the probability that an adverse judgment will be rendered against it or the amount of the claim given the nature of the action and its regulation under Colombian law, in accordance with which the judge is not limited by the claims made by the plaintiff and may therefore order the defendants to take any action that the judge finds pertinent to protect the collective right that the plaintiff alleges to have been violated. Ocensa has not established a provision for this proceeding.

Ocensa is a co-defendant with Ecopetrol in a class action initiated by Alvaro Berrio de Hoyos and others. The plaintiffs seek the recovery of environmental and personal damages resulting from a crude oil spill in San Bernardo archipelago, Corregimiento Verrugas and Corregimiento de Rincón del Mar, which occurred from July to August of 2014. The amount of the claim is US$14.1 million. In October 2017, Ocensa presented its reply to the plaintiff, which is still under review of Administrative Tribunal of Sucre.

Ocensa is also a co-defendant with Ecopetrol, Petroinversiones, Finosca, the Ministry of Mines and Energy and the ANH in a class action initiated by John Jairo Rendón and others. The class action was filed in 2014 before the Administrative Tribunal of Sucre, in which the plaintiffs (including, but not limited to, fishermen, hotel groups, owners, restaurant owners, and any other person or business linked to commercial activities near the beach) seek that the defendants be held responsible for the recovery of damages caused by oil spills that took place on July 20, 2014 in Coveñas. The claim is based on an incident in which adverse climate conditions affected a transport ship, which produced a crude oil spill. The amount of the claim is US$4.7 billion. The proceeding is currently in the closing arguments stage. The National Directorate of Taxes and Customs (*Direccion de Impuestos y Aduanas Nacionales* or DIAN), the Ministry of Health and Social Protection, and the local city governments of Coveñas, Tolú and San Antero have been requested to provide information, and their responses are pending. Taking into account that most evidence in the case is still pending, the defendants' lawyer has classified the possibility that the Administrative Tribunal recognizes the claims of the plaintiffs as possible. However, he has classified the possibility of the defendants being ordered responsible for the full amount of the claim as remote. Therefore, Ocensa has not established a provision for this claim.

***Ordinary Civil Proceeding***

Ocensa is party to an ordinary civil proceeding initiated against it by José Crispín Sánchez and certain other parties based on independent claims filed since March 5, 2002 in which the plaintiffs claim that they have suffered material and moral damages as a consequence of an explosion along the Ocensa Pipeline caused by an attack carried out by the ELN in 1998 and resulting oil fire in the town of Machuca. The total amount involved in these claims is greater than 500,000 monthly legal wages. A decision was rendered against Ocensa ordering it to pay moral damages to the plaintiffs. Ocensa appealed this decision and, on July 16, 2013, a second decision was rendered ordering Ocensa to pay damages totaling US$1.2 million. Ocensa and the plaintiffs filed an extraordinary motion (*recurso de casación*) based on which the Supreme Court of Justice of Colombia reviewed the proceeding to determine whether the law and evidence presented in the case were interpreted correctly. This motion was decided on December 19, 2018, and the Supreme Court of Justice ruled partly amending the previous ruling and ordering

Ocensa to pay damages totaling US $3.0 million. On January 15, 2019, Ocensa filed a motion to vacate the judgment based on procedural failures and a request for clarifications. The decision on this motion is still pending. Notwithstanding this, Ocensa has established a provision for the complete payment of this judgement. This precedent may have as a consequence that future claims against Ocensa derived from third party acts of terrorism against the pipeline may become more favorable to future plaintiffs.

***Proceedings against the Ministry of the Environment and Sustainable Development***

Ocensa is a plaintiff in two different proceedings before the administrative jurisdiction against the Colombian Government acting through the Ministry of Environment and Sustainable Development, in which it seeks the annulment of certain resolutions issued by this regulatory agency.

These resolutions pertain to Ocensa's obligation to contribute 1% of the capital invested for material projects along the Ocensa Pipeline (including expansions and improvements) in connection with which Ocensa uses water from natural sources to recover and preserve hydrographic basins.

Ocensa has maintained that it has complied with this obligation with respect to both of its environmental licenses. The Ministry of the Environment and Sustainable Development did not recognize the compliance with some social investment obligations and issued the resolutions. Ocensa is currently awaiting a determination of the Colombian Council of State in two of these proceedings. As of December 31, 2018, Ocensa's aggregate provision for these proceedings totaled US$1.8 million.

***Arbitration Proceedings***

Arbitration proceeding initiated by Ocensa against Equion Energía Limited and Santiago Oil Company

Ocensa was involved in an arbitration proceeding initiated against Equion Energía Limited and Santiago Oil Company for the restitution of a negative balance that each of the defendants carry in Ocensa's volumetric balances. For Equion Energía Limited, this balance amounts to 442.330bbl and, for Santiago Oil Company, this balance amounts to 279.367bbl. Pursuant to its principal claims, Ocensa requested the restitution of the negative balance based on Cusiana-oil prices for September 2014, which amounts to US$37.6 million for Equion and US$23.7 million for Santiago (for a total amount of US$61.3 million), based on the defendants' bad faith in denying its obligation to restitute the negative balances. As subsidiary claims, Ocensa requested the restitution of the negative balance based on Cusiana-oil process for April 2017, which amounts to US$20.9 million for Equion and US$13.2 million for Santiago, for a total amount of US$34.1 million, based on the date in which the arbitration claim was reformed by Ocensa.

The arbitration panel ruled in favor of Ocensa. Consequently, Ocensa was paid an estimate of US$78 million. Equión Energía Limited and Santiago Oil Company filed a request for annulment of the ruling. There is less than a 50% probability that the arbitration panel accepts this annulment. If granted, Ocensa would be required to make restitution in the amount of US$78 million.

Arbitration proceeding initiated by the National Infrastructure Agency (*Agencia Nacional de Infraestructura* -ANI) against Ocensa.

In the arbitration process of Ocensa against the ANI, it was debated if the application of the calculation scheme of the port compensation established in the CONPES3744 document was appropriate. The arbitration panel issued an award on July 16, 2018, declaring that Ocensa should have paid the port compensation according to the methodology indicated in the CONPES3744 document. However, the arbitration panel did not order Ocensa to make payments for this concept to the extent that it did not find this proven during the process. Because Ocensa was not ordered to any payment as a result of the breach, it is possible that the ANI will initiate an action claiming the payment of the sums resulting from Ocensa's declared breach in relation to the calculation of royalties. Ocensa pursued the annulment of the arbitral award, which was rejected.

Arbitration proceeding initiated by Varichem de Colombia G Enviromental Proteccion Services S.A.S. (Varichem) against Ocensa.

Ocensa is currently involved as a defendant in an arbitration proceeding initiated against it by Varichem, pursuant to the early termination of a contract in 2014. Ocensa, Oleoducto de Colombia and Cenit engaged in an agreement with Varichem and Lamor, pursuant to which these companies would provide contingency plans and actions for possible oil spills. Several months after the engagement, the companies noticed an anomaly and a manipulation in the contracting process caused by Varichem. Consequently, Cenit decided to terminate the agreement. The amount of the claim is US$5 million. The first hearing in this arbitration proceeding took place on February 26, 2019 and March 1, 2019. In this hearing, the arbitration panel declared it was competent for ruling in this proceeding. Furthermore, on March 28, April 2nd and April 5, of 2019 the document discoveries and first hearings for the first depositions took place. Further hearings are scheduled to occur in the first week of May. To this date, Ocensa has not made a provision for this proceeding.

***Proceedings related to environmental matters***

Annulment and restoration of rights action (*Acción de nulidad y restablecimiento del derecho*) initiated by Ocensa against The Nation, Ministry of Environment and Sustainable Development and ANLA.

Ocensa is seeking that writs (*autos)* 2913 and 4034 of 2011, by which the Ministry of Environment and Sustainable Development and the ANLA rejected some works, activities and projects performed in benefit of the influence areas of the water basins of the pipeline, be declared void. On January 23, 2015 a partially adverse judgment was rendered against Ocensa. Ocensa has appealed the ruling, which was admitted by the State Council on March 5, 2015. On November 2018, Ocensa submitted its closing arguments in this proceeding. The decision from the court of appeals is currently pending.

Administrative inquiries initiated by Capitania de Puerto Coveñas against Ocensa.

Two legal proceedings were initiated by Capitania de Puerto Coveñas on July 14, 2014 and October 20, 2017, in connection with an ex officio investigation of a crude oil spill with a crude oil transport ship. As a result of the investigation, Capitania de Puerto Coveñas seeks to impose sanctions on Ocensa for breaching the laws of marine operation. The proceedings are in the stage of gathering evidence.

Environmental inquiries initiated by ANLA against Ocensa.

On July 21, 2018 there was an oil spill in the Regional Natural Park Las Quinchas that caused possible environmental damage to sensitive ecosystems, including the La Cristalina Creek. As a consequence of the oil spill, the ANLA initiated an environmental punitive proceeding on November 2, 2018. If found liable, Ocensa could be subject to penalties that include daily fines of up to 5,000 minimum monthly wages and, the revocation or termination of certain environmental licenses, permits or authorizations held by Ocensa which are required to operate its business. Additionally, in the event Ocensa is found liable within the environmental punitive proceeding, it will be listed within the Sole Registry of Environmental Infringers RUIA, which may cause reputational damage to Ocensa. These penalties are applied without prejudice to the relevant civil, criminal or disciplinary actions and the obligation to remediate and compensate for the environmental damage that may have been caused.

Ocensa was only recently notified of this proceeding and consequently cannot provide an estimate of the potential penalties. For this reason, Ocensa has not established a provision for this proceeding. The maximum amount of penalties that could be imposed in this type of proceeding is 5,000 monthly minimum wages, as described above.

Other environmental investigations.

Ocensa is the subject of three other ongoing environmental investigations. The relevant environmental authorities may consider that Ocensa has breached applicable environmental regulations and, consequently, decide to impose sanctions, including fines. These environmental sanctions could range from the imposition of daily fines up to 5,000 minimum monthly wages, to the revocation or termination of certain environmental licenses, permits or authorizations held by Ocensa and required to operate its business. Additionally, in the event Ocensa is considered as an environmental infringer, it will be listed within the Unique Environmental Infringers Registry-RUIA, which may cause reputational damage to Ocensa. These sanctions are applied without prejudice of the relevant civil,

criminal or disciplinary actions.

***Other legal proceedings***

Action for annulment and restoration of rights *(Acción de nulidad y restablecimiento del derecho)* initiated by Ocensa against Superintendence of Ports and Transportation

Ocensa is seeking that a negative award from the Superintendence of Ports and Transportation regarding a payment of a surveillance contribution be declared void and for reimbursement for corresponding payments made in 2001. The amount of the claim is US$0.90 million. On July 6, 2016, the concluding arguments were filed before the Cundinamarca's Administrative Tribunal. On August of 2017, the Court issued a ruling that denied Ocensa's claims. Ocensa filed an appeal which was accepted by the Court on December 07, 2018. Ocensa has presented concluding arguments for this appeal.

Special Requirement issued by the DIAN in relation to Ocensa's 2015 Income Tax

The DIAN issued a special requirement to Ocensa in which it requested that Ocensa amended its income tax file for 2015. The estimated amount that Ocensa would be required to pay as a result of this amendment would be of approximately US$2.3 million, without penalty interest. On January 9, 2019, the DIAN issued an official tax filing accepting some of the arguments presented by Ocensa during the process. Ocensa filed a reconsideration action that is pending to be admitted by the DIAN.

Fiscal liability proceeding (Proceso *de responsabilidad fiscal)* initiated by the Fiscal Control Entity of Tunja (*Contraloría de Tunja*)

On March 22, 2019, the comptroller entity of Boyacá initiated a comptroller liability proceeding against Ocensa to investigate its compliance with the collaboration agreement for the provision of certain helicopter flight hours by Ocensa to the National Army in 2016. An internal investigation based on similar facts was initiated in 2015 by the Ministry of Defense, after the unilateral termination of the collaboration agreement, in which the Ministry claimed that the helicopter flight hours agreed upon for 2015 had not been effectively granted to the Army. This internal proceeding by the Ministry of Defense ended, after the Ministry verified that the helicopter flight hours service had taken place. The current comptroller liability proceeding refers to similar facts that occurred in 2016. Ocensa and the Ministry of Defense entered into an agreement on December 9, 2016, whereby Ocensa agreed to provide a certain number of helicopter flight hours to the National Army. However, it appears the services may have been provided prior to the execution of the agreement which constitutes an infraction under the administrative rules for public servers. The sanction derived from this proceeding is estimated at US$1 million. This proceeding was initiated on March 22, 2019, and as part of the due process, Ocensa will be required to give its deposition, file evidence and submit its defense. Ocensa has not established a provision for this proceeding.

Because of the facts related with this comptroller liability proceeding, Ocensa initiated a disciplinary proceeding against its HSE manager, for lack of compliance with Ocensa's internal procedures for the execution of contracts, and with his labor obligations. As a result of the disciplinary proceedings, and because of the seriousness of the acts related to this comptroller liability proceeding, the HSE manager's labor contract was unilaterally terminated.

## MANAGEMENT

### AI Candelaria

***Board of Directors***

We are managed by our Board of Directors, which, in accordance with the Company's by-laws, consists of a minimum of three directors and a maximum of twelve. The Board of Directors currently consists of three members elected by our sole shareholder. Our by-laws provide that members of our Board of Directors are elected for an indefinite period of time. There are regularly scheduled meetings of the Board of Directors on a quarterly basis. Meetings may be called by the Chairman or acting Chairman or by one third of the directors.

The following are the current members of our Board of Directors:

| Director | Position | Age | Member of the Board of Directors Since |
|---|---|---|---|
| Miguel Liria Plañiol | Director and Chairman | 46 | August 31, 2017 |
| Myriam Deltenre | Director and Vice Chairman | 55 | January 15, 2014 |
| Antonio Santiago Pérez | Director | 47 | August 31, 2017 |

Biographical Information

***Miguel Liria Plañiol***. Mr. Liria has been a member of our board of directors since August 31, 2017. Mr. Liria is a managing partner of Liria & Veiga Abogados, a law firm associated with Latorre y Asociados Consultoría, S.L. Prior to joining Liria & Veiga he worked at Uría & Menéndez Abogados for ten years. Mr. Liria has first-hand experience in Latin American matters having headed up Uría Menéndez' Santiago de Chile office between January 2002 and June 2005. His practice focuses on commercial and company law, mergers and acquisitions, construction projects, corporate restructuring and insolvency. Mr. Liria holds a bachelor's degree in Law from the Universidad Complutense de Madrid.

***Myriam Deltenre***. Ms. Deltenre has been a member of our board of directors since January 15, 2014. She has over 13 years of experience in the private equity sector. Ms. Deltenre is the general manager of AI Global Investments & Cy S.C.A. and was previously employed as Assistant Manager of the Administration Department by Christiania Bank Luxembourg SA and Loan Administration Manager by ING Luxembourg SA. Ms. Deltenre holds a bachelor's degree in executive management from the Aumoniers du Travail in Arlon (Belgium).

***Antonio Santiago Pérez***. Mr. Pérez has been a member of our board of directors since August 31, 2017. For the past 16 years, Mr. Pérez has served as an economist at Latorre y Asociados Consultoría, S.L., where he drafts management reports for shareholders and boards of directors, functions as liquidator of companies and asset stripping, assesses feasibility plans, prepares the economic part of petitions to open insolvency proceedings and draws up reports for arrangements with creditors. Previously, Mr. Pérez served as the Chief Financial Officer of Naviera Navicón, S.A. Mr. Pérez holds a bachelor's degree in Business Administration and Management from the Camilo José Cela University of Madrid and a master's degree in Bankruptcy/Insolvency Administration from Universidad Nacional de Educación a Distancia.

***Executive Officers***

Myriam Deltenre was appointed as Company's joint and several chief executive officer (*consejera delegada solidaria*) on January 15, 2014. The daily management of our business is conducted by Latorre y Asociados Consultoría, S.L. ("Latorre").

**Ocensa**

Ocensa is managed by a board of directors whose members are selected by its shareholders. Ocensa's executive officers are responsible for the day-to-day operation of its business.

***Board of Directors***

Ocensa is managed by a board of directors consisting of five members, each having one alternate. Ocensa's board of directors determines the guidelines and general policies of its business, including its long-term strategies. Ocensa's board of directors also nominates and designates its executive officers.

In accordance with Ocensa's Shareholders' Agreement, its shareholders nominate its board members in the following proportion: (1) Cenit and its affiliates may appoint three members of its board of directors, two of which must be independent members pursuant to criteria set forth in Article 44 of Law 964 of 2005; and (2) based on our 22.352% minority ownership, we may nominate, and effectively control, the appointment of, two members using the electoral quotient system (*cuociente electoral*).

A qualified majority of at least four out of five board members is required to approve certain decisions, including but not limited to, Ocensa's business plan and any amendments thereto, projects involving amounts higher than US$100 million, transactions involving amounts higher than US$500,000 to be carried out between Ocensa and any shareholder or any affiliate thereof (except for transactions related to services rendered by Ocensa and based on regulated tariffs), Ocensa's involvement in new lines of business that are substantially different from its current activities and are not contained in its business plan and the approval of the issuance and placement rules (*reglamento de emisión y colocación de acciones*) for new shares and other securities below fair market value.

The current members of Ocensa's board of directors are listed below.

| Name | Age | Position | Professional Experience |
|---|---|---|---|
| Héctor Manosalva | 56 | Effective Member | 33 years |
| David Yanovich | 48 | Independent Member | 10 years |
| Juan Guillermo Serna Valencia | 63 | Independent Member | 35 years |
| José Mauricio Salgar Hurtado | 48 | Chairman, Effective Member | 23 years |
| Gurinder Prakash Singh Grewal | 40 | Effective Member | 13 years |

Biographical Information

The following is a summary of the business experience and education of the current members of Ocensa's board of directors.

***Héctor Manosalva***. Mr. Manosalva has been an effective member of Ocensa's board of directors, nominated by Cenit, since March 12, 2019. Mr. Manosalva has over 33 years of experience in the exploration and production segments for the Oil & Gas industry and has ample knowledge of the energy sector in Colombia and Latin America. Mr. Manosalva has held a wide variety of positions at Ecopetrol including: Production Engineer, Project Director, Planning Division Head, Production Head, Vice President of Production, High Counselor to the Colombian President, Executive Vice President of Exploration & Production and Vice President of Development & Production. As of March 1, 2019, Mr. Manosalva serves as Chief Executive Officer of Cenit. Mr. Manosalva has

acted as Chairman for the Board of Directors of Ecopetrol's subsidiaries in the United States, Brasil and Peru as well as for Hocol and Equion and as a Board member for Savia (Peru) and Ecopetrol Global Energy (Spain). Mr. Manosalva graduated from Universidad de America as a Petroleum Engineer in 1985 and has postgraduate studies in Finance and Senior Management.

***David Yanovich***. Mr. Yanovich has been an independent member of Ocensa's board of directors, nominated by Cenit, since March 4, 2015. He has over 20 years of experience in the power and energy sectors. Mr. Yanovich currently serves as President & Partner of Cerrito Capital S.A.S. and he currently serves on the board of directors of Celsia, one of Colombia´s largest publicly traded utilities, and Unimed Pharmaceuticals, a Malta based pharma corporation with operations in Latin America. Previously, he served as CEO of Colgener and served on the board of directors of ODL, Oleoducto Bicentenario and Credifamilia. He also served as an investment banker at Corporación Financiera del Valle. Mr. Yanovich holds a degree in Industrial Engineering from the Universidad de los Andes and a master's degree in Economics from the London School of Economics.

***Juan Guillermo Serna Valencia***. Mr. Serna has been an independent member of Ocensa's board of directors, nominated by Cenit, since January 17, 2013. He has 35 years of professional experience holding various positions within the public and private sector. He currently serves on the boards of directors of Avianca Holdings, Inversiones GLP and Plexa S.A. Notable positions previously held by Mr. Serna include President of Organización Terpel S.A., Director of the Colombian Financial Institution's Guarantee Fund (*Fondo de Garantías para las Instituciones Financieras*), member of the President of Colombia's Economic Committee, Vice-President of Organización Corona S.A., Director of Colombia's Budgetary Office, Auditor for the Colombian Coffee Growers Federation and General Secretary of Colombian Securities and Exchange Commission. Mr. Serna holds bachelor's degrees in Business Administration and Economics, and a master's degree in Economics, each from the Universidad Nacional de Colombia.

***José Mauricio Salgar Hurtado***. Mr. Salgar has been a member of Ocensa's board of directors, nominated by Advent, since January 7, 2014. He has over 23 years of experience in financial services, consulting and corporate finance. Mr. Salgar is currently a Managing Director with Advent International Colombia S.A.S. and head of its office in Colombia. Prior to joining Advent, he held the positions of Vice-President at Sanford Management S.A. and Chief Operating Officer and Interim Chief Executive Officer at Ecopetrol. Mr. Salgar holds a bachelor's degree in Industrial Engineering from the Universidad de los Andes and a master's degree in Business Administration from the Massachusetts Institute of Technology's Sloan School of Management.

***Gurinder Prakash Singh Grewal***. Mr. Grewal has been a member of Ocensa's board of directors, nominated by Advent, since January 7, 2014. He has over 14 years of experience in financial services. Mr. Grewal is currently a Managing Director with Advent, focusing on investments in the energy and industrial sectors. Prior to joining Advent, Mr. Grewal was a vice president at Bain Capital where he was involved in investments in several large companies in the industrial, media and retail sectors. He currently serves on the boards of directors of BOS Solutions Ltd., Oleoducto Central S.A. (Ocensa), Quala, NCS Multistage Holdings, Inc. and Culligan International Group. Mr. Grewal holds a bachelor's degree in Business Administration, with honors, from the Richard Ivey School of Business at the University of Western Ontario and a master's degree in Business Administration from Harvard University.

***Executive Officers***

Ocensa's executive officers are responsible for executing its guidelines and general policies, including its long-term strategies established by its Board of Directors, and for managing its day-to-day operations.

Ocensa's current executive officers were appointed on the dates below and will serve for an indefinite term.

| Name | Age | Position | Professional Experience | Appointed on |
|---|---|---|---|---|
| Enrique Sandoval ..... | 49 | Chief Operating Officer, Chief Executive Officer | 20 years | September 2016 |

| Name | Age | Position | Professional Experience | Appointed on |
|---|---|---|---|---|
| Rosemery Carrillo ..... | 38 | Chief Financial Officer | 16 years | May 2016 |
| Adriana Londoño ..... | 43 | General Secretary | 19 years | October 2017 |

***Enrique Sandoval***. Mr. Sandoval has been Ocensa's Chief Operating Officer since September 2016 and Chief Executive Officer since April 2018. He has over 20 years of experience in the oil and gas industry. He has worked across Russia, the North Sea, Angola, Brazil and Colombia, having worked for BP and local oilfield services companies. Mr. Sandoval holds a bachelor's degree in Civil Engineering from the Universidad de los Andes and a master's degree in Civil and Environmental Engineering from Liverpool University, and he completed the professional education program Operations Academy at the Massachusetts Institute of Technology's Sloan School of Management.

***Rosemery Carrillo***. Ms. Carrillo has been Ocensa's Chief Financial Officer since May 2016. She has over 16 years of financial experience, having begun her career as a senior financial analyst at BP. She has broad industry experience, having held positions in Colombia, the United Kingdom and the United States. Ms. Carrillo holds a bachelor's degree in Industrial Engineering from the Universidad de los Andes and a master's degree in Business Administration from the Kellogg School of Management at Northwestern University.

***Adriana Londoño***. Ms. Londoño has been Ocensa's General Secretary since October 2017. She has over 19 years of experience in legal matters, having previously served as the General Secretary of Cenit from December 2012 to September 2017. Ms. Londoño has advised multinational and national companies in fields of commercial, corporate and environmental law, with an emphasis on contractual and regulatory matters. Ms. Londoño holds a law degree from the Colegio Mayor Nuestra Señora del Rosario, and a postgraduate certificate in Law and Management from Yale University.

## PRINCIPAL SHAREHOLDERS

### AI Candelaria

All shares of AI Candelaria are owned by AI Lux, which is 100% owned by funds affiliated with Advent.

### Ocensa

As of the date of this offering memorandum, (i) Cenit, a wholly owned subsidiary of Ecopetrol, holds 3,747,910 shares, or 72.648%, of Ocensa, (ii) AI Candelaria holds 1,153,139 shares, or 22.352%, of Ocensa, (iii) AI Lux owns one share, or 0.00002% and (iv) Banco de Bogotá (Panamá) S.A. Fideicomiso Acciones Ocensa and Transporte Registrado S.A., vehicles in which Darby Private Equity, a private equity investment vehicle of Franklin Templeton, holds an interest, hold 257,950 shares, or 5.000%, of Ocensa.

### Shareholders' Agreement

On January 17, 2013, we entered into a shareholders' agreement with certain shareholders of Ocensa. The Shareholders' Agreement contains corporate governance provisions establishing the relationship among ourselves, other shareholders of Ocensa and Ocensa, including in respect of the following matters:

#### *Qualified Majorities in Shareholders' Meetings*

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) represents at least 90.1 % of Ocensa's total outstanding shares:

- approve that a particular issuance of shares, of any class, be offered and traded without being subject to preemptive rights;
- create or issue any shares other than common shares;
- approve the creation of temporary reserves (*reservas ocasionales)* for an amount equal to or higher than 10% of the net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly;
- approve any profit distribution other than 100% of available distributable earnings;
- order the payment of dividends in the form of paid-in shares of any class of Ocensa, or in kind;
- approve amendments to our by-laws seeking to: (1) modify Ocensa's corporate purpose; (2) modify Ocensa's dividends distribution policy; (3) include in Ocensa's by-laws the preferential rights in the negotiation of shares or establish any restriction to the free marketability of shares; (4) declare Ocensa's voluntary wind-up, merger, spin-off or dissolution; (5) modify the number of members composing the Board of Directors of Ocensa or any of the qualifying majorities to adopt decisions in the shareholders' meeting or in the Board of Directors, as provided in the Shareholders' Agreement and the by-laws; or (6) modify any of the qualifying majorities set out in the Shareholders' Agreement;
- approve the listing Ocensa's shares on a stock exchange and the corresponding initial public offering; and
- approve repurchasing any of Ocensa's outstanding shares.

Pursuant to the Shareholders' Agreement, the following decisions must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) represents at least 85% of Ocensa's total outstanding shares:

- create reserves under Ocensa's corporate by-laws; and

- transfer or sell any of Ocensa's assets which are worth at least US$50 million.

Moreover, any issuance of shares representing Ocensa's capital stock must be approved by (1) the majority group (which includes Cenit and Ecopetrol Pipelines International Limited) and at least one additional shareholder, and (2) represents at least 80% of our total outstanding shares.

The following decisions must be approved by a majority of shareholders comprising the greater of (1) Cenit (or any of its affiliates) and at least one additional shareholder, or (2) more than 50% Ocensa's total outstanding shares:

- amending Ocensa's by-laws for purposes of changing the legal entity under which it was incorporated;

- transfer any of Ocensa's assets with a market price equal to or greater than US$25 million but less than US$50 million;

- approve any public offering of securities issued or secured by Ocensa other than the listing and initial public offering of Ocensa's shares on a stock exchange;

- approve the valuation of in-kind contributions to Ocensa;

- approve temporary reserves of an amount lower than 10% of net profits of the accounting period immediately before the date in which the decision must be approved by the shareholders assembly; and

- approve amendments to an agenda of extraordinary shareholders' meetings.

***Board of Directors***

Appointment and qualified majorities

In accordance with the Shareholders' Agreement, Ocensa's board members are nominated and appointed in the following proportion: (1) Cenit and its affiliates may nominate three members of the board of directors, two of which must be independent members pursuant to criteria set forth in Article 44 of Law 964 of 2005; and (2) based on our 22.352% minority ownership, we may nominate, and effectively control, the appointment of, two members total using the electoral quotient (*cuociente electoral*) system.

Pursuant to the Shareholders' Agreement a qualified majority of at least four of Ocensa's five board members is required to:

- approve Ocensa's business plan and any amendments thereto;

- approve projects that involve amounts greater than US$100 million;

- approve Ocensa's corporate governance code and any amendments thereto;

- delegate any decisions or functions of the board to any of its members, to legal representatives of the company or any of its employees or agents;

- approve the rules for issuing and placing (*reglamento de emisión y colocación de acciones*) any of Ocensa's shares or other securities for a price lower than the fair market value;

- approve transactions involving amounts higher than US$500 thousand to be carried out between Ocensa and any shareholder or any affiliate thereof (except for transactions related to services rendered by Ocensa and based on regulated tariffs);

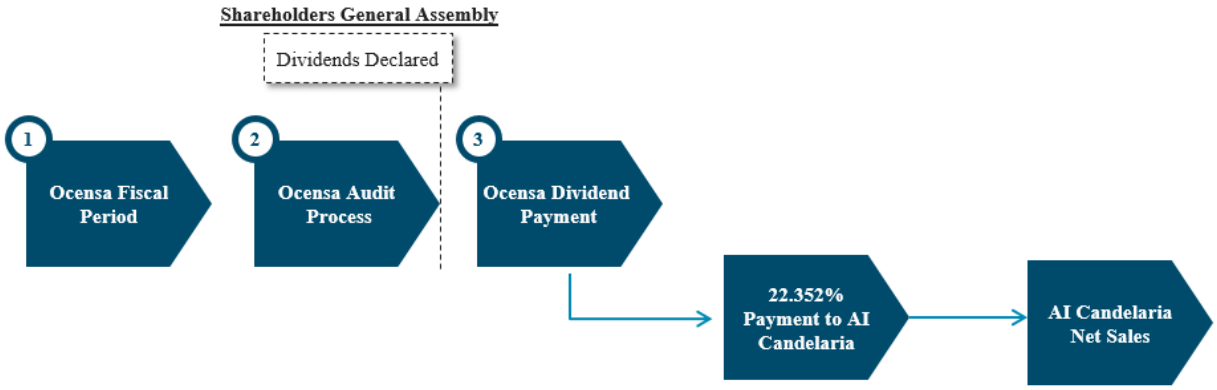
- approve any amendments to Ocensa's transporter's manual or to the regulations governing operating or technical conditions at its terminal at the Port of Coveñas; and

- approve Ocensa's involvement in new lines of business that are substantially different from its current activities and that are not contemplated in its current business plan.

***Dividend Policy***

Pursuant to the Shareholders' Agreement, Ocensa must prepare financial statements at June 30 and December 31 of each year and, if applicable, distribute as dividends to its shareholders 100% of net income after funding any legal and applicable reserves, unless otherwise instructed unanimously by its shareholders at a shareholders' meeting.

Dividend payments from Ocensa are subject to a time lag with respect to the end of the fiscal period during which the net income being distributed was accumulated in order for Ocensa to complete its audit process and declare dividends in a General Shareholders Assembly for payment to its shareholders. Once the declared dividends are paid to us, we recognize them as net sales. The following diagram sets forth an illustrative timeline regarding the dividend payment process.




In 2016, dividends were declared and paid by Ocensa to all its shareholders four times for an aggregate amount of US$656.3 million, attributable to net income generated by Ocensa for the last quarter of 2015 and the period between January 1, 2016 and September 30, 2016. In 2017, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$381.3 million, attributable to net income generated by Ocensa for the last quarter of 2016 and the period between January 1, 2017 and June 30, 2017. In 2018, dividends were declared and paid by Ocensa to all its shareholders two times for an aggregate amount of US$605.5 million, attributable to the period between July 1, 2017 and June 30, 2018. We received our pro rata share of all these dividends distributions at the declared times and recognized them as net sales.

It is important to highlight that in 2017 Ocensa declared and paid the equivalent of nine months of net income, while in 2015 and 2016, they declared and paid the equivalent of 12 months. Consequently, in 2017, the amount AI Candelaria recorded in net sales was representative of only nine months of net income instead of 12 months.

On March 12, 2019, Ocensa declared and paid dividends of US$355.8 million, attributable to net income accumulated during the six months between July 1, 2018 and December 31, 2018. AI Candelaria effectively received US$79.5 million, corresponding to our 22.352% stake.

In the past three years, Ocensa has declared dividends representing 100% of the net income generated and has not declared the funding of any legal or applicable reserves.

***Tag Along Rights***

Subject to certain conditions stipulated in the Shareholders' Agreement, we are entitled to tag along rights in the event a current shareholder or a third party acquires a controlling interest in Ocensa's capital stock.

***Term***

In accordance with its terms, the Shareholders' Agreement is valid and binding until the registration of Ocensa's shares on the Colombian National Registry for Securities and Issuers and the listing of Ocensa's shares on the Colombian stock exchange in connection with an initial public offering.

Moreover, if as a result of a transfer of Ocensa's shares by any of its shareholders, Ocensa ceases to have a majority shareholder, its then existing shareholders must renegotiate the Shareholders' Agreement to ensure its functionality under the new ownership structure.

For additional information regarding the provisions of the Shareholders' Agreement governing Ocensa's crude oil transport operations, see "Business—Material Agreements—Shareholders' Agreement."

## RELATED PARTY TRANSACTIONS

### AI Candelaria

We distribute cash dividends to AI Lux, our sole shareholder, upon the execution of a decision by AI Lux, in its capacity as sole shareholder. In the years ended December 31, 2018, 2017 and 2016, we paid cash dividends to AI Lux of US$741.9 million, US$111.7 million and US$149.1 million, respectively.

### Ocensa

Ocensa enters into related-party transactions in the ordinary course of its business, including services agreements, supply agreements, non-disclosure agreements, lease agreements, transportation agreements, and construction, operation and maintenance agreements among others. Colombian law sets forth certain restrictions and limitations on transactions with certain related parties, including directors and senior management, as well as transactions with subsidiaries and affiliates. Specifically, the Colombian Commercial Code, as amended by Law 222 of 1995, establishes, among other requirements, that: (1) subsidiaries must carry out their activities independently and with administrative autonomy; (2) transactions between a parent company and its subsidiaries or affiliates may not be detrimental to Ocensa and must be of a real nature and may not differ considerably from standard market conditions, nor be detrimental to shareholders or third parties; and (3) related party transactions must be disclosed to the shareholders of Ocensa and approved by a majority of the shareholders, as established in article 23(7) of the Colombian Commercial Code.

Ocensa believes that it has complied and is in compliance in all material respects with these requirements given that its transactions are carried out on an arms'-length basis and under terms and conditions equivalent to those that it would enter into with third parties.

Ocensa's principal transactions with related parties consist of:

- In March 1995, Ecopetrol entered into an agreement for the transportation of crude oil through the Ocensa pipeline. Pursuant to the terms of this agreement, Ecopetrol was required to make monthly payments that varied depending on both the volume of crude oil transported through the pipeline and a tariff imposed by Ocensa on the basis of Ocensa's financial projections and their expected volumes of crude oil. On January 17, 2013, this agreement was amended as a result of Ocensa's new business model. Among other changes, this amendment to the transportation agreement establishes the payment of the tariff calculated according to Resolutions issued in 2010 by the MME. In 2013, another amendment was executed that modified the terms by which the payments of invoices should be made. In 2015 Ecopetrol received a temporary release of capacity from Vitol of 24,000 barrels per day for segment I and II and 14,000 barrels per day for segment III.

- In July 10, 2012, Ecopetrol entered into a ship or pay agreement for the unloading of up to 8 thousand barrels per day of crude oil barrels at Ocensa's unloading facilities. This agreement was later amended on March 12, 2013 and on July 19, 2013. The fees correspond to a cost of US$1.50 per barrel of crude oil that is unloaded. The agreement has a term of five years. On April 11, 2014 Ecopetrol entered into an additional ship or pay agreement for the operation of Ocensa's unloading facilities by means of which Ecopetrol has the right to unload an additional volume of up to 2,000 barrels per day. The additional agreement has a five year term. On 2015, as a result of certain modifications made by Ocensa to the unloading facilities that make it possible to receive crude with lower API gravity, the parties signed an addendum to the agreement whereby crude of 18 API can be unloaded by Ecopetrol at Ocensa's facilities. In March 2016 Ocensa temporarily modified the fee for unloading operations based on the stretch market conditions to US$0.50.

- On March 31, 2017, Ocensa and Ecopetrol subscribed a commercial agreement to regulate the use of the dilution facilities built by Ocensa in the Coveñas Terminal as part of the project to transport high viscosities crudes through the pipeline.

- On June 30, 2010, Ecopetrol and Ocensa reached an agreement to transport production water from Cupiagua station to Cusiana station through a batching operations in the pipeline that communicates both fields.

- On December 22, 2016, Ecopetrol entered into a natural gas supply contract in force until November 30, 2018, pursuant to which Ecopetrol S.A. supplies gas to Ocensa and receives a fixed price per million British Thermal Units ("MBTU"). This agreement replaced the contract for natural gas supply in Cusiana station entered into on December of 2004, under which Ocensa paid a variable rate to Ecopetrol. The term of this agreement was extended until November 30, 2019, pursuant to the agreement entered into on January 30, 2019.

- In March 1995, Equion and Santiago Oil Company ("Santiago") entered into agreements for the transportation of crude oil through the Ocensa pipeline. In November 2012, Equion and Santiago Oil Company transferred, by means of various transactions, its shares (24.8%) and transportation rights (19.8%) holdings in the Ocensa pipeline to wholly owned subsidiaries of Ecopetrol S.A. (51%) and Talisman (49%). Equion and Santiago Oil Company kept 5% of transportation rights in Ocensa. On January 17, 2013, this agreement was amended as a result of Ocensa's new business model. Among other changes, the amendment to the transportation agreement establishes that tariff payments are to be calculated according to resolutions issued by the MME. On May 23, 2013, another amendment was executed that modified the terms by which the payments of invoices should be made.

- On July 9, 2012, Ocensa and ODL entered into a strategic alliance for the dilution of crude oil in the Cusiana station. The term of this contract is of five years. Once the initial term of the agreement ends, Ocensa has a purchase option over the assets that perform the dilution process. In 2015, the parties signed two addenda to the agreement in order to include additional construction work to be conducted by ODL and supervised by Ocensa for an agreed fee. Since this agreement was going to expire on December 31, 2018, on November 30, 2018, Ocensa and ODL amended the agreement to increase the term by six months while they re-negotiate some of the terms in order to continue with the alliance going forward.

- Transportation agreements with initial shippers, certain of which are related parties. See "Business—Material Agreements"; and

- Certain shareholders' agreements. See "Business—Material Agreements."

The table below sets forth Ocensa's revenue and costs derived from related-party transactions for the years ended December 31, 2017 and December 31, 2016, for the six months ended June 30, 2018 and June 30, 2017 and for the six months ended December 31, 2018 and December 31, 2017.

| | **For the Year Ended December 31,** | | **For the six months ended June 30,** | | **For the six months ended December 31,** | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2018** | **2017** | **2018** | **2017** |
| **Income Statement Data:** | | | *(in millions of US$)* | | | |
| **Revenue (refunds):** | | | | | | |
| Ecopetrol ..... | $1,019.41 | $877.18 | $495.34 | $451.31 | 558.71 | 568.10 |
| Hocol ..... | 0.06 | 13.07 | — | 0.01 | 0.00 | 0.05 |
| Oleoducto de Colombia ..... | 0.08 | 1.16 | 0.10 | 0.05 | 0.00 | 0.03 |
| Oleoducto de los Llanos Orientales ..... | 3.60 | 2.90 | 2.19 | 1.23 | 2.29 | 2.38 |

| | For the Year Ended December 31, | | For the six months ended June 30, | | For the six months ended December 31, | |
|---|---|---|---|---|---|---|
| Cenit ..... | 0.33 | — | 0.05 | — | 0.02 | 0.33 |
| Oleoducto Bicentenario ..... | 1.24 | 1.15 | 0.67 | 0.50 | 0.60 | 0.74 |
| **Total revenue .....** | **$1,024.72** | **$895.46** | **$498.35** | **$453.10** | **561.62** | **571.63** |
| **Administrative and operating costs (1):** | | | | | | |
| Ecopetrol ..... | 9.46 | 9.06 | 4.25 | 4.84 | 4.89 | 4.62 |
| Cenit ..... | 0.43 | 0.31 | 0.27 | 0.15 | 0.25 | 0.28 |
| Oleoducto de Colombia ..... | 1.00 | 1.00 | 0.58 | 0.55 | 0.55 | 0.53 |
| Oleoducto Bicentenario ..... | 3.58 | 3.84 | 1.64 | 1.56 | 2.22 | 2.03 |
| **Total administrative and operating costs .....** | **14.56** | **14.21** | **6.74** | **7.10** | **7.91** | **7.46** |

(1) Administrative and operating costs are related to fees, technical assistance and administrative services provided to us by related parties as well as assets that we lease from related parties.

The table below sets forth the balances of Ocensa's accounts receivable and payable with related parties as of December 31, 2018, December 31, 2017 and 2016.

| | As of December 31, | | As of December 31, |
|---|---|---|---|
| | 2017 | 2016 | 2018 |
| **Balance Sheet Data:** | | *(in millions of US$)* | |
| **Receivables:** | | | |
| Ecopetrol S.A. ..... | $145.58 | $73.78 | $134.36 |
| Oleoducto de Colombia ..... | 0.46 | 1.03 | 0.3 |
| Oleoducto de los Llanos Orientales ..... | 1.44 | 0.66 | 1.14 |
| Oleoducto Bicentenario ..... | 0.70 | 0.93 | 1.30 |
| Cenit ..... | 0.97 | — | 0.16 |
| Hocol ..... | 0.28 | — | 2.27 |
| **Total receivables .....** | **149.43** | **76.40** | **139.53** |

| | As of December 31, | | As of December 31, |
|---|---|---|---|
| | 2017 | 2016 | 2018 |
| **Balance Sheet Data:** | | *(in millions of US$)* | |
| **Total related-party assets** | **149.43** | **76.40** | **139.53** |
| **Accounts payable** | | | |
| Ecopetrol | 4.93 | 1.84 | 4.32 |
| Oleoducto Bicentenario | 0.32 | 0.30 | 0.57 |
| Oleoducto de Colombia | 0.12 | 0.09 | 0.14 |
| Hocol | 0.07 | 0.09 | 0.00 |
| Cenit | 0.42 | 0.04 | 0.01 |
| **Total accounts payable** | **5.86** | **2.36** | 5.04 |
| **Total related-party liabilities** | **5.86** | **2.36** | 5.04 |

## DESCRIPTION OF THE NOTES

*We will issue the New Notes under an Indenture dated as of October 25, 2018, under which we initially issued US$650,000,000 aggregate principal amount of Existing Notes (as defined below), among AI Candelaria Spain, Wilmington Trust, National Association, as Trustee (in such capacity, the "Trustee") and as U.S. collateral agent (in such capacity, the "U.S. Collateral Agent") and TMF Group New York LLC, which shall appoint its affiliate, TMF Colombia Ltda, to act as sub-agent in accordance with the Indenture (the "Colombian Collateral Agent"), as the same may be amended or supplemented from time to time and pursuant to a public deed of issuance (escritura de emisión) to be granted pursuant to Spanish law on or before the issue date of the New Notes. The Indenture will not be subject to the provisions of the Trust Indenture Act. Accordingly, the terms of the Notes include only those stated in the Indenture. To the extent article 411 of the Spanish Companies Act is applicable, the holders of the Notes, by purchasing the Notes, consent to (i) the distributions of the proceeds as described under "Use of Proceeds" and (ii) any permitted restricted payment under the Indenture.*

*The New Notes will constitute a further issuance of, and form a single series with, our outstanding 7.500% Senior Secured Notes due 2028 issued on October 25, 2018 in the principal amount of US$650,000,000 (the "Existing Notes"). Provisions that apply equally to the Existing Notes and the New Notes may be described collectively as regarding the "Notes." The New Notes sold pursuant to Rule 144A under the Securities Act are expected to trade under the same CUSIP and ISIN numbers and have identical terms as the Existing Notes held in the Rule 144A global note from the Issue Date, other than their date of issue and their initial price to the public. The New Notes sold pursuant to Regulation S under the Securities Act are expected to have identical terms as the Existing Notes held in the Regulation S global note, other than their date of issue and their initial price to the public. Through the 40th day following delivery of the New Notes, New Notes sold pursuant to Regulation S under the Securities Act will have temporary CUSIP and ISIN numbers. Thereafter, such Notes will trade under the same CUSIP and ISIN numbers as the Existing Notes held in the Regulation S global note.*

*The following description is a summary of the material provisions of the Notes and the Indenture. This summary is not complete, and is subject to, and is qualified in its entirety by reference to, the provisions of the Indenture and the Notes. We urge you to read the Indenture and this offering memorandum. You can obtain from AI Candelaria Spain a copy of the Indenture upon request in the manner described under the section "Listing and General Information" of this offering memorandum.*

*In this "Description of the Notes", unless otherwise indicated, "AI Candelaria Spain", "we", "us" and "our" refer only to AI Candelaria (Spain), S.L.U., and not to any of our subsidiaries. "AI Candelaria Lux" refers only to AI Candelaria (Luxembourg) S.á r.l. and not to any of its subsidiaries. "Ocensa" refers only to Oleoducto Central S.A. and not to any of its subsidiaries.*

*We may issue an unlimited principal amount of additional notes having identical terms and conditions as the Notes (the "Additional Notes"). We will only be permitted to issue such Additional Notes if at the time of, and after giving pro forma effect to, such issuance, we are in compliance with the covenants contained in the Indenture and the maximum amount of debt securities that AI Candelaria Spain is allowed to issue according to Spanish law is not exceeded. Any additional Notes will be part of the same issue as the Notes we are offering and will vote on all matters with the holders of the Notes.*

### General

The Notes are our direct and unconditional senior obligations. The Notes are secured by a pledge of 100% of the Capital Stock of Ocensa owned directly by AI Candelaria Spain as of the Issue Date and a pledge over the amounts in the Debt Service Reserve Account. The Notes are senior secured obligations of AI Candelaria Spain and rank (i) *pari passu* among themselves and equal in right of payment with all of our other present and future obligations that are not subordinated to the Notes; (ii) senior in right of payment to all our existing and future obligations that are subordinated to the Notes; (iii) senior in right of payment to all our existing and future unsecured Indebtedness to the extent of the value of the Collateral; (iv) effectively subordinated to the obligations of AI Candelaria Spain preferred by statute or operation of law; and (v) are structurally subordinated to all of Ocensa's existing and future indebtedness and other liabilities, including trade payables. As of the issue date of the New Notes, we do not have any subsidiaries, but we could form them in the future. We expect to incur additional

Indebtedness from time to time to the extent permitted by the Indenture. The Indenture does not limit the amount of Indebtedness or other obligations that may be incurred by Ocensa. The Notes are not obligations of, or guaranteed by, Ocensa or any of its subsidiaries and neither Ocensa nor any of its subsidiaries is subject to the covenants contained in the Indenture.

We may prepay the Notes in whole or in part as described below under "—Optional Prepayment". We may also prepay the Notes in whole, but not in part, in the event of specified changes affecting taxation of the Notes as described below under "—Optional Prepayment—Optional Prepayment for Changes in Taxes". The Notes are not entitled to the benefit of any sinking fund, but benefit from a debt service reserve as described below under "—Debt Service Reserve".

The New Notes will be issued only in fully registered form without coupons, and will be denominated and payable in U.S. dollars.

The New Notes sold initially (1) to certain "qualified institutional buyers" ("QIBs") (as defined in Rule 144A under the Securities Act) that are also "Qualified Purchasers" (as defined in Section 2(a)(51)(A)) of the Investment Company Act) and (2) outside the United States to non-U.S. persons (within the meaning of the Investment Company Act and Regulation S) in compliance with Regulation S under the Securities Act, will initially be represented by global Notes in book-entry form. Such New Notes will be issued with an original principal amount in minimum denominations of US$250,000 and integral multiples of US$1,000 in excess thereof. Holders of interests in global Notes will not be entitled to receive Notes in definitive certificated form registered in their names except in the limited circumstances described below. See "—Book-Entry System; Delivery and Form; Certificated Notes".

**Principal and Interest**

The New Notes are being issued in an aggregate principal amount of US$50.0 million, and will mature on December 15, 2028 and the aggregate principal balance of the Notes outstanding at such time, including the New Notes, will become due and payable. The Notes will bear interest at the rate per annum set forth on the front cover page of this offering memorandum (the "Initial Interest Rate") from the Issue Date, or from the most recent date on which interest was payable and for which interest has been paid or provided. Interest on the Notes will be payable semi-annually on June 15 and December 15 of each year (each a "Payment Date"), commencing on June 15, 2019, to the person in whose name such Notes are registered at the close of business on the preceding June 1 or December 1. Interest on the Notes will be computed on the basis of a 360- day year of twelve 30-day months. The principal amount of the Notes will be payable (and in the case of payments to DTC, as a pro rata pass through distribution of principal) in consecutive semi-annual pro rata installments commencing on December 15, 2022 and on each Payment Date thereafter; provided that any partial prepayment of the principal amount of the Notes pursuant to "—Optional Prepayments," "Covenants—Asset Sales" or other repurchases of the Notes shall reduce the principal amount due on each succeeding Payment Date on a pro rata basis for the amount of principal paid in connection with any such prepayment or repurchase over the remaining Payment Dates. Notice of any such reduction, including an updated amortization schedule, shall be provided to the Holders and AI Candelaria Spain shall deliver an officer's certificate to the Trustee including such updated amortization schedule, which shall be conclusive and binding absent manifest error. The final installment of the principal will, in any event, equal the then outstanding aggregate principal balance of the Notes, including the New Notes, and will be payable together with the accrued and unpaid interest thereon and any other amounts then owing by AI Candelaria Spain under the Notes, including the New Notes.

| Scheduled Payment Date | Percentage of Original Outstanding Principal Amount Payable | Amount Payable in US$ (including New Notes) |
|---|---|---|
| December 15, 2022..... | 5.83333% | $40,833,310.00 |
| June 15, 2023..... | 5.83333% | $40,833,310.00 |

| Scheduled Payment Date | Percentage of Original Outstanding Principal Amount Payable | Amount Payable in US$ (including New Notes) |
|---|---|---|
| December 15, 2023..... | 5.83333% | $40,833,310.00 |
| June 15, 2024..... | 5.83333% | $40,833,310.00 |
| December 15, 2024..... | 5.83333% | $40,833,310.00 |
| June 15, 2025..... | 5.83333% | $40,833,310.00 |
| December 15, 2025..... | 5.83333% | $40,833,310.00 |
| June 15, 2026..... | 5.83333% | $40,833,310.00 |
| December 15, 2026..... | 5.83333% | $40,833,310.00 |
| June 15, 2027..... | 5.83333% | $40,833,310.00 |
| December 15, 2027..... | 5.83333% | $40,833,310.00 |
| June 15, 2028..... | 5.83333% | $40,833,310.00 |
| December 15, 2028..... | Remaining Principal | $210,000,280.00 |

If any Payment Date, prepayment date or maturity date of any of the Notes falls on a day that is not a Business Day at any place of payment, then payment of principal, premium, if any, Additional Amounts, if any, and interest need not be made at such place of payment on such date but may be made on the next succeeding Business Day at such place of payment, and no interest will accrue on the amount so payable for the period from and after such Payment Date, prepayment date or maturity date, as the case may be.

The Trustee will initially act as paying agent, registrar and transfer agent for the New Notes. AI Candelaria Spain intends to replace the paying agent after the closing of the issuance of the New Notes but prior to the first interest payment pursuant to the New Notes. The New Notes will originally be deposited with a clearing and settlement system located outside of Spain that is recognized by Spanish law or by the law of another Organisation for Economic Co-operation and Development country (in this case, The Depository Trust Company ("DTC")). Payments on global Notes will be made in immediately available funds to DTC as depositary, or its nominee. All other payments on the Notes will be made at the corporate trust office of the paying agent and registrar in the United States, unless we elect to make interest payments by check mailed to the registered holders at their registered addresses or wire instructions are provided by the registered Holders to the Trustee.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, AI Candelaria Spain will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or prepayment, in the event that a global note is exchanged for certificated notes. In addition, in the event that a global note is exchanged for certificated notes, an announcement of such exchange shall be made by or on behalf of AI Candelaria Spain through the SGX-ST and such announcement will include all material information with respect to the delivery of the certificated notes, including details of the paying agent in Singapore.

You will not have to pay a service charge to register the transfer or exchange of any Notes, but we may require that you pay a sum sufficient to cover any tax or other governmental charge.

**Pledged Shares**

Under the stock pledge agreement entered into by AI Candelaria Spain and the Colombian Collateral Agent on October 25, 2018, and to be amended on the issue date of the New Notes to provide that the New Notes will share in the Ocensa Pledged Shares (as defined below) (the "Share Pledge Agreement"), the obligations of AI Candelaria Spain under the Notes are secured by a first-priority security interest on all of the Ocensa Capital Stock owned by AI Candelaria Spain as of October 25, 2018 (the "Ocensa Pledged Shares").

The pledge of the Ocensa Pledged Shares will cover:

(i) the Ocensa Pledged Shares and all rights attached to the Ocensa Pledged Shares; and

(ii) any shares received by us in respect of the Ocensa Pledged Shares as a result of any splits, reverse splits, spin-offs and share dividends by Ocensa or any shares issued by any successor of Ocensa representing the equity interests of the Ocensa Pledged Shares in the capital stock of Ocensa in exchange for the extinguished Ocensa Pledged Shares as a result of any corporate transaction involving Ocensa.

In the event that we elect to issue any Additional Notes under the Indenture, such Additional Notes will equally and ratably share in the Ocensa Pledged Shares. In the event that AI Candelaria Spain acquires shares of Ocensa after the Issue Date (other than pursuant to clause (ii) above) or any other assets, such shares or other assets shall not constitute Collateral for the Notes.

The Share Pledge Agreement grants a perfected first priority lien under Colombian law in favor of the Colombian Collateral Agent with respect to the Ocensa Pledged Shares. The New Notes will share equally and ratably in the Ocensa Pledged Shares once the Share Pledge Agreement is amended on the issue date of the New Notes. The Share Pledge Agreement is recognized as a first priority lien enforceable vis-à-vis third parties and may be enforceable first in time, if any other lien is granted over the Ocensa Pledged Shares. As a result, remedies under the Share Pledge Agreement, including foreclosure on the Ocensa Pledged Shares, are subject to Colombian commercial and procedural law. In the event that AI Candelaria Spain incurs additional Indebtedness that is secured by the Collateral in accordance with the provisions of the Indenture, the Colombian Collateral Agent shall enter into an amendment to the Share Pledge Agreement in order to give effect to such Liens.

So long as no Event of Default shall have occurred and be continuing, and subject to the provisions of the Indenture and the Share Pledge Agreement, AI Candelaria Spain will retain the right to vote the Ocensa Pledged Shares and otherwise exercise all of its rights and privileges in respect of the Ocensa Pledged Shares, including the receipt of dividends and other distributions. After the occurrence of an Event of Default, the Colombian Collateral Agent shall be entitled to vote the Ocensa Pledged Shares, but only after providing 5 Business Days notice to AI Candelaria Spain of its intention to vote the Ocensa Pledged Shares. AI Candelaria Spain shall have no liability for any actions taken by the Colombian Collateral Agent with respect to the Ocensa Pledged Shares.

As of the date of this offering memorandum, AI Candelaria Spain owns approximately 22.352% of the outstanding Ocensa shares.

***Certain Limitations on the Pledged Shares***

The value of the Ocensa Pledged Shares in the event of liquidation will depend on many factors. In particular, the Ocensa Pledged Shares represent an equity interest in Ocensa, and only have value to the extent that the assets of Ocensa are worth in excess of the liabilities of Ocensa (and, in a bankruptcy or liquidation, will only receive value after payment upon all such liabilities, including all debt of Ocensa). Consequently, liquidating the Ocensa Pledged Shares may not produce proceeds in an amount sufficient to pay any amounts due on the Notes. See "Risk factors—Risks relating to the notes—The value of the Ocensa Pledged Shares or the amounts in the Debt Service Reserve Account may not be sufficient to satisfy our obligations in respect of the notes." In addition, enforcement of the Liens on the Ocensa Pledged Shares may be limited by applicable governmental requirements. The fair market value of the Ocensa Pledged Shares is subject to fluctuations based on factors that include, among others, prevailing

interest rates, the ability to sell the Ocensa Pledged Shares in an orderly sale, general economic conditions, the availability of buyers and similar factors.

The amount to be received upon a sale of the Ocensa Pledged Shares would be dependent on numerous factors, including the actual fair market value of the Ocensa Pledged Shares at such time, the timing and the manner of the sale and the requirements and limitations of any applicable foreclosure proceedings. By its nature, the Ocensa Pledged Shares may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Ocensa Pledged Shares will be sufficient to pay AI Candelaria Spain's obligations under the Notes. Any claim for the difference between the amount, if any, realized by holders of the Notes from the sale of Ocensa Pledged Shares securing the Notes and the obligations under the Notes will rank equally in right of payment with all of AI Candelaria Spain's other unsecured senior debt and other unsubordinated obligations, including trade payables.

The ability of the holders to realize on the Ocensa Pledged Shares may be subject to certain bankruptcy law limitations in the event of a bankruptcy. See "—Certain bankruptcy limitations."

***Further assurances***

The Share Pledge Agreement and the Indenture provide that AI Candelaria Spain shall, at its sole expense, do all acts which may be reasonably necessary to confirm that the Colombian Collateral Agent holds, for the benefit of the Collateral Agents, the Trustee and the holders of the Notes, duly created, enforceable and perfected first-priority perfected Liens on the Ocensa Pledged Shares. AI Candelaria Spain shall, at its sole expense, execute, acknowledge and deliver such documents and instruments (including the filing of financing statements or amendments or continuations thereto) and take such other actions which may be necessary to assure, perfect, transfer and confirm the rights conveyed by the Share Pledge Agreement, to the extent permitted by applicable law.

***Impairment of security interest***

The Share Pledge Agreement provides that AI Candelaria Spain is not permitted to grant to any person, or permit any person to retain (other than the Colombian Collateral Agent), any security interest or Lien whatsoever on the Ocensa Pledged Shares other than as permitted by the Indenture, the Notes and the Share Pledge Agreement. AI Candelaria Spain will not enter into any agreement that requires the proceeds received from any sale of Ocensa Pledged Shares to be applied to repay, prepay, defease or otherwise acquire or retire any debt of any person, other than as permitted by the Indenture, the Notes and the Share Pledge Agreement.

***Certain bankruptcy limitations***

*AI Candelaria Spain*

As a general rule under Spanish law, the debtor in a voluntary insolvency retains its management powers, but is subject to the intervention (*intervención*) of the insolvency administrator (*administrador concursal*), who is appointed by the court. In the case of mandatory insolvency, as a general rule, the debtor's management will be replaced (*sustitución*) by the insolvency administrator. However, the court has the power to modify this general regime subject to the specific circumstances of the case. Actions carried out by the debtor that breach any required supervision of the insolvency authorities may be null and void.

Creditors holding securities *in rem* are subject to certain restrictions in order to initiate separate enforcement proceedings (or to continue with such proceedings, if they had already been commenced at the time the insolvency proceedings were opened), when the encumbered asset is deemed necessary for the continuation of the debtor's activity and until the earliest of (i) the approval of an agreement between the creditors and the debtor (*convenio concursal*) (the "Company Voluntary Agreement" or the "CVA") provided that its content does not affect the exercise of the enforcement right; (ii) a year has elapsed since the insolvency declaration without the debtor's liquidation being commenced; or (iii) the judge hearing the insolvency proceedings declaring that the asset is not necessary for the continuation of the debtor's activities in accordance with the Spanish Insolvency Act.

However, under the Spanish conflicts of law regulation, the effects of the insolvency over *in rem* rights in respect of property or rights of the debtor located in the territory of another State (namely, ability to enforce) will be exclusively governed by the law of that State. Considering that the Ocensa Pledged Shares are in Colombia and the

Debt Service Reserve Account is in the United States, and provided that the pledge created over (i) the Ocensa Pledge Shares pursuant to the Share Pledge Agreement and (ii) the Debt Service Reserve Account pursuant to the Deposit Account Control Agreement qualify as *in rem* right, the effects of the insolvency of AI Candelaria Spain (governed by the Spanish Insolvency Act) over such Collateral will be governed by Colombian and New York law, respectively. In addition, under Spanish conflicts of laws regulation, a contract cannot be subject to the Spanish Insolvency Act clawback action if it is unavoidable under the law applicable to the contract (insolvency, civil, etc.). However, this is a defense to be put forward before the Spanish insolvency court and proving the relevant Colombian and New York law provisions.

In the context of a transfer of assets and the creation of liens over the assets by a Spanish company in circumstances where that company is insolvent (or becomes insolvent subsequently), there are two broad areas of particular concern:

- *Hardening periods.* Under Spanish Insolvency Act, there are no prior transactions that automatically become void as a result of initiation of the insolvency proceedings. The insolvency administrator may only challenge those transactions that could be deemed "detrimental" to the insolvent debtor's estate, provided that they have taken place within two years prior to the declaration of insolvency (in accordance with Article 71.6 of the Spanish Insolvency Act, transactions taking place earlier than two years before the insolvency declaration, are subject to the general regime of rescission set forth in the Spanish Civil Code described below). However, under the Spanish Insolvency Act acts of the debtors cannot be challenged and declared void if the beneficiary of such act evidences that such act is governed by the law of another State which does not permit its challenge.

- *Fraudulent Conveyance Laws*. Under Spanish law, the insolvency administrator (within the insolvency proceedings) and any creditor (whether within or outside the insolvency proceedings) may bring an action to rescind a contract or agreement (*acción rescisoria o pauliana*) against its debtor and the third party which is a party to such contract or agreement, provided the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. The reach back period is four years.

See "Risk Factors—Risks Relating to the Notes—The ability of holders of the notes to realize upon the collateral will be subject to certain bankruptcy law limitations in the event of our bankruptcy."

*Ocensa*

Colombia´s insolvency regime under Law 1116 of 2006 regulates the following insolvency proceedings: business reorganization, judicial liquidation and cross-border insolvency proceedings. Pursuant to such law, the Insolvency Regime has the purpose of protecting credit and recovering the business of the debtor as the main unit of economic development and source of employment by means of reorganization. In the liquidation proceeding, the purpose of such proceeding is to unwind the company and to orderly pay the debts according to the legal order of payment.

The Insolvency court has ample powers and authority to direct the process and to comply with its overall purpose. The Insolvency court may request or obtain the information necessary for an adequate direction of the insolvency proceedings, take all measures necessary to protect, guard and recover the assets of the debtor, including revocation of the acts and contracts executed in prejudice of creditors, removal and imposition of sanctions and fines to the managers of the debtor for failing to comply with the Insolvency court orders or their legal duties and obligations, and act as a conciliator during the proceedings.

In connection with the revocation of the acts or contracts mentioned above, the Colombian insolvency law (Law 1116 of 2006) establishes that, during the insolvency proceeding and within six (6) months following the date on which the rating and graduation of credits and voting rights are final, any of the creditors, the promoter or the liquidator or the Insolvency court may initiate a revocation action (*acción revocatoria o de simulación)* before the insolvency judge, against certain acts or business of the debtor when such have harmed any of the creditors or affected the priority of claims, and when the debtor's assets are insufficient to cover the total of the recognized credits.

The main debtor's acts that may be revoked are:

- The obligations and, in general, any act that implies transfer, provision, constitution or cancellation of liens, limitation or dismemberment of the property of the debtor, carried out in detriment of its net worth, or any lease that prevent the object of the process, during the eighteen (18) months prior to the start of the reorganization process, or the judicial liquidation process, when it does not appear that the purchaser, lessee or borrower, acted in good faith; and

- Any free act held within twenty-four (24) months prior to the start of the reorganization process or the judicial liquidation process.

Finally, and once the reorganization process is declared, according to article 17 of such law, the debtor will not be able to make arrangements upon their assets that are not included in the ordinary course of its business, nor constitute guarantees on the debtor's assets, nor make payments or arrangements related to its obligations, nor adopt statutory reforms unless the debtor has authorization by the Insolvency court to perform such operations.

See "Risk Factors—Risks Relating to the Notes—Limitations on the enforceability of the Ocensa Pledged Shares are specific to Colombian law."

*Share Pledge Agreement*

The Share Pledge Agreement is governed by Colombian law. Security interests created thereby will constitute a legal, valid, enforceable and perfected first-priority security interest in the Ocensa Pledged Shares in accordance with their terms and, in any action or proceeding relating to the Share Pledge Agreement.

**Debt Service Reserve**

On the Issue Date, we established a U.S. dollar-denominated account (the "Debt Service Reserve Account") in the United States and either:

(a) obtained a U.S. dollar denominated direct-pay letter of credit (the "Letter of Credit") in favor of the U.S. Collateral Agent from a U.S. bank or a U.S. branch of a bank (the "L/C Bank") that is rated A- or higher by S&P (or the equivalent rating by another rating agency), in an amount in U.S. dollars sufficient to provide for the payment in full of interest, principal (other than principal due on the final scheduled Payment Date), if any, and Additional Amounts, if any, due on the next succeeding scheduled Payment Date on the Notes; or

(b) deposited into the Debt Service Reserve Account cash in U.S. dollars (and/or U.S. dollar denominated Cash Equivalents) maturing on or before the next succeeding scheduled Payment Date) in an amount sufficient to provide for the payment in full of interest, principal (other than principal due on the final scheduled Payment Date), if any, and Additional Amounts, if any, due on the next succeeding scheduled Payment Date on the Notes, which account, cash and Cash Equivalents is pledged to the U.S. Collateral Agent for the benefit of the holders under a pledge and security agreement.

On the issue date of the New Notes, we shall deposit sufficient cash in U.S. dollars or U.S. dollar denominated cash equivalents into the Debt Service Reserve Account for the Debt Service Reserve to be Fully Funded (after giving effect to the issuance of the New Notes). On the issue date of the New Notes, and within five Business Days after each Payment Date thereafter, we shall deliver to the Trustee and U.S. Collateral Agent an officer's certificate certifying as to the amount in U.S. dollars required for the payment in full of interest, principal, if any, and Additional Amounts, if any, due on the next succeeding scheduled Payment Date on the Notes for the purpose of funding the Debt Service Reserve.

AI Candelaria Spain shall deliver to the U.S. Collateral Agent written investment instructions with respect to any amounts on deposit in the Debt Service Reserve Account. Any investments shall be limited to U.S. dollars and/or U.S. dollar Cash Equivalents. In the absence of such instruction, such funds shall remain uninvested and shall not accrue interest thereon.

The amount of funds available under the Letter of Credit and in the Debt Service Reserve Account constitutes the "Debt Service Reserve". The Debt Service Reserve will be deemed to be "Fully Funded" so long as cash in U.S. dollars (and/or U.S. dollar Cash Equivalents) on deposit in the Debt Service Reserve Account plus

amounts available to draw under any Letter of Credit are in an amount equal to or greater than the product of (i) an amount sufficient to provide for the payment in full of the interest and principal, if any, and Additional Amounts, if any, required to be paid on the next succeeding scheduled Payment Date on the Notes and (ii) 1.25; provided that after the penultimate scheduled Payment Date and immediately prior to the final scheduled Payment Date, the Debt Service Reserve shall be deemed to be "Fully Funded" so long as, during such period, the cash or Cash Equivalents contained therein, or the amount provided under a Letter of Credit, is sufficient to pay the interest, including Additional Amounts, if any, but not any principal amounts, payable to the Holders of the Notes on the final scheduled Payment Date. Neither the Trustee nor the U.S. Collateral Agent shall have any responsibility to verify whether the Debt Service Reserve has been Fully Funded, and each shall be entitled to conclusively rely upon any Letter of Credit delivered to the U.S. Collateral Agent as meeting the requirements of the Indenture and Deposit Account Control Agreement. In the event that we elect to issue any Additional Notes under the Indenture and the Debt Service Reserve is required to be Fully Funded on the issue date of the Additional Notes, we will, on or before the issue date of such Additional Notes, either obtain a new Letter of Credit, or deposit into the Debt Service Reserve Account sufficient cash in U.S. dollars or U.S. Dollar denominated Cash Equivalents, in an amount sufficient to ensure the Debt Service Reserve will be Fully Funded with respect to all of the Notes, including the Additional Notes. In the event that we elect to issue any Additional Notes under the Indenture, such Additional Notes will equally and ratably share in the Debt Service Reserve. In the event that the Debt Service Reserve is not Fully Funded, AI Candelaria Spain shall provide prompt written notice to the Trustee, and the Trustee shall have no obligation to monitor compliance of the Debt Service Reserve Account.

Neither the Trustee nor the U.S. Collateral Agent will have any obligation to determine or verify if any Letter of Credit delivered by us satisfies the requirements of the Indenture.

At least ten Business Days prior to the expiration date of any Letter of Credit obtained pursuant to clause (a) above (which expiration date shall be notified by us to the Trustee and the U.S. Collateral Agent), we will either renew such Letter of Credit or obtain a new Letter of Credit meeting the requirements of clause (a) above or, if no such Letter of Credit can be obtained and the Debt Service Reserve is required to be Fully Funded at such time, we will deposit sufficient cash in U.S. dollars or U.S. dollar denominated Cash Equivalents in the Debt Service Reserve Account for the Debt Service Reserve to be Fully Funded following the expiration of the Letter of Credit. If we have not obtained a new Letter of Credit or deposited such cash or Cash Equivalents in the Debt Service Reserve Account by the day that is six Business Days prior to the expiration date of the Letter of Credit and the Debt Service Reserve is required to be Fully Funded on such date, then the U.S. Collateral Agent will, on the following Business Day, draw on the Letter of Credit in full and hold the cash received from such draw-down in the Debt Service Reserve Account for the benefit of the holders. Any Letter of Credit provided under the Indenture shall require the L/C Bank to deliver amounts drawn under the Letter of Credit within one Business Day following a draw request.

Under the terms of the deposit account control agreement between AI Candelaria Spain and the U.S. Collateral Agent (the "Deposit Account Control Agreement"), the U.S. Collateral Agent has a first priority interest in the account and in the cash and Cash Equivalents on deposit in the account for the benefit of the holders of Notes. No later than 10:00 a.m. on the day that is two Business Days prior to any Payment Date, we may either (1) deposit with the U.S. Collateral Agent, from funds otherwise available to us, cash sufficient to pay the interest and principal, if any, and Additional Amounts, if any, scheduled to be paid on such date or (2) direct the U.S. Collateral Agent (with a copy to the Trustee) to draw on the Letter of Credit or liquidate Cash Equivalents, if any, and release from the pledged account proceeds sufficient to pay the interest and principal, if any, scheduled to be paid on such date. If we fail to deposit such amounts or provide the necessary written instruction to the U.S. Collateral Agent by the day that is two Business Days prior to any Payment Date, the U.S. Collateral Agent shall withdraw from the Debt Service Reserve Account and, if there are insufficient cash or Cash Equivalents, thereafter deliver a draw request to the L/C Bank under any Letter of Credit no later than one Business Day prior to the Payment Date in an amount sufficient to pay the interest and principal, if any, scheduled to be paid on such date and distribute such funds (to the extent received) to the Trustee no later than 12:00 p.m. noon on the Payment Date. The Debt Service Reserve must be Fully Funded on the day that is 60 days prior to a Payment Date; if the Debt Service Reserve is not Fully Funded on such date and we fail to cause the Debt Service Reserve to be Fully Funded within 30 days thereafter, we will notify the Trustee and the U.S. Collateral Agent of such occurrence, which will constitute an Event of Default under the Notes. See "—Events of Default." In addition, if at any time the Debt Service Reserve is not Fully Funded, we will be prohibited from (1) incurring any additional Indebtedness (as described below under "—Covenants—Limitation on Incurrence of Additional Indebtedness"), unless all or a portion of such additional Indebtedness is

used to fully fund the Debt Service Reserve Account or (2) making any Restricted Payments (as defined below under "—Covenants—Restricted Payments").

**Foreclosure on Collateral**

If an Event of Default occurs under the Indenture, the Collateral Agents, on behalf of the holders and as instructed by the Trustee (acting in accordance with the instructions of a majority in principal amount of the Notes), in addition to any rights or remedies available to them under the Indenture, will be entitled to take actions to protect and enforce their respective rights in the Collateral, including, without limitation, the institution of foreclosure proceedings in accordance with the Security Documents and applicable law. See "Certain Bankruptcy Limitations."

The proceeds received from any foreclosure and subsequent sale of the Collateral will be delivered to the Trustee and applied as follows:

- first, to pay the expenses of such foreclosure and fees, expenses and other amounts then payable to the Trustee and the U.S. Collateral Agent under the Indenture and to each Collateral Agent (and to their respective legal counsels) under the applicable Security Documents;

- thereafter, to the Trustee to pay ratably the principal of and interest and Additional Amounts and premium, if any, on the Notes; and

- to the extent of the balance of such proceeds after application in accordance with the foregoing, to AI Candelaria Spain, its successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The amounts realizable by the Colombian Collateral Agent in the event of a foreclosure and liquidation of the Ocensa Pledged Shares will depend upon market and economic conditions at such time, the requirements and limitations of the applicable foreclosure proceedings and the availability of buyers and other similar factors. Foreclosure may also require certain governmental approvals. See "Risk Factors–Risks Relating to the Notes–The value of the Ocensa Pledged Shares or the amounts in the Debt Service Reserve Account may not be sufficient to satisfy our obligations in respect of the Notes," "Risk Factors–Risks Relating to the Notes–Limitations on the enforceability of the Ocensa Pledged Shares are specific to Colombian law." The Colombian Collateral Agent will be required to execute a joinder to the Shareholder Agreement upon foreclosure of the Ocensa Pledged Shares and the Share Pledge Agreement will contemplate the execution of such joinder by the Colombian Collateral Agent upon foreclosure.

**Release of Collateral**

The Indenture and the Security Documents provide that the Liens on the Collateral will automatically and without the need for any further action by the holders of the Notes, or any other person (unless otherwise provided for in the applicable Security Document) be released:

(1) with respect to any Ocensa Pledged Shares, upon the sale or other disposition (including by way of consolidation, amalgamation or merger) of such Ocensa Pledged Shares, as permitted under "—Covenants—Asset Sales";

(2) in whole, upon payment in full of the principal of, accrued and unpaid interest, Additional Amounts, if any, and premium, if any, on, the Notes;

(3) with respect to Liens on the Debt Service Reserve, upon the release, as permitted by the Indenture, from the Debt Service Reserve Account of proceeds sufficient to pay the interest or principal, if any, scheduled to be paid on a Payment Date;

(4) upon defeasance or discharge of the Indenture as set forth below under the captions "Legal Defeasance and Covenant Defeasance" and "Satisfaction and Discharge"; or

(5) as described under the caption "Modification of the Indenture."

Upon our request and delivery of an officer's certificate and an opinion of counsel stating that such release is authorized or permitted by the Indenture and all conditions precedent under the related Security Documents and under the Indenture have been satisfied, the Collateral Agents shall execute and deliver such release documents, prepared by us, at our expense.

**Intercreditor Agreement**

The Indenture will contain a form of Intercreditor Agreement to be entered into in the event that additional Pari Passu Obligations are Incurred by AI Candelaria Spain. The Colombian Collateral Agent and the Trustee, on behalf of the Holders of the Notes, and the representatives of the holders of any additional Pari Passu Obligations will enter into the Intercreditor Agreement upon the Incurrence of additional Pari Passu Obligations, which will be acknowledged by AI Candelaria Spain and which Intercreditor Agreement will set forth the relative rights and obligations of the holders of Pari Passu Obligations with respect to the Collateral that is permitted to be shared with other creditors pursuant to the terms of the Indenture (which does not include the Debt Service Reserve Account). For purposes of this section, "Collateral" shall not be deemed to include the Debt Service Reserve Account. By their purchase and acceptance of the Notes, the holders shall be deemed to have authorized and instructed any of the Trustee or the Colombian Collateral Agent to execute and deliver the Intercreditor Agreement.

The Intercreditor Agreement will be binding on the Holders of Notes with respect to the matters described below to the same extent as such provisions apply to the Colombian Collateral Agent and the Trustee. The Intercreditor Agreement provides that in the event of a conflict or inconsistency between the Intercreditor Agreement and any Security Documents, the Indenture or the Notes, the Intercreditor Agreement shall be controlling as between the holders of Pari Passu Obligations thereunder.

The Intercreditor Agreement may be entered into without the consent of any Holder of a Note. This summary of the Intercreditor Agreement also uses the following terms:

"Additional First Lien Collateral Agent" means the Authorized Representative for the series of Pari Passu Obligations that constitutes the largest outstanding principal amount of any then-outstanding series of Pari Passu Obligations; provided, that if there are two outstanding series of Pari Passu Obligations with equal outstanding principal amounts, the Series of Pari Passu Obligations with the earlier maturity shall be considered to have the larger outstanding principal amount for purposes of this definition.

"Applicable Authorized Representative" means, with respect to any Collateral, (i) until the earlier of the discharge of the Notes and the Indenture (the "Discharge of Notes") and the Non-Controlling Representative Enforcement Date, the Trustee and (ii) from and after the earlier of the Discharge of the Notes and the Non-Controlling Representative Enforcement Date, the Major Non-Controlling Authorized Representative.

"Authorized Representative" means, at any time, (i) in the case of the Notes, the Trustee, and (ii) in the case of any other series of Pari Passu Obligations that become subject to the Intercreditor Agreement, the collateral agent named as authorized representative for such series.

"Collateral Agent" means (a) in the case of the Notes, the Colombian Collateral Agent and (b) in the case of any other series of Pari Passu Obligations that become subject to the Intercreditor Agreement, the collateral agent for such series.

"Controlling Collateral Agent" means, with respect to any Collateral, (a) until the earlier of (i) the Discharge of Notes and (ii) the Non-Controlling Authorized Representative Enforcement Date with respect to such Collateral, the Colombian Collateral Agent and (b) from and after the earlier of (i) the Discharge of Notes and (ii) the Non-Controlling Authorized Representative Enforcement Date with respect to such Collateral, the Additional First Lien Collateral Agent (acting on the instructions of the Applicable Authorized Representative).

"Controlling Secured Parties" means, with respect to any Collateral, the secured parties with respect to the series of Pari Passu Obligations whose Authorized Representative is the Applicable Authorized Representative for such Collateral.

"Major Non-Controlling Authorized Representative" means, with respect to Collateral, the Authorized Representative of the series of Pari Passu Obligations (other than the Notes) that constitutes the largest outstanding principal amount of any then outstanding series of Pari Passu Obligations with respect to such Collateral.

"Non-Controlling Authorized Representative" means, at any time with respect to any Collateral, any Authorized Representative that is not the Applicable Authorized Representative at such time with respect to such Collateral.

"Non-Controlling Authorized Representative Enforcement Date" means, with respect to any Non-Controlling Authorized Representative, the date which is 180 days after the occurrence of both (i) an Event of Default (under and as defined in the instrument in respect of which such Non-Controlling Authorized Representative is the Authorized Representative) and (ii) each Collateral Agent's and each other Authorized Representative's receipt of written notice from such Non- Controlling Authorized Representative certifying that an Event of Default (under and as defined in the instrument in respect of which such Non-Controlling Authorized Representative is the Authorized Representative) has occurred and is continuing; provided that the Non-Controlling Representative Enforcement Date shall be stayed and shall not occur and shall be deemed not to have occurred (1) at any time that the Colombian Collateral Agent, the Applicable Authorized Representative or the then controlling Collateral Agent has commenced and is diligently pursuing an enforcement action with respect to all or a material portion of the Collateral or (2) as to AI Candelaria Spain, at any time AI Candelaria Spain is then a debtor under or with respect to (or otherwise subject to) any insolvency or liquidation proceeding.

"Pari Passu Agent" means (i) the Authorized Representative of any additional series of Pari Passu Obligations that becomes subject to the Intercreditor Agreement.

"Pari Passu Obligations" means (i) all Obligations owing pursuant to the Notes, the Security Documents and the Indenture and (ii) any Obligations with respect to which a Pari Passu Agent has become party to the Intercreditor Agreement on behalf of the holders of such Obligations

*Role of the Controlling Collateral Agent*

Pursuant to the Intercreditor Agreement, with respect to any Collateral: (i) the Controlling Collateral Agent will have the sole right to act or refrain from acting with respect to the Collateral; (ii) the Controlling Collateral Agent is not under any duty to follow any instructions with respect to the Collateral from any other Pari Passu Agent or holders of Pari Passu Obligations other than the Controlling Secured Parties in accordance with the applicable underlying controlling agreements; and (iii) no Pari Passu Agent or holders of Pari Passu Obligations other than the Controlling Secured Parties may instruct the Controlling Collateral Agent to, and no Collateral Agent except the Controlling Collateral Agent shall, commence any judicial or non-judicial foreclosure proceedings with respect to, seek to have a trustee, receiver, liquidator or similar official appointed for or over, attempt any action to take possession of, exercise any right, remedy or power with respect to, or otherwise take any action to enforce its interests in or realize upon, or take any other action available to it in respect of, any Collateral.

Notwithstanding the equal priority of the Liens securing each series of Pari Passu Obligations on any Collateral, the Controlling Collateral Agent may deal with the Collateral as if the Controlling Collateral Agent had a senior and exclusive Lien on such Collateral. No Non-Controlling Authorized Representative or the holders of Pari Passu Obligations (other than the Controlling Secured Parties) may contest, protest or object to any foreclosure proceeding or action brought by the Controlling Collateral Agent or any Controlling Secured Party or any other exercise by the Controlling Collateral Agent, Applicable Authorized Representative or any Controlling Secured Party of any rights and remedies relating to the Collateral, in each case, performed in accordance with the terms of the Intercreditor Agreement.

Each Pari Passu Agent and Collateral Agent party to the Intercreditor Agreement will not (and waives any right to) contest or support any other person in contesting, in any proceeding (including any insolvency or liquidation proceeding), the perfection, priority, validity, attachment or enforceability of a Lien held by or on behalf of any of the secured parties with respect to any series of Pari Passu Obligations in all or any part of the Collateral subject to the Intercreditor Agreement.

In addition, each secured party with respect to any series of Pari Passu Obligations (i) will not take or cause to be taken any action the purpose or intent of which is, or could be, to interfere with, hinder or delay, in any manner, whether by judicial proceedings or otherwise, any sale, transfer or other disposition of the Collateral by the

Controlling Collateral Agent, (ii) will not institute any suit or assert in any suit, bankruptcy, insolvency or other proceeding any claim against the Controlling Collateral Agent or any other secured party with respect to any series of Pari Passu Obligations seeking damages from or other relief by way of specific performance, instructions or otherwise with respect to any Collateral, (iii) will not seek, and waives any right to have any Collateral or any part thereof marshaled upon any foreclosure or other disposition of such Collateral and (iv) will not attempt, directly or indirectly, whether by judicial proceedings or otherwise, to challenge the enforceability of any provision of the Intercreditor Agreement.

*Distribution of Enforcement Proceeds*

If an Event of Default (under and as defined in an instrument governing any series of Pari Passu Obligations) has occurred and is continuing and the Controlling Collateral Agent or any holder of Pari Passu Obligations is taking action to enforce rights in respect of any Collateral, or any distribution is made in respect of any Collateral in any insolvency or liquidation proceeding of any grantor of Collateral or otherwise, or any holder of Pari Passu Obligations receives any payment pursuant to any intercreditor agreement (other than the Intercreditor Agreement ) with respect to any Collateral, the proceeds of any sale, collection or other liquidation or disposition of any such Collateral received by the Controlling Collateral Agent or any holder of Pari Passu Obligations pursuant to any such intercreditor agreement or otherwise with respect to such Collateral and the proceeds of any such distribution, shall be applied as follows :

(i) first, to the payment in full in cash of all amounts owing to the Pari Passu Agents, the Collateral Agents and the Trustee of the Notes and the U.S. Collateral Agent (in their capacity as such) pursuant to the terms of the Intercreditor Agreement and any instrument pursuant to which a series of Pari Passu Obligations is incurred; and

(ii) second, subject to certain limited exceptions, to the payment in full of the Pari Passu Obligations of each series on a ratable basis in accordance with the terms of the applicable instrument pursuant to which such Pari Passu Obligations have been incurred; and

(iii) third, after the payment in full in cash of all Pari Passu Obligations secured by a lien on such Collateral, to the relevant grantor or its successor or assigns or to whomever may be lawfully entitled thereto or as a court of competent jurisdiction may direct.

Notwithstanding the foregoing, in the event of any determination by a court of competent jurisdiction with respect to the Pari Passu Obligations of any series that (i) any of the Pari Passu Obligations of such series are unenforceable under applicable law or are subordinated to any other obligations (other than another series of Pari Passu Obligations), (ii) any of the Pari Passu Obligations of such series do not have an enforceable security interest in any of the Collateral securing any other series of Pari Passu Obligations and/or (iii) any intervening security interest exists securing any other obligations (other than any other series of Pari Passu Obligations) on a basis ranking prior to the security interest of such series of Pari Passu Obligations but junior to the security interest of any other series of Pari Passu Obligations (any such condition referred to in the foregoing with respect to any series of Pari Passu Obligations, an “Impairment” of such series of Pari Passu Obligations), the results of such Impairment shall be borne solely by the holders of such series of Pari Passu Obligations, and the rights of the holders of such series of Pari Passu Obligations (including, without limitation, the right to receive distributions in respect of such series of Pari Passu Obligations) set forth in the Intercreditor Agreement shall be modified to the extent necessary so that the effects of such Impairment are borne solely by the holders of such series of Pari Passu Obligations subject to such Impairment. Notwithstanding the foregoing, with respect to any Collateral for which a third party (other than a holder of Pari Passu Obligations) has a lien or security interest that is junior in priority to the security interest of any series of Pari Passu Obligations but senior (as determined by appropriate legal proceedings in the case of any dispute) to the security interest of the holder of any other series of Pari Passu Obligations (such third party, an “Intervening Creditor”), the value of any Collateral or proceeds which are allocated to such Intervening Creditor shall be deducted solely from the Collateral or proceeds to be distributed in respect of the series Pari Passu Obligations with respect to which such Impairment exists.

*Turnover*

If any holder of Pari Passu Obligations obtains possession of any Collateral or realizes any proceeds or payment in respect of any such Collateral, pursuant to any Security Document or by the exercise of any rights available to it

under applicable law or in any insolvency or liquidation proceeding or through any other exercise of remedies (including pursuant to any intercreditor agreement), at any time prior to the discharge of the Pari Passu Obligations, then such party shall hold such Collateral, proceeds or payment in trust for the other holders of Pari Passu Obligations and promptly transfer such Collateral, proceeds or payment, as the case may be, to the Controlling Collateral Agent, to be distributed in accordance with the provisions described in "—Distribution of Enforcement Proceeds" above.

*Automatic Release of Liens*

If, at any time, the Controlling Collateral Agent forecloses upon or otherwise exercises remedies against any Collateral resulting in a sale or disposition thereof, then (whether or not any insolvency or liquidation proceeding is pending at the time) the Liens in favor of each other Collateral Agent for the benefit of the secured parties of the applicable series will automatically be released and discharged; provided that any proceeds of any Collateral realized therefrom shall be applied as described in "—Distribution of Enforcement Proceeds" above.

**Payment of Additional Amounts**

All payments under the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, penalties, duties, fines, assessments or other governmental charges (or interest on any of the foregoing) of whatsoever nature (collectively, "Taxes") imposed, levied, collected, withheld or assessed by, within or on behalf of Spain or any political subdivision or governmental authority thereof or therein having power to tax or any other jurisdiction in which AI Candelaria Spain is doing business or from or through which payment is made or deemed made by or on behalf of AI Candelaria Spain (including the jurisdiction of any paying agent for the Notes) or any political subdivision thereof or therein, unless such withholding or deduction is required by law or the interpretation or administration thereof. In such event, we will pay to each holder of a Note such additional amounts ("Additional Amounts") as may be necessary to ensure that the amounts received by the holder of such Note after such withholding or deduction, including withholding or deduction with respect to such Additional Amounts, equal the amounts of principal and interest and premium, if any, and Additional Amounts, if any, that would have been receivable in respect of such Note in the absence of such withholding or deduction. However, the obligation to pay Additional Amounts will not apply:

(a) to any Taxes that would have not been imposed:

(1) in the case where presentation of a Note is required for payment, but for the fact that the Note is presented more than 30 days after the later of (x) the date on which such payment first became due and (y) if the full amount payable has not been received in the place of payment by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect will have been given to the holders by the Trustee, except to the extent that the holder of such Note would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such 30- day period; or

(2) but for the existence of any present or former connection between the holder (or between a fiduciary, settler, beneficiary, member or shareholder of the holder, if the holder is an estate, a trust, a partnership, a limited liability company or a corporation) or the beneficial owner and Spain (or any political subdivision or governmental authority thereof or therein), other than the mere ownership or holding of such Note or the receipt of principal, interest or other amounts in respect thereof;

(b) any Taxes deducted, withheld or imposed on, or with respect to, a Note to the extent AI Candelaria Spain has not received from the beneficial owner or holder such information, such as a certificate of tax residence or any other documentation for claim or filing for exemptions, as may be necessary to allow payments on such Note to be made free and clear of Spanish withholding tax including a duly executed and completed payment statement from the Paying Agent, as may be required in order to comply with the procedures set forth under Spanish Law 10/2014 of June 26, 2014, Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011, of 29 July and any implementing or substituting legislation or regulation thereof.;

(c) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;

(d) in respect of any Taxes payable other than by withholding or deduction;

(e) to any withholding or deduction that is imposed pursuant to FATCA, any intergovernmental agreement between the United States and any other jurisdiction implementing FATCA, any law, regulation, guidance or interpretations enacted or issued in any jurisdiction with respect thereto, or any agreements entered into in connection with the implementation thereof;

(f) in respect of any payment to a holder that is a fiduciary or partnership or any person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note; or

(g) to any combination of (a) through (f) above.

We will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in any jurisdiction solely from the execution, delivery, enforcement or registration of the Notes or any other document or instrument relating thereto or the receipt of any payments with respect to the Notes, imposed by: (i) Spain; (ii) any jurisdiction where any paying agent is organized or otherwise considered by a taxing authority to be a resident for tax purposes, any jurisdiction from or through which payment is made or deemed made, or through which any paying agent makes a payment on the Notes, or any political organization or governmental authority thereof or therein having the power to tax in respect of any payments under the Notes; or (iii) any jurisdiction imposing such taxes, charges or similar levies as a result of, or as a requirement in connection with, the enforcement of the Notes or any other such document or instrument related to the Notes following the occurrence of any Event of Default with respect to the Notes. Any reference to principal, interest or premium shall be deemed to include Additional Amounts to the extent payable in respect thereof.

**Optional Prepayment**

Except as set forth below and except as provided under "—Covenants—Asset Sales," we will not be entitled to prepay Notes at our option.

*Make-whole Prepayment*

At any time prior to September 15, 2028 (three (3) months prior to the maturity date of the Notes), AI Candelaria Spain may prepay the Notes, in whole or in part, at its option, at any time or from time to time, upon giving notice as described under the heading "—Selection and Notice" , at a prepayment price determined by AI Candelaria Spain equal to the greater of (1) 100% of the outstanding principal amount of the Notes to be prepaid, and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be prepaid discounted to the date of prepayment on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 50 basis points, in each case plus accrued and unpaid interest, if any, to, but not including, the date of prepayment, subject to the rights of holders of record at the close of business on the relevant record date to receive interest due on the relevant Payment Date falling prior to or on the prepayment date. The Trustee shall have no duty to calculate or verify the prepayment price. If the Notes are prepaid in part, the principal amount due on each Payment Date shall be reduced pro rata. In connection with such optional prepayment, the following defined terms shall apply:

"Average Life Date" means the date which follows the Date of Determination (as defined below) by a period equal to the Remaining Weighted Average Life Period (as defined below) of the Notes.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity on the Average Life Date of the Notes that would be

utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to the Date of Determination, (1) the average (as calculated by AI Candelaria Spain) of four Reference Treasury Dealer Quotations for the prepayment date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if AI Candelaria Spain obtains fewer than four such Reference Treasury Dealer Quotations, the average (as calculated by AI Candelaria Spain) of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC or their respective affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in New York City reasonably designated by AI Candelaria Spain; provided that if any of the foregoing cease to be a primary United States government securities dealer in New York City (a "Primary Treasury Dealer"), AI Candelaria Spain will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any prepayment date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at or about 3:30 p.m., New York City time, on the third Business Day preceding such prepayment date (the "Date of Determination").

"Remaining Weighted Average Life Period" means, on a given date with respect to the Notes, the number of days equal to the quotient obtained by dividing (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment of principal of the Notes by (ii) the number of days from and including the prepayment date to but excluding the scheduled payment date of such principal installment, by (b) the then outstanding principal amount of such Note.

"Treasury Rate" means, with respect to any Date of Determination, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Date of Determination.

*At Par Prepayment*

At any time on or after September 15, 2028 (three (3) months prior to the maturity date of the Notes), AI Candelaria Spain may prepay the Notes, in whole or in part, at its option, at a prepayment price equal to 100% of the outstanding principal amount of the Notes to be prepaid, plus accrued and unpaid interest on the principal amount to, but not including, the date of prepayment.

*Optional Prepayment for Changes in Taxes*

We may prepay the Notes at our option in whole, but not in part, at any time, at a prepayment price equal to 100% of their principal amount outstanding, plus Additional Amounts, if any, and any accrued and unpaid interest up to, but not including, the date of prepayment, if

(1) we certify to the Trustee (in the manner prescribed below) five Business Days prior to the giving of the notice of prepayment that as a result of a change in law, we have or will become obligated to pay Additional Amounts as a result of any generally applicable change in or amendment to the laws or regulations of Spain or any political subdivision or governmental authority thereof or therein having power to tax, or any generally applicable change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of the Notes; and

(2) such obligation cannot be avoided by us taking reasonable measures available to us; *provided*, however, that the notice of prepayment will not be given earlier than 60 or later than 30 days before the earliest date on which we would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Before giving any notice of prepayment as described in the preceding paragraph, we will deliver an officer's certificate to the Trustee stating that we are entitled to effect such prepayment in accordance with the terms of the Indenture and setting forth in reasonable detail a statement of facts relating thereto. The statement will be accompanied by a written opinion of recognized independent counsel to the effect that we have or will become obligated to pay the Additional Amounts as a result of such change or amendment.

In the case of all global Notes held through DTC, any prepayment made on the Notes shall be paid as a pro rata pass through distribution of principal.

**Change of Control**

Unless the Notes have been called for prepayment in accordance with the Indenture, upon the occurrence of a Change of Control Event, you will have the right to require us to purchase all or a portion of your Notes (in integral multiples of US$1,000) pursuant to a Change of Control Offer at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of purchase (the "Change of Control Payment" and the date of such purchase, the "Change of Control Payment Date"), in accordance with the procedures set forth below. If the date of purchase is on a date that is after a record date and on or prior to the corresponding Payment Date, we will pay such interest to, but not including the Change of Control Payment Date, to the holder of record on the corresponding record date, which may or may not be the same person to whom we will pay the purchase price.

Unless the Notes have been called for prepayment in accordance with the Indenture, within 30 days following the consummation of any transaction constituting a Change of Control Event, we will send, by first-class mail, a notice to each holder with a copy to the Trustee (the "Change of Control Offer"). The notice of the Change of Control Offer will state, among other things:

(1) that a Change of Control Event has occurred and that such holder has the right to require us to purchase such holder's Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant Payment Date);

(2) the circumstances and relevant facts regarding such Change of Control Event;

(3) the Change of Control Payment Date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed, other than as may be required by law; and

(4) the instructions, as determined by us, consistent with the covenant described hereunder, that a holder of Notes must follow in order to have its Notes purchased.

On the Change of Control Payment Date, we will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with a paying agent funds in an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the Trustee for cancellation the Notes so accepted together with an officer's certificate stating the aggregate principal amount of Notes or portions thereof we are purchasing.

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the face amount thereof not purchased will be issued in the name of the holder of such Note upon cancellation of the original Note, or appropriate adjustments to the face amount and beneficial interests in a global Note will be made, as appropriate.

Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control Event under the Indenture, but that could increase the amount of our Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. In addition, future Indebtedness that we may incur may contain, restrictions on the occurrence of certain events that would constitute, or require the repurchase of such Indebtedness upon, a Change of Control Event. Moreover, the exercise by the holders of their right to require us to repurchase the Notes could cause a default under such Indebtedness, even if the Change of Control Event itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the holders of Notes following the occurrence of a Change of Control Event may be limited by our then existing financial resources.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

We will not be required to make a Change of Control Offer following a Change of Control Event if a third party makes a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

**Selection and Notice**

In the event we choose to prepay less than all of the Notes at any time, the Notes will be prepaid on a pro rata basis (and in the case of global Notes held through DTC, such prepayment shall be made as a pro rata pass through distribution of principal basis in accordance with the applicable procedures of DTC).

Notices of purchase or prepayment shall be sent by AI Candelaria Spain at least 10 but not more than 60 days before the date of purchase or prepayment date to each holder of record of Notes at such holder's registered address, except that prepayment notices may be sent more than 60 days prior to a prepayment date if the notice is issued in connection with a Change of Control Event, defeasance of the Notes or a satisfaction and discharge of the Indenture. If any Note is to be purchased or prepaid in part only, any notice of purchase or prepayment that relates to such Note shall state that the portion of the principal amount thereof shall be paid pro rata.

In the case of certificated Notes, we will issue a new Note in a principal amount equal to the unprepaid face amount of the Note that has been prepaid or tendered for purchase in the name of the holder upon cancellation of the prepaid or purchased Note. Prepaid principal becomes due on the date fixed for prepayment. On and after the prepayment date, interest ceases to accrue on Notes or portions thereof prepaid, unless we default in the delivery of the prepayment amount. Notice of any prepayment of Notes must be given prior to such prepayment, and any such prepayment or notice may, at our discretion, be subject to one or more conditions precedent, including, but not limited to, completion of an equity or other offering or other transaction or event. In addition, if such prepayment is subject to satisfaction of one or more conditions precedent, such notice shall describe each such condition and, if applicable, shall state that, in our discretion, the prepayment date may be delayed until such time (including more than 60 days after the date the notice of prepayment was mailed or delivered, including by electronic transmission) as any or all such conditions shall be satisfied (or waived by us in our sole discretion), or such prepayment may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the prepayment date, or by the prepayment date as so delayed. We will provide prompt written notice to the holders (with a copy to the Trustee) rescinding such prepayment in the event that any such condition precedent shall not have occurred (unless we waive any such condition), and such prepayment and notice of prepayment shall be

rescinded and of no force or effect, or of such new prepayment date if the prepayment date is being delayed until the conditions precedent are being satisfied.

**Covenants**

We have agreed to restrictions on our activities for the benefit of holders of the Notes. The Indenture contains, among others, the covenants set forth below:

*Limitation on Incurrence of Additional Indebtedness*

AI Candelaria Spain will not, directly or indirectly, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, Incur any Indebtedness other than Permitted Indebtedness, or permit any of its Restricted Subsidiaries to issue Preferred Stock, except that AI Candelaria Spain may Incur additional Indebtedness if at the time of and immediately after giving *pro forma* effect to the incurrence thereof and the application of the proceeds therefrom:

(1) a Default or an Event of Default will not have occurred or be continuing at the time of, or would not occur as a consequence of, such incurrence;

(2) AI Candelaria Spain's Debt Service Coverage Ratio is no less than 1.25 to 1.0;

(3) AI Candelaria Spain's Leverage Ratio is no greater than 5.0 to 1.0; and

(4) the Debt Service Reserve is Fully Funded (unless the proceeds of the additional Indebtedness incurred shall promptly be used to Fully Fund the Debt Service Reserve).

For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness incurred pursuant to and in compliance with this covenant, the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with GAAP.

"Permitted Indebtedness" means, without duplication, each of the following:

(1) Indebtedness in respect of the Notes originally issued on the Issue Date;

(2) other Indebtedness of AI Candelaria Spain outstanding on the Issue Date or pursuant to commitments existing on the Issue Date;

(3) intercompany Indebtedness or Preferred Stock among AI Candelaria Spain and any of its Restricted Subsidiaries; *provided*, that in the event that at any time any such Indebtedness ceases to be held by AI Candelaria Spain or any Restricted Subsidiary, such Indebtedness will be deemed to be incurred and not permitted by this clause (3) at the time such event occurs;

(4) Indebtedness of AI Candelaria Spain or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; *provided*, that such Indebtedness is extinguished within five Business Days after AI Candelaria Spain or such Restricted Subsidiary receives notice thereof;

(5) Refinancing Indebtedness in respect of Indebtedness incurred pursuant to clause (1), (2), (5) or (6) of this definition of "Permitted Indebtedness";

(6) the guarantee by AI Candelaria Spain or a Restricted Subsidiary of Indebtedness of AI Candelaria Spain or a Restricted Subsidiary that was permitted to be incurred by such person under the terms of the Indenture;

(7) the incurrence by AI Candelaria Spain of any foreign exchange contract, currency swap agreement or other similar agreement or arrangement, which may include the use of derivatives, designed to protect AI Candelaria Spain against fluctuations in currency values that are incurred for the purpose of fixing or hedging

exchange rate risk with respect to agreements or Indebtedness of AI Candelaria Spain, and not for speculation; *provided*, that such agreements do not increase the Indebtedness of AI Candelaria Spain outstanding at any time other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities or compensation payable thereunder;

(8) the incurrence by AI Candelaria Spain of any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement designed to protect AI Candelaria Spain against fluctuations in interest rates that are incurred for the purpose of fixing or hedging interest rate risk with respect to agreements or Indebtedness of AI Candelaria Spain, and not for speculation; *provided*, that such agreements do not increase the Indebtedness of AI Candelaria Spain outstanding at any time other than as a result of fluctuations in interest rates or by reason of fees, indemnities or compensation payable thereunder;

(9) the incurrence of Indebtedness by AI Candelaria Spain to the extent the net proceeds thereof are promptly deposited to defease the Notes as described under "—Legal Defeasance and Covenant Defeasance" or satisfy and discharge the Notes as described under "Satisfaction and Discharge";

(10) Indebtedness arising from agreements of AI Candelaria Spain or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, earnouts or similar obligations, in each case, incurred or assumed in connection with an acquisition or disposition of any business, assets or a subsidiary, other than guarantees of Indebtedness incurred by any person acquiring all or any portion of such business, assets or a Subsidiary for the purpose of financing such acquisition and Indebtedness arising from guaranties, letters of credit, bank guaranties, surety bonds, performance bonds or similar instruments securing the performance of AI Candelaria Spain or any Restricted Subsidiary pursuant to any such agreement; and

(11) the incurrence by AI Candelaria Spain or any Restricted Subsidiary of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (11), not to exceed US$10.0 million.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness, or Preferred Stock (or any portion thereof) meets the criteria of more than one of the categories of Permitted Indebtedness or Preferred Stock described in clauses (1) through (11) above or is entitled to be incurred pursuant to the first paragraph of this covenant, AI Candelaria Spain, in its sole discretion, will classify or reclassify, or later divide, classify or reclassify, such item of Indebtedness or Preferred Stock (or any portion thereof) in any manner that complies with this covenant.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term debt, or first committed or first incurred (whichever yields the lower U.S. dollar equivalent), in the case of revolving credit debt; *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness (plus premium (including tender premiums), fees, defeasance costs, accrued interest and expenses including original issue discount, upfront fees or similar fees) does not exceed the principal amount of such Indebtedness being refinanced.

*Restricted Payments*

AI Candelaria Spain will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a "Restricted Payment"):

(a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of AI Candelaria Spain or the Capital Stock of any of its subsidiaries to holders of such Capital Stock, other than (1) dividends or distributions payable in Qualified Capital Stock of AI Candelaria Spain; (2) any dividends or distributions payable to AI Candelaria Spain or (3) any dividends or distributions to all holders of Capital Stock of a Restricted Subsidiary on a pro rata basis or on a basis that results in the receipt by AI Candelaria Spain or a Restricted Subsidiary of dividends or distributions of greater value than it would receive on a pro rata basis;

(b) purchase, prepay or otherwise acquire or retire for value any Capital Stock of AI Candelaria Spain (including as a consequence of the exercise by any of its shareholders (*socios*) the right provided for in Article 384 bis of the Spanish Companies Law) or the Capital Stock of any of its direct or indirect parent companies;

(c) make any principal payment on, purchase, defease, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness other than Indebtedness incurred pursuant to clause (3) of the definition of "Permitted Indebtedness"; or

(d) make any Investment (other than a Permitted Investment).

Notwithstanding the preceding, this covenant does not prohibit (each of the following, a "Permitted Payment"):

(1) if no Default or Event of Default will have occurred and be continuing, Restricted Payments so long as after giving effect to such Restricted Payment, the Debt Service Reserve is Fully Funded and no Default or Event of Default will occur immediately after and as a result of such Restricted Payment;

(2) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration;

(3) if no Default or Event of Default will have occurred and be continuing, the voluntary prepayment, purchase, defeasance, prepayment or other acquisition or retirement for value of any Subordinated Indebtedness or Capital Stock solely in exchange for, or through the application of net cash proceeds of a substantially concurrent sale of Qualified Capital Stock of AI Candelaria Spain, other than to a Restricted Subsidiary;

(4) the defeasance, prepayment, repurchase or other acquisition of Subordinated Indebtedness of AI Candelaria Spain with the net cash proceeds from an incurrence of Refinancing Indebtedness permitted to be incurred pursuant to the covenant described in "—Limitation on Incurrence of Additional Indebtedness";

(5) any payment made out of the proceeds of the substantially concurrent sale of, or capital contribution in respect of, or made by exchange for, Capital Stock of AI Candelaria Spain (other than Disqualified Capital Stock and other than Capital Stock issued or sold to a subsidiary of AI Candelaria Spain);

(6) the payment or distribution to dissenting stockholders of any Restricted Subsidiary pursuant to applicable law, pursuant to or in connection with a consolidation, merger or transfer of assets that complies with "—Merger, Consolidation or Sale of Assets";

(7) any Restricted Payment used to fund the Transactions and the fees and expenses related thereto (including dividends to any direct or indirect parent company to permit payment by such parent of such amounts), in each case with respect to any Restricted Payment owed to an affiliate to the extent permitted by the covenant described under "—Transactions with Affiliates;" and

(8) dividends, loans, advances or distributions to any Parent Entity in an amount not to exceed $2.0 million per calendar year used to fund any Parent Entity Expenses or any Taxes related thereto.

In determining whether any Restricted Payment is permitted by this covenant, AI Candelaria Spain and its Restricted Subsidiaries may allocate all or any portion of such Restricted Payment among the categories described in

clauses (1) through (8) of the immediately preceding paragraph or among such categories and the types of Restricted Payments described in the first paragraph of this covenant (including categorization in whole or in part as one or more of the clauses contained in the definition of "Permitted Investments"); *provided* that, at the time of such allocation, all such Restricted Payments, or allocated portions thereof, would be permitted under the various provisions of this covenant and provided further that AI Candelaria Spain and its Restricted Subsidiaries may reclassify all or a portion of such Restricted Payment or Permitted Investment in any manner that complies with this covenant (based on circumstances existing at the time of such reclassification), and following such reclassification such Restricted Payment or Permitted Investment shall be treated as having been made pursuant to only the clause or clauses of this covenant to which such Restricted Payment or Permitted Investment has been reclassified.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value, as determined by AI Candelaria Spain in good faith, on the date the Restricted Payment is made, or at AI Candelaria Spain's election, the date a commitment is made to make such Restricted Payment, of the assets or securities proposed to be transferred or issued by AI Candelaria Spain or any Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

*Limitation on Liens*

AI Candelaria Spain will not, nor will AI Candelaria Spain cause or permit any Restricted Subsidiary to, Incur or suffer to exist any Lien upon the whole or any part of the property of AI Candelaria Spain or the property of such Restricted Subsidiary (including Capital Stock of the subsidiaries of AI Candelaria Spain), whether owned on the Issue Date or acquired thereafter, or any interest therein or any income or profits therefrom, to secure for the benefit of the holders of any existing or future Indebtedness of AI Candelaria Spain or any of its subsidiaries or affiliates (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Notes will be secured prior to or equally and ratably with such Indebtedness.

The foregoing restrictions will not apply to any of the following (each, a "Permitted Lien"):

(1) Liens in favor of AI Candelaria Spain or another Restricted Subsidiary that secure Indebtedness of a Restricted Subsidiary or AI Candelaria Spain;

(2) Liens over any property existing at the time of the acquisition of such property by AI Candelaria Spain or any of its Restricted Subsidiaries and not created in connection with such acquisition;

(3) Liens in existence on the Issue Date (including Liens on the Ocensa Pledged Shares prior to the date on which the Colombian Collateral Agent has a perfected first priority security interest on the Ocensa Pledged Shares for the benefit of the holders of the Notes);

(4) Liens for taxes, assessments, and governmental charges or claims that are not more than 30 days past due (including all relevant extensions), other than taxes, assessments, charges and claims that (i) are being contested in good faith in appropriate proceedings, (ii) in respect of which adequate reserves are being maintained and (iii) that failure to make such payment is not reasonably likely to have a Material Adverse Effect;

(5) Liens imposed by law on property of AI Candelaria Spain, arising in the ordinary course of business and securing payment of obligations that are not more than 30 days past due, other than obligations that are being contested in good faith in appropriate proceedings;

(6) Liens in favor of the Collateral Agents for the benefit of the Collateral Agents, the Trustee and the holders of the Notes over the Debt Service Reserve Account or the Ocensa Pledged Shares;

(7) Liens (i) that are contractual rights of set-off or netting relating to the establishment of depositary relations with banks not granted in connection with the issuance of Indebtedness, (ii) that are bankers' Liens and rights and remedies as to deposit accounts, (iii) granted to any bank with whom AI Candelaria Spain or any of its Restricted Subsidiaries maintains deposit accounts to the extent required by such bank's standard terms and

conditions for such deposit accounts, and (iv) securing or arising by reason of any set-off or netting arrangement entered into in the ordinary course of commercial or trading activities;

(8) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (1), (2) or (3), inclusive of any Indebtedness secured thereby, *provided* that the principal amount of Indebtedness so secured thereby will not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement Lien will be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on or additions to such property);

(9) Liens with respect to the Ocensa Pledged Shares securing Indebtedness permitted to be incurred pursuant to the first paragraph of the covenant described in "—Limitation on Incurrence of Additional Indebtedness" subject to the entry by the relevant lender, the Trustee and the applicable Collateral Agent to an Intercreditor Agreement; and

(10) Liens on property (not constituting Collateral) securing Indebtedness permitted under the Indenture and Incurred by AI Candelaria Spain or any of its Restricted Subsidiaries after the Issue Date *provided, however,* that any Indebtedness secured by a Lien under this clause (10) may not also be secured by a Lien on the Collateral.

For purposes of determining compliance with this covenant, (x) except as provided above, a Lien need not be incurred solely by reference to one category of Permitted Liens described above but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category) and (y) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories of Permitted Liens, AI Candelaria Spain shall, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition.

*Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*

(1) Except as provided in paragraph (2) below, AI Candelaria Spain will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on or in respect of any Capital Stock of a Restricted Subsidiary owned by AI Candelaria Spain or any other Restricted Subsidiary,

(b) pay any Indebtedness or other obligation owed to AI Candelaria Spain or any other Restricted Subsidiary,

(c) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, AI Candelaria Spain or any other Restricted Subsidiary, or

(d) transfer any of its property or assets to AI Candelaria Spain or any Restricted Subsidiary.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

(a) existing on the Issue Date in the Indenture or any other agreements in effect on the Issue Date, and any amendments, modifications, restatements, extensions, renewals, replacements or refinancings of any of the foregoing; *provided* that the encumbrances and restrictions in the amendment, modification, restatement, extension, renewal, replacement or refinancing are, taken as a whole, in the good faith judgment of AI Candelaria Spain, no less favorable in any material respect to the holders of the Notes than the encumbrances or restrictions being amended, modified, restated, extended, renewed, replaced or refinanced;

(b) existing under or by reason of applicable law, rule, regulation or order;

(c) existing

(i) with respect to any person, or to the property or assets of any person, at the time the person is acquired by AI Candelaria Spain or any Restricted Subsidiary, or

(ii) with respect to any Unrestricted Subsidiary at the time it is Designated or is deemed to become a Restricted Subsidiary,

which encumbrances or restrictions (x) are not applicable to any other person or the property or assets of any other person and (y) were not put in place in anticipation of such event and any amendments, modifications, restatements, extensions, renewals, replacements or refinancings of any of the foregoing, *provided* that the encumbrances and restrictions in the amendment, modification, restatement, extension, renewal, replacement or refinancing are, taken as a whole, in the good faith judgment of AI Candelaria Spain, no less favorable in any material respect to the holders of the notes than the encumbrances or restrictions being amended, modified, restated, extended, renewed, replaced or refinanced;

(d) of the type described in clause (1)(d) arising or agreed to in the ordinary course of business (i) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license, conveyance or similar contract, including with respect to intellectual property, (ii) that restrict in a customary manner, pursuant to provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements, the transfer of ownership interests in, or assets of, such partnership, limited liability company, joint venture or similar person (in each case relating solely to the respective partnership, limited liability company, joint venture or similar person) or (iii) by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of, AI Candelaria Spain or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, the Restricted Subsidiary that is permitted by "Asset Sales;"

(f) contained in the terms governing any Indebtedness if (as determined in good faith by AI Candelaria Spain) (i) the encumbrances or restrictions are ordinary and customary for a financing of that type and (ii) the encumbrances or restrictions either (x) would not, at the time agreed to, be expected to materially adversely affect the ability of AI Candelaria Spain to make payments on the Notes or (y) in the case of any Refinancing Indebtedness, are, taken as a whole, no less favorable in any material respect to the holders of the Notes than those contained in the agreements governing the Indebtedness being refinanced; or

(g) required pursuant to the Indenture or the Notes.

*Limitation on Transactions with Affiliates*

AI Candelaria Spain will not, and will not permit any Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of AI Candelaria Spain's or their respective affiliates (each such transaction, an "Affiliate Transaction"), involving aggregate payments or consideration in excess of US$0.5 million, unless:

(a) the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a person that is not its affiliate as determined in good faith by AI Candelaria Spain;

(b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of US$5.0 million, the terms of such Affiliate Transaction will be approved by a majority of the members of the board of directors or similar governing body of AI Candelaria Spain, the approval to be evidenced by a board resolution stating that the board of directors or similar governing body has determined that such transaction complies with the preceding provisions; and

(c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of US$25.0 million, AI Candelaria Spain will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to AI Candelaria Spain and the relevant Restricted Subsidiary (if any) from a financial point of view from an independent financial advisor and provide the same to the Trustee.

The foregoing requirements will not apply to:

(1) transactions with or among AI Candelaria Spain and any Restricted Subsidiary, or between or among Restricted Subsidiaries;

(2) reasonable fees and compensation paid to, and any indemnity provided on behalf of, our officers, directors, employees, consultants or agents or those of any Restricted Subsidiary as determined in good faith by the board of directors or similar governing body of AI Candelaria Spain;

(3) any transactions undertaken pursuant to any contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date) or any renewal or amendment thereto after the Issue Date (so long as such renewal or amendment is not disadvantageous to the holders of the Notes in any material respect as determined in good faith by AI Candelaria Spain);

(4) compensation or employee benefit arrangements with any of the officers or directors of AI Candelaria Spain or those of any Restricted Subsidiary or any direct or indirect parent company of AI Candelaria Spain arising out of any employment contract entered into in the ordinary course of business;

(5) any Restricted Payments made in compliance with "Restricted Payments," including any Permitted Payment, and any Permitted Investment; and

(6) the Transactions and the payment of all fees and expenses related to the Transactions.

*Asset Sales*

AI Candelaria Spain will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless AI Candelaria Spain or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets sold or otherwise disposed of (measured at the time of contractually agreeing to such Asset Sale). Of such consideration, 100% (or such lesser amount that would be required to prepay or offer to repurchase all Notes outstanding at the time of such Asset Sale) will be in the form of cash or Cash Equivalents (in either such case, the "net cash proceeds").

AI Candelaria Spain or any Restricted Subsidiary, as the case may be, may apply the net cash proceeds of any Asset Sale (unless the Asset Sale was of Collateral) within 365 days thereof to (i) repay any Indebtedness (other than Subordinated Indebtedness) of AI Candelaria Spain or any Restricted Subsidiary (and if the Indebtedness repaid is revolving credit indebtedness, to correspondingly reduce commitments with respect thereto), (ii) pay interest, principal, premium, if any, or Additional Amounts, if any, due and payable on the Notes, (iii) make an Investment in any one or more businesses, or (iv) any combination of the foregoing.

In the case of any Asset Sale of Collateral, AI Candelaria Spain shall apply the net cash proceeds within 365 days thereof to prepay a portion of the Notes, at a prepayment price equal to 101% of the outstanding principal amount of the Notes to be prepaid, plus accrued and unpaid interest, to, but not including, the date of prepayment (an "Asset Sale Prepayment"). AI Candelaria Spain shall give notice of such prepayment as described under the heading "—Selection and Notice." AI Candelaria Spain shall only have the right to sell Ocensa Pledged Shares (other than a disposition of all or substantially all of the assets of AI Candelaria Spain and its Restricted Subsidiaries in compliance with the covenant described under "Covenants—Merger, Consolidation or Sale of Assets") so long as after giving effect to such sale AI Candelaria Spain continues to hold at least 10% of the issued and outstanding shares of Ocensa (calculated based off of the number of shares of Ocensa issued and outstanding on the Issue Date) as certified in an officer's certificate of AI Candelaria Spain delivered to the Trustee. AI Candelaria Spain, at its option and on a pro rata basis, may also prepay any other Indebtedness that is (i) senior to or *pari passu* with the

Notes, (ii) secured by the Collateral and (iii) contains similar provisions requiring AI Candelaria Spain to prepay such Indebtedness with the proceeds of Asset Sales of Collateral. Pursuant to any such Asset Sale Prepayment, AI Candelaria Spain will prepay the Notes and such other Indebtedness on a pro rata basis.

To the extent all or a portion of the net cash proceeds of any Asset Sale (other than an Asset Sale of Collateral) are not applied within the 365 days of the Asset Sale as described in the second preceding paragraph, AI Candelaria Spain will make an offer to purchase Notes (the "Asset Sale Offer") at a purchase price equal to 100% of the principal amount of the Notes to be purchased, in each case plus accrued and unpaid interest thereon, to, but not including, the date of purchase (the "Asset Sale Offer Amount"). At AI Candelaria Spain's option and on a pro rata basis, AI Candelaria Spain may also offer to purchase any other Indebtedness that is senior to or *pari passu* with the Notes that contains similar provisions requiring AI Candelaria Spain to offer to purchase such Indebtedness with the proceeds of Asset Sales (other than Asset Sales of Collateral). Pursuant to any such Asset Sale Offer, AI Candelaria Spain will offer to purchase, from all tendering holders of Notes and such other senior or *pari passu* Indebtedness on a pro rata basis between the other series of Indebtedness and the Notes, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of Notes and other such Indebtedness to be purchased equal to the unapplied net cash proceeds. For the avoidance of doubt, AI Candelaria Spain may make an Asset Sale Offer in satisfaction of its obligations hereunder prior to the expiration of such 365 day period. The purchase of Notes pursuant to an Asset Sale Offer will occur not less than 20 Business Days following the date of that Asset Sale Offer, or any longer period as may be required by law, nor more than 45 days following the 365$^{th}$ day following the Asset Sale. AI Candelaria Spain may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied net cash proceeds from one or more Asset Sales equal to or in excess of US$25.0 million. At that time, the entire amount of unapplied net cash proceeds, and not just the amount in excess of US$25.0 million, will be applied as required pursuant to this covenant. Pending application in accordance with this covenant, any net cash proceeds will be held by AI Candelaria Spain as cash or Cash Equivalents.

We will commence an Asset Sale Offer by sending the notice required pursuant to the terms of the Indenture. The Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is sent, other than as may be required by law (the "Asset Sale Offer Payment Date"). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of U.S$1,000 in exchange for cash.

On the Asset Sale Offer Payment Date, AI Candelaria Spain will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Asset Sale Offer;

(2) deposit with a paying agent funds in an amount equal to the Asset Sale Offer Amount in respect of all Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered for cancellation to the Trustee the Notes so accepted together with an officer's certificate stating the aggregate principal amount of Notes or portions thereof we are purchasing.

To the extent holders of Notes and holders of other Indebtedness that is senior to or *pari passu* with the Notes, if any, which are the subject of an Asset Sale Offer properly tender Notes or the other senior Indebtedness in an aggregate amount exceeding the amount of unapplied net cash proceeds, AI Candelaria Spain will purchase the Notes and any other senior Indebtedness, if applicable, on a pro rata basis between the other series of Indebtedness and the Notes (based on the amounts tendered). If only a portion of a certificated Note is purchased pursuant to an Asset Sale Offer, a new Note in a principal amount equal to unprepaid face amount thereof will be issued in the name of the holder of such Note upon cancellation of the original Note, or appropriate adjustments to the face amount and beneficial interests in a global Note will be made, as appropriate.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes in connection with an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and will not

be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

Upon completion of an Asset Sale Offer, the amount of net cash proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of Notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied net cash proceeds, AI Candelaria Spain may use any remaining net cash proceeds for general corporate purposes of AI Candelaria Spain or any Restricted Subsidiary.

*Merger, Consolidation or Sale of Assets*

AI Candelaria Spain will not, in a single transaction or series of related transactions, consolidate or merge with or into any person (whether or not AI Candelaria Spain is the surviving person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any subsidiaries of AI Candelaria Spain to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the properties and assets of AI Candelaria Spain (determined on a consolidated basis for AI Candelaria Spain and its subsidiaries), to any person unless:

(a) either:

(1) AI Candelaria Spain will be the surviving or continuing corporation, or

(2) the person formed by such consolidation or into which AI Candelaria Spain is merged or the person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of AI Candelaria Spain and those of its Restricted Subsidiaries substantially as an entirety (the "Successor Company") (A) will be a corporation organized and validly existing under the laws of a Permitted Jurisdiction, and (B) expressly assumes, by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, premium, if any, and Additional Amounts, if any, and interest on all of the Notes and the performance and observance of every covenant of the Notes and the Indenture AI Candelaria Spain is required to perform or observe;

(b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a pro forma basis to any Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction), (i) AI Candelaria Spain or such Successor Company, as the case may be, would be able to Incur at least US$1.00 of additional Indebtedness (other than Permitted Indebtedness) under paragraphs (2) and (3) of "—Limitation on Incurrence of Additional Indebtedness" or (ii) the Debt Service Coverage Ratio and the Leverage Ratio of AI Candelaria Spain or the Successor Company are no worse than the Debt Service Coverage Ratio and the Leverage Ratio of AI Candelaria Spain immediately prior to such transaction;

(c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default will have occurred or be continuing;

(d) AI Candelaria Spain or the Successor Company will have delivered to the Trustee an officer's certificate and opinion of counsel stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, is authorized or permitted by the Indenture and that all covenants and conditions precedent in the Indenture relating to the transaction have been satisfied and, with respect to the opinion of counsel that the Indenture, the Notes and such supplemental indenture, if any, are our or such successor Company's legal, valid and binding obligations, enforceable against us or such successor Company in accordance with their terms;

(e) AI Candelaria Spain or the Successor Company will have taken all measures necessary and appropriate to ensure that the Liens created under the Share Pledge Agreement will have been immediately prior to the applicable event or transaction, and will continue to be following the applicable event or transaction, fully valid,

perfected, and enforceable as to all Ocensa Pledged Shares and will have provided an opinion of counsel that the covenants and conditions precedent set forth in this clause (e) have been satisfied; and

(f) AI Candelaria Spain or the Successor Company will have taken all measures necessary and appropriate to ensure that the Liens created under the Deposit Account Control Agreement will have been immediately prior to the applicable event or transaction, and will continue to be following the applicable event or transaction, fully valid, perfected, and enforceable as to the Debt Service Reserve and will have provided an opinion of counsel that the covenants and conditions precedent set forth in this clause (f) have been satisfied.

The provisions of clauses (b), (c) and (d) above will not apply to:

(1) any transfer of the properties or assets of a Restricted Subsidiary to AI Candelaria Spain or to a wholly-owned Restricted Subsidiary;

(2) any merger of a Restricted Subsidiary into AI Candelaria Spain; and

(3) any Permitted Tax Restructuring involving AI Candelaria Spain or any Restricted Subsidiary;

so long as, in each case, the Indebtedness of AI Candelaria Spain and that of its Restricted Subsidiaries is not increased thereby.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of AI Candelaria Spain and its Restricted Subsidiaries in accordance with this covenant, in which AI Candelaria Spain is not the continuing corporation, the Successor Company formed by such consolidation or into which AI Candelaria Spain is merged or to which such conveyance, lease or transfer is made will succeed to and be substituted for, and may exercise every right and power of, AI Candelaria Spain under the Indenture and the Notes with the same effect as if such Successor Company had been named as the original issuer of the Notes. For the avoidance of doubt, compliance with this covenant will not affect our obligation (including a Successor Company, if applicable) under "—Change of Control", if applicable.

When calculating the Debt Service Coverage Ratio and Leverage Ratio for purposes of this covenant, "EBITDA" of the Successor Company may, at the option of the Successor Company, be utilized in lieu of Net Dividends Received. From and after the date of the assumption of the Notes by a Successor Company pursuant to the provisions of this covenant, the Successor Company may use "EBITDA" instead of "Net Dividends Received" for all purposes of the Indenture.

*Further Assurances*

AI Candelaria Spain agrees that from time to time, at its own cost and expense, it will promptly prepare, execute and deliver, and will cause to be executed and delivered, all further instruments and documents as are necessary (or as the U.S. Collateral or Colombian Collateral Agent may reasonably request), as the case may be, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken in order to preserve, perfect and protect the rights and Lien of the Collateral Agents in the Collateral and the interest of the holders of the Notes therein or to enable the Trustee and the Collateral Agents to exercise and enforce their respective rights and remedies under the Indenture and the Security Documents. Without limiting the foregoing, AI Candelaria Spain hereby authorizes the Trustee and the Collateral Agents, as the case may be, to file such financing or continuation statements, and amendments thereto, and authorizes them to take all such further action and execute all such further documents and instruments as may be necessary or desirable in order to create, preserve, perfect, and protect the rights and Lien of the Collateral Agents on the Collateral and the interest of the holders of the Notes therein, without the signature of AI Candelaria Spain to the extent permitted by applicable law; *provided, however*, that the Trustee and the Collateral Agents will not be obligated to take any such action except pursuant to written directions by the majority of the holders of the Notes as provided for in the Indenture, subject to their right to be indemnified or receive other security therefor.

*Maintenance of Corporate Existence*

AI Candelaria Spain will maintain in effect its corporate existence and all registrations necessary therefor. AI Candelaria Spain will take all actions necessary to maintain all rights, privileges, titles, franchises and the like necessary or desirable in the normal conduct of its businesses, activities and operations.

*Limitation on Business Activities*

AI Candelaria Spain will not, directly or indirectly, engage in any trade or business other than the ownership of capital stock of Ocensa and activities arising out of or relating thereto including foreign exchange hedging transactions and interest rate hedging transactions in connection with the Notes or other Indebtedness so long as, in either case, such hedging transactions are not entered into for speculative purposes, and ownership of the securities of other businesses engaging in storage, transportation and related services of hydrocarbons and/or their derivative products through pipeline and/or other transportation systems and/or storage facilities in Latin America. Solely with respect to a Successor Company that assumes the obligations of AI Candelaria Spain under the Notes as contemplated by the provisions described under "Covenants—Merger, Consolidation or Sale of Assets", such Successor Company may engage in Midstream Activities in addition to engaging in the business activities described above.

*Limitation on Changes to Organizational Documents of Ocensa*

AI Candelaria Spain shall not permit any modification, supplement or waiver to any provision of Ocensa's organizational documents or by-laws or to the Shareholder Agreement, including any change to the dividend policy (however designated) of Ocensa or to the amount, frequency or timing of such dividends, except to the extent such modification, supplement or waiver would not be adverse in any material respect to the interests of the holders of the Notes taken as a whole, as determined by AI Candelaria Spain in good faith.

*Limitation on Intermediate Holding Companies*

From and after the date that the Colombian Collateral Agent has a perfected first priority security interest on the Ocensa Pledged Shares for the benefit of the holders of the Notes, AI Candelaria Spain (or any Successor Company that assumes the obligations of AI Candelaria Spain under the Notes as contemplated by the provisions described under "Covenants—Merger, Consolidation or Sale of Assets") shall directly hold the Ocensa Pledged Shares.

*Limitation on Incurrence of Indebtedness of Restricted Subsidiaries*

AI Candelaria Spain will not permit any Restricted Subsidiary that is formed or acquired after the Issue Date to incur Indebtedness or Guarantee the payment of any Indebtedness in an aggregate principal amount at any time outstanding of greater than US$5.0 million unless such Restricted Subsidiary within five (5) Business Days executes and delivers a supplemental indenture to the Indenture providing for a Guarantee of the Notes by such Restricted Subsidiary, except that, with respect to a Guarantee of Indebtedness of AI Candelaria Spain or any Restricted Subsidiary that has Guaranteed the Notes, if such Indebtedness is by its express terms subordinated in right of payment to the Notes or a Restricted Subsidiary's Guarantee of the Notes, any such Indebtedness or Guarantee with respect to such Indebtedness shall be subordinated in right of payment to such Guarantee of the Notes substantially to the same extent as such Indebtedness is subordinated to the Notes.

Any future Guarantee of the Notes by a Restricted Subsidiary shall provide by its terms that it shall be automatically and unconditionally released and discharged upon:

(i) (a) any sale, exchange or transfer (by merger or otherwise) of (I) the Capital Stock of such Restricted Subsidiary (including any sale, exchange or transfer), after which the applicable entity is no longer a Restricted Subsidiary or (II) all or substantially all of the assets of such Restricted Subsidiary, which sale, exchange or transfer is made in compliance with the applicable provisions of the Indenture,

(b) the release or discharge of the Indebtedness incurred by such Restricted Subsidiary or Guarantee by such Restricted Subsidiary, as the case may be, which resulted in the creation of such Guarantee of the Notes, except a discharge or release by or as a result of payment under such Indebtedness or Guarantee, as the case may be,

(c) the permitted designation of any Restricted Subsidiary that has Guaranteed the Notes as an Unrestricted Subsidiary, or

(d) exercise of the legal defeasance option or covenant defeasance option by the issuer as described under "—Legal Defeasance and Covenant Defeasance" or the issuer's obligations under the Indenture being discharged in accordance with the terms of the Indenture, and

(ii) such Restricted Subsidiary delivering to the Trustee and officer's certificate and an opinion of counsel, each stating that all conditions precedent provided for in the Indenture relating to such transaction have been complied with.

*Periodic Reports*

AI Candelaria Spain will furnish to the holders of the Notes and to prospective purchasers of Notes any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Securities Act. In addition, so long as the Notes remain outstanding, AI Candelaria Spain will provide the holders with:

(1) annual audited financial statements of AI Candelaria Spain prepared in accordance with GAAP, including a report thereon by AI Candelaria Spain's certified independent auditors and a management's discussion and analysis of financial condition and results of operations, which financial statements will be provided no more than 90 days following the date of AI Candelaria Spain's receipt of the audited financial statements of Ocensa for the applicable fiscal year; and

(2) quarterly financial statements of AI Candelaria Spain prepared in accordance with GAAP, which may be unaudited, for the three-month periods ending March 31, June 30 and September 30 of each year, including a management's discussion and analysis of financial condition and results of operations, which financial statements will be provided no more than 60 days following the date of AI Candelaria Spain's receipt of the unaudited financial statements of Ocensa for the applicable fiscal quarter; *provided* that AI Candelaria Spain shall have no obligation to deliver unaudited financial statements or a corresponding management's discussion and analysis of financial condition and results of operations if it does not receive unaudited financial statements of Ocensa for the corresponding fiscal quarter, notice of which shall be provided to the holders of the Notes; *provided, further*, that if AI Candelaria Spain does not deliver its financial statements for either the three month period ending March 31 or June 30 (due solely to a failure by Ocensa to provide its financial statements for the relevant quarter to AI Candelaria Spain), it shall deliver its financial statements for the six-month period ending June 30, including a management's discussion and analysis of financial condition and results of operations, which financial statements will be provided no more than 60 days following the date of AI Candelaria's receipt of the financial statements of Ocensa for such period;

(3) any annual audited or quarterly financial statements of Ocensa received by AI Candelaria from Ocensa within 30 days of AI Candelaria Spain's receipt thereof;

*provided* that, in each case, all such reports shall be provided in English and *provided further* that AI Candelaria Spain will not be required pursuant to this paragraph to provide disclosure which is qualitatively more explicit or precise than that which is provided in this offering memorandum.

Delivery of reports to the Trustee is for information purposes only, and the Trustee's receipt thereof shall not constitute actual or constructive notice of any information contained therein, including our compliance with any covenants under the Indenture (as to which the Trustee is entitled to rely on officer's certificates). The Trustee shall have no responsibility to monitor the obligation of AI Candelaria Spain to deliver the foregoing financial reports

*Reports to Trustee*

AI Candelaria Spain will deliver to the Trustee:

(1) within 120 days after the end of each fiscal year a certificate stating that AI Candelaria Spain has fulfilled all of its obligations under the Indenture and each Security Document or, if there has been a Default, specifying the Default and its nature and status; and

(2) as soon as possible and in any event within 30 days after a responsible officer of AI Candelaria Spain becomes aware of the occurrence of a Default, an officers' certificate setting forth the details of the Default, and the action which AI Candelaria Spain proposes to take with respect thereto.

*Notices*

As long as Notes in global form are outstanding, notices to be given to holders will be given to the depositary, in accordance with its applicable procedures as in effect from time to time. If AI Candelaria Spain issues notes in certificated form, notices to be given to holders will be sent by mail to the respective addresses of the holders as they appear in the registrar's records, and will be deemed given when mailed. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

**Listing**

The Existing Notes are currently listed on the SGX-ST and we have received approval-in-principle to increase the principal amount of the Notes listed on the SGX-ST to include the New Notes. The Existing Notes are, and the New Notes will be, traded on the SGX-ST in a minimum bond lot size of US$250,000. AI Candelaria Spain will use commercially reasonable efforts to maintain listing of the Notes on the SGX-ST before the first payment under the Notes is due; however, if the Notes are not yet listed, and AI Candelaria Spain cannot assure the holders of the Notes that the listing will be maintained, AI Candelaria Spain shall use commercially reasonable efforts to obtain and maintain listing of the Notes on a regulated market, multilateral trading facility or another organized market as those terms are referred to in First Additional Provision of Law 10/2014 of 26 June, 2014 on the regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*).

So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, AI Candelaria Spain shall appoint and maintain a paying agent in Singapore, where such notes may be presented or surrendered for payment or prepayment in the event that the global notes representing such Notes are exchanged for definitive notes. In addition, in the event that the global notes are exchanged for definitive notes, an announcement of such exchange will be made by, or on behalf of, AI Candelaria Spain through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

**Events of Default**

Each of the following is an "Event of Default":

(1) a failure by AI Candelaria Spain to pay any principal of the Notes, when due and payable, whether at maturity, on a Payment Date, upon prepayment or otherwise, or a failure by AI Candelaria Spain to offer to purchase the Notes when required to do so pursuant to the terms of the Indenture or the Notes;

(2) a failure by AI Candelaria Spain for 30 days to pay interest or any Additional Amounts when due and payable on any Notes;

(3) if the Debt Service Reserve is not Fully Funded for a period of more than 30 consecutive days commencing on the day that is 60 days prior to a Payment Date;

(4) a failure by AI Candelaria Spain to perform or comply with any of the provisions described under "Covenants—Merger, Consolidation or Sale of Assets";

(5) a failure by AI Candelaria Spain to perform or observe any other term, covenant, warranty or obligation in the Notes, the Indenture or the Security Documents, not otherwise expressly included as an Event of Default in (1), (2), (3) or (4) above, and the continuance of such default for more than 30 days after written notice of such default has been given to AI Candelaria Spain by the Trustee or to AI Candelaria Spain and the Trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding;

(6) a default under any Indebtedness of AI Candelaria Spain (other than the Notes), any Restricted Subsidiary or Ocensa or under any Indenture or other instrument under which such Indebtedness has been issued or by which it is governed and the expiration of any applicable grace period contained in such Indebtedness, which in the aggregate exceeds US$10.0 million (or the equivalent in other currencies), which default (A) results in the acceleration of the payment of such Indebtedness or (B) has not been cured or waived and constitutes the failure to make any payment of principal or interest on such Indebtedness when due, after the expiration of any applicable grace period and (C) in the case of Ocensa, results in a restriction on the ability of Ocensa to declare or make Restricted Payments that has had a material adverse effect on the ability of AI Candelaria Spain to perform its payment obligations under the Indenture or the Notes;

(7) a failure by AI Candelaria Spain or any of its subsidiaries to pay one or more final judgments against any of them which are not covered by adequate insurance by a solvent insurer of national or international reputation which has acknowledged its obligations in writing, aggregating US$10.0 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 days or more;

(8) (A) the Colombian Collateral Agent fails to have a perfected first-priority security interest in the Ocensa Pledged Shares that is registered with the Moveable Guarantees Registry on or after the day that is 90 days after the Issue Date, (B) the Deposit Account Control Agreement ceases, for any reason, to be in full force and effect, or any Lien created by the Deposit Account Control Agreement is invalidated or ceases to be enforceable and of the same effect and priority purported to be created thereby, or the existence, perfection, or priority of any Lien created by the Deposit Account Control Agreement is otherwise impaired for any reason or (C) on or after the day that is 90 days after the Issue Date, the Share Pledge Agreement ceases, for any reason, to be in full force and effect, or any Lien created by the Share Pledge Agreement is invalidated or ceases to be enforceable and of the same effect and priority purported to be created thereby, or the existence, perfection, or priority of any Lien created by the Share Pledge Agreement is otherwise impaired for any reason, in each case where the applicable cessation, invalidation or impairment, by itself or in combination with any and all other such cessations, invalidations or impairments, could reasonably be expected to have a Material Adverse Effect;

(9) AI Candelaria Spain or any of its subsidiaries asserts that any of the Security Documents has ceased or should cease to be in full force in effect, or that any Lien created by or purported to be created by the Security Documents is or should be invalid or unenforceable, or that any Lien created by or purported to be created by the Security Documents is not or should not be of the same effect and priority purported to be created thereby; and

(10) certain events of bankruptcy or insolvency with respect to AI Candelaria Spain, its Restricted Subsidiaries or Ocensa.

The Indenture provides that (a) if an Event of Default (other than an Event of Default described in clause (10) above will have occurred and be continuing with respect to the Notes, either the Trustee or the holders of not less than 25% of the aggregate principal amount of the Notes then outstanding may declare the principal of, and Additional Amounts, if any, and accrued and unpaid interest on all such outstanding Notes to be due and payable immediately by notice in writing to us (and to the Trustee if given by the holders) specifying the Event of Default and that it is a "notice of acceleration" and (b) if an Event of Default described in clause (10) above will have occurred, the principal of all such outstanding Notes and the interest accrued thereon, if any, will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of such Notes. The Indenture provides that the Notes owned by us or any of our affiliates will be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Notwithstanding the

occurrence of an Event of Default described in clause (10) above, nothing in the Indenture shall (A) prevent the commencement of a proceeding under Law 1116 of 2006 or the filing of a petition in Colombia to commence a proceeding under Law 1116 of 2006 with respect to Ocensa, whether voluntary or involuntary, (B) be construed to mean that the purpose of any such provision is to prevent or create obstacles to prevent, directly or indirectly, that proceedings be commenced in Colombia under Law 1116 of 2006 with respect to Ocensa, (C) prohibit Ocensa from negotiating or entering into a restructuring agreement under Law 1116 of 2006, or (D) impose any restrictions or prohibitions, or unfavorable effects (*efectos desfavorables*) upon Ocensa for the negotiation or execution of a restructuring agreement under Law 1116 of 2006.

Upon the satisfaction by us of certain conditions, the declaration described in clause (a) of the preceding paragraph may be rescinded by the holders of a majority of the total principal amount of the Notes then outstanding. No rescission will affect any subsequent Default or impair any rights relating thereto. Past Defaults, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of the Notes outstanding.

The Trustee shall give to the holders of the Notes notice of all uncured Events of Default actually known to a responsible officer of it with respect to the Notes within 45 days after a responsible officer of the Trustee obtains such actual knowledge or receives written notice of such an Event of Default (unless such Event of Default will have been cured); *provided*, however, that, except in the case of an Event of Default resulting from a Default in the payment of principal, interest or Additional Amounts, the Trustee will be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the holders of the Notes.

The Indenture provides that the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any holders of the Notes, unless such holders will have offered to the Trustee indemnity or security satisfactory to it. Subject to the provisions of the Indenture and applicable law, holders of a majority in aggregate principal amount of the then-outstanding Notes have the right to direct the time, method and place of conducting any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No holder of Notes may institute any action under the Indenture unless:

(1) such holder gives the Trustee written notice of a continuing Event of Default with respect to the Notes;

(2) the holders of at least 25% of the total principal amount of the Notes then outstanding will have made written request to the Trustee to institute proceedings in respect of the Event of Default;

(3) such holder or holders will have offered the Trustee such indemnity or security as the Trustee may require;

(4) the Trustee will have failed to institute an action within 60 days after such offer of indemnity or security; and

(5) no inconsistent direction has been given to the Trustee during such 60-day period by the holders of a majority of the total principal amount of the Notes.

Such limitations, however, do not apply to any suit instituted by a holder of a Note for enforcement of payment of the principal or interest on the Notes on or after the respective due dates expressed in such Notes.

**Modification of the Indenture**

From time to time, we, the Trustee and the Collateral Agents, as applicable, may, without the consent of the holders of the Notes, amend, waive or supplement the Indenture, the Intercreditor Agreement, the Security Documents or the Notes for certain specified purposes, including among other things:

(1) evidencing our succession by another corporation, and the assumption by such party of our obligations;

(2) adding a Guarantee of the Notes, any covenants or Events of Default, or surrendering any of our rights or powers for the benefit of the holders of the Notes;

(3) curing any ambiguity, defect or inconsistency in the Indenture;

(4) providing for the appointment of a successor Trustee;

(5) making any other change to the Indenture which does not adversely affect the interests of any holder of the Notes in any material respect (as certified in an officer's certificate of AI Candelaria Spain to the Trustee); or

(7) to conform the text of the Indenture, the Notes or the Security Documents to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Security Documents (as evidenced in an officer's certificate of AI Candelaria Spain to the Trustee).

In addition, with certain exceptions, the Indenture, the Intercreditor Agreement, the Security Documents and the Notes may be modified by us, the Trustee and the Collateral Agents, as applicable, with the consent of the holders of a majority in aggregate principal amount of the Notes affected thereby then outstanding, but no such modification may be made without the consent of the holder of each outstanding Note affected by the modification which would:

(1) reduce the amount of Notes whose holders must consent to an amendment or waiver;

(2) reduce the rate of or change or have the effect of changing the time of payment of interest, including defaulted interest, principal and Additional Amounts, on any Notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, principal payment dates or change the date on which any Notes may be subject to prepayment, or reduce the prepayment prices therefor;

(4) make any Notes payable in money other than that stated in the Notes;

(5) make any change in provisions of the Indenture entitling each holder to receive payment of principal, premium (including Additional Amounts), if any, and interest on such Note on or after the due date thereof or to bring suit to enforce such payment;

(6) make any change in the provisions of the Indenture described under "Additional Amounts" that adversely affects the rights of any holder of the Notes;

(7) modify provisions relating to waiver of certain defaults, waiver of certain covenants and the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected by the modification; or

(8) make any change to any Lien granted pursuant to the Security Documents that would adversely affect the rights of the holders of the Notes.

The Indenture provides that the Notes owned by us or any of our affiliates will be deemed not to be outstanding for, among other purposes, consent to any such modification.

In connection with any amendment, supplement or waiver, the Trustee and the U.S. Collateral Agent (as applicable) shall be entitled to receive an officer's certificate and an opinion of counsel, each stating that all

covenants and conditions precedent to such amendment, supplement or waiver have been satisfied, that such amendment, supplement or waiver is authorized or permitted by the Indenture, the Intercreditor Agreement and the Security Documents and, with respect to such opinion of counsel, that such amendment, supplement or waiver is our legal, valid and binding obligation, enforceable against us in accordance with its terms.

**Legal Defeasance and Covenant Defeasance**

We may, at our option, at any time upon the satisfaction of certain conditions described below, elect to be discharged from our obligations with respect to the Notes ("Legal Defeasance"). In general, following Legal Defeasance, we will be deemed to have paid and discharged the entire Indebtedness represented by the Notes and to have satisfied all of our obligations under the Notes, except for:

(1) the rights of holders of Notes to receive payments from the trust referred in clause (1) of the third paragraph of this section in respect of the principal of, and interest, premium, if any, and Additional Amounts, if any, on the Notes when such payments are due;

(2) certain provisions relating to ownership, registration and transfer of the Notes;

(3) the covenant relating to the maintenance of an office or agency in New York City;

(4) certain provisions relating to the rights, powers, trusts, duties, indemnities, protections and immunities of the Trustee and the U.S. Collateral Agent; and

(5) the Legal Defeasance provisions of the Indenture.

In addition, we may, at our option, at any time, upon the satisfaction of certain conditions described below, elect to be released with respect to the Notes from certain covenants that are described in the Indenture, including the covenants regarding Liens ("Covenant Defeasance"). Following such Covenant Defeasance, the occurrence of a breach or violation of any such covenant with respect to the Notes will not constitute a Default or an Event of Default with respect to the Notes, and certain other events (not including, among other things, nonpayment of other obligations or certain bankruptcy and insolvency events) described under "Events of Default" also will not constitute Events of Default with respect to the Notes.

In order to cause Legal Defeasance or Covenant Defeasance with respect to the Notes, we will be required to satisfy, among other conditions, the following:

(1) we will have irrevocably deposited with the Trustee, in trust for the benefit of the holders of the Notes, cash in U.S. dollars or non-callable U.S. government obligations, or a combination thereof, sufficient, without consideration of reinvestment in the written opinion of an internationally recognized firm of independent public accountants, to pay and discharge all outstanding principal and premium of, and all accrued and unpaid interest (including Additional Amounts, if any) due on the Notes, to but excluding the stated date for payment thereof or the applicable prepayment date, as the case may be;

(2) in the case of Legal Defeasance, we will have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee stating that (a) we have received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the Indenture there has been a change in the applicable U.S. federal income tax statutes or regulations, in either case to the effect that, and based thereon such opinion will confirm that, the beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred;

(3) in the case of Covenant Defeasance, we will have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee to the effect that the beneficial owners of the Notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit and Covenant Defeasance and

will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and Covenant Defeasance had not occurred;

(4) no Default or Event of Default will have occurred and be continuing with respect to the Notes;

(5) the Trustee will have received an officer's certificate stating that such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which we or any of our subsidiaries is a party or by which we or any of our subsidiaries is bound;

(6) the Trustee will have received an officer's certificate stating that the deposit was not made by us with the intent of preferring the holders of the Notes over any of our other creditors or any creditor of our subsidiaries or with the intent of defeating, hindering, delaying or defrauding any of our other creditors or creditors of others;

(7) we will have delivered to the Trustee an opinion of counsel to the effect that payments of amounts deposited in trust with the Trustee, as described above, will not be subject to future taxes, duties, fines, penalties, assessments or other governmental charges imposed, levied, collected, withheld or assessed by, within or on behalf of Spain or any political subdivision or governmental authority thereof or therein having power to tax, except to the extent that Additional Amounts in respect thereof will have been deposited in trust with the Trustee as described above; and

(8) we will have delivered an officer's certificate and opinion of counsel stating that all conditions precedent under the Indenture to such legal defeasance or covenant defeasance have been satisfied.

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer of the Notes and AI Candelaria Spain's obligation to indemnify the Trustee and U.S. Collateral Agent, as expressly provided for in the Indenture) as to all outstanding Notes when:

(1) either (a) all the Notes previously authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has previously been deposited in trust or segregated and held in trust by the Trustee for the holders of the Notes) have been delivered to the Trustee for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation have become due and payable by reason of the making of a notice of prepayment or otherwise, will become due and payable within one year or are to be selected for prepayment within one year for the giving of notice of prepayment by us and we have irrevocably deposited or caused to be deposited with the Trustee sufficient funds in U.S. dollars, without consideration of reinvestment to pay and discharge the entire Indebtedness on the Notes not previously delivered to the Trustee for cancellation, for principal of, Additional Amounts, if any, and interest on the Notes to, but not including, the date of maturity or early repurchase or prepayment in full, together with irrevocable instructions from us directing the Trustee to apply such funds to the payment;

(2) we have paid all other sums payable under the Indenture and the Notes by us; and

(3) we have delivered to the Trustee an officer's certificate and opinion of counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been met.

**The Trustee and Paying Agent**

Wilmington Trust National Association is the Trustee under the Indenture and has been appointed by us as registrar and paying agent in the United States with respect to the Notes. The address of the Trustee is 1100 North Market Street, Wilmington, Delaware 19890.

**Replacement of Trustee**

The Trustee may resign at any time by so notifying the Company. The holders of a majority in aggregate principal amount of the Notes then outstanding may remove the Trustee by so notifying the Company and the Trustee in writing. The Company may remove the Trustee if:

- the Trustee is adjudged bankrupt or insolvent;
- a receiver or other public officer takes charge of the Trustee or its property; or
- the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Company or by the holders of a majority in aggregate principal amount of the Notes then outstanding, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company by a board resolution shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Indenture. The successor Trustee shall send a notice of its succession to holders of the Notes. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in the Indenture.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the holders of 10% in aggregate principal amount of the Notes then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee.

**Governing Law**

The Indenture provides that it and the Notes will be governed by, and be construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflict of laws. The due authorization and the status of the Notes will be governed by Spanish law. We have irrevocably consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, New York, United States, and any appellate court from any of these courts, and have waived any immunity from the jurisdiction of these courts over any suit, action or proceeding that may be brought in connection with the Indenture, the Notes and the Deposit Account Control Agreement.

We have appointed CT Corporation as our initial authorized agent upon which all writs, process and summonses may be served in any suit, action or proceeding brought in connection with the Indenture, the Deposit Account Control Agreement or the Notes against us in any such court and have agreed that such appointment will be irrevocable so long as any of the Notes remain outstanding or until the irrevocable appointment by us of a successor in The City of New York as our authorized agent for such purpose and the acceptance of such appointment by such successor.

**Replacement of Notes**

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or us. Any such Note will be replaced by AI Candelaria Spain in compliance with such procedures, on such terms as to evidence and any security or indemnification as the Trustee or we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes will be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

**Definitions**

"affiliate" means, with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For purposes of this definition,

"control", when used with respect to any specified person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Asset Acquisition" means:

(1) an Investment by AI Candelaria Spain or any Restricted Subsidiary in any other person pursuant to which such person will become a Restricted Subsidiary, or will be merged with or into AI Candelaria Spain or any Restricted Subsidiary;

(2) the acquisition by AI Candelaria Spain or any Restricted Subsidiary of the assets of any person (other than a Subsidiary of AI Candelaria Spain) which constitute all or substantially all of the assets of such person or comprises any division or line of business of such person or any other properties or assets of such person other than in the ordinary course of business; or

(3) any revocation with respect to an Unrestricted Subsidiary.

"Asset Sale" means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer (each, a "disposition") by AI Candelaria Spain or any Restricted Subsidiary of:

(a) any Capital Stock (other than Capital Stock of AI Candelaria Spain); or

(b) any property or assets (other than cash, Cash Equivalents or Capital Stock) of AI Candelaria Spain or any Restricted Subsidiary.

Notwithstanding the preceding, the following will not be deemed to be Asset Sales, *provided* no Collateral is being disposed:

(1) any disposition identified in clause (a) or (b) above if, immediately following such disposition, AI Candelaria Spain would be able to Incur at least US$1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with the first paragraph of "—Limitation on Incurrence of Additional Indebtedness"; *provided*, that any such disposition would not require AI Candelaria Spain to make a Change of Control Offer;

(2) any disposition identified in clause (a) or (b) above if, immediately following such disposition, AI Candelaria Spain's Debt Service Coverage Ratio is equal to or greater than immediately prior to such disposition and its Leverage Ratio is equal to or lesser than immediately prior to such disposition;

(3) the disposition of all or substantially all of the assets of AI Candelaria Spain and its Restricted Subsidiaries in compliance with the covenant described under "Covenants—Merger, Consolidation or Sale of Assets";

(4) a disposition to AI Candelaria Spain or a Restricted Subsidiary, including a person that is or will become a wholly-owned Restricted Subsidiary immediately after the disposition;

(5) any single transaction or series of related transactions that involves assets (other than Collateral) having a Fair Market Value of less than US$0.5 million; *provided*, that any such disposition would not require AI Candelaria Spain to make a Change of Control Offer;

(6) an issuance of Capital Stock by a Restricted Subsidiary to AI Candelaria Spain or to another Restricted Subsidiary;

(7) the sale or other disposition of Cash Equivalents on an arm's length basis; and

(8) the making of any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "Covenants—Limitation on Restricted Payments" or the making of any Permitted Investment.

"Asset Sale Transaction" means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock and (2) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (3) of that definition.

"Business Day" means any day other than a Saturday or Sunday, or a day on which commercial banking institutions in The City of New York and the place of payment are authorized or required by law, regulation or executive order to remain closed.

"Capital Stock" means:

(1) with respect to any person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of common stock and Preferred Stock of such person;

(2) with respect to any person that is not a corporation, any and all partnership or other equity or ownership interests of such person (including with respect to AI Candelaria Spain, the "*participaciones sociales*" in which its share capital is divided into); and

(3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

"Capitalized Lease Obligations" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) prepared in accordance with GAAP.

"Cash Equivalents" means:

(1) marketable direct obligations issued by, or unconditionally guaranteed by, the government of the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within six months from the date of acquisition thereof;

(2) marketable direct obligations issued by any political subdivision or public instrumentality of the United States maturing within six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from S&P or Moody's;

(3) commercial paper maturing no more than six months from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's;

(4) certificates of deposit or bankers' acceptances maturing within six months from the date of acquisition thereof issued by any bank organized under the laws of the United States or any political subdivision thereof having at the date of acquisition thereof a rating of at least AA- from S&P and Aa3 from Moody's; or

(5) investments in money market funds which invest substantially all their assets in securities of the types described in clauses (1) through (4) above.

"Change of Control" means any of the following:

(a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of AI Candelaria Spain to any person, other than a Permitted Holder;

(b) the Permitted Holders ceasing to hold, at any time, directly or indirectly, at least 50% of the Voting Stock of AI Candelaria Spain; or

(c) the adoption of a plan relating to the liquidation or dissolution of AI Candelaria Spain.

"Change of Control Event" means the occurrence of both a Change of Control and a Ratings Decline.

"Change of Control Offer" has the meaning set forth under "—Change of Control" above.

"Change of Control Payment" has the meaning set forth under "—Change of Control" above.

"Change of Control Payment Date" has the meaning set forth under "—Change of Control" above.

"Collateral" means (i) the Ocensa Pledged Shares, the Debt Service Reserve Account, the cash and Cash Equivalents on deposit in the Debt Service Reserve Account secured pursuant to the Deposit Account Control Agreement, any Letter of Credit and (ii) any proceeds of the foregoing until any proceeds are applied as described under "—Covenants—Asset Sales" or AI Candelaria has otherwise complied with its obligations with respect to such proceeds as described under "—Covenants—Asset Sales."

"Collateral Agents" means the U.S. Collateral Agent and the Colombian Collateral Agent and their permitted successors and assigns.

"Commodity Agreement" means any commodity or raw material futures contract, commodity or raw materials option, or any other agreement designed to protect against or manage exposure to fluctuations in commodity or raw materials prices.

"Consolidated Net Income" means, with respect to any person for any period, the aggregate net income (or loss) of such person and its Restricted Subsidiaries for such period determined on a consolidated basis in conformity with GAAP; *provided* that the following (without duplication) will be excluded in computing Consolidated Net Income:

(1) the net income (but not loss) of any person that is not a Restricted Subsidiary, except to the extent of the lesser of:

(x) the dividends or other distributions actually paid in cash to such person or any of its Restricted Subsidiaries (subject to clause (3) below) by such person during such period, and

(y) such person's pro rata share of such person's net income earned during such period;

(2) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income would not have been permitted for the relevant period by charter or by any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(3) any net after-tax gains or losses attributable to Asset Sales or the extinguishment of Indebtedness;

(4) any net after-tax extraordinary gains or losses; and

(5) the cumulative effect of a change in accounting principles.

In calculating the aggregate net income (or loss) of such person and its Restricted Subsidiaries on a consolidated basis, Unrestricted Subsidiaries will be treated as if accounted for under the equity method of accounting. The consolidation or merger of AI Candelaria Spain with or into a Successor Company, or the sale, assignment, transfer, lease, conveyance or other disposal of all or substantially all of the properties and assets of AI Candelaria Spain to a Successor Company would constitute an Asset Acquisition by such Successor Company.

"Credit Ratings" means the credit ratings published by the Rating Agencies.

"Currency Agreement" means, in respect of any person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such person is a party designed to hedge foreign currency risk of such person.

"Debt Service" means, for any period, the sum of all amounts payable by AI Candelaria Spain during such period in respect of principal and interest pursuant to the terms and conditions of any Indebtedness outstanding during such period (which shall include the amount of all cash and non-cash dividend payments on any series of Disqualified Capital Stock or Preferred Stock of such person (other than dividends paid in Qualified Capital Stock and dividends that are not fixed, periodic dividends) paid, accrued or scheduled to be paid or accrued during such period).

"Debt Service Coverage Ratio" means, for any person as of any date of determination, the ratio of the aggregate amount of Net Dividends Received of such person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination (the "Four Quarter Period") to projected Debt Service for such person for the next full year. For purposes of this definition, "Net Dividends Received" and "Debt Service" will be calculated after giving effect on a *pro forma* basis as determined in the good faith judgment of AI Candelaria Spain's Chief Financial Officer or other officer performing similar functions for the period of such calculation to any Asset Sale Transaction or Asset Acquisition by such person or any of its subsidiaries (Restricted Subsidiaries, in the case of AI Candelaria Spain), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of the Four Quarter Period.

Furthermore, in calculating "Debt Service" for purposes of determining the denominator (but not the numerator) of this "Debt Service Coverage Ratio,"

(a) interest on outstanding Indebtedness determined on a fluctuating basis as of the date of determination and which will continue to be so determined thereafter will be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on such date of determination, *provided* that any interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by Hedging Obligations, will be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements;

(b) if interest on any Indebtedness actually Incurred on such date of determination may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on such date of determination will be deemed to have been in effect during the yearly period;

(c) interest on a Capitalized Lease Obligation will be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of AI Candelaria Spain to be the rate of interest implicit in such Capital Lease Obligation in accordance with GAAP; and

(d) for purposes of making the computation referred to above, interest on any Indebtedness under a revolving credit facility computed on a *pro forma* basis will be computed based upon the expected average daily balance of such Indebtedness during the yearly period.

"Debt Service Reserve" has the meaning set forth under "—Debt Service Reserve" above.

"Debt Service Reserve Account" has the meaning set forth under "—Debt Service Reserve" above.

"Deposit Account Control Agreement" has the meaning set forth under "—Debt Service Reserve" above.

"Default" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"Disqualified Capital Stock" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the day after the end of a period of six months and ten days following the final maturity date of the Notes.

"EBITDA" means, with respect to any person for any period, the sum of:

(1) Consolidated Net Income of such person, plus

(2) Financial Expenses of such person, to the extent deducted in calculating Consolidated Net Income, plus

(3) to the extent deducted in calculating Consolidated Net Income and as determined on a consolidated basis for such person and its Restricted Subsidiaries in conformity with GAAP:

(A) income taxes, other than income taxes or income tax adjustments (whether positive or negative) attributable to Asset Sales or extraordinary gains or losses;

(B) depreciation, amortization and all other non-cash items reducing Consolidated Net Income (not including non-cash charges in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income; and

(C) all non-recurring losses (and minus all non-recurring gains);

*provided* that, with respect to any Restricted Subsidiary, such items will be added only to the extent and in the same proportion that the relevant Restricted Subsidiary's net income was included in calculating Consolidated Net Income.

"Fair Market Value" means, with respect to (i) any asset or property, the price that could be negotiated on an arm's-length free market transaction, for cash, between a willing seller and a fully informed, willing and able buyer, neither of whom is under pressure or compulsion to complete the transaction (unless otherwise specified in the Indenture, Fair Market Value will be determined by the board of directors or similar governing body of AI Candelaria Spain in its sole discretion acting in good faith and will be documented in a resolution of such board of directors or similar governing body).

"Financial Expenses" means, for any person for any period, the sum, without duplication, calculated on an unconsolidated basis in accordance with GAAP of:

(1) Unconsolidated Interest Expense for such person for such period, *plus*

(2) the amount of all cash and non-cash dividend payments on any series of Disqualified Capital Stock or Preferred Stock of such person (other than dividends paid in Qualified Capital Stock and dividends that are not fixed, periodic dividends) paid, accrued or scheduled to be paid or accrued during such period.

"Financial Net Debt" means the aggregate amount of all Indebtedness of AI Candelaria Spain and the Restricted Subsidiaries (consolidating those entities only) determined in accordance with GAAP minus (i) the aggregate amount of all unrestricted cash and Cash Equivalents of AI Candelaria Spain and the Restricted Subsidiaries determined in accordance with GAAP and (ii) the amount of cash and Cash Equivalents on deposit in the Debt Service Reserve Account.

"Four Quarter Period" has the meaning set forth under "—Debt Service Coverage Ratio" above.

"GAAP" means, with respect to any person, generally accepted accounting principles applied by such person.

"Governmental Authority" means any federal, state, municipal, national or other government, governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity or officer exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court (including any supra-national body exercising such powers or functions, such as the European Union or the European Central Bank), in each case whether associated with a state or locality of the U.S., the U.S., or a foreign government.

"Guarantee" means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness of any other person:

(1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

*provided*, that "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligations" means the obligations of any person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

"Indebtedness" means with respect to any person, without duplication:

(1) the principal amount (or, if less, the accreted value) of all obligations of such person for borrowed money;

(2) the principal amount (or, if less, the accreted value) of all obligations of such person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such person;

(4) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 30 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);

(5) all letters of credit, banker's acceptances or similar credit transactions, including reimbursement obligations in respect thereof;

(6) to the extent not otherwise included as Indebtedness under any other clause of this definition, guarantees and other contingent obligations of such person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (9) below;

(7) all Indebtedness of any other person of the type referred to in clauses (1) through (6) which is secured by any Lien on any property or asset of such person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;

(8) all obligations of such person under foreign exchange contracts, currency swap agreements, interest rate protection agreements (including, without limitation, interest rate swaps, caps, floors or collars) or other similar agreements or arrangements to the extent such contracts and agreements appear as a liability on the balance sheet of such person under GAAP, which may include the use of derivatives, designed to protect such person against fluctuations in interest rates or currency values; and

(9) all Disqualified Capital Stock issued by such person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any; *provided*, that if the Disqualified Capital Stock does not have a fixed repurchase price, such maximum fixed repurchase price will be calculated in accordance with the terms of the Disqualified Capital Stock as if the Disqualified Capital Stock were purchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture.

"Intercreditor Agreement" means an intercreditor agreement in substantially the form to be attached to the Indenture, with any changes thereto that are not adverse to the holders of the Notes or the Trustee as determined by AI Candelaria Spain, in good faith, in an officer's certificate delivered to the Trustee.

"Interest Rate Agreement" of any person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such person.

"Investment" means, with respect to any person, any:

(1) direct or indirect loan or other extension of credit (including, without limitation, a guarantee) to any other person;

(2) capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other person; or

(3) any purchase or acquisition by such person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by any other person.

For purposes of the "—Restricted Payments" covenant, AI Candelaria Spain or its Restricted Subsidiaries will be deemed to have made an "Investment" in an Unrestricted Subsidiary at the time of its Designation (as defined below under the definition of "Unrestricted Subsidiary"), which will be valued at AI Candelaria Spain's portion (proportionate to the sum of AI Candelaria Spain's and its Restricted Subsidiaries' equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time of its Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer.

If AI Candelaria Spain or any of its Restricted Subsidiaries sells or otherwise disposes of any common stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a subsidiary of AI Candelaria Spain, AI Candelaria Spain will be deemed to have made an Investment on the date of any such sale or disposition equal to the sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by AI Candelaria Spain or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary guaranteed by us or any Restricted Subsidiary or owed to us or any other Restricted Subsidiary immediately following such sale or other disposition.

"Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or an equivalent rating by any other Rating Agency.

"Issue Date" means October 25, 2018.

"L/C Bank" has the meaning set forth under "—Debt Service Reserve" above.

"Letter of Credit" has the meaning set forth under "—Debt Service Reserve" above.

"Leverage Ratio" means as of any date of determination, the ratio of the aggregate amount of Financial Net Debt as of such date to Net Dividends Received for the Four Quarter Period.

For purposes of this definition, "Financial Net Debt" will be calculated after giving effect on a *pro forma* basis as determined in the good faith judgment of AI Candelaria Spain's Chief Financial Officer or other officer performing similar functions to:

(1) the Incurrence or repayment, redemption or prepayment of any Indebtedness of such person or any of its subsidiaries (Restricted Subsidiaries in the case of AI Candelaria Spain), and the application of the proceeds thereof, including the Incurrence of any Indebtedness, and the application of the proceeds thereof, giving rise to the need to make such determination, occurring since the date of the most recent balance sheet; and

(2) any Asset Sale Transaction or Asset Acquisition by such person or any of its subsidiaries (Restricted Subsidiaries, in the case of AI Candelaria Spain), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination occurring since the date of the most recent balance sheet.

Furthermore, in calculating "Financial Net Debt" for purposes of determining the denominator (but not the numerator) of this "Leverage Ratio", for purposes of making the computation referred to above, interest on any Indebtedness under a revolving credit facility computed on a *pro forma* basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period.

For purposes of this definition, "Net Dividends Received" will be calculated after giving effect on a *pro forma* basis as determined in the good faith judgment of AI Candelaria Spain's Chief Financial Officer or other officer performing similar functions for the period of such calculation to any Asset Sale Transaction or Asset Acquisition by such person or any of its subsidiaries (Restricted Subsidiaries, in the case of AI Candelaria Spain), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of the Four Quarter Period.

"Lien" means any mortgage, pledge, lien, security interest, charge or other encumbrance (including any conditional sale or other title retention agreement or lease in the nature thereof other than a title retention agreement in connection with the purchase of goods in the ordinary course of business).

"Material Adverse Effect" means a material adverse effect on the validity or enforceability of the Security Documents, or the Liens granted under the Security Documents, or the rights or remedies of the Trustee, the Collateral Agents or holders of the Notes under the Security Documents.

"Moody's" means Moody's Investors Service, Inc. and its successors and assigns.

"net cash proceeds" has the meaning set forth under "—Covenants—Asset Sales" above.

"Net Dividends Received" means, for any person for any period, dividends received minus unconsolidated administrative and selling expenses, calculated on an unconsolidated basis in accordance with GAAP. For the avoidance of doubt, Net Dividends Received shall not be reduced by (i) any goodwill or other non-cash asset impairment charges, write-offs or writedowns and (ii) any applicable withholding taxes required by Spanish Governmental Authorities.

"Non-Recourse Debt" means Indebtedness (1) no default with respect to which (including any rights that the holders may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of other Indebtedness of AI Candelaria Spain or any Restricted Subsidiary to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and (2) as to which lenders have been notified in writing that they will not have any recourse to the stock (other than the stock of an Unrestricted Subsidiary pledged by AI Candelaria Spain to secure debt of such Unrestricted Subsidiary) or assets of AI Candelaria Spain or any Restricted Subsidiary.

"Obligations" means any principal, interest (including any interest accruing subsequent to the filing of a petition in bankruptcy, reorganization or similar proceeding at the rate provided for in the documentation with respect thereto, whether or not such interest is an allowed claim under applicable state, federal or foreign law), penalties, fees, expenses, indemnification, reimbursements (including reimbursement obligations with respect to letters of credit and banker's acceptances), damages and other liabilities, and guarantees of payment of such principal, interest, penalties, fees, expenses, indemnifications, reimbursements, damages and other liabilities, payable under the documentation governing any Indebtedness.

"Ocensa Pledged Shares" has the meaning set forth under "—Pledged Shares" above.

"Parent Entity" means any, direct or indirect, parent of AI Candelaria Spain.

"Parent Entity Expenses" means:

(1) costs (including all professional fees and expenses) Incurred by any Parent Entity in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to the Notes, or any other Indebtedness of AI Candelaria Spain or any Restricted Subsidiary;

(2) customary indemnification obligations of any Parent Entity owing to directors, officers, employees or other persons under its articles, charter, by-laws, partnership agreement or other organizational documents or pursuant to written agreements with any such person to the extent relating to AI Candelaria Spain and its Subsidiaries;

(3) obligations of any Parent Entity in respect of director and officer insurance (including premiums therefor) to the extent relating to AI Candelaria Spain and its Subsidiaries; and

(4) (x) general corporate overhead expenses, including professional fees and expenses and (y) other operational expenses of any Parent Entity related to the ownership or operation of the business of AI Candelaria Spain or any of its Restricted Subsidiaries.

"Permitted Holders" means Advent International Corporation and any of its affiliates and funds managed by it or its affiliates.

"Permitted Investment" means, without duplication, each of the following:

(1) an Investment by AI Candelaria Spain or any Restricted Subsidiary in AI Candelaria Spain, a Restricted Subsidiary or a person that will, upon the making of such Investment, become a Restricted Subsidiary;

(2) an Investment by AI Candelaria Spain or any Restricted Subsidiary in another person if as a result of such Investment such other person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, AI Candelaria Spain or a Restricted Subsidiary;

(3) Cash Equivalents;

(4) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(5) stock, obligations or securities received in satisfaction of judgments;

(6) stock, obligations or securities received in satisfaction of any debts owing to AI Candelaria Spain or any Restricted Subsidiary, other than any stock, obligations or securities of any affiliate of AI Candelaria Spain;

(7) Investments which are made exclusively with Capital Stock of AI Candelaria Spain (other than Disqualified Capital Stock);

(8) any Investment by AI Candelaria Spain in Ocensa out of the proceeds of the sale of the Notes; and

(9) any Investment by AI Candelaria Spain or any Restricted Subsidiary so long as the Debt Service Reserve is Fully Funded.

"Permitted Jurisdiction" means Colombia, Spain, the United States (or any state thereof or the District of Colombia) and any jurisdiction where the sovereign debt of such jurisdiction is rated an investment grade rating by S&P, Moody's or Fitch or at least one nationally recognized statistical rating organization.

"Permitted Tax Restructuring" means any reorganizations and other activities related to tax planning and tax reorganization (as determined by AI Candelaria Spain in good faith) entered into prior to, on or after the Issue Date so long as such Permitted Tax Restructuring is not materially adverse to the beneficial owners of the Notes as determined by AI Candelaria Spain, in good faith, in an officer's certificate.

"person" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision.

"Preferred Stock" of any person means any Capital Stock of such person that has preferential rights over any other Capital Stock of such person with respect to dividends, distributions or prepayments or upon liquidation.

"Qualified Capital Stock" means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

"Rating Agencies" means Moody's, S&P and Fitch.

"Ratings Decline" means the rating of the Notes is reduced by at least two Rating Agencies (or if only one Rating Agency is providing a rating for the Notes at the commencement of any Trigger Period, the rating of the Notes is reduced by one Rating Agency) at any time during the period commencing on the earlier of (a) the occurrence of a Change of Control or (b) public notice of the occurrence of a Change of Control or public notice of the intention by AI Candelaria Spain to effect a Change of Control, and ending 60 days thereafter (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for a possible downgrade by at least two of the Rating Agencies) (the "Trigger Period"). The Trustee shall have no duty to monitor the rating of the Notes.

Notwithstanding the foregoing, a Ratings Decline otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Ratings Decline for purposes of the definition of Change of Control Event hereunder) if the two Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform AI Candelaria Spain that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Ratings Decline).

"Refinancing Indebtedness" means, with respect to any security or Indebtedness of AI Candelaria Spain or a Restricted Subsidiary, any refinancing, extension, renewal, refund, repayment, redemption, prepayment, defeasance or retirement of, or issuance of a security or Indebtedness in exchange or replacement for (a "Refinancing"), such security or Indebtedness in whole or in part, to the extent such Refinancing does not:

(1) result in an increase in the aggregate principal amount of the Indebtedness of such person as of the date of such proposed Refinancing (plus the amount of any accrued interest and premiums (including tender premiums)) and plus the amount of reasonable expenses incurred by such person in connection with such Refinancing); or

(2) create Indebtedness with (a) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness subject to Refinancing or (b) a final maturity earlier than the final maturity of the Indebtedness subject to Refinancing; *provided*, that (i) if such Indebtedness subject to Refinancing is Indebtedness of AI Candelaria Spain, then such Refinancing Indebtedness will be Indebtedness of AI Candelaria Spain, (ii) if such Indebtedness subject to Refinancing is Indebtedness of any Restricted Subsidiary, then such Refinancing Indebtedness will be Indebtedness of a Restricted Subsidiary and (iii) if such Indebtedness subject to Refinancing is Subordinated Indebtedness, then such Refinancing Indebtedness will be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

"Restricted Subsidiary" means any subsidiary of AI Candelaria Spain that, at the time of determination, is not an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and its successors and assigns.

"SGX-ST" means the Singapore Exchange Securities Trading Limited and its successors and assigns.

"Share Pledge Agreement" has the meaning set forth under "—Pledged Shares" above.

"Shareholder Agreement" means the shareholders' agreement of Ocensa dated as of January 17, 2013, giving effect to any amendments thereto that are not prohibited by the Indenture.

"Security Documents" means the Share Pledge Agreement and the Deposit Account Control Agreement.

"Spanish Civil Code" means Royal Decree of 24 July 1889 by virtue of which the Spanish Civil Code is published (*Real Decreto de 24 de julio de 1889 por el que se publica el Código Civil*).

"Spanish Companies Law" means the Ley de Sociedades de Capital, approved by Real Decreto Legislativo 1/2010, de 2 de julio.

"Spanish Insolvency Act" means the Spanish Law 22/2003, of July 9, on Insolvency Proceedings.

"Subordinated Indebtedness" means any Indebtedness that is expressly subordinated in right of payment to the Notes.

"subsidiary" means, with respect to any person, (i) any corporation, association or other business entity of which more than 50% of the outstanding voting stock is owned, directly or indirectly, by, or, in the case of a partnership, the sole general partner or the managing partner or the only general partners of which are, such person and one or more subsidiaries of such person (or a combination thereof) or (ii) any corporation, association or other business entity that is required to be consolidated with such person on its financial statements in accordance with GAAP. Notwithstanding the above, so long as AI Candelaria Spain and its affiliates do not own more than 50% of the outstanding voting stock of Ocensa, Ocensa will not be deemed to be a subsidiary of AI Candelaria Spain or its Restricted Subsidiaries even if it is consolidated on the balance sheet of AI Candelaria Spain.

"Transactions" means the payment of a dividend to AI Candelaria Lux from the net cash proceeds of the Notes issued on the Issue Date to (i) repay all Indebtedness outstanding under the Second Amended and Restated Credit Agreement among AI Candelaria Lux, AI Candelaria Spain, the lenders from time to time party thereto, the hedge providers from time to time party thereto and Citibank, N.A., as administrative agent and (ii) to pay a dividend to the holders of Capital Stock of AI Candelaria Lux.

"Unconsolidated Interest Expense" means, for any person for any period, the sum of, without duplication determined on an unconsolidated basis in accordance with GAAP:

(1) the aggregate of cash and non-cash interest expense of such person for such period determined on an unconsolidated basis in accordance with GAAP, including, without limitation (whether or not interest expense in accordance with GAAP):

(a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such person in the form of additional Indebtedness, (but excluding any amortization of deferred financing and debt issuance costs),

(b) the net costs under Hedging Obligations (but excluding amortization of fees),

(c) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers' acceptances, and

(d) any interest expense paid in respect of Indebtedness of another person that is Guaranteed by such person or secured by a Lien on the assets of such person; and

(2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such person during such period.

"Unrestricted Subsidiary" means (a) any subsidiary of an Unrestricted Subsidiary and (b) any future subsidiary of AI Candelaria Spain that is designated by the board of directors or similar governing body of AI Candelaria Spain as an Unrestricted Subsidiary pursuant to a board resolution (a "Designation"), but only to the extent that such subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not a party to any agreement, contract or understanding with AI Candelaria Spain or any Restricted Subsidiary unless the terms of any such agreement, contract or understanding complies with the "—Limitation on Transactions with Affiliates" covenant; and

(3) is a person with respect to which neither AI Candelaria Spain nor any Restricted Subsidiary has any direct or indirect obligation (A) to subscribe for additional Capital Stock or (B) to maintain or preserve such person's financial condition or to cause such person to achieve any specified levels of operating results.

Any such Designation will be evidenced to the Trustee by AI Candelaria Spain by filing with the Trustee a certified copy of the board resolution giving effect to such Designation and an officer's certificate certifying that such Designation complied with the foregoing conditions and was permitted by the covenant described under the caption "—Restricted Payments". If, at any time, any Unrestricted Subsidiary which has been Designated as such pursuant to clause (c) above (or which is the subsidiary of such an Unrestricted Subsidiary) would fail to meet the foregoing requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness and any Liens of such subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date (and, if such Indebtedness or such Liens are not permitted to be incurred as of such date, AI Candelaria Spain will be in default under the terms of the Indenture).

"Voting Stock" of any person as of any date means the Capital Stock of such person that is at the time entitled to vote in the election of the board of directors or similar governing body of such person.

"Weighted Average Life to Maturity" means, when applied to Indebtedness at any date, the number of years obtained by dividing:

(1) the then-outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into

(2) the sum of the total of the products obtained by multiplying (a) the amount of each then-remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

**Book-Entry System; Delivery and Form; Certificated Notes**

The New Notes are being offered and sold in connection with the initial offering thereof solely (1) to certain "qualified institutional buyers" ("QIBs") (as defined in Rule 144A under the Securities Act) that are also "Qualified Purchasers" (as defined in Section 2(a)(51)(A) of the Investment Company Act) and (2) outside the United States to non-U.S. persons (within the meaning of the Investment Company Act and Regulation S) in compliance with Regulation S under the Securities Act. Following the initial offering of the New Notes, the New Notes may be resold as described under "Transfer Restrictions".

***The Global Notes***

*Rule 144A Global Notes*

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Rule 144A global Note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC, and will remain in the custody of the Trustee pursuant to the FAST Balance Certificate Agreement between DTC and the Trustee. Interests in the Rule 144A global Note will be available for purchase only by qualified institutional buyers.

*Regulation S Global Notes*

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Regulation S global Note will be deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective participant accounts of the purchasers, or to such other DTC accounts as they may direct, including indirectly, at Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") or Clearstream Banking, *société anonyme* ("Clearstream").

Investors may hold their interests in the Regulation S global Note indirectly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Investors may in certain circumstances also hold such interests through organizations other than Euroclear or Clearstream that are participants in the DTC system. Euroclear and Clearstream will hold such interests in the Regulation S global Note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Such depositaries, in turn, will hold such interests in the Regulation S global Note in customers' securities accounts in the depositaries' names on the books of DTC.

Except as set forth below, the Rule 144A global Note and the Regulation S global Note, collectively referred to in this section as the "global Notes", may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global Notes may not be exchanged for Notes in physical, certificated form (referred to as "certificated Notes") except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under "Transfer Restrictions".

All interests in the global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

*Exchanges Among the Global Notes*

Transfers by an owner of a beneficial interest in the Regulation S global Note to a transferee who takes delivery of this interest through the Rule 144A global Note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A and a Qualified Purchaser within the meaning of the Investment Company Act of 1940, in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the restricted period.

Transfers by an owner of a beneficial interest in the Rule 144A global Note to a transferee who takes delivery of such interest through the Regulation S global Note will be made only upon receipt by the Trustee of a certification from the transferor in the form provided for in the Indenture to the effect that such transfer is being made in accordance with Regulation S under the Securities Act and that, if such transfer is being made prior to the

expiration of the restricted period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Any beneficial interest in one of the global Notes that is transferred to a person who takes delivery in the form of an interest in another global Note will, upon transfer, cease to be an interest in such global Note and become an interest in the other global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global Note for as long as it remains such an interest.

*Certain Book-Entry Procedures for the Global Notes*

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither we, the Trustee nor the initial purchasers take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a "banking organization" within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and (v) a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

We expect that pursuant to procedures established by DTC (i) upon deposit of each global Note, DTC will credit the accounts of participants designated by the initial purchasers with an interest in the global Note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a global Note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a global Note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a global Note will not be entitled to have Notes represented by such global Note registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes, and will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each holder owning a beneficial interest in a global Note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of Notes under the Indenture or such global Note. We understand that under existing industry practice, in the event that we request any action of holders of Notes, or a holder that is an owner of a beneficial interest in a global Note desires to take any action that DTC, as the holder of such global Note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act

upon the instruction of such holders. Neither we nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, Additional Amounts, if any, and interest on any Notes represented by a global Note registered in the name of DTC or its nominee on the applicable record date will be payable to the extent funded by AI Candelaria Spain by the Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global Note representing such Notes under the Indenture. Under the terms of the Indenture, we and the Trustee may treat the persons in whose names the Notes, including the global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither we nor the Trustee has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in a global Note (including principal, premium, Additional Amounts, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in a global Note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a global security by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

***Certificated Notes***

Beneficial interests in any global Note may be exchanged for certificated Notes only in the event that (1) we notify the Trustee in writing that DTC is no longer willing or able to act as a depositary or DTC ceases to be registered as a "clearing agency" under the Exchange Act and a successor is not appointed within 90 days of such notice or cessation, (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of Notes in definitive form under the Indenture or (3) upon the occurrence of certain other events as provided in the Indenture. In such an event, certificated Notes will be issued upon surrender by DTC of the global Notes to each person that

DTC identifies as the beneficial owner of the Notes represented by the global Notes. Upon any such issuance, the Trustee is required to register such certificated Notes in the name of such person or persons (or the nominee of any thereof) and cause the same to be delivered thereto. Neither we nor the Trustee will be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and each such person may conclusively rely on, and will be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

Payment of the principal at maturity of any certificated Note will be made, upon presentation and surrender of such Note at the corporate trust office of the Trustee in the United States.

Payments of interest on any certificated Note will be made solely in U.S. dollars to the person entitled thereto as such holder's name will appear on the securities register (the "Securities Register") maintained by the Registrar pursuant to the Indenture. AI Candelaria Spain and the Trustee may deem and treat the registered holder of any certificated Note as the absolute owner of that Note (notwithstanding any notice of ownership or other writing on that Note) for the purposes of receiving payment on that Note or on account of that Note and for all other purposes.

The registered holders of certificated Notes will present directly at the corporate trust office of the Trustee in United States or of any other transfer agent all requests for the registration of any transfer of such Notes, for the exchange of such Notes for one or more new certificated Notes in the like aggregate principal amount and in authorized denominations and for the replacement of such Notes in cases of mutilation, destruction, loss or theft. Every certificate representing certificated Notes presented or surrendered for registration of transfer or for exchange will be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee, duly executed by the registered holder thereof or his attorney duly authorized in writing. The registration of any transfer of certificated Notes in the Securities Register is also subject to any reasonable requirements of AI Candelaria Spain and the Trustee. Except for the expenses of delivery other than by regular mail, no service charge will be made for any exchange or registration of transfer, but we may require payment of a sum sufficient to cover any stamp tax or other governmental charge payable in connection therewith. No registrations of transfers or exchanges of certificated Notes will be made of any such Notes that have been selected for prepayment.

The Indenture provides that certificated Notes will be issued to replace certificated Notes that have been mutilated, destroyed, stolen or lost upon payment of certain costs associated with such replacement and on certain terms as to evidence and indemnity or security satisfactory to the Trustee and AI Candelaria Spain. In the case of destroyed, stolen or lost certificated Notes, replacement certificated Notes will not be issued if either AI Candelaria Spain or the Trustee has notice that those Notes have been acquired by a bona fide purchaser. Mutilated certificated Notes must be surrendered before replacements will be issued. In the event any such mutilated, destroyed, stolen or lost certificated Note has become or is about to become due and payable, we may, in our discretion, instead of issuing a new certificated Note, pay or cause to be paid such Note.

All certificated Notes issued as a result of any partial or whole transfer, exchange or replacement of Notes will be delivered to the registered holder at the corporate trust office or branch office of the Trustee or at the office of any such other transfer agent as we may designate from time to time, or (at the risk of the registered holder) sent by mail to such address as is specified by the registered holder in its request for transfer, exchange or replacement.

**Right to Demand Sales**

To enforce the restrictions on transfers of interest in the Notes, the Indenture permits us to demand that the holder of a Note or an interest therein sell to a holder permitted under the Indenture their Note or any interest therein purchased by any person who is determined by us not to have been either (i) both a Qualified Purchaser and QIB at the time it acquired its Note or interest therein or (ii) a non-U.S. person as such term is defined in Regulation S at the time it acquired its Note or interest therein, and if such holder does not comply with such demand, we may sell such holder's Note or interest therein.

**Unclaimed Payments**

Subject to any applicable abandoned property law, the Trustee and the paying agent shall pay to us, upon written request, any money held by them for the payment of principal of or interest on the Notes that remains unclaimed for two years, and, thereafter, holders of the Notes entitled to such money must look to the us for payment as general creditors.

# TAXATION

## Spanish Tax Considerations

### *Payments made by the Issuer*

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete overview of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Notes issued by the Issuer, an entity resident for tax purposes in Spain, after the date hereof held by a Noteholder. It does not consider every aspect of taxation that may be relevant to a particular Noteholder under special circumstances or who is subject to special treatment under applicable law or to the special tax regimes applicable in the Basque Country and Navarra (*Territorios Forales*), nor does it consider provisions passed by autonomous communities (*comunidades autónomas*) in Spain which may apply to investors for certain taxes. Where in this summary English terms and expressions are used to refer to Spanish concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Spanish concepts under Spanish tax laws. This summary assumes that each transaction with respect to the Notes is at arm's length.

Prospective investors should note that the appointment by an investor in the Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Prospective investors should consult their own tax advisors in relation to the tax consequences for them of any such appointment.

This overview is based on the law as in effect on the date of this offering memorandum and is subject to any change in law that may take effect after such date. Investors should consider the legislative changes which could occur in the future; specially taking into account that there will be Spanish General Elections on April 28, 2019 and, as a result, there could be certain changes on the applicable law, including changes with retroactive effects.

References in this section to Noteholders are to the beneficial owners of the Notes.

Any prospective Noteholder should consult its own tax advisors who can provide them with personalized advice based on their particular circumstances.

### *Introduction*

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this document:

- of general application, (i) Additional Provision One of Law 10/2014, of 26 June, on supervision and solvency of credit entities ("Law 10/2014") and (ii) Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011, of 29 July ("Royal Decree 1065/2007");

- for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax ("PIT"), (i) Law 35/2006, of 28 November, on the PIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended by Law 26/2014, of 27 November ("PIT Law"), and (ii) Royal Decree 439/2007, of 30 March passing the PIT regulations, as amended by Royal Decree 633/2015, of 10 July, along with (iii) Law 19/1991, of 6 June, on Net Wealth Tax ("Net Wealth Tax Law"), along with (iv) Law 29/1987, of 18 December on the Inheritance and Gift Tax ("IGT Law");

- for legal entities resident for tax purposes in Spain which are subject to the CIT, (i) Law 27/2014, of 27 November governing the CIT ("CIT Law"), and (ii) Royal Decree 634/2015, of 10 July passing the CIT regulations ("CIT Regulation"); and

- for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax ("NRIT"), (i) Royal Legislative Decree 5/2004, of 5 March promulgating the NRIT, as amended, and (ii) Royal Decree 1776/2004, of 30 July promulgating the NRIT regulations, along with (iii) the Net Wealth Tax Law, along with (iv) the IGT Law.

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, and from Value Added Tax, as provided for in Article 314 of the Securities Market Act (*Texto Refundido de la Ley del Mercado de Valores*) Royal Legislative Decree 1/1993, of 24 September and Law 37/1992, of 28 December, as applicable.

***Individuals with Tax Residency in Spain***

Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Spanish individuals with tax residency in Spain are subject to PIT on a worldwide basis. Accordingly, income obtained from the Notes will be taxed in Spain when obtained by individuals that are considered resident in Spain for tax purposes. The fact that a Spanish company pays interest or guarantee payments under or in respect of a Note will not lead an individual or entity being considered tax-resident in Spain.

Both interest payments periodically received and income derived from the transfer, prepayment, repayment or exchange of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and therefore must be included in the investor's PIT savings taxable base and taxed at the then-applicable rate (currently, at a flat rate of 19% on the first €6,000, 21% for taxable income between €6,001 and €50,000, and 23% for taxable income exceeding €50,000).

No withholding on account of PIT will be imposed on interest as well as on income derived from the prepayment or repayment of the Notes by individual investors subject to PIT provided that procedures for the provision of information which are explained under section "—Spanish Tax Considerations— Disclosure of information in connection with the Notes" are met (including that the Paying Agent provides us, in a timely manner, with a duly executed and completed Payment Statement). See "— Disclosure of information in connection with the Notes". Notwithstanding, withholding tax at the applicable rate may have to be deducted by other entities (such as depositaries or financial entities) on account of the PIT, provided that such entities are resident for tax purposes in Spain or act through a permanent establishment within the Spanish territory.

However, income derived from the transfer of the Notes may be subject, under certain circumstances, to a withholding on account of PIT at the rate of 19%.

In any event, the individual holder may credit withholding taxes on account of PIT against his or her final PIT liability for the relevant tax year.

To the extent possible, we will comply with the reporting obligations set out in the Spanish tax laws with respect to owners of the Notes who are individuals resident in Spain for tax purposes.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

As a general rule, Net Wealth Tax may be levied in Spain on resident individuals to the extent that their net wealth exceeds €700,000 on the last day of any year. Spanish tax resident individuals whose net worth is above €700,000 and who hold Notes on the last day of any year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year. Some reductions may be available pursuant to the applicable regional law.

Though for the years 2011 to 2018 the Spanish central government has repealed the 100% relief (*bonificación del 100%*) of this tax, the actual collection of this tax depends on the regulations of each autonomous community. Thus, Noteholders should consult their tax advisors according to the particulars of their situation.

As of the date of this offering memorandum, all these provisions corresponding to Spanish Wealth Tax will remain applicable to tax year 2019. However, in accordance with article 3 of the Royal Decree-law 27/2018, of December 28, as from year 2020, a full exemption on Spanish Net Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2020 Spanish individual Holders would be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemption is extended again (as it occurred for tax periods 2011-2019 by means of the corresponding Spanish General Budgets Acts and Royal Decree Law 27/2018, of December 28).

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules.

The applicable tax rates currently range between 0% and 81.6% for 2019 depending on relevant factors and the applicable regional tax rules. Thus, Noteholders should consult their tax advisors according to the particulars of their situation.

***Legal Entities with Tax Residency in Spain***

Corporate Income Tax (*Impuesto sobre Sociedades*)

Legal entities with tax residency in Spain are subject to CIT on a worldwide basis. Both interest periodically received and income deriving from the transfer, prepayment or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain for CIT purposes in accordance with the CIT rules. The current general tax rate according to CIT Law is 25%. Certain CIT taxpayers may be subject to different CIT rates (for instance, banking institutions, which are taxable at a 30% rate). The fact that a Spanish company pays interest or guarantee payments under or in respect of a Note will not lead to an entity being considered tax resident in Spain.

No withholding on account of CIT will be imposed on interest, as well as on income derived from the prepayment or repayment of the Notes, paid by the Issuer to Spanish CIT Noteholders provided that procedures for the provision of information which are explained under section "—Spanish Tax Considerations— Disclosure of information in connection with the Notes" are met (including that the Paying Agent provides us, in a timely manner, with a duly executed and completed Payment Statement). See "— Disclosure of information in connection with the Notes".

Notwithstanding, withholding tax at the applicable rate may be deducted by other entities (such as depositaries or financial entities) on account of the CIT, provided that such entities are resident for tax purposes in Spain or act through a permanent establishment within the Spanish territory, in particular as concerns any income obtained by the Spanish CIT Noteholders on the transfer of the Notes.

In any event, legal entities with tax residency in Spain may credit the withholding against their CIT liability for the relevant year.

To the extent possible, we will comply with the reporting obligations set out in the Spanish tax laws with respect to owners of the Notes who are entities resident in Spain for tax purposes.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Legal entities resident in Spain for tax purposes are not subject to Net Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax and must declare the market value of the Notes in their taxable income for Spanish CIT purposes.

***Individuals and Legal Entities with no Tax Residency in Spain***

Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*)

*(a) With permanent establishment in Spain*

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those previously set out for Spanish CIT taxpayers. See "*— Spanish Tax Considerations—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*".

To the extent possible, we will comply with the reporting obligations set out in the Spanish tax laws with respect to beneficial owners of the Notes who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Notes through a permanent establishment in Spain.

*(b) With no permanent establishment in Spain*

Both interest payments periodically received and income deriving from the transfer, prepayment or repayment of the Notes, obtained by individuals or legal entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from public debt provided that the information procedures (including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement (in the form of an executed and complete Payment Statement attached to the Indenture) required under Article 44 of Royal Decree 1065/2007) are duly met. Please see "Disclosure of information in connection with the Notes").

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under or in respect of the Notes, the Issuer will withhold Spanish withholding tax at the then-applicable rate (currently 19%) on such payment. The Issuer will not pay additional amounts with respect to any such withholding tax to Noteholders in such event.

Noteholders that are not resident in Spain for tax purposes and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure by the Paying Agent to deliver a duly executed and completed payment statement in a timely manner, will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent provides us with a duly executed and completed payment statement no later than on the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners of income derived from the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in "*—Procedures for direct refund from the Spanish tax authorities.*"

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself render such investors resident for tax purposes in Spain. The Spanish CIT law, however, provides for certain rules whereby entities based in no-tax or tax haven jurisdictions pursuant to Spanish laws may be deemed to have their tax residency in Spain where such entities' main assets, directly or indirectly, are properties or rights located in Spain, or that can be exercised within the Spanish territory, or where their main activity is carried on in Spain (subject to certain exceptions).

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

As a general rule, individuals who are not residents in Spain whose properties and rights are located in Spain, or can be exercised within the Spanish territory (such as the Notes), having a value for purposes of Net Wealth Tax exceeding €700,000, would be subject to Net Wealth Tax, at applicable rates ranging between 0.2% and 2.5%.

However, to the extent that income derived from the Notes is exempt from NRIT, individual Noteholders not resident in Spain for tax purposes who hold Notes on the last day of any calendar year will be exempt from Net Wealth Tax. Furthermore, Noteholders resident in a country with which Spain has entered into a double tax treaty with respect to Net Wealth Tax that provides for taxation only in the Noteholder's country of tax residence will be exempt from Spanish Net Wealth Tax.

Noteholders who are tax resident in a State of the European Union or of the European Economic Area may be entitled to apply the specific regulation of the autonomous community where their most valuable assets (i) are located (ii) can be exercised or (iii) must be fulfilled. Prospective investors should consult their tax advisors in that respect.

As of the date of this Offering Memorandum, all these provisions corresponding to Spanish Wealth Tax will remain applicable to tax year 2019. However, in accordance with article 3 of the Royal Decree-law 27/2018, of December 28, as from year 2020, a full exemption on Spanish Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2020 Spanish individual Holders would be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemption is extended again (as it occurred for tax periods 2011-2019 by means of the corresponding Spanish General Budget Acts and the Royal Decree Law 27/2018, of December 28).

Non-Spanish resident legal entities are not subject to Net Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who do not have tax residency in Spain and who acquire ownership or other rights over the Notes by inheritance, gift or legacy will not be subject to Inheritance and Gift Tax in Spain if the country in which such individual resides has entered into a double tax treaty with Spain in relation to Inheritance and Gift Tax providing otherwise. In the absence of such treaty between the individual's country of residence and Spain, the individual will be subject to Inheritance and Gift tax in accordance with the applicable regional and state legislation (which will provide for rates ranging between 0% and 81.6%, depending on various factors).

Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the Spanish state legislation. However, if the deceased or the donee are resident in an E.U. or European Economic Area Member State, the applicable rules will be those regional rules corresponding to the relevant autonomous community according to the law. As such, prospective investors should consult their tax advisors.

Likewise, in its recent Judgements of February 19, March 21 and March 22, 2018, the Spanish Supreme Court, based on the European right to the free movement of capital, has declared that the application of the regional rules corresponding to the relevant autonomous community according to the law should be extended in some circumstances to deceased heirs or donees who are resident outside of the E.U. or the European Economic Area. Prospective investors are urged to consult their tax advisors as to the potential application of these benefits.

Non-resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to NRIT (as described above). If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

***Obligation to inform the Spanish tax authorities of the Ownership of the Notes***

With effect as from January 1, 2013, Law 7/2012, of 29 October, as implemented by Royal Decree 1558/2012, of 15 November, introduced annual reporting obligations applicable to Spanish residents (i.e., individuals, legal entities and permanent establishments in Spain of non-resident entities) in relation to certain foreign assets or rights.

Consequently, if the Notes are deposited with or placed in the custody of a non-Spanish entity, Noteholders resident in Spain will be obligated, if certain thresholds are met as described below, to declare before the Spanish tax authorities, between January 1 and March 31 every year, the ownership of the Notes held on December 31 of the immediately preceding year (e.g., to declare between January 1, 2020 and March 31, 2020 the Notes held on December 31, 2019).

This obligation would only need to be complied with if certain thresholds are met: specifically, if the only rights/assets held abroad are the Notes, this obligation would only apply if the value of the Notes together with other qualifying assets held on December 31 exceeds €50,000 (with the corresponding valuation to be made in accordance with Wealth Tax rules). If this threshold is met, a declaration would only be required in subsequent years if the value of the Notes together with other qualifying assets increases by more than €20,000 as against the declaration made previously. Similarly, cancellation or extinguishment of the ownership of the Notes before 31 December should be declared if such ownership was reported in previous declarations.

***Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market***

Withholding on Account of PIT, NRIT and CIT

If the Notes are not listed on a regulated market, multilateral trading facility or other organized market on any date on which income in respect of the Notes will be paid, payments of income to Noteholders in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 19%). Notheholders which are: (A) residents of a European Union Member State other than Spain and obtain such income either directly or through a permanent establishment located in another European Union Member State, provided that such Noteholder (i) do not obtain such income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5 as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to income payable to any Noteholder may be entitled to an exemption from, or reduction of, such tax. Individuals and entities that may benefit from such exemptions or reduced tax rates should apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the "—Procedures for direct refund from the Spanish tax authorities".

***Disclosure of information in connection with the Notes***

As described under "—Individual and Legal Entities with no Tax Residency in Spain", "—Legal Entities with Tax Residency in Spain—Corporate Income Tax (*Impuesto sobre Sociedades*)" and "—Individuals with Tax Residency in Spain—Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)", provided the conditions set forth in Law 10/2014 and Royal Decree 1065/2007 are met, income paid in respect of the Notes for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish CIT or PIT taxpayers, will not be subject to Spanish withholding tax. For these purposes, "income" means interest paid on an interest payment date or the amount of the difference, if any, between the aggregate prepayment price paid upon the prepayment of the Notes of a series (or a portion thereof) and the aggregate principal amount of such.

In accordance with section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Notes issued are initially registered for clearance and settlement in DTC, the Paying Agent designated by the Issuer would be obliged to provide the Issuer with a declaration (or payment statement) at the time of each relevant payment date, which should include the following information (in accordance with the form attached as Annex to Royal Decree 1065/2007):

- description of the Notes (and date of payment of the interest income derived from such Notes);
- total amount of interest derived from the Notes; and
- total amount of interest allocated to each non-Spanish clearing and settlement entity to which the Paying Agent shall make a payment (which in the case of the Notes, shall be DTC).

In particular, the Paying Agent must certify the information above about the Notes by means of a certificate, the form of which is attached to the Indenture.

In light of the above, the Issuer and the Paying Agent will have agreed in the Indenture, amongst other things, to implement certain procedures for the timely provision by the Paying Agent to the Issuer of a duly executed and completed declaration or Payment Statement in connection with each income payment under the Notes and set out certain procedures which aim to facilitate such process, along with a form of a Payment Statement to be used by the Paying Agent (in the form attached to the Indenture).

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration (or payment statement) will have to be provided to the Issuer no later than the business day immediately preceding each Interest Payment Date. If this requirement is complied with, the Issuer will pay gross (without deduction of any withholding tax) all interest under the Notes to all Noteholders (irrespective of whether they are tax resident in Spain).

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, such payment will be made net of Spanish withholding tax, currently at the rate of 19%. If this were to occur, affected holders of the Notes will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 20th calendar day of the month immediately following the relevant Interest Payment Date, holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "*—Procedures for direct refund from the Spanish tax authorities*".

Prospective investors should note that none of the Issuer, the Collateral Agents, the Trustee, the Registrar, the Paying Agent, the Transfer Agent and the Initial Purchasers accept any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of them will be liable for any damage or loss suffered by any holder of the Notes who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any Additional Amounts with respect to any such withholding tax. The only remedy that holders of the Notes will have with respect to such Spanish withholding tax is to apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "—Procedures for direct refund from the Spanish tax authorities".

In addition to the timely provision of a duly executed and completed Payment Statement, the Notes must be admitted to listing on a regulated market, on a multi-lateral trading facility or on any other organized market in order to allow payments on Notes to be made free and clear of Spanish withholding tax. We believe the Notes will comply with this requirement.

In the event that the current applicable procedures were to be modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer would inform the Noteholders of such information procedures and of their implications, as the Issuer may be required to apply withholding tax on interest payments under the Notes if the Noteholders were not to comply with such information procedures.

***Procedures for direct refund from the Spanish tax authorities***

Noteholders entitled to receive income payments in respect of the Notes free of any Spanish withholding taxes may claim amounts withheld from the Spanish Treasury no earlier than February 1 of the year immediately following the year in which the relevant payment was made.

Noteholders may claim the amount withheld from the Spanish Treasury within the first four years following the last day on which the Issuer may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form (currently, Form 210), (ii) proof of ownership and (iii) a certificate of residency issued by the tax authorities of the country of tax residence of such Noteholders, amongst other documents.

Further details of the direct refund process may be found through the Spanish Tax Administration, at the webpage as of the date hereof at http://www.agenciatributaria.es/AEAT.internet/en_gb/Inicio.shtml. For further details, prospective Noteholders should consult their own tax advisors.

**Certain United States Federal Income Tax Consequences**

The following discussion is a summary of the material U.S. federal income tax consequences of acquiring, owning and disposing of the Notes. Except where otherwise noted, this discussion applies only to beneficial owners of Notes that purchase the New Notes in this offering at their initial offering price as shown on the cover of this offering memorandum and that hold the Notes as “capital assets” for U.S. federal income tax purposes (generally, property held for investment). This discussion is limited to consequences relevant to a “U.S. Holder”. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing final, temporary and proposed U.S. Treasury regulations, administrative pronouncements by the U.S. Internal Revenue Service (the “IRS”), and judicial decisions, all as of the date hereof and all of which are subject to change (possibly on a retroactive basis) and to different interpretations.

This discussion does not purport to address all U.S. federal income tax consequences that may be relevant to a particular investor and you are urged to consult your own tax advisor regarding your specific tax situation. The discussion does not address the tax consequences that may be relevant to investors subject to special tax rules, including, for example:

- insurance companies;
- tax-exempt organizations;
- dealers in securities;
- traders in securities that elect the mark-to-market method of tax accounting with respect to their securities holdings;
- banks or other financial institutions;
- partnerships (or other entities treated as partnerships for U.S. federal income tax purposes) and partners therein;
- U.S. Persons that hold the Notes through foreign branches;
- U.S. persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;

- U.S. expatriates; or

- persons that hold the Notes as part of a straddle, conversion or other integrated transaction.

Further, this discussion does not address the U.S. federal alternative minimum tax consequences of holding the Notes, the unearned income Medicare contribution tax, the potential requirement for certain taxpayers to conform the timing of income accruals with respect to the Notes to their financial statements for the U.S. federal income tax purposes under Section 451(b) of the Code or U.S. federal taxes other than income taxes or the state, local and non-U.S. tax consequences of acquiring, owning and disposing of the Notes. You should consult your tax advisers regarding the application of the U.S. federal tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

- an estate the income of which is subject to U.S. federal income tax regardless of its source; or

- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has an election in effect under current U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences of holding the Notes.

***Pre-Acquisition Accrued Interest***

A portion of the price paid for a New Note will be allocable to interest that accrued prior to the date the New Note is purchased (the "pre-acquisition accrued interest"). On the first interest payment date with respect to a New Note, you may generally treat a portion of the interest received in an amount equal to the pre-acquisition accrued interest as a return of the pre-acquisition accrued interest and not as a payment of interest on the New Note. Amounts treated as a return of pre-acquisition accrued interest should not be taxable when received. It is not clear in such instance whether to exclude the amount attributable to pre-acquisition accrued interest from your initial basis, or to reduce your basis by the amount of pre-acquisition accrued interest when it is received.

***Amortizable Bond Premium***

If you purchase a New Note for an amount that is greater than its principal amount (disregarding any amount paid in respect of pre-acquisition accrued interest), you will be considered to have purchased the New Note with amortizable bond premium. In general, the amortizable bond premium with respect to any Note is the excess of your initial basis over the principal amount, and you may elect to amortize this bond premium, using a constant yield method, over the remaining term of the Note. Because of the optional redemption feature of the Notes, however, special rules apply that may reduce, eliminate or defer the amount of the bond premium that may be amortized. You generally may use the amortizable bond premium allocable to an accrual period to offset stated interest otherwise required to be included in income with respect to the Note in that accrual period. An election to amortize bond premium applies to all taxable debt obligations then owned or thereafter acquired and may be revoked only with the consent of the IRS.

***Potential Contingent Payment Debt Instrument Treatment***

In certain circumstances, the Issuer may be required to make payments on a Note that would change the yield of the Note. See "Description of the Notes—Change of Control," "Description of the Notes—Payment of Additional Amounts," and "Description of the Notes—Optional Prepayment." These obligations may implicate the provisions of Treasury regulations relating to contingent payment debt instruments ("CPDIs"). According to the applicable Treasury regulations, certain contingencies will not cause a debt instrument to be treated as a CPDI if such contingencies, as of the date of issuance, are "remote or incidental" or certain other circumstances apply. The Issuer believes and intends to take the position that the Notes are not CPDIs. This determination, however, is not binding on the IRS and if the IRS were to challenge this determination successfully, a U.S. Holder could be required to accrue income on the Notes that such U.S. Holder owns in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of such Notes before the resolution of the contingency. If the Notes are not CPDIs but such contingent payments were required to be made, it would affect the amount and timing of the income that a U.S. Holder recognizes. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the CPDI rules and other rules above and the consequences thereof. The remainder of this discussion assumes that the Notes will not be treated as CPDIs.

***Payments of Interest***

If you are a U.S. Holder, interest (other than pre-acquisition accrued interest) paid to you on a Note, including any amount withheld in respect of any taxes, will be includible in your gross income as ordinary interest income at the time such payments are received or accrued in accordance with your usual method of tax accounting for U.S. federal income tax purposes. If any Additional Amounts are paid on the Notes to "gross up" the holder in respect of withholding or deduction for taxes (see "Description of the Notes—Payment of Additional Amounts"), such amounts will be includable in your income as ordinary interest income at the time such amount is received or accrued in accordance with your method of tax accounting.

It is expected, and this discussion assumes, that the New Notes will be issued without original issue discount ("OID") for U.S. federal income tax purposes. If, however, a Note's principal amount exceeds its issue price by more than a statutorily defined *de minimis* amount, you will be required to include the amount of such excess in income as OID, as it accrues, in accordance with a constant-yield method based on a compounding of interest, before the receipt of cash attributable to this income.

Interest on the Notes (including any Additional Amounts) will be treated as "passive category" foreign source income for U.S. federal income tax purposes for most U.S. Holders. Subject to generally applicable restrictions and conditions (including minimum holding period and at risk requirements), if any foreign income taxes are withheld on interest (including any Additional Amounts) payments on the Notes, a U.S. Holder will be entitled to a foreign tax credit in respect of any such foreign income taxes. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

***Sale, Exchange, Retirement or Other Taxable Disposition of Notes***

If you are a U.S. Holder, upon the sale, exchange or other taxable disposition (including a prepayment) of a Note, you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other taxable disposition (other than accrued but unpaid stated interest which will be taxable as ordinary income to the extent not previously included in gross income) and your adjusted tax basis in the Note. Subject to the discussion above under "Pre-Acquisition Accrued Interest," your adjusted tax basis in a Note generally will equal the cost of the Note to you. Any such gain or loss will be capital gain or loss. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

Any gain or loss realized on the sale, exchange or other taxable disposition of a Note generally will be treated as U.S. source gain or loss, as the case may be. As a result, if any such gain is subject to foreign income tax, U.S. Holders may not be able to credit such tax against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code, unless such income tax can be credited (subject to applicable limitations) against U.S. federal income tax due on other income treated as derived from foreign sources. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes, provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year.

***U.S. Backup Withholding and Information Reporting***

Backup withholding and information reporting requirements generally apply to payments of principal of, and interest on, a Note and to proceeds of the sale or prepayment of a Note, to U.S. Holders. Information reporting generally will apply to payments of principal of, and interest on, Notes, and to proceeds from the sale or prepayment of, Notes within the United States, or by a U.S. payor or U.S. middleman, to a U.S. Holder (other than an exempt recipient). Backup withholding will be required on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a U.S. Holder, other than an exempt recipient, if the U.S. Holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability or to receive a refund of the amounts withheld provided the required information is furnished to the IRS in a timely manner.

***Foreign Financial Assets Reporting***

Owners of “specified foreign financial assets” with an aggregate value in excess of US$50,000 on the last day of the taxable year, or US$75,000 at any time during the taxable year, generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

**THIS SUMMARY DOES NOT CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE CONSEQUENCES OF OWNING THE NOTES.**

## LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE NOTES AND THE SECURITY INTEREST

*Set out below is a summary of certain limitations on the enforceability of the Notes and the security interests in the collateral in some of the jurisdictions in which collateral is being provided. It is a summary only, and bankruptcy or insolvency proceedings or similar events could be initiated in any of these jurisdictions. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply to a given situation and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the security interests in the collateral.*

### European Union

AI Candelaria is organized under the laws of Spain and hence under the laws of Member States of the European Union.

Pursuant to Regulation (EU) no. 2015/848 of the European Parliament and of the Council of May 20, 2015 on insolvency proceedings (which entered into force on June 26, 2017 and applies to insolvency proceedings opened on or after that date) replacing Regulation (EC) 1346/2000 of May 29, 2000, (the "E.U. Insolvency Regulation"), which applies within the European Union, other than Denmark, the courts of the Member State in which a company's "centre of main interests" (which according to Article 3(1) of the E.U. Insolvency Regulation is "the place where the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties") is situated have jurisdiction to open the main insolvency proceeding. The determination of where a company has its "centre of main interests" is a question of fact on which the courts of the different Member States may have differing and even conflicting views.

Pursuant to Article 3(1) of the E.U. Insolvency Regulation the "centre of main interests" of a company is presumed to be in the Member State in which it has its registered office in the absence of proof to the contrary. This presumption only applies if the registered office has not been moved to another Member State within the 3-month period prior to the request for the opening of insolvency proceedings. Furthermore, preamble 30 of the E.U. Insolvency Regulation states that "it should be possible to rebut this presumption where the company's central administration is located in a Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision and of the management of its interests is located in that other Member State". Prior to June 26, 2017, the courts have taken into consideration a number of factors in determining the "centre of main interests" of a company, including in particular where board meetings are held, the location where the company conducts the majority of its business or has its head office and the location where the majority of the company's creditors are established. A company's "centre of main interests" may change from time to time but is determined for the purposes of deciding which courts have competent jurisdiction to open insolvency proceedings at the time of the filing of the insolvency petition unless (as set forth above) the registered office has been moved within the 3-month period prior to the filing of the insolvency petition.

The E.U. Insolvency Regulation applies to insolvency proceedings which are collective insolvency proceedings of the types referred to in Annex A to the E.U. Insolvency Regulation that, with regards to Spain, includes inter alia, the insolvency proceedings (*concurso*), homologation proceedings (*homologación judicial de acuerdos de refinanciación*), extrajudicial payment proceedings (*acuerdos extrajudiciales de pago*), or anticipated arrangement proposals (*propuestas anticipadas de convenio*).

If the "centre of main interests" of a company is in one Member State (other than Denmark), under Article 3(2) of the E.U. Insolvency Regulation the courts of another Member State (other than Denmark) have jurisdiction to open territorial insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined to mean a place of operations where the company carries out or has carried out in the 3-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings in the Member State in which the company has its center of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only where either (a) insolvency proceedings cannot be opened in the Member State in which the company's center of main interests is situated under that Member State's law; or (b) the territorial insolvency proceedings are opened at the request of (i) a creditor whose claim arises from or is in connection with the operation of the establishment situated within the territory of the Member State where the opening of territorial proceedings is requested or (ii) a public authority which, under the law of the Member State within the territory where the establishment is situated, has the right to request the opening of insolvency proceedings. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will, subject to certain exceptions, be governed by the *lex fori concursus*, i.e. the local insolvency law of the court that has assumed jurisdiction over the insolvency proceedings of the debtor.

The E.U. Insolvency Regulation has created a treatment of the group of companies experiencing difficulties by the commencement of group coordination proceedings and the appointment of an insolvency practitioner in order to facilitate the effective administration of the insolvency proceedings of our group's members. Under Article 61 of the EC Insolvency Regulation, group coordination proceedings may be requested before any court having jurisdiction over the insolvency proceedings of a member of the group, by an insolvency practitioner appointed in the insolvency proceedings opened in relation to a member of the group. In any event, participation in group proceedings and adherence to the coordinating insolvency practitioner's recommendations of a plan is voluntary.

In the event that the Issuer experiences financial difficulties, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations and the security of the Issuer.

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening the main proceedings, which will be given the same effect in the other Member States so long as no secondary proceedings have been opened there. The insolvency practitioner appointed by a court in a Member State which has jurisdiction to open main proceedings (because the company's center of main interests is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State) subject to certain limitations so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

**Spain**

***Concept and petition for insolvency***

The Issuer is incorporated under the laws of Spain. As a general rule, in the event of an insolvency of the Issuer, insolvency proceedings may be initiated in Spain and governed by Spanish law. The Spanish Act 22/2003 of July 9, 2003 on Insolvency Proceedings (the "Spanish Insolvency Act"), as further amended, regulates insolvency proceedings.

The insolvency laws of Spain may differ from the laws of the United States, the United Kingdom or other jurisdictions to which you may be familiar. The following is a brief description of certain aspects of the insolvency laws of Spain.

In Spain, insolvency proceedings are only triggered upon debtor's current insolvency (*insolvencia actual*) or imminent insolvency (*insolvencia inminente*). Under the Spanish Insolvency Act, a debtor is insolvent when it becomes unable to regularly meet its obligations as they become due and payable or when it expects that it will shortly be unable to do so. A petition for insolvency may be initiated by the debtor ("Voluntary insolvency"), by any of its creditors (provided that it has not acquired the credit within the six months prior to the filing of the petition for insolvency, for *inter vivos* acts, on a singular basis and once the credit was mature) or by certain other interested third parties ("Necessary insolvency"). In any event, only the debtor is entitled to file a petition for insolvency on the basis of its imminent insolvency.

The Spanish Insolvency Act provides that insolvency proceedings conclude following either the court confirmation of a plan of reorganization (the "Plan"), or the liquidation of the estate. An insolvency proceeding can also conclude (i) at any moment when it is verified that there are insufficient assets to pay post insolvency debt, (ii) at any moment when it is verified that all of the credits have been paid, or the situation of insolvency does no longer exist, or (iii) when it is verified that all of the creditors have waived their credit rights.

*Voluntary insolvency*

Insolvency is considered voluntary (*concurso voluntario*) if filed by the debtor. The debtor must file a petition for insolvency within two months after it becomes aware, or should have become aware, of its state of insolvency. It is presumed that the debtor becomes aware of its insolvency, unless otherwise proved, if any of the circumstances that qualify as the basis for a petition for necessary insolvency occur. Failure to file a petition for insolvency within the statutory two-month period impedes the debtor to propose a pre-arranged plan of reorganization and directors might be held liable in the event of liquidation for the impaired claims accrued as from the onset of insolvency.

Yet, the general duty to file for insolvency within the referred two-month period does not apply if the debtor notifies the relevant court initiation of negotiations with its creditors (the so-called *Comunicación 5 bis*), to obtain support to reach a pre-arranged plan of reorganization (*propuesta de convenio anticipado*); an out-of-court workout (*acuerdo de refinanciación*) set out in Article 71 bis.1 or in the Fourth Additional Provision of the Spanish Insolvency Act; or an out-of-court repayment agreement (*acuerdo extrajudicial de pagos*) under Article 231 et seq of the Spanish Insolvency Act.

Effectively, by means of the 5 bis Communication (*Comunicación 5 bis*), on the top of those two months, the debtor gains an additional three-month period to achieve an agreement with its creditors regarding an out-of-court workout or a pre—arranged plan of reorganization, and one further month to file for insolvency, unless it has overcome insolvency. During this four-month period, creditors' petitions for necessary insolvency will not be accepted. Likewise, the 5 bis Communication (*Comunicación 5 bis*) prevents the commencement of court or out-of-court enforcement actions, and/or suspends (as applicable) existing enforcement actions, over assets or rights deemed necessary for the company's business operations (other than those arising from public law claims), until any of the following circumstances occur: (i) an out-of-court workout (*acuerdo de refinanciación*)) set out in Article 71 bis.1 of the Spanish Insolvency Act is formalised; (ii) a court order is issued (*providencia*) accepting for processing the court's confirmation (*homologación judicial*) of admission of the refinancing agreement set out in the Fourth Additional Provision of the Spanish Insolvency Act, (iii) an out-of-court repayment agreement under Article 231 et seq of the Spanish Insolvency Act is entered into, (iv) the necessary accessions for the admission of a pre-arranged plan of reorganization are obtained, or (v) the declaration of insolvency takes place. In addition, enforcement proceedings that have been brought by creditors holding financial claims (as defined in the Fourth Additional Provision of the Spanish Insolvency Act) shall be prohibited or suspended (as applicable) provided that it is evidenced that at least 51% of the creditors holding financial liabilities (by value) have supported the initiation of negotiations to enter into a refinancing agreement and have agreed to suspend or not initiate enforcement proceedings against the debtor while creditors holding financial liabilities are still negotiating. Nevertheless, secured creditors shall be entitled to bring enforcement proceedings against the corresponding secured assets although once the proceedings have been initiated they shall be immediately suspended. In any event, financial collateral and security interests over collateral located outside of Spain are not affected by the 5 bis Communication (*Comunicación 5 bis*) automatic stay.

*Necessary insolvency*

Insolvency is considered necessary (*concurso necesario*) if filed by a creditor and, in certain cases, the insolvency mediator (*mediador concursal*). Under Article 2.4 of the Spanish Insolvency Act, a creditor can seek a debtor's declaration of insolvency if the creditor can prove it is not possible to attach any assets, or sufficient assets of the debtor, to pay the amount owed. A creditor may also apply for a declaration of insolvency if: (i) there is a generalized default on payments by the debtor; (ii) there is a seizure of assets affecting or comprising the generality of the debtor's assets; (iii) there is a misplacement, "fire sale" or ruinous liquidation of the debtor's assets; or (iv) there is a generalized default on certain tax, social security and employment obligations during the applicable statutory period (three months). Upon receipt of an insolvency petition by the entitled party, the court may issue

interim measures to protect the assets of a debtor and may request a guarantee from the petitioning creditor asking for the adoption of such measures to cover damages caused by the preliminary protective measures.

The debtor may oppose the necessary insolvency petition, and will have to prove that it is not insolvent, unless the insolvency petition is based on the failure to seize sufficient assets of the debtor to pay the amounts owed, where the Court will hand down an order declaring the opening of the insolvency proceeding without hearing the debtor. The court will then summon the parties to a hearing, and will finally render a court ruling either dismissing the application filed by the creditor, or declaring insolvency.

***Request of coordinated insolvency***

The insolvency of a company forming part of a group of companies, including the parent company, does not automatically lead to the insolvency of the remaining companies of the group. As stated above, a company is insolvent when it cannot regularly meet its payment obligations as they fall due.

Notwithstanding the above, creditors may apply for a coordinated insolvency declaration of two or more of its debtors if either (a) the assets are commingled, or (b) they form part of the same group of companies. Therefore, the request for the coordinated insolvency of two or more legal entities may only be filed by a common creditor of the relevant companies and each of the affected companies must in fact be separately insolvent. Coordinated insolvency may also be requested by the companies themselves provided that they form part of the same group.

Any of the insolvent debtors, or the insolvency administrator, as the case may be, may apply for the procedural coordination of insolvency proceedings already declared under certain circumstances (and, in particular, if the insolvent debtors form part of the same group of companies). In addition, creditors may apply for the procedural coordination of the insolvency proceedings of two or more of its debtors already declared if either (a) the assets are commingled, or (b) they pertain to the same group of companies, provided that a petition has not been submitted by any of the insolvent debtors or by the insolvency administrator pursuant to Article 25 bis of the Spanish Insolvency Act.

Coordinated insolvency proceedings do not entail substantive consolidation. As a result, and as a general rule, a “group insolvency” does not lead to a commingling of the debtors’ assets and creditors of such group. This means that the creditors of one company of the group will not have recourse against other companies of the same group (except where cross-guarantees exist, in which case such a financial claim shall be subordinated). The current system is basically a procedural one, aimed at making the insolvency proceedings as time and cost-efficient as possible. However, exceptionally, for the purpose of drafting the insolvency report, by the insolvency administrator only, assets and liabilities amongst the insolvent companies may be consolidated where the estates and liabilities are so commingled, in order to avert unjustified cost and delay.

***Enforcement and termination in a pre-insolvency scenario***

It is uncertain that the obligations under the Notes and/or the security interest will be enforced in accordance with their respective terms in every circumstance, such enforcement being subject to, *inter alia*, the nature of the remedies available in the Spanish Courts, the acceptance by such court of jurisdiction, the discretion of the courts, the power of such courts to stay proceedings, the provisions of the Spanish Law on Civil Procedure (*Ley 1/2000, de 7 de enero, de Enjuiciamento Civil*) regarding remedies and enforcement measures available under Spanish law, the provisions of the Spanish Insolvency Act and other principles of law of general application. In this regard:

- Spanish law does not expressly recognize a definition of the concept of an indemnity. Article 1,152 of the Spanish Civil Code (*Código Civil*) establishes that any penalty (*cláusula penal*) agreed by the parties in an agreement will substitute damages (*indemnización de daños*) and the payment of interest (*abono de intereses*) in an event of breach, unless otherwise agreed. Spanish Courts may modify the penalty agreed on an equitable basis if the debtor has partially or irregularly performed its obligations, unless the penalty (liquidated damages) was aimed at such partial performance (and the liquidated damages clause is not disproportionate under fairness standards). There is doubt as to the enforceability in Spain of punitive damages.

- Where obligations are to be performed in a jurisdiction outside Spain, they may not be enforceable in Spain to the extent that performance would be illegal under the laws of Spain.

- Spanish law precludes the validity and performance of contractual obligations to be left at the discretion of one of the contracting parties. Therefore, Spanish courts may refuse to uphold and enforce terms and conditions of an agreement giving discretionary authority to one of the contracting parties.

- Spanish law, as applied by the Spanish Supreme Court, precludes an agreement being terminated on the basis of a breach of obligations, undertakings or covenants that are merely ancillary or complementary to the main payment undertakings of the relevant agreement, and allows Spanish courts not to enforce any such termination. Under Spanish law, acts carried out in accordance with the terms of a legal provision whenever said acts seek a result which is forbidden by or contrary to law, shall be deemed to have been executed in circumvention of law (*fraude de ley*) and the provisions whose application was intended to be avoided shall apply.

- A Spanish Court may award damages if the specific performance of an obligation is deemed impracticable.

- A specific performance obligation may not automatically convert in a damages claim.

- A Spanish Court may modify the obligations deriving from contracts in the terms considered necessary in order to restore the balance between the obligations, if unexpected and exceptional circumstances, which were unforeseeable when the contracts were executed.

***Certain effects of insolvency***

*For the debtor*

As a general rule and subject to certain exceptions, the debtor in a voluntary insolvency retains its powers to manage and dispose of its business, but is subject to the supervision of the insolvency administrator ("*administración concursal*") appointed by the court. In the case of necessary insolvency, as a general rule and subject to certain exceptions, the debtor no longer has power over its assets, and management powers (including the power to dispose of assets) are conferred solely upon the insolvency administrator. However, the court has the power to modify this general regime subject to the specific circumstances of the case. In addition, upon the insolvency administrator request, the court has the power to swap the intervention regime for a suspension regime or vice versa.

Actions carried out by the debtor in breach of any required supervision of the insolvency authorities may be declared null and void unless ratified by the insolvency administrators.

Subject to certain exceptions linked to the maintenance and conservation of the debtor's estate, the debtor shall not sell or create security over its rights and assets without the judge's authorization until the approval of the creditor's arrangement plan or the opening of the liquidation phase.

*On contracts*

Under Article 61 of the Spanish Insolvency Act, all clauses in contracts with reciprocal obligations that allow any party to terminate an agreement based solely on the other party's insolvency declaration (*ipso facto* clauses) are deemed as not included in the agreement and, therefore, unenforceable, except if expressly permitted by specific laws (*i.e.*, agency laws or Royal Decree Law 5/2005, applicable to financial collateral, as defined therein).

Insolvency declaration does not impinge on the effectiveness of contracts with reciprocal obligations pending on performance by both the insolvent party and the counterparty (executory contracts), which remain in full force and effect, and the obligations of the insolvent debtor will be fulfilled against the insolvent estate

(administrative expense – post-insolvency credit that are pre-deductible from the estate). However, upon post-petition breaches, the court can terminate any such contracts at the request of the non-breaching party of the agreement or declare the continuation of the executory contract based on the "insolvency proceeding´s best interest" (*mantenimiento del contrato en interés del concurso*), in which case the non-insolvent party's claim will be considered as a post-insolvency credit (pre-deductible from the estate).

On the other hand, the insolvency administrator (together with the insolvent debtor or by its sole discretion if debtor's powers to manage and dispose of its business have been conferred to the insolvency administrator, as provided above) may request the insolvency court to terminate (reject) the executory contract in the interest of the estate (*resolución del contrato en interés del concurso*). The termination of such contracts may result in the insolvent debtor having to return, and indemnify damages to its counterpart against the insolvency estate (*con cargo a la masa)*. In the event that debtor, the insolvency administrator and the counterparty agree on the termination and its effects, the insolvency court will approve the parties' agreement; otherwise, if the insolvency court upholds termination, it will also fix the damages claim to be received by the non-breaching party.

Additionally, insolvency declaration stays interest accrual, except (i) credit rights secured with an in rem right, in which case interest accrues up to the value of the security (9/10 of the collateral fair value minus senior claims), and (ii) any wage credits in favor of employees, which will accrue the legal interest set forth in the corresponding Law of the State Budget (*Ley de Presupuestos del Estado*).

*On enforcement proceedings*

As a general rule, insolvency stays enforcement actions.

The enforcement of any security over certain assets or rights that are deemed as necessary by the Court in charge of the insolvency proceeding to the continuation of the commercial or professional activity of the debtor, or to a business unit of the insolvent company (in rem securities) may not be commenced (and the procedures already initiated before insolvency declaration shall be suspended) until the earlier of: (i) approval of a creditors' composition agreement provided that such composition agreement does not affect such right; or (ii) one year has elapsed since the declaration of insolvency without liquidation proceedings beings initiated.

The stay will only be lifted when the insolvency court determines that the asset or rights is not considered necessary for the debtor to continue its professional or business activities, or when any of the aforementioned scenarios occur. When it comes to determining which assets or rights of the debtor are used for its professional or business activities, courts have generally embraced a broad interpretation and will likely include most of the debtor's assets and rights. Nevertheless, shares/quota shares held by an insolvent debtor in another company whose only activity is the holding of a material asset and servicing the financing provided in connection with the acquisition of that asset, are not considered to be an asset necessary for the debtor's business activity as long as the foreclosure of the relevant security interest that has been granted over such shares/quota shares does not bring about an early termination or amendment of the contractual relations permitting the economic exploitation of the relevant asset.

Finally, enforcement of the security will be subject to the provisions of Spanish Civil Procedure Law and Spanish Insolvency Act (where applicable) and this may entail delays in the enforcement.

***Ranking of claims (priority rules)***

Creditors are required to report their claims to the insolvency administrator within one month from the day following the official publication of the court order declaring insolvency, providing documentation to justify such claims. Based on the documentation provided by the creditors and documentation held by the debtor, the court administrator draws up a list of acknowledged creditors/claims and classifies them according to the categories established in the Spanish Insolvency Act.

Under the Spanish Insolvency Act, claims are classified in two groups:

- Post insolvency credits/Estate Claims (*créditos contra la masa*): Article 84 of the Spanish Insolvency Act sets out the so-called "estate claims," which are pre-deductible (when they become

due and payable) claims from the estate (excluding those assets of the insolvent debtor subject to *in rem* security). Debt against the insolvency estate includes, among others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) debtor's liabilities under executory contracts and those deriving from damages claim obligations to return arising out of termination for breach, assumption or rejection of executory contracts, (iv) those that derive from the exercise of a clawback action within insolvency of bilateral contracts (except in cases of bad faith), (v) certain amounts arising from obligations created by law or tort liability of the insolvent debtor after insolvency declaration and until its conclusion, (vi) certain debts incurred by the debtor following insolvency declaration, (vii) in case of liquidation, the financing granted to the debtor under a plan of reorganization in accordance with Article 100.5 of the Spanish Insolvency Act, (viii) 50% of the new funds lent under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act. However, this benefit shall not apply to the new funds lent by the debtor or by related parties of the debtor resulting from a share capital increase, loans or acts with analogous purpose. These claims are preferred to all others except for proceeds from collateral subject to specially privileged claims. Estate claims are not subject to ranking or acknowledgement and, in principle, must be paid as and when they fall due.

- Insolvency Claims (*créditos concursales*): Insolvency claims are classified as follows:

  - Specially Privileged Claims (*créditos con privilegio especial*): Creditors benefiting from special privileges, representing security over certain assets (in rem securities) up to the amount of the value of their security calculated in accordance with the rules set out in Article 94.5 of the Spanish Insolvency Act, provided that such security is listed in the creditors' list. The part of the claim exceeding the value of their security will be classified according to the nature of the claim. These claims benefiting from special privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year and certain additional limitations set forth in the Spanish Insolvency Act. As a general rule, privileged creditors are not subject to a creditor's arrangement plan, except if they give their express support by voting in favor of the plan and if certain majorities have been reached among privileged creditors (see "*Conclusion of insolvency—Plan*"). In the event of liquidation, they are the first to collect payment against the assets on which they are secured up to the value of the security. However, the insolvency administrator has the option to halt any enforcement of the securities and pay these claims as administrative expenses under specific payment rules.

  - Generally Privileged Claims (*créditos con privilegio general*): Creditors benefiting from a general privilege, including, among others, specific labor claims and specific claims brought by public entities or authorities and 50 per cent of the claims held by the creditor who filed for the insolvency of the debtor (provided that it is not a subordinated creditor). 50% of the new funds under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act. As a general rule and except as set forth below (see "—*Conclusion of insolvency—Settlement*"), the holders of general privileges are not to be affected by the restructuring under a pre-arrangement plan unless they expressly support the agreement by voting in its favor or if certain majorities have been reached among privileged creditors. In the event of liquidation, they are the first to collect payment against assets other than those secured by a specially privileged claim after specially privileged creditors, in accordance with the ranking established under the Spanish Insolvency Act.

  - Ordinary Claims (*créditos ordinarios*): Ordinary creditors (non-subordinated and non-privileged claims) are paid *pro rata* once the estate claims and both generally and specially privileged claims have been paid.

  - Subordinated Claims (*créditos subordinados*): Subordinated creditors is a category of claims which includes, among others: credits communicated late (outside the specific one-month period mentioned above); credits which are contractually subordinated vis-à-vis all other credits of the debtor; credits relating to unpaid interest claims (including default interest), except for

those credits secured with an in rem right up to the value of the security interest; fines; and claims of creditors which are "specially related parties" to the insolvent debtor.

In the case of individuals, the following shall be deemed as "specially related parties": their relatives, legal entities controlled by the debtor or its relatives, the factual or legal administrators of such legal entities, any other legal entity forming part of the same group of companies and the legal entities in respect of which the people described in this paragraph are their factual and legal administrators.

In the case of a legal entity, the following shall be deemed as "specially related parties": (i) shareholders with unlimited liability (in case such shareholders are natural persons it would include any special related party to these shareholders, as described herein); (ii) limited liability shareholders holding directly or indirectly 10% or more of the insolvent company's share capital (or 5% if the company is listed or has securities listed in a secondary official market) at the time the credit is generated; (iii) directors (either *de jure* or *de facto*), insolvency liquidators, shadow directors and those holding general powers of attorney from the insolvent company (including those people that have held these positions during the two years prior to the insolvency declaration); and (iv) companies pertaining to the same group as the debtor and their respective shareholders provided such shareholders meet the minimum shareholding requirements set forth in (ii) above. Furthermore, in the absence of evidence to the contrary, assignees or awardees of claims belonging to any of the persons mentioned in this paragraph are presumed to be persons specially related to the insolvent debtor as long as the acquisition has taken place within two years prior to the insolvency proceedings being declared open.

Notwithstanding the above, creditors who have directly or indirectly capitalized their credit rights pursuant to a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act (and who have even been appointed as directors) shall not be considered as being in a special relationship with the debtor, in respect of credits against the debtor, as a result of the financing granted under such refinancing arrangement. Claims related to accrued and unpaid interest, unless and to the extent they are secured by an *in rem*, right are also subordinated.

Subordinated creditors are second-level creditors. They do not have voting rights but are subject to the plan terms once ordinary claims are satisfied pursuant to the terms of the plan. Thus, subordinated creditors have limited chances of collecting payment according to the ranking established in the Spanish Insolvency Act.

As an exception to the subordination regime, new money granted to the debtor pursuant to an out-of-court workout regulated under Article 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act, which also contemplates a debt-for-equity swap executed before the granting of fresh money, shall not be classified as subordinated claim under Article 92.5 of the Spanish Insolvency Act provided that the requirements set out in paragraph 2 of Article 93.2.2 of the Spanish Insolvency Act are met. This is an incentive to promote fresh money and debt-for-equity swaps in order to remove insolvency out-of-court.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings which can have an effect on the estate (excluding enforcement proceedings with regard to financial collateral (as defined in RDL 5/2005)) or collateral located in an E.U. state other than Spain or, subject to local law, in a third state.. When compatible, in order to protect the interests of the debtor and creditors, the Spanish Insolvency Act extends the jurisdiction of the court dealing with insolvency proceedings, which is then legally authorized to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labor, or administrative law).

***No termination effect***

The general principle of "no termination effect" is established such that all agreements remain effective at the time of the insolvency. Therefore, the declaration of insolvency does not impair the existence of the contracts

entered into by the debtor, which would remain in force. Any contractual arrangements establishing the termination of a contract with mutual obligations and/or entitling the relevant creditor to terminate it in the event of the declaration of insolvency of the debtor will be unenforceable.

As a general rule, the declaration of insolvency does not alter the general contractual rules on termination, but under the Spanish Insolvency Act, the judge may decide to remedy an eventual default of the insolvent party by reinstating an agreement, with the effect that any outstanding amounts and further payments under the agreement will be post-insolvency claims. If the court deems it appropriate for the interests of the insolvent party, it is also entitled to terminate an agreement, with compensation for damages if it deems it is best for the insolvency proceeding. There are specific rules for employment agreements, mainly affecting collective dismissals, which are dealt with by the insolvency judge.

***Hardening periods***

There is no clawback by operation of law. Therefore, there are no prior transactions that automatically become void as a result of the initiation of insolvency proceedings, but instead the insolvency administrator (or creditors that have asked the insolvency administrator to do so in the absence of action by the insolvency administrator) must expressly challenge those transactions that are considered detrimental to the estate. Under the Spanish Insolvency Act, upon insolvency declaration, only transactions that could be deemed as having caused a detriment (*perjuicio patrimonial*) the insolvent debtor's estate during the two years prior to the date the insolvency is declared, may be challenged, even if there was no fraudulent intention. Moreover, subject to ordinary Spanish Civil Code (*Código Civil*) based actions, the insolvency administrator or any creditor may bring an action to rescind a contract or agreement provided that the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. The clawback period for this action is four years.

The Spanish Insolvency Act does not define the meaning of detriment (*perjuicio patrimonial*). Detriment does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interest resulting in the damage to the insolvent debtor's estate or the prejudice to the equality of the treatment among creditors which drives insolvency proceedings (*pars condition creditorum*). There are several "irrebuttable presumptions" expressly set forth by the Spanish Insolvency Act (*i.e.*, free disposals and prepayment or cancellation of the company's claims or obligations prior to them being due and where the due dates of the relevant claims or payment obligations fall after the date of declaration of insolvency, except if such obligations were secured by an *in rem* security, in which case such transactions are subject to a rebuttable presumption of "detriment" as set forth below). In addition to the above, the Spanish Insolvency Act sets forth certain actions which are deemed to cause a "detriment" to the insolvent estate, but which are "rebuttable presumptions" and therefore subject to being contested by the other party (*i.e.*, disposals in favor of "specially related parties" (as described above), the provision of security in respect of previously existing obligations or in respect of new obligations replacing existing ones and the payment or other acts to terminate obligations being secured by an in rem security and which mature after the date of declaration of insolvency). Ordinary transactions carried out within the debtor's ordinary course of business cannot be rescinded, provided that they are carried out at arm's length.

Acts that have been entered into by debtors may be rescinded if carried out during the two years hardening period and considered detrimental for the debtors' estate. Judges have considered detrimental payments made by an insolvent company prior to a declaration of insolvency, determining that in some situations a debtor could not be compelled to repay its obligations at the time of payment, because it was already unable to regularly pay debts as they came due. There is no need of proving actual or constructive fraud; it just must be proven that the transaction was detrimental to the estate. The consequence of the court resolution rescinding a prejudicial act is that the parties involved are required to return their reciprocal consideration with any accrued rents or interest and the guarantees and security interests are cancelled (concerning bilateral contracts, otherwise, the only party obliged to return is the non-insolvent one). Such claims are generally regarded as claims against the estate unless in case of bad faith of the relevant creditor in which case its claims will be subordinated.

Notwithstanding the foregoing, pursuant to Article 208 of the Spanish Insolvency Act, acts and transactions governed by laws other than Spanish law will not be subject to claw back actions if such act or transaction cannot be rescinded or challenged by any means and under any grounds whatsoever (i.e., not only in insolvency scenarios) under the relevant non-Spanish applicable laws. Procedurally, lenders can be sued, but the Spanish court should

dismiss the clawback action on the merits if lenders prove (i) that the act or transaction at issue is subject to foreign law and (ii) that such act or transaction is unavoidable under the circumstances pursuant to such foreign law.

Neither refinancing agreements regulated in Article 71 bis.1 and Fourth Additional Provision of the Spanish Insolvency Act, nor any transactions, acts and payments accomplished or any guarantees instituted in the performance of such refinancing agreements, will be subject to an action for rescission, provided that they comply with the requirements set out below in section "Cramdown effects of certain refinancing agreements".

In the case that such refinancing agreements are not subject to the procedure of judicial sanctioning therein described (homologación), they may still have certain (but not total) protection against clawback, if they are backed by at least 3/5 (60%) of the total claims of the insolvent debtor (calculated on an individual and on a consolidated basis but excluding intragroup claims). Among other requirements, the refinancing agreements must be founded on a viability plan reflecting that the insolvent debtor will be viable in the short and medium term and must comply with the rest of requirements explained below.

***Conclusion of insolvency***

*Settlement*

Once the debtor's assets and liabilities have been identified, the Spanish Insolvency Act encourages creditors to confirm a plan regarding payment of the insolvency debts. This plan may be proposed either by the debtor or by the creditors, and it shall set forth how, when and up to what amount creditors are to be paid. Once executed, this plan must be honored by the debtor and respected by the creditors.

The plan must contain proposals for write-offs and/or stays. Article 100 of Spanish Insolvency Act provides that it may also contain alternative or complementary proposals for all creditors or for certain classes of creditors (except for Public Law creditors), including conversion of debt into shares, into profit-sharing credits convertible bonds or subordinated debt, or any financial instrument different from the original debt. It may also include proposals for allocation of all assets or of certain assets to a specific person with a commitment from the acquirer to continue the activity and to pay off the debt as determined in the plan.

The proposals in the plan shall include a payment schedule.

In order for a plan to be approved by the creditors, the following majorities shall be met:

(a) In case the plan contains write-offs equal to or less than 50 per cent of the amount of the claims; to stays on the payment of principal, interest or any other outstanding amount, for a period not exceeding five years; or, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit participating loans over the same period, at least 50 per cent of the unsecured liabilities (ordinary credits) have voted in favor of such settlement or Plan. Notwithstanding the above, a simple majority will suffice when the plan consists of (i) full payment of ordinary or unsecured claims within a period not exceeding three years or (ii) immediate repayment of outstanding ordinary unsecured claims applying a write off of less than 20 per cent.

(b) In case the plan contains stays of between five and ten years; write-offs of more than 50 per cent of the amount of the claims and, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit participating loans over the same period and any other proposal under Article 100 of the Spanish Insolvency Act, 65 per cent of the unsecured liabilities (ordinary credits) should have voted for the plan.

The holders of subordinated credits and those creditors considered as especially related to the debtor are not entitled to vote.

Although in principle secured creditors will not be bound by the approved plan (unless they have expressly voted in its favor) the effects of an approved plan can be extended to secured and privileged creditors provided that the relevant plan has been approved by the following majorities of creditors within its category of creditors (labour creditors, Public Law creditors, financial creditors or others):

(a) In case the plan contains a write-off (or debt discharges) equal to or less than 50 per cent of the amount of the claims, stays for a period no longer than 5 years or conversion of debt into profit participating loans, also for a period no longer than 5 years, at least 60 per cent of privileged creditors have voted in favor; and

(b) In case the plan contains a write-off of more than 50 per cent of the claim; stays (for a period between 5 and 10 years), conversion of debt into profit participating loans also for a period between 5 and 10 years, and any other proposal under Article 100 of the Insolvency Act, at least 75 per cent of privileged creditors have voted in favor.

*Cramdown effects of certain refinancing agreements*

In order to seek protection against clawback actions, refinancing agreements (out-of-court workouts) may be judicially sanctioned (*homologado*) by the commercial court that will be competent to conduct an eventual insolvency proceeding of the debtor, upon request by the debtor or by any creditor having entered into such refinancing agreements, if (i) they entail a significant enlargement of debtor's credit or a change in the financial structure by either granting a longer term or replacing previous claims with new ones, provided that they meet a viability plan that allows the continuity of the debtor's business in the short and medium term; (ii) they have been subscribed by creditors holding financial liabilities representing, at least, 51% of the debtor's financial liabilities whether or not subject to financial supervision (excluding from the calculation of such thresholds public creditors, labor creditors and those of commercial transactions) at the date of the refinancing agreement; (iii) the debtor's auditor issues a certificate acknowledging that the required thresholds have been reached (in the case of a group a companies, certain courts have held that the majority refers both individually to each company and to the group as a whole, without the intercompany claims being taken into account); and (iv) the refinancing agreement and the documents substantiating performance of conditions (ii) to (iii) above are formalized in a public instrument. Such judicially sanctioned refinancing agreements may not be subject to a clawback action (save in case of fraud under general fraudulent conveyance actions).

As to the rules to calculate whether the required thresholds have been reached, all creditors holding an interest in a syndicated loan will be deemed to have adhered to the refinancing agreement if it is favorably voted upon by at least 75% of the liabilities represented by the loan, or a lower majority if so established in the syndicated loan agreement. Whether dissidents have standing to object to homologation and whether the crammed down content may fall beyond the statutory one is not clear among Spanish scholars or courts and therefore it is not possible yet to ascertain what its practical effects will be.

The following effects of homologated refinancing agreements may be imposed on (i) dissenting or non-participating unsecured financial creditors or (ii) on secured financial creditors to the extent of that part of their secured claim not covered by their security interest, as such security interest is to be valued in accordance with the rules set out in the Spanish Insolvency Act:

(a) If the judicially sanctioned refinancing agreement is supported by creditors representing at least 60% of the debtor's financial liabilities:

i. stays of payments either of principal, interest or any other owed amount may be granted for up to five years; or

ii. the debt converted into so-called profit participation loans (*préstamos participativos*) of duration up to 5 years.

Further, these effects may be extended to the amount of secured claims of non-participating or dissenting financial creditors in the amount covered by their security interest (valued in accordance with the rules set out in the Fourth Additional Provision of the Spanish Insolvency Act), when the agreement has been entered into by financial creditors holding secured claims which represent at least 65% of the value of all secured claims of the debtor.

(b) If the homologated refinancing agreement is supported by creditors representing at least 75% of the debtor's aggregate financial liabilities:

i. a deferral either of principal, interest or any other owed amount for a period of 5 or more years (but not more than 10 years);

ii. haircuts (note that a cap has not been established);

iii. capitalization of debt. Nevertheless, those creditors that have not supported such refinancing agreement (either because they did not sign the agreement or because they oppose it) may choose between (i) the debt for equity swap contemplated by the agreement; or (ii) a discharge of their claims equal to the nominal amount (including any share premium) of the shares/quota shares that would have corresponded to that creditor as a consequence of the relevant debt for equity swap (which works as the default option);

iv. conversion of debt into profit participation loans of up to 10 years, convertible obligations, subordinated loans, payment in kind facilities, or in any other financial instrument with a ranking, maturity and features different to the original debt; and

v. assignment of assets or rights as assignment in kind for total or partial payment of the debt (*datio pro soluto*).

Further, these effects may be extended to the amount of secured claims of non-participating or dissenting financial creditors in the amount covered by their security interest (valued in accordance with the rules set out in the Fourth Additional Provision of the Spanish Insolvency Act), when the agreement has been entered into by financial creditors holding secured claims which represent at least 80% of the value of all secured claims of the debtor.

*Liquidation*

Failure to obtain the approval of a creditors arrangement plan or upon debtor's petition at any time leads to liquidation. The debtor must file for liquidation after a creditors arrangement proposal has been approved when it becomes aware of its renovated insolvency situation or its inability to comply with the plan. Liquidation triggers company dissolution and the insolvency administrator stepping into the directors' shoes. Liquidation is moreover an acceleration and cash conversion event.

The insolvency administrator must prepare a liquidation plan that must be approved by the court. The insolvency administrator is required to report quarterly on the liquidation and has one year to complete it. If the liquidation is not completed within one year, the court may appoint a different insolvency administrator.

*Termination of the insolvency proceedings*

Article 176.4 of the Spanish Insolvency Act also foresees the termination of the insolvency proceeding at any stage when it is proven that all credits have been paid, or that all creditors have been entirely satisfied by other means, or that the situation of insolvency (i.e. the impossibility to face payment obligations regularly) has been overcome.

Finally, it must be noted that Article 176 bis of the Spanish Insolvency Act foresees the termination of the insolvency proceeding at any time when assets are not enough to pay post insolvency debt, so long as no future clawback actions are envisaged, nor actions claiming liability to third parties, nor the assessment of the proceeding as guilty.

***Fraudulent Conveyance Laws***

Under Spanish law, in addition to insolvency clawback action, the insolvency administrator and any creditor may also bring an action to rescind a contract or agreement (*acción rescisoria pauliana*) against the debtor and the third party which is a party to such contract or agreement, provided that the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. Although case law

is not entirely consistent, it is broadly accepted that the following requirements must be met in order for a creditor to bring such action:

- the debtor owes the creditor an amount under a valid contract and the fraudulent action took place after such debt was created;
- the debtor has carried out an act that is detrimental to the creditor and beneficial to the third party;
- such act was fraudulent;
- there is no other legal remedy available to the creditor to obtain compensation for the damages suffered; and
- debtor's insolvency, construed as the situation where there has been a relevant decrease in the debtor's estate making it impossible or more difficult to collect the claim.

The existence of fraud (which must be evidenced by the creditor) is one of the essential requirements under Spanish law for the action to rescind to succeed (as opposed to insolvency-specific claw back actions where the subjective component or fraud does not have to be proven). Pursuant to Article 1,297 of the Spanish Civil Code (*Código Civil*): (i) agreements by virtue of which the debtor transfers assets for no consideration, and (ii) transfers for consideration carried out by parties who have been held liable by a court (*sentencia condenatoria*) or whose assets have been subject to a writ of attachment (*mandamiento de embargo*) will be considered fraudulent. The presumption referred to in (i) above is a *iuris et de iure* presumption (*i.e.* it cannot be rebutted by evidence), unlike the presumption indicated in (ii) above, which is a *iuris tantum* presumption (*i.e.* it is a rebuttable presumption).

If the rescission action were to be upheld, the third party would be liable to return to the debtor the consideration received under the contract in order to satisfy the debt owed to the creditor. Following that, the creditor would need to carry out the actions necessary to obtain the amount owed by the debtor. If the consideration received by the third party under the contract cannot be returned to the debtor, the third party must indemnify the creditor for such damages.

***Setoff***

The Spanish Insolvency Act generally prohibits setoff of the credits and debts of the insolvent company once it has been declared insolvent, but such setoff where the requirements in order to operate were met before the declaration of insolvency can still apply. However, setoff may be exercised by a determined creditor vis-à-vis the insolvent company if the governing law of the reciprocal credit right of the insolvent company permits it under insolvency scenarios.

***Applicable jurisdiction***

Under both European and Spanish law, the applicable jurisdiction to conduct an insolvency proceeding is the one in which the insolvent party has its centre of main interest ("COMI"). This COMI is deemed to be where the insolvent party conducts the administration of its interests on a regular basis and which may be recognized as such by third parties (although under European Union and Spanish law there is a presumption that a debtor's COMI is located where its registered address is). Insolvency proceedings conducted by the court of the COMI are considered "the principal insolvency proceedings" and have universal reach affecting all the assets of the insolvent party worldwide. If the COMI is not in Spain, but the insolvent party has a permanent establishment in Spain, Spanish courts will only have jurisdiction over the assets located in Spain (the "territorial insolvency proceedings").

Please note that other jurisdictions outside the European Union do not require a COMI shift in order for a Spanish company to make a filing in those jurisdictions (similarly as the UK concerning schemes of arrangements). Yet, recognition of foreign insolvency proceedings not based on COMI or in a reasonable connection of an equivalent nature in Spain should not be possible and, in addition, any creditor could file for a non-main insolvency proceeding in Spain.

***Limited history***

Finally, please note that, although the current Spanish Insolvency Act came into effect in September 2004, it has been subject to several recent reforms and, as such, there is only a relatively limited history of its application by Spanish courts and with limited high court resolutions about it.

## PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC are acting as initial purchasers.

Subject to the terms and conditions stated in the purchase agreement, dated May 2, 2019, each initial purchaser named below has severally agreed to purchase, and we have agreed to sell to the initial purchasers, the principal amount of the New Notes set forth opposite such initial purchaser's name.

| Initial Purchaser | Principal Amount of New Notes |
|---|---|
| Citigroup Global Markets Inc. | US$25,000,000.00 |
| Credit Suisse Securities (USA) LLC | US$25,000,000.00 |
| **Total** | **US$50,000,000.00** |

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the New Notes sold under the purchase agreement if any New Notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the New Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the New Notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers have advised us that they propose initially to offer the New Notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed. The initial purchasers may offer and sell New Notes through certain of their affiliates.

### Notes Are Not Being Registered

The New Notes have not been registered under the Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each purchaser of the New Notes will be deemed to have made acknowledgements, representations and agreements as described under "Sales Outside of the United States." In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the New Notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such New Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the New Notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the New Notes are restricted as described below under "Sales Outside of the United States."

Further, until 40 days after the commencement of the offering, an offer or sale of the New Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

**New Issue of Notes**

The New Notes will constitute an issue of securities for which there may not be an established trading market. We have received approval-in-principle to increase the principal amount of Notes listed on the SGX-ST to include the New Notes. We have been advised by the initial purchasers that they presently intend to make a market for the New Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not exist after this offering, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

**Settlement**

We expect that delivery of the New Notes will be made to investors on or about May 9, 2019, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5)"). Under Rule 15c6-1 under the U.S. Securities Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade New Notes prior to the delivery of the New Notes hereunder will be required, by virtue of the fact that the New Notes initially settle in T+ 5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the New Notes who wish to trade the New Notes prior to their date of delivery hereunder should consult their advisors.

**No Sales of Similar Securities**

We have agreed that for a period of 60 days after the date of the purchase agreement, we will not, without the prior written consent of the initial purchasers, offer, sell, contract to sell, pledge, otherwise dispose of, or enter into any transaction which is designed to, or would reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our affiliates or any person in privity with us or any of our affiliates), directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by us (other than the New Notes).

**Short Positions**

In connection with the offering, the initial purchasers may purchase and sell the New Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing Notes in the open market. The initial purchasers may also impose a penalty bid. This occurs when a particular initial purchaser repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

**Other Relationships**

The initial purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The initial purchasers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. In addition, affiliates of some of the initial purchasers are lenders, and in some cases agents or managers for the lenders, under our credit facility. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. A typical such hedging strategy would include these initial purchasers or their affiliates hedging such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. The initial purchasers served as joint bookrunning managers in the offering of the Existing Notes, for which they received customary fees.

**Sales Outside of the United States**

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the New Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the New Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the New Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

*Notice to Prospective Investors in the European Economic Area ("EEA") and Prohibition of Sales to EEA Retail Investors*

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA, has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

*Notice to Prospective Investors in the United Kingdom*

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being

referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

*Notice to Prospective Investors in Switzerland*

The Notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (the "SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Notes or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither the Offering Memoradum nor any other offering or marketing material relating to the offering, the Issuer, or the Notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Memorandum will not be filed with, and the offer of Notes will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Notes has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the "CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Notes.

*Notice to Prospective Investors in the Dubai International Financial Centre*

This offering memorandum relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or the DFSA. This offering memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for this offering memorandum. The Notes to which this offering memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this offering memorandum you should consult an authorized financial advisor.

*Notice to Prospective Investors in Hong Kong*

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

*Notice to Prospective Investors in Japan*

The Notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

*Notice to Prospective Investors in Singapore*

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) under Section 274 of the SFA, or (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor, as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except: (1) to an institutional investor or to a relevant person, or any person pursuant to Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with section 309B(1)(c) of the SFA, the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

*Notice to Prospective Investors in Canada*

The Notes may be sold only to purchasers in the provinces of Alberta, British Columbia, Ontario and Quebec purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

*Notice to Prospective Investors in Mexico*

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and, therefore, may not be offered publicly in Mexico. The Notes may only be offered in Mexico pursuant to the exemptions to registration provided in article 8 of the Mexican Securities Market Law. We will notify the CNBV of the terms and conditions of this offering of the Notes outside of Mexico, for informational and statistical purposes only. The delivery to, and the receipt by, the CNBV of such notice does not constitute or imply a certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum. This offering memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of the Notes by investors, including Mexican investors, will be made under their own responsibility.

*Notice to Prospective Investors in Chile*

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile*, or the SVS), the Notes may be privately offered in Chile to certain "qualified investors" identified as such by Rule No. 336 (which in turn are further described in Rule No. 216, dated June 12, 2008, of the SVS).

Rule No. 336 requires the following information to be provided to prospective investors in Chile:

1) Date of commencement of the offer: May 2, 2019. The offer of the Notes is subject to Rule No. 336, dated June 27, 2012, issued by the SVS;

2) The Notes and this offering memorandum are not registered with the Securities Registry (*Registro de Valores*) of the SVS, nor with the foreign securities registry (*Registro de Valores Extranjeros*) of the SVS and as such are not subject to the oversight of the SVS;

3) Since the Notes are not registered in Chile, there is no obligation by the Issuer to make publicly available information about the Notes in Chile;

4) The Notes shall not be subject to a public offering in Chile unless registered with the relevant Securities Registry of the SVS.

*La oferta de los valores comienza el 2 de mayo de 2019 y está acogida a la Norma de Carácter General 336 de la Superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.*

*Notice to Prospective Investors in France*

Neither this offering memorandum nor any other offering material relating to the Notes described in this offering memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this offering memorandum nor any other offering material relating to the Notes has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or

- used in connection with any offer for subscription or sale of the Notes to the public in France.

- Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code Monétaire et Financier*;

- to investment services providers authorized to engage in portfolio management on behalf of third parties; or

- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code Monétaire et Financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Notes may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code Monétaire et Financier*.

*Notice to Prospective Investors in Colombia*

The Notes have not been and will not be registered in the Colombian National Registry of Securities and Issuers maintained by the Colombian Superintendence of Finance and may not be offered or sold publicly or otherwise be subject to brokerage activities in Colombia, except as permitted by Colombian law.

*Notice to Prospective Investors in Peru*

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to this offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to us or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the SMV nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

The Notes may be registered with the Foreign Investment and Derivatives Instruments Registry (*Registro de Instrumentos de Inversión y de Operaciones de Cobertura de Riesgo Extranjeros*) of the Peruvian Superintendency of Banks, Insurance and Private Pension Funds Administrators (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to make the Notes eligible for investment by Peruvian Private Pension Funds Administrators.

The Notes may not be offered or sold in Peru except in compliance with the securities law thereof.

*Notice to Prospective Investors in Spain*

The Notes may not be offered or sold in Spain except in accordance with the requirements of the consolidated text of the Spanish Securities Market Act approved by Royal Legislative Decree 4/2015, of October 23 (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) and Royal Decree 1310/2005, of November 4, on the listing of securities, public offers and applicable prospectus (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), both as amended and restated, and supplemental rules enacted thereunder or in substitution thereof from time to time (the "*Spanish Securities Market Act*"). The Notes may not be sold, offered or distributed to persons in Spain, except in circumstances which do not constitute a public offer (*oferta pública*) of securities in Spain within the meaning of the Spanish Securities Market Act. None of the Notes, this offering or this offering memorandum and its contents have

been approved or registered with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*), and therefore it is not intended for the public offering or sale of Notes in Spain.

## TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult their own legal counsel before making any offer, resale, pledge or other transfer of the New Notes.

We are not registered as an investment company under the Investment Company Act, and the Notes have not been registered under the Securities Act. Our Notes may not be offered or sold within the United States except:

- in compliance with the registration requirements of the Securities Act and all applicable securities laws of the states of the United States; or
- pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States; and in each case
- in a transaction that is not prohibited by the Investment Company Act or that would not require our company to register under the Investment Company Act.

Accordingly, our Notes are being offered and sold only:

- inside the United States to QIBs that are also Qualified Purchasers in compliance with Rule 144A under the Securities Act; and
- outside the United States to non-U.S. persons (within the meaning of the Investment Company Act and Regulation S) in offshore transactions in reliance on Rule 903 of Regulation S.

Each purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this offering memoranum, any supplement thereto or any part thereof and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales. None of the Issuer, any initial purchaser, the Trustee or any of their respective agents or subsidiaries or affiliates shall have any responsibility therefor.

### *Investment Company Act*

In reliance on Section 3(c)(7) of the Investment Company Act, the Issuer has not registered as an investment company pursuant to the Investment Company Act. To rely on Section 3(c)(7), the Issuer must have a "reasonable belief" that all purchasers of the Notes which are U.S. persons (including the initial purchasers and subsequent transferees) are Qualified Purchasers, at the time of their purchase of the related Notes. The Issuer will establish a reasonable belief for purposes of Section 3(c)(7) based upon the representations deemed made by the purchasers of the Notes as set forth under "Transfer Restrictions—Representations of Purchasers" and the covenants and undertakings of the Issuer referred to below.

### *Reminder Notices*

Whenever the Issuer sends an annual report or other periodic report to the holders of the Notes, it will send a reminder notice (each, a "Reminder Notice") to the holders of the Notes. Each Reminder Notice will state that (1) each Noteholder (or holder of an interest in a Note) that is a U.S. person must be able to make the representations set forth below in paragraph (i) under "Transfer Restrictions — Representations of Purchasers" (the "3(c)(7) Representations"); (2) the Notes (or interests in the Notes) are transferable only to purchasers deemed to have made the 3(c)(7) Representations and satisfy the other transfer restrictions applicable to the Notes; and (3) if any Noteholder (or holder of an interest in a Note) that is a U.S. person is determined not to be a Qualified Purchaser, then the Issuer will have the right (exercisable in its sole discretion) to treat the transfer to such purchaser as null and void and require such purchaser to sell all of its Notes (and all interests therein) to a transferee designated by the Issuer. The Issuer will send a copy of each annual or other periodic report (and each Reminder Notice) to DTC with a request that participants provide them to the beneficial owners of the Notes.

***DTC Actions with Respect to the Notes***

The Issuer will direct DTC to take the following steps in connection with the Book-Entry Notes:

(1) To include the "3c7" marker in the DTC 20-character security descriptor and the 48-character additional descriptor for the Book-Entry Notes in order to indicate that sales are limited to, with respect to U.S. persons, Qualified Purchasers.

(2) To cause (i) each physical DTC delivery order ticket delivered by DTC to purchasers of the Notes to contain the 20-character security descriptor and (ii) each DTC delivery order ticket delivered by DTC to purchasers of the Notes in electronic form to contain the "3c7" indicator and the related user manual for participants.

(3) To send on or prior to the Issuance Date an "Important Notice" to all DTC participants in connection with the Offering of the Notes. The "Important Notice" will be in substantially the form of an exhibit to the Indenture and will notify DTC's Participants that the Notes are Section 3(c)(7) securities. The Issuer may instruct DTC from time to time (but not more frequently than every six months) to reissue the Important Notice.

(4) The Issuer may from time to time request the Trustee (at the Issuer's expense) to make a request to DTC to deliver a list of all DTC participants holding an interest in the Notes.

***Bloomberg Screens, Etc.***

The Issuer will from time to time request all third-party vendors to include on screens maintained by such vendors appropriate legends regarding Rule 144A and Section 3(c)(7) restrictions on the global notes. The data provided by such third-party vendors may not always reflect such requests and may vary over time based on hardware and software limitations. Without limiting the foregoing, the initial purchasers will request that Bloomberg, L.P. include the following on each Bloomberg screen containing information about the Notes, on the bottom of the "Security Display" page describing the global notes: "ISS'D UNDER 144A/3C7. SEE OM-ONLY QIB/QP. NON-COMPLIANT PURCHASE MAY BE VOIDED/RESULT IN FORCED SALE."

***CUSIPs***

The Issuer will cause each "CUSIP" number obtained for a global note to have an attached "fixed field" that contains "3c7" and "144A" indicators.

***Legends***

The Issuer will not remove from any Note (including any global note) the legend set forth in "Transfer Restrictions — Representations of Purchasers" at any time.

***Representations of Purchasers***

By its acquisition of the Notes, each purchaser of Notes who is a U.S. person within the meaning of the Investment Company Act and Regulation S under the Securities Act, including purchasers who are U.S. persons acquiring the Notes in offshore transactions, will be deemed to have acknowledged, represented, warranted and agreed as follows for themselves and for each account for which they invest:

(i) it is a QIB who is a Qualified Purchaser acting for its own account, or for the account of a QIB who is a Qualified Purchaser, and understands that such Notes will bear the legends set forth below and be represented by one or more global notes;

(ii) it (1)(a) was not formed, organized, reorganized, capitalized or recapitalized for the purpose of investing in the Issuer (except when each of its beneficial owners is a QIB who is a Qualified Purchaser), (b) is not (x) a partnership, (y) a common trust fund or (z) a pension, profit sharing or other retirement trust fund, employee

plan or other plan, such as a 401(k) plan, in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made, (c) if it would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, its investment in the Notes does not exceed 40% of its total assets or committed capital and (d) did not specifically solicit additional capital or similar contributions from any person owning an equity or similar interest in it for the purpose of enabling it to acquire such Notes, in each case, except when each of its beneficial owners is a Qualified Purchaser, (2) has received the consent required to be a Qualified Purchaser from its beneficial owners if it is an excepted investment company formed before April 30, 1996, (3) is not a broker-dealer that owns and invests on a discretionary basis less than US$25,000,000 in securities of unaffiliated issuers, (4) will provide notice to any subsequent transferee of the transfer restrictions provided in the legends set forth below, (5) will hold and transfer such Notes in an amount of not less than US$250,000 for its own account or for each account for which it is acting and (6) will provide us from time to time with such information as we may reasonably request in order to ascertain compliance with this paragraph (ii);

(iii) it understands that such Notes were originally offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Notes have not been and will not be registered under the Securities Act or any state or foreign securities laws and, if in the future such beneficial owner decides to offer, sell, pledge or otherwise transfer its Notes or any interest therein, such Notes may be offered, sold, pledged or otherwise transferred only in accordance with the provisions of the Indenture or any amendments or supplements thereto;

(iv) it acknowledges that no representation has been made as to the availability of any exemption under the Securities Act, any securities law of any state of the United States or any other jurisdiction for resale of such Notes;

(v) it is not acquiring the Notes with a view towards any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any state of the United States or any other applicable jurisdiction; *provided* that the disposition of its property and the property of any accounts for which such purchaser is acting as fiduciary will remain at all times within its control;

(vi) it acknowledges that we are not registered as an investment company under the Investment Company Act and that we are exempt from such registration by virtue of Section 3(c)(7) of the Investment Company Act;

(vii) it acknowledges that (a) it has received a copy of this offering memorandum and had access to financial and other information concerning us and the Notes or interests therein as it has deemed necessary in connection with its decision to acquire such Notes or interests therein, including an opportunity to ask questions of and receive information about us and (b) it (1) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in such Notes or interests therein, and (2) has the ability to bear the economic risks of its investment and can afford the complete loss of such investment;

(viii) it agrees that it will deliver to each person to whom it transfers such Notes or any interest therein notices of any restrictions on transfer of such Notes or interest;

(ix) it understands that any sale or transfer in violation of the foregoing transfer restrictions will be of no force and effect;

(x) it understands that the Indenture permits the Issuer to demand that any Noteholder who is determined at any time to have been a non-permitted holder at the time of acquisition of such Notes sell such Notes to a person who is not a non-permitted holder, and if the holder does not comply with such demand, we may sell such holder's interest in such Notes in accordance with and pursuant to the terms of the Indenture;

(xi) it acknowledges that the Trustee and the Issuer may receive a list of participants holding positions in the Notes from one or more book-entry depositories;

(xii) if it acquired such Notes as a fiduciary or agent of one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgments, representations, warranties and agreements on behalf of each such investor account;

(xiii) either (i) it is not acquiring or holding such Note or interest therein with the assets of (A) an "employee benefit plan" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is subject to ERISA, (B) a "plan" that is subject to Section 4975 of the Code, (C) any entity deemed under ERISA to hold "plan assets" of any of the foregoing by reason of an employee benefit plan's or plan's investment in such entity, or (D) a governmental plan, church plan or non-U.S. plan subject to applicable law that is similar in purpose or effect to the fiduciary responsibility or prohibited transaction provisions of ERISA or Section 4975 of the Code ("Similar Law"); or (ii) the acquisition and holding of such Note or interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law; and

(xiv) it acknowledges that we and the Trustee will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations, warranties and agreements made or deemed to have been made by its acquisition of such Notes is no longer accurate, it shall promptly notify us and the Trustee.

Legend. In accordance with applicable law and so long as any Notes are outstanding, the Notes will each bear a legend substantially to the following effect set forth below:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND AI CANDELARIA (SPAIN), S.L.U. (THE "ISSUER") HAS NOT REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). NEITHER THIS NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACCEPTANCE OF THIS NOTE OR ANY INTEREST HEREIN, THE HOLDER OF THIS NOTE OR SUCH INTEREST: (1) REPRESENTS THAT IT HAS OBTAINED THIS NOTE OR SUCH INTEREST IN A TRANSACTION IN COMPLIANCE WITH THE SECURITIES ACT, THE INVESTMENT COMPANY ACT AND ALL OTHER APPLICABLE LAWS OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTIONS AND WITH THE RESTRICTIONS ON OFFER, SALE AND TRANSFER SET FORTH IN THE INDENTURE; (2) REPRESENTS, WARRANTS AND AGREES THAT (A) IT IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTIONS 3(C)(7) AND 2(A)(51)(A) OF THE INVESTMENT COMPANY ACT ACQUIRING THIS NOTE OR AN INTEREST THEREIN FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHO IS A QUALIFIED PURCHASER, (B) (i) IT WAS NOT FORMED, ORGANIZED, REORGANIZED, CAPITALIZED OR RECAPITALIZED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH OF ITS BENEFICIAL OWNERS IS A QUALIFIED INSTITUTIONAL BUYER WHO IS A QUALIFIED PURCHASER), (ii) IT IS NOT (X) A PARTNERSHIP, (Y) A COMMON TRUST FUND OR (Z) A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND, EMPLOYEE PLAN OR OTHER PLAN, SUCH AS A 401(K) PLAN, IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, (iii) IF IT WOULD BE AN INVESTMENT COMPANY BUT FOR THE EXCEPTION IN SECTION 3(C)(1) OR SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT, ITS INVESTMENT IN THE NOTES DOES NOT EXCEED 40% OF ITS TOTAL ASSETS OR COMMITTED CAPITAL, (iv) IT DID NOT SPECIFICALLY SOLICIT ADDITIONAL CAPITAL OR SIMILAR CONTRIBUTIONS FROM ANY PERSON OWNING AN EQUITY OR SIMILAR INTEREST IN IT FOR THE PURPOSE OF ENABLING IT TO ACQUIRE NOTES OR INTERESTS THEREIN, IN EACH CASE, EXCEPT WHEN EACH OF ITS BENEFICIAL OWNERS IS A QUALIFIED PURCHASER, (v) IT HAS RECEIVED THE CONSENT REQUIRED TO BE A QUALIFIED PURCHASER FROM ITS BENEFICIAL OWNERS IF IT IS AN EXCEPTED INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (vi) IT IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (vii) IT WILL PROVIDE NOTICE TO ANY SUBSEQUENT TRANSFEREE OF THE TRANSFER RESTRICTIONS PROVIDED IN THE INDENTURE AND THIS

LEGEND, (viii) IT WILL HOLD AND TRANSFER NOTES IN AN AMOUNT OF NOT LESS THAN $250,000 FOR ITS OWN ACCOUNT OR FOR EACH ACCOUNT FOR WHICH IT IS ACTING AND (ix) IT WILL PROVIDE THE REGISTRAR, THE ISSUER AND THE TRUSTEE FROM TIME TO TIME WITH SUCH INFORMATION AS THEY OR ANY OF THEM MAY REASONABLY REQUEST IN ORDER TO ASCERTAIN COMPLIANCE WITH CLAUSE (1) ABOVE AND THIS CLAUSE (2) AND (C) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (D) IT IS A NON-US PERSON (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT AND REGULATION S) AND ACQUIRED THE NOTES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON RULE 903 OF REGULATION S; (3) AGREES THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER (EACH, A "TRANSFER") THIS NOTE EXCEPT TO A TRANSFEREE THAT MEETS THE REQUIREMENTS SET FORTH IN SUBCLAUSES (A), (B) AND (C) OR (D) OF CLAUSE (2) ABOVE; (4) AGREES THAT IT WILL FURNISH TO THE TRUSTEE, THE REGISTRAR AND THE ISSUER SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THEY OR ANY OF THEM MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND THE REQUIREMENTS OF THE INVESTMENT COMPANY ACT; (5) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; AND (6) ACKNOWLEDGES THAT THE TRUSTEE AND THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN THE NOTES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH BELOW ON THIS NOTE RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS NOTE TO THE REGISTRAR. THE INDENTURE CONTAINS A PROVISION REQUIRING THE REGISTRAR TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE OR INTEREST HEREIN IN VIOLATION OF THE FOREGOING RESTRICTIONS.

NEITHER THIS NOTE NOR ANY INTEREST HEREIN IS TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN AND IN THE INDENTURE. ANY SALE OR TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE TRUSTEE, THE REGISTRAR, THE ISSUER OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE OR ANY INTEREST HEREIN AGREES TO PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO THE TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER RESERVES THE RIGHT TO RESELL THIS NOTE OR ANY INTEREST HEREIN PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

SUBJECT TO THE RECEIPT BY THE TRUSTEE OF AN OPINION OF COUNSEL THAT ANY SUCH AMENDMENT OR SUPPLEMENT WILL NOT CONSTITUTE A VIOLATION OF APPLICABLE LAW, THIS NOTE, THE INDENTURE AND ANY OTHER RELATED DOCUMENTATION INCLUDING THIS LEGEND MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE OR ANY INTEREST HEREIN TO REFLECT ANY CHANGE REQUIRED OR PERMITTED BY APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF). EACH HOLDER OF THIS NOTE OR INTEREST HEREIN SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS NOTE OR ANY INTEREST HEREIN, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

## LEGAL MATTERS

Certain matters of Spanish law will be passed upon for us by Cuatrecasas Gonçalves Pereira, S.L.P., and for the initial purchasers by Uría Menéndez Abogados, S.L.P. Certain matters of Colombian law will be passed upon for us by Brigard & Urrutia Abogados S.A.S., and for the initial purchasers by Gómez-Pinzón Abogados S.A.S. The validity of the Notes offered and sold pursuant to this offering and certain other matters will be passed upon for us by Weil, Gotshal & Manges LLP, and for the initial purchasers by Davis Polk & Wardwell LLP.

## INDEPENDENT ACCOUNTANTS

The financial statements of AI Candelaria (Spain), S.L.U. as of December 31, 2016, 2017 and 2018 and for each of the three years in the periods ended December 31, 2016, 2017 and 2018 included in this offering memorandum have been audited by Grant Thornton S.L.P. as stated in their report appearing herein.

The financial statements of Oleoducto Central S.A. as of and for each of the years ended December 31, 2016 and 2017 and as of June 30, 2018 and December 31, 2018 and for each of the six month periods ended June 30, 2018 and December 31, 2018 included in this offering memorandum have been audited by Ernst & Young Audit S.A.S., independent registered public accounting firm, as stated in their report appearing herein.

**INDEX TO THE FINANCIAL STATEMENTS**

**AI Candelaria (Spain), S.L.U.**

**Page**



## Oleoducto Central S.A.

**ISSUER**
**AI Candelaria (Spain), S.L.U.**
Calle de Pradillo, 5. Bajo Ext. Dcha.
28002, Madrid, Spain

c/o Advent International Corporation
Avenida Calle 82 #10-33, Of.702
Bogotá, Colombia

**TRUSTEE, U.S. COLLATERAL AGENT, REGISTRAR, PAYING AGENT AND TRANSFER AGENT**
**Wilmington Trust, National Association**
1100 North Market Street
Wilmington, Delaware 19890

**COLOMBIAN COLLATERAL AGENT**
**TMF Group New York LLC**
48 Wall Street – 27th Floor
New York, New York 10005

**LEGAL ADVISERS**

*To the Issuer in respect of U.S. law:*
**Weil, Gotshal & Manges LLP**
767 Fifth Avenue
New York, New York 10153

*To the Initial Purchasers in respect of U.S. law:*
**Davis Polk & Wardwell LLP**
450 Lexington Avenue,
New York, New York 10017

*To the Issuer in respect of Colombian law:*
**Brigard & Urrutia Abogados S.A.S.**
Calle 70 a No. 4-41
Bogotá, Colombia

*To the Initial Purchasers in respect of Colombian law:*
**Gómez-Pinzón Abogados S.A.S.**
Calle 67 No. 7-35
Bogotá, Colombia

*To the Issuer in respect of Spanish law:*
**Cuatrecasas Gonçalves Pereira, S.L.P.**
Calle de Almagro, 9,
28010 Madrid, Spain

*To the Initial Purchasers in respect of Spanish law:*
**Uría Menéndez Abogados, S.L.P.**
Calle del Príncipe de Vergara, 187
Plaza de Rodrigo Uría
28002 Madrid, Spain

**INDEPENDENT ACCOUNTANTS**

**Ernst & Young Audit S.A.S.**
Carrera 11 #98-07
Bogotá, Colombia

**Grant Thornton S.L.P.**
Tres Torres, 7
08017 Barcelona, Spain

# US$50,000,000
# AI Candelaria (Spain), S.L.U.
# 7.500% Senior Secured Notes due 2028

*Joint Book-Running Managers*

**Citigroup** **Credit Suisse**

# A.I. CANDELARIA (SPAIN), S.L.

Annual Accounts and Management Report for the Year 2018

The Annual Accounts Audit Report is included

Grant Thornton

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Grant Thornton

**Grant Thornton**
Av. Diagonal, 615, 10ª
08028 BARCELONA

T +34 93 206 39 00
F +34 93 206 39 10
barcelona@es.gt.com
www.GrantThornton.es

**INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS**

To the Sole Shareholder of A.I. CANDELARIA SPAIN, S.L. (Sole Shareholder Company)

**Opinion**

We have audited the annual accounts of A.I. CANDELARIA SPAIN, S.L.U. (the Company) which comprise the balance sheet at 31 December 2018, the profit and loss account, the statement of changes in net equity, the statement of cash flows and the notes to the annual accounts for the year ended on that date.

In our opinion, the accompanying annual accounts present, in all material aspects, a true and fair view of the net equity and the financial position of the Company at 31 December 2018, and of the results of its operations and its cash flows for the year ended on that date, in accordance with the applicable framework of financial reporting standards (which is identified in note 2 to the annual accounts) and, in particular, in compliance with the accounting principles and criteria contained in that framework.

**Basis for our opinion**

We have carried out our audit in accordance with the current Spanish standards for auditing accounts. Based on those standards, our responsibilities are set out below in the section *Auditor´s responsibilities for the audit of the annual accounts* of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, as required by the regulations governing the auditing of annual accounts. In this regard, we have not provided any services different to the audit of the annual accounts and no situations or circumstances have arisen that, based on said regulations, might have affected the required independence in such a way that it could have been compromised.

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion.

**Most relevant aspects of the audit**

The most relevant aspects of the audit are those that, in our professional judgement, were considered as the most significant risks of material misstatement in our audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

We have determined that the risk described below is the most significant considered in the audit that should be stated in our report.

Recoverable amount of investments in Group companies

As described in note 5 to the annual accounts, the Company holds the amount of 1.069 million USD as long-term group investments in Group companies as of December 31, 2018. The Company annually evaluates the existence of indications of impairment of investments in Group companies and estimates the recoverable value at the closing date of those entities for which there are indications of impairment. Based on this estimate, as mentioned in note 4.a.1.2), the corresponding valuation adjustments are made for the difference between their book value and the recoverable amount, understood as the greater amount between their fair value less the selling costs and the present value of the future cash flows expected from the investment. Unless there is better evidence of the recoverable amount, the net equity of the investee is taken into consideration, adjusted for the unrealized capital gains existing on the valuation date, including goodwill, if any. We consider that the most significant risk identified corresponds to the estimation of said recoverable value.

As part of our audit and in response to the mentioned risk, our audit procedures have included, among others, the following:

- The evaluation of the design and implementation of the relevant controls established by the Company in relation to the process for estimating the recoverable value of the investments in Group companies.

- The evaluation of the criteria used by the Company in the identification of the indicators of impairment of shares in Group companies.

- The evaluation of the reasonableness of the methodology and assumptions used by the Company in estimating the recoverable value of investments in Group companies.

**Other information: Report of the Directors**

The other information relates exclusively to the Report of the Directors for 2018. The directors of the Company are responsible for preparing this report, which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the Report of the Directors. In accordance with the regulations governing the auditing of accounts, our responsibility regarding the Report of the Directors includes evaluating and reporting on the consistency of the Report of the Directors with the annual accounts, based on the knowledge of the entity obtained during our audit of those accounts, excluding any information different to that obtained as evidence during our audit. Furthermore, our responsibility includes evaluating and reporting on whether the content and presentation of the Report of the Directors meet the requirements of the applicable regulations. If, because of our work, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraph, the information reflected in the Report of the Directors is consistent with that of the 2018 annual accounts, and, the content and presentation meet the requirements of the applicable regulations.

**Responsibility of the directors concerning the annual accounts**

The directors are responsible for drawing up the attached annual accounts, so that they show a true and fair view of the net equity, the financial position and the results of the Company, in accordance with the framework of financial reporting standards applicable to the entity in Spain and for such internal control that they consider necessary to enable the preparation of annual accounts that are free from material misstatements, whether due to fraud or error.

When drawing up the annual accounts, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis, unless the directors intend to liquidate the Company or to cease its operations, or whether there is no other realistic alternative.

**Auditor´s responsibilities for the audit of the annual accounts**

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the current Spanish regulations for auditing accounts will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these annual accounts.

As part of an audit in accordance with current Spanish regulations for auditing accounts, we exercise our professional judgement and we maintain an attitude of professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, due to fraud or error, design and perform audit procedures to respond to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may imply collusion, forgery, deliberate omissions, intentionally incorrect representations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to this in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the directors of the entity concerning, among other matters, the planned scope and timing of the audit and the significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

From the matters communicated to the directors of the entity, we determine those matters that were most significance in the audit of the annual accounts of the current period and are, therefore, the key audit matters.

We describe these matters in our auditor's report unless law or regulations prohibit public disclosure of the matter.

Grant Thornton, S.L.P. Sociedad Unipersonal (S0231)

Carlos Villabona de la Fuente

ROAC nº 12720

April 11, 2019

# Annual Accounts

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A.I. Candelaria (Spain), S.L.

**Balance Sheet**
**at 31 December 2018**
**(in US dollars)**

| ASSETS | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| NON-CURRENT ASSETS | | 1,068,732,191 | 1,068,732,191 |
| **Long-term financial investments** | 5 | **1,068,732,191** | **1,068,732,191** |
| Equity instruments | | 1,068,732,191 | 1,068,732,191 |
| CURRENT ASSETS | | 93,937,361 | 61,350,539 |
| **Trade accounts receivable and other accounts receivable** | 6 | **48,561,922** | **40,909,606** |
| Current tax assets | 11 | 48,561,922 | 40,909,606 |
| **Short-term financial investments** | 5 | **40,513,613** | - |
| Other financial assets | | 40,513,613 | - |
| **Cash and cash equivalents** | | **4,861,826** | **20,440,933** |
| Cash in hand and at bank | | 4,861,826 | 20,440,933 |
| TOTAL ASSETS | | 1,162,669,552 | 1,130,082,730 |

| EQUITY AND LIABILITIES | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| EQUITY | 10 | 511,512,599 | 1,129,883,117 |
| **Shareholder' equity** | | **511,505,985** | **1,129,876,503** |
| **Capital** | | **82,493,841** | **82,493,841** |
| Authorized capital | | 82,493,841 | 82,493,841 |
| **Issue premium** | | - | **334,460,228** |
| **Reserves** | | **116,572,222** | **116,572,222** |
| Legal and statutory | | 16,498,768 | 16,498,768 |
| Other reserves | | 100,073,454 | 100,073,454 |
| **Income (loss) from previous years** | | **(3,450,534)** | **(24,945,166)** |
| (Negative Income (loss) from previous years) | | (3,450,534) | (24,945,166) |
| **Other shareholder contributions** | | **256,260,974** | **599,800,746** |
| **Income for the year** | | **123,495,025** | **98,028,024** |
| **(Interim dividend)** | | **(63,865,543)** | **(76,533,392)** |
| **Adjustments for changes in value** | | **6,614** | **6,614** |
| Other | | 6,614 | 6,614 |
| NON CURRENT LIABILITIES | | 642,088,446 | - |
| **Long-term payables** | 8 | **642,088,446** | - |
| Debentures and other marketable securities | | 642,088,446 | - |
| CURRENT LIABILITIES | | 9,068,507 | 199,613 |
| | | **8,938,951** | **524** |
| **Short-term payables** | | | |
| Debentures and other marketable securities | 8 | 8,937,500 | - |
| Other financial liabilities | | 1,451 | 524 |
| **Trade accounts payable and other accounts payable** | 9 | **129,556** | **199,089** |
| Sundry accounts payable | 11 | 129,556 | 199,089 |
| TOTAL EQUITY AND LIABILITIES | | 1,162,669,552 | 1,130,082,730 |

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A.I. Candelaria (Spain), S.L.

**Income Statement**
**corresponding to the year ended at**
**31 December 2018**
**(in US dollars)**

| | Note | 2018 | 2017 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Net sales** | 12a | **135,358,773** | **85,231,930** |
| Sales | | 135,358,773 | 85,231,930 |
| **Other operating expenses** | 12b | **(948,401)** | **(456,464)** |
| Outside services | | (948,401) | (456,464) |
| **Other income (loss)** | | - | **(81,406)** |
| **OPERATING INCOME** | | **134,410,372** | **84,694,060** |
| **Financial income** | | **4,107** | - |
| From marketable securities and other financial instruments | | 4,107 | - |
| From third parties | | 4,107 | - |
| **Financial expenses** | | **(9,135,733)** | **(209)** |
| For debts with third parties | | (9,135,733) | (209) |
| **Exchange gains (losses)** | | **(1,783,721)** | **3,014,726** |
| **Impairment and income (loss) from disposal of financial instruments** | 5 | - | **10,732,191** |
| Impairment and losses | | - | 10,732,191 |
| **FINANCIAL INCOME (LOSS)** | | **(10,915,347)** | **13,746,708** |
| **INCOME BEFORE TAXES** | | **123,495,025** | **98,440,768** |
| **Corporation tax** | | - | **(412,744)** |
| **INCOME FOR THE YEAR** | | **123,495,025** | **98,028,024** |

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A.I. Candelaria (Spain), S.L.

## Statement of Changes in Equity corresponding to the year ended at 31 December 2018 (in US dollars)

### (A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

| | Note | 2018 | 2017 |
|---|---|---|---|
| Income Statement result | 3 | 123,495,025 | 98,028,024 |
| Income and expense directly recognized in equity: | | | |
| For asset and liability valuation | | | |
| Other income/expenses | | - | (16) |
| Total income and expense directly recognized in equity | | - | (16) |
| TOTAL RECOGNIZED INCOME AND EXPENSE | | 123,495,025 | 98,028,008 |

### (B) STATEMENT OF COMPREHENSIVE CHANGES IN EQUITY

| | Note | Authorized capital | Issue premium | Reserves | Income (loss) from previous years | Other Shareholder contributions | Income for the year | (Interim dividend) | Adjustments for changes in value | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| ADJUSTED OPENING BALANCE YEAR 2017 | | 82,493,841 | 334,460,228 | 16,498,768 | (24,945,166) | 599,800,746 | 135,263,454 | - | 6,630 | 1,143,578,501 |
| Total recognized income and expense | 3 | - | - | - | - | - | 98,028,024 | - | (16) | 98,028,008 |
| Operations with partners or owners: | | | | | | | | | | |
| Distribution of dividends | | - | - | - | - | - | (35,190,000) | (76,535,392) | - | (111,725,392) |
| Other changes in equity | | - | - | 100,073,454 | - | - | (100,073,454) | - | - | - |
| CLOSING BALANCE YEAR 2017 | | 82,493,841 | 334,460,228 | 116,572,222 | (24,945,166) | 599,800,746 | 98,028,024 | (76,533,392) | 6,614 | 1,129,883,117 |
| ADJUSTED OPENING BALANCE YEAR 2017 | | 82,493,841 | 334,460,228 | 116,572,222 | (24,945,166) | 599,800,746 | 98,028,024 | (76,533,392) | 6,614 | 1,129,883,117 |
| Total recognized income and expense | 3 | - | - | - | - | - | 123,495,025 | - | - | 123,495,025 |
| Operations with partners or owners | | | | | | | | | | |
| Distribution of dividends | | - | (334,460,228) | - | - | (343,539,772) | - | (63,865,543) | - | (741,865,543) |
| Other changes in equity | | - | - | - | 21,494,632 | - | (98,028,024) | 76,533,392 | - | - |
| CLOSING BALANCE YEAR 2017 | | 82,493,841 | - | 116,572,222 | (3,450,534) | 256,260,974 | 123,495,025 | (63,865,543) | 6,614 | 511,512,599 |

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A.I. Candelaria (Spain), S.L.

Statement of Cash Flows
corresponding to the year ended at
31 December 2018
(in US dollars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **115,016,328** | **53,129,572** |
| **Income for the year before taxes** | | **123,495,025** | **98,440,768** |
| **Adjustments to income::** | | **8,378,885** | **7,987,990** |
| Valuation corrections for impairment | | - | (10,732,191) |
| Changes in provisions | | - | (270,718) |
| Financial expenses | | 9,135,733 | 209 |
| Other income and expense | | (756,848) | 3,014,710 |
| **Changes in working capital:** | | **( 69,533)** | **186,926** |
| Trade receivables and other accounts receivable | | - | 10,982 |
| Trade payables and other accounts payable | | ( 69,533) | 175,944 |
| **Other cash flows from operating activities:** | | **(16,788,049)** | **(37,510,132)** |
| Interest payments | | (9,135,733) | (209) |
| Corporation tax | | (7,652,316) | (37,509,923) |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | **(40,513,613)** | - |
| **Payments for investments:** | | **(40,513,613)** | - |
| Other financial assets | | (40,513,613) | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **(91,865,543)** | **(111,722,868)** |
| **Proceeds from and payments for financial liability instruments:** | | **65.000.000** | **524** |
| Issue: | | | |
| Other payables | | 65.000.000 | 524 |
| Repayment and amortization of: | | | |
| Other | | - | - |
| **Payments for dividends and remuneration from other equity instruments** | | **(741,865,543)** | **(111,723,392)** |
| Dividends | | (741,865,543) | (111,723,392) |
| **Effect of exchange rate changes** | | **1,783,721** | **(3,014,726)** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | | **(15,579,107)** | **(61,608,022)** |
| Cash or cash equivalents at start of year | | 20,440,933 | 82,048,955 |
| Cash or cash equivalents at year-end | | 4,861,826 | 20,440,933 |

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**A.I. CANDELARIA (SPAIN), S.L.**
**Annual Report for the Year Ended at**
**31 December 2018**

1. Activity

A.I. Candelaria (Spain), S.L. (hereinafter, the Company) was set up on 18 September 2013, under the corporate name of Fairmont Invest, S.L. with its registered office located in Madrid, at Calle Ayala, number 66, subsequently changing its name to the current one in Madrid, at Calle Príncipe de Vergara, number 131. On 14 September 2017, it changes its registered office to Calle Pradillo, number 5, Madrid.

In accordance with its Articles of Association, the Company has as its corporate purpose, the acquisition, administration and management of securities representing the shareholders' equity of companies not residing in Spanish territory, as well as the placement of the financial resources derived from said activities; the acquisition, administration and management of securities representing the shareholders' equity of companies residing in Spanish territory, as well as the placement of the financial resources derived from said activities. The exercise of the functions of administration, membership on the Board, assistance, advisory services, management and other services related to the activity of securities administration and management shall be carried out through the corresponding organization of the appropriate material and personal resources for the purpose of adopting decisions for the suitable management of the equity holdings. The Company may, likewise, carry out, in general, any other licit commercial activity which is prior or ancillary to the aforementioned principal activities.

The Company and its direct parent, A.I. Candelaria (Luxembourg) S.á.r.l., form part of the A.I. Candelaria Group, whose registered office is in Luxembourg. The parent of the A.I. Candelaria Group has not filed consolidated annual accounts given that it is dispensed from this obligation in accordance with applicable law.

The functional currency of the Company is the dollar. The financial statements in euros (balance sheet, income statement, and statement of changes in equity) are annexed to these annual accounts.

2. Bases for Presentation of the Annual Accounts

a) True and fair view

The annual accounts, comprised of the balance sheet, income statement, statement of changes in equity, statement of cash flows, and the annual report consisting of notes 1 to 16, have been prepared on the basis of the accounting records, with application having been made of the accounting regulations in force, specifically, the Spanish General Chart of Accounts, approved by Royal Decree 1514/07 of 16 November 2007, and the amendments thereof, approved by Royal Decree 1159/2010, of 17 September, and by Royal Decree 602/2016, of 2 December, in an aim to give a true and fair view of the net worth, financial situation, results, and the changes in equity taking place during said year.

Unless otherwise indicated, all figures contained in the annual report are in US dollars.

The annual accounts prepared by the directors shall be put to the General Meeting of Equity Holders for approval, it being deemed that said accounts will be approved without any change whatsoever.

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b) Accounting principles

The annual accounts have been prepared in accordance with the mandatory accounting principles. There is no accounting principle of significant effect which has not been applied.

c) Critical aspects regarding valuation and estimation of uncertainty

In preparing the attached annual accounts, the estimations made by the Company Directors have been used to value certain assets, liabilities, revenues, expenses and commitments recorded therein. Such estimations basically refer to:

- The fair value of certain financial instruments (note 4a).

These estimations have been made on the basis of the best available information at the date of preparation of these annual accounts, there being no circumstance which could lead to any change in said estimations. Any future event unknown at the date of preparation of these estimations could give rise to changes (either higher or lower), which, if applicable, shall be carried out prospectively.

d) Classification of current and non-current items

For the classification of current items, the maximum term of one year as from the date of the present annual accounts has been taken into consideration.

e) Correction of errors

In preparing the attached annual accounts, no errors from previous years have been detected that should be corrected.

f) Comparison of information

In accordance with commercial law, for the purposes of comparison each one of the items on the balance sheet, income statement, statement of changes in equity and statement of cash flows is presented with the figures for the year 2017 as well as those corresponding to the preceding year. The annual report also contains quantitative information on the preceding year, except in those cases in which an accounting regulation specifically states that this is not necessary.

g) Functional currency

The new General Chart of Accounts (NPGC) understands "Functional Currency" to be that of the primary economic environment in which the entity operates. International Financial Reporting Standard 21 likewise indicates other factors which may shed light on the Functional Currency, such as:

- The currency in which the funds from the financing activity are generated
- The currency in which the amounts collected from operating activities are held

In the year 2018 the Company considered the US dollar to be its functiona
that the dollar is the primary economic environment in which it operated.

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In order to determine the dollar as the functional currency for the year 2018, the Company has taken into account the following criteria:

- The underlying assets accounting for 99% of the total assets of the Company are denominated in dollars.
- The Company is a Foreign Securities Holding Company, and consequently its main objective is the growth and maximization of the value of its investments in subsidiary companies.
- The operating company which is a subsidiary of the Company has the dollar as its functional currency.
- The total funds received from its subsidiary as dividends were received exclusively in dollars (135,358,773 dollars).

Nevertheless, given the requirement to present the annual accounts in euros, the Company has recognized the effect derived from the foreign currency exchange rate, as well as the effect of the translation of its functional currency into euros. For this purpose, the differences from the translation to the presentation currency have been directly accounted for in equity. Transactions in a currency other than the functional currency are recorded in accordance with the policies established in note 4.b.

## 3. Application of Income

The proposal for the application of income for the year 2018 which the Directors are submitting to the General Meeting of Equity Holders is the following:

| | |
|---|---|
| Distribution base | |
| Income statement (profit) | 123,495,025 |
| Application | |
| To dividends | 63,865,543 |
| To dividend for the year | 3,450,534 |
| To voluntary reserves | 123,495,025 |

On 29 June 2018, the General Meeting of Equity Holders approved the distribution of income for the year 2018, in the amount of 123,520,796 dollars, with the amount of 21,494,632 dollars to voluntary reserves; and 76,533,392 dollars to dividends.

On 22 October 2018, the Board of Directors resolved to distribute to the sole equity holder of the Company a dividend charged to issue premium, in the amount of 334,460,228 dollars and in the amount of 330,539,772 dollars, charged to other shareholder contributions.

Likewise, on 7 November 2018, the sole Equity Holder distributed in favor of the sole equity holder of the Company a dividend of additional 13,000,000 dollars charged to other shareholder contributions

On 28 December 2018, an interim dividend was also distributed, charged tc
2018, in the amount of 63,865,543 euros.

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Due to the fact that the date of distribution of the interim dividend practically coincides with that of the financial year-end, it is not included a table showing the existence of sufficient income during said year which would permit the distribution of an interim dividend.

4. Recording and valuation standards

The principal recording and valuation standards used in preparing the annual accounts are the following:

a) Financial instruments

a.1) Financial assets

The financial assets of the Company are classified, for valuation purposes, into the following categories:

a.1.1) Loans and receivables

These correspond to loans for commercial or non-commercial transactions, having their origin in the sale of goods, deliveries of cash amounts, or provision of services, the collection amounts of which are determined or determinable, and do not trade in an active market.

They are initially recorded at the fair value of the consideration received plus any directly attributable transaction costs. They are subsequently valued at their amortized cost, with the accrued interest being recorded in terms of the effective interest rate.

Notwithstanding the above, loans having a maturity of not more than one year and valued initially at face value continue to be valued at said amount, unless they are impaired.

Valuation corrections for impairment are recorded in terms of the difference between their book value and the current value at year-end of the future cash flows which they are expected to generate, discounted at the effective interest rate calculated at the time of their initial recognition. These corrections are recognized in the income statement.

a.1.2) Investments in the equity of group, associate and multi-group companies

Group companies are deemed to be those related to the Company through a relationship of control, and associate companies those over which the Company holds significant influence. In addition, the multi-group category includes those companies over which, by virtue of an agreement, joint control is held with one or more partners. Said investments are initially valued at cost, which would be equivalent to the fair value of the consideration received plus any directly attributable transaction costs.

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They are subsequently valued at cost, less, if applicable, the cumulative amount of the valuation corrections for impairment. Said corrections are calculated as the difference between their book value and the recoverable amount, understood as the greater of fair value less selling costs or the current value of the future cash flows expected from the investment. Unless the recoverable amount is shown to be otherwise, consideration is taken of the equity of the subsidiary, corrected by the unrealized capital gains existing at the valuation date, including goodwill, if any.

In the case where the subsidiary, in turn, has a subsidiary of its own, consideration is taken of the equity from the consolidated annual accounts. Changes in value owing to valuation corrections for impairment, and, if applicable, their reversal, are recorded in the income statement as expense or income, respectively.

Financial assets are retired when they expire or when the rights over the cash flows of the corresponding financial asset have been assigned, and the risks and rewards inherent to ownership have been substantially transferred.

On the contrary, financial assets are not retired, and a financial liability is recognized for an amount equal to the consideration received, in financial asset assignments in which the risks and rewards inherent to their ownership are substantially retained, such as the discount of commercial drafts.

Financial asset interest and dividends accrued subsequent to the time of acquisition are recognized as income in the income statement. Interest is recognized using the effective interest rate method, and dividends are recognized when the right of the equity holder to receive them is declared.

For these purposes, at the time the financial assets are initially valued, recording is made, taking into account the maturity, of the amount of explicit interest payable and not overdue at said time as well as of the amount of the dividends agreed to by the competent body at the time of acquisition. Explicit interest is understood to be that obtained from application of the commercial interest rate of the financial instrument.

Likewise, when the distributed dividends unequivocally come from income generated prior to the acquisition date because distribution was made of amounts higher than the income generated by the subsidiary since that time, they are not recognized as income, and decrease the book value of the instrument.

a.2) Financial liabilities

A financial liability is recognized on the balance sheet when the Company becomes an obligated party to the contract or legal business transaction in accordance with the provisions thereof.

Debits and items payable having their origin in the purchase of goods and services in the normal course of business of the company or for non-commercial transactions are initially valued at the fair value of the consideration received, adjusted by directly attributable transaction costs.

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Notwithstanding the above, debits for commercial transactions having a maturity of not more than one year and which do not have a contractual interest rate are initially valued at face value, provided that the effect of not updating the cash flows is not significant.

Debits and payables are subsequently valued at their amortized cost, using the effective interest rate. Those which, as commented in the preceding paragraph, are initially valued at their face value continue to be valued at said amount.

Liability derivative financial instruments are valued at fair value, following the same criteria as those corresponding to the financial assets held for trading described in the paragraph above.

Financial liabilities are retired when the obligations giving rise to them have been extinguished.

b) Foreign currency transactions

b.1) Functional currency and presentation

The annual accounts are presented in euros, in accordance with the provisions of section 34 of the Commercial Code. In 2018, the functional currency of the Company was the euro, given that this is the currency of the economic environment in which the Company and its Group operate (See Note 2.g).

Translation of the Company annual accounts for the purpose of translation into euros is as follows:

- Assets and liabilities are translated at the closing exchange rate
- Equity items, excluding income for the year, are translated at the historical exchange rate at the date of the transaction.
- In the case of income and expenses, the company has used an annual weighted rate since it considers that these have not changed significantly.
- The difference between the net amount of assets and liabilities and the equity items is recorded under the equity caption of "translation gains (losses)", net of the tax effect, if applicable.

For the effects of translation into euros in the presentation of amounts accounted for in US dollars, the exchange rates used have been the following:

| Dollar/euro exchange rates | 2018 | 2017 |
|---|---|---|
| Closing exchange rate | 1.145 | 1.1993 |
| Average exchange rate | 1.181 | 1.1297 |

b.2) Foreign currency

Foreign currency transactions are converted at their initial valuation a
rate in force at the date of the transaction.

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Monetary assets and liabilities denominated in foreign currency are converted at the spot exchange rate in force at the balance sheet date. Any exchange gains or losses given rise to in this process, as well as those taking place at the time of settlement of said assets and liabilities, are recognized in income for the year in which they take place.

b.3) Monetary items

The conversion into functional currency of accounts payable and accounts receivable in foreign currency is carried out applying the exchange rate in effect at the time at which the corresponding transaction is carried out, and are valued at year-end in accordance with the exchange rate in force at said time.

Exchange gains and losses produced as a result of the year-end valuation of debits and credits in foreign currency are taken directly to the income statement.

c) Corporate income tax

The income or expense for corporate income tax is calculated by the sum of the current tax expense or current tax income plus the corresponding part of the deferred tax expense or deferred tax income.

The current tax is the amount resulting from the application of the tax rate to the taxable income for the year. Deductions and other tax benefits, excluding withholdings and prepayments, as well as the offset of tax losses from previous years and effectively applied in the year will give rise to a lower current tax amount.

Deferred tax expense or income corresponds, on its part, to the recognition and cancellation of the deferred tax assets for deductible temporary differences, for the right to offset tax losses in subsequent years, and for unused deductions and other tax benefits pending application, and deferred tax liabilities for taxable temporary differences.

Deferred tax assets and liabilities are valued in accordance with the tax rates expected at the time of their reversal.

Deferred tax liabilities are recognized for all taxable temporary differences, except those derived from the initial recognition of goodwill or of other assets and liabilities in a transaction which does not affect either the taxable income or the financial accounting income and is not a business combination.

In accordance with the principle of prudence, deferred tax assets are only recognized to the degree to which the obtainment of future gains which would permit their application is deemed likely. Notwithstanding this, no recognition is made of deferred tax assets corresponding to deductible temporary differences derived from the initial recognition of assets and liabilities in a transaction which does not affect either the taxable income or the financial accounting income and is not a business combination.

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Current and deferred tax expense or income are recorded in the income statement. Nevertheless, current and deferred tax assets and liabilities related to a transaction or event directly recognized in an equity item are recognized to the debit or credit of said item.

At the end of each accounting period, a review is made of the deferred taxes recorded in order to verify that they remain in force, with the pertinent corrections thereof being made. Likewise, evaluation is made of the deferred tax assets recognized and of those not recorded before, retiring the recognized assets in the case where their recovery is no longer likely, or recording any assets of this type which had not been recognized before, to the degree to which their recovery with future tax benefits becomes likely.

d) Provisions and contingencies

When preparing the annual accounts, the Company Directors make a distinction between:

d.1) Provisions

Creditor balances which cover current obligations derived from past events, the cancellation of which is deemed likely to result in an outflow of resources but the amount and/or time of cancellation of which is indeterminate.

d.2) Contingent liabilities

Possible obligations arising as the consequence of past events, the future materialization of which is subject to the occurrence or not of one or more future events beyond the control of the Company.

The annual accounts record all the provisions with respect to which the need to attend to the obligation is considered more likely than not, and these are recorded at the current value of the best possible estimation of the amount required to cancel or transfer the obligation to a third party. Contingent liabilities are not recognized in the annual accounts, but are reported in the annual report.

Provisions are valued at year-end at the current value of the best possible estimation of the amount required to cancel or transfer the obligation to a third party, with the adjustments arising from the updating of said provisions being recorded as a financial expense as it becomes payable. In the case of provisions having a maturity of one year or less, in which the financial effect is not significant, no type of discount is made.

e) Related party transactions

Related party transactions, regardless of the degree of the relation, are recorded in accordance with the general regulations. Consequently, generally speaking, elements subject to transaction are recorded at the initial time at fair value. In the case where the price agreed in a transaction differs from fair value, the difference is recorded taking into account the economic reality of the transaction. The subsequent valuation is made as set out in the correspondine regulations.

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f) Income and expense

These are recorded in terms of the accrual criterion; that is, at the time the real flow of goods and services which they represent is produced, regardless of the time at which the resulting monetary or financial flow derived from them takes place. Said income is valued at the fair value of the consideration received, after deducting discounts and taxes.

Income from sales is recognized at the time of transfer of the significant risks and rewards inherent to the ownership of the good which is sold, and when the Company no longer holds current management over the good or retains effective control over it.

Income from the provision of services is recognized taking into consideration the degree of realization of the service provision at the balance sheet date, provided that the transaction is able to be reliably estimated.

g) Statement of cash flows

The statement of cash flows has been prepared using the indirect method, with the following expressions being used in said statement with the meaning indicated below:

- Operating activities: activities constituting the ordinary income of the company, as well as other activities which cannot be termed as investing or financing activities.

- Investing activities: activities for the acquisition, disposal or transfer by other means of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities which produce changes in the size and composition of equity and of the liabilities which do not form part of the operating activities.

5. Long-term and short-term financial investments

The information on the long-term financial instruments on the asset side of the Company balance sheet is as follows:

| | Year 2018 | | |
|---|---|---|---|
| Account | Opening Balance | Retirements | Closing Balance |
| Equity instrument | 1,068,732,191 | - | 1,068,732,191 |
| | 1,068,732,191 | - | 1,068,732,191 |

| | Year 2017 | | |
|---|---|---|---|
| Account | Opening Balance | Additions | Closing Balance |
| Equity instrument | 1,068,732,191 | - | 1,068,732,191 |
| Provisions | (10,732,191) | 10,732,191 | - |
| | 1,058,000,000 | 10,732,191 | 1,068,732,191 |

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The breakdown of the information regarding investment in unlisted equity instruments at 31 December 2018 and 2017 is as follows:

At 31.12.18

| Name/ Domicile/ Activity | Shareholding Book Value | Shareholding % Direct | Share Capital | Reserves and translation differences | Result Operating | Result Net | Dividends Received |
|---|---|---|---|---|---|---|---|
| Oleoducto Central S.A. (*)(**) Colombia Oil Sector | 1,068,732,191 | 22,352% | 81,714,000 | 1,110,259,000 | 1,061,094,000 | 662,339,000 | 135,358,773 |

At 31.12.17

| Name/ Domicile/ Activity | Shareholding Book Value | Shareholding % Direct | Share Capital | Reserves and translation differences | Result Operating | Result Net | Dividends Received |
|---|---|---|---|---|---|---|---|
| Oleoducto Central S.A. (*)(**) Colombia Oil Sector | 1,068,732,191 | 22,352% | 44,226,100 | 813,172,338 | 507,519,219 | 267,171,602 | 85,231,930 |

(*) Company audited by Ernst & Young, S.A.S.
On 9 December 2013, the Company signed 3 contracts for the purchase of shares in the Company Oleoducto Central S.A. On 19 December 2013, the shareholder register book of Oleoducto Central S.A. recorded the transfer of 22.352% of the shares to A.I. Candelaria (Spain), S.L., which, on that same day, transferred the shares to the trust Fideicomiso Acciones Ocensa.

Short-term financial investments correspond to the balance of an account held in a financial institution based in the United States of America provided as security to guarantee the debt detailed in note 8.

## 6. Trade accounts receivable and other accounts receivable

The balance sheet heading of "Trade accounts receivable and other accounts receivable" is as follows:

| Item | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Other accounts receivable | | |
| Current tax assets (see note 11) | 48,561,922 | 40,909,606 |
| | 48,561,922 | 40,909,606 |

## 7. Information on the Nature and Risk Level of the Financial Instruments

### Qualitative information

Management of the Company financial risks is centralized in Management, w
the mechanisms required to control exposure to changes in interest rates and ex
as credit and liquidity risks. The principal financial risks having an impact c
indicated below:

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a) Credit risk:

In general terms, the Company holds its cash and cash equivalents in financial institutions having a high credit rating.

In addition, it must be pointed out that there is not a significant concentration of credit risk with third parties outside of the group.

b) Liquidity risk:

In an aim to ensure liquidity and be able to meet all payment commitments derived from its activity, the Company has the cash and short-term loans to Group companies as shown on its balance sheet.

c) Market risk (including interest rate, exchange rate, and other price risks)

There is hardly any exchange risk, given that practically all transactions are in US dollars.

Quantitative information

a) Credit risk:

At year-end 2018, the Company did not have any credit insurance to guarantee the collection of its accounts receivable.

b) Interest rate risk:

The Company accrues nominal annual interest at 7.5% from the long-term debt detailed in note 8.

c) Exchange rate risk:

| | *2018* | *2017* |
|---|---|---|
| *Percentage of accounts receivable/payable in euros for which no exchange insurance has been taken out* | *100%* | *100%* |

1. Long-term and short-term payables

On 25 October 2018, the Company issued debt in the Singapore Stock Exchange in the amount of 650,000,000 dollars maturing on 15 December 2028. That debt accrues an annual interest of 7.5%, payable semi-annually on the 15th June and the 15th December of each year until maturity (beginning on 15th June 2019).

The debt is recorded at long-term and discounted at the effective interest rate except for the accrued interest payable on 15 June 2019, which is recorded as short-term liabilities.

Likewise, the Company has provided the financial investments described in [illegible] entity's liquid assets to secure the debt issued at the Singapore Stock Exchange

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9. Trade accounts payable and other accounts payable

The heading of 'Trade accounts payable and other accounts payable' broken down at 31 December 2018 and 2017 is the following:

| Item | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Sundry accounts payable | 129.556 | 199.089 |

For the purposes set out in additional provision second of Law 31/2014, of 3 December, amending the Capital Companies Act, and pursuant to the Resolution of 29 February 2016 of the Spanish Accounting and Auditing Institute, a breakdown is presented below of the average period of payment to suppliers, ratio of paid transactions, ratio of transactions pending payment, total payments made and total payments pending:

| | 2018 | 2017 |
|---|---|---|
| | Days | Days |
| Average period of payment to suppliers | 12 | 35 |
| Ratio of transactions paid | 12 | 25 |
| Ratio of transactions pending payment | 16 | 50 |

| | 2018 | 2017 |
|---|---|---|
| | Amount | Amount |
| Total payments made | 5,305,585 | 334,781 |
| Total payments pending | 126,034 | 198,321 |
| | 5,431,618 | 533,102 |

10. Equity and Shareholders' Equity

Shareholders' Equity

a) Equity capital

At year-end 2018 the Company equity capital amounted to 82,493,841 dollars, represented by 60,000,000 ordinary nominative equity participations each having a par value of 1.37489 dollars, being fully subscribed and paid up, granting the same rights to the holders thereof.

b) Legal reserve

In accordance with the Revised Text of the Capital Companies Act, an amount equal to 10% of income for the year is required to be allocated to the legal reserve until it reaches at least 20% of the share capital. The legal reserve may be used to increase the capital by that part of its balance which exceeds the 10% of the already increased capital. Except for the aforementioned purpose, and provided that it does not exceed 20% of th reserve may only be used to offset losses, this provided that there are not reserves available for said purpose.

At year-end 2018, this reserve was fully constituted.

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c) Issue premium and voluntary reserves

These balances are freely disposable, except for the amount of the cumulative losses.

## 11. Tax situation

The breakdown of the accounts related to taxes in the years 2018 and 2017 is as follows:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| | Debtor balances | Debtor balances |
| Account | Current | Current |
| Current tax assets | 48,561,922 | 40,909,606 |
| Total | 48,561,922 | 40,909,606 |

Reconciliation of net income and expenses for the year and the Corporation Tax taxable base (taxable income) is the following:

| | 2018 | | |
|---|---|---|---|
| | Income statement | | |
| | Increases | Decreases | Total |
| Income before taxes | - | - | 123,495,025 |
| Permanent differences | - | (135,358,773) | (135,358,773) |
| Taxable base (taxable income) | | | (11,863,748) |
| Total tax liability | | | (2,965,937) |
| Withholdings and prepayments | | | 28,313,700 |
| Net recoverable amount | | | (28,313,700) |

| | 2017 | | |
|---|---|---|---|
| | Income statement | | |
| | Increases | Decreases | Total |
| Income before taxes | | | 98,440,768 |
| Permanent differences | 81,406 | (95,964,121) | (95,882,715) |
| Offset of negative taxable | - | | (907,078) |
| Taxable base (taxable income) | | | 1,650,975 |
| Total tax liability | | | 412,744 |
| Withholdings and prepayments | | | 21,614,361 |
| Net recoverable amount | | | (21,201,617) |

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As stipulated by the laws in force, taxes may not be considered as definitively settled until the returns filed have been audited by the tax authorities, or until the four-year statute of limitations has expired. At year-end 2018, the Company has subject to audit the Corporation Tax returns for the years 2014 and following years, and for the year 2015 and the following years for all other taxes applicable to it. It is considered that the aforementioned taxes have been adequately settled; consequently, even in the case where certain discrepancies were to arise in the interpretation of the regulations in force, should this come to pass, it would not significantly affect the attached annual accounts.

Nevertheless, the tax credits resulting from Negative Taxable Income and from deductions could be subject to review during a term of 10 years as from the date on which they are generated.

## 12. Income and Expense

a) Net sales

Net sales correspond to the income from the dividends distributed by the subsidiary, classified in this heading on the basis of Company activity, described in note 1.

b) Other operating expenses

These are broken down as follows:

| Item | 2018 | 2017 |
|---|---|---|
| Independent professional services | 793,084 | 292,980 |
| Banking services and the like | 24,065 | 22,639 |
| Other services | 131,252 | 140,845 |
| | 948,401 | 456,464 |

## 13. Transactions with Related Parties

During the year 2018, transactions have been carried out with the following related parties:

| Company | Type of relation |
|---|---|
| A.I. Candelaria (Luxembourg) S.á.r.l. | Parent company |

Transactions with related parties are broken down for the years 2018 and 2017 as follows:

| | 2017 | 2017 |
|---|---|---|
| Dividends distributed to the Sole Equity Holder | 741,865,543 | 111,723,392 |

At 31 December 2018 and 31 December 2017 there are no balances with relat

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During the years 2018 and 2017, the members of the Board of Directors did not receive any remuneration whatsoever, nor are there any advances or loans granted to the Board members; likewise, there are no pension commitments or life insurance premium payments with respect to the Board members.

The members of the Board of Directors of the Company and the persons related thereto as referred to in article 231 of the Revised Text of the Capital Companies Act, have not communicated any situations of direct or indirect conflict which they could have with the interests of the Company. Moreover, they state that they do not hold offices or have a stake in companies having the same, similar or ancillary type of activity as that which constitutes the corporate purpose of the Company.

14. Environmental Information

The Company does not have any tangible fixed assets allocated to minimizing the environmental impact and likewise to protecting and improving the environment, nor has it received during the year any subsidies or incurred any significant expenses for the purpose of protecting and improving the environment. Likewise, the Company has not set up any provision to cover environmental contingencies and expenses, given that it considers that there are no contingencies related to environmental protection and improvement.

15. Other Information

The fees payable to the Company auditors in the years 2018 and 2017 amounted to 8,585 dollars and 8,096 dollars respectively. Likewise, other services have been provided in the year 2018 in the amount of 42.922 dollars.

16. Subsequent Events

From year-end until the date of preparation of the present Annual Accounts, there have been no circumstances or extraordinary events that affect data included in the present Annual Accounts.

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## PREPARATION OF THE ANNUAL ACCOUNTS BY THE BOARD OF DIRECTORS

In compliance with the laws in force, the Directors have prepared the annual accounts of the Company (balance sheet, income statement, statement of changes in equity and annual report) corresponding to the year ended at 31 December 2018.

Likewise, they declare that the aforesaid documents contain their handwritten signatures, which were affixed to the present sheet of paper annexed to the Annual Report, which is written on pages numbered from 1 to 17.

Madrid, 29 March 2019

Myriam Odette Deltenre

Antonio Santiago Pérez

Miguel Liria Plañiol

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# Management Report

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A.I. CANDELARIA (SPAIN), S.L.

# MANAGEMENT REPORT FOR THE YEAR ENDED AT 31 DECEMBER 2018

## 1. Company Business Performance

Net sales correspond entirely to the income from the dividends distributed by the subsidiary.

## 2. Events Subsequent to Year-End and Future Outlook

From the close of the year until the date of preparation of the present Annual Accounts, no circumstances or extraordinary events have taken place which would affect the information stated in the present annual accounts.

## 3. Company Outlook

The sales forecast for the year 2019 will tend to be stable with respect to the year 2018.

## 4. Research and Development Expenses

No investment was made in research and development.

## 5. Transactions with Treasury Stock

During the year 2018, no treasury stock transactions were carried out.

## 6. Principal Contingencies and Uncertainties Faced by the Company

No significant contingencies or uncertainties have been detected.

## 7. Use of Financial Instruments

During 2018, no use was made of financial instruments, except as detailed in the attached annual report.



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## PREPARATION OF THE MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

In compliance with the laws in force, the Directors of A.I. CANDELARIA (SPAIN), S.L. have prepared the Management Report corresponding to the year ended at 31 December 2018.

Likewise, they declare that the aforesaid document contains their handwritten signatures, which were affixed to the present sheet of paper annexed to said document, which is written on page number 1.

Madrid, 29 March 2019

Myriam Odette Deltenre

Antonio Santiago Pérez

Miguel Liria Plañiol

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ANNEX
A.I. Candelaria (Spain), S.L.

Balance Sheet
at 31 December 2018
(in euros)

| ASSETS | 31.12.2018 | 31.12.2017 |
|---|---|---|
| NON-CURRENT ASSETS | 933,390,560 | 891,129,985 |
| **Long-term financial investments** | **933,390,560** | **891,129,985** |
| Equity instruments | 933,390,560 | 891,129,985 |
| CURRENT ASSETS | 82,041,364 | 51,155,290 |
| **Trade accounts receivable and other accounts receivable** | **42,412,159** | **34,111,237** |
| **Short-term financial investments** | 35,383,068 | - |
| Other financial assets | 35,383,068 | - |
| **Cash and cash equivalents** | **4,246,137** | **17,044,053** |
| Cash in hand and at bank | 4,246,137 | 17,044,053 |
| TOTAL ASSETS | 1,015,431,924 | 942,285,275 |

| EQUITY AND LIABILITIES | 31.12.2018 | 31.12.2017 |
|---|---|---|
| EQUITY | 423,896,381 | 912,859,561 |
| **Shareholder's equity** | **355,377,839** | **825,081,739** |
| **Capital** | **60,000,000** | **60,000,000** |
| Authorized capital | 60,000,000 | 60,000,000 |
| **Issue premium** | - | **212,100,629** |
| **Reserves** | **108,771,547** | **108,771,547** |
| Legal and statutory | 13,834,203 | 13,834,203 |
| Other reserves | 94,937,344 | 94,937,344 |
| **Income (loss) from previous years** | **(2,502,021)** | **(18,088,018)** |
| **Other shareholder contributions** | **140,317,896** | **439,327,421** |
| **Income for the year** | **104,568,184** | **86,785,212** |
| **(Interim dividend)** | **(55,777,767)** | **(63,815,052)** |
| **Adjustments for changes in value** | **68,518,542** | **87,777,822** |
| Other | 68,518,542 | 87,777,822 |
| NON CURRENT LIABILITIES | 583,615,449 | 29,259,274 |
| **Long-term payables** | **560,775,935** | - |
| Debentures and other marketable securities | 560,775,935 | - |
| **Deferred tax liabilities** | **22,839,514** | **29,259,274** |
| CURRENT LIABILITIES | 7,920,094 | 166,440 |
| **Short-term payables** | **7,806,944** | **437** |
| Debentures and other marketable securities | 7,805,677 | - |
| Other financial liabilities | 1,267 | 437 |
| **Trade accounts payable and other accounts payable** | **113,150** | **166,003** |
| Sundry accounts payable | 113,150 | 166,003 |
| TOTAL EQUITY AND LIABILITIES | 1,015,431,924 | 942,285,275 |

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ANNEX

A.I. Candelaria (Spain), S.L.

**Income statement**
**corresponding to the period ended at**
**31 December 2018**
**(in euros)**

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| CONTINUING OPERATIONS | | |
| **Net sales** | **114,613,694** | **75,446,516** |
| Sales | 114,613,694 | 75,446,516 |
| **Other operating expenses** | **(803,049)** | **(392,346)** |
| Outside services | (803,049) | (392,346) |
| **Other income (loss)** | - | **(72,060)** |
| **OPERATING INCOME (LOSS)** | **113,810,645** | **74,982,110** |
| **Financial income** | **3,477** | - |
| From marketable securities and other financial instruments | 3,477 | - |
| From third parties | 3,477 | - |
| **Financial expenses** | **(7,735,591)** | **(185)** |
| For debts with third parties | (7,735,591) | (185) |
| **Exchange gains (losses)** | **(1,510,347)** | **2,668,608** |
| **Impairment and income (loss) from disposal of financial instruments** | - | **9,500,036** |
| Impairment and losses | - | 9,500,036 |
| **FINANCIAL INCOME (LOSS)** | **(9,242,461)** | **12,168,459** |
| **INCOME BEFORE TAXES** | **104,568,184** | **87,150,569** |
| **Corporation tax** | - | **(365,357)** |
| **INCOME FOR THE YEAR** | **104,568,184** | **86,785,212** |

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ANNEX

A.I. Candelaria (Spain), S.L.

Statement of Changes in Equity
corresponding to the period ended at
31 December 2018
(in euros)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Income Statement result | 104,568,184 | 86,785,212 |
| Income and expense directly recognized in equity: | | |
| Other income/expense | - | - |
| Total income and expense directly recognized in equity | - | - |
| Total transfers to the income statement | - | - |
| TOTAL RECOGNIZED INCOME AND EXPENSE | 104,568,184 | 86,785,212 |

B) STATEMENT OF COMPREHENSIVE CHANGES IN EQUITY

| | Authorized capital | Issue premium | Reserves | Income (loss) from previous years | Other Shareholder contributions | Income for the year | (Interim dividend) | Adjustments for changes in value | Total |
|---|---|---|---|---|---|---|---|---|---|
| OPENING BALANCE YEAR 2017 | 60,000,000 | 212,100,629 | 13,834,203 | (18,088,018) | 439,327,421 | 122,263,283 | - | 255,448,643 | 1,084,886,161 |
| Total recognized income and expense | - | - | - | - | - | 86,785,212 | - | - | 86,785,212 |
| Operations with partners or owners: | | | | | | | | | |
| Distribution of dividends | - | - | - | - | - | (33,383,929) | (63,815,052) | - | (97,198,981) |
| Other changes in equity: | - | - | - | - | - | - | - | - | - |
| CLOSING BALANCE YEAR 2017 | - | - | 94,937,344 | - | - | (88,879,354) | - | (167,670,821) | (161,612,831) |
| ADJUSTED OPENING BALANCE YEAR 2018 | 60,000,000 | 212,100,629 | 108,771,547 | (18,088,018) | 439,327,421 | 86,785,212 | (63,815,052) | 87,777,822 | 912,859,561 |
| Total recognized income and expense | - | - | - | - | - | 104,568,184 | - | - | 104,568,184 |
| Operations with partners or owners: | | | | | | | | | - |
| Distribution of dividends | - | (212,100,629) | - | - | (299,009,525) | - | (55,777,767) | - | (566,887,921) |
| Other changes in equity: | - | - | - | 15,585,997 | - | (86,785,212) | 63,815,052 | (19,259,280) | (26,643,443) |
| CLOSING BALANCE YEAR 2018 | 60,000,000 | - | 108,771,547 | (2,502,021) | 140,317,896 | 104,568,184 | (55,777,767) | 68,518,542 | 423,896,381 |

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A.I. Candelaria (Spain), S.L.

**Statement of Cash Flows**
**corresponding to the period ended at**
**31 December 2018**
**(in euros)**

| | Note | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **20,277,137** | **39,073,281** |
| **Income for the year before taxes** | | **104,568,184** | **86,785,212** |
| **Adjustments to income::** | | **(68,201,681)** | **(9,756,674)** |
| Valuation corrections for impairment | | - | (9,500,036) |
| Changes in provisions | | - | (256,823) |
| Financial expenses | | 7,735,591 | 185 |
| Other income and expense | | (75,937,272) | - |
| **Changes in working capital:** | | **(52,853)** | **154,463** |
| Trade receivables and other accounts receivable | | - | 10,418 |
| Trade payables and other accounts payable | | (52,853) | 144,045 |
| **Other cash flows from operating activities:** | | **(16,036,513)** | **(38,109,720)** |
| Interest payments | | (7,735,591) | (185) |
| Corporation tax | | (8,300,922) | (38,109,535) |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | **(35,383,068)** | - |
| **Payments for investments:** | | **(35,383,068)** | - |
| Other financial assets | | (35,383,068) | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **797,669** | **(97,198,544)** |
| **Proceeds from and payments for financial liability instruments:** | | **567,685,590** | **437** |
| Issue: | | | |
| Other payables | | 567,685,590 | 437 |
| **Payments for dividends and remuneration from other equity instruments** | | **(566,887,921)** | **(97,198,981)** |
| Dividends | | (566,887,921) | (97,198,981) |
| **Effect of exchange rate changes** | | **1,510,347** | **(2,668,608)** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | | **(12,797,916)** | **(60,793,871)** |
| Cash or cash equivalents at start of year | | 17,044,053 | 77,837,924 |
| Cash or cash equivalents at year-end | | 4,246,137 | 17,044,053 |

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# A.I. CANDELARIA (SPAIN), S.L.

Annual Accounts and Management Report for the Year 2017

# Grant Thornton

Grant Thornton
Av. Diagonal 615, pl. 10ª
08028 BARCELONA
T +34 93 206 39 00
F +34 93 206 39 10
barcelona@es.gt.com
www.GrantThornton.es

**ANNUAL ACCOUNTS INDEPENDENT AUDIT REPORT**

To the Sole Shareholder of A.I. CANDELARIA SPAIN, S.L. (Sole Shareholder Company)

**Opinion**

We have audited the annual accounts of A.I. CANDELARIA SPAIN, S.L.U. (the Company), comprised of the Balance Sheet at 31 December 2017, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows, and the Annual Report corresponding to the year ended at said date.

In our opinion, the attached annual accounts give, in all significant aspects thereof, a true and fair view of the net worth and financial position of the Company at 31 December 2017, and likewise of its results and cash flows corresponding to the year ended at said date, in accordance with the applicable financial reporting regulatory framework (which is identified in note 2 of the annual report) and, in particular, with the accounting principles and criteria contained therein.

**Basis for the Opinion**

We have conducted our audit in accordance with the regulations governing audit activity currently in force in Spain. Our responsibilities in accordance with said regulations are described further below in the section of our report entitled *Responsibilities of the Auditor in relation to the Audit of the Annual Accounts*.

We are independent of the Company, as called for by ethical requirements, which include that of independence, and which are applicable to our auditing of annual accounts in Spain, as required by the regulations governing accounting activity. In this regard, we have not provided any services other than those related to the audit of accounts, nor have there been any situations or circumstances which, as stipulated in said regulations, may have jeopardized this required independence.

We consider that the audit evidence which we have obtained provides a sufficient and adequate basis for our opinion.

**Most Significant Audit Aspects**

The most significant audit aspects are those which, in our professional judgment, have been considered as the most significant risks of material misstatements in our audit of the annual accounts of the present period. These risks have been dealt with in the context of our audit of the annual accounts as a whole, and in the formation of our opinion with respect thereto, and we do not state a separate opinion on those risks.

We have determined that the risk described below is the most significant risk considered in the audit, which must be communicated in our report.

Recoverable Amount of the Investments in Group Companies

As described in note 5 of the attached annual report, the Company holds the amount of 1,069 million dollars under the caption of Long-term investments in group companies at 31 December 2017. The Company evaluates annually the existence of impairment of the value of the investments in Group companies, and estimates the recoverable amount at year-end of those companies showing signs of value impairment. In terms of said estimation, as mentioned in note 4.a.1.2), the corresponding valuation corrections are made for the difference between their carrying amount and the recoverable amount, this being understood as the greater of fair value less selling costs and the current value of the future cash flows expected from the investment. Unless the recoverable amount is shown to be otherwise, consideration is taken of the equity of the subsidiary, corrected by the unrealized capital gains existing at the valuation date, including goodwill, if any. We consider that the most significant risk identified corresponds to the estimation of said recoverable amount.

As part of our audit, and in response to the risk commented on above, our audit procedures have included, among other aspects, the following:

- The evaluation of the design and implementation of the relevant controls established by the Company in relation to the process for estimating the recoverable amount of the holdings in Group companies.

- The evaluation of the criteria used by the Company in identifying the impairment indicators with respect to the holdings in Group companies.

- The evaluation of the reasonableness of the methodology and hypotheses used by the Company in estimating the recoverable amount of the investments in Group companies.

**Other Information: Management Report**

The other information consists exclusively of the management report for the year 2017, the preparation of which is the responsibility of the Company directors, and which does not form an integral part of the annual accounts.

Our audit opinion with respect to the annual accounts does not cover the management report. Our responsibility in regard to the management report, in accordance with the regulations governing audit activity, consists in evaluating and reporting on whether the management report coincides with the annual accounts, based on the knowledge of the company obtained from auditing the aforementioned accounts and without including any information other than that obtained as evidence during said audit. Likewise, our responsibility consists in evaluating and reporting on whether the contents and presentation of the management report comply with the applicable regulations. In the case where, basing ourselves on the work which we have done, we conclude that there are material misstatements, we are obliged to report this.

Based on the work carried out, as described in the preceding paragraph, the information contained in the management report is in keeping with that contained in the annual accounts for the year 2017, and the contents and presentation thereof comply with the applicable regulations.

**Responsibility of the Directors in Relation to the Annual Accounts**

The directors are responsible for preparing the attached annual accounts, so that consequently they give a true and fair view of the net worth, financial situation and the results of the Company, in accordance with the financial reporting regulatory framework applicable to the company in Spain, and of the internal control which they deem necessary to allow the annual accounts to be prepared free from any material misstatement owing to fraud or error.

In preparing the annual accounts, the directors are responsible for evaluating the capacity of the Company to continue as a going concern, disclosing, as applicable, the matters related to the going concern and using the accounting principle of going concern, except in the case where the directors intend to liquidate the Company or cease its operations, or should there be no other realistic alternative.

***Responsibilities of the Auditor in relation to the Audit of the Annual Accounts***

Our objectives are to obtain reasonable certainty that the annual accounts as a whole are free from material misstatements, owing to fraud or error, and to issue an audit report which contains our opinion. Reasonable certainty is a high degree of certainty, but does not guarantee that an audit conducted in accordance with the regulations in force in Spain governing the audit of accounts will always detect a material misstatement when it exists. Misstatements may be owing to fraud or error, and they are deemed to be material in the case where, either individually or in aggregate, they can be reasonably expected to influence the economic decisions taken by the users on the basis of the annual accounts.

As part of an audit conducted in accordance with the regulations in force in Spain governing the audit of accounts, we apply our professional judgment and maintain an attitude of professional skepticism throughout the entire audit. Likewise:

- We identify and evaluate the risks of material misstatements in the annual accounts, owing to fraud or error; we design and apply audit procedures to respond to said risks; and we obtain sufficient audit evidence which will provide an adequate basis for our opinion. The risk of failing to detect a material misstatement owing to fraud is much greater than in the case of a material misstatement owing to error, given that fraud may entail collusion, falsification, deliberate omissions, intentional misrepresentations, or the evasion of internal control.

- We obtain a knowledge of internal control which is relevant for the audit for the purpose of designing audit procedures which are adequate in terms of the circumstances, and not for the purpose of stating an opinion on the efficacy of the internal control of the company.

- We evaluate whether the applied accounting policies are adequate, as well as the reasonableness of the accounting estimations and the corresponding information disclosed by the directors.

- We conclude as to whether the use of the accounting principle of going concern by the directors is adequate, and, basing ourselves on the audit evidence obtained, we conclude as to whether or not there is a material uncertainty in relation to the facts or to conditions which may give rise to significant doubts as to the capacity of the Company to continue as a going concern. In the case where we conclude that there is a material uncertainty, we are required to call attention in our audit report to the corresponding information disclosed in the annual accounts or, in the case where said disclosures are not adequate, we must issue a modified opinion. Our conclusions are based on the audit evidence obtained up until the date of our audit report. However, future facts or conditions may cause the Company to cease as a going concern.

- We evaluate the overall presentation, structure and contents of the annual accounts, including the information disclosed, and whether or not the annual accounts represent the transactions and underlying circumstances in such a way as to give a true and fair view.

We communicate with the company directors in relation, among other matters, to the planned scope and time at which the audit is conducted, and the significant findings of the audit, as well as any significant internal control deficiency which we identify in the course of the audit.

Among the significant risks which have been communicated to the directors of the company, we determine those which have had the greatest significance in the audit of the annual accounts of the present period, and which are, consequently, the risks which are considered to be the most significant.

We describe those risks in our audit report, unless the legal or regulatory provisions prohibit the public disclosure of the matter.

Grant Thornton, S.L.P. Sociedad Unipersonal (S0231)

**Professional Association of Chartered Accountants of Catalonia**

[Illegible signature]

Carlos Villabona de la Fuente

ROAC n. 12720

13 April 2018

GRANT THORNTON, S.L.P.

**Year 2018 No. 20/18/01390**

AMOUNT - 96.00 EUR

This report is subject to Spanish or international regulations governing audit activity

# Annual Accounts

**A.I. Candelaria (Spain), S.L.**

**Balance Sheet**
**at 31 December 2017**
**(in US dollars)**

| ASSETS | Note | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| NON-CURRENT ASSETS | 5 | 1,068,732,191 | 1,058,000,000 |
| **Long-term financial investments** | 5 | 1,068,732,191 | 1,058,000,000 |
| Equity instruments | | 1,068,732,191 | 1,058,000,000 |
| **Trade accounts receivable and other accounts receivable** | 6 | 40,909,606 | 17,332,912 |
| Other accounts receivable | | - | 10,982 |
| Current tax assets | 9 | 40,909,606 | 17,321,930 |
| Other taxes receivable | | - | - |
| **Cash and cash equivalents** | | 20,440,933 | 82,048,955 |
| Cash in hand and at bank | | 20,440,933 | 82,048,955 |
| TOTAL ASSETS | | 1,130,082,730 | 1,157,381,867 |
| EQUITY | 8 | 1,129,883,117 | 1,143,578,501 |
| **Shareholder' equity** | | 1,129,876,503 | 1,143,571,871 |
| **Capital** | | 82,493,841 | 82,493,841 |
| Authorized capital | | 82,493,841 | 82,493,841 |
| **Issue premium** | | 334,460,228 | 334,460,228 |
| **Reserves** | | 116,572,222 | 16,498,768 |
| Legal and statutory | | 16,498,768 | 16,498,768 |
| Other reserves | | 100,073,454 | - |
| **Income from previous years** | | (24,945,166) | (24,945,166) |
| (Negative income from previous years) | | (24,945,166) | (24,945,166) |
| **Other shareholder contributions** | | 599,800,746 | 599,800,746 |
| **Income for the year** | | 98,028,024 | 135,263,454 |
| **(Interim dividend)** | | (76,533,392) | - |
| **Adjustments for changes in value** | | 6,614 | 6,630 |
| Other | | 6,614 | 6,630 |
| CURRENT LIABILITIES | | 199,613 | 13,803,366 |
| **Short-term provisions** | | - | 270,718 |
| **Short-term payables** | 11 | 524 | - |
| Other financial liabilities | | 524 | - |
| **Trade accounts payable and other accounts payable** | 7 | 199,089 | 13,532,648 |
| Sundry accounts payable | | 199,089 | 20,555 |
| Current tax liabilities | | - | 13,509,503 |
| Other tax payables | 9 | - | 2,590 |
| TOTAL EQUITY AND LIABILITIES | | 1,130,082,730 | 1,157,381,867 |

**A.I. Candelaria (Spain), S.L.**
**Income Statement**
**corresponding to the year ended at**
**31 December 2017**

**(in US dollars)**

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Net sales** | 10.a | 85,231,930 | 146,695,238 |
| Sales | | 85,231,930 | 146,695,238 |
| **Other operating expenses** | 10.b | (456,464) | (294,391) |
| Outside services | | (456,464) | (294,391) |
| **Other income (loss)** | | (81,406) | (219,863) |
| **OPERATING INCOME (LOSS)** | | 84,694,060 | 146,180,984 |
| **Investment expenses** | | (209) | (1,871) |
| For debts with third parties | | (209) | (1,871) |
| **Exchange gains (losses)** | | 3,014,726 | (183,468) |
| **Impairment and income (loss) from disposal of financial instruments** | 5 | 10,732,191 | (10,732,191) |
| Impairment and losses | | 10,732,191 | (10,732,191) |
| **INVESTMENT INCOME** | | 13,746,708 | (10,917,530) |
| **INCOME BEFORE TAXES** | | 98,440,768 | 135,263,454 |
| Corporation tax | | (412,744) | |
| **INCOME FOR THE YEAR** | | 98,028,024 | 135,263,454 |

## A.I. Candelaria (Spain), S.L.

### Statement of Changes in Equity corresponding to the year ended at 31 December 2017 (in US dollars)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Income Statement result** | 3 | 98,028,024 | 135,263,454 |
| **Income and expense directly recognized in equity:** | | | |
| For asset and liability valuation | | | |
| Other income/expense | | (16) | 3 |
| **Total income and expense directly recognized in equity** | | (16) | 3 |
| **TOTAL RECOGNIZED INCOME AND EXPENSE** | | 98,028,008 | 135,263,7457 |

B) STATEMENT OF COMPREHENSIVE CHANGES IN EQUITY

| | Note | Authorized capital | Issue premium | Reserves | Income (loss) from previous years | Other Shareholder contributions | Income for the year | (Interim dividend) | Adjustments for changes in value | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CLOSING BALANCE YEAR 2015** | | 82,493,841 | 483,545,708 | 8,672,679 | (171,686,354) | 599,800,746 | 392,013,435 | (210,930,349) | 6,627 | 1,183,916,333 |
| Adjustment for errors 2015 | | - | - | - | - | - | (26,515,809) | - | - | (26,515,809) |
| **ADJUSTED OPENING BALANCE YEAR 2016** | | 82,493,841 | 483,545,708 | 8,672,679 | (171,686,354) | 599,800,746 | 365,497,626 | (210,930,349) | 6,627 | 1,157,400,524 |
| Total recognized income and expense | | - | - | - | - | - | 135,263,454 | - | 3 | 135,263,457 |
| Operations with partners or owners | | | | | | | | | | |
| Distribution of dividends | | - | (149,085,480) | - | - | - | - | - | - | (149,085,480) |
| Other changes in equity | | - | - | 9,396,732 | 171,686,354 | - | (392,013,435) | 210,930,349 | - | - |
| Other changes in equity | | | | (1,570,643) | (24,945,166) | | 26,515,809 | | | |
| **CLOSING BALANCE YEAR 2016** | | 82,493,841 | 334,460,228 | 16,498,768 | (24,945,166) | 599,800,746 | 135,263,454 | - | 6,630 | 1,143,578,501 |
| Adjustment for errors 2016 | | - | - | - | - | - | - | - | - | - |
| **ADJUSTED OPENING BALANCE YEAR 2017** | | 82,493,841 | 334,460,228 | 16,498,768 | (24,945,166) | 599,800,746 | 135,263,454 | - | 6,630 | 1,143,578,501 |
| Total recognized income and expense | 3 | - | - | - | - | - | 98,028,024 | - | (16) | 98,028,008 |
| Operations with partners or owners | | | | | | | | | | |
| Distribution of dividends | 3 | - | - | - | - | - | (35,190,000) | (76,533,392) | - | (111,723,392) |
| Other changes in equity | 3 | - | - | 100,073,454 | - | - | (100,073,454) | - | - | - |
| **CLOSING BALANCE YEAR 2017** | | 82,493,841 | 334,460,228 | 116,572,222 | (24,945,166) | 599,800,746 | 98,028,024 | (76,533,392) | 6,614 | 1,129,883,117 |

A.I. Candelaria (Spain), S.L.

**Statement of Cash Flows**
**corresponding to the year ended at**
**31 December 2017**
**(in US dollars)**

| | No | 2017 | 2016 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | 53,129,572 | 142,237,017 |
| **Income for the year before taxes** | | 98,028,024 | 135,263,454 |
| **Adjustments to income:** | | (7,987,990) | 10,821,315 |
| Valuation corrections for impairment | | (10,732,191) | 10,732,191 |
| Changes in provisions | | (270,718) | 270,718 |
| Investment expenses | | 209 | 1,871 |
| Other income and expense | | 3,014,710 | (183,465) |
| **Changes in working capital:** | | 186,926 | (33,454) |
| Trade receivables and other accounts receivable | | 10,982 | (7,750) |
| Trade payables and other accounts payable | | 175,944 | (25,704) |
| **Other cash flows from operating activities:** | | (37,097,388) | (3,814,298) |
| Interest payments | | (209) | (1,871) |
| Corporation tax prepayments | | (37,097,179) | (3,812,427) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | (111,722,868) | (149,098,287) |
| **Proceeds from and payments for financial liability instruments:** | | 524 | (12,807) |
| Issue: | | | |
| Other payables | | 524 | - |
| Repayment and amortization of: | | | |
| Other | | - | (12,807) |
| **Payments for dividends and remuneration from other equity instruments** | | (111,723,392) | (149,085,480) |
| Dividends | | (111,723,392) | (149,085,480) |
| **Effect of exchange rate changes** | | (3,014,726) | 183,468 |
| NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS | | (61,608,022) | (6,677,802) |
| Cash or cash equivalents at start of year | | 82,048,955 | 88,726,757 |
| Cash or cash equivalents at year-end | | 20,440,933 | 82,048,955 |

**A.I. CANDELARIA (SPAIN), S.L.**
**Annual Report for the Year Ended at**
**31 December 2017**

1. Activity

A.I. Candelaria (Spain), S.L. (hereinafter, the Company) was set up on 18 September 2013, under the corporate name of Fairmont Invest, S.L. with its registered office located in Madrid, at Calle Ayala, number 66, subsequently changing its name to the current one in Madrid, at Calle Príncipe de Vergara, number 131. On 14 September 2017, it changes its registered office to Calle Pradillo, number 5, Madrid.

In accordance with its Articles of Association, the Company has as its corporate purpose, the acquisition, administration and management of securities representing the shareholders' equity of companies not residing in Spanish territory, as well as the placement of the financial resources derived from said activities; the acquisition, administration and management of securities representing the shareholders' equity of companies residing in Spanish territory, as well as the placement of the financial resources derived from said activities. The exercise of the functions of administration, membership on the Board, assistance, advisory services, management and other services related to the activity of securities administration and management shall be carried out through the corresponding organization of the appropriate material and personal resources for the purpose of adopting decisions for the suitable management of the equity holdings. The Company may, likewise, carry out, in general, any other licit commercial activity which is prior or ancillary to the aforementioned principal activities.

The Company and its direct parent, A.I. Candelaria (Luxembourg) S.á.r.l., form part of the A.I. Candelaria Group, whose registered office is in Luxembourg. The parent of the A.I. Candelaria Group has not filed consolidated annual accounts given that it is dispensed from this obligation in accordance with applicable law.

The functional currency of the Company is the dollar. The financial statements in euros (balance sheet, income statement, and statement of changes in equity) are annexed to these annual accounts.

2. Bases for Presentation of the Annual Accounts

a) True and fair view

The annual accounts, comprised of the balance sheet, income statement, statement of changes in equity, statement of cash flows, and the annual report consisting of notes 1 to 14, have been prepared on the basis of the accounting records, with application having been made of the accounting regulations in force, specifically, the Spanish General Chart of Accounts, approved by Royal Decree 1514/07 of 16 November 2007, and the amendments thereof, approved by Royal Decree 1159/2010, of 17 September, and by Royal Decree 602/2016, of 2 December, in an aim to give a true and fair view of the net worth, financial situation, results, and the changes in equity taking place during said year.

Unless otherwise indicated, all figures contained in the annual report are in US dollars.

The annual accounts prepared by the directors shall be put to the General Meeting of Equity Holders for approval, it being deemed that said accounts will be approved without any change whatsoever.

b) Accounting principles

The annual accounts have been prepared in accordance with the mandatory accounting principles.

There is no accounting principle of significant effect which has not been applied.

c) Critical aspects regarding valuation and estimation of uncertainty

In preparing the attached annual accounts, the estimations made by the Company Directors have been used to value certain assets, liabilities, revenues, expenses and commitments recorded therein. Such estimations basically refer to:

- The fair value of certain financial instruments (note 4a).

These estimations have been made on the basis of the best available information at the date of preparation of these annual accounts, there being no circumstance which could lead to any change in said estimations. Any future event unknown at the date of preparation of these estimations could give rise to changes (either higher or lower), which, if applicable, shall be carried out prospectively.

d) Classification of current and non-current items

For the classification of current items, the maximum term of one year as from the date of the present annual accounts has been taken into consideration.

e) Correction of errors

In preparing the attached annual accounts, no errors from previous years have been detected that should be corrected.

f) Comparison of information

In accordance with commercial law, for the purposes of comparison each one of the items on the balance sheet, income statement, statement of changes in equity and statement of cash flows is presented with the figures for the year 2016 as well as those corresponding to the preceding year. The annual report also contains quantitative information on the preceding year, except in those cases in which an accounting regulation specifically states that this is not necessary.

g) Functional currency

The new General Chart of Accounts (NPGC) understands "Functional Currency" to be that of the primary economic environment in which the entity operates. International Financial Reporting Standard 21 likewise indicates other factors which may shed light on the Functional Currency, such as:

- The currency in which the funds from the financing activity are generated
- The currency in which the amounts collected from operating activities are held

In the year 2017 the Company considered the US dollar to be its functional currency, given that the dollar is the primary economic environment in which it operated.

In order to determine the dollar as the functional currency for the year 2017, the Company has taken into account the following criteria:

- The underlying assets accounting for 99% of the total assets of the Company are denominated in dollars
- The Company is a Foreign Securities Holding Company, and consequently its main objective is the growth and maximization of the value of its investments in subsidiary companies.
- The operating company which is a subsidiary of the Company has the dollar as its functional currency.
- The total funds received from its subsidiary as dividends were received exclusively in dollars (85,231,930 dollars).

Nevertheless, given the requirement to present the annual accounts in euros, the Company has recognized the effect derived from the foreign currency exchange rate, as well as the effect of the translation of its functional currency into euros. For this purpose, the differences from the translation to the presentation currency have been directly accounted for in equity. Transactions in a currency other than the functional currency are recorded in accordance with the policies established in note 4.b.

3. Application of Income

The proposal for the application of income for the year 2016 which the Directors are submitting to the General Meeting of Equity Holders is the following:

| | |
|---|---|
| Distribution base | |
| Income statement (profit) | 98,028,024 |
| Application | |
| To dividend for the year | 76,533,382 |
| To voluntary reserves | 21,494,632 |

On 30 March 2017, the General Meeting of Equity Holders approved the distribution of income for the year 2016, in the amount of 135,263,454 dollars, with the amount of 100,073,454 dollars to voluntary reserves; and 35,190,000 dollars to dividends.

On 20 January 2017, the Board of Directors resolved to distribute to the sole equity holder of the Company a dividend charged to income for the year closed at 31 December 2016, in the amount of 35,190,000 dollars.

On 29 December 2017, an interim dividend was distributed, consisting of a credit held by the Company, as creditor, against its Equity Holder, as debtor, in the amount of 76,533,392 dollars, thus being extinguished by confusion the debt for that amount held by the Company against the Equity Holder.

Due to the fact that the date of distribution of the interim dividend practically coincides with that of the financial year-end, it is not included a table showing the existence of sufficient income during said year which would permit the distribution of an interim dividend.

4. Recording and valuation standards

The principal recording and valuation standards used in preparing the annual accounts are the following:

a) Financial instruments

a.1) Financial assets

The financial assets of the Company are classified, for valuation purposes, into the following categories:

a.1.1) Loans and receivables

These correspond to loans for commercial or non-commercial transactions, having their origin in the sale of goods, deliveries of cash amounts, or provision of services, the collection amounts of which are determined or determinable, and do not trade in an active market.

They are initially recorded at the fair value of the consideration received plus any directly attributable transaction costs. They are subsequently valued at their amortized cost, with the accrued interest being recorded in terms of the effective interest rate.

Notwithstanding the above, loans having a maturity of not more than one year and valued initially at face value continue to be valued at said amount, unless they are impaired.

Valuation corrections for impairment are recorded in terms of the difference between their book value and the current value at year-end of the future cash flows which they are expected to generate, discounted at the effective interest rate calculated at the time of their initial recognition. These corrections are recognized in the income statement.

a.1.2) Investments in the equity of group, associate and multi-group companies

Group companies are deemed to be those related to the Company through a relationship of control, and associate companies those over which the Company holds significant influence. In addition, the multi-group category includes those companies over which, by virtue of an agreement, joint control is held with one or more partners. Said investments are initially valued at cost, which would be equivalent to the fair value of the consideration received plus any directly attributable transaction costs.

They are subsequently valued at cost, less, if applicable, the cumulative amount of the valuation corrections for impairment. Said corrections are calculated as the difference between their book value and the recoverable amount, understood as the greater of fair value less selling costs or the current value of the future cash flows expected from the investment. Unless the recoverable amount is shown to be otherwise, consideration is taken of the equity of the subsidiary, corrected by the unrealized capital gains existing at the valuation date, including goodwill, if any.

In the case where the subsidiary, in turn, has a subsidiary of its own, consideration is taken of the equity from the consolidated annual accounts. Changes in value owing to valuation corrections for impairment, and, if applicable, their reversal, are recorded in the income statement as expense or income, respectively.

Financial assets are retired when they expire or when the rights over the cash flows of the corresponding financial asset have been assigned, and the risks and rewards inherent to ownership have been substantially transferred.

On the contrary, financial assets are not retired, and a financial liability is recognized for an amount equal to the consideration received, in financial asset assignments in which the risks and rewards inherent to their ownership are substantially retained, such as the discount of commercial drafts.

Financial asset interest and dividends accrued subsequent to the time of acquisition are recognized as income in the income statement. Interest is recognized using the effective interest rate method, and dividends are recognized when the right of the equity holder to receive them is declared.

For these purposes, at the time the financial assets are initially valued, recording is made, taking into account the maturity, of the amount of explicit interest payable and not overdue at said time as well as of the amount of the dividends agreed to by the competent body at the time of acquisition. Explicit interest is understood to be that obtained from application of the commercial interest rate of the financial instrument.

Likewise, when the distributed dividends unequivocally come from income generated prior to the acquisition date because distribution was made of amounts higher than the income generated by the subsidiary since that time, they are not recognized as income, and decrease the book value of the instrument.

a.2) Financial liabilities

A financial liability is recognized on the balance sheet when the Company becomes an obligated party to the contract or legal business transaction in accordance with the provisions thereof.

Debits and items payable having their origin in the purchase of goods and services in the normal course of business of the company or for non-commercial transactions are initially valued at the fair value of the consideration received, adjusted by directly attributable transaction costs.

Notwithstanding the above, debits for commercial transactions having a maturity of not more than one year and which do not have a contractual interest rate are initially valued at face value, provided that the effect of not updating the cash flows is not significant.

Debits and payables are subsequently valued at their amortized cost, using the effective interest rate. Those which, as commented in the preceding paragraph, are initially valued at their face value continue to be valued at said amount .

Liability derivative financial instruments are valued at fair value, following the same criteria as those corresponding to the financial assets held for trading described in the paragraph above.

Financial liabilities are retired when the obligations giving rise to them have been extinguished.

b) Foreign currency transactions

b.1) Functional currency and presentation

The annual accounts are presented in euros, in accordance with the provisions of section 34 of the Commercial Code. In 2017, the functional currency of the Company was the euro, given that this is the currency of the economic environment in which the Company and its Group operate (See Note 2.g).

Translation of the Company annual accounts for the purpose of translation into euros is as follows:

- Assets and liabilities are translated at the closing exchange rate
- Equity items, excluding income for the year, are translated at the historical exchange rate at the date of the transaction.
- In the case of income and expenses, the company has used an annual weighted rate since it considers that these have not changed significantly.
- The difference between the net amount of assets and liabilities and the equity items is recorded under the equity caption of "translation gains (losses)", net of the tax effect, if applicable.

For the effects of translation into euros in the presentation of amounts accounted for in US dollars, the exchange rates used have been the following:

| Dollar/euro exchange rates | 2017 | 2016 |
|---|---|---|
| Closing exchange rate | 1.1993 | 1.0541 |
| Average exchange rate | 1.1297 | 1.1069 |

b.2) Foreign currency

Foreign currency transactions are converted at their initial valuation at the spot exchange rate in force at the date of the transaction.
Monetary assets and liabilities denominated in foreign currency are converted at the spot exchange rate in force at the balance sheet date. Any exchange gains or losses given rise to in this process, as well as those taking place at the time of settlement of said assets and liabilities, are recognized in income for the year in which they take place.

b.3) Monetary items

The conversion into functional currency of accounts payable and accounts receivable in foreign currency is carried out applying the exchange rate in effect at the time at which the corresponding transaction is carried out, and are valued at year-end in accordance with the exchange rate in force at said time.

Exchange gains and losses produced as a result of the year-end valuation of debits and credits in foreign currency are taken directly to the income statement.

c) Corporate income tax

The income or expense for corporate income tax is calculated by the sum of the current tax expense or current tax income plus the corresponding part of the deferred tax expense or deferred tax income.

The current tax is the amount resulting from the application of the tax rate to the taxable income for the year. Deductions and other tax benefits, excluding withholdings and prepayments, as well as the offset of tax losses from previous years and effectively applied in the year will give rise to a lower current tax amount.

Deferred tax expense or income corresponds, on its part, to the recognition and cancellation of the deferred tax assets for deductible temporary differences, for the right to offset tax losses in subsequent years, and for unused deductions and other tax benefits pending application, and deferred tax liabilities for taxable temporary differences.

Deferred tax assets and liabilities are valued in accordance with the tax rates expected at the time of their reversal.

Deferred tax liabilities are recognized for all taxable temporary differences, except those derived from the initial recognition of goodwill or of other assets and liabilities in a transaction which does not affect either the taxable income or the financial accounting income and is not a business combination.

In accordance with the principle of prudence, deferred tax assets are only recognized to the degree to which the obtainment of future gains which would permit their application is deemed likely. Notwithstanding this, no recognition is made of deferred tax assets corresponding to deductible temporary differences derived from the initial recognition of assets and liabilities in a transaction which does not affect either the taxable income or the financial accounting income and is not a business combination.

Current and deferred tax expense or income are recorded in the income statement. Nevertheless, current and deferred tax assets and liabilities related to a transaction or event directly recognized in an equity item are recognized to the debit or credit of said item.

At the end of each accounting period, a review is made of the deferred taxes recorded in order to verify that they remain in force, with the pertinent corrections thereof being made. Likewise, evaluation is made of the deferred tax assets recognized and of those not recorded before, retiring the recognized assets in the case where their recovery is no longer likely, or recording any assets of this type which had not been recognized before, to the degree to which their recovery with future tax benefits becomes likely.

d) Provisions and contingencies

When preparing the annual accounts, the Company Directors make a distinction between:

d.1) Provisions

Creditor balances which cover current obligations derived from past events, the cancellation of which is deemed likely to result in an outflow of resources but the amount and/or time of cancellation of which is indeterminate.

d.2) Contingent liabilities

Possible obligations arising as the consequence of past events, the future materialization of which is subject to the occurrence or not of one or more future events beyond the control of the Company.

The annual accounts record all the provisions with respect to which the need to attend to the obligation is considered more likely than not, and these are recorded at the current value of the best possible estimation of the amount required to cancel or transfer the obligation to a third party. Contingent liabilities are not recognized in the annual accounts, but are reported in the annual report.

Provisions are valued at year-end at the current value of the best possible estimation of the amount required to cancel or transfer the obligation to a third party, with the adjustments arising from the updating of said provisions being recorded as a financial expense as it becomes payable. In the case of provisions having a maturity of one year or less, in which the financial effect is not significant, no type of discount is made.

e) Related party transactions

Related party transactions, regardless of the degree of the relation, are recorded in accordance with the general regulations. Consequently, generally speaking, elements subject to transaction are recorded at the initial time at fair value. In the case where the price agreed in a transaction differs from fair value, the difference is recorded taking into account the economic reality of the transaction. The subsequent valuation is made as set out in the corresponding regulations.

f) Income and expense

These are recorded in terms of the accrual criterion, that is, at the time the real flow of goods and services which they represent is produced, regardless of the time at which the resulting monetary or financial flow derived from them takes place. Said income is valued at the fair value of the consideration received, after deducting discounts and taxes.

Income from sales is recognized at the time of transfer of the significant risks and rewards inherent to the ownership of the good which is sold, and when the Company no longer holds current management over the good or retains effective control over it.

Income from the provision of services is recognized taking into consideration the degree of realization of the service provision at the balance sheet date, provided that the transaction is able to be reliably estimated.

g) Statement of cash flows

The statement of cash flows has been prepared using the indirect method, with the following expressions being used in said statement with the meaning indicated below:

- Operating activities: activities constituting the ordinary income of the company, as well as other activities which cannot be termed as investing or financing activities.
- Investing activities: activities for the acquisition, disposal or transfer by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities which produce changes in the size and composition of equity and of the liabilities which do not form part of the operating activities.

5. Long-term financial investments

The information on the long-term financial instruments on the asset side of the Company balance sheet is as follows:

| | Year 2017 | | |
|---|---|---|---|
| Account | Opening Balance | Additions | Closing Balance |
| Equity instrument | 1,068,732,191 | - | 1,068,732,191 |
| Provisions | (10,732,191) | (10,732,191) | - |
| | 1,058,000,000 | (10,732,191) | 1,068,732,191 |

| | Year 2016 | | |
|---|---|---|---|
| Account | Opening Balance | Retirements | Closing Balance |
| Equity instrument | 1,068,732,191 | - | 1,068,732,191 |
| Provisions | - | (10,732,191) | (10,732,191) |
| | 1,068,732,191 | (10,732,191) | 1,058,000,000 |

The breakdown of the information regarding investment in unlisted equity instruments at 31 December 2017 and 2016 is as follows:

| At 31.12.17 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Shareholding % | | | Result | | |
| Name/ Domicile/ Activity | Shareholding Book Value | Direct | Share Capital | Reserves and translation differences | Operating | Net | Dividends Received |
| Oleoducto Central S.A. (*) (**) Colombia Oil Sector | 1,068,732,191 | 22.352% | 44,226,100 | 813,172,338 | 507,519,219 | 267,171,602 | 85,231,930 |

At 31.12.16

| Name/ Domicile / Activity | Shareholding Book Value | Shareholding % Direct | Share Capital | Reserves and translation differences | Result Operating | Result Net | Dividends Received |
|---|---|---|---|---|---|---|---|
| Oleoducto Central S.A. (*) Colombia Oil Sector | 1,068,732,191 | 22.352% | 51,606,247 | 733,602,592 | 199,357,701 | 164,120,618 | 146,695,238 |

(*) Company audited by Ernst & Young, S.A.S.
(**) Data translated at the rates of exchange Colombian Peso / U.S. Dollar as at 31.12.17 and 31.12.16 respectively.

On 9 December 2013, the Company signed 3 contracts for the purchase of shares in the Company Oleoducto Central S.A. On 19 December 2013, the shareholder register book of Oleoducto Central S.A. recorded the transfer of 22.352% of the shares to A.I. Candelaria (Spain), S.L., which, on that same day, transferred the shares to the trust Fideicomiso Acciones Ocensa.

## 6. Trade accounts receivable and other accounts receivable

The balance sheet heading of "Trade accounts receivable and other accounts receivable" is as follows:

| Item | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Other accounts receivable | | 10,982 |
| Current tax assets (see note 9) | 40,909,606 | 17,321,930 |
| Other tax receivable (see note 9) | - | - |
| | 40,909,606 | 17,332,912 |

## 7. Information on the Nature and Risk Level of the Financial Instruments

### Qualitative information

Management of the Company financial risks is centralized in Management, which has established the mechanisms required to control exposure to changes in interest rates and exchange rates, as well as credit and liquidity risks. The principal financial risks having an impact on the Company are indicated below:

a) Credit risk:

In general terms, the Company holds its cash and cash equivalents in financial institutions having a high credit rating.

In addition, it must be pointed out that there is not a significant concentration of credit risk with third parties outside of the group.

b) Liquidity risk:

In an aim to ensure liquidity and be able to meet all payment commitments derived from its activity, the Company has the cash and short-term loans to Group companies as shown on its balance sheet.

c) Market risk (including interest rate, exchange rate, and other price risks)

There is hardly any exchange risk, given that practically all transactions are in US dollars.

Quantitative information

a) Credit risk:

At year-end 2017, the Company did not have any credit insurance to guarantee the collection of its accounts receivable.

b) Interest rate risk:

The Company does not use outside capital to finance its operations.

c) Exchange rate risk:

| | *2017* | *2016* |
|---|---|---|
| *Percentage of accounts receivable/payable in euros for which no exchange insurance has been taken out* | *100%* | *100%* |

8. Trade accounts payable and other accounts payable

The heading of 'Trade accounts payable and other accounts payable' broken down at 31 December 2017 and 2016 is the following:

| Item | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Sundry accounts payable | 199,089 | 20,555 |
| Current tax liability (see note 9) | - | 13,509,503 |
| Other taxes payable (see note 9) | - | 2,590 |
| | 199,089 | 20,555 |

For the purposes set out in additional provision second of Law 31/2014, of 3 December, amending the Capital Companies Act, and pursuant to the Resolution of 29 February 2016 of the Spanish Accounting and Auditing Institute, a breakdown is presented below of the average period of payment to suppliers, ratio of paid transactions, ratio of transactions pending payment, total payments made and total payments pending:

| | 2017 Days | 2016 Days |
|---|---|---|
| Average period of payment to suppliers | 35 | 19 |
| Ratio of transactions paid | 25 | 21 |
| Ratio of transactions pending payment | 50 | 2 |

| | 2017 Amount | 2015 Amount |
|---|---|---|
| Total payments made | 334,871 | 228,004 |
| Total payments pending | 198,321 | 20,555 |
| | 533,192 | 248,559 |

9. Equity and Shareholders' Equity

Shareholders' Equity

a) Equity capital

At year-end 2017 the Company equity capital amounted to 82,493,841 dollars, represented by 60,000,000 ordinary nominative equity participations each having a par value of 1,37489 dollars, being fully subscribed and paid up, granting the same rights to the holders thereof.

b) Legal reserve

In accordance with the Revised Text of the Capital Companies Act, an amount equal to 10% of income for the year is required to be allocated to the legal reserve until it reaches at least 20% of the share capital. The legal reserve may be used to increase the capital by that part of its balance which exceeds the 10% of the already increased capital. Except for the aforementioned purpose, and provided that it does not exceed 20% of the share capital, this reserve may only be used to offset losses, this provided that there are not any other sufficient reserves available for said purpose.

At year-end 2017, this reserve was fully constituted.

c) Issue premium and voluntary reserves

These balances are freely disposable, except for the amount of the cumulative losses.

- Model 720

In compliance with order HAP/72/2013 of 30 January, approving form 720, informative declaration on assets and rights located abroad, the Company reports that it has the following accounts in financial institutions located abroad:

| *Ledger Account* | *Bank Account Number* | *Credit Institution* | *Country* |
|---|---|---|---|
| *5730000101* | *ITAU NEW YORK-3485812106- USD* | *ITAU BBA* | *United States* |
| *5730000103* | *ITAU NEW YORK-3485992106- USD* | *ITAU BBA* | *United States* |
| *5730000104* | *ITAU NEW YORK-3486072106- USD* | *ITAU BBA* | *United States* |

10. Tax situation

The breakdown of the accounts related to taxes in the years 2016 and 2015 is as follows:

| | 31.12.2017 | | 31.12.2016 |
|---|---|---|---|
| | Debtor Balances | Creditor Balances | Debtor Balances |
| Account | Current | Current | Current |
| Current tax assets | 49,909,606 | 17,321,930 | - |
| Current tax liabilities | - | - | 13,509,503 |
| Other withholdings | - | - | 2,590 |
| Total | 49,909,606 | 17,321,930 | 13,512,093 |

Reconciliation of net income and expenses for the year and the Corporation Tax taxable base (taxable income) is the following:

2017

| | Income Account | | |
|---|---|---|---|
| | Increases | Decreases | Total |
| Income before taxes | | | 98,440,768 |
| Permanent differences | 81,406 | (95,964,121) | (95,882,715) |
| Offset of negative taxable | | | (907,078) |
| Taxable Base (Taxable income) | | | 1,650,975 |
| Total tax liability | | | 412,744 |
| Withholdings and prepayments | | | 21,614,361 |
| Net recoverable amount | | | (21,201,617) |

2016

| | Income Account | | |
|---|---|---|---|
| | Increases | Decreases | Total |
| Income before taxes | | | 135,263,454 |
| Permanent differences | - | (135,963,047) | (135,963,047) |
| Taxable Base (Taxable income) | | | (699,593) |
| Withholdings and prepayments | | | 17,321,931 |
| Net recoverable amount | | | (17,321,931) |

As stipulated by the laws in force, taxes may not be considered as definitively settled until the returns filed have been audited by the tax authorities, or until the four-year statute of limitations has expired. At year-end 2017, the Company has subject to audit the Corporation Tax returns for the years 2014 and following years, and for the year 2014 and the following years for all other taxes applicable to it. It is considered that the aforementioned taxes have been adequately settled; consequently, even in the case where certain discrepancies were to arise in the interpretation of the regulations in force, should this come to pass, it would not significantly affect the attached annual accounts.

Nevertheless, the tax credits resulting from Negative Taxable Income and from deductions could be subject to review during a term of 10 years as from the date on which they are generated.

11. Income and Expense

a) Net sales

Net sales correspond to the income from the dividends distributed by the subsidiary, classified in this heading on the basis of Company activity, described in note 1.

b) Other operating expenses

These are broken down as follows:

| Item | 2017 | 2016 |
|---|---|---|
| Independent professional services | 292,980 | 189,598 |
| Banking services and the like | 22,639 | 20,210 |
| Other services | 140,845 | 84,583 |
| | 456,464 | 294,391 |

12. Transactions with Related Parties

During the year 2017, transactions have been carried out with the following related parties:

| Company | Type of relation |
|---|---|
| A.I. Candelaria (Luxembourg) S.á.r.l. | Parent company |

Transactions with related parties are broken down for the years 2017 and 2016 as follows:

| | 2017 | 2016 |
|---|---|---|
| Dividends distributed to the Sole Equity Holder | 111,723,392 | 149,085,480 |

At 31 December 2016 there are no balances with related parties.

During the years 2017 and 2016, the members of the Board of Directors did not receive any remuneration whatsoever, nor are there any advances or loans granted to the Board members; likewise, there are no pension commitments or life insurance premium payments with respect to the Board members.

The members of the Board of Directors of the Company and the persons related thereto as referred to in article 231 of the Revised Text of the Capital Companies Act, have not communicated any situations of direct or indirect conflict which they could have with the interests of the Company. Moreover, they state that they do not hold offices or have a stake in companies having the same, similar or ancillary type of activity as that which constitutes the corporate purpose of the Company.

13. Environmental Information

The Company does not have any tangible fixed assets allocated to minimizing the environmental impact and likewise to protecting and improving the environment, nor has it received during the year any subsidies or incurred any significant expenses for the purpose of protecting and improving the environment. Likewise, the Company has not set up any provision to cover environmental contingencies and expenses, given that it considers that there are no contingencies related to environmental protection and improvement.

14. Other Information

The fees payable to the Company auditors in the years 2017 and 2016 amounted to 8,096 dollars and 7,136 dollars respectively.

15. Subsequent Events

From year-end until the date of preparation of the present Annual Accounts, there have been no circumstances or extraordinary events that affect data included in the present Annual Accounts.

## PREPARATION OF THE ANNUAL ACCOUNTS BY THE BOARD OF DIRECTORS

In compliance with the laws in force, the Directors have prepared the annual accounts of the Company (balance sheet, income statement, statement of changes in equity and annual report) corresponding to the year ended at 31 December 2017.

Likewise, they declare that the aforesaid documents contain their handwritten signatures, which were affixed to the present sheet of paper annexed to the Annual Report, which is written on pages numbered from 1 to 17.

Madrid, 22 March 2018

[Illegible signature]

Myriam Odette Deltenre

[Illegible signature]

Antonio Santiago Pérez

[Illegible signature]

Miguel Liria Pañiol

# Management Report

**A.I. CANDELARIA (SPAIN), S.L.**
**MANAGEMENT REPORT FOR THE YEAR ENDED AT**
**31 DECEMBER 2017**

## 1. Company Business Performance

Net sales correspond entirely to the income from the dividends distributed by the subsidiary.

## 2. Events Subsequent to Year-End and Future Outlook

From the close of the year until the date of preparation of the present Annual Accounts, no circumstances or extraordinary events have taken place which would affect the information stated in the present annual accounts.

## 3. Company Outlook

The sales forecast for the year 2018 will tend to be stable with respect to the year 2017.

## 4. Research and Development Expenses

No investment was made in research and development.

## 5. Transactions with Treasury Stock

During the year 2017, no treasury stock transactions were carried out.

## 6. Principal Contingencies and Uncertainties Faced by the Company

No significant contingencies or uncertainties have been detected.

## 7. Use of Financial Instruments

During 2017, no use was made of financial instruments, except as detailed in the attached annual report.

## PREPARATION OF THE MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

In compliance with the laws in force, the Directors of A.I. CANDELARIA (SPAIN), S.L. have prepared the Management Report corresponding to the year ended at 31 December 2017.

Likewise, they declare that the aforesaid document contains their handwritten signatures, which were affixed to the present sheet of paper annexed to said document, which is written on page number 1.

Madrid, 22 March 2018

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Myriam Odette Deltenre

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Antonio Santiago Pérez

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Miguel Liria Plañiol

A.I. Candelaria (Spain), S.L.

**Balance Sheet**
**at 31 December 2017**
**(in euros)**

| ASSETS | Note | 31,12,2017 | 31,12,2016 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | 5 | **891,129,985** | **1,003,699,839** |
| **Long-term financial investments** | 5 | **891,129,985** | **1,003,699,839** |
| Equity instruments | | 891,129,985 | 1,003,699,839 |
| **Trade accounts receivable and other accounts receivable** | 6 | **34,111,237** | **16,443,328** |
| Other accounts receivable | | - | 10,418 |
| Current tax assets | 9 | 34,111,237 | 16,432,910 |
| Other taxes receivable | | - | - |
| **Cash and cash equivalents** | | **17,044,053** | **77,837,924** |
| Cash in hand and at bank | | 17,044,053 | 77,837,924 |
| **TOTAL ASSETS** | | **942,285,275** | **1,097,981,091** |
| **EQUITY** | 8 | **912,859,561** | **1,084,886,161** |
| **Shareholder' equity** | | **825,081,739** | **829,437,518** |
| **Capital** | | **60,000,000** | **60,000,000** |
| Authorized capital | | 60,000,000 | 60,000,000 |
| **Issue premium** | | **212,100,629** | **212,100,629** |
| **Reserves** | | **108,771,547** | **13,834,203** |
| Legal and statutory | | 13,834,203 | 13,834,203 |
| Other reserves | | 94,937,344 | - |
| **Income from previous years** | | **(18,088,018)** | **(18,088,018)** |
| (Negative income from previous years) | | (18,088,018) | (18,088,018) |
| **Other shareholder contributions** | | **439,327,421** | **439,327,421** |
| **Income for the year** | | **86,785,212** | **122,263,283** |
| **(Interim dividend)** | | **(63,815,052)** | - |
| **Adjustments for changes in value** | | **87,777,822** | **255,448,643** |
| Other | | 87,777,822 | 255,448,643 |
| **NON-CURRENT LIABILITIES** | | **29,259,274** | - |
| Liabilities arising from taxable temporary differences | | 29,259,274 | - |
| **CURRENT LIABILITIES** | | **166,440** | **13,094,930** |
| **Short-term provisions** | | - | **256,823** |
| **Short-term payables** | 11 | **437** | - |
| Other financial liabilities | | 437 | - |
| **Trade accounts payable and other accounts payable** | 7 | **166,003** | **12,838,107** |
| Sundry accounts payable | | 166,003 | 19,501 |
| Current tax liabilities | | - | 12,816,149 |
| Other tax payables | 9 | - | 2,457 |
| **TOTAL EQUITY AND LIABILITIES** | | **942,285,275** | **1,097,981,091** |

**A.I. Candelaria (Spain), S.L.**
**Income Statement**
**corresponding to the year ended at**
**31 December 2017**

**(in euros)**

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Net sales** | 10,a | 75,446,516 | 132,596,358 |
| Sales | | 75,446,516 | 132,596,358 |
| **Other operating expenses** | 10,b | (392,346) | (266,098) |
| Outside services | | (392,346) | (266,098) |
| **Other income (loss)** | | (72,060) | (198,731) |
| **OPERATING INCOME (LOSS)** | | 74,982,110 | 132,131,529 |
| **Investment expenses** | | (185) | (1,691) |
| For debts with third parties | | (185) | (1,691) |
| **Exchange gains (losses)** | | 2,668,608 | (165,835) |
| **Impairment and income (loss) from disposal of financial instruments** | 5 | 9,500,036 | (9,700,720) |
| Impairment and losses | | 9,500,036 | (9,700,720) |
| **INVESTMENT INCOME** | | 12,168,459 | (9,868,246) |
| **INCOME BEFORE TAXES** | | 87,150,569 | 122,263,283 |
| Corporation tax | | (365,357) | |
| **INCOME FOR THE YEAR** | | 86,785,212 | 122,263,283 |

A.I. Candelaria (Spain), S.L.

**Statement of Changes in Equity**
**corresponding to the year ended at**
**31 December 2017**
**(in euros)**

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Income Statement result** | 3 | 86,785,212 | 122,263,283 |
| **Income and expense directly recognized in equity:** | | | |
| For asset and liability valuation | | | |
| Other income/expense | | - | - |
| **Total income and expense directly recognized in equity** | | - | - |
| **TOTAL RECOGNIZED INCOME AND EXPENSE** | | 86,785,212 | 122,263,283 |

B) STATEMENT OF COMPREHENSIVE CHANGES IN EQUITY

| | Note | Authorized capital | Issue premium | Reserves | Income (loss) from previous years | Other Shareholder contributions | Income for the year | (Interim dividend) | Adjustments for changes in value | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CLOSING BALANCE YEAR 2015** | | **60,000,000** | **351,695,184** | **6,6645,731** | **(124,491,689)** | **439,327,421** | **354,146,766** | **(18,1358,666)** | **(23,139,084)** | **882,825,663** |
| Adjustment for errors 2015 | | - | - | - | - | - | (23,954,546) | - | 204,232,151 | 180,277,605 |
| **ADJUSTED OPENING BALANCE YEAR 2016** | | **60,000,000** | **351,695,184** | **6,645,731** | **(124,491,689)** | **439,327,421** | **330,192,220** | **(181,358,666)** | **181,093,067** | **1,063,103,268** |
| Total recognized income and expense | | - | - | - | - | - | 122,263,283 | - | - | 122,263,283 |
| Operations with partners or owners | | | | | | | | | | |
| Distribution of dividends | | - | (139,594,555) | - | - | - | - | - | - | (139,594,555) |
| Other changes in equity | | - | - | 8,631,149 | 124,491,689 | - | (354,146,766) | 181,358,666 | 39,665,262 | - |
| Other changes in equity | | | | (1,442,677) | (18,088,018) | | 23,954,546 | | 34,690,314 | 39,114,165 |
| **CLOSING BALANCE YEAR 2016** | | **60,000,000** | **212,100,629** | **13,834,203** | **(18,088,018)** | **439,327,421** | **122,263,283** | **-** | **255,448,643** | **1,084,886,161** |
| Adjustment for errors 2016 | | - | - | - | - | - | - | - | - | - |
| **ADJUSTED OPENING BALANCE YEAR 2017** | | **60,000,000** | **212,100,629** | **13,834,203** | **(18,088,018)** | **439,327,421** | **122,263,283** | **-** | **255,448,643** | **1,084,886,161** |
| Total recognized income and expense | 3 | - | - | - | - | - | 86,785,212 | - | - | 86,785,212 |
| Operations with partners or owners | | | | | | | | | | |
| Distribution of dividends | 3 | - | - | - | - | - | (33,383,929) | (63,815,052) | - | (97,198,981) |
| Other changes in equity | 3 | - | - | 94,937,344 | - | - | (88,789,354) | - | (167,670,821) | (161,612,831) |
| **CLOSING BALANCE YEAR 2017** | | **60,000,000** | **212,100,629** | **108,771,547** | **(18,088,018)** | **439,327,421** | **86,785,212** | **(63,815,052)** | **87,777,822** | **912,859,561** |

A.I. Candelaria (Spain), S.L.

**Statement of Cash Flows**
**corresponding to the year ended at**
**31 December 2017**
**(in euros)**

| | No | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **39,073,281** | **128,782,317** |
| **Income for the year before taxes** | | **86,785,212** | **122,263,283** |
| **Adjustments to income:** | | **(9,756,674)** | **10,167,842** |
| Valuation corrections for impairment | | (9,500,036) | 9,700,720 |
| Changes in provisions | | (256,823) | 256,823 |
| Investment expenses | | 185 | 1,691 |
| Other income and expense | | - | 208,608 |
| **Changes in working capital:** | | **154,463** | **(30,356)** |
| Trade receivables and other accounts receivable | | 10,418 | (7,448) |
| Trade payables and other accounts payable | | 144,045 | (22,908) |
| **Other cash flows from operating activities:** | | **(38,109,720)** | **(3,618,452)** |
| Interest payments | | (185) | (1,691) |
| Corporation tax prepayments | | (38,109,535) | (3,616,761) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **(97,198,544)** | **(132,608,122)** |
| **Proceeds from and payments for financial liability instruments:** | | **437** | **(11,764)** |
| Issue: | | | |
| Other payables | | - | - |
| Repayment and amortization of: | | | |
| Other | | 437 | (11,764) |
| **Payments for dividends and remuneration from other equity instruments** | | **(97,198,981)** | **(132,596,358)** |
| Dividends | | (97,198,981) | (132,596,358) |
| **Effect of exchange rate changes** | | **(2,668,608)** | **165,835** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | | **(60,793,871)** | **(3,659,970)** |
| Cash or cash equivalents at start of year | | 77,837,924 | 81,497,894 |
| Cash or cash equivalents at year-end | | 17,044,053 | 77,837,924 |

FINANCIAL STATEMENTS

**Oleoducto Central S.A.**

Periods ended December 31, 2018 and June 30, 2018
with Statutory Auditor's Report

## Oleoducto Central S.A.

## Financial Statements

Periods ended December 31, 2018 and June 30, 2018

## Contents

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## Statutory Auditor's Report

To the Shareholders of
Oleoducto Central S.A.
Bogotá D.C., Colombia

### Report on the Financial Statements

I have audited the accompanying financial statements of Oleoducto Central S.A., which comprise the statement of financial position as at December 31, 2018 and the related statements of income and comprehensive income, of changes in equity and cash flows for the period of six months then ended, and the summary of significant accounting policies and other explanatory notes.

### Management Responsibilities Relating to the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting and Financial Information Standards accepted in Colombia (NCIF) adopted by the Contaduría General de la Nación; of designing, implementing and maintaining the internal control relevant to the preparation and fair presentation of financial statements free from material misstatements, whether due to fraud or error; of selecting and applying appropriate accounting policies; and of establishing reasonable accounting estimates in the circumstances.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I have conducted my audit in accordance with international auditing standards accepted in Colombia. These standards require that I meet ethical requirements, plan and perform my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes developing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risk of material misstatements in the financial statements. In the process of evaluating these risks, the auditor considers internal control relevant to the preparation and presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes an assessment of the accounting policies adopted and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained provides a reasonable basis for my opinion.

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## Opinion

In my opinion, the accompanying financial statements, taken from the accounting records, present fairly, in all material respects, the Company's financial position as at December 31, 2018, the results of its operations and the cash flows for the period of six months then ended, in accordance with the Accounting and Financial Information Standards accepted in Colombia adopted by the Contaduría General de la Nación.

## Other Issues

The financial statements under accounting and financial information standards accepted in Colombia adopted by the Contaduría General de la Nación of Oleoducto Central S.A. as at June 30, 2018, which are part of the comparative information of the accompanying financial statements were audited by me, according to international auditing standards accepted in Colombia, on which I expressed my unqualified opinion on August 23, 2018.

## Restriction of Use

The accompanying special purpose financial statements were prepared in order to comply with the obligations established with the bondholders and foreign interested parties and, therefore, may not be appropriate for other purposes and should not be used by other parties.

María Cecilia Morales Martínez
Statutory Auditor
Professional Card 91341-T
Designated by Ernst & Young Audit S.A.S. TR-530

Bogotá, D.C., Colombia
February 18, 2019

## Oleoducto Central S.A.

## Statements of Financial Position

| | Notes | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| | | *(In thousands of US dollars)* | |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | US$ 239,422 | US$ 30,735 |
| Trade debtors and other accounts receivable | 8 | 169,637 | 203,626 |
| Inventories | 9 | 24,443 | – |
| Derivative financial instruments | 10 | – | 416 |
| Other non- financial assets | 11 | 3,089 | 5,659 |
| | | 436,591 | 240,436 |
| **Non-current assets** | | | |
| Trade debtors and other accounts receivable | 8 | 3,321 | 3,992 |
| Other non- financial assets | 11 | 743 | – |
| Property, plant and equipment, net | 12 | 1,551,334 | 1,590,680 |
| Intangibles, net | 13 | 23,770 | 15,883 |
| | | 1,579,168 | 1,610,555 |
| **Total assets** | | US$ 2,015,759 | US$ 1,850,991 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Debts and loans bearing interest | 14 | US$ 20,000 | US$ 20,138 |
| Trade accounts and other accounts payable | 15 | 72,686 | 69,306 |
| Tax liabilities | 16 | 105,080 | 12,658 |
| Derivative financial instruments | 10 | 25,403 | – |
| Deferred revenues | 17 | 4,751 | 5,902 |
| Provisions | 18 | 1,368 | – |
| | | 229,288 | 108,004 |
| **Non-current liabilities** | | | |
| Debts and loans bearing interest | 14 | 480,979 | 480,585 |
| Trade accounts and other accounts payable | 15 | 4,621 | 3,921 |
| Tax liabilities | 16 | 923 | 903 |
| Deferred tax liabilities | 16 | 60,772 | 66,076 |
| Deferred revenues | 17 | 3,376 | 5,567 |
| Provisions | 18 | 43,827 | 32,470 |
| | | 594,498 | 589,522 |
| **Total liabilities** | | 823,786 | 697,526 |
| **Equity** | 19 | | |
| Subscribed and paid-in capital | | 81,714 | 81,714 |
| Legal reserve | | 40,858 | 40,858 |
| Accumulated profits | | 992,435 | 950,541 |
| Other comprehensive income | | 76,966 | 80,352 |
| **Total equity** | | 1,191,973 | 1,153,465 |
| **Total liabilities and equity** | | US$ 2,015,759 | US$ 1,850,991 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statement of Income and Comprehensive Income

| | Notes | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| | | *(In thousands of US dollars, except net profit per share)* | |
| **Continued operations** | | | |
| Revenues from ordinary activities | 20 | **US$ 726,392** | US$ 674,268 |
| Cost of sales | 21 | **(158,581)** | (138,016) |
| **Gross profit** | | **567,811** | 536,252 |
| Operations and project expenses | 22 | **(11,729)** | (5,067) |
| Administrative expenses | 23 | **(10,822)** | (12,851) |
| Other operating (income) expenses, net | 24 | **(2,299)** | (201) |
| **Operating profit** | | **542,961** | 518,133 |
| Financial costs, net | 25 | **(4,446)** | (4,263) |
| **Profit before income tax** | | **538,515** | 513,870 |
| Income tax expense | 16 | **(182,692)** | (199,941) |
| **Net profit of the period from continued operations** | | **US$ 355,823** | US$ 313,929 |
| **Other comprehensive income of the period** | | | |
| Net loss from hedges of cash flow, net of taxes | | **(13,581)** | (2,969) |
| Gain (Loss) from exchange difference in translation | | **10,195** | (1,058) |
| | | **(3,386)** | (4,027) |
| **Total net comprehensive income of the period** | | **US$ 352,437** | US$ 309,902 |
| Net profit of the period per share | | **US$ 68,97** | US$ 60,85 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statements of Changes in Shareholders' Equity

| | Subscribed and Paid-in Capital | Legal Reserve | Accumulated Profits | Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | |
| **At December 31, 2017** | US$ 81,714 | US$ 40,858 | US$ 928,263 | US$ 84,379 | US$ 1,135,214 |
| Distribution of dividends | – | – | (291,651) | – | (291,651) |
| Net profit of the period | – | – | 313,929 | – | 313,929 |
| Other comprehensive income | | | | | |
| Net loss from hedges of cash flow, net of taxes | – | – | – | (2,969) | (2,969) |
| Net loss from exchange difference in translation | – | – | – | (1,058) | (1,058) |
| **At June 30, 2018** | 81,714 | 40,858 | 950,541 | 80,352 | 1,153,465 |
| Distribution of dividends | – | – | **(313,929)** | – | **(313,929)** |
| Net profit of the period | – | – | **355,823** | – | **355,823** |
| Other comprehensive income | | | | | |
| Net loss from hedges of cash flow, net of taxes | – | – | – | **(13,581)** | **(13,581)** |
| Net gain from exchange difference in translation | – | – | – | **10,195** | **10,195** |
| **At December 31, 2018** | **US$ 81,714** | **US$ 40,858** | **US$ 992,435** | **US$ 76,966** | **US$ 1,191,973** |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statements of Cash Flows

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| | *(In thousands of US dollars)* | |
| **Operating activities** | | |
| Net profit of the period | US$ 355,823 | US$ 313,929 |
| **Adjustments to reconcile net profit of the period with net cash flows provided from operating activities:** | | |
| Depreciation of property, plant and equipment | 54,528 | 49,105 |
| Consumption of materials and non-capitalized spare parts | 7,220 | 31,388 |
| Retirement of property, plant and equipment | 1,336 | 270 |
| Loss on sale of non-current assets held for sale | – | 513 |
| Amortization of intangible assets | 569 | 571 |
| (Use) operative provision | 2,921 | (50,011) |
| (Profit) Loss from impairment of inventories | (1,396) | – |
| Deferred taxes | 11,645 | (15,696) |
| Income tax expense | 171,048 | 215,637 |
| Financial income | (2,123) | (2,718) |
| Financial costs | 10,995 | 11,459 |
| Gain from exchange difference | (4,944) | (3,982) |
| **Changes in operating assets and liabilities** | | |
| (Increase) decrease of trade debtors and other accounts receivable | (17,335) | 44,357 |
| Decrease (increase) of other assets | 1,763 | (176) |
| Increase inventories | (237) | – |
| Increase (decrease) of trade accounts and other accounts payable | 6,115 | (19,421) |
| (Decrease) increase tax liabilities | (15,079) | 31,085 |
| Increase derivative financial instruments, net | 5,484 | 3,449 |
| Decrease of income received in advance | (3,297) | (2,968) |
| Interest received | 2,123 | 2,718 |
| Income tax paid | (11,450) | (452,216) |
| **Cash provided from operating activities** | 575,709 | 157,293 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (35,294) | (58,925) |
| Acquisition of intangibles | (7,579) | (1,628) |
| **Cash used in investing activities** | (42,873) | (60,553) |
| **Cash used in investing activities** | | |
| Payments of liabilities from financial leasing | (19) | (64) |
| Interest paid | (10,000) | (10,000) |
| Dividends paid | (313,372) | (291,134) |
| **Cash used in financing activities** | (323,391) | (301,198) |
| **Net (decrease) increase of cash and cash equivalents** | 209,445 | (204,458) |
| Effect of the variation in exchange rates on cash and cash equivalents maintained in foreign currency | (758) | (1,163) |
| Cash and cash equivalents at the beginning of the period | 30,735 | 236,356 |
| **Cash and cash equivalents at the end of the period** | US$ 239,422 | US$ 30,735 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Notes to Financial Statements

For the periods ended December 31, 2018 and June 30, 2018
*(All amounts are expressed in thousands of dollars, except foreign currency amounts, exchange rates and the par value of the share)*

### 1. Corporate Information

Oleoducto Central S.A. (the Company) is a mixed-economic company incorporated in accordance with Colombian laws by means of Public Deed No. 4747 of December 14, 1994 at the 38th Notary's Office of Bogotá, D.C. with a foreseen duration until December 31, 2093 and which corporate purpose includes designing, constructing, operating, managing, commercially exploiting and be the owner of a public-use oil transportation system and related facilities without any limitation, whose starting point is located in the Cusiana and Cupiagua stations, Department of Casanare, and whose final point is located in the embarkation port of Coveñas, in the municipal jurisdictions of San Antero, Department of Córdoba, and Coveñas, Department of Sucre. Such purpose also includes designing, constructing, operating and managing maritime oil ports or terminals and providing, directing or indirectly, services related to port operation, particularly storage, terrestrial, maritime management and crude transportation and loading.

The Pipeline consists of six pumping stations, a pressure reduction station, one maritime terminal, 830 kilometers of ground tubing and 12 kilometers in the sea, two bases for the coordination of maintenance activities, and a control center.

To carry out the transportation operation, it has a communication system allowing total control thereof through instruments located along the tubing and at the stations. This permits controlling the availability of crude, its location and the verification of commitments in crude transportation.

The main office of Oleoducto Central S.A. is located in Bogotá, Colombia. The Company belongs to the Ecopetrol Business Group, which plays a controlling position through Cenit Transporte y Logística de Hidrocarburos S.A.S.

### 2. Basis of Preparation

#### 2.1. Statement of Compliance and Authorization of the Financial Statements

The Company's financial statements have been prepared in accordance with the Accounting and Financial Information Standards Accepted in Colombia (NCIF), based on International Financial Reporting Standards (IFRS), together with their interpretations, conceptual reference framework, conclusion bases and application guidelines authorized and issued by the International Accounting Standards Board (IASB) as established by decree 2615 of December 17, 2014, decree 2420 of December 14, 2015, amended by decree 2496 of December 23, 2015; and other legal provisions applicable to entities supervised and/or controlled by the Superintendence of Corporations, and by the Contaduría General de la Nación that may differ in certain aspects from those established by other State control bodies.

The financial statements as of December 31, 2018 were prepared by the Company's directors and approved by the Board of Directors at a meeting held on February 15, 2019, set out in Board of Directors Minutes dated number 292, to be subsequently approved by the Shareholders' Meeting on March 12, 2019.

These financial statements in US$ are of special purpose and restricted use for Ocensa bondholders and foreign interested parties. They are prepared based on the general purpose financial statements of the company, presented in pesos and in Spanish language, in accordance with the current regulation in Colombia. These special purpose financial statements may differ in some aspects from the general purpose financial statements because of issues related to reclassifications.

### 2.1. Statement of Compliance and Authorization of the Financial Statements (continued)

**Basis of Measurement**

The Company's financial statements have been prepared based on the historical cost, except for the accompanying financial assets and liabilities at fair value with changes in results and/or changes in other comprehensive income, that are valued at their fair value at each period closing, as explained in the accounting policies included hereinafter.

In general, the historical cost is based on the fair value of the valuable consideration granted in lieu of assets and services.

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an ordered transaction between market participants at the measurement date. Upon estimating the fair value, the Company uses the assumptions that market participants would use upon setting the price of the asset or liability in present market conditions, including assumptions on the risk.

### 2.2. Functional Currency

Items included in these financial statements are initially valued in the functional currency which is the U.S. dollar, that is the currency of the main economic environment the Company operates in and in addition the one in which it regularly generates and uses cash, and for presentation purposes are shown in Colombian pesos.

The transactions with a currency different from functional currency, are translated at the exchange rate of the transaction date or, in lieu thereof, at the monthly average exchange rate.

According to IAS 21 Effects of Variations in Exchange Rates of Foreign Currency paragraph 38, the Company may present its financial statements in any currency. If the presentation currency differs from the functional currency, This must convert its results and financial situation to the chosen presentation currency. For the purpose of presenting financial statements and the income statement in a currency other than the functional currency, assets and liabilities are converted at the closing rate, and the other items of net equity are translated at the rate at the time of the transaction. The income statement is converted to the average month rate. The variations presented in this conversion are recorded in other comprehensive results.

### 2.3. Foreign Currency

Upon preparing the financial statements, transactions in a currency other than the Company's functional currency are recorded using current exchange rates on the dates operations take place. At the end of each period, monetary items in foreign currency are translated at current exchange rates in force on that date and variations arising in the translation are recognized in the net financial result, except those resulting from hedging instruments of cash flows, which are recognized in other comprehensive income, within equity. When the hedged items affect results, exchange differences accumulated in equity are reclassified to the statement of profits and losses as part of the operation result.

### 2.3 Foreign Currency (continued)

Non-monetary items recorded at fair value, denominated in foreign currency, are translated at the exchange rate in force on the date the fair value was determined.

Profits and losses from exchange differences related to loans, and cash and cash equivalents are presented in the income statement account in line entitled "Financial income or financial expense." Remaining losses and gains from exchange differences are presented as exchange difference.

### 2.4. Classification of Assets and Liabilities as Current and non-Current

The Company presents assets and liabilities in the statement of financial position based on its current or non-current classification. An asset is current when:

- It is estimated that it will be cancelled or the expectation is that it will be sold or consumed in the normal operating cycle of the business.
- It is mainly maintained for purposes of being negotiated.
- The expectation is that it will be realized within twelve months following the reporting date; or,
- It is cash or cash equivalent unless it is restricted to be exchanged or used to pay a liability for at least twelve months from the reporting date.

All other liabilities are classified as non-current.

A liability is current when:

- It is estimated that it will be settled in the normal operating cycle of the business.
- It is maintained mainly in order to be negotiated.
- It is expected that it will be cancelled within the twelve months subsequent to the reporting date; or,
- There is no unconditional right to defer the payment of the liability for a least twelve months subsequent to the reporting date.

All other liabilities are classified as non-current.

### 2.5. Accounting Period

The financial statements were prepared with semi-annually, i.e., at June 30 and at December 31.

### 2.6 Net Profit per Share

The profit per share stated in approximated vs dollars' equivalents, is calculated upon dividing the net profit of the period attributable to shareholders by using the weighted average of outstanding ordinary shares during the period.

There were no transactions with ordinary shares from the date of the period being reported to the issue date of these financial statements.

## 3. Summary of Significant Accounting Policies

The following are significant accounting policies applied by the Company in the preparation of its financial statements consistently for all periods presented, unless otherwise indicated.

### 3.1.1. Financial Instruments

The classification of a financial instrument depends upon the nature and purpose whereby the financial asset or liability is acquired and is determined at the time of the initial recognition.

All regular purchases or sales of financial assets are recognized and written off at the transaction date. Regular purchases or sales are all those purchases or sales of financial assets requiring the delivery of assets within the time framework established by a regulation or in accordance with the market.

Financial assets and liabilities are initially valued at their fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets at fair value with changes in the statement of income) are added or reduced from the fair value of the financial assets and liabilities, as required, in the initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at their fair value with changes in the statement of income are recognized immediately in results.

Financial assets at fair value with changes in income and with changes in other comprehensive income will be recorded subsequently at their fair value. Instruments at amortized cost, loans and trade accounts receivable, other accounts receivable and financial assets maintained until their maturity will be accounted for at their amortized cost in accordance with the effective interest rate method.

**Fair Value**

The hierarchy of the fair value is based on the information level available in the market, which includes liquidity security, availability of exchange prices or indicators generated from market operations (rates, curves, volatilities and other valuation variables required).

- Level 1:

  (Non-adjusted) quotation prices of active markets for identical assets and liabilities. For the Company, Level 1 includes tradable securities actively transacted.

- Level 2:

  Entries other than Level 1 which are observable, either directly or indirectly. For the Company, entries of Level 2 include prices of similar assets, prices obtained through quotations of stock exchange brokers, and prices that may be substantially corroborated with other observable data with the same term of the contract.

### 3.1. Financial Instruments (continued)

- Level 3:

  Not observable data entry. The Company does not use Level 3 for any of its recurring measurements at fair value. Level 3 may be necessary to determine the fair value associated with certain non-recurrent measurements of non-financial assets and liabilities. The Company uses Level 3 to determine the fair value of specific non-recurrent, non-financial assets.

**Amortized Cost Effective Interest Rate Method**

The amortized cost value is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate method is used to calculate the amortized cost of a financial instrument and the distribution of financial income throughout the relevant period. The effective interest rate is the discount rate which exactly matches estimated cash flows receivable or payable (including all commissions, transaction costs and other premiums or discounts that are included in calculating the effective interest rate) during the expected life of the financial instrument (or when necessary, within a shorter period) with the net carrying value in the initial recognition.

**Impairment**

Ocensa recognizes the value of the expected credit losses during the active life time according to the simplified approach. The credit losses of the asset are recognized before an instrument in order to pass in the streets. To determine the risk, reasonable and sustainable information is used that refers to the historical behavior and the variables that indicate that there is risk in the future.

For financial assets measured at amortized cost, the amount of the impairment loss is the difference between the amount in the book and the value in the future.

**Derecognition in Account of Financial Assets and Liabilities**

Ocensa derecognizes a financial assets when assess whether the rights to the cash flows have expired, assess whether the rights to receive the cash flows have been transferred to another party, assess whether an obligation has been assumed to pay the cash flows from the asset to another party; and a) assess whether the entity has transferred substantially all the risks and rewards of ownership to another party or b) If substantially all the risks and rewards of ownership have not been transferred to another party, assess whether control has been retained.

When the Company does not transfer or retain substantially all the risks and benefits of the asset or transfer control of the asset, the Company continues to recognize the transferred asset, to the extent of its continuing participation, and also recognizes the associated liability.

### 3.1.1. Cash and Cash Equivalents

Cash and cash equivalents consist of financial investments and special deposits maturing within ninety (90) days as of their acquisition date and with a low level of risk in changes of their value.

### 3.1.2. Financial Assets

The classification of investments in financial assets depends on the purpose of their acquisition; these are classified into the following categories:

a) Financial Assets at Fair Value with Changes in Results

They are financial assets at fair value through profit or loss, assets acquired mainly to sell in the short term. Financial assets at fair value through profit or loss are recognized at their fair value, the profit or gains arising from the measurement are recognized in profit or loss results of the period.

b) Financial assets at fair value with changes in the other comprehensive income

They are cash flow hedging instruments. These instruments are recognized by their fair value, and unrealized losses or gains are recognized to other comprehensive income.

At the time of settlement, the accumulated adjustments account for the valuation in other comprehensive income are reclassified to retained earnings

c) Assets at amortized cost

They are financial assets with fixed or calculable payments, which are not quoted on an active market and classified as current assets; except for maturities over twelve months from the date of the statement of financial position, which are classified as non-current assets.

They are assets held for the collection of contractual cash flows where these cash flows represent only payments of principal and interest. The carrying amount of these assets is adjusted by any estimate of expected credit loss recognized. Interest income from these financial assets is included in "interest and similar income" using the effective interest rate method.

They include loans and accounts receivable, commercial accounts and other accounts receivable which are measured initially at their fair value and subsequently at their amortized cost, using the effective interest method.

### 3.1.3. Financial Liabilities

Financial liabilities correspond to financing sources secured by the Company through bank credits and bond issues, accounts payable to suppliers and creditors. The Company determines the classification of its financial liabilities in the initial recognition to be measured under the amortized cost method or fair value.

### 3.1.3. Financial Liabilities (continued)

Bank credits and bond issues are initially recognized at their fair value, net of transaction costs incurred. The difference between the amount received and its main value is recognized in the period result during the amortization time of the financial obligation by using the effective interest rate method.

Financial obligations are classified as current liabilities unless the Company has an unconditional right to defer their liquidation during at least twelve months after the date of the statement of financial position.

Accounts payable to suppliers and creditors are short-term financial liabilities recorded at their par value, as they do not differ significantly from their fair value.

A financial liability shall removed when the obligation specified in the contract is discharged, cancelled or expires. When a financial liability present an exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred and the consideration paid, shall be recognized in profit or loss

### 3.1.4 Derivative Financial Instruments

Derivative financial instruments are initially recognized at their fair value on the date the contract is entered into and are permanently re-measured at their far value.

If derivative financial instruments do not qualify to be recognized through the hedge accounting treatment, they are recorded at their fair value through the statement of income. Any change in the fair value of these derivatives is recognized immediately in the statement of income in financial costs. If designated for hedge, the method to recognize the profit or loss resulting from changes in the fair values of derivatives depends upon the nature of the risk and the item hedged.

The Company designates certain derivatives as:

(a) Hedges of fair value of recognized assets or liabilities (fair value hedge)

(b) Hedges of a particular risk associated with a recognized asset or liability or of a transaction expected as highly probable (hedge of cash flows)

At the initiation of the hedging, the Company documents the relationship between hedging instruments and the items hedged, as well as its objectives and risks management strategy that back its hedging transactions. The Company documents its evaluation, both at the initiation of the hedge and periodically, of whether the derivatives used in hedge transactions are highly effective to compensate the changes in the fair values or in the cash flows of the hedged items.

The total of the fair value of derivatives used as hedge is classified as non-current asset or liability when the maturity of the hedged item exceeds 12 months, and is classified as current asset or liability when the maturity of the hedged item is lower than 12 months. Derivatives not used for hedge or which are held to be negotiated, are classified as current assets or liabilities.

### 3.1.4 Derivative Financial Instruments (continued)

(a) Hedges of fair value

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, and the gain or loss of the hedged item attributable to the hedged risk adjust the carrying value of the hedged item and are recognized in the year results. The gain or loss related with the effective portion of the derivatives is recognized in the statement of income as "financial expenses", as well as the ineffective portion that is also recognized in the statement of income but as financial costs.

If the hedge no longer complies with the criteria to be recognized through the accounting treatment of hedges, the adjustment in the carrying value of the hedged item, is amortized in results using the effective interest method, in the remaining period through its maturity.

(b) Hedges of cash flows

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of cash flows is recognized in equity. The gain or loss related with the ineffective portion is recognized immediately in the statement of income in the same line in which the hedged element is recognized.

Amounts accumulated in net equity are recycled to the statement of income in the periods the hedged item affects them. However, when the expected hedged transaction results in the recognition of a non-financial asset, gains or losses previously recognized in equity are transferred from equity and included as part of the initial cost of the asset. Amounts capitalized are finally recognized in cost of sales when products are sold, if considered inventories, or in depreciation, when classified as property, plant and equipment.

(b) Hedges of cash flows (continued)

When a hedge instrument expires or is sold, or when it no longer meets the criteria to be recognized through the accounting hedge treatment, any accumulated gain or loss in equity at that date remains in equity and is recognized when the projected transaction affects the statement of income. When it is expected that a projected transaction will not occur, the gain or loss accumulated in equity is immediately transferred to the statement of income as financial costs.

### 3.2. Inventories

The inventories correspond to supplies (fuel, chemicals, etc.), materials, spare parts and consumption elements which are used in the maintenance and operation for the provision of the transport service of crude.

Inventories are valued using the weighted average method. Their cost includes the costs directly related to the acquisition and those incurred to give them their current condition and location. Inventories of consumables (spare parts and supplies) are recognized as inventory and then registered to the expense, or capitalized in the property, plant and equipment in projects insofar such items are consumed.

### 3.2. Inventories (continued)

Inventories that are for sale and that due to their conditions cannot be used in the operation, are stated at the lower of cost and net realizable value.

### 3.3 Property, Plant and Equipment

Recognition and Measurement

Property, plant and equipment are presented at cost, including the abandonment or dismantling cost, less accumulated depreciation and accumulated impairment losses.

All costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by the Company are considered capitalizable. Such costs are mainly at: a) Their acquisition price, including importation tariffs and non-recoverable indirect taxes, b) costs of benefits to employees, deriving mainly from construction or acquisition, c) all costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by the management, d) interest costs of loans attributable to the acquisition or construction of assets, and e) initial estimation of dismantling and abandonment.

The crude oil that is necessary to place the pipeline under operating conditions is treated as part of the cost of the pipeline

Significant spare part pieces and permanent maintenance equipment the Company expects to use during more than one period are recognized as property, plant and equipment, and will be recognized as expense when consumed.

Any gain or loss on retirement of any element of property, plant and equipment is recognized in results of the respective period.

**Subsequent Disbursements**

Correspond to all disbursements made on existing assets in order to increase or extend expected initial useful life, increase productivity or productive efficiency, allow a significant reduction of operating costs, or replace a part or component of an asset considered critical for the operation are considered additions or improvements.

Expenses of repairs, conservation or maintenance of ordinary nature are charged to period results which they are produced in. However, disbursements associated with overhaul are capitalized.

**Depreciation**

Property, plant and equipment are depreciated by following the linear method during the estimated useful life. Technical useful lives are revised annually considering reasons such as: Additions or improvements (upon replacement of parts or critical components for asset operation), technological advances, obsolescence or other factors. The effect of these changes are recognized as a change in accounting estimate from the date of change. Depreciation of assets starts when they are under conditions of use.

### 3.3 Property, Plant and Equipment (continued)

**Depreciation (continued)**

The useful life is determined under foreseen asset use criteria, its expected physical wear and tear, technical or commercial obsolescence, and legal limits or restrictions of asset use.

The estimated useful lives range between the following ranks:

| | |
|---|---|
| Ducts, networks and lines | 10 – 59 years |
| Buildings | 19 – 55 years |
| Transportation equipment | 7 – 46 years |
| Fluvial equipment | 5 – 20 years |
| **Others:** | |
| Furniture and Appliances | 1 – 29 years |
| Office equipment | 1 – 26 years |
| Telecommunications equipment | 2 – 22 years |
| Cars and trucks | 7 – 23 years |
| Leasing vehicles | 1 – 3 years |

Land is recorded independently from buildings or facilities and has an indefinite life; therefore, it is not subject to depreciation. The useful life of leased assets depends on contract duration.

Depreciation methods and useful lives are reviewed annually and adjusted if required. Leasehold improvements are depreciated at the lower amount between the lease term and the useful life of the improvement.

### 3.4. Intangibles assets

Intangible assets acquired separately are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis in accordance with their estimated useful lives.

Intangible assets with finite useful lives are amortized throughout their economic useful lives and are reviewed to determine if they had any value impairment, to the extent that an indication exists that the intangible asset could have suffered such impairment.

The period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each period closing on which it is reported. Changes in the expected useful life or in the expected consumption pattern of the asset are recorded when the amortization method or term is changed, as appropriate, and are prospectively treated as changes in accounting estimates. The amortization expense of intangible assets with finite useful lives is recognized in the statement of income as expenses resulting consistent with the function of the intangible assets.

### 3.4. Intangibles assets (continued)

According to IFRIC 12, a concession agreement is recognized under the intangible model asset when the operator acquires a right (license) to be charged to users, or for the purpose of its use of the public service. Cash should not be necessarily received since the amounts are conditioned to the level of use of the service by users. Revenues and costs related with the operating phase are recorded in accordance with IFRS 15 Revenues from Ordinary Activities from Contracts with Clients.

In the intangible assets model, the value of the asset is reduced through amortization, not through reimbursements. This leads to the recognition of income in two different moments: the first time for the provision of construction services (in exchange for the intangible asset), and the second time, when payments are received for the use of these services. The intangible asset must be accounted for according to what is established in IAS 38 Intangible Assets. This asset must be amortized during the period of the concession and through the straight line method. The port concession will be recognized as an intangible asset taking into account that the Company does not have the right to receive a fixed remuneration from the nation or from its clients, which guarantees an income during the term of the concession.

The accounting treatment applied to the recognition of the fixed consideration in the concession agreements comprises the reference value equivalent to the net present value of the installments, and is recognized as an intangible concession right charged to a liability.

The intangible will be amortized in straight-line over 20 years, and as a financial liability that will be updated annually for interests and the quotas paid are amortized.

What is paid for the variable component each year is recorded in the statement of income (expenses).

In connection with the investment, the costs incurred in investment commitments are recorded as construction costs and, simultaneously, construction revenues are recognizing in the statement of income.

### 3.5. Leases

Leases are classified as financial when all risks and benefits inherent to the property are substantially transferred to the lessee under lease terms. All other leases are classified as operative.

Assets maintained under financial leases when the Company is the lessee, are recognized in the statement of financial position, by the lower between the fair value of the asset and the present value of the lease minimum payments.

The liability corresponding to the lessor is included in the statement of financial position as a financial leasing liability.

These assets are depreciated over the useful life of the asset. When there is no reasonable certainty that the Company will obtain the property of the asset at the end of the contract, the assets leased are depreciated by the lower period, between the estimated useful life of the asset and the term of the lease.

### 3.5. Leases (continued)

Lease payments are distributed between financial expenses and reductions of leasing obligations in order to reach a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to results.

Payments of operating leasing are charged to results by using the straight-line method during the corresponding lease term, provided that other systematic prorating base results more representative to appropriately reflect the pattern of lease benefits for the user. Contingent rents are recognized as expenses in the periods they are incurred.

### 3.6 Assets Value Impairment

In order to assess the recoverability of tangible assets and intangible assets, Ocensa carrying value is compared to the value recoverable thereof at least on the period closing date or earlier in the event of identifying indications of asset impairment.

To analyze the impairment, assets are grouped in cash generating units (CGU), provided that such assets individually considered do not generate any cash flows which, to a great extent, are independent from those generated by other assets or CGU. Grouping assets in various CGU implies professional judgment and taking into consideration, among other parameters, business segments.

The Company has one single cash generating unit (CGU), corresponding to the crude oil transport system.

The recoverable value is the higher of the fair value less costs of disposal and the value in use. Wherever the recoverable amount of an asset (or a CGU) is less than its net accounting value, the carrying value thereof (or the CGU's) is reduced to its recoverable value recognizing a value impairment loss in the period results.

The value in use is estimated as the aggregate of future discounted cash flows adjusted to the forecasted risk. Estimations of future cash flows used to assess the asset impairment are based on the forecasted prices of basic products, offer and demand, and product margins.

Upon recording of a loss from impairment, the future amortization expense is estimated based on the adjusted recoverable value.

Impairment losses may be reversed only wherever the reversal is related to a change in estimations used after recognition of the loss from impairment. Such reversals shall not exceed the carrying value of depreciation or amortization net assets that would have been estimated if the impairment had never been recognized, nor the recoverable value at the date of the impairment evaluation.

### 3.7 Contingent Provisions and Liabilities

Provisions are recognized wherever the Company has an actual obligation (whether legal or implicit) resulting from a past event and there is probability that outflows will be required to settle the obligation and the value thereof may be accurately measured.

### 3.7 Contingent Provisions and Liabilities (continued)

The amount recognized as provision is the best estimation of the outflows required to settle an actual obligation at the end of the reporting period, taking relevant risks and uncertainties into consideration.

Contingent liabilities are not recognized but are subject to disclosure in the explanatory notes wherever there is probability that.outflows will be required, including those whose value cannot be estimated.

The Company has as a policy not disclosing in detail information related with disputes with related parties concerning situations involving provisions, contingent liabilities, and contingent assets, insofar as that information seriously damages the Company's position. In these cases, the Company provides information of a generic nature and explains the reasons that have led to make this decision.

**Obligation of Retirement of Assets**

Liabilities associated with the retirement of assets are recognized wherever the Company has obligations, whether legal or constructive, related to the retirement of ducts, properties and equipment. Such obligations shall be recognized by applying the discounted cash flows technique and taking the useful life of the relevant asset into consideration.

Should accurately estimating the provision during the period in which the obligation arises is impossible, then the provision shall be recognized at the moment where there are enough elements to make the best estimate.

The carrying value of the provision is revised and adjusted on an annual basis considering changes in the variables used to estimate it. The financial cost of re-measurement of such liabilities is recognized during the period as a financial expense.

### 3.8 Employees' Benefits

Oleoducto Central S.A. records short-term benefits, such as salary, vacations, bonuses and others, on the earned basis.

**Benefits from Termination of Labor Contracts**

Compensations for indemnity, in favor of the Company's employees, in accordance with applicable legal provisions, are demandable in case of termination without just cause.

The payment is based on proportions applied on the average base of salaries earned. Oleoducto Central S.A. records the payments made against expenses.

### 3.9 Income Tax

The income tax expense is comprised by the income tax payable for the current period (includes, as applicable, income tax and income tax and the effect of deferred tax in each period.

Current and deferred taxes will be recognized in profits or losses, except when they relate with items in other comprehensive income or directly in equity, in which case the current or deferred tax is also recognized in the other comprehensive income or directly in equity, respectively.

### 3.10.1. Current Tax

The Company determines the provision for income tax, based on the higher value between taxable income or presumptive income (the minimum estimated profitability amount foreseen by law to quantify and compute income tax). Taxable income differs from the income reported in the statement of comprehensive income due to taxable revenue or deductible expense items in different tax and accounting periods, special tax deductions, tax losses and recorded items that, according to tax regulations applicable in each jurisdiction, are deemed non-taxable or non-deductible.

The current tax is calculated by using tax rates enacted or substantially approved at the end of the period being reported. The current tax is shown net, after deducting advances paid and tax withholdings in favor

### 3.10.2. Deferred Taxes

The deferred tax is recognized by using the liability method, based on temporary differences between the tax basis and the carrying value of assets and liabilities included in the financial statements. The deferred tax liability is recognized for all temporary tax differences. The deferred tax asset is recognized for all deductible temporary differences and tax losses pending amortization, provided there is probability that the Company will have future tax income against which such deductible temporary differences may be deducted.

The "Contaduría General de la Nación" by means of the filed communication CGN No.20162000000781 of January18, 2016, determined that the Company should not apply IAS 12 Income tax, paragraphs 38 to 45, stating that the deferred tax from the variations in the exchange rate resulting from comparing assets and liabilities in terms of its functional currency (U.S. dollar) to the tax bases in a different currency (Colombian pesos) should not be recognized in the financial statements.

The effect of the non- application of paragraph 41 of IAS 12 in the deferred income tax is (US$7,653) and in retained earnings is US$38,123 (from January 1 to June 30, 2018 US$5,585 and US$43,708 respectively).

Deferred tax assets and liabilities are measured using the tax rates expected to be applied in the period in which the asset is realized or the liability is paid, in accordance with the current tax standards in each period.

The carrying value of a deferred tax asset, is subject to review at the end of each reporting period and then reduced, provided that there is probability that the Company will not have enough future taxable income that allows recovering the asset, totally or partially.

Deferred taxes are not recognized if they arise from the initial recognition of an asset or a liability in a transaction (except in a business combination) that at the transaction date neither affects accounting income or the accounting profit or tax gain.

### 3.10.3. Other Taxes

The Company recognizes in the period's result costs and expenses of taxes other than the income tax, such as, the wealth tax, which is determined based on the tax equity; the industry and commerce tax which applied on the revenues obtained in municipalities upon the development of trade, industrial and service activities. Taxes are calculated with the current regulations.

### 3.11. Recognition of Revenues

The Company recognizes revenues from contracts with customers based on a five-step model established in IFRS 15:

- Step 1. Identification of contracts with customers: A contract is defined as an agreement between two or more parties, which creates rights and obligations required, and establishes criteria that must be met for each contract. Contracts can be written, verbal or implicit through the customary business practices of a company.
- Step 2. Identification of performance obligations in the contract: A performance obligation is a promise in a contract with a client for the transfer of a good or service to the latter.
- Step 3. Determination of the price of the transaction: The price of the transaction is the amount of the payment to which the Company expects to be entitled in exchange for the transfer of the goods or services promised to a client, without taking into account the amounts received on behalf of third parties.
- Step 4. Distribute the transaction price among the performance obligations of the contract: In a contract that has more than one performance obligation, the Company distributes the price of the transaction among the performance obligations that represent the amount of the consideration to which the Company expects to have the right, in exchange for fulfilling each performance obligation.
- Step 5. Recognition of income when (or as) the Company fulfills a performance obligation.

The Company fulfills a performance obligation and recognizes income over time, if one of the following criteria is met:

a) The performance of the Company does not create an asset with an alternative use for the Company, and the Company has an enforceable right to payment for the performance completed to date.
b) The Company's performance creates or improves an asset that the client controls as it is created or improved.
c) The client at the same time receives and consumes the benefits that result from the performance of the Company as it works.

For performance obligations where none of the indicated conditions is met, the income is recognized at the moment in which the performance obligation is fulfilled.

When the Company fulfills a performance obligation by delivering the promised goods or services, it creates a contract asset for the amount of the consideration obtained with the performance. When the amount of the consideration received by a client exceeds the amount of the recognized income, this generates a contract liability.

The income is measured based on the consideration specified in the contract with the customer, and excludes the amounts received on behalf of third parties. The Company recognizes income when it transfers control over a good or service to a customer.

The Company evaluates its income plans based on specific criteria to determine if it acts as principal or agent.

### 3.11. Recognition of Revenues (continued)

Revenue is recognized to the extent that the economic benefits are likely to flow to the Company and if it is possible to reliably measure revenues and costs, if any.

The business of Ocensa is based mainly on a source of income, which includes the services associated with the transportation of crude oil from various types of contracts such as "ship and pay" and "ship or pay". The generated income is recognized when the control of the services is transferred to the client at a value that reflects the consideration that Ocensa expects to receive in exchange for such products and services.

Revenues from transportation services are recognized to the extent which service is provided to the customer and there are no conditions in which there are effects on a variable price related to volumetric adjustments or other contractual conditions that prevent recognition of income.

"Ship or pay" operations are recorded as income independently of the fact that all the crude is actually transported. "Ship and pay" operations are caused as income in the period in which the transport activity is carried out. In the contracts that have compensation term, the income is understood to be realized when the conditions established in each of them are met.

"Ship or Pay" contracts: some firm fixed quantities contracts of service that a customer will pay, even if the customer does not receive or use them. The quantities of products or services that a customer chooses not to take or use in the specified delivery period are called "deficient quantities."

- Prohibited recovery period: if a customer can not compensate for deficient amounts in future periods, the Group fulfills its performance obligations and recognizes the revenues for the quantities or services contractually specified as the period of service expires.

- Permitted recovery period: some Ship or Pay agreements contain poor recovery periods that allow customers to purchase the product or service in a future period and offset the specified contractual amounts of the product or service for which they paid but did not receive in a previous period. If the client can compensate for deficient amounts in future periods, Ocensa has performance obligations to deliver those volumes at the customer's request (subject to contractual and capacity restrictions). At the beginning and in the subsequent reporting periods, Ocensa must estimate whether it expects deficiencies that the client will compensate. If the client is expected to recover all the deficiencies to which he is entitled contractually, any charge received related to the temporary deficiencies that will be offset in a future period will be deferred and the entity will recognize that amount as income when any of the following situations occurs:

  a) The client exercises his right or
  b) The possibility that the client exercises his right to the volumes or services of deficiency is remote.

### 3.11. Recognition of Revenues (continued)

In the other cases, the income is recognized at the moment in which it has accrued and the true, probable and quantifiable right to demand its payment is born, product of having complied with the obligations with customers.

Interest income on arrears in the collection of the portfolio is recognized in accordance with the principles of prudence and realization.

Financial income is recognized in the income statement, in the period that is generated.

**Variable considerations**

When complying with the obligations established in the contracts with customers, via the provision of the service, there may be variable components of the transaction price. In these cases, Ocensa makes the best estimate of the transaction price that reflects the services transferred to customers.

Regarding the clauses of the contracts signed with clients and Ocensa, variable considerations associated with reimbursement rights, rebates or discounts that require an estimate and that generate a material impact on the Financial Statements are not contemplated.

**Significant financial component**

Generally, compliance with performance obligations and payments received from clients are executed in the short term, so there are no operations that contain a significant financial component that requires some adjustment of the consideration at its present value.

The book value recorded as trade accounts receivable corresponds to the value of the transaction and is recognized as the services are rendered.

Ocensa does not maintain significant agreements with non-operating partners in which it assumes the role of agent.

### 3.12. Costs and Expenses

Costs and expenses are individually presented by function and detailing, in the relevant notes, the composition of cost of sales and expenses related to administration, operation, projects and other expenses.

### 3.13. Financial Income (Expenses)

Financial income and expenses include mainly: a) interest costs of loans and financing, except those which are capitalized as a part of the asset cost, b) valuation of profits and losses of financial instruments measured at fair value with changes in results, c) exchange differences of financial assets and liabilities, d) financial update expenses of long term liabilities (abandonment costs).

### 3.14. Cash Flows

The statement of cash flows informs the generation of cash by categories (operation, investment and financing) during a given period. Classification of cash flows according to the aforementioned activities provides information that enables users to assess the impact on the Company's financial position, as well as on the final amount of its cash and other cash equivalents.

Under accounting and financial information standards, the Company may report its cash flows from operations by using one of the following methods:

- Direct method: consists of presenting separately the main categories of collections and payments in gross terms.
- Indirect method: starts presenting the gain or loss in net terms, an amount which is later corrected by the effects of non-monetary transactions, for all type of deferred payment items and accruals (revenue) which are the cause for collections and payments in the past or in the future, as well as loss or gain items associated with cash flows of operations classified as of investment or financing.

The Company presents its statements of cash flows under the indirect method.

The main categories include:

- **Operating activities**

  Are the activities that make the most significant source of Ocensa's operating revenue, such as collections from the provision of services, payments to suppliers for the provision of goods and services, payments to employees, income tax payments, in other words, all transactions that represent the most important source of revenue from ordinary activities performed by the Company.

- **Investing activities**

  Are the disbursements that result in recognition of an asset in the statement of financial position, such as payments, revenue from the acquisition of property, plant and equipment, intangible assets and other long-term assets, cash advances and loans to third parties or collections (other than transactions entered by financial entities).

- **Financing activities**

  Are activities that result in changes in the size and composition of company-owned funds and monies borrowed, such as inflows from the issue of shares, payments to shareholders or reimbursements of the funds taken as loans.

### 3.14. Cash Flows (continued)

**Cash Flows in Foreign Currency**

Cash flows from transactions in foreign currency will be translated into the functional currency by applying the amount in foreign currency at the exchange rate between both currencies prevailing on the date each relevant cash flow took place.

## 4. Judgments, Estimates, and Significant Accounting Assumptions

The Company's preparation of the financial statements requires that management makes judgments, estimations and accounting assumptions affecting the amounts of reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the close of the period being reported. In this sense, the uncertainty on such assumptions and estimates could give rise in the future to results that could require significant adjustments to the carrying values of assets or liabilities affected. Changes of these estimates are recognized prospectively in the period the estimate is reviewed.

### 4.1. Judgements

Judgments are continuously assessed and are based on the historical experience and other factors, including the expectation of occurrence of future events that are considered reasonable in accordance with the circumstances.

### 4.2. Estimates and Assumptions

The resulting accounting estimates, by definition, in few occasions will be equal to actual results. Amounts recognized as provisions are the best estimates of disbursements necessary to pay the present obligation, at the end of the period being reported, taking into account the corresponding risks and uncertainties. Provisions are measured by using the cash flow estimated to cancel the present obligation and their carrying amount represents the current value of such flow (when the effect of money in time is material).

Below are the critical accounting judgments and estimates with the most significant effect in the preparation of the accounting statements:

#### 4.2.1. Abandonment of Pipelines, Equipment and Other Facilities

In accordance with environmental and oil regulations, the Company must recognize costs on the abandonment of its property, plant and equipment, which include abandonment of the pipeline, dismantling of facilities and environmental recovery of affected areas.

A provision that covers dismantling costs and service retirement has been recognized in relation with the pipeline system. Dismantling costs and service retirement are accrued for the present value of expected costs to cancel the obligation, using future estimated cash flows, and are recognized as an integral part of the cost of such asset in particular. These cash flows are discounted at a current market rate before taxes, which reflects the specific risks of the liability. The discount amount is recorded as expense as incurred and is recognized in the statement of income as financial costs. Estimated future costs of dismantling and service retirement are reviewed annually, and adjusted as appropriate. Changes in estimated future costs or in the discount rate applied are added to or subtracted from the related asset cost.

### 4.2.1. Abandonment of Pipelines, Equipment and Other Facilities (continued)

The estimate of costs for abandonment and dismantling of these facilities are recorded in the functional currency of the Company at the time of the assets installation. The estimated obligation set up for abandonment and dismantling is subject to review at each period closing and adjusted to reflect the best estimate, due to technological changes and political, economic, environmental matters, as well as changes of security and of relations with stakeholders.

The calculations of these estimates are complex and involve significant judgments by the management, as the internal projections of costs future inflation and discount rates. The Company considers that abandonment costs are reasonable, based on the experience and market conditions; however, significant variations in external factors used for the calculation of the estimate could significantly impact the financial statements.

### 4.2.2. Impairment (recovery) of assets

At the end of each period being reported, the Company evaluates the carrying values of its tangible and intangible assets to determine if an indication exists that these amounts have suffered any impairment loss. In such case, the recoverable amount of the asset is calculated to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company calculates the recoverable amount of a cash generator unit the asset belongs to. When a reasonable and consistent distribution base is identified, common assets are also assigned to the individual cash generator units, or distributed to the smallest group of cash generator units for which a reasonable and consistent distribution base may be identified.

The recoverable amount is the higher between the fair value less disposition costs and the value in use. Upon estimating the value in use, future estimated cash flows are discounted from the current value by using a discount rate before taxes which reflects the current market valuations in respect to the temporary value of money and the specific risks of the asset for which the estimates of future cash flows have not been adjusted.

If the calculated recoverable amount of an asset (or cash generating unit) is lower than its carrying value, the carrying value of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loses are recognized immediately in the statement of income, except if the asset is recorded at a revalued amount, in which case, the impairment loss should be considered as a decrease in the revaluation.

When a loss from impairment is subsequently reversed, the carrying value (or cash generating unit) increases to the reviewed estimated value of its recoverable amount, so that the increased carrying value does not exceed the carrying value that had been calculated if the impairment value had not been recognized for such asset (or cash generating unit) in prior years. The reversal of a loss from impairment is recognized automatically in the statement of income.

### 4.2.3. Litigation

The Company is subject to claims through regulatory and arbitration procedures, tax liquidations and other claims that arise during the ordinary course of businesses. The management and legal counsel evaluate these situations based on their nature, the probability that they materialize and the amounts involved to decide on the amounts recognized and/or disclosed in the financial statements. This analysis, which could require considerable judgments, includes legal processes filed against the Company and claims not yet initiated.

In accordance with management's evaluation and guidelines established in CNIF, have been set up to comply with these costs when it is considered that the contingency is probable and reasonable estimates of such asset may be made.

The Company considers that payments required to resolve the amounts relating to claims, in the event of loss, will not vary significantly from estimated costs and, accordingly, they will not have a material adverse effect on Company's financial statements.

### 4.2.4. Income Tax

Uncertainties exist in respect of the interpretation of complex tax regulations, changes in tax regulations, and amounts and opportunities in which the future tax result is generated. Given the wide range of international commercial relations and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or upon the future changes of such assumptions, they could require future adjustments to income and expenses already recorded.

The Company calculates provisions based on reasonable estimates for the possible consequences derived from inspections carried out by Colombian tax authorities. The amount of these provisions is based on several factors, such as experience in previous tax inspections, and on the different interpretations of tax regulations made by the entity subject to tax and by the responsible tax authority. These differences of interpretation can arise in a great variety of situations, depending on the circumstances and conditions existing in the registered seat of the Company. Because the Company considers remote the probability of litigation of a fiscal nature and subsequent disbursements as a consequence, no contingent liability related to taxes has been recognized.

Additionally, changes in the tax regulations could limit the Company's capacity to obtain tax deductions in future years, as well as the recognition of new liabilities as a result of challenges by the audit of the tax inspection entity.

The tax positions adopted suppose the careful evaluation by Management, and are reviewed and adjusted in response to circumstance such as expiry of the application of the legislation, close of tax audits, additional disclosures caused by any legal topic or any decision of the Court on a tax matter in particular. The Company creates provisions based on the estimate of the possibility of a negative decision that could arise from a tax audit. The amount of these provisions depends upon factors such as previous experience in tax audits and different interpretations of tax regulations by taxpayer entities and of the tax audit. The actual results could differ from the estimates.

### 4.2.4. Income Tax (continued)

As established in IAS 12, Income Tax, the current tax payable is based on tax profits recorded during the year. The taxable income differs from the profit reported in the statement of income and other comprehensive income due to revenue items or taxable or deductible expenses in other years and items that are never taxable or deductible. The current tax liability is calculated by using tax rates approved by the tax entity at the end of the period reported.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between carrying values of assets and liabilities existing in the financial statements and their respective tax basis. Deferred taxes on assets and liabilities are calculated based on statutory tax rates we believe will be applied to our taxable income during the years in which temporary differences between carrying values are expected to be recovered.

The carrying value of an asset for deferred taxes should be subject to final review in each reporting period and should be reduced insofar as it is probable that it will not have enough tax gain, in the future, to permit to recover all or a part of the asset.

The measurement of deferred tax liabilities and deferred tax assets will reflect tax consequences that would derive from the way the Company expects at the end of the period being reported to recover or liquidate the carrying value of its assets and liabilities

### 4.2.5. Useful Life of Property, Plant and Equipment

The Company determines estimated useful lives and depreciation charges corresponding to property, plant and equipment. This estimate considers the economic life of the pipeline and the limitations of its operation over time. This estimate could change, among other reasons, due to new oil discoveries, changes in the environmental legislation or in the contracts signed with the Company's shippers. Management periodically reviews useful lives and depreciation charges.

### 4.2.6. Hedging Accounting

The identification of hedging relations between protected objectives and hedging instruments (derivative financial instruments and/or not derivative) involve critical judgments on the effective existence of the hedging relationship and the effectiveness thereof. The Company continuously evaluate the alignment between the hedging relationships identified and the objects and strategy of its risks' management policy.

## 5. Information on Operation Segments

All Company's assets are located in Colombia and are focused on a single segment which is crude oil transportation. For administration purposes, Management supervises operating results based on the crude transportation operation, where its main assets are represented by the pipeline, this being the basis for decision making concerning the assignment of resources and evaluates its financial yields. There are no operating segments that should be aggregated to form part of that previously reported.

## 6. New Standards and Regulatory Changes

Ocensa adopted for the first time the following amendments to the IFRS issued by the IASB, applicable for the period covered by this report:

IFRS 9 "Financial Instruments" replaced IAS 39 "Financial Instruments: Recognition and Measurement" and becomes effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes: 1) Classification and measurement of assets and financial liabilities, 2) Impairment of financial assets and 3) Hedge accounting. Ocensa implemented this standard from its effective date.

Ocensa did not present significant changes in terms of measurement, classification or impairment with respect to the hedge accounting model. Ocensa determined as an accounting policy, to continue with the requirements established by IAS 39 for existing operations.

IFRS 15 "Income from ordinary activities from contracts with customers" provides a single model for accounting for the income derived from contracts with customers, focusing on the identification and fulfillment of performance obligations. IFRS 15 replaces IAS 18 "Revenue" and was effective for annual periods beginning on or after January 1, 2018. Under the new standard, income is recognized when performance obligations are met and there are no indicative situations that the price or variable consideration that compose it are not measurable or realizable. Likewise, the recognition of income is observed when the client obtains control of the goods or services promised in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The standard also contains presentation and disclosure requirements that are more detailed than those defined by IAS 18, which represents an increase in the volume of disclosures required in the financial statements.

Ocensa implemented this standard from January 1, 2018, using the modified retrospective method, which allowed adjusting the calculated impacts within the equity, at the date of initial application, without requiring adjusting the comparative years. Its adoption did not have a material effect on the amounts recognized in the statement of financial position and in the statements of comprehensive income and results, changes in equity and cash flows in previous periods; however, it required the implementation of new internal controls, changes in accounting procedures and policies to allow documentation on the adoption of the standard and its future application.

### New Standards, Modifications and Interpretations Incorporated into the Accepted Accounting Framework in Colombia whose Application must be Evaluated as of January 1, 2019 or that may be Applied in Anticipation

Decree 2170 of December 2017 introduced a new standard issued by the International Accounting Standards Board (IASB) to the regulatory framework for financial information, to be applied as of January 1, 2019. although its application could be carried out in advance.

The evaluation of the impact of this new standard in accordance with the analyzes carried out by the Company is described below.

### IFRS 16 "Leases"

This Standard issued in January 2016 establishes the principles for the recognition, measurement, presentation and disclosures of leases, the new standard replaces IAS 17 Leases, IFRIC 4 "Determination of whether an agreement contains a lease", the SIC-15 "Operating Leases - Incentives" and SIC -27 "Evaluation of the essence of the Transactions that Adopt the Legal Form of a Lease.

## 6. New Standards and Regulatory Changes (continued)

### IFRS 16 "Leases" (continued)

The standard presents a control model for the identification of leases and their treatment in the financial statements for lessees, separating an asset identified as the object of the lease and the services corresponding to the service contract as such, the Company could recognize more assets and liabilities, mainly derived from the rental of construction equipment and offices. As for the lessee, the main changes lie in the elimination of the differentiation of financial and operating leases, instead a single lease model is recognized in which all the leases are recognized in the statement of financial position as an asset of right of use and a lease liability, with the exception of leases in which the underlying asset is of low value and short-term leases. Additionally, the interest expense of the liability and the depreciation expense of the recognized asset must be recognized separately in the income statement.

The lessees must make reclassifications of the liability on certain occasions (e.g. a change in the lease period, changes in the future lease flows). These reclassifications of the liability will generally be recorded as an adjustment to the right of use of the asset. The new Standard does not bring major changes in recognition, measurement and disclosure for landlords.

For the lessor, leases continue to be classified as financial and operating leases. The standard will be effective for annual periods beginning on or after January 1, 2019 with limited possibilities for early implementation. The Company does not expect to adopt the mentioned norm in advance, it is evaluating the potential impacts that the mentioned norm will generate.

The Company has begun a potential assessment of the impacts on its financial statements, so far the most significant impact identified is the recognition of assets and liabilities of its operating lease agreements, especially properties used in the operation of offices, vessels used in the operation of the port in Coveñas, use of helicopters in the operation and the right to use a gas pipeline. In addition, the nature of the expenses corresponding to operating lease contracts as a lessee will change with IFRS 16, from lease expenses to charges for depreciation of rights to use the asset and financial expenses in lease liabilities.

Transition to IFRS 16

The Company will apply IFRS 16 as of January 1, 2019, using the modified retrospective approach, recognizing an asset for right of use at the date of initial application for the leases previously classified as an operating lease under IAS 17, which will be equal to the value of the lease liability.

The Company has decided to use the exemptions allowed by the leasing standard for contracts in which the execution period is less than twelve (12) months and the contracts in which the underlying asset is considered to be of low value. The Company has evaluated the estimated impact that the initial application of IFRS 16 will have on its consolidated financial results as of January 1, 2019, as follows: the final impacts of adoption may vary, since the new accounting policies and estimates are subject to change until the Company presents its first financial statements in 2019.

The Company will recognize new assets and liabilities derived from its operating leases mainly for the following types of assets:

## 6. New Standards and Regulatory Changes (continued)

Transition to IFRS 16 (continued)

- Property
- Ships
- Machinery and equipment
- Helicopters
- Vehicles
- Land

In the case of lands, the expiration date will be defined over the lower between the term of the contract and the useful life of the pipeline.

Rights of use in association contracts

The Company has recognized operating lease expenses in a straight line over the term of the lease. The nature of the expenses related to the aforementioned leases will change, since a depreciation charge will be recognized for the right-of-use assets and the financial expense of the lease liabilities.

Based on the currently available information, Ocensa estimates that it will recognize assets for right of use in the amount of US$24,905 as of January 1, 2019, whose counterpart will be the lease liabilities. The final results may differ due to possible changes in accounting policies and estimates.

Reconciliation of financial liabilities

| | | |
|---|---|---|
| Minimum operating leasing payments at December 31, 2018 | US$ | 36,546 |
| Recognition of exemptions | | |
| Short term | | (734) |
| Low value | | (102) |
| Incremental discount rate of debt at January 1, 2019 | | (10,805) |
| Financial liabilities recognized by the application of IFRS 16 at January 1, 2019 | | **24,905** |
| Financial lease obligations at December 31, 2018 | | – |
| **Financial lease obligations at January 1, 2019** | **US$** | **24,905** |

## 7. Cash and Cash Equivalents

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Banks | **US$** | **64,698** | US$ | 25,237 |
| Trusts | | **4,463** | | 5,482 |
| Cash | | **14** | | 16 |
| Term deposit certificates | | **170,205** | | – |
| National tax refund securities (TIDIS) | | **42** | | – |
| | **US$** | **239,422** | US$ | 30,735 |

## 7. Cash and Cash Equivalents (continued)

The fair value of cash and its equivalents is approximated to its carrying value due to its short-term nature (less than three months) and its highly liquidity. At December 31, 2018 Cash and cash equivalents have no restrictions or liens limiting their disposition. At June 30, 2018 cash and cash equivalents has a restriction due to the embargo of the Municipal jurisdiction of San Antero for US$259 in the account with the Banco de Bogotá and Banco Davivienda.

## 8. Trade Debtors and Other Accounts Receivable

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Related parties (*Note 27*) | US$ 139,534 | US$ 125,577 |
| Income tax balance in favor (*Note 16*) | – | 51,002 |
| Trade accounts receivable | 23,872 | 18,053 |
| Transport tax receivable | 4,373 | 6,309 |
| Accounts receivable from employees (1) | 2,971 | 5,338 |
| Sundry debtors | 2,208 | 1,339 |
| | US$ 172,958 | US$ 207,618 |
| Trade debtors and other short term accounts receivable | 169,637 | 203,626 |
| Trade debtors and other long term accounts receivable | US$ 3,321 | US$ 3,992 |

(1) The Company granted the administration, handling and control of loans to employees to Fiduciaria Alianza S.A., which manages the detail by employee of those loans and their respective conditions. Loans to employees are considered financial assets and are recognized at their fair value.

There was no movement in impairment of commercial debtors or other accounts receivable during the periods indicated. The accumulated impairment as of December 31 was US$ 199 and US$221 in June 30.

## 9. Inventories

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Fuels and petrochemicals | US$ 11,691 | US$ – |
| Materials for service provision | 12,752 | – |
| | US$ 24,443 | US$ – |

Ocensa was performin the analysis of materials and supplies, in relation to their use in the operation of the Company. This analysis was completed during the second semester and the relevant transfers were made.

## 10. Derivative Financial Instruments

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Hedge Contracts | US$ 25,403 | US$ (416) |

**10. Derivative Financial Instruments (continuación)**

Other financial assets / liabilities correspond to the valuation of financial instruments deriving from Oleoducto Central S.A., whose purpose is to mitigate the volatility of the exchange rate on the cash flow required for Company's operations. The balances correspond to their fair value classified in the second level of hierarchy, calculated based on observable entries by using the methodology of forward points.

Taking into account that the Company's functional currency is the US dollar, any transaction in a currency other than the US dollar represents an exposure to the exchange rate risk for Company's performance. In order to mitigate the impact on cash flows that could be generated as a result of variations in rates of Colombian peso versus the US dollar, the management evaluates the exposure to this risk for the twelve (12) months moved forward subsequently and makes the decision to contract hedge instruments for the cash flow in pesos, within the framework established by the financial risk management policy.

The use of three derivative instruments is established in such policy: Forwards, collars and options. At present, the Company has only entered into hedge operations by means of forward instruments under the non-delivery basis.

The Company covers mainly the following risks:

- Up to 50% of its operating expenses. The main headings of operating expenses the Company is hedging are those related to personnel, leases, fees and services, insurance, maintenance and repairs, variable costs, which are denominated in Colombian pesos.

- Up to 100% of its operating expenses. Tax headings being covered correspond to income tax and related taxes, and surcharge.

Forward hedge instruments being used allow setting the sales price in US dollars, which will offset the effect of devaluation or revaluation arising up to the time the Company monetizes resources necessary to cover its monthly or specific obligations on operating expenses and tax payments, which are payable in Colombian pesos.

The nominal value of forward operations is US$332,427 (June 30, 2018 US$101,703). Taking into account that the Company seeks to minimize the exchange exposure for the twelve (12) future months, cash flows are expected to be made and payments of months from January to December, 2019 are expected to be covered.

The change in the net position of the hedges opened in the indicated periods, is due to the differences between the agreed rate in the hedges and the projected forward rate for the valuation of the derivative, so as of December 31st, the average value of the covered rate is US$3,073.59 / peso, being below the average projected forward rate, which is US$3,274.25. As of June 30th, the average value of the covered rate is US $ 3,000.95 / peso, being below the average projected forward rate, which is US $ 2,956.96.

The variation and/or compensation of hedge operations made for the payment of taxes is recorded in the statement of comprehensive income under the exchange difference heading; the variation of hedge operations of expenses (Opex) will be recorded in the Statement of Comprehensive Income provided that they are effective; once liquidated, the result of the compensation will be recorded as a lower and/or higher amount of the hedged operating expense.

## 10. Derivative Financial Instruments (continued)

The dollar-offset method is used to calculate effectiveness. It consists of comparing changes in values observed of the item covered with the corresponding changes in the hedge instrument according to projections of the forward curve at the cut-off date.

The result of the amount recorded in "Other Comprehensive Income" – OCI at the reporting period cut-off amounts to US$19,918 (net of tax (US$13,347) at June 30, 2018 it amounts to (US$415) and net of taxes at that date of (US$233).

## 11. Other non- financial assets

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Prepaid expenses | US$ | 2,365 | US$ | 3,141 |
| Supplier advances (1) | | 724 | | 2,518 |
| | US$ | 3,089 | US$ | 5,659 |
| Prepaid expenses non-current | US$ | 743 | US$ | – |
| | US$ | 743 | US$ | – |

(1) Includes remittances to suppliers as part of the acquisition of goods and services. The principal advances were drawn to the following suppliers:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Fundación Oleoductos de Colombia | US$ | 254 | US$ | 310 |
| Jorge Santos Ballesteros | | 209 | | 374 |
| Clara Ines Vargas Hernandez | | 122 | | 205 |
| Inversiones JMH S.A.S. | | 58 | | 280 |
| Inversiones 5R Y Compañia S.A.S. | | 23 | | 109 |
| G 4 S.A.S. | | 18 | | 86 |
| Bradco S.A.S. | | 17 | | 81 |
| Others | | 23 | | 1,073 |
| | US$ | 724 | US$ | 2,518 |

## 12. Property, Plant and Equipment, Net

| | Plant and Equipment | Ducts, Networks and Lines | Constructions in Progress (1) | Buildings | Land | Other (2) | Total |
|---|---|---|---|---|---|---|---|
| **At December 31, 2017** | US$ 544,844 | US$ 1,705,824 | US$ 69,010 | US$ 76,451 | US$ 21,362 | US$ 38,743 | US$ 2,456,234 |
| Additions | 54 | 6 | 13,868 | 12 | – | 44,992 | 58,932 |
| Capitalization | 10,802 | 21,137 | (31,900) | – | – | (39) | – |
| Consumption of non-capitalized materials and spare parts | – | – | – | – | – | (31,388) | (31,388) |
| Sales and retirements | – | (230) | – | – | – | (200) | (430) |
| Update of the Abandonment Cost Rate | – | – | – | – | – | (422) | (422) |
| Transfers | 18,270 | – | (562) | – | – | – | 17,708 |
| **At June 30, 2018** | 573,970 | 1,726,737 | 50,416 | 76,463 | 21,362 | 51,686 | 2,500,634 |
| Additions (4) | **240** | **141** | **33,798** | – | – | **2,895** | **37,074** |
| Capitalization | **12,328** | **5,092** | **(17,420)** | – | – | – | – |
| Tax Benefits (4) | – | – | **(1,780)** | – | – | – | **(1,780)** |
| Consumption of non-capitalized materials and spare parts | – | – | – | – | – | **(7,220)** | **(7,220)** |
| Sales and retirements | **(2,575)** | **(36,067)** | – | – | – | **(3,232)** | **(41,874)** |
| Update of the Abandonment Cost Rate | – | – | – | – | – | **11,676** | **11,676** |
| Transfers (3) | **(597)** | **570** | **(505)** | – | – | **(23,539)** | **(24,071)** |
| **At December 31, 2018** | US$ 583,366 | US$ 1,696,473 | US$ 64,509 | US$ 76,463 | US$ 21,362 | US$ 32,266 | US$ 2,474,439 |
| **Depreciation and impairment provision** | | | | | | | |
| **At December 31, 2017** | US$ (57,411) | US$ (781,286) | US$ – | US$ (9,839) | US$ – | US$ (12,473) | US$ (861,009) |
| Charge for period depreciation | (12,421) | (34,855) | – | (1,141) | – | (688) | (49,105) |
| Sales and retirements | – | 160 | – | – | – | – | 160 |
| Transfers | (32) | 32 | – | – | – | – | – |
| **At June 30, 2018** | (69,864) | (815,949) | – | (10,980) | – | (13,161) | (909,954) |
| Charge for period depreciation | **(12,964)** | **(39,764)** | – | **(1,141)** | – | **(659)** | **(54,528)** |
| Sales and retirements | **1,534** | **35,800** | – | – | – | **3,204** | **40,538** |
| Transfers (3) | 39 | **(1)** | – | – | – | **801** | **839** |
| **At December 31, 2018** | US$ (81,255) | US$ (819,914) | US$ – | US$ (12,121) | US$ – | US$ (9,815) | US$ (923,105) |
| **Net carrying value** | | | | | | | |
| **At June 30, 2018** | US$ 504,106 | US$ 910,788 | US$ 50,416 | US$ 65,483 | US$ 21,362 | US$ 38,525 | US$ 1,590,680 |
| **At December 31, 2018** | US$ 502,111 | US$ 876,559 | US$ 64,509 | US$ 64,342 | US$ 21,362 | US$ 22,451 | US$ 1,551,334 |

## 12. Property, Plant and Equipment, Net (continued)

(1) Constructions in Progress

The balance as at December 31, 2018 includes mainly investments made in the projects such as Replacement of Equipment El Porvenir, update of Motores Coveñas, VFD Cusiana Project, Optimization of wharf, Lazos Movimientos Cusiana Adcus +, Scada, Maintenance Control Center, crude oil line Chiquillo and other smaller projects; as at June 30, 2018 these projects were also in progress.

Capitalizations were made of the projects Dilution Coveñas, AD600, Connection Araguaney Cusiana, Optimization of storage Cusiana, Capitalization Sipra, Adecuación W, Adcus 2K and maintenance of capitalizable investments executed during 2016, 2017 and 2018 were also made during the second half of 2018. Capitalizable investments corresponded to the optimization of the system. There are projects in progress with early entries that are in operation and on which it is expected to complete the final phases in 2019.

(2) Other

This heading includes material's spare parts, abandonment cost of the pipeline system, office, computers and telecommunication, transportation and fluvial equipment. There are no commitments and/or restrictions of acquisitions of property, plant and equipment.

(3) Transfers

- Transfer from PP&E to intangibles at December 31, 2018 amounts to US$(876)
- From PP&E to inventories for US$(22,809)
- From provisions to PP&E during the 2nd biannual for US$453

(4) In the cash flow statement the value of US$ 35,294 is presented as investment activities in the acquisition of property, plant and equipment which is the net value of the Additions and the Tax Benefits

### Volumetric Current Accounts – Line Filling

As a result of the end of the segregation of Cusiana crude, which passed to being transported as a blend, disclosed below is the total amount of the provisional balances of volumetric current accounts with senders under the transportation contracts.

The provisional balances come from the difference in barrels between the crude delivered for transportation and the crude retired from the system after the rendering of the transportation service, so that, (i) provisional balances against the sender reflect the temporary custody of the sender over the crude owned (line filling) or managed by the Company in accordance with the procedure of surpluses/shortages, and (ii) the provisional balances in favor of the sender reflect the temporary custody over the sender crude.

To determine the disclosure value, the proportion that the net volumes of each crude quality have in the provisional volumetric balance of the sender is weighted. The barrel price for each quality is calculated based on the yields in refined products of the crude transported and its quotation in the database of ARGUS and OPIS, which is a reference price of the refined market of the United States, which is complemented with the process of adjustments for volumetric compensation for quality. In the event that in respect of each sender the balances of the volumetric current account are liquidated, the corresponding adjustments will be made in the accounting.

## 12. Property, Plant and Equipment, Net (continued)

### Volumetric Current Accounts – Line Filling (continued)

The balance is comprised of:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Negative balance of senders | **US$ 24,231,034** | US$ 59,108,841 |
| Positive balance of senders | **US$ 120,360,494** | US$ 219,103,776 |

### Impairment

As at December 31 and June 30, 2018, the Company evaluated if there were indications of impairment in the cash generator unit by means of a qualitative analysis, where external variables were verified such as the legal, technological and market environment, and of internal variables such as the useful life, obsolescence and/or physical impairment, as well as changes in current contracts; concluding that at the time of the analysis, no impairment evidences exist of the cash generator unit.

## 13. Intangibles, Net

| | Licenses and Software | Service Concession Agreement | Agreement Gas Transmission | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| **At December 31, 2017** | US$ 15,806 | US$ 50,957 | US$ 4,561 | US$ 71,324 |
| Additions | 26 | 1,602 | – | 1,628 |
| Transfers | – | 562 | – | 562 |
| **At June 30, 2018** | 15,832 | 53,121 | 4,561 | 73,514 |
| Additions | **469** | **7,110** | **–** | **7,579** |
| Retirements | **(88)** | **–** | **–** | **(88)** |
| Transfers | **235** | **2** | **640** | **877** |
| **At December 31, 2018** | **US$ 16,448** | **US$ 60,233** | **US$ 5,201** | **US$ 81,882** |
| **Amortization** | | | | |
| **At December 31, 2017** | US$ (13,214) | US$ (43,846) | US$ – | US$ (57,060) |
| Charge for period amortization | (90) | (367) | (114) | (571) |
| **At June 30, 2018** | (13,304) | (44,213) | (114) | (57,631) |
| Charge for period amortization | **(69)** | **(354)** | **(146)** | **(569)** |
| Sales and retirements | **88** | **–** | **–** | **88** |
| **At December 31, 2018** | **US$ (13,285)** | **US$ (44,567)** | **US$ (260)** | **US$ (58,112)** |
| **Net carrying value** | | | | |
| **At June 30, 2018** | **US$ 2,528** | **US$ 8,908** | **US$ 4,447** | **US$ 15,883** |
| **At December 31, 2018** | **US$ 3,163** | **US$ 15,666** | **US$ 4,941** | **US$ 23,770** |

## 13. Intangibles, Net (continued)

### Service Concession Agreement

Port Concession Agreement No. 016 of December 6, 1996, whose purpose is to grant a port concession for the construction and operation of off-shore facilities of a new oil terminal of Coveñas intended to load exportation crude, was initially intended to render a private service.

On October 24, 2011, Addendum No. 2 is signed whereby the class of service is changed from private port to public port intended for the handling of exportation crude. The payments were made in accordance with Addendum No. 02.

Addendum number 03 was signed on December 5, 2016, where the obligations regime is adjusted, the concession term is extended for 20 more years and the value of the valuable consideration and of investments is changed based on the investments plan delivered by the Company and approved by the Agencia Nacional de Infraestructura, a total investment of US$104 million at the net present value equivalent to US$56 million (discounted at a rate of 12%, included in the contract signed by the parties).

Addendum number 04 was signed on December 4, 2018, where the investment plan is adjusted extending for two years the replacement of the monoboya, transferring the operation start-up to 2021, concentrating the investment between 2019 – 2020. This change does not modify the type of heading formulated in the initial plan. The economic impact is transferred to the change of hoses, which increased by approximately US$5 million based on the technical analysis.

With these changes the nominal value of the investment passes from US$104.9 million to US$108.5 million, maintaining the net present value equivalent to US$56 million (discounted at a rate of 12%, included in the contract signed by the parties.

For the second semester of 2018, the value of the investment made amounts to US$5,975 (June 30, 2018, US$2,038).

As at December 31, 2018 the fixed portion of the valuable compensation was recorded which amounts to US$5,493 for the 20 years, which was discounted at a risk free rate of 1.18% in dollars, a rate taken from de Treasury Department, resulting in a net present value of US$5,318, which was recognized as an intangible asset and a financial liability. The intangible will be amortized using the straight-line method over 20 years and the liability will be updated annually for interests and the installments paid are amortized. The balance as at June 30, 2018 corresponds to the sum of US$4,292.

## 14. Debts and Loans Bearing Interest

### Composition of Loans

Loans are recorded at their amortized cost, which corresponds to the present value of cash flows, discounted at effective interest rate.

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| **Short-term loans** | | | | |
| Interest payable for external public credit | **US$** | **20,000** | US$ | 20,000 |
| Financial leasing | | **–** | | 138 |
| | **US$** | **20,000** | US$ | 20,138 |
| **Long-term loans** | | | | |
| External Public Credit Bonds | **US$** | **480,979** | US$ | 480,585 |
| | **US$** | **480,979** | US$ | 480,585 |
| | **US$** | **500,979** | US$ | 500,723 |

### Long-Term External Public Credit Bonds

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to five hundred million dollars of the United States of America (US$500,000,000) in order to finance the needs of investment of future expansion projects (Potency 135 and Warming).

The characteristics, term and conditions are as follows:

- Redemption term: 7 years, with a maturity date until May 7, 2021
- Issue price: 99.367%
- Amortization: Upon maturity
- Yield at maturity: 4.105%
- Denomination currency: Denominated in dollars of the United States of America (US$)
- Interest rate: Fixed, in accordance with market conditions prevailing on the bonds placement date, thus complying with the maximum limits for the external indebtedness interest rates defined by the Central Bank.
- Denominations US$200,000 and integral multiples of US$1,000
- Listed in: Luxembourg Stock Exchange

The variation of this obligation of the period from July to December 2018 corresponds to the recognition in the statement of income of the bond issue costs, and includes the exchange difference generated by the conversion of the debt from functional currency to presentation currency.

## 14. Debts and Loans Bearing Interest (continued)

Below is the fair value of bonds:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Fair Value | **US$** | **493,070** | US$ | 496,965 |

Loans are recorded in the financial statements at their amortized cost, which corresponds to the present value of cash flows, discounted at the effective interest rate.

For the measurement at fair value bonds were valued using as source the Bloomberg methodology. Bloomberg.

Article 28 of External Resolution No. 8 of 2000 of the Board of Directors of the Central Bank establishes that interest rates of foreign currency credits, including securities placed in international markets, should reflect market conditions and may not exceed the maximum rate applicable generally indicated by the Central Bank.

Payment dates of interest will be May 7 and November 7 of each year, starting on November 7, 2014

Computation date: May 7, 2014; T+5, gross value: US$496,835,000; rate: 4.000%, determined on a 30/360-day basis.

### Loans Maturity Profile

The loans maturity profile is described below:

| | Up to 1 year | | 1 – 5 years | | Total | |
|---|---|---|---|---|---|---|
| **At December 31, 2018** | | | | | | |
| External Public Credit Bonds | **US$** | **20,000** | **US$** | **480,979** | **US$** | **500,979** |
| Lease obligations | | **–** | | **–** | | **–** |
| | **US$** | **20,000** | **US$** | **480,979** | **US$** | **500,979** |
| **At June 30, 2018** | | | | | | |
| External Public Credit Bonds | US$ | 20,000 | US$ | 480,585 | US$ | 500,585 |
| Lease obligations | | 138 | | – | | 138 |
| | US$ | 20,138 | US$ | 480,585 | US$ | 500,723 |

## 15. Trade Accounts and Other Accounts Payable

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Suppliers and accounts payable (1) | US$ | 66,491 | US$ | 62,131 |
| Related parties (*Note 27*) | | 5,127 | | 6,523 |
| Withholding tax | | 3,703 | | 3,122 |
| Employees fringe benefits | | 811 | | 962 |
| Withholdings and payroll contributions | | 979 | | 391 |
| Industry and commerce tax withholdings | | 196 | | 98 |
| | US$ | 77,307 | US$ | 73,227 |
| Trade accounts and other accounts payable, short term | US$ | 72,686 | US$ | 69,306 |
| Trade accounts and other accounts payable, long term | US$ | 4,621 | US$ | 3,921 |

(1) The accounting value of trade accounts and other accounts payable is close to its fair value due to its short term nature.

## 16. Tax Liabilities

Below is the detail of the current taxes:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Income tax balance in favor (1) | US$ | 100,571 | US$ | (51,002) |
| Other taxes | | 4,509 | | 12,658 |
| | US$ | 105,080 | US$ | (38,344) |

(1) With the presentation of the income tax statement for the fiscal year 2017, the advance was registered by the year 2018, which generated balance in favor to June 30. At December 31, once caused the provision of income for the entire year 2018, it is classified as a tax payable amount.

### 16.1. Income Tax

Below is the detail of the Current tax and/or (credit balance)

| | | | | |
|---|---|---|---|---|
| Provision for income tax | US$ | 314,725 | US$ | 191,551 |
| Provision for surtax | | 38,174 | | 23,207 |
| Less: | | | | |
| Income tax advance | | 187,377 | | 207,769 |
| Surtax advance | | 39,707 | | 44,027 |
| Withholding tax balance in favor | | 23,518 | | 13,964 |
| Heavy machinery creditable VAT | | 1,726 | | – |
| Liabilities (recoverable balance) payable for income tax | US$ | 100,571 | US$ | (51,002) |

### 16.1. Income Tax (continued)

Income tax expense

The following is a detail of the tax on income and complementary, and income tax and surcharge income recognized in the result for the period:

| | Period from | |
|---|---|---|
| | July 1 to December 31, 2018 | January 1 to June 30, 2018 |
| **Current tax** | | |
| Provision for income tax of the year | **US$ 147,756** | US$ 196,129 |
| Provision of surtax | **17,874** | 23,763 |
| Adjustment of prior periods' income tax expense and surtax | **–** | (287) |
| Hedges (1) | **5,418** | (3,968) |
| | **171,048** | 215,637 |
| **Deferred tax** | | |
| Deferred income tax | **11,644** | (15,696) |
| **Total income tax expense** | **US$ 182,692** | US$ 199,941 |

(1) Corresponds to the effect of derivative instruments that cover the payment of income tax.

**Reconciliation of the Effective Tax Rate**

The Company's income tax differs from the theoretical amount that would have been obtained by using the tax rate applicable to profit before tax.

Below is a detail of the reconciliation between the accounting profit before taxes and net taxable income, which was the basis to determine the expense on concept of income tax, and surtax:

| | Period from | | | |
|---|---|---|---|---|
| | July 1 to December 31, 2018 | | January 1 to June 30, 2018 | |
| | Values | Rates | Values | Rates |
| **Accounting profit before tax** | **US$ 538,515** | | US$ 513,870 | |
| Income tax applying the Company's local tax rate | **199,251** | **37.00 %** | 190,132 | 37.00 % |
| Non-deductible expenses | **878** | **0.16 %** | 445 | 0.09 % |
| Difference between taxable base of income and Surtax | **–** | **0.00 %** | (11) | 0.00 % |
| Conversion adjustments – dollar functional Currency | **(15,705)** | **(2.92) %** | 13,012 | 2.54 % |
| Differential in rate – deferred tax | **(6,230)** | **(1.16) %** | 194 | 0.04 % |
| Prior years income tax expense | **–** | **0.00%** | (287) | (0.06)% |
| Hedges | **4,498** | **0.84%** | (3,544) | (0.69)% |
| **Tax profit before tax** | **US$ 182,692** | **33.92 %** | US$ 199,941 | 38.92 % |

### 16.1. Income Tax (continued)

**Deferred Income Tax**

Below is the detail of the balance of deferred tax assets and liabilities:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Asset – Deferred income tax | US$ 34,434 | US$ 47,009 |
| Asset – Deferred surtax | – | 4,508 |
| | 34,434 | 51,517 |
| Liability – Deferred income tax | (95,206) | (116,797) |
| Liability – Deferred surtax | – | (796) |
| | (95,206) | (117,593) |
| | US$ (60,772) | US$ (66,076) |

The net movement of deferred taxes during the period is the following:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| **Initial balance** | US$ (66,076) | US$ (82,413) |
| Credit to statement of income | (11,644) | 15,696 |
| Debit to other comprehensive income (1) | 6,754 | 1,699 |
| Translation adjustment | 10,194 | (1,058) |
| **Ending balance** | US$ (60,772) | US$ (66,076) |

(1) Variations in deferred tax balances were recorded in result accounts of the period except for the following items which were recorded in other comprehensive income, as follows:

| Hedging | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Deferred asset (liability) – Financial assets (liabilities) | US$ 6,754 | US$ 1,699 |

Below is the detail of deferred tax assets and liabilities is the following:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| **Assets** | | |
| Provisions | US$ 13,060 | US$ 10,526 |
| Accounts payable | 12,991 | 846 |
| Other assets | 8,383 | – |
| Trade accounts receivable | – | 40,145 |
| **Deferred tax asset** | US$ 34,434 | US$ 51,517 |

### 16.1. Income Tax (continued)

**Deferred Income Tax (continued)**

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Property, plant and equipment (1) | US$ | 94,286 | US$ | 110,297 |
| Other assets | | 920 | | 1,991 |
| Other liabilities | | – | | 5,305 |
| **Deferred tax liability** | | 95,206 | | 117,593 |
| **Net deferred tax** | US$ | (60,772) | US$ | (66,076) |

(1) For tax purposes, the property, plant and equipment account has a specific useful life. Under accounting and financial information standards accepted in Colombia, the useful life is determined by a technical analysis. This difference results in a different depreciation basis for IFRS and tax purposes.

Assets from deferred tax assets pending offsetting are recognized to the extent that the realization of the respective tax benefit is probable through future tax benefits.

### 16.2. Other Taxes

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Transport tax | US$ | 4,441 | US$ | 12,429 |
| Sales tax – VAT payable | | 53 | | 61 |
| Industry and commerce tax | | 15 | | 168 |
| Other taxes short term | | 4,509 | | 12,658 |
| Sales tax - VAT "Plan Vallejo" | | 923 | | 903 |
| Other taxes long term | US$ | 923 | US$ | 903 |

The related transport tax corresponds to the volumes of actual and estimated crude that have been transported in the stated period, plus the amount pending payment to the municipal jurisdictions which upon disposition of the National Planning Department is who orders the payment. The balance is classified as follows:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Estimated transport tax | US$ | 4,373 | US$ | 12,363 |
| Accounts payable | | 68 | | 66 |
| | US$ | 4,441 | US$ | 12,429 |

The variation is due that as of June 30 the first two quarters of the year were pending of payment; and as of December 31 a there is a single quarter pending; product of the payment during the second semester of the year of three quarters.

**16.3.Other aspects (continued)**

*Tax Reform*

In 2018, the National Government issued Law 1943, with which certain substantial aspects were modified. The general rate of income tax applicable to national companies, permanent establishments and foreign entities will be: 2019 - 33%, 2020 - 32%, 2021 - 31%, and following 2022 - 30%.

On the other hand, for the years 2019 and 2020, the applicable rate for purposes of calculating the income tax under the presumptive income system will be 1.5% of the taxpayer's net worth of the immediately preceding year. As of the year 2021, the applicable rate will be 0%.

The sub capitalization rule contained in article 118-1 of the E.T. was modified. Consequently, as of 2019, the sub capitalization rule will only be applicable with respect to interest generated in the acquisition of debts contracted, directly or indirectly, with national or foreign economic related parties. Likewise, the capital - debt ratio was modified to 2: 1 (previously it was 3: 1), which means that not only interest generated on occasion of debts acquired with related parties may be deducted when the average total amount of such debts does not exceed two (2) times the liquid assets of the taxpayer determined on December 31 of the immediately preceding taxable year.

*Tax on Dividends*

As of January 1, 2019, dividends and participations paid or credited to an account from distributions made among Colombian companies will be subject to withholding tax at the rate of 7.5%. On the other hand, if the profits from which the dividends are distributed were not subject to taxation at the company level, such dividends are taxed with the income tax applicable in the distribution period (for the year 2019 the rate it will be 33%). In this case, the withholding of 7.5% will apply to the value of the dividend once it has decreased with the income tax (33% for the year 2019).

The withholding rate of 7.5% will be incurred only in the first distribution of dividends among Colombian companies, and may be credited against the dividend tax as soon as these are paid by the natural resident shareholder or the investor resident abroad.

It should be noted that the 7.5% withholding does not apply to: (i) Colombian Holding Companies, including decentralized entities; and (ii) entities that are part of a duly registered business group, in accordance with commercial regulations.

*Property Tax and Standardization*

On the occasion of this Law, a new property tax was created for the years 2019, 2020 and 2021, by natural persons and illiquid successions with residence or without residence in the country, and by foreign companies and entities not reporting income in Colombia and who own assets in Colombia other than shares, accounts receivable, and portfolio investments. Neither will foreign companies or entities that do not declare the income tax and that sign financial leasing contracts with entities resident in Colombia be taxpayers.

### 16.3. Other Aspects (continued)

*Property Tax and Standardization (continued)*

A Taxation Normalization Tax was created for the year 2019, as a complementary tax to the income tax and the property tax, in charge of the taxpayers of the income tax who have omitted assets or nonexistent liabilities. This tax will be settled and paid in an independent declaration that will be presented on September 25, 2019, which does not allow correction or extemporaneous presentation. The rate for Taxation Normalization Tax is 13% but it can be reduced by 50% when the taxpayer normalizes assets abroad and invests them with a vocation for permanence in the country.

*Sales Tax*

Regarding Sales Tax, the list of goods and services excluded from VAT established in Articles 424, 426 and 476 of the Tax Statute was modified. Article 437 of the Tax Statute was added, in relation to guidelines on the fulfillment of formal duties on VAT by service providers from abroad and it was indicated that VAT withholding may be up to 50% of the value of the tax, subject to regulation by the National Government. The VAT rate remains at 19%. (Art. 424, Art. 426, Art. 476 Tax Statute).

*Tax Procedure*

Regarding the procedure, there are modifications: (i) withholding statements that despite being ineffective will be enforceable tittle, (ii) electronic notification of administrative acts; and (iii) payment of glosses in the statement of objections in order to avoid late interest and use the currencies plus two points; (iv) elimination of extension of the firmness to three (3) additional years for compensation of fiscal losses.

Likewise, an audit benefit was included for the taxable years 2019 and 2020. Under this benefit, the private liquidation of income tax and complementary taxes payers who increase their net income tax by at least a minimum percentage of 30%, in relation to the net income tax of the immediately preceding year, shall be final within six (6) months following the date of presentation if no notice to correct, or special requirement, or special location, or provisional liquidation has been given, and provided that the income tax return is presented in a timely manner and the payment is made within the established deadlines.

However, if the increase in the net income tax is at least 20% in relation to the net income tax of the immediately preceding year, the declaration will be final within twelve (12) months following the presentation of the declaration; if no notice to correct, or special requirement, or special location, or provisional settlement has been notified and the income tax return is presented in a timely manner and the payment is made within the established deadlines.

The above benefit does not apply to: (i) taxpayers who enjoy tax benefits because of their location in a specific geographical area; (ii) when it is shown that withholding taxes declared are non-existent; (iii) when the net income tax is less than 71 UVTs (COP$2,433,170). The term provided in this standard does not extend to withholding tax returns or sales tax, which will be governed by the general rules.

## 17. Deferred Revenues

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Revenues received in advance, short term | US$ | 4,751 | US$ | 5,902 |
| Revenues received in advance, long term | | 3,376 | | 5,567 |
| | US$ | 8,127 | US$ | 11,469 |

Corresponds to the advance payment upon the capacity reserve of the pipeline, the recoveries of the ship or pay contract of P135 of the revenue received for indemnities and other advances received which are detailed below:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| BP Products North América | US$ | 6,514 | US$ | 8,706 |
| Gunvor Colombia CI S.A.S. | | 1,208 | | 1,607 |
| Perenco Colombia Limited | | – | | 526 |
| AIG Seguros Colombia S.A. | | 173 | | 191 |
| Chubb de Colombia Cía. de Seguros | | 173 | | 191 |
| Others | | 59 | | 248 |
| | US$ | 8,127 | US$ | 11,469 |

## 18. Provisions

| | Abandonment Costs (18.1) | | Litigations (18.2) | | Environmental Contingencies (18.3) | | Others (Note 18.4) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2017** | US$ | 28,267 | US$ | 2,604 | US$ | 398 | US$ | 50,011 | US$ | 81,280 |
| Additions | | (422) | | – | | 7 | | | | (415) |
| Provision movement | | | | | | | | (50,011) | | (50,011) |
| Financial cost (*Note 25*) | | 1,073 | | – | | – | | – | | 1,073 |
| Translation adjustment | | 488 | | 48 | | 7 | | – | | 543 |
| **At June 30, 2018** | | 29,406 | | 2,652 | | 412 | | – | | 32,470 |
| Additions | | 11,676 | | – | | – | | – | | 11,676 |
| Application | | – | | 1,762 | | – | | 1,159 | | 2,921 |
| Transfers | | – | | 569 | | – | | 209 | | 778 |
| Financial cost (*Note 25*) | | 601 | | – | | – | | – | | 601 |
| Translation adjustment | | (2,941) | | (270) | | (40) | | – | | (3,251) |
| **At December 31, 2018** | US$ | 38,742 | US$ | 4,713 | US$ | 372 | US$ | 1,368 | US$ | 45,195 |

### 18.1. Abandonment Costs and Dismantling of Assets

The estimated liability for abandonment costs corresponds to the future obligation of the Company to restore the environmental conditions in a similar manner to those existing before the initiation of the projects or activities. Since these are long-term obligations, this liability is estimated by projecting the expected future cash flows and discounting at present value with a rate referenced to the financial obligations of the Home Office, Ecopetrol S.A. The business group changed the methodology of the rate calculation passing from a nominal calculation to an actual calculation.

### 18.1. Abandonment Costs and Dismantling of Assets (continued)

The actual discount rate reported by the head office had no significant variation; it passed from 3.85% (June 2018 update) to US$3.88 (December 2018) equivalent to a nominal discount rate in June 2018 of 7.39% December 2018 of 7.85%, respectively; as at December 31, 2018, the obligation for dismantling amounts to US$38,741, at June 2018 to US$29,406.

The slight increase in the rate is due to the increases in the interest rate made by the FED, which generate systematic impacts on the market, and affect the rates of the debt bonds of the head office.

### 18.2. Litigation

As at December 31, 2018, Ocensa participates in several legal processes of low materiality related with the normal course of operations, and that involve: 1) contractual obligations' lawsuits; 2) lawsuits for supposed environmental damages; 3) indemnity lawsuits for damages to real estate and communities; 4) tax obligations' claims; and 5) various civil claims.

The Company believes that appropriate provisions have been made in those cases where it is considered that there is a probable contingent or true obligation, for the amount estimated necessary to face the related risks. Likewise, the Company believes that these matters will be resolved without significantly affecting the business, its financial position or its results of operations.

Additionally, concerning certain legal procedures in progress, Ocensa sometimes may determine and disclose reasonable estimates of the expected loss or of the rank of possible loss, as well as, disclose any provision created for such loss. However, for a limited number of legal procedures in process, the Company could not be in the possibility of making a better estimate of the expected loss or of the possible loss rank, or could be in the possibility but it is considered that disclosing such information on a basis of case-by-case would seriously damage the Company's position in the legal procedures in process or in any related liquidation negotiation. Therefore, in these cases, the Company discloses qualitative information in respect of the nature and characteristics of the contingency, without including the loss estimate or the rank of the possible loss.

#### Claims

Detailed below are the main litigations recognized in the statement of financial position and that could generate an outflow of resources:

- Payment claim of presumed damages caused by the attack to the Cupiagaua-Cusiana-Coveñas pipeline by the National Liberation Army in Vereda Fraguas, Machuca Township, Municipal Jurisdiction of Segovia Antioquia; its accrued value as at December 31, 2018 amounts to US $2,896, sum that corresponds to the value of the judgment of cassation uttered by the Supreme Court of Justice on December 18, 2018. Ocensa filed an annulment incident and a request for clarification and complementation of the judgment on January 22, 2019.Annulment of Resolution 431 of 2009 hereby MAVDT amended Resolution 952 (pipeline environmental license), including the obligation of 1%. The appeal against the first instance sentence was admitted by the Council of State on October 15, 2014. On September 29, 2017 the Company filed second-instance conclusion allegations.

### 18.2. Litigation (continued)

**Claims (continued)**

- Nullity of writs 155 and 1981 of 2010 whereby MAVDT rejected the Additional Investment Plan executed for the benefit of hydrographic basins of the pipeline influence area in the Cupiagua-Cusiana (Interfiled) section. On January 16, 2015, the Company filed with the Council of State the second instance conclusion pleadings against the first-instance sentence.

Annulment of Proceedings 2913 and 4034 of 2011 whereby the Ministry of the Environment, Housing and Territorial Development (MAVDT) rejected certain works, activities and projects executed for the benefit of the basis of the pipeline influence area. Ocensa filed an appeal against the sentence partially favorable of the first instance issued on January 23, 2015, which was admitted by the Council of State on March 5, 2015. The value accrued as at December 31, 2018 amounts to US$1,727.

### 18.3 Environmental Contingencies

This heading corresponds mainly to environmental compensation obligations for the use or affectation of natural resources in the framework of environmental authorizations and the forced investment of no less than 1% for the use of water taken directly from natural sources as established by the Law 99 of 1993, paragraph 43, related with project P-135.

On December 22, 2016, the Ministry of Environment and Sustainable Development issued the Decree 2099 whereby it amends the Single Regulatory Decree of the environment and sustainable development sector, Decree 1076 of 2015 related with the forced investment of no less than 1% for the water taken directly from natural sources, and Decree 1120 of June 29, 2017 which amended numerals 3 and 4 of article 2.2.9.3.1.17 of Decree 1076 of 2015.

The Company has currently approved the investment plan of no less than 1% for the record 318 within which is P-135. This approval was made by means of Resolution 00834 of June 5, 2018, and record 1226 of Interfiled, by means of resolution 620 of April 30, 2018 in respect of which the remedy of appeal was filed.

### 18.4 Others

As of December 31, 2017, Ocensa had a recognized provision to cover a probable loss for the results that could derive from the arbitration process initiated by Meta Petroleum and Petrominerales (today Frontera Energy Colombia Corp., Colombia Branch). This arbitration process ended on July 12, 2018 as a result of the approval by the Arbitral Tribunal of the conciliatory agreement reached by the parties, by virtue of which the standard transportation rate and monetary conditions of the transportation contracts signed on July 29 of 2014 were revised in support of the expanded capacity resulting from Project P135, and extending its effects from July 1, 2017 (Effective date of transportation contracts). On the same date, July 12, 2018, the parties subscribed the corresponding amendment to the current transportation contracts, reflecting the modifications contained in the approved conciliatory agreement.

### 18.4 Others (continued)

Likewise, a transaction agreement and the respective amendment to the transport contracts were signed with those senders of Project P135 who accepted the binding offer extended by Ocensa in response to the principles of Resolution No.72146 of 2014, in equal or equivalent terms to those contained in the conciliatory agreement and amendments with Frontera. In relation to the arbitration process convened by Vitol Colombia C.I. SAS, the parties requested by mutual agreement to the Arbitral Tribunal to cease its functions as a result of the settlement agreement reached on July 23, 2018. This request was accepted by the Court at the hearing of August 8, 2018, ending the arbitration process.

The undersigned settlement and transaction agreements established the senders' obligation to cease their ongoing administrative or judicial actions and to refrain from promoting new claims in the future.

As a result, Ocensa reconciled and adjusted the accounts receivable and payable that were held between the parties and the credit notes were issued to reflect the balances in favor of the senders. This recognition in the financial statements generated a movement of the provision and its corresponding effect on other operating income of $ 146,788, in addition to the decrease in income from ordinary activities as of June 30th because of the issued credit notes.

### 18.5 Contingent Liabilities

The Company has unrecorded contingent liabilities in the Statement of Financial Position upon considering that their probability of occurrence is eventual. Those contingencies derive mainly from legal processes related with labor claims to the Company's contractors, lawsuits for the repair of damages caused during the Pipeline construction.

On June 2016, Massy Energy Colombia S.A.S. called an arbitration court to resolve the differences that arose with the Company regarding the liquidation of Contract No. 3801903 which purpose was engineering, purchases and construction of changes to pumping systems of the pipeline, in the Delta 35 project. Claims amount to COP$12,986 million and comprise higher amounts of the contract. Although the parties arrived at a preliminary conciliation agreement, the Controller's Office and the Court did not approve it and the process continued. Currently, it is in the practice of tests stage.

### 18.6. Contingent Assets

Below is a detail of contingent assets, which entry of economic benefits to the Company is probable, but not practically certain.

The Company seeks the payment of the difference between the Cusiana crude value purchased by Ocensa from Equion Energía Limited and Santiago Oil Company to conform the pipeline filling line between 1996 and 1997, and the quality of the oil currently found in the Pipeline. The various claims of the lawsuit are addressed to the restitution of that negative balance under different approaches which vary both in their nature (in kind or money), as their reference price (price at September 2014 or the award date). The Company considers that the contingent asset that would arise from this process would correspond to the difference between the value pretended in the lawsuit and the value of the crude currently found inside the pipeline.

### 18.6. Contingent Assets (continued)

The Company filed a nullity action and reestablishment against the decision of the Superintendence of Ports of denying the request of returning the excess in the payment of the oversight rate paid in 2001. Ocensa calculated the amount of the devolution at COP$2,816 million and considers that it applies in accordance with the Resolution 0457 of 2001 issued by the same Superintendence. Currently, the issue of the first instance is pending.

## 19. Equity

### 19.1. Subscribed and Paid-in Capital

Authorized capital is of 5,793,456 shares at a par value of COP$30,104.5434483 each; subscribed and paid.in 5,159,000, and subscribed and paid in capital being US$81,714.

For the second half of 2018, the gain per share was of US$68.97 (for the first half of 2018 it amounts to US$60.85), that is taken from the net income of the year of the continued operations on the number of shares, due to the distributions of dividends during the period.

A detail of the shareholders is shown below:

| | Subscribed Shares | | % |
|---|---|---|---|
| Cenit Transporte y Logistica de Hidrocarburos S.A.S. | $ | 3,747,910 | 72.64799% |
| Al Candelaria (Spain), S.L.U. | | 1,153,139 | 22,35199% |
| Banco de Bogotá (Panamá), S.A. Fideicomiso Acciones Ocensa. | | 257,949 | 4.99998% |
| Al Candelaria (Luxembourg) S.A.R.L. | | 1 | 0.00002% |
| Transporte Registrado Servicios, S.A. | | 1 | 0.00002% |
| | $ | 5,159,000 | 100% |

### 19.2. Equity Reserves

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Legal reserve | **US$** | **7,736** | US$ | 7,736 |
| Legal reserve 10% non-taxed | | **33,122** | | 33,122 |
| | **US$** | **40,858** | US$ | 40,858 |

**Legal Reserve**

The Colombian Code of Commerce establishes that it is mandatory to appropriate 10% of its net annual profits as a legal reserve until the balance thereof is equivalent to 50% of subscribed capital. This reserve may be used to offset losses or distribute them in the event of Company's liquidation.

### 19.3. Payment of Dividends

Below is the detail of distributed dividends:

| | | |
|---|---|---|
| March 12, 2018 – profits from July 1 to December 31, 2017 | US$ | 291,651 |
| September 13, 2018 – profits from January 1 to June 30, 2018 | **US$** | **313,929** |

### 19.4. Other Comprehensive Income

This heading includes effects of the effective portion of cash flow hedge instruments, thus recognizing the effective portion in Other Comprehensive Income. The change in fair value of the hedge instrument, which has been recognized in Other Comprehensive Income, will be reclassified to income when the hedged item affects income.

The Company, with this hedge policy, seeks to stabilize cash flows and mitigate economic effects that could arise from fluctuations in market variables, namely, the peso/dollar exchange rate and the international reference price of Brent oil. Being between 80% and 125% of the fair value established for the hedge is a policy established by the Company for recognition purposes in Other Comprehensive Income.

The Value at Risk (VaR) methodology is used to measure the effectiveness of the hedge, which uses as indicator the EBITDA at Risk.

This measurement is made by means of simulations of Monte Carlo; however, other commonly accepted methodologies could be contemplated, which should allow to:

(1) Present potential variances in the pesos/dollars (COP/US$) exchange rate and/or prices of raw materials (Brent).

(2) Measure the impact of these movements in the Company's cash flow.

(3) Measure the impact of these movements in the EBITDA (and/or net profit if prudent) of the Company.

The specific model to measure risks and their critical variables, as well as their amounts, will be evaluated monthly at the Audit and Financial Committee. When the hedge is no longer effective, the hedge accounting will cease.

Additionally, in the other comprehensive income there is an adjustment in conversion generated by the application of the methodology for the calculation and recognition of the deferred tax; which is calculated in pesos but registered in dollars.

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Cash hedges | **US$** | **(19,919)** | US$ | 416 |
| Deferred tax | | **6,571** | | (182) |
| Deferred tax translation adjustment | | **90,313** | | 80,118 |
| | **US$** | **76,965** | US$ | 80,352 |

## 20. Revenues from Ordinary Activities

| | Period from July 1 to December 31, 2018 | Period from January 1 to June 30, 2018 |
|---|---|---|
| Hydrocarbons transportation service (1) | **US$ 705,616** | US$ 659,430 |
| Other revenues (2) | **16,050** | 9,323 |
| Unloading service (3) | **4,726** | 5,515 |
| | **US$ 726,392** | US$ 674,268 |

(1) It corresponds to the transport of oil from Cupiagua, to the export by TLU-2 at the Coveñas terminal; the transport service is invoiced in relation to the barrels transported in each section of the pipeline at the rate fixed by the Ministry of Mines and Energy for each one, and for the Coveñas terminal the rate authorized by the Superintendence of Ports and Transportation. The barrels of average crude transported were 640,837 bpd for the second semester of 2018 and 633,190 bpd for the first semester of 2018. The higher volumes correspond to higher reversal days and non-operation of the Bicentennial Pipeline due to attacks on the Caño Limón pipeline. On the other hand, since July 2018 there has been an increase in the rate of Ship and Pay transportation contracts because of the updating of the tariff year established in Resolution 72 146 of 2014 of the Ministry of Mines and Energy.

(2) It corresponds to port services, dilution service, administrative and maintenance services. As of December 31 it includes US$ 5,963 for revenues derived from construction services related to the port concession contract made with the ANI - National Infrastructure Agency. See note 13.

(3) It corresponds to the discharge of oil or diluent in the unloading facilities located at the Cusiana station. This service is billed for the barrels nominated by the clients at the contract rate. The decrease in unloading service revenues for the second semester of 2018 compared to the first semester of the same year was produced by the approval of new monetary conditions from July 2018, passing from a rate in the first half of 0.50 US$ / BL to 0.45 US$ / Bl.

Revenues generated as a result of crude transportation activities are obtained by the following clients:

| | Period from July 1 to December 31, 2018 | Period from January 1 to June 30, 2018 |
|---|---|---|
| Ecopetrol S.A. | **US$ 558,712** | US$ 526,227 |
| Frontera Energy Colombia Corp. | **63,601** | 64,511 |
| Others minors | **104,079** | 83,530 |
| | **US$ 726,392** | US$ 674,268 |

The percentage of participation of related parties corresponds to approximately 77%.

## 21. Cost of Sales

| | Period from July 1 to December 31, 2018 | | Period from January 1 to June 30, 2018 | |
|---|---|---|---|---|
| Variable costs | | | | |
| Fuels and lubricants | US$ | **16,348** | US$ | 14,701 |
| Friction reducer | | **14,937** | | 12,339 |
| Gas | | **11,551** | | 14,301 |
| Electric power | | **4,003** | | 3,662 |
| | US$ | **46,839** | US$ | 45,003 |
| Fixed costs | | | | |
| Depreciation (*Note 12*) | US$ | **53,747** | US$ | 48,271 |
| Operation and maintenance (1) | | **50,608** | | 37,837 |
| Labor costs | | **3,507** | | 3,284 |
| Materials | | **3,379** | | 2,883 |
| Amortization payment for port counterbalanced (*Note 13*) | | **256** | | 237 |
| Amortization concession (*Note 13*) | | **245** | | 244 |
| Taxes | | **–** | | 257 |
| | | **111,742** | | 93,013 |
| | US$ | **158,581** | US$ | 138,016 |

(1) The variation corresponds to recognition of expenditures of the port concession and emergencies presented during the second semester.

## 22. Operation and Projects Expenses

| | Period from July 1 to December 31, 2018 | | Period from January 1 to June 30, 2018 | |
|---|---|---|---|---|
| Fees and services (1) | US$ | **8,200** | US$ | 2,541 |
| Miscellaneous | | **1,381** | | 545 |
| Insurance | | **820** | | 715 |
| Leases | | **664** | | 694 |
| Maintenance | | **664** | | 572 |
| | US$ | **11,729** | US$ | 5,067 |

(1) The increase corresponds mainly to the recognition of legal fees as a result of the completion of proceedings in arbitration courts.

## 23. Administration Expenses

| | Period from July 1 to December 31, 2018 | | Period from January 1 to June 30, 2018 | |
|---|---|---|---|---|
| Labor expenses | US$ | **9,109** | US$ | 9,400 |
| Taxes | | **864** | | 2,528 |
| Depreciation (*Note 12*) | | **781** | | 833 |
| Amortization (*Note 13*) | | **68** | | 90 |
| | US$ | **10,822** | US$ | 12,851 |

## 24. Other Operating (Expense) Income, Net

| | | | | |
|---|---|---|---|---|
| Operative provisions (*Note* 18.4) | US$ | **(2,922)** | US$ | – |
| Loss on retirement of assets (*Note 12*) | | **(109)** | | (270) |
| Loss on sale of assets held for sale (*Note 12*) | | **–** | | (513) |
| Compensation for claims | | **669** | | – |
| Others | | **63** | | 582 |
| | US$ | **(2,299)** | US$ | (201) |

## 25. Financial Result, Net

| | | | | |
|---|---|---|---|---|
| Costs yields and interest, net | US$ | **(7,916)** | US$ | (7,285) |
| Financial expense abandonment | | **(1,674)** | | (1,073) |
| Financial costs | | **(123)** | | (305) |
| Monetization | | **(277)** | | 360 |
| Other financial incomes (expenses) | | **600** | | 58 |
| Exchange difference gain (loss), net | | **4,944** | | 3,982 |
| | US$ | **(4,446)** | US$ | (4,263) |

The effectiveness of the results of the hedged items was impacted by the effects of the exchange rate, which show below:

| | TRM (*) | Variation TRM |
|---|---|---|
| January 2018 | **2,783.13** | (200.87) |
| February 2018 | **2,877.04** | 93.91 |
| March 2018 | **2,849.01** | (28.03) |
| April 2018 | **2,820.29** | (28.72) |
| May 2018 | **2,887.16** | 66.87 |
| June 2018 | **2,930.80** | 43.64 |
| July 2018 | **2,886,21** | (44,59) |
| August 2018 | **2,934,31** | 48,10 |
| September 2018 | **3,000,14** | 65,83 |
| October 2018 | **3,185,26** | 185,12 |
| November 2018 | **3,250,56** | 65,30 |
| December 2018 | **3,249,75** | (0,81) |

## 25. Financial Result, Net (continued)

(*) Representative Market Rate – American dollar / Colombian peso

Transactions of derivatives are agreed to in dollars for the coverage of cash flows in pesos, which expiration do not go beyond December 2019. The total of hedges open at December 2018 is of the following:

| | Sale Operations | Exchange Rate Agree |
|---|---|---|
| | *(In thousands of US dollars)* | |
| January 2019 | US$ **3,689** | 3,013 |
| February 2019 | **87,236** | 2,989 |
| March 2019 | **3,645** | 3,026 |
| April 2019 | **99,588** | 3,001 |
| May 2019 | **4,339** | 3,008 |
| June 2019 | **100,418** | 3,005 |
| July 2019 | **5,217** | 2,996 |
| August 2019 | **4,965** | 3,038 |
| September 2019 | **4,897** | 3,063 |
| October 2019 | **5,562** | 3,161 |
| November 2019 | **4,944** | 3,241 |
| December 2019 | **7,937** | 3,340 |
| | US$ **332,437** | |

The total of hedges open at June 2018 is of the following

| | | | | |
|---|---|---|---|---|
| July 2018 | US$ | **5,340** | US$ | 3,149.00 |
| August 2018 | | **4,058** | | 3,031.00 |
| September 2018 | | **4,314** | | 3,037.70 |
| October 2018 | | **5,090** | | 3,093.02 |
| November 2018 | | **4,761** | | 3,084.00 |
| December 2018 | | **2,667** | | 2,939 |
| January 2019 | | **1,435** | | 2,946 |
| February 2019 | | **35,903** | | 2,946 |
| March 2019 | | **955** | | 2,950 |
| April 2019 | | **16,405** | | 2,937 |
| May 2019 | | **2,093** | | 2,958 |
| June 2019 | | **18,682** | | 2,941 |
| | US$ | **101,703** | | |

## 26. Risk Management

Because of its financial structure, the Company is directly exposed to exchange, interest rate credit and liquidity risks as shown below:

### 26.1. Exchange Rate Risk

The exchange risk management is framed-up on the principle that the peso/dollar exchange rate is subject to highly-volatile and unpredictable changes. In this sense, the objective of hedge strategies defined by the Company is to mitigate movements in those variables upon the use of derivative instruments acquired in financial markets.

The exchange rate risk refers to economic effects resulting from fluctuations of the exchange rate which the Company is exposed to. In the case of Oleoducto Central S.A., most revenues from services rendered are computed and collected in United States dollars; however, some expenses and all tax obligations are paid in Colombian pesos as the Company operates in Colombia. For this reason, Company's cash flows are exposed to peso/US dollar fluctuations in the exchange rate.

For that purpose, Oleoducto Central S.A. uses hedge operations upon contracting derivative instruments, mainly Forwards, aiming to mitigate the effects that, upon peso/dollar movements, are originated in respect of the budget of expenses in pesos and tax obligations not exceeding one year

At the December 31, 2018, cutoff, the notional of the current hedge portfolio of exchange rate was of US$332,437.

This represents an increase of 227% of the notional/hypothetical of the portfolio which amount at June 30, 2018 was of US$101,703; such change is explained mainly by the hedge of 2019 of tax flows.

The United States dollar/peso exchange rate was revalued 10.9% from July 1, to December 31, 2018, reflecting an exchange rate of COP3,249.75 per US$1 in respect to the rate recorded at June 30, 2018, of COP2,930.80 per US$1.

Below is the effect that a 1% and 5% variation would have in the exchange rate of Colombian pesos vs. US dollars, related to the exposure of financial assets and liabilities in foreign currency at December 31, 2018.

| Scenario/ Variation in the TRM | Effect on results Before taxes (+/–) | |
|---|---|---|
| 1% | US$ | 1,738 |
| 5% | US$ | 8,360 |

For the calculation of the effect on results before taxes, the average rate of the 6 months was taken for the period from July 1 and December 31, 2018, equivalent to COP$3,060.98 per US$1.

### 26.1. Exchange Rate Risk (continued)

The sensitivity analysis only includes monetary assets and liabilities in foreign currency at the close date, as shown below, in COP million:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents | **COP$ 39,944** | COP$ 61,883 |
| Trade accounts receivable and other accounts receivable | **42,994** | 45,268 |
| Balance in favor income taxes | **–** | 112,385 |
| Other assets | **2,351** | 7,398 |
| **Active position** | **85,289** | 226,934 |
| Debt and loans bearing interest | **–** | (405) |
| Trade accounts and other accounts payable | **(166,166)** | (128,455) |
| Tax liabilities | **(341,474)** | – |
| Provisions | **(146,870)** | (95,162) |
| Deferred revenues | **(1,263)** | (1,390) |
| **Passive position** | **(655,773)** | (225,412) |
| **Net passive position** | **COP$ (570,484)** | COP$ 1,522 |

### 26.2 Credit Risk

The credit risk is the risk acquired by the Company as a result of non-compliance with obligations of clients, of financial institutions which investments are made with or of counterparties which derivative financial instruments are contracted with.

Permanent monitoring of credit ratings issued by risk rating companies on financial entities which investments are made with or derivative instruments are negotiated with is carried out at Oleoducto Central S.A. in order to guarantee that such companies meet the minimum rating defined by the Company.

An individual analysis is made for the portfolio considered impaired which permits seeing the situation of each client and thus define the necessary provisions. The Company takes the administrative and legal actions necessary to recovery past due accounts receivable, as well as the recognition of interest of clients who do not meet payment policies.

### 26.3. Liquidity Risk

The National Planning Department, as evidenced in its official letter number SC-20134380757471 of October 15, 2013, issued a favorable opinion for the Company to enter into public credit operations upon the international issue of a bond in United States dollars for up to US$1,000,000, with 100% of possibility to reopen the rest of the amount in order to finance Capex needs of new projects.

### 26.3. Liquidity Risk (continued)

Based on this favorable opinion, by means of Resolution number 4254 of December 12, 2013, the Ministry of Finance and Public Credit authorized the Company to negotiate the issue and placement of bonds in the international capital market for up to one thousand million United States dollars (US$1,000,000) in order to finance investment needs of future expansion projects.

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to US$500,000 in order to finance the needs of investment of future expansion projects (Potency 135 and Warming). This provides the Company with the possibility to reopen the rest of the amount, given that Company's financing needs require them and that capital market conditions are favorable.

The liquidity risk is managed as of the application of the Merton Miller and Daniel Orr model, which is an induction model of random generation for daily changes in the cash balance, in order to establish the minimum cash levels required to take care of the organization liquidity requirements, including its debt service commitments.

The main purpose of the internal procedures is to guarantee enough liquidity levels to comply with the Company's financial commitments within its timetable of maturities, as well as the main instruments for their measurement and follow-up. Such instruments are: Weekly report of the treasury command bulletin board, monthly cash flow, and analysis of the annual mobile average of the cash flow foresight.

The Company has a policy to manage liquidity surpluses. Such policy provides criteria, guidelines and directives for the efficient and safe administration of liquidity surpluses, and establishes limits of exposure per counterparty. At present, the counterparty limit of risk exposure is limited to the higher of the following parameters: A maximum amount of US$150 million by the counterparty, or if the cash balance falls below such amount, it should be divided at least into three counterparties that meet the minimum rating permitted. In the event issuer and issue limits established herein are exceeded, the portfolio administrator will have 45 calendar days to take the measures necessary to adjust to such limits.

The credit quality of issuers, assets and counterparties of operations are as follows:

Minimum permitted rating:

Foreign Financial Entities

| Rating Entity | Short-term rating | Long-term rating |
|---|---|---|
| Standard & Poor's | A-1 | A+ |
| Moody's Investors Service | P-1 | A1 |
| Fitch Ratings | F-1 | A+ |

### 26.3. Liquidity Risk (continued)

Local Financial Entities

| Rating Entity | Short-term rating | Long-term rating |
|---|---|---|
| Fitch Ratings | F1+ | AAA |
| BRC Investor Services | BRC 1+ | AAA |

The Company has a surplus liquidity management policy which provides criteria and guidelines for the efficient and safe administration of surplus liquidity, and establishes exposure limits by counterparty. Currently, the counterparty risk exposure limit will be limited to the greater of the following parameters, a maximum amount of US$ 150 million per counterparty, or if the cash balance is below this amount, it should be divided at least into three counterparts that meet the minimum qualification allowed. In the event that the issuer and issuance limits here established are exceeded, the portfolio manager has 45 calendar days to carry out the necessary measures to comply with said limits.

The credit quality of issuers, assets and counterparties of operations are as follows:

### 26.4 Interest Rate Risk

Oleoducto Central S.A. issued a bond in the international market at a notional amount of US$500 million in 2014. A defined fixed interest rate of 4% was used in such issue; therefore, there is no risk of interest rate.

### 26.5 Capital Management

The main objective of the Company's capital management is to ensure a financial structure that optimizes the cost of capital, maximizes the yield of its shareholders, and allow access to financial markets at a competitive cost in order to cover its financing needs.

Below is the indebtedness ratio of periods reported:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents *(Note 7)* | **US$ 239,422** | US$ 30,735 |
| Loans *(Note 14)* | **500,979** | 500,723 |
| **Net financial debt** | **US$ 261,557** | US$ 469,988 |
| **Equity** | **US$ 1,191,973** | US$ 1,153,465 |
| **Leverage (1)** | **17.99%** | 28.95% |

(1) Net Financial Debt / (Net Financial Debt + Equity)

## 27. Related Parties

The main transactions between related parties during the periods indicated are detailed below:

| | At December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Hydrocarbon Transportation | Unloading Service | Dilution Service | Administrative Services | Operation and Maintenance Services | Purchase of Products and Services | Total |
| Ecopetrol S.A. | US$ 556,207 | US$ 1,817 | US$ 688 | US$ – | US$ – | US$ (4,893) | US$ 553,819 |
| Cenit Transporte y Logistica de Hidrocarburos S.A.S. | – | – | – | 16 | – | (253) | (237) |
| Oleoducto de Colombia S.A. | – | – | – | (57) | 59 | (548) | (546) |
| Oleoducto de Los Llanos Orientales | – | – | 2,157 | 7 | 127 | – | 2,291 |
| Oleoducto Bicentenario de Colombia S.A.S. | – | – | – | 32 | 569 | (2,227) | (1,626) |
| | US$ 556,207 | US$ 1,817 | US$ 2,845 | US$ (2) | US$ 755 | US$ (7,921) | US$ 553,701 |

| | Period from January 1 to June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Hydrocarbon Transportation | Unloading Service | Dilution Service | Administrative Services | Operation and Maintenance Services | Purchase of Products and Services | Total |
| Ecopetrol S.A. | US$ 492,727 | US$ 1,727 | US$ 883 | US$ – | US$ – | US$ (4,252) | US$ 491,085 |
| Cenit Transporte y Logistica de Hidrocarburos S.A.S. | – | – | – | 48 | – | (274) | (226) |
| Oleoducto de Colombia S.A. | – | – | – | 97 | – | (580) | (483) |
| Oleoducto de Los Llanos Orientales | – | – | 1,985 | 15 | 190 | – | 2,190 |
| Oleoducto Bicentenario de Colombia S.A.S. | – | – | – | – | 666 | (1,641) | (975) |
| | US$ 492,727 | US$ 1,727 | US$ 2,868 | US$ 160 | US$ 856 | US$ (6,747) | US$ 491,591 |

## 27. Related Parties (continued)

The most representative balances with related entities at December 31 and June 30, 2018, are included in accounts receivable and accounts payable, as follows:

| | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| Accounts receivable | | | | |
| Ecopetrol S.A. | US$ | **134,364** | US$ | 123,755 |
| Oleoducto de Los Llanos Orientales S.A. | | **1,143** | | 840 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | **158** | | 524 |
| Oleoducto Bicentenario de Colombia S.A.S. | | **1,302** | | 447 |
| Oleoducto de Colombia S.A. | | **300** | | 11 |
| Hocol S.A. | | **2,267** | | – |
| | US$ | **139,534** | US$ | 125,577 |
| Accounts payable | | | | |
| Ecopetrol S.A. | US$ | **4,318** | US$ | 5,794 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | **96** | | 148 |
| Oleoducto Bicentenario de Colombia S.A.S. | | **571** | | 445 |
| Oleoducto de Colombia S.A. | | **142** | | 108 |
| Hocol S.A. | | **–** | | 28 |
| | US$ | **5,127** | US$ | 6,523 |

Outstanding amounts are not guaranteed and will be settled in cash. No guarantees have been granted or received. No expense has been recognized in the current period or in prior periods concerning uncollectable or bad debts related to amounts due by related parties.

Trade purchases and sales transactions of goods and services, concerning the development of the Company's corporate purpose, with related parties are made under general market prices and conditions.

## 28. Compensation to Directors

Directors' fees for attendance to the meetings of the Board of Directors and/or the Audit Committee amount to approximately US$77 for the period from July to December, 2018 and to US$69 for the period from January to June, 2018.

The total compensation paid to directors, executive officials and top directors for salary and other compensations during the second half of 2018 amounted to US$896 (first half of 2018 for US$1,454).

## 29. Subsequent Events

There were no subsequent events which could have a potential effect on the information contained in the financial statements at December 31, 2018.

## Oleoducto Central S. A.

## Certification of the Financial Statements

February 18, 2019

The undersigned Legal Representative and Public Accountant, under whose responsibility the special purpose financial statements were prepared, certify:

That for the issuance of the special purpose statements of the financial position at December 31, and June 30, 2018, and of the special purpose statements of income and comprehensive income, of changes in shareholders equity, and of cash flows, for the six and three months periods then ended, respectively, which in accordance with regulations are made available to Shareholders and third parties, the assertions contained therein and the figures truthfully taken from the books have been previously checked.

Enrique Sandoval Parra
Legal Representative

Nataly Restrepo Arcila
Public Accountant
Professional Card 145732-T

FINANCIAL STATEMENTS

**Oleoducto Central S.A.**

Periods ended December 31, and June 30, 2017
with Statutory Auditor's Report

## Oleoducto Central S.A.

## Financial Statements

Periods of six months ended December 31, and June 30, 2017

## Contents

Building a better
working world

## Statutory Auditor's Report

To the Shareholders of
Oleoducto Central S.A.
Bogotá D.C., Colombia

### Report on the Financial Statements

I have audited the accompanying financial statements of Oleoducto Central S.A., which comprise the statement of financial position as at December 31, 2017 and the related statements of income and comprehensive income, of changes in equity and cash flows for the period of six months then ended, and the summary of significant accounting policies and other explanatory notes.

### Management Responsibilities Relating to the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting and Financial Information Standards accepted in Colombia (NCIF) adopted by the Contaduría General de la Nación; of designing, implementing and maintaining the internal control relevant to the preparation and fair presentation of financial statements free from material misstatements, whether due to fraud or error; of selecting and applying appropriate accounting policies; and of establishing reasonable accounting estimates in the circumstances.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I have conducted my audit in accordance with international auditing standards accepted in Colombia. These standards require that I meet ethical requirements, plan and perform my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes developing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risk of material misstatements in the financial statements. In the process of evaluating these risks, the auditor considers internal control relevant to the preparation and presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes an assessment of the accounting policies adopted and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained provides a reasonable basis for my opinion.

Ernst & Young Audit S.A.S
Bogotá D.C.
Carrera 11 No. 98 - 07
Tercer piso
Tel: (57) 484 70 00
Fax: (57) 484 70 70

Ernst & Young Audit S.A.S
Medellín - Antioquia
Carrera 43 A # 3 Sur - 130
Edificio Milla de Oro
Torre 1 - Piso 14
Tel: (574) 369 84 00
Fax: (574) 369 84 84

Ernst & Young Audit S.A.S
Cali - Valle del Cauca
Avenida 4 Norte No. 6N - 61
Edificio Siglo XXI, Oficina 502 y 503
Tel: (572) 485 62 80
Fax: (572) 661 80 07

Ernst & Young Audit S.A.S
Barranquilla - Atlántico
Calle 77B No. 59 - 61
C.C. Las Americas II, Oficina 413
Tel: (575) 369 22 01
Fax: (575) 369 05 80

## Oleoducto Central S.A.

## Certification of the Financial Statements

February 20, 2018

The undersigned Legal Representative and Public Accountant, under whose responsibility the financial statements were prepared, certify:

That for the issuance of the statements of the financial position at December 31, and June 30, 2017, and of the statements of income and comprehensive income, of changes in shareholders equity, and of cash flows, for the six and three months periods then ended, respectively, which in accordance with regulations are made available to Shareholders and third parties, the assertions contained therein and the figures truthfully taken from the books have been previously checked.

Thomas Rueda Ehrhardt
Legal Representative

Ricardo Olave Angel
Public Accountant
Professional Card 93369–T

## Oleoducto Central S.A.

## Statement of Financial Position

| | Notes | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| | | *(In thousands of US dollars)* | |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **US$ 236,356** | US$ 31,651 |
| Trade and other accounts receivable | 8 | **196,738** | 131,770 |
| Derivative financial instruments | 9 | **8,533** | – |
| Other assets | 10 | **5,489** | 7,287 |
| | | **447,116** | 170,708 |
| Non-current assets held for sale | 11 | **18,783** | 20,363 |
| | | **465,899** | 191,071 |
| **Non-current assets** | | | |
| Trade and other accounts receivable | 8 | **4,196** | 5,488 |
| Property, plant and equipment, net | 12 | **1,595,225** | 1,628,924 |
| Intangibles, net | 13 | **14,264** | 4,220 |
| | | **1,613,685** | 1,638,632 |
| **Total assets** | | **US$ 2,079,584** | US$ 1,829,703 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Debts and loans bearing interest | 14 | **US$ 20,200** | US$ 20,051 |
| Trade and other accounts payable | 15 | **89,893** | 72,196 |
| Tax liabilities | 16 | **170,684** | 11,702 |
| Derivative financial instruments | 9 | **–** | 686 |
| Deferred revenues | 17 | **6,707** | 3,659 |
| Provisions | 18 | **50,011** | – |
| | | **337,495** | 108,294 |
| **Non-current liabilities** | | | |
| Debts and loans bearing interest | 14 | **480,199** | 480,007 |
| Trade and other accounts payable | 15 | **4,389** | 6,971 |
| Tax liabilities | 16 | **883** | 312 |
| Deferred tax liabilities | 16 | **82,413** | 93,426 |
| Deferred revenues | 17 | **7,722** | 11,343 |
| Provisions | 18 | **31,269** | 26,140 |
| | | **606,875** | 618,199 |
| **Total liabilities** | | **944,370** | 726,493 |
| **Equity** | 19 | | |
| Subscribed and paid-in capital | | **81,714** | 81,714 |
| Legal reserve | | **40,858** | 40,858 |
| Accumulated profits | | **928,263** | 897,596 |
| Other comprehensive income | | **84,379** | 83,042 |
| **Total equity** | | **1,135,214** | 1,103,210 |
| **Total liabilities and equity** | | **US$ 2,079,584** | US$ 1,829,703 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statement of Income and Comprehensive Income

| | Notes | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|---|
| | | *(In thousands of US dollars, except net profit per share)* | |
| **Continued operations** | | | |
| Revenues from ordinary activities | 20 | **US$ 718,135** | US$ 606,658 |
| Cost of sales | 21 | **(138,027)** | (122,648) |
| **Gross profit** | | **580,108** | 484,010 |
| Operations and project expenses | 22 | **(10,341)** | (5,364) |
| Administrative expenses | 23 | **(10,423)** | (13,288) |
| Other operating (expenses) income, net | 24 | **(49,976)** | 7,808 |
| **Operating profit** | | **509,368** | 473,166 |
| Financial costs, net | 25 | **(10,363)** | (21,900) |
| **Profit before income tax** | | **499,005** | 451,266 |
| Income tax expense | 16 | **(207,354)** | (190,282) |
| **Net profit of the period from continued operations** | | **US$ 291,651** | US$ 260,984 |
| **Other comprehensive income of the period** | | | |
| Other comprehensive income that will be reclassified to results in subsequent periods | | | |
| Net gain from hedges of cash flow, net of taxes | | **2,787** | 9,151 |
| Other comprehensive income that will not be reclassified to results in subsequent periods | | | |
| Net (loss) gain from exchange difference in translation | | **(1,450)** | 1,301 |
| | | **1,337** | 10,452 |
| **Total net comprehensive income of the period** | | **US$ 292,988** | US$ 271,436 |
| Net profit of the period per share | | **US$ 56.53** | US$ 50.59 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statement of Changes in Shareholders' Equity

| | Subscribed and Paid-in Capital | Legal Reserve | Accumulated Profits | Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | |
| **At December 31,2016** | US$ 81,714 | US$ 40,858 | US$ 756,949 | US$ 72,590 | US$ 952,111 |
| Distribution of dividends | – | – | (120,337) | – | (120,337) |
| Net profit of the period | – | – | 260,984 | – | 260,984 |
| Other comprehensive income | | | | | |
| Net gain from hedges of cash flow, net of taxes | – | – | – | 9,151 | 9,151 |
| Net gain from exchange difference in translation | – | – | – | 1,301 | 1,301 |
| **At June 30,2017** | 81,714 | 40,858 | 897,596 | 83,042 | 1,103,210 |
| Distribution of dividends | – | – | **(260,984)** | – | **(260,984)** |
| Net profit of the period | – | – | **291,651** | – | **291,651** |
| Other comprehensive income | | | | | |
| Net gain from hedges of cash flow, net of taxes | – | – | – | **2,787** | **2,787** |
| Net loss from exchange difference in translation | – | – | – | **(1,450)** | **(1,450)** |
| **At December 31,2017** | **US$ 81,714** | **US$ 40,858** | **US$ 928,263** | **US$ 84,379** | **US$ 1,135,214** |

*See accompanying notes.*

## Oleoducto Central S.A.

## Statements of Cash Flows

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| | *(In thousands of US dollars)* | |
| **Operating activities** | | |
| Net profit of the period | US$ 291,651 | US$ 260,984 |
| **Adjustments to reconcile net profit of the period to net cash provided from operating activities:** | | |
| Depreciation of property, plant and equipment | 48,724 | 46,430 |
| Consumption of materials and non-capitalized spare parts | 32,022 | 20,391 |
| Impairment provision of property, plant and equipment | 179 | 1,768 |
| Impairment of non-current assets available for sale | 1,580 | – |
| Write-off, retirement of property, plant and equipment | 286 | 7,686 |
| Impairment of trade debtors | 124 | 91 |
| Loss on sale of non-current assets held for sale | – | 791 |
| (Recovery) loss on amortization of intangible assets | (1,836) | 2,653 |
| Operative provision | 50,011 | – |
| Recovery of provision | – | (8) |
| Deferred taxes | (14,047) | (21,684) |
| Income tax expense | 221,401 | 211,966 |
| Financial income | (1,075) | (1,530) |
| Financial costs | 11,275 | 11,323 |
| (Gain) loss from exchange difference | (1,336) | 11,819 |
| **Changes in operating assets and liabilities** | | |
| (Increase) decrease of trade and other accounts receivable | (110,521) | 41,594 |
| Decrease (increase) of other assets | 1,925 | (1,704) |
| Decrease (increase) of trade and other accounts payable | 18,682 | (18,923) |
| Decrease of tax liabilities | (6,797) | (11,742) |
| (Increase) decrease of derivative financial instruments, net | (4,848) | 31,512 |
| Decrease of income received in advance | (580) | (331) |
| Interest received | 1,075 | 1,530 |
| Income tax paid | (11,799) | (436,650) |
| **Net cash provided from operating activities** | 526,096 | 157,966 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (51,132) | (62,930) |
| Acquisition of intangibles | (824) | (3,896) |
| Sale of assets held for sale | – | 742 |
| **Net cash used in investing activities** | (51,956) | (66,084) |
| **Financing activities** | | |
| Payments of liabilities from financial leasing | (42) | (28) |
| Interest paid | (10,000) | (10,000) |
| Dividends paid | (260,521) | (120,337) |
| **Cash used in financing activities** | (270,563) | (130,365) |
| **Net decrease of cash and cash equivalents** | 203,577 | (38,483) |
| Effect of the variation in exchange rates on cash and cash equivalents maintained in foreign currency | 1,128 | (1,703) |
| Cash and cash equivalents at the beginning of the period | 31,651 | 71,837 |
| **Cash and cash equivalents at the end of the period** | US$ 236,356 | US$ 31,651 |

*See accompanying notes.*

## Oleoducto Central S.A.

## Notes to Financial Statements

For the periods ended December 31, and June 30, 2017
*(All amounts are expressed in thousands of US dollars, except foreign currency amounts, exchange rates and the par value of the share)*

### 1. Corporate Information

Oleoducto Central S.A. (the Company or Ocensa) is a mixed-economic company incorporated in accordance with Colombian laws by means of Public Deed No. 4747 of December 14, 1994 at the 38th Notary's Office of Bogotá, D.C. with a foreseen duration until December 31, 2093 and which corporate purpose includes designing, constructing, operating, managing, commercially exploiting and be the owner of a public-use oil transportation system and related facilities without any limitation, whose starting point is located in the Cusiana and Cupiagua stations, Department of Casanare, and whose final point is located in the embarkation port of Coveñas, in the municipal jurisdictions of San Antero, Department of Córdoba, and Coveñas, Department of Sucre. Such purpose also includes designing, constructing, operating and managing maritime oil ports or terminals and providing, directing or indirectly, services related to port operation, particularly storage, terrestrial, maritime management and crude transportation and loading.

The Company's pipeline consists of six pumping stations, a pressure reduction station, one maritime terminal, 830 kilometers of ground tubing and 12 kilometers in the sea, two bases for the coordination of maintenance activities, and a control center.

To carry out the transportation operation, it has a communication system allowing total control thereof through instruments located along the tubing and at the stations. This permits controlling the availability of crude, its location and the verification of commitments in crude transportation.

The main office of Oleoducto Central S.A. is located in Bogotá, Colombia. The Company belongs to the Ecopetrol Business Group, which plays a controlling position through Cenit Transporte y Logística de Hidrocarburos S.A.S.

### 2. Basis of Preparation

#### 2.1. Statement of Compliance and Authorization of the Financial Statements

The accompanying Company's financial statements stated in US dollars (functional currency) have been prepared in accordance with the Accounting and Financial Information Standards Accepted in Colombia (NCIF), based on International Financial Reporting Standards (IFRS), together with their interpretations, conceptual reference framework, conclusion bases and application guidelines authorized and issued by the International Accounting Standards Board (IASB) as established by decree 2615 of December 17, 2014, decree 2420 of December 14, 2015, amended by decree 2496 of December 23, 2015; and other legal provisions applicable to entities supervised and/or controlled by the Contaduría General de la Nación that may differ in certain aspects from those established by other State control bodies.

The financial statements at December 31, 2017 restated in Colombian pesos, but not accompanying these financial statements, were prepared by the Company's management and approved by the Board of Directors Meeting on February 20, 2018, by the written explanations of vote, to be subsequently approved by the General Shareholders' Meeting on March 12, 2018. The Colombian pesos statutory financial statements are the ones that comply with the Colombian Code of Commerce for dividend distribution.

### 2.1. Statement of Compliance and Authorization of the Financial Statements (continued)

**Basis of Measurement**

The accompanying Company's financial statements stated in US dollars have been prepared based on the historical cost, except for financial assets and liabilities at fair value with changes in results and/or changes in other comprehensive income, that are valued at their fair value at each period closing, as explained in the accounting policies included hereinafter.

In general, the historical cost is based on the fair value of the valuable consideration granted in lieu of assets and services.

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an ordered transaction between market participants at the measurement date. Upon estimating the fair value, the Company uses the assumptions that market participants would use upon setting the price of the asset or liability in present market conditions, including assumptions on the risk.

### 2.2. Functional Currency

Items included in these financial statements are valued in the functional currency which is the U.S. dollar, that is the currency of the main economic environment the Company operates in and in addition the one in which it regularly generates and uses cash.

In transactions with a currency different from functional currency they are translated at the exchange rate of the transaction date or, in lieu thereof, at the monthly average exchange rate.

### 2.3. Foreign Currency

Upon preparing the financial statements, transactions in a currency other than the Company's functional currency are recorded using current exchange rates on the dates operations take place. At the end of each period, monetary items in foreign currency are translated at current exchange rates in force on that date and variations arising in the translation are recognized in the net financial result, except those resulting from hedging instruments of cash flows, which are recognized in other comprehensive income, within equity. When the hedged items affect results, exchange differences accumulated in equity are reclassified to the statement of profits and losses as part of the operation result.

Non-monetary items recorded at fair value, denominated in foreign currency, are translated at the exchange rate in force on the date the fair value was determined.

### 2.3 Foreign Currency (continued)

Profits and losses from exchange differences related to loans, and cash and cash equivalents are presented in the income statement account in line entitled "Financial income or financial expense." Remaining losses and gains from exchange differences are presented as exchange difference.

### 2.4. Classification of Assets and Liabilities as Current and Non-Current

The Company presents assets and liabilities in the statement of financial position based on its current or non-current classification. An asset is current when:

- It is estimated that it will be cancelled or the expectation is that it will be sold or consumed in the normal operating cycle of the business.
- It is mainly maintained for purposes of being negotiated.
- The expectation is that it will be realized within twelve months following the reporting date; or,
- It is cash or cash equivalent unless it is restricted to be exchanged or used to pay a liability for at least twelve months from the reporting date.

All other liabilities are classified as non-current.

A liability is current when:

- It is estimated that it will be settled in the normal operating cycle of the business.
- It is maintained mainly in order to be negotiated.
- It is expected that it will be cancelled within the twelve months subsequent to the reporting date; or,
- There is no unconditional right to defer the payment of the liability for a least twelve months subsequent to the reporting date.

All other liabilities are classified as non-current.

### 2.5. Accounting Period

Until December 2012, the term of each accounting period was annual, i.e., at December 31 of each year. As of 2013, by means of Public Deed No. 238 of February 1, 2013, registered with the Chamber of Commerce of Bogota on February 5, 2013, the Company changed and unified their corporate bylaws. Among other matters, by means of such amendment, it was agreed to change accounts' cut-off dates to prepare and publish general purpose financial statements, which as of 2013 will be prepared semi-annually, i.e., at June 30 and at December 31 each year, on which the Company should make a cut-off of its accounts, prepare, and publish its financial statements. The accompanying US dollar financial statements have been prepared with the same accounting period.

### 2.6 Net Profit per Share

The profit per share, stated in approximated US dollar equivalent, is calculated upon dividing the net profit of the period attributable to shareholders by using the weighted average of outstanding ordinary shares during the period.

### 2.6 Net Profit per Share (continued)

There were no transactions with ordinary shares from the date of the period being reported to the issue date of these financial statements.

### 2.7 Reclassifications

The Company reclassified certain amounts of prior periods, mainly in the headings making up the statement of financial position for a better comparability with the current period, these reclassifications do not impact the period profit and net equity of the Company.

## 3. Summary of Significant Accounting Policies

The following are significant accounting policies applied by the Company in the preparation of its financial statements consistently for all periods presented, unless otherwise indicated.

### 3.1. Financial Instruments

The classification of a financial instrument depends upon the nature and purpose whereby the financial asset or liability is acquired and is determined at the time of the initial recognition.

All regular purchases or sales of financial assets are recognized and written off at the transaction date. Regular purchases or sales are all those purchases or sales of financial assets requiring the delivery of assets within the time framework established by a regulation or in accordance with the market.

Financial assets and liabilities are initially valued at their fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets at fair value with changes in the statement of income) are added or reduced from the fair value of the financial assets and liabilities, as required, in the initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at their fair value with changes in the statement of income are recognized immediately in results.

Financial assets at fair value with changes in income and with changes in other comprehensive income will be recorded subsequently at their fair value. Instruments at amortized cost, loans and trade accounts receivable, other accounts receivable and financial assets maintained until their maturity will be accounted for at their amortized cost in accordance with the effective interest rate method.

Fair Value

The hierarchy of the fair value is based on the information level available in the market, which includes liquidity security, availability of exchange prices or indicators generated from market operations (rates, curves, volatilities and other valuation variables required).

- Level 1:

  (Non-adjusted) quotation prices of active markets for identical assets and liabilities. For the Company, Level 1 includes tradable securities actively transacted.

### 3.1. Financial Instruments (continued)

- Level 2:

  Entries other than Level 1 which are observable, either directly or indirectly. For the Company, entries of Level 2 include prices of similar assets, prices obtained through quotations of stock exchange brokers, and prices that may be substantially corroborated with other observable data with the same term of the contract.

- Level 3

  Not observable data entry. The Company does not use Level 3 for any of its recurring measurements at fair value. Level 3 may be necessary to determine the fair value associated with certain non-recurrent measurements of non-financial assets and liabilities. The Company uses Level 3 to determine the fair value of specific non-recurrent, non-financial assets.

Effective Interest Rate Method

The effective interest rate method is used to calculate the amortized cost of a financial instrument and the distribution of financial income throughout the relevant period. The effective interest rate is the discount rate which exactly matches estimated cash flows receivable or payable (including all commissions, transaction costs and other premiums or discounts that are included in calculating the effective interest rate) during the expected life of the financial instrument (or when necessary, within a shorter period) with the net carrying value in the initial recognition.

Impairment

Financial assets at amortized cost are assessed by impairment indicators at the end of each reporting period. It is considered that financial assets have been impaired when there is objective evidence that, as a result of one or more events occurring after the initial recognition, estimated future cash flows of the asset have been affected. The impairment loss of financial assets recorded at cost is the difference between the carrying value and the present value of estimated future cash flows of the asset, discounted at the original effective interest rate of the financial asset.

Derecognition in Account of Financial Assets and Liabilities

A financial asset is derecognised only when contractual rights over cash flows of the financial asset mature and risks and advantages inherent to the ownership of the financial asset are substantially transferred to another entity. If all risks and advantages inherent to the ownership are not transferred or substantially retained and the control of the asset transferred continues to be retained, the participation in the asset and the associated obligation for the amounts it would have to pay is recognized.

If all risks and advantages inherent to the ownership of a financial asset transferred are substantially retained, the financial asset, as well as a collateral loan for income received will continue to be recognized.

### 3.1. Financial Instruments (continued)

Derecognition in Account of Financial Assets and Liabilities (continued)

In the total derecognition in accounts of financial assets and liabilities, the difference between the carrying value and the sum of the valuable consideration received and receivable, as well as accumulated results that had been recognized in another statement of comprehensive income and accumulated in equity, will be recognized in the statement of income and in other comprehensive income.

#### 3.1.1. Cash and Cash Equivalents

Cash and cash equivalents consist of financial investments and special deposits maturing within ninety (90) days as of their acquisition date and with a low level of risk in changes of their value.

#### 3.1.2. Financial Assets

The classification of investments in financial assets depends upon the purpose of their acquisition, these are classified under the following categories:

a) Financial Assets at Fair Value with Changes in Results

Financial assets acquired mainly to be sold within the short term are financial assets at fair value with changes in results. Financial assets at fair value with changes in results are recognized at their fair value, gains or losses arising in the re-measurement are recognized in the period result.

b) Loans and Accounts Receivable

These are financial assets with fixed or determinable payments, not quoted in an active market. They are classified under current assets, except for those maturities exceeding twelve months from the date of the statement of financial position, which are classified as non-current assets. Loans and accounts receivable include trade accounts and other accounts receivable initially measured at their fair value and subsequently at their amortized cost, using the effective interest method.

Loans to employees are initially received at the current value of future cash flows, discounted at a market rate for a similar loan, if the interest rate of the loan is lower than the market interest rate, the fair value will be lower than the loan amount. This initial difference is recognized as employee benefits.

#### 3.1.3. Financial Liabilities

Financial liabilities correspond to financing sources secured by the Company through bank credits and bond issues, accounts payable to suppliers and creditors. The Company determines the classification of its financial liabilities in the initial recognition to be measured under the amortized cost method or fair value.

### 3.1.3 Financial Liabilities (continued)

Bank credits and bond issues are initially recognized at their fair value, net of transaction costs incurred. The difference between the amount received and its main value is recognized in the period result during the amortization time of the financial obligation by using the effective interest rate method.

Financial obligations are classified as current liabilities unless the Company has an unconditional right to defer their liquidation during at least twelve months after the date of the statement of financial position.

Accounts payable to suppliers and creditors are short-term financial liabilities recorded at their par value, as they do not differ significantly from their fair value.

### 3.1.4 Derivative Financial Instruments

Derivative financial instruments are initially recognized at their fair value on the date the contract is entered into and are permanently re-measured at their fair value.

If derivative financial instruments do not qualify to be recognized through the hedge accounting treatment, they are recorded at their fair value through the statement of income. Any change in the fair value of these derivatives is recognized immediately in the statement of income in financial costs. If designated for hedge, the method to recognize the profit or loss resulting from changes in the fair values of derivatives depends upon the nature of the risk and the item hedged.

The Company designates certain derivatives as:

(a) Hedges of fair value of recognized assets or liabilities (fair value hedge)

(b) Hedges of a particular risk associated with a recognized asset or liability or of a transaction expected as highly probable (hedge of cash flows)

At the initiation of the hedging, the Company documents the relationship between hedging instruments and the items hedged, as well as its objectives and risks management strategy that back its hedging transactions. The Company documents its evaluation, both at the initiation of the hedge and periodically, of whether the derivatives used in hedge transactions are highly effective to compensate the changes in the fair values or in the cash flows of the hedged items.

The total of the fair value of derivatives used as hedge is classified as non-current asset or liability when the maturity of the hedged item exceeds 12 months, and is classified as current asset or liability when the maturity of the hedged item is lower than 12 months. Derivatives not used for hedge or which are held to be negotiated, are classified as current assets or liabilities.

(a) Hedges of fair value

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, and the gain or loss of the hedged item attributable to the hedged risk adjust the carrying value of the hedged item and are recognized in the year results. The gain or loss related with the effective portion of the derivatives is recognized in the statement of income as "financial expenses", as well as the ineffective portion that is also recognized in the statement of income but as financial costs.

### 3.1.4 Derivative Financial Instruments (continued)

If the hedge no longer complies with the criteria to be recognized through the accounting treatment of hedges, the adjustment in the carrying value of the hedged item, is amortized in results using the effective interest method, in the remaining period through its maturity.

(b) Hedges of cash flows

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of cash flows is recognized in equity. The gain or loss related with the ineffective portion is recognized immediately in the statement of income in the same line in which the hedged element is recognized.

Amounts accumulated in net equity are recycled to the statement of income in the periods the hedged item affects them. However, when the expected hedged transaction results in the recognition of a non-financial asset, gains or losses previously recognized in equity are transferred from equity and included as part of the initial cost of the asset. Amounts capitalized are finally recognized in cost of sales when products are sold, if considered inventories, or in depreciation, when classified as property, plant and equipment.

When a hedge instrument expires or is sold, or when it no longer meets the criteria to be recognized through the accounting hedge treatment, any accumulated gain or loss in equity at that date remains in equity and is recognized when the projected transaction affects the statement of income. When it is expected that a projected transaction will not occur, the gain or loss accumulated in equity is immediately transferred to the statement of income as financial costs.

### 3.2. Non-current Assets Held for Sale

Non-current assets and the groups of assets for their disposal are classified as held for sale if their carrying values are recoverable through a sale operation and not by means of their continuous use. This condition is considered complied with only when the sale is highly probable within the period of one year from the classification date and the asset (or group of assets) available for sale immediately in its current status. These assets are valued at the lower amount between their carrying value and the fair value, less associated disposal costs.

### 3.3 Property, Plant and Equipment

Recognition and Measurement

Property, plant and equipment are presented at cost, including the abandonment or dismantling cost, less accumulated depreciation and accumulated impairment losses.

All costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by the Company are considered capitalizable. Such costs are mainly at: a) Their acquisition price, including importation tariffs and non-recoverable indirect taxes, b) costs of benefits to employees, deriving mainly from construction or acquisition, c) all costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by management, d) interest costs of loans attributable to the acquisition or construction of assets, and e) initial estimation of dismantling and abandonment.

### 3.3 Property, Plant and Equipment (continued)

Recognition and Measurement (continued)

Significant spare part pieces and permanent maintenance equipment the Company expects to use during more than one period are recognized as property, plant and equipment, and will be recognized as expense when consumed.

Any gain or loss on retirement of any element of property, plant and equipment is recognized in results of the respective period.

Subsequent Disbursements

Correspond to all disbursements made on existing assets in order to increase or extend expected initial useful life, increase productivity or productive efficiency, allow a significant reduction of operating costs, or replace a part or component of an asset considered critical for the operation are considered additions or improvements.

Expenses of repairs, conservation or maintenance of ordinary nature are charged to period results which they are produced in. However, disbursements associated with overhaul are capitalized.

Depreciation

Property, plant and equipment are depreciated by following the linear method during the estimated useful life. Technical useful lives are updated annually considering reasons such as: Additions or improvements (upon replacement of parts or critical components for asset operation), technological advances, obsolescence or other factors. The effect of these changes is recognized as of the accounting period in which occurs. Depreciation of assets starts when they are under conditions of use.

The useful life is determined under foreseen asset use criteria, its expected physical wear and tear, technical or commercial obsolescence, and legal limits or restrictions of asset use.

The estimated useful lives range between the following ranks:

| | |
|---|---|
| Ducts, networks and lines | 10 – 59 years |
| Buildings | 19 – 55 years |
| Machinery and equipment | 7 – 46 years |
| Fluvial equipment | 5 – 20 years |
| Other computers | 2 – 29 years |

Land is recorded independently from buildings or facilities and has an indefinite life; therefore, it is not subject to depreciation. The useful life of leased assets depends on contract duration.

Depreciation methods and useful lives are reviewed annually and then adjusted, if necessary.

### 3.4 Capitalization of Loan Costs

Loan costs related to the acquisition, construction or production of a qualified asset requiring substantial time to be ready for use are capitalized as part of the cost of such asset when it is probable that future economic benefits return to the Company and may be reliably measured. Other interest costs are recognized as financial expenses in the period incurred. Projects that have been suspended, but which the Company intends to continue executing in the future, are not feasible of assignment of loans' costs.

### 3.4 Capitalization of Loan Costs (continued)

The income perceived upon temporary investment in specific loans pending to be consumed in qualified assets is deducted for loans able for capitalization.

### 3.5 Intangibles

Intangible assets acquired separately are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis in accordance with their estimated useful lives.

Intangible assets with finite useful lives are amortized throughout their economic useful lives and are reviewed to determine if they had any value impairment, to the extent that an indication exists that the intangible asset could have suffered such impairment. The period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each period closing on which it is reported. Changes in the expected useful life or in the expected consumption pattern of the asset are recorded when the amortization method or term is changed, as appropriate, and are prospectively treated as changes in accounting estimates. The amortization expense of intangible assets with finite useful lives is recognized in the statement of income as expenses resulting consistent with the function of the intangible assets.

### 3.6 Leases

Leases are classified as financial when all risks and benefits inherent to the property are substantially transferred to the lessee under lease terms. All other leases are classified as operative.

Assets maintained under financial leases when the Company is the lessee, are recognized in the statement of financial position, by the lower between the fair value of the asset and the present value of the lease minimum payments.

The liability corresponding to the lessor is included in the statement of financial position as a financial leasing liability.

These assets are depreciated over the useful life of the asset. When there is no reasonable certainty that the Company will obtain the property of the asset at the end of the contract, the assets leased are depreciated by the lower period, between the estimated useful life of the asset and the term of the lease.

Lease payments are distributed between financial expenses and reductions of leasing obligations in order to reach a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to results.

Payments of operating leasing are charged to results by using the straight-line method during the corresponding lease term, provided that other systematic prorating base results more representative to appropriately reflect the pattern of lease benefits for the user. Contingent rents are recognized as expenses in the periods they are incurred.

### 3.7 Assets Value Impairment

In order to assess the recoverability of tangible assets and intangible assets, Ocensa carrying value is compared to the value recoverable thereof at least on the period closing date or earlier in the event of identifying indications of asset impairment.

To analyze the impairment, assets are grouped in cash generating units (CGU), provided that such assets individually considered do not generate any cash flows which, to a great extent, are independent from those generated by other assets or CGU. Grouping assets in various CGU implies professional judgment and taking into consideration, among other parameters, business segments.

The Company has one single cash generating unit (CGU), corresponding to the crude oil transport system.

The recoverable value is the higher of the fair value less costs of disposal and the value in use. Wherever the recoverable amount of an asset (or a CGU) is less than its net accounting value, the carrying value thereof (or the CGU's) is reduced to its recoverable value recognizing a value impairment loss in the period results.

The value in use is estimated as the aggregate of future discounted cash flows adjusted to the forecasted risk. Estimations of future cash flows used to assess the asset impairment are based on the forecasted prices of basic products, offer and demand, and product margins.

Upon recording of a loss from impairment, the future amortization expense is estimated based on the adjusted recoverable value.

Impairment losses may be reversed only wherever the reversal is related to a change in estimations used after recognition of the loss from impairment. Such reversals shall not exceed the carrying value of depreciation or amortization net assets that would have been estimated if the impairment had never been recognized, nor the recoverable value at the date of the impairment evaluation.

### 3.8 Contingent Provisions and Liabilities

Provisions are recognized wherever the Company has an actual obligation (whether legal or implicit) resulting from a past event and there is probability that outflows will be required to settle the obligation and the value thereof may be accurately measured.

The amount recognized as provision is the best estimation of the outflows required to settle an actual obligation at the end of the reporting period, taking relevant risks and uncertainties into consideration.

Contingent liabilities are not recognized but are subject to disclosure in the explanatory notes wherever there is probability that outflows will be required, including those whose value cannot be estimated.

It is generally accepted that all provisions are of a contingent nature as the time when they are due or the respective amount is uncertain. The term "contingent" is used to name assets and liabilities not recognized in the financial statements because their existence will only be confirmed upon occurrence, or their failure to occur, of one or more uncertain future events not entirely under Company's control.

### 3.8 Contingent Provisions and Liabilities (continued)

As provided for in IAS 37.92, the Company has as a policy not disclosing in detail information related with disputes with related parties concerning situations involving provisions, contingent liabilities, and contingent assets, insofar as that information seriously damages the Company's position. In these cases, the Company provides information of a generic nature and explains the reasons that have led to make this decision.

Obligation of Retirement of Assets

Liabilities associated with the retirement of assets are recognized wherever the Company has obligations, whether legal or constructive, related to the retirement of ducts, properties and equipment. Such obligations shall be recognized by applying the discounted cash flows technique and taking the useful life of the relevant asset into consideration.

Should accurately estimating the provision during the period in which the obligation arises is impossible, then the provision shall be recognized at the moment where there are enough elements to make the best estimate.

The carrying value of the provision is revised and adjusted on an annual basis considering changes in the variables used to estimate it. The financial cost of re-measurement of such liabilities is recognized during the period as a financial expense.

### 3.9 Employees' Benefits

Ocensa records short-term benefits, such as salary, vacations, bonuses and others, on the earned basis.

Benefits from Termination of Labor Contracts

Compensations for indemnity, in favor of the Company's employees, in accordance with applicable legal provisions, are demandable in case of termination without just cause.

The payment is based on proportions applied on the average base of salaries earned. Ocensa records the payments made against expenses.

### 3.10 Income Tax

The income tax expense is comprised by the income tax payable for the current period (includes, as applicable, income tax and income tax for CREE equality) and the effect of deferred tax in each period.

Current and deferred taxes will be recognized in profits or losses, except when they relate with items in other comprehensive income or directly in equity, in which case the current or deferred tax is also recognized in the other comprehensive income or directly in equity, respectively.

#### 3.10.1 Current Tax

The Company determines the provision for income tax, based on the higher value between taxable income or presumptive income (the minimum estimated profitability amount foreseen by law to quantify and compute income tax). Taxable income differs from the income reported in the statement of comprehensive income due to taxable revenue or deductible expense items in different tax and accounting periods, special tax deductions, tax losses and recorded items that, according to tax regulations applicable in each jurisdiction, are deemed non-taxable or non-deductible.

### 3.10.1 Current Tax (continued)

The current tax is calculated by using tax rates enacted or substantially approved at the end of the period being reported. The current tax is shown net, after deducting advances paid and tax withholdings in favor.

### 3.10.2 Deferred Taxes

The deferred tax is recognized by using the liability method, based on temporary differences between the tax basis and the carrying value of assets and liabilities included in the financial statements. The deferred tax liability is recognized for all temporary tax differences. The deferred tax asset is recognized for all deductible temporary differences and tax losses pending amortization, provided there is probability that the Company will have future tax income against which such deductible temporary differences may be deducted.

The "Contaduría General de la Nación" by means of the filed communication CGN No.20162000000781 of January18, 2016, determined that the Company should not apply IAS 12 Income tax, paragraphs 38 to 45, stating that the deferred tax from the variations in the exchange rate resulting from comparing assets and liabilities in terms of its functional currency (U.S. dollar) to the tax bases in a different currency (Colombian pesos) should not be recognized in the financial statements.

The effect of the non- application of paragraph 41 of IAS 12 in the deferred income tax is US$10,188 and in retained earnings is US$56,914 (at June 30, 2017 US$1,509 and US$55,405, respectively).

Deferred tax assets and liabilities are measured using the tax rates expected to be applied in the period in which the asset is realized or the liability is paid, in accordance with the current tax standards in each period.

The carrying value of a deferred tax asset, is subject to review at the end of each reporting period and then reduced, provided that there is probability that the Company will not have enough future taxable income that allows recovering the asset, totally or partially.

Deferred taxes are not recognized if they arise from the initial recognition of an asset or a liability in a transaction (except in a business combination) that at the transaction date neither affects accounting income or the accounting profit or tax gain.

### 3.10.3 Other Taxes

The Company recognizes in the period's result costs and expenses of taxes other than the income tax, such as, the wealth tax, which is determined based on the tax equity; the industry and commerce tax which applied on the revenues obtained in municipalities upon the development of trade, industrial and service activities. Taxes are calculated based on the current rules and regulations.

### 3.11 Recognition of Revenues

Revenues from transport services are calculated at the fair value of the consideration charged or to be charged. Revenues are reduced based on discounts or rebates and other similar assignments granted to customers.

### 3.11 Recognition of Revenues (continued)

Revenues from transport services are recognized upon transport of products and delivery to the buyer pursuant to selling terms and conditions. In all other cases, revenues are recognized when earned and true, probable and quantifiable right to demand payment arises.

The transaction result may be estimated reliably when all of the following conditions are met:

- The amount of revenue from ordinary activities can be measured reliably.
- It is probable that the economic benefits associated with the transaction are received by the entity.
- The degree of completion of the transaction may be measured reliably at the closing date of the reporting period.
- The costs incurred or to be incurred in respect of the transaction until completion can be measured reliably.

In all other cases, revenue is recognized when earned and true, probable and quantifiable right to demand payment arises pursuant to IAS 18, Revenue from Ordinary Activities.

Income from interests on late payment is recognized by following the principles of prudence and realization.

Financial revenues are recognized in the statement of income during the relevant generation period.

Ship or pay transactions are recorded as revenue regardless that the crude oil be effectively transported in full. Ship and pay operations are accrued as revenue in the period where transport is completed. Under contracts with a term to offset, the revenue is deemed realized upon satisfaction of conditions set forth in each of them.

### 3.12 Costs and Expenses

Costs and expenses are individually presented by function and detailing, in the relevant notes, the composition of cost of sales and expenses related to administration, operation, projects and other expenses.

### 3.13 Financial Income (Expenses)

Financial income and expenses include mainly: a) interest costs of loans and financing, except those which are capitalized as a part of the asset cost, b) valuation of profits and losses of financial instruments measured at fair value with changes in results, c) exchange differences of financial assets and liabilities, d) financial update expenses of long term liabilities (abandonment costs).

### 3.14 Cash Flows

The statement of cash flows informs the generation of cash by categories (operation, investment and financing) during a given period. Classification of cash flows according to the aforementioned activities provides information that enables users to assess the impact on the Company's financial position, as well as on the final amount of its cash and other cash equivalents.

### 3.14 Cash Flows (continued)

Under accounting and financial information standards, the Company may report its cash flows from operations by using one of the following methods:

- Direct method: it consists of presenting separately the main categories of collections and payments in gross terms.
- Indirect method: it starts presenting the gain or loss in net terms, an amount which is later corrected by the effects of non-monetary transactions, for all type of deferred payment items and accruals (revenue) which are the cause for collections and payments in the past or in the future, as well as loss or gain items associated with cash flows of operations classified as of investment or financing.

The Company presents its statements of cash flows under the indirect method.

The main categories include:

- **Operating activities**

  Are the activities that make the most significant source of Ocensa's operating revenue, such as collections from the provision of services, payments to suppliers for the provision of goods and services, payments to employees, income tax payments, in other words, all transactions that represent the most important source of revenue from ordinary activities performed by the Company.

- **Investing activities**

  Are the disbursements that result in recognition of an asset in the statement of financial position, such as payments, revenue from the acquisition of property, plant and equipment, intangible assets and other long-term assets, cash advances and loans to third parties or collections (other than transactions entered by financial entities).

- **Financing activities**

  Are activities that result in changes in the size and composition of company-owned funds and monies borrowed, such as inflows from the issue of shares, payments to shareholders or reimbursements of the funds taken as loans.

**Cash Flows in Foreign Currency**

Cash flows from transactions in foreign currency will be translated into the functional currency by applying the amount in foreign currency at the exchange rate between both currencies prevailing on the date each relevant cash flow took place.

### 4. Judgments, Estimates, and Significant Accounting Assumptions

The Company's preparation of the financial statements requires that management makes judgments, estimations and accounting assumptions affecting the amounts of reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the close of the period being reported. In this sense, the uncertainty on such assumptions and estimates could give rise in the future to results that could require significant adjustments to the carrying values of assets or liabilities affected. Changes of these estimates are recognized prospectively in the period the estimate is reviewed.

### 4.2.2 Impairment

At the end of each period being reported, the Company evaluates the carrying values of its tangible and intangible assets to determine if an indication exists that these amounts have suffered any impairment loss. In such case, the recoverable amount of the asset is calculated to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company calculates the recoverable amount of a cash generator unit the asset belongs to. When a reasonable and consistent distribution base is identified, common assets are also assigned to the individual cash generator units, or distributed to the smallest group of cash generator units for which a reasonable and consistent distribution base may be identified.

The recoverable amount is the higher between the fair value less disposition costs and the value in use. Upon estimating the value in use, future estimated cash flows are discounted from the current value by using a discount rate before taxes which reflects the current market valuations in respect to the temporary value of money and the specific risks of the asset for which the estimates of future cash flows have not been adjusted.

If the calculated recoverable amount of an asset (or cash generating unit) is lower than its carrying value, the carrying value of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loses are recognized immediately in the statement of income, except if the asset is recorded at a revalued amount, in which case, the impairment loss should be considered as a decrease in the revaluation.

When a loss from impairment is subsequently reversed, the carrying value (or cash generating unit) increases to the reviewed estimated value of its recoverable amount, so that the increased carrying value does not exceed the carrying value that had been calculated if the impairment value had not been recognized for such asset (or cash generating unit) in prior years. The reversal of a loss from impairment is recognized automatically in the statement of income.

### 4.2.3 Litigation

The Company is subject to claims through regulatory and arbitration procedures, tax liquidations and other claims that arise during the ordinary course of businesses. The management and legal counsel evaluate these situations based on their nature, the probability that they materialize and the amounts involved to decide on the amounts recognized and/or disclosed in the financial statements. This analysis, which could require considerable judgments, includes legal processes filed against the Company and claims not yet initiated.

In accordance with management's evaluation and guidelines established in CNIF, have been set up to comply with these costs when it is considered that the contingency is probable and reasonable estimates of such asset may be made.

The Company considers that payments required to resolve the amounts relating to claims, in the event of loss, will not vary significantly from estimated costs and, accordingly, they will not have a material adverse effect on Company's financial statements.

### 4.2.4 Income Tax

Uncertainties exist in respect of the interpretation of complex tax regulations, changes in tax regulations, and amounts and opportunities in which the future tax result is generated. Given the wide range of international commercial relations and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or upon the future changes of such assumptions, they could require future adjustments to income and expenses already recorded.

The Company calculates provisions, on the basis of reasonable estimates, for the possible consequences derived from the inspections made by the Colombian tax authorities. The amount of those provisions is based on several factors, such as experience in previous tax inspections, and on the various interpretations about the tax regulations made by the entity subject to tax and by the responsible tax authority. Those interpretation differences may arise concerning a great variety of matters, depending upon the existing circumstances and conditions in the Company's domicile. Since the Company considers remote the probability of litigations of a tax nature and subsequent disbursements as a result thereof, no contingent liability related with taxes has been recognized.

Additionally, changes in the tax regulations could limit the Company's capacity to obtain tax deductions in future years, as well as the recognition of new liabilities as a result of challenges by the audit of the tax inspection entity.

The tax positions adopted suppose the careful evaluation by Management, and are reviewed and adjusted in response to circumstance such as expiry of the application of the legislation, close of tax audits, additional disclosures caused by any legal topic or any decision of the Court on a tax matter in particular. The Company creates provisions based on the estimate of the possibility of a negative decision that could arise from a tax audit. The amount of these provisions depends upon factors such as previous experience in tax audits and different interpretations of tax regulations by taxpayer entities and of the tax audit. The actual results could differ from the estimates.

As established in IAS 12, Income Tax, the current tax payable is based on tax profits recorded during the year. The taxable income differs from the profit reported in the statement of income and other comprehensive income due to revenue items or taxable or deductible expenses in other years and items that are never taxable or deductible. The current tax liability is calculated by using tax rates approved by the tax entity at the end of the period reported.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between carrying values of assets and liabilities existing in the financial statements and their respective tax basis. Deferred taxes on assets and liabilities are calculated based on statutory tax rates we believe will be applied to our taxable income during the years in which temporary differences between carrying values are expected to be recovered.

The carrying value of an asset for deferred taxes should be subject to final review in each reporting period and should be reduced insofar as it is probable that it will not have enough tax gain, in the future, to permit to recover all or a part of the asset.

The measurement of deferred tax liabilities and deferred tax assets will reflect tax consequences that would derive from the way the Company expects at the end of the period being reported to recover or liquidate the carrying value of its assets and liabilities.

### 4.2.5. Useful Life of Property, Plant and Equipment

The Company determines estimated useful lives and depreciation charges corresponding to property, plant and equipment. This estimate considers the economic life of the pipeline and the limitations of its operation over time. This estimate could change, among other reasons, due to new oil discoveries, changes in the environmental legislation or in the contracts signed with the Company's shippers. Management periodically reviews useful lives and depreciation charges.

### 4.2.6. Hedging Accounting

The identification of hedging relations between protected objectives and hedging instruments (derivative financial instruments and/or not derivative) involve critical judgments on the effective existence of the hedging relationship and the effectiveness thereof. The Company continuously evaluate the alignment between the hedging relationships identified and the objects and strategy of its risks' management policy.

## 5. Information on Operation Segments

All Company's assets are located in Colombia and are focused on a single segment which is crude oil transportation. For administration purposes, Management supervises operating results based on the crude transportation operation, where its main assets are represented by the pipeline, this being the basis for decision making concerning the assignment of resources and evaluates its financial yields. There are no operating segments that should be aggregated to form part of that previously reported.

## 6. New Standards and Regulatory Changes

**New and Amended Standards and Interpretations Incorporated to the Accounting Framework Accepted in Colombia that Application Should be Assessed as of January 1, 2017 or that may be Early Applied**

Decrees 2615 of December 17, 2014, 2420 of December 13, 2015 and 2496 of December 24, 2015 introduced to the regulatory technical framework of financial information new standards, changes or amendments issued or carried out by the International Accounting Standard Board "IASB" to the International Financial Reporting Standards during 2013, to evaluate their application in financial periods starting as of January 1, 2016, although their application could be early applied.

IFRS 9 "Financial Instruments"

Oleoducto Central S.A. requires to adopt IFRS 9 – Financial Instruments since January 1, 2018. This standard replaces IAS 39 and places emphasizes on three basic aspects: a) classification and measurement in accordance with the business Group model, b) impairment of financial instruments based on expected losses and c) requirements on hedging accounting.

Ocensa validated the financial instruments identifying financial assets and liabilities, as follows:

a). Measured at amortized cost: Considering the business model seeks paying or receiving cash flows at a specific time; despite the business model for short-term accounts payable and receivable, no effective interest method is applied, since there is no interest rate associated and its liquidation is lower than 1 year.

**6. New Standards and Regulatory Changes (continued)**

IFRS 9 "Financial Instruments" (continued)

b). Measured at fair value: Investment trusts and tax securities are measured at fair value with changes in results upon considering its function in the business model.

Based on the evaluations made on financial instruments, the current valuation of financial assets and liabilities is consequent with the Company's business model and there is no history of loss or default events.

On the impairment model applied to instruments valued at amortized cost, Ocensa evaluated that the adoption of IFRS 9 will not present a material or significant increase in the impairment losses considering that accounts receivable are at short term and that it does not have history of loss or default events.

Concerning the hedging accounting model, the current ones have effectiveness tests associated, follow-up by management and a documentation of the objects hedged and hedging instruments. Under IFRS 9 no material impacts in the valuation are observed.

In the case Ocensa decides to make new hedges, the requirements of IFRS 9 will be validated on the relationship of such hedges and their alignment with the risk management objectives of the Group and the qualitative components to be considered for the valuation of effectiveness.

IFRS 9 substitutes this line demanding an economic relationship between the item covered and the hedge instrument and that the ratio hedged is the same that the entity actually uses for its risk management. The contemporaneous documentation continues to be different than the one that was being prepared under IAS 39. The standard becomes effective for accounting years starting January 1, 2018. Its early adoption is permitted. The Company is evaluating the impacts that such standard could generate.

IFRS 15 "Revenues from Contracts with Clients"

IFRS 15 "Revenues from ordinary activities arising from contracts with clients" provides a single model to recognize from an accounting viewpoint, revenues derived from contracts with, making emphasis on the identification and compliance with performance obligations and is effective for the annual periods starting from January 1, 2018. IFRS 15 substitutes IAS 18 "Ordinary Revenues". The central principle underlying the new model is recognizing ordinary revenues in order that it describes the transfer pattern of the goods and services to clients, reflecting the quantity to which it is expected having right in exchange for such deliverables.

Ocensa implemented this standard from that date, using the amended retrospective method, considering the guidelines obtained from its ultimate parent company (Ecopetrol S.A.), this being the method adopted at the level of Business Group, which is adjusted to the opening balance of equity at the date of initial application of the impacts calculated without requiring to adjust the comparative ones of the prior year and their application only on the initial adoption date. Operations through December 31, 2017, were recognized under IAS 18 and their adoption did not have material impact on the amounts recognized in prior periods.

**6. New Standards and Regulatory Changes (continued)**

IFRS 15 "Revenues from Contracts with Clients" (continued)

During the implementation of the standard IFRS 15, the sources of Ocensa ordinary revenues were evaluated considering the identification of contracts with clients, the establishment of performance obligations, the determination of transaction prices, the association of prices with performance, and the recognition of revenues when performance obligations are met.

The analysis included the following aspects for the midstream segment:

Represented by the transportation, storage, and wholesale marketing of crude or refined products derived from oil either through pipeline, railway, barge or truck. Ducts and other transportation systems may be used to transfer crude oil from the production sites to the refineries and deliver the various refined products to downstream distributors. The principal aspects evaluated are ship or pay contracts, components of variable price and deposit agreements. No significant impacts are identified for the recognition, measurement and presentation for the Company.

Revenue is recognized when goods or services have been delivered to customers at the established delivery points (the time when the performance obligation is met), where the transfer of property and the risks associated with the products takes place and have been accepted by the customers.

As a result of this analysis, it was defined that: a) for the principal contracts with several performance obligations, it was concluded that the performance obligations are interdependent; therefore the prices assigned are independent and the application of a methodology of price assignment was no required; b) Ocensa acts as principal in the valuable consideration of services before transferring them to the client; c) the Company recognizes the variable considerations in the transaction prices unless that they cannot be measured reliably, in which case, the recognition is postponed until the uncertainty is resolved; d) The product method is the one used by the Company to recognize the revenue generated by long-term contracts with partial deliveries of goods; e) no impacts associated with contracts' costs were identified when recognized in the accounting in the accounting period and their capitalization is not required; and f) non-monetary agreements are recognized at their fair value.

IFRS 16 "Leases"

This Standard issued in January 2016 establishes the principles for the recognition, measurement, presentation and information of leases to be disclosed; the new standard substitutes IAS 17 Leases, CINIIF 4 "Determination of whether an agreement contains a lease, SIC-15 "Operating Leases – Incentives" and SIC -27 "Evaluation of the essence of Transactions that Adopt the Legal Form of a Lease.

The standard presents a control model for the identification of leases and their treatment in the financial statements of lessees, separating an asset identified as object of the lease and the services corresponding to the service contract as such, the Company could recognize more assets and liabilities, derived mainly from the lease of construction equipment and offices. At the level of lessee the principal changes arise from the elimination of the differentiation of financial and operating leasing, in its place, a single lease model is recognized where all leases are recognized in the statement of financial position as an asset of right of use and a liability for lease, except for a lease where the underlying asset is of low value and short-term leases. Additionally, interest expenses of the liability should be recognized separately in the statement of income and the depreciation expense of the asset recognized.

## 6. New Standards and Regulatory Changes (continued)

IFRS 16 "Leases" (continued)

Lessees should carry out re-measurements of the liability in certain occasions (e.g., a change in the lease period, changes in future flows of the lease). These re-measurements of the liability will be recorded generally as an adjustment of the right of use of the asset. The new Standard does not bring significant changes in the recognition, measurement and disclosure for the lessors.

For the lessor, leases continue to be classified as financial and operative leases. The standard will be effective for the annual periods as of January 1, 2019 with limited possibilities of early implementation. The Company does not expect to adopt early the stated standard, it is evaluating the potential impacts that such standard could generate.

The improvements and amendments to the IFRS, as well as the interpretation that have been published during 2017 could be incorporated to the Colombian regulatory framework.

## 7. Cash and Cash Equivalents

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Cash | **US$ 10** | US$ 14 |
| Banks | **157,522** | 29,349 |
| Trusts | **8,641** | 2,288 |
| Term deposit certificates | **70,093** | – |
| National tax refund securities (TIDIS) | **90** | – |
| | **US$ 236,356** | US$ 31,651 |

The fair value of cash and its equivalents is approximated to its carrying value due to its short-term nature (less than three months) and its high liquidity. Cash and cash equivalents have no restrictions or liens limiting their disposition.

## 8. Trade and Other Accounts Receivable

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Trade accounts receivable (1) | **US$ 38,773** | US$ 62,728 |
| Related parties (*Note 27*) | **149,423** | 12,625 |
| Transport tax receivable | **6,141** | 5,331 |
| Accounts receivable from employees (2) | **5,435** | 6,834 |
| Income tax balance in favor (*Note 16*) | **–** | 46,925 |
| Sundry debtors | **1,162** | 2,815 |
| | **200,934** | 137,258 |
| Trade debtors and other short term accounts receivable | **196,738** | 131,770 |
| Trade debtors and other long term accounts receivable | **US$ 4,196** | US$ 5,488 |

## 8. Trade Debtors and Other Accounts Receivable (continuación)

(1) Includes the value of estimated revenues at December 31, 2017 for unbilled services rendered for US$27,974 (at June 30, 2017 US$43,257)

(2) The Company granted the administration, handling and control of loans to employees to Fiduciaria Alianza S.A., which manages the detail by employee of those loans and their respective conditions. Loans to employees are considered financial assets and are recognized at their fair value.

The movement of the provision for impairment of trade debtors and other accounts receivable of difficult collection accrued, is the following:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| **Initial balance** | **US$** | **91** | US$ | – |
| Additions of provisions | | **126** | | 91 |
| **Ending balance** | **US$** | **217** | US$ | 91 |

The accounting value of trade debtors and other accounts receivable is close to its fair value.

## 9. Derivative Financial Instruments

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Hedge contracts asset | **US$** | **8,624** | US$ | 1,166 |
| Hedge contracts liability | | **(91)** | | (1,852) |
| | **US$** | **8,533** | US$ | (686) |

Other financial assets / liabilities correspond to the valuation of financial instruments deriving from Ocensa, whose purpose is to mitigate the volatility of the exchange rate on the cash flow required for Company's operations. The balances correspond to their fair value classified in the second level of hierarchy, calculated based on observable entries by using the methodology of forward points.

Taking into account that the Company's functional currency is the US dollar, any transaction in a currency other than the US dollar represents an exposure to the exchange rate risk for Company's performance. In order to mitigate the impact on cash flows that could be generated as a result of variations in rates of Colombian peso versus the US dollar, the management evaluates the exposure to this risk for the twelve (12) months moved forward subsequently and makes the decision to contract hedge instruments for the cash flow in pesos, within the framework established by the financial risk management policy.

The use of three derivative instruments is established in such policy: Forwards, collars and options. At present, the Company has only entered into hedge operations by means of forward instruments under the non-delivery basis.

### 9. Derivative Financial Instruments (continued)

The Company covers mainly the following risks:

- Up to 50% of its operating expenses. The main headings of operating expenses the Company is hedging are those related to personnel, leases, fees and services, insurance, maintenance and repairs, variable costs, which are denominated in Colombian pesos.

- Up to 100% of its operating expenses. Tax headings being covered correspond to income tax, income tax for equality (CREE), surtax for income tax for equality (CREE) and the wealth tax.

Forward hedge instruments being used allow setting the sales price in US dollars, which will offset the effect of devaluation or revaluation arising up to the time the Company monetizes resources necessary to cover its monthly or specific obligations on operating expenses and tax payments, which are payable in Colombian pesos.

The fair value of forward operations is US$324,687 (June 30, 2017 US$105,536). Taking into account that the Company seeks to minimize the exchange exposure for the twelve (12) future months, cash flows are expected to be made and payments of months from January to December, 2018 are expected to be covered.

The variation and/or compensation of hedge operations made for the payment of taxes is recorded in the statement of comprehensive income under the exchange difference heading; the variation of hedge operations of expenses (Opex) will be recorded in the statement of comprehensive income provided that they are effective; once liquidated, the result of the compensation will be recorded as a lower and/or higher amount of the hedged operating expense.

The dollar-offset method is used to calculate effectiveness. It consists of comparing changes in values observed of the item covered with the corresponding changes in the hedge instrument according to projections of the forward curve at the cut-off date.

The result of the amount recorded in "Other Comprehensive Income" – OCI at the reporting period cut-off amounts to (US$5,084) (net of tax (US$3,203) at June 30, 2017 it amounts to (US$713) and net of taxes at that date of (US$416).

### 10. Other Assets

| | **December 31, 2017** | | **June 30, 2017** | |
|---|---|---|---|---|
| Prepaid expenses | **US$** | **2,482** | US$ | 1,112 |
| Supplier advances (1) | | **3,007** | | 6,175 |
| | **US$** | **5,489** | US$ | 7,287 |

## 10. Other Assets (continued)

(1) Includes remittances to suppliers as part of the acquisition of goods and services. The principal advances were drawn to the following suppliers:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Siemens S.A. | US$ | 1,400 | US$ | 2,609 |
| Jorge Santos Ballesteros | | 368 | | – |
| Worley Parsons Group Inc. Branch | | 360 | | – |
| Fernando Silva García | | 284 | | 522 |
| Adelaida Angel Zea | | 225 | | – |
| Ecopetrol S.A. | | 102 | | 1,116 |
| Fundación Oleoductos de Colombia | | 60 | | 454 |
| Gabriel De Vega Pinzón | | 39 | | – |
| Fundación Servicio de Vivienda Popular | | – | | 33 |
| Importaciones y Representaciones Industriales de Colombia S.A.S. | | – | | 868 |
| Others | | 169 | | 573 |
| | US$ | 3,007 | US$ | 6,175 |

## 11. Non-current Assets Held for Sale

| | | | | |
|---|---|---|---|---|
| **Initial balance** | US$ | 20,363 | US$ | 21,896 |
| Impairment | | (1,580) | | – |
| Sales | | – | | (1,533) |
| **Ending balance** | US$ | 18,783 | US$ | 20,363 |

At December 31, the Company classified assets held for sale, corresponding mainly to assets of property, plant and equipment acquired within the investment process of the "P-135" project. The Board of Directors authorized the initiation of the optimization process of costs incurred and to do so, the sale process of these assets was approved by means of minute N° 249 on July 22, 2016.

As of December 31, 2017, the Company carried out an analysis of the fair value of these assets, which determined that their book value does not exceed fair value, except for certain items that require recognition of the fair value adjustment of the market, which was recognized in the financial statements for US$1,580.

During the initial period of execution of sales plan, circumstances arose that were previously considered as unlikely due to market conditions in which a decline in oil prices is evident discouraging investments in the hydrocarbon sector, on which Ocensa aimed on its potential market and, as a result, assets classified as held for sale were not sold at the end of the 2017 period. The Company undertook the remaining and necessary actions to respond to changing on market circumstances and achieve the sale of these assets at a reasonable price. The Company has re-implemented a detailed selling plan, where potential buyers could be obtained. Given the above and considering the aspects set out in IFRS 5, Annex B, the Company decided to continue at 2017 year end categorizing these assets as held for sale.

## 12. Property, Plant and Equipment, Net

| | Plant and equipment | Ducts, networks and lines | Constructions in progress (1) | Buildings | Land | Other (2) | Total |
|---|---|---|---|---|---|---|---|
| **At December 31, 2016** | US$ 431,309 | US$ 1,667,892 | US$ 175,958 | US$ 76,348 | US$ 21,362 | US$ 33,034 | US$ 2,405,903 |
| Additions | 2,021 | 14,614 | 25,399 | – | – | 21,305 | 63,339 |
| Capitalization | 97,099 | 15,310 | (112,495) | – | – | 86 | – |
| Consumption of non-capitalized materials and spare parts | – | – | 4 | – | – | (20,395) | (20,391) |
| Sales and retirements | (280) | (5,607) | (1,846) | – | – | (580) | (8,313) |
| Update of the abandonment cost rate | – | – | – | – | – | 697 | 697 |
| Transfers | 261 | (261) | 672 | – | – | (672) | – |
| **At June 30, 2017** | 530,410 | 1,691,948 | 87,692 | 76,348 | 21,362 | 33,475 | 2,441,235 |
| Additions | **221** | **(560)** | **17,340** | **–** | **–** | **34,308** | **51,309** |
| Capitalization | **11,907** | **20,877** | **(33,325)** | **103** | **–** | **438** | **–** |
| Tax benefits | **–** | **–** | **–** | **–** | **–** | **(177)** | **(177)** |
| Consumption of non-capitalized materials and spare parts | **–** | **–** | **(1)** | **–** | **–** | **(32,021)** | **(32,022)** |
| Sales and retirements | **(103)** | **(25)** | **(243)** | **–** | **–** | **(120)** | **(491)** |
| Update of the abandonment cost rate | **–** | **–** | **–** | **–** | **–** | **3,764** | **3,764** |
| Transfers (3) | **2,409** | **(6,416)** | **(2,453)** | **–** | **–** | **(924)** | **(7,384)** |
| **At December 31, 2017** | **US$ 544,844** | **US$ 1,705,824** | **US$ 69,010** | **US$ 76,451** | **US$ 21,362** | **US$ 38,743** | **US$ 2,456,234** |
| **Depreciation and impairment provision** | | | | | | | |
| **At December 31, 2016** | US$ (32,489) | US$ (713,589) | US$ – | US$ (7,557) | US$ – | US$ (11,105) | US$ (764,740) |
| Charge for period depreciation | (11,391) | (33,189) | – | (1,131) | – | (719) | (46,430) |
| Sales and retirements | – | 48 | – | – | – | 579 | 627 |
| Impairment provision | (1,384) | – | – | – | – | (384) | (1,768) |
| **At June 30, 2017** | US$ (45,264) | US$ (746,730) | US$ – | US$ (8,688) | US$ – | US$ (11,629) | US$ (812,311) |
| Charge for period depreciation | **(12,211)** | **(34,578)** | **–** | **(1,151)** | **–** | **(784)** | **(48,724)** |
| Sales and retirements | **64** | **22** | **–** | **–** | **–** | **119** | **205** |
| Impairment provision | **–** | **–** | **–** | **–** | **–** | **(179)** | **(179)** |
| **At December 31, 2017** | **US$ (57,411)** | **US$ (781,286)** | **US$ –** | **US$ (9,839)** | **US$ –** | **US$ (12,473)** | **US$ (861,009)** |
| **Net carrying value** | | | | | | | |
| **At June 30, 2017** | US$ 485,146 | US$ 945,218 | US$ 87,692 | US$ 67,660 | US$ 21,362 | US$ 21,846 | US$ 1,628,924 |
| **At December 31, 2017** | **US$ 487,433** | **US$ 924,538** | **US$ 69,010** | **US$ 66,612** | **US$ 21,362** | **US$ 26,270** | **US$ 1,595,225** |

**12. Property, Plant and Equipment, Net (continued)**

(1) Constructions in progress

At December 31, 2017, the balance includes mainly investments made in the projects, such as Cusiana Dilution, Coveñas Dilution, Adaptation to 600 cSt, Araguaney Cusiana Connection, El Porvenir Replacement of Equipment, Optimization of the unloading yard, Heat recovery, gas duct and other smaller projects. These projects were also in process at June 30, 2017.

During the second half of 2017, capitalizations were made of the projects. Dilution Coveñas, Connection Araguaney, Optimization of storage Cusiana, Sipra Capitalization, ERM Capitalization – Surtigas and capitalizable maintenace.

The project highlighted for its investment and development is "Proyecto Potencia 135 (P-135)", which was fully capitalized at June 30, 2017 and partially at December 31, 2016, the date when the Company reported the "completion of the construction and expansion of the pipeline capacity" in the Páez, Chiquillo, La Granjita stations and changes to the El Porvenir and Cusiana stations.

All investments capitalized corresponded to the construction of the Pipeline expansion, Complementary Works, Environmental and Social Works.

It is estimated that projects in progress will finalize between 2018 and 2019.

(2) Other

Includes materials inventories, abandonment cost of the pipeline system, office equipment, computers and telecommunication equipment, transportation equipment and fluvial equipment.

There are no commitments and/or restrictions of acquisitions of property, plant and equipment.

(3) Transfers

The transfer of PP&E to intangibles corresponds to the recognition of the assets under construction of the port concession for an amount of US$2,823, and the recognition of the transportation agreement for 20 years, for the gas pipeline owned by Surtigas, for a value of US$4,561.

**Volumetric Current Accounts – Line Filling**

As a result of the end of the segregation of Cusiana crude, which passed to being transported as a mixture, disclosed below is the total amount of the provisional balances of volumetric current accounts with senders under the transportation contracts. The provisional balances come from the difference in barrels between the crude delivered for transportation and the crude retired from the system after the rendering of the transportation service, so that, (i) provisional balances against the sender reflect the temporary custody of the sender over the crude owned (line filling) or managed by the Company in accordance with the procedure of surpluses/shortages, and (ii) the provisional balances in favor of the sender reflect the temporary custody over the sender crude.

## 12. Property, Plant and Equipment, Net (continued)

### Volumetric Current Accounts – Line Filling (continued)

To determine the disclosure value the proportion that the net volumes of each crude quality have in the provisional volumetric balance of the sender is weighted. The barrel price for each quality is calculated based on the yields in refined products of the crude transported and its quotation in the database of ARGUS and OPIS, which is a reference price of the refined market of the United States, which is complemented with the process of adjustments for volumetric compensation for quality. In the event that in respect of each sender the balances of the volumetric current account are liquidated, the corresponding adjustments will be made in the accounting.

The balance is comprised of:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Negative balance of senders | **US$ 68,600,663** | US$ 95,349,827 |
| Positive balance of senders | **US$159,117,427** | US$189,413,192 |

### Impairment

As at December 31, 2017 the Company evaluated if impairment indications exist in the cash generating unit by means of a qualitative and quantitative analysis.

For the quantitative analysis, the verification of external variables, such as the legal, economic, technological and market environment was made and of internal variables such as the useful life, obsolescence and/or physical impairment; as well as changes in the current contracts, concluding that at the time of the analysis there are no evidences of impairment of the cash generator unit.

For the qualitative analysis the value in use of the cash generating unit was determined by means of the estimate of future cash flows, taking into account the volumes to be transported with their respective rates, associated costs and related investments, which were discounted with the WACC reported by Ecopetrol for the midstream. The result of the analysis of a value in use higher than the carrying value of the cash generator unit, determining that assets are not subject to recognition of impairment.

### Financial Leases

The carrying value of property, plant and equipment under financial leasing and rental contracts of vehicles with purchase option at December 31, 2017 for US$185 (US$244 at June 30, 2017). Assets under leasing and rental agreements with purchase option are taxed as guarantee of the respective finance leases and of the obligations assumed.

## 13. Intangibles, Net

| | Licenses and Software | Service Concession Agreement | Agreement Gas Transmission | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| **At December 31, 2016** | US$ 15,600 | US$ 43,620 | US$ – | US$ 59,220 |
| Additions | 119 | 3,777 | – | 3,896 |
| **At June 30, 2017** | 15,719 | 47,397 | – | 63,116 |
| Additions | **87** | **737** | – | **824** |
| Capitalizations | **–** | **2,823** | **4,561** | **7,384** |
| **At December 31, 2017** | **US$ 15,806** | **US$ 50,957** | **US$ 4,561** | **US$ 71,324** |
| **Amortization** | | | | |
| **At December 31, 2016** | US$ (12,623) | US$ (43,620) | US$ – | US$ (56,243) |
| Charge for period amortization | (382) | (2,271) | – | (2,653) |
| **At June 30, 2017** | (13,005) | (45,891) | – | (58,896) |
| Charge for period amortization | **(209)** | **2,045** | **–** | **1,836** |
| **At December 31, 2017** | **US$ (13,214)** | **US$ (43,846)** | **US$ –** | **US$ (57,060)** |
| **Net carrying value** | | | | |
| **At June 30, 2017** | **US$ 2,714** | **US$ 1,506** | **US$ –** | **US$ 4,220** |
| **At December 31, 2017** | **US$ 2,592** | **US$ 7,111** | **US$ 4,561** | **US$ 14,264** |

### Service Concession Agreement

Port Concession Agreement No. 016 of December 6, 1996, whose purpose is to grant a port concession for the construction and operation of off-shore facilities of a new oil terminal of Coveñas intended to load exportation crude, was initially intended to render a private service.

On October 24, 2011, Addendum No. 2 is signed whereby the class of service is changed from private port to public port intended for the handling of exportation crude. The payments were made in accordance with Addendum No. 02.

The addendum No. 03 was signed on December 5, 2016, whereby the obligations regime is adjusted, the concession term is extended for 20 more years, and the amount of the valuable consideration and of investments based on the plan of investments delivered by the Company and approved by the National Infrastructure Agency, total investment of approximately US$104 million at the net present value equivalent to US$56 million (discounted at a rate of 12% annual effective, included in the contract signed by the parties). At December 31, 2017, the value of the investment made amounts to US$2,823.

As at December 31, 2017 the fixed portion of the valuable compensation was recorded which amounts to US$5,493 for the 20 years, which was discounted at a risk free rate of 2.58% in dollars, a rate taken from de Treasury Department, resulting in a net present value of US$4,515, which was recognized as an intangible asset and a financial liability. The intangible will be amortized using the straight-line method over 20 years and the liability will be updated annually for interests and the installments paid are amortized.

## 14. Debts and Loans Bearing Interest

### Composition of Loans

Loans are recorded at their amortized cost, which corresponds to the present value of cash flows, discounted at effective interest rate.

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| **Short-term loans** | | | | |
| Interest payable for external public credit | **US$** | **20,000** | US$ | 20,000 |
| Financial leasing | | **200** | | 51 |
| | **US$** | **20,200** | US$ | 20,051 |
| **Long-term loans** | | | | |
| External public credit bonds | **US$** | **480,199** | US$ | 479,821 |
| Financial leasing | | **–** | | 186 |
| | **US$** | **480,199** | US$ | 480,007 |
| | **US$** | **500,399** | US$ | 500,058 |

### Long-Term External Public Credit Bonds

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to five hundred million dollars of the United States of America (US$500,000,000) in order to finance the needs of investment of future expansion projects (Potency 135 and Warming).

The characteristics, term and conditions are as follows:

- Redemption term: 7 years, with a maturity date until May 7, 2021
- Issue price: 99.367%
- Amortization: Upon maturity
- Yield at maturity: 4.105%
- Denomination currency: Denominated in dollars of the United States of America (US$)
- Interest rate: Fixed, in accordance with market conditions prevailing on the bonds placement date, thus complying with the maximum limits for the external indebtedness interest rates defined by the Central Bank.
- Denominations US$200,000 and integral multiples of US$1,000
- Listed in: Luxembourg Stock Exchange

The variation of this obligation of the period from July to December 2017 corresponds to the recognition in the statement of income of the bond issue costs, and includes the exchange difference generated by the conversion of the debt from functional currency to presentation currency.

### 14. Debts and Loans Bearing Interest (continued)

**Long-Term External Public Credit Bonds (continued)**

Below is the fair value of bonds:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Fair value | **US$** | **514,075** | US$ | 520,000 |

Loans are recorded in the financial statements at their amortized cost, which corresponds to the present value of cash flows, discounted at the effective interest rate.

For the measurement at fair value bonds were valued using as source the Bloomberg methodology Bloomberg.

Article 28 of External Resolution No. 8 of 2000 of the Board of Directors of the Central Bank establishes that interest rates of foreign currency credits, including securities placed in international markets, should reflect market conditions and may not exceed the maximum rate applicable generally indicated by the Central Bank.

Payment dates of interest will be May 7 and November 7 of each year, starting on November 7, 2014.

Computation date: May 7, 2014; T+5, gross value: US$496,835,000; rate: 4.000%, determined on a 30/360 day basis.

**Leasing Agreements**

Corresponds to nine leasing contracts of vehicles taken by the Company with Banco de Bogotá, which balance as at December 31, 2017 amounts to US$200, These contracts have a collateral security without tenancy.

**Loans Maturity Profile**

The loans maturity profile is described below:

| | Up to 1 year | | 1 – 5 years | | Total | |
|---|---|---|---|---|---|---|
| **At December 31, 2017** | | | | | | |
| External public credit bonds | **US$** | **20,000** | **US$** | **480,199** | **US$** | **500,199** |
| Lease obligations | | **200** | | **–** | | **200** |
| | **US$** | **20,200** | **US$** | **480,199** | **US$** | **500,399** |
| **At June 30, 2017** | | | | | | |
| External public credit bonds | US$ | 20,000 | US$ | 479,821 | US$ | 499,821 |
| Lease obligations | | 51 | | 186 | | 237 |
| | US$ | 20,051 | US$ | 480,007 | US$ | 500,058 |

## 15. Trade and Other Accounts Payable

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Suppliers and accounts payable (1) | US$ 82,990 | US$ 70,696 |
| Related parties (Note 27) | 5,864 | 3,404 |
| Withholding tax | 3,220 | 2,972 |
| Withholdings and payroll contributions | 1,098 | 1,036 |
| Employees fringe benefits | 953 | 942 |
| Industry and commerce tax withholdings | 157 | 116 |
| Dividends payable | – | 1 |
| | 94,282 | 79,167 |
| Trade accounts and other accounts payable, short term | 89,893 | 72,196 |
| Trade accounts and other accounts payable, long term | US$ 4,389 | US$ 6,971 |

(1) The main suppliers and accounts payable are detailed below:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Consorcio Generación P-135 S.A. | US$ 6,641 | US$ 6,638 |
| Worleyparsons Group Inc. Branch | 6,459 | 6,314 |
| Parex Resources | 5,755 | – |
| Siemens S.A. | 5,512 | 8,463 |
| Massy Energy Colombia S.A.S. | 5,031 | 4,206 |
| Ismocol S.A. | 4,560 | 1,574 |
| Gas Natural S.A. E.S.P. | 3,033 | 3,107 |
| ABB Ltda. | 2,220 | 2,034 |
| Surtidora de Gas del Caribe S.A. | 1,552 | 1,106 |
| Flowserve S de R de CV. | 1,489 | 1,429 |
| Tecnitanques Ingenieros S.A.S. | 771 | 757 |
| Ejército Nacional Contaduría Principal Comando del Ejército | 748 | 1,325 |
| Soenergy International Colombia | 736 | 1,026 |
| Helistar S.A.S. | 626 | 814 |
| Level 3 Colombia S.A. | 573 | 500 |
| Emgesa S.A. E.S.P. | 467 | 614 |
| Municipio de Páez Boyacá | 412 | 834 |
| Morelco S.A.S. | 364 | 2,758 |
| Fundación Oleoductos de Colombia S.A. | 343 | 784 |
| Termotécnica Coindustrial S.A.S. | 260 | 1,024 |
| Petromil Gas S.A.S. E.S.P. | 58 | 880 |
| Schneider Electric de Colombia S.A. | 11 | 453 |
| Delrio S.A. | – | 3,398 |
| VQ Ingeniería S.A.S. | – | 543 |
| Other | 35,369 | 20,115 |
| | US$ 82,990 | US$ 70,696 |

The accounting value of trade accounts and other accounts payable is close to its fair value due to its short term nature.

## 16. Tax Liabilities

Below is the detail of the current taxes:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Income tax | **US$ 162,459** | US$ – |
| Other taxes | **8,225** | 11,702 |
| | **US$ 170,684** | US$ 11,702 |

### 16.1. Income Tax

Below is the detail of the current tax and/or (credit balance):

| | | |
|---|---|---|
| Provision for income tax | **US$ 367,289** | US$ 173,823 |
| Provision for equality CREE tax and surtax | **64,800** | 30,659 |
| Less: | | |
| Income tax advance | **178,366** | 175,181 |
| Surtax advance | **61,687** | 60,584 |
| Withholding tax balance in favor | **29,408** | 15,642 |
| Heavy machinery creditable IVA | **169** | – |
| Liabilities (recoverable balance) payable for income tax | **US$ 162,459** | US$ (46,925) |

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| **Current tax** | | |
| Provision for income tax of the period | **US$ 191,371** | US$ 180,234 |
| Provision for CREE surtax | **33,771** | 31,790 |
| Adjustment of prior periods' income tax expense and CREE | **–** | (58) |
| Hedges (1) | **(3,741)** | – |
| | **221,401** | 211,966 |
| **Deferred tax** | | |
| Deferred income tax | **(14,047)** | (21,684) |
| **Total income tax expense** | **US$ 207,354** | US$ 190,282 |

(1) Corresponds to the effect of derivative instruments that cover the payment of income tax.

**Reconciliation of the Effective Tax Rate**

The Company's income tax differs from the theoretical amount that would have been obtained by using the tax rate applicable to profit before tax.

### 16.1. Income Tax (continued)

#### Reconciliation of the Effective Tax Rate (continued)

Below is a detail of the reconciliation between the accounting profit before taxes and net taxable income, which was the basis to determine the expense on concept of income tax, income tax for equality (CREE) and CREE surtax:

| | Period from July 1 to December 31, 2017 | | Period from January 1 to June 30, 2017 | |
|---|---|---|---|---|
| | Values | Rates | Values | Rates |
| **Accounting profit before tax** | **US$ 499,005** | | US$ 451,266 | |
| Income tax applying the Company's local tax rate | **199,602** | **40.00 %** | 180,506 | 40.00 % |
| Non-taxable revenues | **1,260** | **0.25 %** | (1,866) | (0.41)% |
| Non-deductible expenses | **(1,209)** | **(0.24)%** | 6,142 | 1.36 % |
| Difference between taxable base of income and CREE taxes | **–** | **0.00 %** | (16) | 0.00 % |
| Conversion adjustments – dollar functional Currency | **16,389** | **3.28 %** | (2,759) | (0.61)% |
| Conversion adjustment – income expense | **692** | **0.14 %** | (686) | (0.15)% |
| Differential in rate – deferred tax | **(5,639)** | **(1.13)%** | 9,019 | 2.00 % |
| Prior years income tax expense | **–** | **0.00 %** | (58) | (0.01)% |
| Hedges | **(3,741)** | **(0.75)%** | – | 0.00 % |
| **Tax profit before tax** | **US$ 207,354** | **41.55 %** | US$ 190,282 | 42.17% |

#### Deferred Income Tax

Below is the detail of the balance of deferred tax assets and liabilities:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Asset – Deferred income tax | **US$ 27,190** | US$ 10,302 |
| Asset – Deferred surtax | **2,152** | 429 |
| | **US$ 29,342** | US$ 10,731 |
| Liability – Deferred income tax | **US$ (111,671)** | US$ (104,152) |
| Liability – Deferred surtax | **(84)** | (5) |
| | **(111,755)** | (104,157) |
| | **US$ (82,413)** | US$ (93,426) |

### 16.1. Income Tax (continued)

### Deferred Income Tax (continued)

The net movement of deferred taxes during the period is the following:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| **Initial balance** | **US$** | **(93,426)** | US$ | (110,214) |
| Credit to statement of income | | **14,048** | | 21,684 |
| Debit to other comprehensive income (1) | | **(1,584)** | | (6,120) |
| Translation adjustment | | **(1,451)** | | 1,224 |
| **Ending balance** | **US$** | **(82,413)** | US$ | (93,426) |

(1) Variations in deferred tax balances were recorded in result accounts of the period except for the following items which were recorded in other comprehensive income, as follows:

| Heading | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Deferred asset (liability) – Financial assets (liabilities) | **US$** | **(1,584)** | US$ | (6,120) |

Below is the detail of deferred tax assets and liabilities is the following:

| | | | | |
|---|---|---|---|---|
| **Assets** | | | | |
| Provisions | **US$** | **28,676** | US$ | 10,567 |
| Intangibles | | **175** | | 164 |
| Other assets | | **491** | | – |
| **Deferred tax asset** | **US$** | **29,342** | US$ | 10,731 |
| **Liabilities** | | | | |
| Property, plant and equipment (1) | **US$** | **106,866** | US$ | 102,621 |
| Other assets | | **3,294** | | 1,536 |
| Other liabilities | | **1,595** | | – |
| **Deferred tax liability** | | **111,755** | | 104,157 |
| **Net deferred tax** | **US$** | **(82,413)** | US$ | (93,426) |

(1) For tax purposes, the property, plant and equipment account has a specific useful life. Under accounting and financial information standards accepted in Colombia, the useful life is determined by a technical analysis. This difference results in a different depreciation basis for accounting and tax purposes.

Assets from deferred tax assets pending offsetting are recognized to the extent that the realization of the respective tax benefit is probable through future tax benefits.

### 16.2. Other Taxes

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Transport tax | **US$** | **8,117** | US$ | 10,835 |
| Sales tax - IVA_payable | | **93** | | 46 |
| Industry and commerce tax | | **15** | | 197 |
| Tax on wealth | | **–** | | 624 |
| Other taxes short term | **US$** | **8,225** | US$ | 11,702 |
| Sales tax - IVA Plan Vallejo | | **883** | | 312 |
| Other taxes long term | **US$** | **883** | US$ | 312 |

Wealth Tax

The Law 1739 of 2014 established the wealth tax for individuals and legal entities which possession at January 1, 2015 is higher than COP$1,000 million (approx. US$330). The taxable base for legal entities is the equity gross value owned at January 1, 2015, 2016 and 2017, less current debts due at the same dates.

The applicable rate will depend upon each taxpayer and the amount paid will not be discountable or deductible in the income and complementary tax or in the income tax for equity - CREE, nor could they be compensated with these or other taxes.

During 2017, the wealth tax in charge paid by the Company amounted to US$1,296 which was recognized in the year expense.

Transportation Tax

The related transport tax corresponds to the volumes of actual and estimated crude that have been transported in the stated period, plus the amount pending payment to the municipal jurisdictions which upon disposition of the National Planning Department is who orders the payment. The balance is classified as follows:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Estimated transport tax | **US$** | **8,052** | US$ | 10,344 |
| Accounts payable | | **65** | | 491 |
| | **US$** | **8,117** | US$ | 10,835 |

The income tax for equity (CREE) was created as of 2013. This tax was calculated until December 31, 2016 based on gross revenues earned, less revenues not constituting income, costs, deductions, exempt income and capital gains at the rate of 9%.

### 16.2. Other Taxes (continued)

Transportation Tax (continued)

The Law 1739 of 2014 established a progressive and temporary surtax on the CREE income tax since 2015 starting with 5% and 6% for 2016, applicable to taxable bases of COP$800 million (approx. US$280) and onward.

The Law 1819 of 2016 eliminated the CRE tax and the CREE surtax for 2017 and 2018 and in turn increased the general income tax rate to 34% for 2017 and 33% for the following years creating a surtax on the income and complementary taxes of 6% and 4% for taxable years 2017 and 2018, respectively, the latter applicable to taxable bases of COP$800 million and onward.

**Other Aspects**

**Tax on Dividends**

On profits generated as of 2017, the new tax on dividends will apply for companies and foreign entities.

The rate of this tax will be of 5%. Additionally, the dividend taxed with the income tax will have a rate of 35%. In this scenario, the tax on dividends of 5% will apply on the amount of the distribution taxed, once it has been decreased with the income tax at the rate of 35%.

For individuals who are tax residents in Colombia, the tax on dividends will have a maximum rate of 10% that will fall to the non-taxed dividends and of 35% in respect of the dividends distributed as taxed.

**Presumptive Net Taxable Income**

The taxpayer's net income may not be lower than 3% of its net equity, on the last day of the previous taxable year. As of 2017 it will be of 3.5%.

**Transfer Pricing**

Income taxpayers who enter into operations with foreign related parties, are required to determine, for income tax purposes, their ordinary and extraordinary income, their costs and deductions, their assets and liabilities, considering for these operations the prices and profit margins that would have been used in comparable operations with or between non-related parties.

Independent advisors carry out the update of the transfer pricing study, demanded by tax dispositions, intended to demonstrate that the operations with foreign related parties were made at market values during 2017. For this purpose, the Company will file an information return and will have available the referred to study by July 2018.

### 16.2. Other Taxes (continued)

**Transfer Pricing (continued)**

The non-compliance with the transfer pricing regime could result in monetary penalties and a higher income tax; however, Management and its advisors are of the opinion that the study will be concluded on time and will not reflect significant changes to the base used for the determination of the provision for the income tax of 2017.

**Sales Tax - IVA**

As of taxable year 2017, the general sales tax is of 19% and a differential rate of 5%, for certain goods and services, in accordance with article 184 and 185 of the Law 1819 of 2016.

As of taxable year 2017, the IVA generator fact was extended to the sale of goods in general, the sale or concession of intangibles related with the industrial property and, to the rendering of services in Colombia, or from abroad, except for express exclusions of the rule, in accordance with article 173 of Law 1819 of 2016.

As of taxable year 2017, the periods of returns and IVA payments will be bimonthly and of four months, in accordance with article 600 of the Law 1819 of 2016.

Likewise, this Law in its article 194 stipulates that the term to request creditable IVAs, will be of three bimonthly periods immediately after their accrual period.

### 17. Deferred Revenues

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Revenues received in advance, short term | **US$ 6,707** | US$ 3,659 |
| Revenues received in advance, long term | **7,722** | 11,343 |
| | **US$ 14,429** | US$ 15,002 |

Corresponds to the advance payment upon the capacity reserve of the pipeline, the recoveries of the ship or pay contract of P135 of the revenue received for indemnities and other advances received which are detailed below:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| BP Products North America | **US$ 10,860** | US$ 13,051 |
| Gunvor Colombia CI S.A.S. | **2,398** | 1,209 |
| Perenco Colombia Limited | **631** | – |
| AIG Seguros Colombia S.A. | **188** | 257 |
| Chubb de Colombia Cía. de Seguros | **188** | 258 |
| Others | **164** | 227 |
| | **US$ 14,429** | US$ 15,002 |

## 18. Provisions

| | Abandonment costs | Litigations | Environmental contingencies | Others | Total |
|---|---|---|---|---|---|
| **At December 31, 2016** | US$ 21,959 | US$ 2,597 | US$ – | US$ – | US$ 24,556 |
| Reductions | 697 | (8) | 409 | – | 1,098 |
| Financial cost | 856 | – | – | – | 856 |
| Translation adjustment | (321) | (31) | (18) | – | (370) |
| **At June 30, 2017** | 23,191 | 2,558 | 391 | – | 26,140 |
| Additions | **3,764** | **–** | **–** | **50,011** | **53,775** |
| Financial cost | **896** | **–** | **–** | **–** | **896** |
| Translation adjustment | **416** | **46** | **7** | **–** | **469** |
| **At December 31, 2017** | **US$ 28,267** | **US$ 2,604** | **US$ 398** | **US$ 50,011** | **US$ 81,280** |
| Provisions short term | **US$ –** | **US$ –** | **US$ –** | **US$ 50,011** | **US$ 50,011** |
| Provisions long term | **US$ 28,267** | **US$ 2,604** | **US$ 398** | **US$ –** | **US$ 31,269** |

### 18.1 Abandonment Costs and Dismantling of Assets

The estimated liability for abandonment costs corresponds to the Company's future obligation to restore environmental conditions similar to those existing before the initiation of projects or activities. Since these are long-term obligations, this liability is estimated by projecting the expected future cash flows and discounting at present value with a rate referenced to the financial obligations of the home office, Ecopetrol S.A. The discount rate used in the obligation estimation at December 31, 2017 was of 7.4% (June - 7.68%).

### 18.2 Litigation

At December 31 and June 30, 2017, the Company is involved in various legal proceedings of low materiality that arise in the normal course of operations, and that involve: 1) lawsuits for the guarantee; 2) lawsuits for environmental damages; 3) lawsuits for indemnity for acquisitions; 4) proceedings for revocation of licenses and/or concessions; and 5 various civil lawsuits. Ocensa considers that the appropriate provisions have been created, in those cases where it is considered that an obligation has been incurred, for the amount necessary to face the related risks. Ocensa also considers that these matters will be resolved without significantly affecting the business, its financial position or its operation results.

In addition, in connection with certain legal procedures in progress, in certain occasions Ocensa may determine and disclose reasonable estimates of the expected loss or the possible loss rank, as well as a provision created for such loss; however, for a limited number of legal procedures in progress, Ocensa could not be in the possibility of making a better estimate of the expected loss or of the rank of possible, or could be in the possibility, but it considers that disclosing such information on a case-by-case basis, would seriously damage the position of Ocensa in the legal procedures in progress or in any related liquidation negotiation. Consequently, in these cases, Ocensa discloses qualitative information in respect to the nature and characteristics of the contingency, without including the loss estimate or the possible loss rank.

### 18.2 Litigation (continued)

**Claims**

Below is a detail of the principal litigations recognized in the statement of financial position and that could generate an outflow of resources:

- The payment of presumed damages is claimed, resulting from the attack against the Cupiagua–Cusiana–Coveñas pipeline by the Ejército de Liberación Nacional (ELN) in the jurisdiction of Fraguas, Machuca, Municipality of Segovia (Antioquia); their estimated value amount to US$1,234.

- Declare the annulment of Resolution 431 of 2009 whereby the MAVDT amended Resolution 952 of 1995 (pipeline environmental license) including the obligation of 1%. The remedy of appeal against the first instance ruling which was admitted by the Council of State on October 15, 2014. On September 29, 2017, the Company filed second instance conclusion allegations.

  Declare the annulment of writs 155 and 1981 of 2010 whereby MAVDT refused the Additional Investment Plan executed for the benefit of the hydrographic basins of the pipeline area of influence in the Cupiagua-Cusiana (Interfiled) section of the pipeline. On January 16, 2015, the Company filed before the Council of State the second instance conclusion allegations within the remedy appeal against the first instance ruling.

  Declare the annulment of writs 2913 and 4034 of 2011 whereby the Ministry of the Environment, Housing and Territorial Development - MAVDT rejected certain works, activities and projects executed for the benefit of the Pipeline basins of its area of influence. Ocensa filed a remedy appeal against the first instance partially favorable ruling issued on January 23, 2015, which was admitted on March 5, 2015 by the Council of State to US$1,370.

### 18.3 Environmental Contingencies

This heading corresponds mainly to obligations of environmental compensation for the use, or affectation of natural resources in the framework of environmental authorizations and the forced investment of no less than 1% for the use of water taken directly from natural sources in accordance with the provisions of Law 99 of 1993 article 43, on connection with the P-135 project.

On December 22, 2016, the Ministry of the Environment and Sustainable Development issued Decree 2099 whereby the Single Regulatory Decree of the environment and sustainable development sector, Decree 1076 of 2015, as far as the forced investment of no less than 1% for the use of water taken directly from natural sources, and Decree 1120 of June 29, 2017 which amends numerals 3 and 4 of article 2.2.9.3.1.17 of Decree 1076 of 2015.

Currently, the Company is in the process of preparing the diagnostic for the design of the investment plan of 1% to be presented to the ANLA.

### 18.4 Others

On July 7, 2016, Vitol Colombia CI S.A.S. ("Vitol") filed a request for arbitration seeking (i) the recognition of unforeseeable circumstances, beyond Vitol's control, which hindered the Vitol's obligations under the July 29 2014 Agreement ("Agreement"), and (ii) the adjustment of the shipping fee. As subsidiary claim in the amended request for arbitration, Vitol seeks the arbitration panel to rule the Agreement to be null and void, and the recognition of US$18,250 as compensatory damages, for Vitol's consequential breach of contracts entered with third parties. Ocensa submitted its response to the request for arbitration and filed a counterclaim against Vitol. On July 26, 2017, the conciliation hearing provided by the Arbitration Law was exhausted without agreement, and the Arbitration Panel declared its jurisdiction over the dispute and set the arbitration fees. Both parties paid the arbitration fees. On January 26, 2018, the Arbitration Panel suspended the Arbitration proceeding until March 31, 2018, as parties requested.

On April 25, 2017, Meta Petroleum Corp. ("MPC") and Petrominerales Colombia Corp. (recently acquired by MPC.) filed a request for arbitration against Ocensa seeking a ruling for the illegality of the tariff for the oil pipeline extended capacity resulting from the P135 Project, agreed on the July 29, 2014 agreements executed with Ocensa. The plaintiffs also request the tariff adjustment, but no relief is sought as claim. On February 19, 2018, both parties submitted amendments to their claims.

Other shippers under the P135 Project might submit further requests for arbitrations based on the arguments depicted in the aforementioned claims.

The Company made a provision since the claimants subscribed significant capacity of the oil pipeline under the Agreements, but the sole fact of making a provision cannot be construed as a recognition of Ocensa's liability. The provision was appraised based on Ocensa's risk assessment of a ruling setting a tariff within a US$6,9105/BL - US$6.2005/BL range for 2017.

On February 6, 2018, Ocensa and MPC agreed to amend the Agreements and entered into a memorandum of understanding for a comprehensive settlement agreement pending the approval by the arbitration panel. The settlement agreement will be submitted to the arbitration panel, 3 days after the day in which the parties submit the response to the amended claim and amended counterclaim.

If the arbitration panel approves the settlement agreement, it will resolve any pending proceeding and controversy among the parties, and both parties will execute the amendments to the Agreements.

Otherwise, the arbitration process will continue its course without it being understood that the parties have renounced their legal positions nor to the claims and exceptions that have been submitted or can be submitted in the respective procedural instances, nor to initiate different actions.

### 18.5 Contingent Liabilities Not Accrued

The Company did not make provisions nor reveal contingent liabilities in the statement of financial position since its probability of occurrence was assessed as eventual. Such contingencies result from labor claims against Company's contractors and claims for damages allegedly caused by the pipeline construction.

### 18.5 Contingent Liabilities Not Accrued (continued)

On 20 October 2016, WorleyParsons Group Inc. ("WP") submitted a request for arbitration to resolve the differences regarding the 3802139 Agreement of August 28, 2014, for the engineering, procurement and management of the construction for the P135 Project. WP claims' arise COP$27,092,096,540 and US$983 for services, warranties, non-paid activities, early termination and audit for the P135 Project, among others. Although the parties had reached a preliminary settlement agreement, it was not approved by the Procuraduría General de la Nación. Currently, the arbitration is pending the evidentiary stage.

The result of these proceedings is subject to the award issued by the arbitration panels.

### 18.6 Contingent Assets not Accrued

The Company filed an action for annulment and re-establishment against the decision of the Superintendency of Ports of denying the request to return the excess in the payment of the surveillance rate paid in 2001. The return amount calculated by Ocensa was COP$2,815,820,913 and it considers that it is applicable in accordance with Resolution 0457 of 2001 issued by the same Superintendence. The issue of the first instance sentence is currently pending.

The Company filed an action for annulment and the restoration of the right against eight resolutions of determination of contribution for public work contracts issued by the Division of Liquidation Management of the Sectional Direction of Large Taxpayers' Taxes – DIAN ("División de Gestión de Liquidación de la Dirección Seccional de Impuestos de Grandes Contribuyentes – DIAN") and against the resolutions which decided the reconsideration appeals filed. The claims amount to COP$3,136,926,000. A sentence partially favorable to the lawsuit claims was issued on June 28, 2017. The decision of the Council of State in respect to the appeal filed by both parties is pending.

## 19. Equity

### 19.1 Subscribed and Paid-in Capital

Authorized capital is of 5,793,456 shares at a par value of COP$30,104.543412483 each; subscribed and paid.in 5,159,000, and subscribed and paid in capital being US$81,714.

A detail of the shareholders is shown below:

| | Subscribed shares | % |
|---|---|---|
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | 3,747,910 | 72.64799% |
| Alianza Fiduciaria S.A. – Fideicomiso Acciones Ocensa | 1,153,138 | 22.35197% |
| Banco de Bogotá (Panamá), S.A. – Fideicomiso Acciones Ocensa. | 257,949 | 4.99998% |
| Al Candelaria (Spain), S.L.U. | 2 | 0.00004% |
| Transporte Registrado Servicios, S.A. | 1 | 0.00002% |
| | **5,159,000** | **100%** |

### 19.2 Equity Reserves

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Legal reserve | **US$** | **7,736** | US$ | 7,736 |
| Legal reserve 10% non-taxed | | **33,122** | | 33,122 |
| | **US$** | **40,858** | US$ | 40,858 |

Legal Reserve

The Colombian Code of Commerce establishes that it is mandatory to appropriate 10% of its net annual profits as a legal reserve until the balance thereof is equivalent to 50% of subscribed capital. This reserve may be used to offset losses or distribute them in the event of Company's liquidation.

### 19.3 Payment of Dividends

Below is the detail of distributed dividends:

| | | |
|---|---|---|
| March 10, 2017 – profits from October 1 to December 31, 2016 | US$ | 120,337 |
| September 7, 2017 – profits from January 1 to June 30, 2017 | US$ | 260,984 |

### 19.4 Other Comprehensive Income

This heading includes effects of the effective portion of cash flow hedge instruments, thus recognizing the effective portion in Other Comprehensive Income. The change in fair value of the hedge instrument, which has been recognized in Other Comprehensive Income, will be reclassified to income when the hedged item affects income.

The Company, with this hedge policy, seeks to stabilize cash flows and mitigate economic effects that could arise from fluctuations in market variables, namely, the peso/dollar exchange rate and the international reference price of Brent oil. Being between 80% and 125% of the fair value established for the hedge is a policy established by the Company for recognition purposes in Other Comprehensive Income.

The Value at Risk (VaR) methodology is used to measure the effectiveness of the hedge, which uses as indicator the EBITDA at Risk.

This measurement is made by means of simulations of Monte Carlo; however, other commonly accepted methodologies could be contemplated, which should allow to:

(1) Present potential variances in the pesos/dollars (COP/US$) exchange rate and/or prices of raw materials (Brent).

(2) Measure the impact of these movements in the Company's cash flow.

(3) Measure the impact of these movements in the EBITDA (and/or net profit if prudent) of the Company.

### 19.4 Other Comprehensive Income (continued)

The specific model to measure risks and their critical variables, as well as their amounts, will be evaluated monthly at the Audit and Financial Committee. When the hedge is no longer effective, the hedge accounting will cease.

Additionally, Other Comprehensive Income includes the effect of translating the financial statements into the presentation currency. Upon preparing the financial statements, the presentation currency differs from the functional currency and the results and financial position are translated into the selected presentation currency -in this case the peso. Assets and liabilities are translated at the closing rate, revenues and expenses are translated at the average rate, and equity is translated at the rate prevailing at the transaction date.

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Cash hedges | **US$ 5,084** | US$ 713 |
| Deferred tax | **(1,881)** | (297) |
| Deferred tax translation adjustment | **81,176** | 82,626 |
| | **US$ 84,379** | US$ 83,042 |

### 20. Revenues from Ordinary Activities

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Hydrocarbons transportation service (1) | **US$ 701,124** | US$ 591,025 |
| Unloading service (2) | **6,562** | 4,890 |
| Other revenues (3) | **10,449** | 10,743 |
| | **US$ 718,135** | US$ 606,658 |

(1) Transport of oil from Cupiagua, until the exportation by TLU–2 at the Coveñas terminal; the transportation service is billed by the barrels transported at each section of the pipeline at the rate set by the Ministry of Mines and Energy for each one and for the Coveñas terminal the authorized tariff set by the Superintendence of Ports and Transport. The barrels of the average crude transported were 596,827 bpd for the second half and of 564,673 bpd for the first half of 2017. The greater volumes correspond to greater days of reversal and non-operation of the Oleoducto Bicentenario due to attacks to the Oleoducto Caño Limón. Furthermore, in the second half contracts of P135 entered into operation, which have a higher tariff per barrel than the one that the transportation contracts that had been operating in the first half of the year.

(2) Unload of oil or diluent in the unload facilities located in the Cusiana station. This service is billed for barrels nominated by clients at the contractual tariff. During the second half of the year, Ocensa started the annual provision of semi-annual adjustments of the Ship or Pay contracts; for that reason revenues for this heading increased.

(3) Port services, dilution service, administrative and maintenance services.

## 20. Revenues from Ordinary Activities (continued)

The Company estimated figures corresponding to the adjustment of transportation billing for actual volumes, contracts which collection period is monthly in arrears and other revenues generated but not billed given he condition of the Company's business:

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Hydrocarbons transportation service | US$ 35,119 | US$ 42,376 |
| Unloading service | 939 | – |
| Other revenues | 1,014 | 881 |
| | US$ 37,072 | US$ 43,257 |

Information on Main Clients

Revenues generated as a result of crude transportation activities are obtained by the following clients:

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Ecopetrol S.A. | US$ 568,101 | US$ 451,308 |
| Meta Petroleum Corp. Sucursal Colombia | 76,378 | 49,327 |
| Other smaller ones | 73,656 | 106,023 |
| | US$ 718,135 | US$ 606,658 |

The percentage of participation of related parties corresponds to approximately 81%.

## 21. Cost of Sales

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Variable costs | | |
| Gas | US$ 13,168 | US$ 12,362 |
| Fuels and lubricants | 12,817 | 9,643 |
| Electric power | 3,647 | 3,261 |
| Friction reducer | 10,831 | 5,959 |
| | 40,463 | 31,225 |

## 21. Cost of Sales (continued)

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Fixed costs | | |
| Depreciation | **47,774** | 45,473 |
| Operation and maintenance | **44,671** | 35,999 |
| Materials | **3,982** | 4,904 |
| Labor costs | **3,184** | 2,516 |
| Payment for port counterbalanced | **225** | – |
| Amortization concession | **(2,270)** | 2,271 |
| Taxes | **(2)** | 260 |
| | **97,564** | 91,423 |
| | **US$ 138,027** | US$ 122,648 |

## 22. Operation and Projects Expenses

| | | |
|---|---|---|
| Fees and services | **US$ 6,807** | US$ 2,153 |
| Insurance | **725** | 1,000 |
| Maintenance | **751** | 770 |
| Leases | **693** | 663 |
| Miscellaneous | **1,365** | 778 |
| | **US$ 10,341** | US$ 5,364 |

## 23. Administration Expenses

| | | |
|---|---|---|
| Labor expenses | **US$ 8,210** | US$ 8,113 |
| Depreciation and amortization | **1,159** | 1,339 |
| Taxes (1) | **1,054** | 3,836 |
| | **US$ 10,423** | US$ 13,288 |

(1) Includes mainly the recognition of the wealth tax. See note 16 Current tax Liabilities.

## 24. Other Operating (Expense) Income, Net

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Operative provisions (*Note 18.4*) | **US$ (50,011)** | US$ – |
| Indemnities due to contracts (1) | **56** | 15,707 |
| Loss on retirement of assets (1) | **(43)** | (5,496) |
| Impairment losses (*Notes 10 and 11*) | **(1,883)** | (1,860) |
| Loss on sale of assets held for sale (*Note 11*) | **–** | (791) |
| Contracts' indemnities | **1,510** | 167 |
| Other | **395** | 81 |
| | **US$ (49,976)** | US$ 7,808 |

## 24. Other Operating (Expense) Income, Net (continued)

(1) Indemnity received from the contract signed with Total E&P Colombie Colombia Branch, for the payment of the negative balance of the filling line corresponding to 442,330 Bls of a volume of 3,057,642 barrels; a retirement of assets for US$5,433 on such transaction was recognized.

## 25. Financial Result, Net

| | Period from July 1 to December 31, 2017 | Period from January 1 to June 30, 2017 |
|---|---|---|
| Costs yields and interest, net | **US$ (8,946)** | US$ (9,142) |
| Financial costs | **(189)** | (213) |
| Other financial expenses | **(2,621)** | (1,348) |
| Exchange difference gain (loss), net | **1,336** | (11,819) |
| Monetization | **57** | 622 |
| | **US$ (10,363)** | US$ (21,900) |

The effectiveness of the results of the hedged items was impacted by the effects of the exchange rate, which show below:

| | TRM (*) | Variation TRM |
|---|---|---|
| January 2017 | COP$ 2,936.72 | (63.99) |
| February 2017 | 2,902.68 | (34.04) |
| March 2017 | 2,913.48 | 10.80 |
| April 2017 | 2,868.89 | (44.59) |
| May 2017 | 2,905.29 | 36.40 |
| June 2017 | 3,038.26 | 132.97 |
| July 2017 | 3,026.55 | (11.71) |
| August 2017 | 2,933.96 | (92.59) |
| September 2017 | 2,900.73 | (33.23) |
| October 2017 | 2,971.36 | 70.63 |
| November 2017 | 2,982.73 | 11.37 |
| December 2017 | 2,984.00 | 1.27 |

(*) Representative Market Rate – American dollar / Colombian peso.

### 25. Financial Result, Net (continued)

Transactions of derivatives are agreed to in dollars for the coverage of cash flows in pesos, which expiration do not go beyond December 2018. The total of hedges open at December 2017 is of the following:

| | Sale Operations | Exchange rate agree |
|---|---|---|
| | *(In thousands of US dollars)* | |
| January 2018 | US$ 3,846 | 3,080.80 |
| February 2018 | 66,621 | 3,080.34 |
| March 2018 | 4,450 | 3,124.51 |
| April 2018 | 107,711 | 3,080.79 |
| May 2018 | 3,619 | 3,082.16 |
| June 2018 | 114,877 | 3,112.47 |
| July 2018 | 5,340 | 3,149.00 |
| August 2018 | 4,058 | 3,031.00 |
| September 2018 | 4,314 | 3,037.70 |
| October 2018 | 5,090 | 3,093.02 |
| November 2018 | 4,761 | 3,084.00 |
| December 2018 | – | 3,080.80 |
| | US$ 324,687 | |

### 26. Risk Management

Because of its financial structure, the Company is directly exposed to exchange, interest rate credit and liquidity risks as shown below:

### 26.1. Exchange Rate Risk

The exchange risk management is framed-up on the principle that the peso/dollar exchange rate is subject to highly-volatile and unpredictable changes. In this sense, the objective of hedge strategies defined by the Company is to mitigate movements in those variables upon the use of derivative instruments acquired in financial markets.

The exchange rate risk refers to economic effects resulting from fluctuations of the exchange rate which the Company is exposed to. In the case of Ocensa, most revenues from services rendered are computed and collected in United States dollars; however, some expenses and all tax obligations are paid in Colombian pesos as the Company operates in Colombia. For this reason, Company's cash flows are exposed to peso/US dollar fluctuations in the exchange rate.

For that purpose, Ocensa uses hedge operations upon contracting derivative instruments, mainly Forwards, aiming to mitigate the effects that, upon peso/dollar movements, are originated in respect of the budget of expenses in pesos and tax obligations not exceeding one year.

### 26.1. Exchange Rate Risk (continued)

At the December 31, 2017, cutoff, the notional of the current hedge portfolio of exchange rate was of US$324,687.

This represents an increase of 256% of the notional/hypothetical of the portfolio which amount at June 30, 2017 was of US$105.539; such change is explained mainly by the hedge during the second biannual of 2017 of tax flows with expiration in 2018.

The United States dollar/peso exchange rate was revalued 1.8% from June 30, to December 31, 2017, reflecting an exchange rate of COP$2,984 per US$1 in respect to the rate recorded at June 30, 2017, of COP$3,038.26 per US$1.

Below is the effect that a 1% and 5% variation would have in the exchange rate of Colombian pesos vs. US dollars, related to the exposure of financial assets and liabilities in foreign currency at December 31, 2017, in COP million.

| Scenario/ Variation in the TRM | Effect on results Before taxes (+/–) | |
|---|---|---|
| 1% | COP$ | (6,355) |
| 5% | COP$ | (30,567) |

For the calculation of the effect on results before taxes, the average rate of the 6 months was taken for the period from July 1 and December 31, 2017, equivalent to COP$2,981.07 per US$1.

The sensitivity analysis only includes monetary assets and liabilities in foreign currency at the close date, as shown below, in COP million:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Cash and cash equivalents | **COP$** | **41,451** | COP$ | 15,371 |
| Trade accounts receivable and other accounts receivable | | **52,199** | | 51,490 |
| Balance in favor income taxes | | **–** | | 106,067 |
| Other assets | | **4,800** | | 8,199 |
| **Active position** | | **98,450** | | 181,127 |
| Debt and loans bearing interest | | **(592)** | | (704) |
| Trade accounts and other accounts payable | | **(161,844)** | | (164,191) |
| Other financial liabilities | | **–** | | (2,083) |
| Current tax liabilities | | **(509,321)** | | – |
| Provisions | | **(93,308)** | | (79,421) |
| Deferred revenues | | **(1,382)** | | (1,263) |
| **Passive position** | | **(766,447)** | | (247,662) |
| **Net passive position** | **COP$** | **(667,997)** | COP$ | (66,535) |

### 26.2 Credit Risk

The credit risk is the risk acquired by the Company as a result of non-compliance with obligations of clients, of financial institutions which investments are made with or of counterparties which derivative financial instruments are contracted with.

Permanent monitoring of credit ratings issued by risk rating companies on financial entities which investments are made with or derivative instruments are negotiated with is carried out at Oleoducto Central S.A. in order to guarantee that such companies meet the minimum rating defined by the Company.

For the portfolio considered impaired, an individual analysis is made which allows identifying the situation of each client and thus defining the necessary provisions. The Company carries out the administrative and legal actions necessary to recover past due accounts receivable, as well as the recognition of interest of clients who do not meet payment policies.

### 26.3. Liquidity Risk

The National Planning Department, as evidenced in its official letter number SC-20134380757471 of October 15, 2013, issued a favorable opinion for the Company to enter into public credit operations upon the international issue of a bond in United States dollars for up to US$1,000,000, with 100% of possibility to reopen the rest of the amount in order to finance Capex needs of new projects.

Based on this favorable opinion, by means of Resolution number 4254 of December 12, 2013, the Ministry of Finance and Public Credit authorized the Company to negotiate the issue and placement of bonds in the international capital market for up to one thousand million United States dollars (US$1,000,000) in order to finance investment needs of future expansion projects.

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to US$500,000 in order to finance the needs of investment of future expansion projects (Potency 135 and Warming). This provides the Company with the possibility to reopen the rest of the amount, given that Company's financing needs require them and that capital market conditions are favorable.

The liquidity risk is managed as of the application of the Merton Miller and Daniel Orr model, which is an induction model of random generation for daily changes in the cash balance, in order to establish the minimum cash levels required to take care of the organization liquidity requirements, including its debt service commitments.

The main purpose of the internal procedures is to guarantee enough liquidity levels to comply with the Company's financial commitments within its timetable of maturities, as well as the main instruments for their measurement and follow-up. Such instruments are: Weekly report of the treasury command bulletin board, monthly cash flow, and analysis of the annual mobile average of the cash flow foresight.

### 26.3. Liquidity Risk (continued)

The Company has a policy to manage liquidity surpluses. Such policy provides criteria, guidelines and directives for the efficient and safe administration of liquidity surpluses, and establishes limits of exposure per counterparty. At present, the counterparty limit of risk exposure is limited to the higher of the following parameters: A maximum amount of US$150,000 by the counterparty, or if the cash balance falls below such amount, it should be divided at least into three counterparties that meet the minimum rating permitted. In the event issuer and issue limits established herein are exceeded, the portfolio administrator will have 45 calendar days to take the measures necessary to adjust to such limits.

The credit quality of issuers, assets and counterparties of operations are as follows:

Minimum permitted rating:

Foreign Financial Entities

| Rating Entity | Short-term rating | Long-term rating |
|---|---|---|
| Standard & Poor's | A-1 | A+ |
| Moody's Investors Service | P-1 | A1 |
| Fitch Ratings | F-1 | A+ |

Local Financial Entities

| Rating entity | Short-term rating | Long-term rating |
|---|---|---|
| Fitch Ratings | F1+ | AAA |
| BRC Investor Services | BRC 1+ | AAA |

Furthermore, clients that which to participate in processes of Firm Transportation Offer (SOP) with the Company, have a number of requirements that classifies them in 3 qualification groups based on elements such as : i) credit risk classification for its long-term debt in dollars not insured and not subordinated issued by one of the risk rating entities: Standard and Poor's Rating Group, a division of McGraw-Hill Companies; Moody's Investor Services, Inc.; or of Fitch Ratings, Inc, ii) accreditation of minimum indicators of working capital an net equity, iii) accreditation of compliance guarantors and iv) issuance of stand-by letters of credit and by a bank entity with AAA credit certification.

### 26.4. Interest Rate Risk

Oleoducto Central S.A. issued a bond in the international market at a notional amount of US$500 million in 2014. A defined fixed interest rate of 4% was used in such issue; therefore, there is no risk of interest rate.

### 26.5 Capital Management

The main objective of the Company's capital management is to ensure a financial structure that optimizes the cost of capital, maximizes the yield of its shareholders, and allow access to financial markets at a competitive cost in order to cover its financing needs.

### 26.5 Capital Management (continued)

Below is the indebtedness ratio of periods reported:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Cash and cash equivalents *(Note 7)* | **US$ 236,356** | US$ 31,651 |
| Loans *(Note 14)* | **500,399** | 500,058 |
| **Net financial debt** | **US$ 264,043** | US$ 468,407 |
| **Equity** | **US$ 1,135,214** | US$ 1,103,210 |
| **Leverage (1)** | **18.87%** | 29.80% |

(1) Net Financial Debt / (Net Financial Debt + Equity)

## 27. Related Parties

The main transactions between related parties during the periods indicated are detailed below:

| | Period from July 1 to December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Hydrocarbon Transportation** | **Unloading Service** | **Dilution Service** | **Administrative Services** | **Operation and Maintenance Services** | **Purchase of Products and Services** |
| Ecopetrol S.A. | **US$ 565,689** | **US$ 1,463** | **US$ 949** | **US$ –** | **US$ –** | **US$ 4,615** |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | **–** | **–** | **–** | **330** | **–** | **281** |
| Hocol S.A. | **46** | **–** | **–** | **–** | **–** | **–** |
| Oleoducto de Colombia S.A. | **–** | **–** | **–** | **25** | **–** | **533** |
| Oleoducto de Los Llanos Orientales | **–** | **–** | **2,164** | **–** | **214** | **–** |
| Oleoducto Bicentenario de Colombia S.A.S. | **–** | **–** | **–** | **–** | **737** | **2,025** |
| | **US$ 565,735** | **US$ 1,463** | **US$ 3,113** | **US$ 355** | **US$ 951** | **US$ 7,454** |

| | Period from January 1 to June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Hydrocarbon Transportation | Unloading Service | Dilution Service | Administrative Services | Operation and Maintenance Services | Purchase of Products and Services |
| Ecopetrol S.A. | US$ 450,305 | US$ 1,003 | US$ – | US$ – | US$ – | US$ 4,842 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | – | – | – | – | – | 150 |
| Hocol S.A. | 12 | – | – | – | – | – |
| Oleoducto de Colombia S.A. | – | – | – | 51 | – | 553 |
| Oleoducto de Los Llanos Orientales | – | – | 1,109 | – | 116 | – |
| Oleoducto Bicentenario de Colombia S.A.S. | – | – | – | – | 504 | 1,555 |
| | US$ 450,317 | US$ 1,003 | US$ 1,109 | US$ 51 | US$ 620 | US$ 7,100 |

## 27. Related Parties (continued)

The most representative balances with related entities at June 30, and December 31, 2017, are included in accounts receivable and accounts payable, as follows:

| | December 31, 2017 | | June 30, 2017 | |
|---|---|---|---|---|
| Accounts receivable | | | | |
| Ecopetrol S.A. | **US$** | **145,578** | US$ | 12,055 |
| Oleoducto de Los Llanos Orientales S.A. | | **1,443** | | 217 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | **972** | | – |
| Oleoducto Bicentenario de Colombia S.A.S. | | **698** | | 353 |
| Oleoducto de Colombia S.A. | | **455** | | – |
| Hocol S.A. | | **277** | | – |
| | **US$** | **149,423** | US$ | 12,625 |
| Accounts payable | | | | |
| Ecopetrol S.A. | **US$** | **4,927** | US$ | 2,851 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | **422** | | 71 |
| Oleoducto Bicentenario de Colombia S.A.S. | | **321** | | 308 |
| Oleoducto de Colombia S.A. | | **120** | | 73 |
| Hocol S.A. | | **74** | | 101 |
| | **US$** | **5,864** | US$ | 3,404 |

Outstanding amounts are not guaranteed and will be settled in cash. No guarantees have been granted or received. No expense has been recognized in the current period or in prior periods concerning uncollectable or bad debts related to amounts due by related parties.

Trade purchases and sales transactions of goods and services, concerning the development of the Company's corporate purpose, with related parties are made under general market prices and conditions.

## 28. Compensation to Directors

Directors' fees for attendance to the meetings of the Board of Directors and/or the Audit Committee amount to approximately US$69 for the period from July to December and to US$77 for the period from January to June 2017.

The total compensation paid to directors, executive officials and top directors for salary and other compensations during the second half of 2017 amounted to US$1,082 (first half of 2017 for US$1,125).

## 29. Subsequent Events

There were no subsequent events which could have a potential effect on the information contained in the financial statements at December 31, 2017.

## 30. Contraloría General Report

The Contraloría General de la República, in practicing the functions and competences of the tax control established in article 267 of the Political Constitution and the law, performs audits on the development of the activities of Oleoducto Central S.A. The audit fall on the information contained in the Company's financial statements and accounting records and include the verification of the financial, administrative and economic operations in conformity with legal and statutory standards and of applicable procedures, as well as the internal accounting control system and the decisions adopted. The financial statements of 2017 are subject to such audit and the corresponding report is in issuance process.

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Señor
Manuel García Podestá
Director
Oleoducto Central S.A.
Advent International Colombia S.A.S.
Av Calle 82 10 33 Oficina 702.
Bogotá D.C.

AS-5327-18
17 de mayo de 2018

Estimado señor Manuel:

Adjuntamos dos ejemplares de los Estados Financieros de Oleoducto Central S.A., en inglés y dólares americanos, con Informe del Auditor Independiente, al 31 de diciembre de 2017 y 2016.

Atentamente,

Gustavo Porras
Gerente Auditoría

**Ernst & Young Audit S.A.S**
Bogotá D.C.
Carrera 11 No. 98 - 07
Tercer piso
Tel: + 571 484 70 00
Fax: + 571 484 74 74

**Ernst & Young Audit S.A.S**
Medellín - Antioquia
Carrera 43 A # 3 Sur - 130
Edificio Milla de Oro
Torre 1 - Piso 14
Tel: +574 369 84 00
Fax: +574 369 84 84

**Ernst & Young Audit S.A.S**
Cali - Valle del Cauca
Avenida 4 Norte No. 6N - 61
Edificio Siglo XXI, Oficina 502 | 503
Tel: +572 485 62 80
Fax: +572 661 80 07

**Ernst & Young Audit S.A.S**
Barranquilla - Atlántico
Calle 77B No. 59 - 61
C.E. de Las Américas II, Oficina 311
Tel: +575 385 22 01
Fax: +575 369 05 80

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FINANCIAL STATEMENTS

**Oleoducto Central S.A.**

Years ended December 31, 2017 and 2016
with Independent Auditor's Report

## Oleoducto Central S.A.

## Financial Statements

Years ended December 31, 2017 and 2016

## Contents

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## Independent Auditor's Report

To the Shareholders of
Oleoducto Central S.A.
Bogotá D.C., Colombia

### Report on the Financial Statements

I have audited the accompanying financial statements of Oleoducto Central S.A., which comprise the statements of financial position as at December 31, 2017 and 2016 and the related statements of income and comprehensive income, of changes in equity and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

### Management Responsibilities Relating to the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting and Financial Information Standards accepted in Colombia (NCIF) adopted by the Contaduría General de la Nación; of designing, implementing and maintaining the internal control relevant to the preparation and fair presentation of financial statements free from material misstatements, whether due to fraud or error; of selecting and applying appropriate accounting policies; and of establishing reasonable accounting estimates in the circumstances.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I have conducted my audits in accordance with international auditing standards accepted in Colombia. These standards require that I meet ethical requirements, plan and perform my audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes developing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risk of material misstatements in the financial statements. In the process of evaluating these risks, the auditor considers internal control relevant to the preparation and presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an assessment of the accounting policies adopted and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained provides a reasonable basis for my opinion.

**Ernst & Young Audit S.A.S**
Bogotá D.C.
Carrera 11 No. 98 - 07
Tercer piso
Tel: + 571 484 70 00
Fax: + 571 484 74 74

**Ernst & Young Audit S.A.S**
Medellín - Antioquia
Carrera 43 A # 3 Sur - 130
Edificio Milla de Oro
Torre 1 - Piso 14
Tel: +574 369 84 00
Fax: +574 369 84 84

**Ernst & Young Audit S.A.S**
Cali - Valle del Cauca
Avenida 4 Norte No. 6N - 61
Edificio Siglo XXI, Oficina 502 | 503
Tel: +572 485 62 80
Fax: +572 661 80 07

**Ernst & Young Audit S.A.S**
Barranquilla - Atlántico
Calle 77B No. 59 - 61
C.E. de Las Américas II, Oficina 311
Tel: +575 385 22 01
Fax: +575 369 05 80



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Opinion

In my opinion, the accompanying financial statements present fairly, in all material respects, the Company's financial position as at December 31, 2017 and 2016, the results of its operations and the cash flows for the years then ended, in accordance with the Accounting and Financial Information Standards accepted in Colombia adopted by the Contaduría General de la Nación.

Víctor Hugo Rodríguez Vargas
Independent Auditor
Professional Card 57851-T
Designated by Ernst & Young Audit S.A.S. TR-530

Bogotá, D.C., Colombia
May 16, 2018



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## Oleoducto Central S.A.

## Statements of Financial Position

| | Notes | Years ended at December 31, 2017 | 2016 |
|---|---|---|---|
| | | *(In thousands of US dollars)* | |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | US$ **236,356** | US$ 71,837 |
| Trade and other accounts receivable | 8 | **196,738** | 126,675 |
| Derivative financial instruments | 9 | **8,533** | 15,478 |
| Other assets | 10 | **5,489** | 5,367 |
| | | **447,116** | 219,357 |
| Non-current assets held for sale | 11 | **18,783** | 21,896 |
| | | **465,899** | 241,253 |
| **Non-current assets** | | | |
| Trade and other accounts receivable | 8 | **4,196** | 5,593 |
| Property, plant and equipment, net | 12 | **1,595,225** | 1,641,163 |
| Intangibles, net | 13 | **14,264** | 2,977 |
| | | **1,613,685** | 1,649,733 |
| **Total assets** | | US$ **2,079,584** | US$ 1,890,986 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Debts and loans bearing interest | 14 | US$ **20,200** | US$ 20,080 |
| Trade and other accounts payable | 15 | **89,893** | 105,100 |
| Tax liabilities | 16 | **170,684** | 177,322 |
| Deferred revenues | 17 | **6,707** | 3,995 |
| Provisions | 18 | **50,011** | – |
| | | **337,495** | 306,497 |
| **Non-current liabilities** | | | |
| Debts and loans bearing interest | 14 | **480,199** | 479,546 |
| Trade and other accounts payable | 15 | **4,389** | 6,429 |
| Tax liabilities | 16 | **883** | 290 |
| Deferred tax liabilities | 16 | **82,413** | 110,214 |
| Deferred revenues | 17 | **7,722** | 11,343 |
| Provisions | 18 | **31,269** | 24,556 |
| | | **606,875** | 632,378 |
| **Total liabilities** | | **944,370** | 938,875 |
| **Equity** | 19 | | |
| Subscribed and paid-in capital | | **81,714** | 81,714 |
| Legal reserve | | **40,858** | 40,858 |
| Accumulated profits | | **928,263** | 756,949 |
| Other comprehensive income | | **84,379** | 72,590 |
| **Total equity** | | **1,135,214** | 952,111 |
| **Total liabilities and equity** | | US$ **2,079,584** | US$ 1,890,986 |

*See accompanying notes 1 to 29.*

## Oleoducto Central S.A.

## Statements of Income and Comprehensive Income

| | Notes | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|---|
| | | *(In thousands of US dollars, except net profit per share)* | |
| **Continued operations** | | | |
| Revenues from ordinary activities | 20 | **US$ 1,324,793** | US$ 1,213,790 |
| Cost of sales | 21 | **(260,675)** | (213,751) |
| **Gross profit** | | **1,064,118** | 1,000,039 |
| Operations and project expenses | 22 | **(15,705)** | (12,772) |
| Administrative expenses | 23 | **(23,711)** | (26,329) |
| Other operating (expenses) income, net | 24 | **(42,168)** | (4,947) |
| **Operating profit** | | **982,534** | 955,991 |
| Financial costs, net | 25 | **(32,263)** | 4,190 |
| **Profit before income tax** | | **950,271** | 960,181 |
| Income tax expense | 16 | **(397,636)** | (408,304) |
| **Net profit of the year from continued operations** | | **US$ 552,635** | US$ 551,877 |
| **Other comprehensive income of the year** | | | |
| Other comprehensive income that will be reclassified to results in subsequent years | | | |
| Net gain from hedges of cash flow, net of taxes | 19 | **11,938** | 10,409 |
| Other comprehensive income that will not be reclassified to results in subsequent years | | | |
| Loss from exchange difference in translation | | **(149)** | (2,124) |
| | | **11,789** | 8,285 |
| **Total net comprehensive income of the year** | | **US$ 564,424** | US$ 560,162 |
| Net profit of the year per share | 19 | **US$ 107.12** | US$ 106.97 |

*See accompanying notes 1 to 29.*

## Oleoducto Central S.A.

## Statements of Changes in Shareholders' Equity

| | Subscribed and Paid-in Capital | Legal Reserve | Accumulated Profits | Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | |
| **At December 31,2015** | US$ 81,714 | US$ 40,858 | US$ 861,371 | US$ 64,305 | US$ 1,048,248 |
| Distribution of dividends *(Note 19)* | – | – | (656,299) | – | (656,299) |
| Net profit of the year | – | – | 551,877 | – | 551,877 |
| Other comprehensive income | | | | | |
| Net gain from hedges of cash flow, net of taxes *(Note 19)* | – | – | – | 10,409 | 10,409 |
| Net gain from exchange difference in translation | – | – | – | (2,124) | (2,124) |
| **At December 31,2016** | 81,714 | 40,858 | 756,949 | 72,590 | 952,111 |
| Distribution of dividends *(Note 19)* | – | – | **(381,321)** | – | **(381,321)** |
| Net profit of the year | – | – | **552,635** | – | **552,635** |
| Other comprehensive income | | | | | |
| Net gain from hedges of cash flow, net of taxes *(Note 19)* | – | – | – | **11,938** | **11,938** |
| Net loss from exchange difference in translation | – | – | – | **(149)** | **(149)** |
| **At December 31,2017** | **US$ 81,714** | **US$ 40,858** | **US$ 928,263** | **US$ 84,379** | **US$ 1,135,214** |

*See accompanying notes 1 to 29.*

## Oleoducto Central S.A.

## Statements of Cash Flows

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| | *(In thousands of US dollars)* | |
| **Operating activities** | | |
| Net profit of the year | US$ 552,635 | US$ 551,877 |
| **Adjustments to reconcile net profit of the year to net cash provided from operating activities:** | | |
| Depreciation of property, plant and equipment | 95,154 | 73,671 |
| Consumption of materials and non-capitalized spare parts | 52,413 | 64,571 |
| Impairment provision of property, plant and equipment | 1,947 | 435 |
| Impairment of non-current assets available for sale | 1,580 | 6,283 |
| Write-off, retirement of property, plant and equipment | 5,539 | 525 |
| Impairment of trade debtors | 215 | – |
| Loss on sale of non-current assets held for sale | 791 | – |
| (Amortization) of intangible assets | 817 | 3,995 |
| Operative provision | 50,011 | – |
| Provision (Recovery of provision) | (8) | 8 |
| Deferred taxes | (35,731) | 5,113 |
| Income tax expense | 433,367 | 403,191 |
| Financial income | (2,605) | (37,323) |
| Financial costs | 22,598 | 6,971 |
| (Gain) loss from exchange difference | 10,483 | 6,873 |
| **Changes in operating assets and liabilities** | | |
| (Increase) decrease of trade and other accounts receivable | (68,927) | 37,282 |
| Decrease of other assets | 221 | 11,657 |
| Decrease (increase) of trade and other accounts payable | (241) | (889) |
| Decrease (increase) of tax liabilities | (18,539) | 4,345 |
| Decrease of derivative financial instruments, net | 26,664 | 361 |
| (Increase) decrease of income received in advance | (911) | 411 |
| Interest received | 2,605 | 4,039 |
| Income tax paid | (448,449) | (473,112) |
| **Net cash provided from operating activities** | 681,629 | 670,284 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (111,629) | (250,630) |
| Acquisition of intangibles | (4,720) | (1,489) |
| Sale of assets held for sale | 742 | – |
| **Net cash used in investing activities** | (115,607) | (252,119) |
| **Financing activities** | | |
| Payments of liabilities from financial leasing | (70) | (140) |
| (Decrease) increase of other financial liabilities | – | (577) |
| Interest paid | (20,000) | (20,000) |
| Dividends paid | (380,858) | (656,299) |
| **Cash used in financing activities** | (400,928) | (677,016) |
| **Net increase (decrease) of cash and cash equivalents** | 165,094 | (258,851) |
| Effect of the variation in exchange rates on cash and cash equivalents maintained in foreign currency | (575) | 11,293 |
| Cash and cash equivalents at the beginning of the year | 71,837 | 319,395 |
| **Cash and cash equivalents at the end of the year** | US$ 236,356 | US$ 71,837 |

*See accompanying notes 1 to 29.*

## Oleoducto Central S.A.

## Notes to Financial Statements

Years ended December 31, 2017 and 2016 *(All amounts are expressed in thousands of US dollars, except foreign currency amounts, exchange rates and the par value of the share)*

### 1. Corporate Information

Oleoducto Central S.A. (the Company or Ocensa) is a mixed-economic company incorporated in accordance with Colombian laws by means of Public Deed No. 4747 of December 14, 1994 at the 38th Notary's Office of Bogotá, D.C. with a foreseen duration until December 31, 2093 and which corporate purpose includes designing, constructing, operating, managing, commercially exploiting and be the owner of a public-use oil transportation system and related facilities without any limitation, whose starting point is located in the Cusiana and Cupiagua stations, Department of Casanare, and whose final point is located in the embarkation port of Coveñas, in the municipal jurisdictions of San Antero, Department of Córdoba, and Coveñas, Department of Sucre. Such purpose also includes designing, constructing, operating and managing maritime oil ports or terminals and providing, directing or indirectly, services related to port operation, particularly storage, terrestrial, maritime management and crude transportation and loading.

The Company's pipeline consists of six pumping stations, a pressure reduction station, one maritime terminal, 830 kilometers of ground tubing and 12 kilometers in the sea, two bases for the coordination of maintenance activities, and a control center.

To carry out the transportation operation, it has a communication system allowing total control thereof through instruments located along the tubing and at the stations. This permits controlling the availability of crude, its location and the verification of commitments in crude transportation.

The main office of Oleoducto Central S.A. is located in Bogotá, Colombia. The Company belongs to the Ecopetrol Business Group, which plays a controlling position through Cenit Transporte y Logística de Hidrocarburos S.A.S.

### 2. Basis of Preparation

#### 2.1. Statement of Compliance and Authorization of the Financial Statements

The accompanying Company's financial statements stated in US dollars (functional currency) have been prepared in accordance with the Accounting and Financial Information Standards Accepted in Colombia (NCIF), based on International Financial Reporting Standards (IFRS), together with their interpretations, conceptual reference framework, conclusion bases and application guidelines authorized and issued by the International Accounting Standards Board (IASB) as established by decree 2615 of December 17, 2014, decree 2420 of December 14, 2015, amended by decree 2496 of December 23, 2015; and other legal provisions applicable to entities supervised and/or controlled by the Contaduría General de la Nación that may differ in certain aspects from those established by other State control bodies.

This financial statements differ from the statutory financial statements stated in Colombian Pesos at the cut off dates indicated in the next paragraph and have been prepared in order to give uniformity in the twelve months of statements of income and comprehensive income.

The differences between the statutory financial statements and the accompanying financial statements are described in Note 19.

### 2.1. Statement of Compliance and Authorization of the Financial Statements (continued)

The financial statements at December 31, 2017 restated in Colombian pesos, but not accompanying these financial statements, were prepared by the Company's management; for the periods of six months between July 1 to December 31, 2017 and January 1 to June 30, 2017; and approved by the Board of Directors Meeting on February 20, 2018 and August 14, 2017, by the written explanations of vote, to be subsequently approved by the General Shareholders' Meeting on March 12, 2018 and September 7, 2017, respectively. The financial statements at December 31, 2017 in thousands of US dollars were prepared by the Company's management and approved by the Board of Directors. Meeting on April 24, 2018.

**Basis of Measurement**

The accompanying Company's financial statements stated in US dollars have been prepared based on the historical cost, except for financial assets and liabilities at fair value with changes in results and/or changes in other comprehensive income, that are valued at their fair value at each period closing, as explained in the accounting policies included hereinafter.

In general, the historical cost is based on the fair value of the valuable consideration granted in lieu of assets and services.

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an ordered transaction between market participants at the measurement date. Upon estimating the fair value, the Company uses the assumptions that market participants would use upon setting the price of the asset or liability in present market conditions, including assumptions on the risk.

### 2.2. Functional Currency

Items included in these financial statements are valued in the functional currency which is the U.S. dollar, that is the currency of the main economic environment the Company operates in and in addition the one in which it regularly generates and uses cash.

In transactions with a currency different from functional currency they are translated at the exchange rate of the transaction date or, in lieu thereof, at the monthly average exchange rate.

### 2.3. Foreign Currency

Upon preparing the financial statements, transactions in a currency other than the Company's functional currency are recorded using current exchange rates on the dates operations take place. At the end of each period, monetary items in foreign currency are translated at current exchange rates in force on that date and variations arising in the translation are recognized in the net financial result, except those resulting from hedging instruments of cash flows, which are recognized in other comprehensive income, within equity. When the hedged items affect results, exchange differences accumulated in equity are reclassified to the statement of profits and losses as part of the operation result.

Non-monetary items recorded at fair value, denominated in foreign currency, are translated at the exchange rate in force on the date the fair value was determined.

Profits and losses from exchange differences related to loans, and cash and cash equivalents are presented in the income statement account in line entitled "Financial income or financial expense." Remaining losses and gains from exchange differences are presented as exchange difference.

### 2.4. Classification of Assets and Liabilities as Current and Non-Current

The Company presents assets and liabilities in the statement of financial position based on its current or non-current classification. An asset is current when:

- It is estimated that it will be cancelled or the expectation is that it will be sold or consumed in the normal operating cycle of the business.
- It is mainly maintained for purposes of being negotiated.
- The expectation is that it will be realized within twelve months following the reporting date; or,
- It is cash or cash equivalent unless it is restricted to be exchanged or used to pay a liability for at least twelve months from the reporting date.

All other liabilities are classified as non-current.

A liability is current when:

- It is estimated that it will be settled in the normal operating cycle of the business.
- It is maintained mainly in order to be negotiated.
- It is expected that it will be cancelled within the twelve months subsequent to the reporting date; or,
- There is no unconditional right to defer the payment of the liability for a least twelve months subsequent to the reporting date.

All other liabilities are classified as non-current.

### 2.5. Accounting Period

Until December 2012, the term of each accounting period was annual, i.e., at December 31 of each year. As of 2013, by means of Public Deed No. 238 of February 1, 2013, registered with the Chamber of Commerce of Bogota on February 5, 2013, the Company changed and unified their corporate bylaws. Among other matters, by means of such amendment, it was agreed to change accounts' cut-off dates to prepare and publish general purpose financial statements, which as of 2013 will be prepared semi-annually, i.e., at June 30 and at December 31 each year, on which the Company should make a cut-off of its accounts, prepare, and publish its financial statements. The accompanying US$ dollar financial statements have been prepared for an annual period.

For the year 2017 they were prepared with semi-annually, i.e., at June 30 and at December 31 each year; during 2016 the statutory financial statements were prepared in quarterly cuts,Additionally, at the General Shareholders' Meeting held on September 30, 2016 a statutory reform was approved by means of Minute No. 96, formalized by public deed No. 2983 of October 20, 2016, consisting of a transitory article indicating that an accounts' cut-off will be made at September 30, 2016 and that general-purpose financial statements will be presented at such cut-off date.

### 2.6 Net Profit per Share

The profit per share, stated in approximated US$ dollar equivalent, is calculated upon dividing the net profit of the year attributable to shareholders by using the weighted average of outstanding ordinary shares during the year.

There were no transactions with ordinary shares from the date of the year being reported to the issue date of these financial statements.

### 3. Summary of Significant Accounting Policies

The following are significant accounting policies applied by the Company in the preparation of its financial statements consistently for all periods presented, unless otherwise indicated.

#### 3.1. Financial Instruments

The classification of a financial instrument depends upon the nature and purpose whereby the financial asset or liability is acquired and is determined at the time of the initial recognition.

All regular purchases or sales of financial assets are recognized and written off at the transaction date. Regular purchases or sales are all those purchases or sales of financial assets requiring the delivery of assets within the time framework established by a regulation or in accordance with the market.

Financial assets and liabilities are initially valued at their fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets at fair value with changes in the statement of income) are added or reduced from the fair value of the financial assets and liabilities, as required, in the initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at their fair value with changes in the statement of income are recognized immediately in results.

Financial assets at fair value with changes in income and with changes in other comprehensive income will be recorded subsequently at their fair value. Instruments at amortized cost, loans and trade accounts receivable, other accounts receivable and financial assets maintained until their maturity will be accounted for at their amortized cost in accordance with the effective interest rate method.

**Fair Value**

The hierarchy of the fair value is based on the information level available in the market, which includes liquidity security, availability of exchange prices or indicators generated from market operations (rates, curves, volatilities and other valuation variables required).

- Level 1

  (Non-adjusted) quotation prices of active markets for identical assets and liabilities. For the Company, Level 1 includes tradable securities actively transacted.

- Level 2

  Entries other than Level 1 which are observable, either directly or indirectly. For the Company, entries of Level 2 include prices of similar assets, prices obtained through quotations of stock exchange brokers, and prices that may be substantially corroborated with other observable data with the same term of the contract.

- Level 3

  Not observable data entry. The Company does not use Level 3 for any of its recurring measurements at fair value. Level 3 may be necessary to determine the fair value associated with certain non-recurrent measurements of non-financial assets and liabilities. The Company uses Level 3 to determine the fair value of specific non-recurrent, non-financial assets.

### 3.1. Financial Instruments (continued)

**Effective Interest Rate Method**

The effective interest rate method is used to calculate the amortized cost of a financial instrument and the distribution of financial income throughout the relevant period. The effective interest rate is the discount rate which exactly matches estimated cash flows receivable or payable (including all commissions, transaction costs and other premiums or discounts that are included in calculating the effective interest rate) during the expected life of the financial instrument (or when necessary, within a shorter period) with the net carrying value in the initial recognition.

**Impairment**

Financial assets at amortized cost are assessed by impairment indicators at the end of each reporting period. It is considered that financial assets have been impaired when there is objective evidence that, as a result of one or more events occurring after the initial recognition, estimated future cash flows of the asset have been affected. The impairment loss of financial assets recorded at cost is the difference between the carrying value and the present value of estimated future cash flows of the asset, discounted at the original effective interest rate of the financial asset.

**Derecognition in Account of Financial Assets and Liabilities**

A financial asset is derecognised only when contractual rights over cash flows of the financial asset mature and risks and advantages inherent to the ownership of the financial asset are substantially transferred to another entity. If all risks and advantages inherent to the ownership are not transferred or substantially retained and the control of the asset transferred continues to be retained, the participation in the asset and the associated obligation for the amounts it would have to pay is recognized.

If all risks and advantages inherent to the ownership of a financial asset transferred are substantially retained, the financial asset, as well as a collateral loan for income received will continue to be recognized.

In the total derecognition in accounts of financial assets and liabilities, the difference between the carrying value and the sum of the valuable consideration received and receivable, as well as accumulated results that had been recognized in another statement of comprehensive income and accumulated in equity, will be recognized in the statement of income and in other comprehensive income.

#### 3.1.1. Cash and Cash Equivalents

Cash and cash equivalents consist of financial investments and special deposits maturing within ninety (90) days as of their acquisition date and with a low level of risk in changes of their value.

#### 3.1.2. Financial Assets

The classification of investments in financial assets depends upon the purpose of their acquisition, these are classified under the following categories:

a) Financial Assets at Fair Value with Changes in Results

Financial assets acquired mainly to be sold within the short term are financial assets at fair value with changes in results. Financial assets at fair value with changes in results are recognized at their fair value, gains or losses arising in the re-measurement are recognized in the period result.

### 3.1.2. Financial Assets (continued)

b) Loans and Accounts Receivable

These are financial assets with fixed or determinable payments, not quoted in an active market. They are classified under current assets, except for those maturities exceeding twelve months from the date of the statement of financial position, which are classified as non-current assets. Loans and accounts receivable include trade accounts and other accounts receivable initially measured at their fair value and subsequently at their amortized cost, using the effective interest method.

Loans to employees are initially received at the current value of future cash flows, discounted at a market rate for a similar loan, if the interest rate of the loan is lower than the market interest rate, the fair value will be lower than the loan amount. This initial difference is recognized as employee benefits.

### 3.1.3. Financial Liabilities

Financial liabilities correspond to financing sources secured by the Company through bank credits and bond issues, accounts payable to suppliers and creditors. The Company determines the classification of its financial liabilities in the initial recognition to be measured under the amortized cost method or fair value.

Bank credits and bond issues are initially recognized at their fair value, net of transaction costs incurred. The difference between the amount received and its main value is recognized in the period result during the amortization time of the financial obligation by using the effective interest rate method.

Financial obligations are classified as current liabilities unless the Company has an unconditional right to defer their liquidation during at least twelve months after the date of the statement of financial position.

Accounts payable to suppliers and creditors are short-term financial liabilities recorded at their par value, as they do not differ significantly from their fair value.

### 3.1.4. Derivative Financial Instruments

Derivative financial instruments are initially recognized at their fair value on the date the contract is entered into and are permanently re-measured at their fair value.

If derivative financial instruments do not qualify to be recognized through the hedge accounting treatment, they are recorded at their fair value through the statement of income. Any change in the fair value of these derivatives is recognized immediately in the statement of income in financial costs. If designated for hedge, the method to recognize the profit or loss resulting from changes in the fair values of derivatives depends upon the nature of the risk and the item hedged.

The Company designates certain derivatives as:

(a) Hedges of fair value of recognized assets or liabilities (fair value hedge)

(b) Hedges of a particular risk associated with a recognized asset or liability or of a transaction expected as highly probable (hedge of cash flows).

### 3.1.4. Derivative Financial Instruments (continued)

At the initiation of the hedging, the Company documents the relationship between hedging instruments and the items hedged, as well as its objectives and risks management strategy that back its hedging transactions. The Company documents its evaluation, both at the initiation of the hedge and periodically, of whether the derivatives used in hedge transactions are highly effective to compensate the changes in the fair values or in the cash flows of the hedged items.

The total of the fair value of derivatives used as hedge is classified as non-current asset or liability when the maturity of the hedged item exceeds 12 months, and is classified as current asset or liability when the maturity of the hedged item is lower than 12 months. Derivatives not used for hedge or which are held to be negotiated, are classified as current assets or liabilities.

(a) Hedges of fair value

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, and the gain or loss of the hedged item attributable to the hedged risk adjust the carrying value of the hedged item and are recognized in the year results. The gain or loss related with the effective portion of the derivatives is recognized in the statement of income as "financial expenses", as well as the ineffective portion that is also recognized in the statement of income but as financial costs. For the year 2017 there are no hedges for fair value

If the hedge no longer complies with the criteria to be recognized through the accounting treatment of hedges, the adjustment in the carrying value of the hedged item, is amortized in results using the effective interest method, in the remaining period through its maturity.

(b) Hedges of cash flows

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of cash flows is recognized in equity. The gain or loss related with the ineffective portion is recognized immediately in the statement of income in the same line in which the hedged element is recognized.

Amounts accumulated in net equity are recycled to the statement of income in the periods the hedged item affects them. However, when the expected hedged transaction results in the recognition of a non-financial asset, gains or losses previously recognized in equity are transferred from equity and included as part of the initial cost of the asset. Amounts capitalized are finally recognized in cost of sales when products are sold, if considered inventories, or in depreciation, when classified as property, plant and equipment.

When a hedge instrument expires or is sold, or when it no longer meets the criteria to be recognized through the accounting hedge treatment, any accumulated gain or loss in equity at that date remains in equity and is recognized when the projected transaction affects the statement of income. When it is expected that a projected transaction will not occur, the gain or loss accumulated in equity is immediately transferred to the statement of income as financial costs.

### 3.2. Non-current Assets Held for Sale

Non-current assets and the groups of assets for their disposal are classified as held for sale if their carrying values are recoverable through a sale operation and not by means of their continuous use. This condition is considered complied with only when the sale is highly probable within the period of one year from the classification date and the asset (or group of assets) available for sale immediately in its current status. These assets are valued at the lower amount between their carrying value and the fair value, less associated disposal costs.

### 3.3. Property, Plant and Equipment

**Recognition and Measurement**

Property, plant and equipment are presented at cost, including the abandonment or dismantling cost, less accumulated depreciation and accumulated impairment losses.

All costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by the Company are considered capitalizable. Such costs are mainly at: a) Their acquisition price, including importation tariffs and non-recoverable indirect taxes, b) costs of benefits to employees, deriving mainly from construction or acquisition, c) all costs directly attributable to the location of the asset in the place and conditions necessary to be able to operate in the way foreseen by management, d) interest costs of loans attributable to the acquisition or construction of assets, and e) initial estimation of dismantling and abandonment.

Significant spare part pieces and permanent maintenance equipment the Company expects to use during more than one period are recognized as property, plant and equipment, and will be recognized as expense when consumed.

Any gain or loss on retirement of any element of property, plant and equipment is recognized in results of the respective period.

**Subsequent Disbursements**

Correspond to all disbursements made on existing assets in order to increase or extend expected initial useful life, increase productivity or productive efficiency, allow a significant reduction of operating costs, or replace a part or component of an asset considered critical for the operation are considered additions or improvements.

Expenses of repairs, conservation or maintenance of ordinary nature are charged to period results which they are produced in. However, disbursements associated with overhaul are capitalized.

**Depreciation**

Property, plant and equipment are depreciated by following the linear method during the estimated useful life. Technical useful lives are updated annually considering reasons such as: Additions or improvements (upon replacement of parts or critical components for asset operation), technological advances, obsolescence or other factors. The effect of these changes is recognized as of the accounting period in which occurs. Depreciation of assets starts when they are under conditions of use.

### 3.3. Property, Plant and Equipment (continued)

**Depreciation (continued)**

The useful life is determined under foreseen asset use criteria, its expected physical wear and tear, technical or commercial obsolescence, and legal limits or restrictions of asset use.

The estimated useful lives range between the following ranks:

| | |
|---|---|
| Ducts, networks and lines | 10 – 59 years |
| Buildings | 19 – 55 years |
| Machinery and equipment | 7 – 46 years |
| Fluvial equipment | 5 – 20 years |
| Other computers | 2 – 29 years |

Land is recorded independently from buildings or facilities and has an indefinite life; therefore, it is not subject to depreciation. The useful life of leased assets depends on contract duration.

Depreciation methods and useful lives are reviewed annually and then adjusted, if necessary.

### 3.4. Capitalization of Loan Costs

Loan costs related to the acquisition, construction or production of a qualified asset requiring substantial time to be ready for use are capitalized as part of the cost of such asset when it is probable that future economic benefits return to the Company and may be reliably measured. Other interest costs are recognized as financial expenses in the period incurred. Projects that have been suspended, but which the Company intends to continue executing in the future, are not feasible of assignment of loans' costs.

The income perceived upon temporary investment in specific loans pending to be consumed in qualified assets is deducted for loans able for capitalization.

### 3.5. Intangibles

Intangible assets acquired separately are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis in accordance with their estimated useful lives.

Intangible assets with finite useful lives are amortized throughout their economic useful lives and are reviewed to determine if they had any value impairment, to the extent that an indication exists that the intangible asset could have suffered such impairment. The period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each period closing on which it is reported. Changes in the expected useful life or in the expected consumption pattern of the asset are recorded when the amortization method or term is changed, as appropriate, and are prospectively treated as changes in accounting estimates. The amortization expense of intangible assets with finite useful lives is recognized in the statement of income as expenses resulting consistent with the function of the intangible assets.

### 3.5. Intangibles (continued)

In accordance with IFRIC 12, a concession agreement is recognized under the intangible asset model when the operator acquires a right (license) to charge users, or the grantor, based on their use of the public service. It is not an unconditional right to receive cash, since the amounts are conditioned to the level of use of the service by users. Income and costs related to the operating phase are accounted for in accordance with IAS 18 Revenue from ordinary activities.

In the intangible asset model, the value of the asset is reduced through amortization, not through reimbursements. This leads to the recognition of double-entry income: the first time for the provision of construction services (in exchange for the intangible asset), and the second time, when receiving payments for the use of said services. The intangible asset must be accounted for as established in IAS 38 Intangible assets. This asset must be amortized over the period of the concession. The method of amortization of the interest rate is expressly prohibited. The most suitable method for the amortization of intangible assets is the straight-line method. The port concession will be recognized as an intangible asset taking into account that the Company does not have the right to receive a fixed remuneration from the nation or from its clients that guarantee an income throughout the term of the concession.

The accounting treatment applied for the recognition of the consideration would be for the consideration, the reference value is equivalent to a VPN of the considerations, the fixed component of the consideration is recognized as an intangible right of concession The intangible will be amortized in a straight line at 20 years, and as a financial liability which will be updated annually by interest and the paid installments are amortized. As for the variable component each year, what is paid for the variable component will be recorded in the income statement (expense). As for the investment, the costs that are incurred in the investment commitments will be recorded as construction costs and simultaneously the construction income will be recognized in the income statement.

### 3.6. Leases

Leases are classified as financial when all risks and benefits inherent to the property are substantially transferred to the lessee under lease terms. All other leases are classified as operative.

Assets maintained under financial leases when the Company is the lessee, are recognized in the statement of financial position, by the lower between the fair value of the asset and the present value of the lease minimum payments.

The liability corresponding to the lessor is included in the statement of financial position as a financial leasing liability.

These assets are depreciated over the useful life of the asset. When there is no reasonable certainty that the Company will obtain the property of the asset at the end of the contract, the assets leased are depreciated by the lower period, between the estimated useful life of the asset and the term of the lease.

Lease payments are distributed between financial expenses and reductions of leasing obligations in order to reach a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to results.

### 3.6. Leases (continued)

Payments of operating leasing are charged to results by using the straight-line method during the corresponding lease term, provided that other systematic prorating base results more representative to appropriately reflect the pattern of lease benefits for the user. Contingent rents are recognized as expenses in the periods they are incurred.

### 3.7. Assets Value Impairment

In order to assess the recoverability of tangible assets and intangible assets, Ocensa carrying value is compared to the value recoverable thereof at least on the period closing date or earlier in the event of identifying indications of asset impairment.

To analyze the impairment, assets are grouped in cash generating units (CGU), provided that such assets individually considered do not generate any cash flows which, to a great extent, are independent from those generated by other assets or CGU. Grouping assets in various CGU implies professional judgment and taking into consideration, among other parameters, business segments.

The Company has one single cash generating unit (CGU), corresponding to the crude oil transport system.

The recoverable value is the higher of the fair value less costs of disposal and the value in use. Wherever the recoverable amount of an asset (or a CGU) is less than its net accounting value, the carrying value thereof (or the CGU's) is reduced to its recoverable value recognizing a value impairment loss in the period results.

The value in use is estimated as the aggregate of future discounted cash flows adjusted to the forecasted risk. Estimations of future cash flows used to assess the asset impairment are based on the forecasted prices of basic products, offer and demand, and product margins.

Upon recording of a loss from impairment, the future amortization expense is estimated based on the adjusted recoverable value.

Impairment losses may be reversed only wherever the reversal is related to a change in estimations used after recognition of the loss from impairment. Such reversals shall not exceed the carrying value of depreciation or amortization net assets that would have been estimated if the impairment had never been recognized, nor the recoverable value at the date of the impairment evaluation.

### 3.8. Contingent Provisions and Liabilities

Provisions are recognized wherever the Company has an actual obligation (whether legal or implicit) resulting from a past event and there is probability that outflows will be required to settle the obligation and the value thereof may be accurately measured.

The amount recognized as provision is the best estimation of the outflows required to settle an actual obligation at the end of the reporting period, taking relevant risks and uncertainties into consideration.

Contingent liabilities are not recognized but are subject to disclosure in the explanatory notes wherever there is probability that outflows will be required, including those whose value cannot be estimated.

### 3.8. Contingent Provisions and Liabilities (continued)

It is generally accepted that all provisions are of a contingent nature as the time when they are due or the respective amount is uncertain. The term "contingent" is used to name assets and liabilities not recognized in the financial statements because their existence will only be confirmed upon occurrence, or their failure to occur, of one or more uncertain future events not entirely under Company's control.

As provided for in IAS 37.92, the Company has as a policy not disclosing in detail information related with disputes with related parties concerning situations involving provisions, contingent liabilities, and contingent assets, insofar as that information seriously damages the Company's position. In these cases, the Company provides information of a generic nature and explains the reasons that have led to make this decision.

**Obligation of Retirement of Assets**

Liabilities associated with the retirement of assets are recognized wherever the Company has obligations, whether legal or constructive, related to the retirement of ducts, properties and equipment. Such obligations shall be recognized by applying the discounted cash flows technique and taking the useful life of the relevant asset into consideration.

Should accurately estimating the provision during the period in which the obligation arises is impossible, then the provision shall be recognized at the moment where there are enough elements to make the best estimate.

The carrying value of the provision is revised and adjusted on an annual basis considering changes in the variables used to estimate it. The financial cost of re-measurement of such liabilities is recognized during the period as a financial expense.

### 3.9. Employees' Benefits

Ocensa records short-term benefits, such as salary, vacations, bonuses and others, on the earned basis.

**Benefits from Termination of Labor Contracts**

Compensations for indemnity, in favor of the Company's employees, in accordance with applicable legal provisions, are demandable in case of termination without just cause.

The payment is based on proportions applied on the average base of salaries earned. Ocensa records the payments made against expenses.

### 3.10. Income Tax

The income tax expense is comprised by the income tax payable for the current period (includes, as applicable, income tax and income tax for CREE equality) and the effect of deferred tax in each period.

Current and deferred taxes will be recognized in profits or losses, except when they relate with items in other comprehensive income or directly in equity, in which case the current or deferred tax is also recognized in the other comprehensive income or directly in equity, respectively.

### 3.10.1. Current Tax

The Company determines the provision for income tax, based on the higher value between taxable income or presumptive income (the minimum estimated profitability amount foreseen by law to quantify and compute income tax). Taxable income differs from the income reported in the statement of comprehensive income due to taxable revenue or deductible expense items in different tax and accounting periods, special tax deductions, tax losses and recorded items that, according to tax regulations applicable in each jurisdiction, are deemed non-taxable or non-deductible.

The current tax is calculated by using tax rates enacted or substantially approved at the end of the year being reported. The current tax is shown net, after deducting advances paid and tax withholdings in favor.

### 3.10.2. Deferred Taxes

The deferred tax is recognized by using the liability method, based on temporary differences between the tax basis and the carrying value of assets and liabilities included in the financial statements. The deferred tax liability is recognized for all temporary tax differences. The deferred tax asset is recognized for all deductible temporary differences and tax losses pending amortization, provided there is probability that the Company will have future tax income against which such deductible temporary differences may be deducted.

The "Contaduría General de la Nación" by means of the filed communication CGN No.20162000000781 of January18, 2016, determined that the Company should not apply IAS 12 Income tax, paragraphs 38 to 45, stating that the deferred tax from the variations in the exchange rate resulting from comparing assets and liabilities in terms of its functional currency (U.S. dollar) to the tax bases in a different currency (Colombian pesos) should not be recognized in the financial statements.

The effect of the non- application of paragraph 41 of IAS 12 in the deferred income tax is US$11,697 and in retained earnings is US$30,425 (at December 31, 2016 US$43,708 and (US$55,405), respectively).

Deferred tax assets and liabilities are measured using the tax rates expected to be applied in the period in which the asset is realized or the liability is paid, in accordance with the current tax standards in each period.

The carrying value of a deferred tax asset, is subject to review at the end of each reporting period and then reduced, provided that there is probability that the Company will not have enough future taxable income that allows recovering the asset, totally or partially.

Deferred taxes are not recognized if they arise from the initial recognition of an asset or a liability in a transaction (except in a business combination) that at the transaction date neither affects accounting income or the accounting profit or tax gain.

### 3.10.3. Other Taxes

The Company recognizes in the period's result costs and expenses of taxes other than the income tax, such as, the wealth tax, which is determined based on the tax equity; the industry and commerce tax which applied on the revenues obtained in municipalities upon the development of trade, industrial and service activities. Taxes are calculated based on the current rules and regulations.

### 3.11. Recognition of Revenues

Revenues from transport services are calculated at the fair value of the consideration charged or to be charged. Revenues are reduced based on discounts or rebates and other similar assignments granted to customers.

Revenues from transport services are recognized upon transport of products and delivery to the buyer pursuant to selling terms and conditions. In all other cases, revenues are recognized when earned and true, probable and quantifiable right to demand payment arises.

The transaction result may be estimated reliably when all of the following conditions are met:

- The amount of revenue from ordinary activities can be measured reliably.
- It is probable that the economic benefits associated with the transaction are received by the entity.
- The degree of completion of the transaction may be measured reliably at the closing date of the reporting period.
- The costs incurred or to be incurred in respect of the transaction until completion can be measured reliably.

In all other cases, revenue is recognized when earned and true, probable and quantifiable right to demand payment arises pursuant to IAS 18, Revenue from Ordinary Activities.

Income from interests on late payment is recognized by following the principles of prudence and realization.

Financial revenues are recognized in the statement of income during the relevant generation period.

Ship or pay transactions are recorded as revenue regardless that the crude oil be effectively transported in full. Ship and pay operations are accrued as revenue in the period where transport is completed. Under contracts with a term to offset, the revenue is deemed realized upon satisfaction of conditions set forth in each of them.

### 3.12. Costs and Expenses

Costs and expenses are individually presented by function and detailing, in the relevant notes, the composition of cost of sales and expenses related to administration, operation, projects and other expenses.

### 3.13. Financial Income (Expenses)

Financial income and expenses include mainly: a) interest costs of loans and financing, except those which are capitalized as a part of the asset cost, b) valuation of profits and losses of financial instruments measured at fair value with changes in results, c) exchange differences of financial assets and liabilities, d) financial update expenses of long term liabilities (abandonment costs).

### 3.14. Cash Flows

The statement of cash flows informs the generation of cash by categories (operation, investment and financing) during a given period. Classification of cash flows according to the aforementioned activities provides information that enables users to assess the impact on the Company's financial position, as well as on the final amount of its cash and other cash equivalents.

Under accounting and financial information standards, the Company may report its cash flows from operations by using one of the following methods:

- Direct method: it consists of presenting separately the main categories of collections and payments in gross terms.
- Indirect method: it starts presenting the gain or loss in net terms, an amount which is later corrected by the effects of non-monetary transactions, for all type of deferred payment items and accruals (revenue) which are the cause for collections and payments in the past or in the future, as well as loss or gain items associated with cash flows of operations classified as of investment or financing.

The Company presents its statements of cash flows under the indirect method.

The main categories include:

- **Operating Activities**

  Are the activities that make the most significant source of Ocensa's operating revenue, such as collections from the provision of services, payments to suppliers for the provision of goods and services, payments to employees, income tax payments, in other words, all transactions that represent the most important source of revenue from ordinary activities performed by the Company.

- **Investing Activities**

  Are the disbursements that result in recognition of an asset in the statement of financial position, such as payments, revenue from the acquisition of property, plant and equipment, intangible assets and other long-term assets, cash advances and loans to third parties or collections (other than transactions entered by financial entities).

- **Financing Activities**

  Are activities that result in changes in the size and composition of company-owned funds and monies borrowed, such as inflows from the issue of shares, payments to shareholders or reimbursements of the funds taken as loans.

**Cash Flows in Foreign Currency**

Cash flows from transactions in foreign currency will be translated into the functional currency by applying the amount in foreign currency at the exchange rate between both currencies prevailing on the date each relevant cash flow took place.

## 4. Judgments, Estimates, and Significant Accounting Assumptions

The Company's preparation of the financial statements requires that management makes judgments, estimations and accounting assumptions affecting the amounts of reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the close of the year being reported. In this sense, the uncertainty on such assumptions and estimates could give rise in the future to results that could require significant adjustments to the carrying values of assets or liabilities affected. Changes of these estimates are recognized prospectively in the year the estimate is reviewed.

### 4.1. Judgements

Judgments are continuously assessed and are based on the historical experience and other factors, including the expectation of occurrence of future events that are considered reasonable in accordance with the circumstances.

### 4.2. Estimates and Assumptions

The resulting accounting estimates, by definition, in few occasions will be equal to actual results. Amounts recognized as provisions are the best estimates of disbursements necessary to pay the present obligation, at the end of the year being reported, taking into account the corresponding risks and uncertainties. Provisions are measured by using the cash flow estimated to cancel the present obligation and their carrying amount represents the current value of such flow (when the effect of money in time is material).

Below are the critical accounting judgments and estimates with the most significant effect in the preparation of the accounting statements:

#### 4.2.1. Abandonment of Pipelines, Equipment and Other (Facilities)

In accordance with environmental and oil regulations, the Company must recognize costs on the abandonment of its property, plant and equipment, which include abandonment of the pipeline, dismantling of facilities and environmental recovery of affected areas.

A provision that covers dismantling costs and service retirement has been recognized in relation with the pipeline system. Dismantling costs and service retirement are accrued for the present value of expected costs to cancel the obligation, using future estimated cash flows, and are recognized as an integral part of the cost of such asset in particular. These cash flows are discounted at a current market rate before taxes, which reflects the specific risks of the liability. The discount is recorded as expense as incurred and is recognized in the statement of income as financial costs. Estimated future costs of dismantling and service retirement are reviewed annually, and adjusted as appropriate. Changes in estimated future costs or in the discount rate applied are added to or subtracted from the related asset cost.

The estimate of costs for abandonment and dismantling of these facilities are recorded in the functional currency of the Company at the time of the assets' installation. The estimated obligation set up for abandonment and dismantling is subject to review at each year closing and adjusted to reflect the best estimate, due to technological changes and political, economic, environmental matters, as well as changes of security and of relations with stakeholders.

### 4.2.1. Abandonment of Pipelines, Equipment and Other (Facilities) (continued)

The calculations of these estimates are complex and involve significant judgments by the management, as are the internal projections of costs and future inflation and discount rates. The Company considers that abandonment costs are reasonable, based on the experience and market conditions; however, significant variations in external factors used for the calculation of the estimate could significantly impact the financial statements.

### 4.2.2. Impairment

At the end of each year being reported, the Company evaluates the carrying values of its tangible and intangible assets to determine if an indication exists that these amounts have suffered any impairment loss. In such case, the recoverable amount of the asset is calculated to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company calculates the recoverable amount of a cash generator unit the asset belongs to. When a reasonable and consistent distribution base is identified, common assets are also assigned to the individual cash generator units, or distributed to the smallest group of cash generator units for which a reasonable and consistent distribution base may be identified.

The recoverable amount is the higher between the fair value less disposition costs and the value in use. Upon estimating the value in use, future estimated cash flows are discounted from the current value by using a discount rate before taxes which reflects the current market valuations in respect to the temporary value of money and the specific risks of the asset for which the estimates of future cash flows have not been adjusted.

If the calculated recoverable amount of an asset (or cash generating unit) is lower than its carrying value, the carrying value of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loses are recognized immediately in the statement of income, except if the asset is recorded at a revalued amount, in which case, the impairment loss should be considered as a decrease in the revaluation.

When a loss from impairment is subsequently reversed, the carrying value (or cash generating unit) increases to the reviewed estimated value of its recoverable amount, so that the increased carrying value does not exceed the carrying value that had been calculated if the impairment value had not been recognized for such asset (or cash generating unit) in prior years. The reversal of a loss from impairment is recognized automatically in the statement of income.

### 4.2.3. Litigation

The Company is subject to claims through regulatory and arbitration procedures, tax liquidations and other claims that arise during the ordinary course of businesses. The management and legal counsel evaluate these situations based on their nature, the probability that they materialize and the amounts involved to decide on the amounts recognized and/or disclosed in the financial statements. This analysis, which could require considerable judgments, includes legal processes filed against the Company and claims not yet initiated.

In accordance with management's evaluation and guidelines established in CNIF, have been set up to comply with these costs when it is considered that the contingency is probable and reasonable estimates of such asset may be made.

### 4.2.3. Litigation (continued)

The Company considers that payments required to resolve the amounts relating to claims, in the event of loss, will not vary significantly from estimated costs and, accordingly, they will not have a material adverse effect on Company's financial statements.

### 4.2.4. Income Tax

Uncertainties exist in respect of the interpretation of complex tax regulations, changes in tax regulations, and amounts and opportunities in which the future tax result is generated. Given the wide range of international commercial relations and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or upon the future changes of such assumptions, they could require future adjustments to income and expenses already recorded.

The Company calculates provisions, on the basis of reasonable estimates, for the possible consequences derived from the inspections made by the Colombian tax authorities. The amount of those provisions is based on several factors, such as experience in previous tax inspections, and on the various interpretations about the tax regulations made by the entity subject to tax and by the responsible tax authority. Those interpretation differences may arise concerning a great variety of matters, depending upon the existing circumstances and conditions in the Company's domicile. Since the Company considers remote the probability of litigations of a tax nature and subsequent disbursements as a result thereof, no contingent liability related with taxes has been recognized.

Additionally, changes in the tax regulations could limit the Company's capacity to obtain tax deductions in future years, as well as the recognition of new liabilities as a result of challenges by the audit of the tax inspection entity.

The tax positions adopted suppose the careful evaluation by Management, and are reviewed and adjusted in response to circumstance such as expiry of the application of the legislation, close of tax audits, additional disclosures caused by any legal topic or any decision of the Court on a tax matter in particular. The Company creates provisions based on the estimate of the possibility of a negative decision that could arise from a tax audit. The amount of these provisions depends upon factors such as previous experience in tax audits and different interpretations of tax regulations by taxpayer entities and of the tax audit. The actual results could differ from the estimates.

As established in IAS 12, Income Tax, the current tax payable is based on tax profits recorded during the year. The taxable income differs from the profit reported in the statement of income and other comprehensive income due to revenue items or taxable or deductible expenses in other years and items that are never taxable or deductible. The current tax liability is calculated by using tax rates approved by the tax entity at the end of the year reported.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between carrying values of assets and liabilities existing in the financial statements and their respective tax basis. Deferred taxes on assets and liabilities are calculated based on statutory tax rates we believe will be applied to our taxable income during the years in which temporary differences between carrying values are expected to be recovered.

### 4.2.4. Income Tax (continued)

The carrying value of an asset for deferred taxes should be subject to final review in each reporting year and should be reduced insofar as it is probable that it will not have enough tax gain, in the future, to permit to recover all or a part of the asset.

The measurement of deferred tax liabilities and deferred tax assets will reflect tax consequences that would derive from the way the Company expects at the end of the year being reported to recover or liquidate the carrying value of its assets and liabilities.

### 4.2.5. Useful Life of Property, Plant and Equipment

The Company determines estimated useful lives and depreciation charges corresponding to property, plant and equipment. This estimate considers the economic life of the pipeline and the limitations of its operation over time. This estimate could change, among other reasons, due to new oil discoveries, changes in the environmental legislation or in the contracts signed with the Company's shippers. Management periodically reviews useful lives and depreciation charges.

### 4.2.6. Hedging Accounting

The identification of hedging relations between protected objectives and hedging instruments (derivative financial instruments and/or not derivative) involve critical judgments on the effective existence of the hedging relationship and the effectiveness thereof. The Company continuously evaluate the alignment between the hedging relationships identified and the objects and strategy of its risks' management policy.

## 5. Information on Operation Segments

All Company's assets are located in Colombia and are focused on a single segment which is crude oil transportation. For administration purposes, Management supervises operating results based on the crude transportation operation, where its main assets are represented by the pipeline, this being the basis for decision making concerning the assignment of resources and evaluates its financial yields. There are no operating segments that should be aggregated to form part of that previously reported.

## 6. New Standards and Regulatory Changes

**New and Amended Standards and Interpretations Incorporated to the Accounting Framework Accepted in Colombia that Application Should be Assessed as of January 1, 2017 or that may be Early Applied**

Decrees 2615 of December 17, 2014, 2420 of December 13, 2015 and 2496 of December 24, 2015 introduced to the regulatory technical framework of financial information new standards, changes or amendments issued or carried out by the International Accounting Standard Board "IASB" to the International Financial Reporting Standards during 2013, to evaluate their application in financial periods starting as of January 1, 2016, although their application could be early applied.

## 6. New Standards and Regulatory Changes (continued)

### IFRS 9 "Financial Instruments"

Oleoducto Central S.A. requires to adopt IFRS 9 – Financial Instruments since January 1, 2018. This standard replaces IAS 39 and places emphasizes on three basic aspects: a) classification and measurement in accordance with the business Group model, b) impairment of financial instruments based on expected losses and c) requirements on hedging accounting.

Ocensa validated the financial instruments identifying financial assets and liabilities, as follows:

a). Measured at amortized cost: Considering the business model seeks paying or receiving cash flows at a specific time; despite the business model for short-term accounts payable and receivable, no effective interest method is applied, since there is no interest rate associated and its liquidation is lower than 1 year.

b). Measured at fair value: Investment trusts and tax securities are measured at fair value with changes in results upon considering its function in the business model.

Based on the evaluations made on financial instruments, the current valuation of financial assets and liabilities is consequent with the Company's business model and there is no history of loss or default events.

On the impairment model applied to instruments valued at amortized cost, Ocensa evaluated that the adoption of IFRS 9 will not present a material or significant increase in the impairment losses considering that accounts receivable are at short term and that it does not have history of loss or default events.

Concerning the hedging accounting model, the current ones have effectiveness tests associated, follow-up by management and a documentation of the objects hedged and hedging instruments. Under IFRS 9 no material impacts in the valuation are observed.

In the case Ocensa decides to make new hedges, the requirements of IFRS 9 will be validated on the relationship of such hedges and their alignment with the risk management objectives of the Group and the qualitative components to be considered for the valuation of effectiveness.

IFRS 9 substitutes this line demanding an economic relationship between the item covered and the hedge instrument and that the ratio hedged is the same that the entity actually uses for its risk management. The contemporaneous documentation continues to be different than the one that was being prepared under IAS 39. The standard becomes effective for accounting years starting January 1, 2018. Its early adoption is permitted. The Company is evaluating the impacts that such standard could generate.

### IFRS 15 "Revenues from Contracts with Clients"

IFRS 15 "Revenues from ordinary activities arising from contracts with clients" provides a single model to recognize from an accounting viewpoint, revenues derived from contracts with, making emphasis on the identification and compliance with performance obligations and is effective for the annual periods starting from January 1, 2018. IFRS 15 substitutes IAS 18 "Ordinary Revenues". The central principle underlying the new model is recognizing ordinary revenues in order that it describes the transfer pattern of the goods and services to clients, reflecting the quantity to which it is expected having right in exchange for such deliverables.

**6. New Standards and Regulatory Changes (continued)**

**IFRS 15 "Revenues from Contracts with Clients" (continued)**

Ocensa implemented this standard from that date, using the amended retrospective method, considering the guidelines obtained from its ultimate parent company (Ecopetrol S.A.), this being the method adopted at the level of Business Group, which is adjusted to the opening balance of equity at the date of initial application of the impacts calculated without requiring to adjust the comparative ones of the prior year and their application only on the initial adoption date. Operations through December 31, 2017, were recognized under IAS 18 and their adoption did not have material impact on the amounts recognized in prior periods.

During the implementation of the standard IFRS 15, the sources of Ocensa ordinary revenues were evaluated considering the identification of contracts with clients, the establishment of performance obligations, the determination of transaction prices, the association of prices with performance, and the recognition of revenues when performance obligations are met.

The analysis included the following aspects for the midstream segment:

Represented by the transportation, storage, and wholesale marketing of crude or refined products derived from oil either through pipeline, railway, barge or truck. Ducts and other transportation systems may be used to transfer crude oil from the production sites to the refineries and deliver the various refined products to downstream distributors. The principal aspects evaluated are ship or pay contracts, components of variable price and deposit agreements. No significant impacts are identified for the recognition, measurement and presentation for the Company.

Revenue is recognized when goods or services have been delivered to customers at the established delivery points (the time when the performance obligation is met), where the transfer of property and the risks associated with the products takes place and have been accepted by the customers.

As a result of this analysis, it was defined that: a) for the principal contracts with several performance obligations, it was concluded that the performance obligations are interdependent; therefore the prices assigned are independent and the application of a methodology of price assignment was no required; b) Ocensa acts as principal in the valuable consideration of services before transferring them to the client; c) the Company recognizes the variable considerations in the transaction prices unless that they cannot be measured reliably, in which case, the recognition is postponed until the uncertainty is resolved; d) The product method is the one used by the Company to recognize the revenue generated by long-term contracts with partial deliveries of goods; e) no impacts associated with contracts' costs were identified when recognized in the accounting in the accounting year and their capitalization is not required; and f) non-monetary agreements are recognized at their fair value.

**IFRS 16 "Leases"**

This Standard issued in January 2016 establishes the principles for the recognition, measurement, presentation and information of leases to be disclosed; the new standard substitutes IAS 17 Leases, CINIIF 4 "Determination of whether an agreement contains a lease, SIC-15 "Operating Leases – Incentives" and SIC -27 "Evaluation of the essence of Transactions that Adopt the Legal Form of a Lease.

## 6. New Standards and Regulatory Changes (continued)

### IFRS 16 "Leases" (continued)

The standard presents a control model for the identification of leases and their treatment in the financial statements of lessees, separating an asset identified as object of the lease and the services corresponding to the service contract as such, the Company could recognize more assets and liabilities, derived mainly from the lease of construction equipment and offices. At the level of lessee the principal changes arise from the elimination of the differentiation of financial and operating leasing, in its place, a single lease model is recognized where all leases are recognized in the statement of financial position as an asset of right of use and a liability for lease, except for a lease where the underlying asset is of low value and short-term leases. Additionally, interest expenses of the liability should be recognized separately in the statement of income and the depreciation expense of the asset recognized.

Lessees should carry out re-measurements of the liability in certain occasions (e.g., a change in the lease period, changes in future flows of the lease). These re-measurements of the liability will be recorded generally as an adjustment of the right of use of the asset. The new Standard does not bring significant changes in the recognition, measurement and disclosure for the lessors.

For the lessor, leases continue to be classified as financial and operative leases. The standard will be effective for the annual periods as of January 1, 2019 with limited possibilities of early implementation. The Company does not expect to adopt early the stated standard, it is evaluating the potential impacts that such standard could generate.

The improvements and amendments to the IFRS, as well as the interpretation that have been published during 2017 could be incorporated to the Colombian regulatory framework.

## 7. Cash and Cash Equivalents

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Cash | US$ | 10 | US$ | 9 |
| Banks | | 157,522 | | 67,286 |
| Trusts | | 8,641 | | 2,980 |
| Term deposit certificates | | 70,093 | | – |
| National tax refund securities (TIDIS) | | 90 | | 1,562 |
| | US$ | 236,356 | US$ | 71,837 |

The fair value of cash and its equivalents is approximated to its carrying value due to its short-term nature (less than three months) and its high liquidity. Cash and cash equivalents have no restrictions or liens limiting their disposition.

## 8. Trade and Other Accounts Receivable

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Trade accounts receivable | US$ | 38,773 | US$ | 40,504 |
| Related parties (*Note 27*) | | 149,423 | | 76,389 |
| Transport tax receivable *(Note 16.2)* | | 6,141 | | 5,113 |
| Accounts receivable from employees (1) | | 5,435 | | 6,908 |

## 8. Trade and Other Accounts Receivable (continued)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Sundry debtors | | 1,182 | | 3,354 |
| | | 200,934 | | 132,268 |
| Trade debtors and other short term accounts receivable | | 196,738 | | 126,675 |
| Trade debtors and other long term accounts receivable | US$ | 4,196 | US$ | 5,593 |

(1) The Company granted the administration, handling and control of loans to employees to Fiduciaria Allanza S.A., which manages the detail by employee of those loans and their respective conditions. Loans to employees are considered financial assets and are recognized at their fair value.

The movement of the provision for impairment of trade debtors and other accounts receivable of difficult collection accrued, is the following:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **Initial balance** | US$ | – | US$ | – |
| Additions of provisions | | 217 | | – |
| **Ending balance** | US$ | 217 | US$ | – |

The accounting value of trade debtors and other accounts receivable is close to its fair value.

## 9. Derivative Financial Instruments

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Hedge Contracts | US$ | 8,533 | US$ | 15,478 |

Other financial assets / liabilities correspond to the valuation of financial instruments deriving from Ocensa, whose purpose is to mitigate the volatility of the exchange rate on the cash flow required for Company's operations. The balances correspond to their fair value classified in the second level of hierarchy, calculated based on observable entries by using the methodology of forward points.

Taking into account that the Company's functional currency is the US dollar, any transaction in a currency other than the US dollar represents an exposure to the exchange rate risk for Company's performance. In order to mitigate the impact on cash flows that could be generated as a result of variations in rates of Colombian peso versus the US dollar, the management evaluates the exposure to this risk for the twelve (12) months moved forward subsequently and makes the decision to contract hedge instruments for the cash flow in pesos, within the framework established by the financial risk management policy.

The use of three derivative instruments is established in such policy: Forwards, collars and options. At present, the Company has only entered into hedge operations by means of forward instruments under the non-delivery basis.

## 9. Derivative Financial Instruments (continued)

The Company covers mainly the following risks:

- Up to 50% of its operating expenses. The main headings of operating expenses the Company is hedging are those related to personnel, leases, fees and services, insurance, maintenance and repairs, variable costs, which are denominated in Colombian pesos.

- Up to 100% of its operating expenses. Tax headings being covered correspond to income tax, income tax for equality (CREE), surtax for income tax for equality (CREE) and the wealth tax.

Forward hedge instruments being used allow setting the sales price in US dollars, which will offset the effect of devaluation or revaluation arising up to the time the Company monetizes resources necessary to cover its monthly or specific obligations on operating expenses and tax payments, which are payable in Colombian pesos.

The fair value of forward operations is US$324,687 (December 31, 2016 US$361,210). Taking into account that the Company seeks to minimize the exchange exposure for the twelve (12) future months, cash flows are expected to be made and payments of months from January to December, 2018 are expected to be covered.

The variation and/or compensation of hedge operations made for the payment of taxes is recorded in the statement of comprehensive income under the exchange difference heading; the variation of hedge operations of expenses (Opex) will be recorded in the statement of comprehensive income provided that they are effective; once liquidated, the result of the compensation will be recorded as a lower and/or higher amount of the hedged operating expense.

The dollar-offset method is used to calculate effectiveness. It consists of comparing changes in values observed of the item covered with the corresponding changes in the hedge instrument according to projections of the forward curve at the cut-off date.

The result of the amount recorded in "Other Comprehensive Income" – OCI at the reporting year cut-off amounts to (US$5,084) (net of tax (US$3,203) at December 31, 2016 it amounts to (US$14,558) and net of taxes at that date of (US$8,735).

## 10. Other Assets

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Prepaid expenses | US$ | 2,482 | US$ | 1,262 |
| Supplier advances (1) | | 3,007 | | 4,105 |
| | US$ | 5,489 | US$ | 5,367 |

## 10. Other Assets (continued)

(1) Includes remittances to suppliers as part of the acquisition of goods and services. The principal advances were drawn to the following suppliers:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Siemens S.A. | US$ | 1,400 | US$ | 1,828 |
| Jorge Santos Ballesteros | | 368 | | – |
| Worley Parsons Group Inc. Branch | | 360 | | – |
| Fernando Silva Garcia | | 284 | | – |
| Adelaida Angel Zea | | 225 | | – |
| Ecopetrol S.A. | | 102 | | 670 |
| Fundación Oleoductos de Colombia | | 60 | | 378 |
| Gabriel De Vega Pinzón | | 39 | | – |
| Fundación Servicio de Vivienda Popular | | – | | 348 |
| Sulzer Pumps | | – | | 34 |
| Importaciones y Representaciones Industriales de Colombia S.A.S. | | – | | 779 |
| Others | | 169 | | 68 |
| | US$ | 3,007 | US$ | 4,105 |

## 11. Non-current Assets Held for Sale

| | | | | |
|---|---|---|---|---|
| **Initial balance** | US$ | 21,896 | US$ | – |
| Transfers | | – | | 28,180 |
| Impairment (*Note 24*) | | (1,580) | | (6,284) |
| Sales | | (1,533) | | – |
| **Ending balance** | US$ | 18,783 | US$ | 21,896 |

At December 31, the Company classified assets held for sale, corresponding mainly to assets of property, plant and equipment acquired within the investment process of the "P-135" project. The Board of Directors authorized the initiation of the optimization process of costs incurred and to do so, the sale process of these assets was approved by means of minute N° 249 on July 22, 2016.

As of December 31, 2017, the Company carried out an analysis of the fair value of these assets, which determined that their book value does not exceed fair value, except for certain items that require recognition of the fair value adjustment of the market, which was recognized in the financial statements for US$1,580.

During the initial year of execution of sales plan, circumstances arose that were previously considered as unlikely due to market conditions in which a decline in oil prices is evident discouraging investments in the hydrocarbon sector, on which Ocensa aimed on its potential market and, as a result, assets classified as held for sale were not sold at the end of the 2017. The Company undertook the remaining and necessary actions to respond to changing on market circumstances and achieve the sale of these assets at a reasonable price. The Company has re-implemented a detailed selling plan, where potential buyers could be obtained. Given the above and considering the aspects set out in IFRS 5, Appendix B, the Company decided to continue at 2017 year end categorizing these assets as held for sale.

## 12. Property, Plant and Equipment, Net

| | Plant and Equipment | Ducts, Networks and Lines | Constructions in Progress (1) | Buildings | Land | Other (2) | Total |
|---|---|---|---|---|---|---|---|
| **At December 31, 2015** | US$ 95,376 | US$ 1,615,933 | US$ 387,036 | US$ 76,350 | US$ 21,356 | US$ 65,946 | US$ 2,261,997 |
| Additions | 225 | (159) | 184,439 | (2) | 6 | 67,277 | 251,786 |
| Capitalization | 336,370 | 52,130 | (388,276) | – | – | (224) | – |
| Tax benefits | (662) | – | (494) | – | – | – | (1,156) |
| Capitalized financial interest | – | – | 20,894 | – | – | – | 20,894 |
| Consumption of non-capitalized materials and spare parts | – | – | 22 | – | – | (64,593) | (64,571) |
| Sales and retirements | – | (5) | (412) | – | – | (280) | (697) |
| Update of the abandonment cost rate | – | – | – | – | – | (34,171) | (34,171) |
| Transfers | – | (7) | (27,251) | – | – | (921) | (28,179) |
| **At December 31, 2016** | 431,309 | 1,667,892 | 176,968 | 76,348 | 21,362 | 33,034 | 2,405,913 |
| Additions | 1,838 | 14,054 | 40,850 | – | – | 56,813 | 113,215 |
| Capitalization | 109,006 | 36,187 | (145,820) | 103 | – | 524 | – |
| Tax benefits (3) | – | – | – | – | – | (177) | (177) |
| Consumption of non-capitalized materials and spare parts | – | – | 3 | – | – | (52,416) | (52,413) |
| Sales and retirements | (39) | (5,632) | – | – | – | (700) | (6,371) |
| Update of the abandonment cost rate | – | – | – | – | – | 4,461 | 4,461 |
| Transfers | 2,670 | (6,677) | (1,781) | – | – | (1,596) | (7,384) |
| **At December 31, 2017** | US$ 544,844 | US$ 1,705,824 | US$ 69,010 | US$ 76,451 | US$ 21,362 | $ 38,743 | US$ 2,456,234 |
| | | | | | | | |
| **Depreciation and impairment provision** | | | | | | | |
| **At December 31, 2015** | (27,915) | (649,061) | – | (5,287) | – | (13,810) | (696,073) |
| Charge for depreciation | (4,574) | (64,532) | – | (2,270) | – | (2,295) | (73,671) |
| Impairment value | – | – | – | – | – | (435) | (435) |
| Sales and retirements | – | 4 | – | – | – | 168 | 172 |
| Retirement of abandonment cost *(Note 18)* | – | – | – | – | – | 5,267 | 5,267 |
| **At December 31, 2016** | US$ (32,489) | US$ (713,589) | US$ – | US$ (7,557) | US$ – | US$ (11,105) | US$ (764,740) |
| Charge for depreciation | (23,982) | (67,767) | – | (2,282) | – | (1,506) | (95,537) |
| Sales and retirements | 54 | 78 | – | – | – | 698 | 830 |
| Impairment value | (1,384) | – | – | – | – | (563) | (1,947) |
| **At December 31, 2017** | US$ (57,411) | US$ (781,286) | US$ – | US$ (9,839) | US$ – | US$ (12,473) | US$ (861,009) |
| | | | | | | | |
| **Net carrying value** | | | | | | | |
| **At December 31, 2016** | US$ 398,820 | US$ 954,303 | US$ 175,958 | US$ 68,791 | US$ 21,362 | US$ 21,929 | US$ 1,641,163 |
| **At December 31, 2017** | US$ 487,433 | US$ 924,538 | US$ 69,010 | US$ 66,612 | US$ 21,362 | US$ 26,270 | US$ 1,595,225 |

## 12. Property, Plant and Equipment, Net (continued)

(1) Constructions in progress

At December 31, 2017, the balance includes mainly investments made in the projects, such as Cusiana Dilution, Coveñas Dilution, Adaptation to 600 cSt, Araguaney Cusiana Connection, El Porvenir Replacement of Equipment, Optimization of the unloading yard, Heat recovery, gas duct and other smaller projects. These projects were also in process at June 30, 2017.

During the 2017, capitalizations were made of the projects. Dilution Coveñas, Connection Araguaney, Optimization of storage Cusiana, Sipra Capitalization, ERM Capitalization – Surtigas and capitalizable maintenace.

The project highlighted for its investment and development is "Proyecto Potencia 135 (P-135)", which was fully capitalized at June 30, 2017 and partially at December 31, 2016, the date when the Company reported the "completion of the construction and expansion of the pipeline capacity" in the Páez, Chiquillo, La Granjita stations and changes to the El Porvenir and Cusiana stations. The amount of capitalized costs during the year ended December 31, 2016 was of US$20,894.

All investments capitalized corresponded to the construction of the Pipeline expansion, Complementary Works, Environmental and Social Works.

It is estimated that projects in progress will finalize between 2018 and 2019.

(2) Other

Includes materials inventories, abandonment cost of the pipeline system, office equipment, computers and telecommunication equipment, transportation equipment and fluvial equipment.

There are no commitments and/or restrictions of acquisitions of property, plant and equipment.

(3) Tax Benefits

The Company identified that it could use the tax benefit for the acquisition of heavy machinery for basic industries, described in article 258-1 and 258-2 of the Tax Code in projects that were under execution. For this reason these recoverable taxes were decreased from the initial cost of the assets purchased for the construction of the projects. The total value of US$177 was taken as tax benefits (2016 amounts to US$1,156).

### Volumetric Current Accounts – Line Filling

As a result of the end of the segregation of Cusiana crude, which passed to being transported as a mixture, disclosed below is the total amount of the provisional balances of volumetric current accounts with senders under the transportation contracts. The provisional balances come from the difference in barrels between the crude delivered for transportation and the crude retired from the system after the rendering of the transportation service, so that, (i) provisional balances against the sender reflect the temporary custody of the sender over the crude owned (line filling) or managed by the Company in accordance with the procedure of surpluses/shortages, and (ii) the provisional balances in favor of the sender reflect the temporary custody over the sender crude.

## 12. Property, Plant and Equipment, Net (continued)

### Volumetric Current Accounts – Line Filling (continued)

To determine the disclosure value the proportion that the net volumes of each crude quality have in the provisional volumetric balance of the sender is weighted. The barrel price for each quality is calculated based on the yields in refined products of the crude transported and its quotation in the database of ARGUS and OPIS, which is a reference price of the refined market of the United States, which is complemented with the process of adjustments for volumetric compensation for quality. In the event that in respect of each sender the balances of the volumetric current account are liquidated, the corresponding adjustments will be made in the accounting.

The balance is comprised of:

| | 2017 | 2016 |
|---|---|---|
| Negative balance of senders | **US$ 68,600,663** | US$ 54,487,870 |
| Positive balance of senders | **159,117,427** | 56,517,772 |

### Impairment

As at December 31, 2017 the Company evaluated if impairment indications exist in the cash generating unit by means of a qualitative and quantitative analysis.

For the quantitative analysis, the verification of external variables, such as the legal, economic, technological and market environment was made and of internal variables such as the useful life, obsolescence and/or physical impairment; as well as changes in the current contracts, concluding that at the time of the analysis there are no evidences of impairment of the cash generator unit.

For the qualitative analysis the value in use of the cash generating unit was determined by means of the estimate of future cash flows, taking into account the volumes to be transported with their respective rates, associated costs and related investments,. The result of the analysis of a value in use higher than the carrying value of the cash generating unit, determining that assets are not subject to recognition of impairment.

## 13. Intangibles, Net

| | Licenses and Software | Service Concession Agreement | Agreement Gas Transmission | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| **At December 31, 2015** | US$ 14,111 | US$ 43,620 | US$ – | US$ 57,731 |
| Additions | 1,489 | – | – | 1,489 |
| **At December 31, 2016** | 15,600 | 43,620 | – | 59,220 |
| Additions | **206** | **4,514** | **–** | **4,720** |
| Capitalizations | **–** | **2,823** | **4,561** | **7,384** |
| **At December 31, 2017** | **US$ 15,806** | **US$ 50,957** | **US$ 4,561** | **US$ 71,324** |

**13. Intangibles, Net (continued)**

| | Licenses and Software | Service Concession Agreement | Agreement Gas Transmission | Total |
|---|---|---|---|---|
| **Amortización** | | | | |
| **At December 31, 2015** | US$ (11,352) | US$ (40,896) | US$ | US$ (52,248) |
| Charge for amortization *(Notes 21, 23)* | (1,271) | (2,724) | – | (3,995) |
| **At December 31, 2016** | (12,623) | (43,620) | – | (56,243) |
| Charge for amortization *(Notes 21, 23)* | (591) | (226) | – | (817) |
| **At December 31, 2017** | **US$ (13,214)** | **US$ (43,846)** | **US$ –** | **US$ (57,060)** |
| **Net carrying value** | | | | |
| **At December 31, 2016** | US$ 2,977 | US$ – | US$ – | US$ 2,977 |
| **At December 31, 2017** | **US$ 2,592** | **US$ 7,111** | **US$ 4,561** | **US$ 14,264** |

**Service Concession Agreement**

Port Concession Agreement No. 016 of December 6, 1996, whose purpose is to grant a port concession for the construction and operation of off-shore facilities of a new oil terminal of Coveñas intended to load exportation crude, was initially intended to render a private service. Payment for this concession was made in the amount of US$3,081,481. Payments for consideration were made in 20 installments worth US$32,000.

On October 24, 2011, an Addendum No. 02 was signed, modifying the class of service from private port to public port destined for the handling of crude oil for export. In 2011, payment was made for this concession as a public port for US$2,885 payable in 5 annuities, the first payment was made on November 2, 2011, for US$782 and the remaining payments were made for US$732. Payments for consideration were made in accordance with the amendment of the Other No. 02 and as of December 2016, the book value is zero, since the amortization culminated the end of the first contract.

The addendum No. 03 was signed on December 5, 2016, whereby the obligations regime is adjusted, the concession term is extended for 20 more years, and the amount of the valuable consideration and of investments based on the plan of investments delivered by the Company and approved by the Agencia Nacional de Infraestructura ANI, total investment of approximately US$104 million at the net present value equivalent to US$56 million (discounted at a rate of 12% annual effective, included in the contract signed by the parties). At December 31, 2017, the value of the investment made amounts to US$2,823.

As at December 31, 2017 the fixed portion of the valuable compensation was recorded which amounts to US$5,493 for the 20 years, which was discounted at a risk free rate of 2.58% in dollars, a rate taken from de Treasury Department, resulting in a net present value of US$4,514, which was recognized as an intangible asset and a financial liability. The intangible will be amortized using the straight-line method over 20 years and the liability will be updated annually for interests and the installments paid are amortized

## 13. Intangibles, Net (continued)

### Agreement Gas Transmission

At the end of 2016 Ocensa and Surtigas make an agreement for the supply of natural gas that includes a charge for use of the connection pipeline of the Granjita station and, consequently, the obligation of the contractor to carry out the design, supply, construction and start-up of the connection pipeline owned by Surtigas and construction and start-up of the ERM owned by Ocensa. Ocensa undertakes to pay the connection for the early use of the La Granjita Station connection, which involves the real costs of the construction of the Connection Pipeline, which generates a right for the Company to use the gas pipeline for up to 20 years for the capacity of designed and defined.

Of the advances that are delivered to Surtigas that are equivalent to the value of construction costs of the pipeline, they were recognized as constructions in progress in the properties, plant and equipment until the date on which the gas pipeline enters into operation, once the pipeline entered the pipeline. operation the final amount paid will be classified within the properties, plant and equipment as gas pipelines or leased machinery (under IFRS 16 it will be presented as a right of use either within the PPE or as a separate category in the balance sheet), and started the process of depreciation of the asset considering the useful life of the time of the agreement (20 years).

## 14. Debts and Loans Bearing Interest

### Composition of Loans

Loans are recorded at their amortized cost, which corresponds to the present value of cash flows, discounted at effective interest rate.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **Short-term loans** | | | | |
| Interest payable for external public credit | US$ | **20,000** | US$ | 20,000 |
| Financial leasing | | **200** | | 80 |
| | US$ | **20,200** | US$ | 20,080 |
| **Long-term loans** | | | | |
| External public credit bonds | US$ | **480,199** | US$ | 479,451 |
| Financial leasing | | **–** | | 95 |
| | | **480,199** | | 479,546 |
| | US$ | **500,399** | US$ | 499,626 |

### Long-Term External Public Credit Bonds

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to five hundred million dollars of the United States of America (US$500,000,000) in order to finance the needs of investment of future expansion projects (Potency 135 and Warming).

The characteristics, term and conditions are as follows:

## 14. Debts and Loans Bearing Interest (continued)

### Long-Term External Public Credit Bonds(continued)

- Redemption term: 7 years, with a maturity date until May 7, 2021
- Issue price: 99.367%
- Amortization: Upon maturity
- Yield at maturity: 4.105%
- Denomination currency: Denominated in dollars of the United States of America (US$)
- Interest rate: Fixed, in accordance with market conditions prevailing on the bonds placement date, thus complying with the maximum limits for the external indebtedness interest rates defined by the Central Bank.
- Denominations US$200,000 and integral multiples of US$1,000
- Listed in: Luxembourg Stock Exchange

Below is the fair value of bonds:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Fair value | **US$** | **514,075** | US$ | 497,280 |

Loans are recorded in the financial statements at their amortized cost, which corresponds to the present value of cash flows, discounted at the effective interest rate.

For the measurement at fair value bonds were valued using as source the Bloomberg methodology Bloomberg.

Article 28 of External Resolution No. 8 of 2000 of the Board of Directors of the Central Bank establishes that interest rates of foreign currency credits, including securities placed in international markets, should reflect market conditions and may not exceed the maximum rate applicable generally indicated by the Central Bank.

Payment dates of interest will be May 7 and November 7 of each year, starting on November 7, 2014.Computation date: May 7, 2014; T+5, gross value: US$496,835,000; rate: 4.000%, determined on a 30/360 day basis.

### Loans Maturity Profile

The loans maturity profile is described below:

| | Up to 1 year | | 1 – 5 years | | Total | |
|---|---|---|---|---|---|---|
| **At December 31, 2017** | | | | | | |
| External public credit bonds | **US$** | **20,000** | **US$** | **480,199** | **US$** | **500,199** |
| Lease obligations | | **200** | | **–** | | **200** |
| | **US$** | **20,200** | **US$** | **480,199** | **US$** | **500,399** |
| **At December 31, 2016** | | | | | | |
| External public credit bonds | US$ | 20,000 | US$ | 479,451 | US$ | 499,451 |
| Lease obligations | | 80 | | 95 | | 175 |
| | US$ | 20,080 | US$ | 479,546 | US$ | 499,626 |

## 15. Trade and Other Accounts Payable

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Suppliers and accounts payable (1) | US$ | 82,990 | US$ | 104,759 |
| Related parties (*Note 27*) | | 5,864 | | 2,359 |
| Withholding tax | | 3,220 | | 3,268 |
| Withholdings and payroll contributions | | 1,098 | | 2 |
| Employees fringe benefits | | 953 | | 1,019 |
| Industry and commerce tax withholdings | | 157 | | 122 |
| | | 94,282 | | 111,529 |
| Trade accounts and other accounts payable, short term | | 89,893 | | 105,100 |
| Trade accounts and other accounts payable, long term | US$ | 4,389 | US$ | 6,429 |

(1) The main suppliers and accounts payable are detailed below:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Consorcio Generación P-135 S.A. | US$ | 6,641 | US$ | 10,463 |
| Worleyparsons Group Inc. Branch | | 6,459 | | 6,626 |
| Parex Resources | | 5,755 | | – |
| Siemens S.A. | | 5,512 | | 3,040 |
| Massy Energy Colombia S.A.S. | | 5,031 | | 5,189 |
| Ismocol S.A. | | 4,560 | | 7,029 |
| Gas Natural S.A. E.S.P. | | 3,033 | | 2,145 |
| ABB Ltda. | | 2,220 | | 749 |
| Surtidora de Gas del Caribe S.A. | | 1,552 | | 72 |
| Flowserve S de R de CV. | | 1,489 | | 868 |
| Tecnitanques Ingenieros S.A.S. | | 771 | | 1,546 |
| Ejército Nacional Contaduría Principal Comando del Ejército | | 748 | | 1,330 |
| Soenergy International Colombia | | 736 | | 5,709 |
| Helistar S.A.S. | | 626 | | 184 |
| Level 3 Colombia S.A. | | 573 | | 739 |
| Emgesa S.A. E.S.P. | | 467 | | 564 |
| Municipio de Páez Boyacá | | 412 | | – |
| Morelco S.A.S. | | 364 | | 4,010 |
| Fundación Oleoductos de Colombia S.A. | | 343 | | 781 |
| Termotécnica Coindustrial S.A.S. | | 260 | | 4,098 |
| Petromil Gas S.A.S. E.S.P. | | 58 | | 513 |
| Schneider Electric de Colombia S.A. | | 11 | | 373 |
| Delrio S.A. | | – | | 2,214 |
| VQ Ingeniería S.A.S. | | – | | 1,407 |
| Other | | 35,369 | | 45,110 |
| | US$ | 82,990 | US$ | 104,759 |

The accounting value of trade accounts and other accounts payable is close to its fair value due to its short term nature.

## 16. Tax Liabilities

Below is the detail of the current taxes:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Income tax | US$ | 162,459 | US$ | 165,870 |
| Other taxes | | 8,225 | | 11,452 |
| | US$ | 170,684 | US$ | 177,322 |

### 16.1. Income Tax

Below is the detail of the current tax and/or (credit balance):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Provision for income tax | US$ | 367,289 | US$ | 255,697 |
| Provision for equality CREE tax and surtax | | 64,800 | | 153,419 |
| Less: | | | | |
| Income tax advance | | 178,366 | | 154,868 |
| CREE surtax advance | | – | | 61,358 |
| Surtax advance | | 61,687 | | – |
| CREE tax balance in favor | | – | | 10,024 |
| Withholding tax balance in favor | | 29,408 | | 13,265 |
| Capital assets creditable VAT | | – | | 160 |
| Heavy machinery creditable IVA | | 169 | | 1,052 |
| CREE surtax advance 2017 | | – | | 2,519 |
| Liabilities (recoverable balance) payable for income tax | US$ | 162,459 | US$ | 165,870 |
| **Current tax** | | | | |
| Provision for income tax of the year | US$ | 371,605 | US$ | 251,737 |
| Provision for CREE tax | | | | 90,636 |
| Provision for CREE surtax | | 65,561 | | 60,409 |
| Adjustment of prior periods' income tax expense and CREE | | (58) | | 409 |
| Hedges (1) | | (3,741) | | – |
| | | 433,367 | | 403,191 |
| **Deferred tax** | | | | |
| Deferred income tax | | (35,731) | | 5,113 |
| **Total income tax expense** | US$ | 397,636 | US$ | 408,304 |

(1) Corresponds to the effect of derivative instruments that cover the payment of income tax.

**Reconciliation of the Effective Tax Rate**

The Company's income tax differs from the theoretical amount that would have been obtained by using the tax rate applicable to profit before tax.

### 16.1. Income Tax (continued)

**Reconciliation of the Effective Tax Rate (continued)**

Below is a detail of the reconciliation between the accounting profit before taxes and net taxable income, which was the basis to determine the expense on concept of income tax, income tax for equality (CREE) and CREE surtax:

| | Year from | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Values | Rates | Values | Rates |
| **Accounting profit before tax** | US$ 950,271 | | US$ 960,181 | |
| Income tax applying the Company's local tax rate | 380,108 | 40.00 % | 384,072 | 40.00 % |
| Non-taxable revenues | (606) | 0.25 % | (882) | (0.41)% |
| Non-deductible expenses | 4,933 | (0.24)% | 7,040 | 1.36 % |
| Difference between taxable base of income and CREE taxes | (16) | 0.00 % | 2 | 0.00 % |
| Conversion adjustments – dollar functional Currency | 13,630 | 3.28 % | 25,516 | (0.61)% |
| Conversion adjustment – income expense | 6 | 0.14 % | – | (0.15)% |
| Effects from application of the G.O. tariff | – | | 3 | 0.00 % |
| Differential in rate – deferred tax | 3,380 | (1.13)% | (7,833) | 2.00 % |
| Prior years income tax expense | (58) | 0.00 % | 386 | (0.01)% |
| Hedges | (3,741) | (0.75)% | – | 0.00 % |
| **Tax profit before tax** | US$ 397,636 | 41.55 % | US$ 408,304 | 42.17% |

**Deferred Income Tax**

Below is the detail of the balance of deferred tax assets and liabilities:

| | 2017 | 2016 |
|---|---|---|
| Asset – Deferred income tax | US$ 27,190 | US$ 7,701 |
| Asset – Deferred surtax | 2,152 | – |
| | US$ 29,342 | US$ 7,701 |
| Liability – Deferred income tax | US$ (111,671) | US$ (117,915) |
| Liability – Deferred surtax | (84) | – |
| | (111,755) | (117,915) |
| | US$ (82,413) | US$ (110,214) |

The net movement of deferred taxes during the year is the following:

| | 2017 | 2016 |
|---|---|---|
| **Initial balance** | US$ (110,214) | US$ (95,850) |
| Credit (debit) to statement of income | 35,731 | (5,113) |
| Debit to other comprehensive income (1) | (7,704) | (6,940) |
| Translation adjustment | (226) | (2,311) |
| **Ending balance** | US$ (82,413) | US$ (110,214) |

### 16.1. Income Tax (continued)

**Deferred Income Tax (continued)**

(1) Variations in deferred tax balances were recorded in result accounts of the year except for the following items which were recorded in other comprehensive income, as follows:

| Heading | 2017 | | 2016 | |
|---|---|---|---|---|
| Deferred asset (liability) – Financial assets (liabilities) | US$ | (7,704) | US$ | (6,940) |

Below is the detail of deferred tax assets and liabilities is the following:

| | | | | |
|---|---|---|---|---|
| **Assets** | | | | |
| Provisions | US$ | 28,676 | US$ | 7,246 |
| Intangibles | | 175 | | 442 |
| Other assets | | 491 | | 13 |
| **Deferred tax asset** | US$ | 29,342 | US$ | 7,701 |
| **Liabilities** | | | | |
| Property, plant and equipment (1) | US$ | 106,866 | US$ | 111,483 |
| Other assets | | 3,294 | | 6,432 |
| Other liabilities | | 1,595 | | – |
| **Deferred tax liability** | | 111,755 | | 117,915 |
| **Net deferred tax** | US$ | (82,413) | US$ | (110,214) |

(1) For tax purposes, the property, plant and equipment account has a specific useful life. Under accounting and financial information standards accepted in Colombia, the useful life is determined by a technical analysis. This difference results in a different depreciation basis for accounting and tax purposes.

Assets from deferred tax assets pending offsetting are recognized to the extent that the realization of the respective tax benefit is probable through future tax benefits.

### 16.2. Other Taxes

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Transport tax | US$ | 8,117 | US$ | 11,335 |
| Sales tax - IVA_payable | | 93 | | 96 |
| Industry and commerce tax | | 15 | | 21 |
| Other taxes short term | US$ | 8,225 | US$ | 11,452 |
| Sales tax - IVA Plan Vallejo | | 883 | | 290 |
| Other taxes long term | US$ | 883 | US$ | 290 |

**Wealth Tax**

The Law 1739 of 2014 established the wealth tax for individuals and legal entities which possession at January 1, 2015 is higher than COP$1,000 million (approx. US$330).

### 16.2. Other Taxes (continued)

**Wealth Tax (continued)**

The taxable base for legal entities is the equity gross value owned at January 1, 2015, 2016 and 2017, less current debts due at the same dates.

The applicable rate will depend upon each taxpayer and the amount paid will not be discountable or deductible in the income and complementary tax or in the income tax for equity - CREE, nor could they be compensated with these or other taxes.

During 2017, the wealth tax in charge paid by the Company amounted to US$1,296 which was recognized in the year expense.

**Transportation Tax**

The related transport tax corresponds to the volumes of actual and estimated crude that have been transported in the stated year, plus the amount pending payment to the municipal jurisdictions which upon disposition of the National Planning Department is who orders the payment. The balance is classified as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Estimated transport tax | US$ | 8,052 | US$ | 10,838 |
| Accounts payable | | 65 | | 497 |
| | US$ | 8,117 | US$ | 11,335 |

The income tax for equity (CREE) was created as of 2013. This tax was calculated until December 31, 2016 based on gross revenues earned, less revenues not constituting income, costs, deductions, exempt income and capital gains at the rate of 9%.

The Law 1739 of 2014 established a progressive and temporary surtax on the CREE income tax since 2015 starting with 5% and 6% for 2016, applicable to taxable bases of COP$800 million (approx. US$280) and onward.

The Law 1819 of 2016 eliminated the CRE tax and the CREE surtax for 2017 and 2018 and in turn increased the general income tax rate to 34% for 2017 and 33% for the following years creating a surtax on the income and complementary taxes of 6% and 4% for taxable years 2017 and 2018, respectively, the latter applicable to taxable bases of COP$800 million and onward.

**Other Aspects**

**Tax on Dividends**

On profits generated as of 2017, the new tax on dividends will apply for companies and foreign entities.

### 16.2. Other Taxes (continued)

**Tax on Dividends (continued)**

The rate of this tax will be of 5%. Additionally, the dividend taxed with the income tax will have a rate of 35%. In this scenario, the tax on dividends of 5% will apply on the amount of the distribution taxed, once it has been decreased with the income tax at the rate of 35%.

For individuals who are tax residents in Colombia, the tax on dividends will have a maximum rate of 10% that will fall to the non-taxed dividends and of 35% in respect of the dividends distributed as taxed.

**Presumptive Net Taxable Income**

The taxpayer's net income may not be lower than 3% of its net equity, on the last day of the previous taxable year. As of 2017 it will be of 3.5%.

**Transfer Pricing**

Income taxpayers who enter into operations with foreign related parties, are required to determine, for income tax purposes, their ordinary and extraordinary income, their costs and deductions, their assets and liabilities, considering for these operations the prices and profit margins that would have been used in comparable operations with or between non-related parties.

Independent advisors carry out the update of the transfer pricing study, demanded by tax dispositions, intended to demonstrate that the operations with foreign related parties were made at market values during 2017. For this purpose, the Company will file an information return and will have available the referred to study by July 2018.

The non-compliance with the transfer pricing regime could result in monetary penalties and a higher income tax; however, Management and its advisors are of the opinion that the study will be concluded on time and will not reflect significant changes to the base used for the determination of the provision for the income tax of 2017.

**Sales Tax - IVA**

As of taxable year 2017, the general sales tax is of 19% and a differential rate of 5%, for certain goods and services, in accordance with article 184 and 185 of the Law 1819 of 2016.

As of taxable year 2017, the IVA generator fact was extended to the sale of goods in general, the sale or concession of intangibles related with the industrial property and, to the rendering of services in Colombia, or from abroad, except for express exclusions of the rule, in accordance with article 173 of Law 1819 of 2016.

As of taxable year 2017, the periods of returns and IVA payments will be bimonthly and of four months, in accordance with article 600 of the Law 1819 of 2016.

Likewise, this Law in its article 194 stipulates that the term to request creditable IVAs, will be of three bimonthly periods immediately after their accrual period.

## 17. Deferred Revenues

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Revenues received in advance, short term | US$ | 6,707 | US$ | 3,995 |
| Revenues received in advance, long term | | 7,722 | | 11,343 |
| | US$ | 14,429 | US$ | 15,338 |

Corresponds to the advance payment upon the capacity reserve of the pipeline, the recoveries of the ship or pay contract of P135 of the revenue received for indemnities and other advances received which are detailed below:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| BP Products North America | US$ | 10,860 | US$ | 13,051 |
| Gunvor Colombia CI S.A.S. | | 2,398 | | 1,606 |
| Perenco Colombia Limited | | 631 | | – |
| AIG Seguros Colombia S.A. | | 188 | | 257 |
| Chubb de Colombia Cía. de Seguros | | 188 | | 258 |
| Others | | 164 | | 166 |
| | US$ | 14,429 | US$ | 15,338 |

## 18. Provisions

| | Abandonment Costs | Litigations | Environmental Contingencies | Others *(Note 18.4)* | Total |
|---|---|---|---|---|---|
| **At December 31, 2015** | US$ 42,828 | US$ 2,467 | US$ – | US$ – | US$ 45,295 |
| Reductions (1) | (28,904) | 8 | – | – | (28,896) |
| Financial cost *(Note 25)* | 6,971 | – | – | – | 6,971 |
| Exchange difference *(Note 25)* | 1,064 | 122 | – | – | 1,186 |
| **At December 31, 2016** | 21,959 | 2,597 | – | – | 24,556 |
| Additions | **4,461** | **(8)** | **409** | **50,011** | **54,873** |
| Financial cost *(Note 25)* | **1,752** | – | – | – | **1,752** |
| Exchange difference *(Note 25)* | **95** | **15** | **(11)** | – | **99** |
| **At December 31, 2017** | **US$ 28,267** | **US$ 2,604** | **US$ 398** | **US$ 50,011** | **US$ 81,280** |
| Provisions long term 2016 | US$ 21,959 | US$ 2,597 | US$ – | US$ – | US$ 24,556 |
| Provisions short term 2017 | **US$ –** | **US$ –** | **US$ –** | **US$ 50,011** | **US$ 50,011** |
| Provisions long term 2017 | **US$ 28,267** | **US$ 2,604** | **US$ 398** | **US$ –** | **US$ 31,269** |

### 18.1. Abandonment Costs and Dismantling of Assets

The estimated liability for abandonment costs corresponds to the Company's future obligation to restore environmental conditions similar to those existing before the initiation of projects or activities.

### 18.1. Abandonment Costs and Dismantling of Assets (continued)

Since these are long-term obligations, this liability is estimated by projecting the expected future cash flows and discounting at present value with a rate referenced to the financial obligations of the home office, Ecopetrol S.A. The discount rate used in the obligation estimation at December 31, 2017 was of 7.4% (December 2016 - 7.60%).

(1) To year 2016 corresponds to the effect between the update of the abandonment rate for US$(34,171) and the retirement of abandonment cost for US$5,267.

### 18.2. Litigation

At December 31 2017, the Company is involved in various legal proceedings of low materiality that arise in the normal course of operations, and that involve: 1) lawsuits for the guarantee; 2) lawsuits for environmental damages; 3) lawsuits for indemnity for acquisitions; 4) proceedings for revocation of licenses and/or concessions; and 5) various civil lawsuits. Ocensa considers that the appropriate provisions have been created, in those cases where it is considered that an obligation has been incurred, for the amount necessary to face the related risks. Ocensa also considers that these matters will be resolved without significantly affecting the business, its financial position or its operation results.

In addition, in connection with certain legal procedures in progress, in certain occasions Ocensa may determine and disclose reasonable estimates of the expected loss or the possible loss rank, as well as a provision created for such loss; however, for a limited number of legal procedures in progress, Ocensa could not be in the possibility of making a better estimate of the expected loss or of the rank of possible, or could be in the possibility, but it considers that disclosing such information on a case-by-case basis, would seriously damage the position of Ocensa in the legal procedures in progress or in any related liquidation negotiation. Consequently, in these cases, Ocensa discloses qualitative information in respect to the nature and characteristics of the contingency, without including the loss estimate or the possible loss rank.

#### Claims

Below is a detail of the principal litigations recognized in the statement of financial position and that could generate an outflow of resources:

- The payment of presumed damages is claimed, resulting from the attack against the Cupiagua–Cusiana–Coveñas pipeline by the Ejército de Liberación Nacional (ELN) in the jurisdiction of Fraguas, Machuca, Municipality of Segovia (Antioquia); their estimated value amount to US$1,234.

- Declare the annulment of Resolution 431 of 2009 whereby the MAVDT amended Resolution 952 of 1995 (pipeline environmental license) including the obligation of 1%. The remedy of appeal against the first instance ruling which was admitted by the Council of State on October 15, 2014. On September 29, 2017, the Company filed second instance conclusion allegations.

  Declare the annulment of writs 155 and 1981 of 2010 whereby MAVDT refused the Additional Investment Plan executed for the benefit of the hydrographic basins of the pipeline area of influence in the Cupiagua-Cusiana (Interfiled) section of the pipeline. On January 16, 2015, the Company filed before the Council of State the second instance conclusion allegations within the remedy appeal against the first instance ruling.

### 18.2. Litigation (continued)

Declare the annulment of writs 2913 and 4034 of 2011 whereby the Ministry of the Environment, Housing and Territorial Development - MAVDT rejected certain works, activities and projects executed for the benefit of the Pipeline basins of its area of influence. Ocensa filed a remedy appeal against the first instance partially favorable ruling issued on January 23, 2015, which was admitted on March 5, 2015 by the Council of State to US$1,370.

### 18.3. Environmental Contingencies

This heading corresponds mainly to obligations of environmental compensation for the use, or affectation of natural resources in the framework of environmental authorizations and the forced investment of no less than 1% for the use of water taken directly from natural sources in accordance with the provisions of Law 99 of 1993 article 43, on connection with the P-135 project.

On December 22, 2016, the Ministry of the Environment and Sustainable Development issued Decree 2099 whereby the Single Regulatory Decree of the environment and sustainable development sector, Decree 1076 of 2015, as far as the forced investment of no less than 1% for the use of water taken directly from natural sources, and Decree 1120 of June 29, 2017 which amends numerals 3 and 4 of article 2.2.9.3.1.17 of Decree 1076 of 2015.

Currently, the Company is in the process of preparing the diagnostic for the design of the investment plan of 1% to be presented to the ANLA.

### 18.4. Others

On July 7, 2016, Vitol Colombia CI S.A.S. ("Vitol") filed a request for arbitration seeking (i) the recognition of unforeseeable circumstances, beyond Vitol's control, which hindered the Vitol's obligations under the July 29 2014 Agreement ("Agreement"), and (ii) the adjustment of the shipping fee. As subsidiary claim in the amended request for arbitration, Vitol seeks the arbitration panel to rule the Agreement to be null and void, and the recognition of US$18,250 as compensatory damages, for Vitol's consequential breach of contracts entered with third parties. Ocensa submitted its response to the request for arbitration and filed a counterclaim against Vitol. On July 26, 2017, the conciliation hearing provided by the Arbitration Law was exhausted without agreement, and the Arbitration Panel declared its jurisdiction over the dispute and set the arbitration fees. Both parties paid the arbitration fees. The Arbitration Panel suspended the Arbitration proceeding until May 18, 2018, as requested by the parties.

On April 25, 2017, Meta Petroleum Corp. ("MPC") (known today as Frontera Energy Colombia Sucursal Colombia) and Petrominerales Colombia Corp. (recently acquired by MPC.) filed a request for arbitration against Ocensa seeking a ruling for the illegality of the tariff for the oil pipeline extended capacity resulting from the P135 Project, agreed on the July 29, 2014 agreements executed with Ocensa. The plaintiffs also request the tariff adjustment, but no relief is sought as claim. On February 19, 2018, both parties submitted amendments to their claims. On March 23, 2018 the amended counterclaim of OCENSA was answered by Frontera. The Arbitration Panel confirmed that Frontera's amended claim fulfilled all the legal requirements on April 19, 2018. Ocensa has to submit the response to the amended claim on May 10, 2018.

### 18.4. Others (continued)

Other shippers under the P135 Project might submit further requests for arbitrations based on the arguments depicted in the aforementioned claims.

The Company made a provision, considering the shippers that made a formal or arbitral claim and that had a significant portion of the contracted capacity under Ship or Pay agreements, but the sole fact of making a provision cannot be construed as a recognition of Ocensa's liability. The provision was appraised based on Ocensa's risk assessment of a ruling setting a tariff within a US$6,9105/BL - US$6.2005/BL range for 2017.

On February 6, 2018, Ocensa and MPC entered into a memorandum of understanding *(Acuerdo de Intención)* which contains a conciliation formula for a comprehensive settlement agreement pending the approval by the arbitration panel. The settlement agreement will be submitted to the arbitration panel, 3 days after the day in which the parties submit the response to the amended claim and amended counterclaim.

If the arbitration panel approves the settlement agreement, it will resolve any pending proceeding and controversy among the parties, and both parties will execute the amendments to the Agreements.

Otherwise, the arbitration process will continue its course without it being understood that the parties have renounced their legal positions nor to the claims and exceptions that have been submitted or can be submitted in the respective procedural instances, nor to initiate different actions.

On April, 2018, memorandums of understanding (Acuerdos de Intención) were entered into with some of the shippers of the P135 Project, whereby the parties expressed their intention, subject to the occurrence of a condition precedent related to the approval by an arbitration panel of a conciliation formula resolving the disputes between Ocensa and Frontera Energy Colombia (Colombian Branch), to enter into a certain settlement agreement to terminate the disputes that are the subject matter of ongoing or to be commenced arbitration proceedings and to prevent new judicial or administrative lawsuits. The memorandums of understanding contain equivalent or similar provisions that reflect the terms and conditions of the conciliation formula that is contained in the above mentioned memorandum of understanding (Acuerdo de Intención) entered into between Ocensa and Frontera Energy Colombia, Colombian Branch

### 18.5. Contingent Liabilities

The Company did not make provisions nor reveal contingent liabilities in the statement of financial position since its probability of occurrence was assessed as eventual. Such contingencies result from labor claims against Company's contractors and claims for damages allegedly caused by the pipeline construction.

On 20 October 2016, WorleyParsons Group Inc. ("WP") submitted a request for arbitration to resolve the differences regarding the 3802139 Agreement of August 28, 2014, for the engineering, procurement and management of the construction for the P135 Project. WP claims' arise COP$27,092,096,540 and US$983 for services, warranties, non-paid activities, early termination and audit for the P135 Project, among others. Although the parties had reached a preliminary settlement agreement, it was not approved by the Procuraduría General de la Nación. Currently, the arbitration is pending the evidentiary stage.

The result of these proceedings is subject to the award issued by the arbitration panels.

### 18.6. Contingent Assets

The Company filed an action for annulment and re-establishment against the decision of the Superintendency of Ports of denying the request to return the excess in the payment of the surveillance rate paid in 2001. The return amount calculated by Ocensa was US$944 and it considers that it is applicable in accordance with Resolution 0457 of 2001 issued by the same Superintendence. The issue of the first instance sentence is currently pending.

The Company filed an action for annulment and the restoration of the right against eight resolutions of determination of contribution for public work contracts issued by the Division of Liquidation Management of the Sectional Direction of Large Taxpayers' Taxes – DIAN ("División de Gestión de Liquidación de la Dirección Seccional de Impuestos de Grandes Contribuyentes – DIAN") and against the resolutions which decided the reconsideration appeals filed. The claims amount to US$1,051. A sentence partially favorable to the lawsuit claims was issued on June 28, 2017. The decision of the Council of State in respect to the appeal filed by both parties is pending.

The Company seeks payment of the difference between the value of the Cusiana crude oil purchased by Ocensa from Equion Energía Limited and Santiago Oil Company to make up the oil pipeline line between 1996 and 1997, and the quality of oil that is currently in the Pipeline The different demands of the demand are aimed at the restitution of this negative balance under different approaches that vary both in their nature (in kind or in money), and in their reference price (price as of September 2014 or the date of the award) . The Company considers that the contingent asset that would arise from this process would correspond to the difference between the value claimed in the demand and the value of the crude currently located inside the pipeline.

## 19. Equity

### 19.1. Subscribed and Paid-in Capital

Authorized capital is of 5,793,456 shares at a par value of COP$30,104.543412483 each; subscribed and paid.in 5,159,000, and subscribed and paid in capital being US$81,714.

For 2017, the gain per share was US$107.12 (2016 amounts to 106.97), which is taken from the net profit of the year from continued operations on the number of shares, because there were distributions of dividends during the period, so this value represents the profit of the year, but not necessarily the value to be distributed, given the dividends decreed during the year.

A detail of the shareholders is shown below:

| | Subscribed shares | % |
|---|---|---|
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | 3,747,910 | 72.64799% |
| Alianza Fiduciaria S.A. – Fideicomiso Acciones Ocensa | 1,153,138 | 22.35197% |
| Banco de Bogotá (Panamá), S.A. – Fideicomiso Acciones Ocensa. | 257,949 | 4.99998% |
| Al Candelaria (Spain), S.L.U. | 2 | 0.00004% |
| Transporte Registrado Servicios, S.A. | 1 | 0.00002% |
| | 5,159,000 | 100% |

### 19.2. Equity Reserves

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Legal reserve | US$ | 7,736 | US$ | 7,736 |
| Legal reserve 10% non-taxed | | 33,122 | | 33,122 |
| | US$ | 40,858 | US$ | 40,858 |

**Legal Reserve**

The Colombian Code of Commerce establishes that it is mandatory to appropriate 10% of its net annual profits as a legal reserve until the balance thereof is equivalent to 50% of subscribed capital. This reserve may be used to offset losses or distribute them in the event of Company's liquidation.

### 19.3. Payment of Dividends

Below is the detail of distributed dividends:

| | | |
|---|---|---|
| March 15, 2016 - profits from October 1 to December 31, 2015 | US$ | 224,759 |
| June 30, 2016 – profits from January 1 to March 31, 2016 | | 155,449 |
| September 20, 2016 – profits from April 1 to June 30, 2016 | | 122,796 |
| October 31, 2016 – profits from July 1 to September 30, 2016 | | 153,295 |
| | US$ | 656,299 |
| March 10, 2017 – profits from October 1 to December 31, 2016 | US$ | 120,337 |
| September 7, 2017 – profits from January 1 to June 30, 2017 | | 260,984 |
| | US$ | 381,321 |

By means of minute 91 of March, 15, 2016, the General Shareholders' Meeting approved the distribution of dividends from profits from October 1 to December 31, 2015.

By means of minute 93 of June, 30, 2016, the General Shareholders' Meeting approved the distribution of dividends from profits from January 1 to March 31, 2016.

By means of minute 95 of September, 20, 2016, the General Shareholders' Meeting approved the distribution of dividends from profits from April 1 to June 30, 2016

By means of minute 97 of October, 31, 2016, the General Shareholders' Meeting approved the distribution of dividends from profits from July 1 to September 30, 2016

By means of minute 99 of March, 30, 2017, the General Shareholders' Meeting approved the distribution of dividends from profits from October 1 to December 31, 2016

By means of minute 104 of September, 30, 2017, the General Shareholders' Meeting approved the distribution of dividends from profits from January 1 to June 30, 2017

### 19.4. Other Comprehensive Income

This heading includes effects of the effective portion of cash flow hedge instruments, thus recognizing the effective portion in Other Comprehensive Income. The change in fair value of the hedge instrument, which has been recognized in Other Comprehensive Income, will be reclassified to income when the hedged item affects income.

The Company, with this hedge policy, seeks to stabilize cash flows and mitigate economic effects that could arise from fluctuations in market variables, namely, the peso/dollar exchange rate and the international reference price of Brent oil. Being between 80% and 125% of the fair value established for the hedge is a policy established by the Company for recognition purposes in Other Comprehensive Income. The Value at Risk (VaR) methodology is used to measure the effectiveness of the hedge, which uses as indicator the EBITDA at Risk.

This measurement is made by means of simulations of Monte Carlo; however, other commonly accepted methodologies could be contemplated, which should allow to:

(1) Present potential variances in the pesos/dollars (COP/US$) exchange rate and/or prices of raw materials (Brent).

(2) Measure the impact of these movements in the Company's cash flow.

(3) Measure the impact of these movements in the EBITDA (and/or net profit if prudent) of the Company.

The specific model to measure risks and their critical variables, as well as their amounts, will be evaluated monthly at the Audit and Financial Committee. When the hedge is no longer effective, the hedge accounting will cease.

Additionally, in the other comprehensive income there is an adjustment in conversion generated by the application of the methodology for the calculation and recognition of the deferred tax; which is calculated in pesos but registered in dollars.

| | 2017 | 2016 |
|---|---|---|
| Cash hedges | US$ 5,084 | US$ (14,558) |
| Deferred tax | (1,881) | 5,823 |
| Deferred tax translation adjustment | 81,176 | 81,325 |
| | US$ 84,379 | US$ 72,590 |

### 20. Revenues from Ordinary Activities

| | | |
|---|---|---|
| Hydrocarbons transportation service (1) | US$ 1,292,149 | US$ 1,181,942 |
| Unloading service (2) | 11,452 | 13,021 |
| Other revenues (3) | 21,192 | 18,827 |
| | US$ 1,324,793 | US$ 1,213,790 |

## 20. Revenues from Ordinary Activities (continued)

(1) Transport of oil from Cupiagua, until the exportation by TLU–2 at the Coveñas terminal; the transportation service is billed by the barrels transported at each section of the pipeline at the rate set by the Ministry of Mines and Energy for each one and for the Coveñas terminal the authorized tariff set by the Superintendence of Ports and Transport. The barrels of the average crude transported were 581 KBPD for the 2017 and of 566 KBPD for the 2016. The greater volumes correspond to greater days of reversal and non-operation of the Oleoducto Bicentenario due to attacks to the Oleoducto Caño Limón. Furthermore, in 2017 contracts of P135 entered into operation, which have a higher tariff per barrel than the one that the transportation contracts that had been operating in 2016.

Within the contracts that generate the income of the company are two modalities which are Ship and Pay (in which the customer only pays what it transports) and Ship or Pay (in which the client must pay the 100% of the contracted capacity so use it or not). Regarding the income generated by transport, both modalities are found, with the initial contracts signed from the beginning of the Ship and Pay pipeline and the transportation contracts tied to the expansion of the P135 pipeline, Ship or Pay. In the case of the revenues generated at Cusiana's unloading, the entire contracted capacity is under Ship or Pay modality.

(2) Unload of oil or diluent in the unload facilities located in the Cusiana station.

(3) Port services, dilution service, administrative and maintenance services.

### Information on Main Clients

Revenues generated as a result of crude transportation activities are obtained by the following clients:

| | 2017 | 2016 |
|---|---|---|
| Ecopetrol S.A. (*Note 27*) | US$ 1,019,329 | US$ 872,010 |
| Meta Petroleum Corp. Sucursal Colombia | 125,705 | 120,327 |
| Other smaller ones | 179,759 | 221,453 |
| | US$ 1,324,793 | US$ 1,213,790 |

The percentage of participation of related parties corresponds to approximately 81%.

## 21. Cost of Sales

| | 2017 | 2016 |
|---|---|---|
| Variable costs | | |
| Gas | US$ 25,530 | US$ 12,052 |
| Fuels and lubricants | 22,460 | 15,275 |
| Electric power | 6,908 | 7,251 |
| Friction reducer | 16,790 | 17,979 |
| | US$ 71,688 | US$ 52,557 |
| Fixed costs | | |
| Depreciation (*Note 12*) | $ 93,247 | $ 71,785 |
| Operation and maintenance | 80,670 | 76,378 |
| Materials | 8,886 | 6,431 |
| Labor costs | 5,700 | 3,481 |

## 21. Cost of Sales (continued)

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Taxes | | 258 | | 206 |
| Payment for port counterbalanced (*Note 13*) | | 225 | | 633 |
| Amortization concession (*Note 13*) | | 1 | | 2,280 |
| | | 188,987 | | 161,194 |
| | US$ | 260,675 | US$ | 213,751 |

## 22. Operation and Projects Expenses

| | | | | |
|---|---|---|---|---|
| Fees and services | US$ | 8,960 | US$ | 6,521 |
| Miscellaneous | | 2,143 | | 2,041 |
| Insurance | | 1,693 | | 1,818 |
| Maintenance | | 1,521 | | 1,241 |
| Leases | | 1,388 | | 1,151 |
| | US$ | 15,705 | US$ | 12,772 |

## 23. Administration Expenses

| | | | | |
|---|---|---|---|---|
| Labor expenses | US$ | 16,323 | US$ | 16,957 |
| Depreciation (*Note 12*) | | 1,907 | | 1,886 |
| Amortization (*Note 13*) | | 591 | | 1,271 |
| Taxes (1) | | 4,890 | | 6,215 |
| | US$ | 23,711 | US$ | 26,329 |

(1) Includes mainly the recognition of the wealth tax. See note 16 Current tax Liabilities.

## 24. Other Operating (Expense) Income, Net

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Operative provisions (*Note 18.4*) | US$ | (50,011) | US$ | – |
| Indemnities due to contracts (1) | | 15,763 | | 3 |
| Loss on retirement of assets (1) | | (5,539) | | (525) |
| Impairment losses of trade debtors (*Note 8*) | | (215) | | – |
| Impairment losses (*Notes 10 and 11*) | | (3,528) | | (6,718) |
| Loss on sale of assets held for sale (*Note 11*) | | (791) | | – |
| Contracts' indemnities | | 1,677 | | 1,772 |
| Assumed taxes | | – | | (1) |
| Other | | 476 | | 522 |
| | US$ | (42,168) | US$ | (4,947) |

(1) Indemnity received from the contract signed with Total E&P Colombie Colombia Branch, for the payment of the negative balance of the filling line corresponding to 442,330 Bls of a volume of 3,057,642 barrels; a retirement of assets for US$5,433 on such transaction was recognized.

## 25. Financial Result, Net

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (Costs) gains yields and interest, net | US$ | (18,088) | US$ | 2,556 |
| Gains from hedge derivatives | | – | | 16,142 |
| Financial costs | | (402) | | (350) |
| Financial expense abandonment *(Note 18)* | | (1,752) | | (6,971) |
| Other financial expenses | | (2,217) | | – |
| Exchange difference loss, net | | (10,483) | | (6,873) |
| Monetization | | 679 | | (314) |
| | US$ | (32,263) | US$ | 4,190 |

The effectiveness of the results of the hedged items was impacted by the effects of the exchange rate, which show below:

| | TRM (*) | Variation TRM |
|---|---|---|
| January 2017 | COP$ 2,936.72 | (63.99) |
| February 2017 | 2,902.68 | (34.04) |
| March 2017 | 2,913.48 | 10.80 |
| April 2017 | 2,868.89 | (44.59) |
| May 2017 | 2,905.29 | 36.40 |
| June 2017 | 3,038.26 | 132.97 |
| July 2017 | 3,026.55 | (11.71) |
| August 2017 | 2,933.96 | (92.59) |
| September 2017 | 2,900.73 | (33.23) |
| October 2017 | 2,971.36 | 70.63 |
| November 2017 | 2,982.73 | 11.37 |
| December 2017 | 2,984.00 | 1.27 |

(*) Representative Market Rate – American dollar / Colombian peso.

Transactions of derivatives are agreed to in dollars for the coverage of cash flows in pesos, which expiration do not go beyond December 2018. The total of hedges open at December 2017 is of the following:

| | Sale Operations | | Exchange rate agree |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| January 2018 | US$ | 3,846 | 3,080.80 |
| February 2018 | | 66,621 | 3,080.34 |
| March 2018 | | 4,450 | 3,124.51 |
| April 2018 | | 107,711 | 3,080.79 |
| May 2018 | | 3,619 | 3,082.16 |
| June 2018 | | 114,877 | 3,112.47 |

### 25. Financial Result, Net (continued)

| | Sale Operations | Exchange Rate Agree |
|---|---|---|
| | *(In thousands of US dollars)* | |
| July 2018 | 5,340 | 3,149.00 |
| August 2018 | 4,058 | 3,031.00 |
| September 2018 | 4,314 | 3,037.70 |
| October 2018 | 5,090 | 3,093.02 |
| November 2018 | 4,761 | 3,084.00 |
| December 2018 | – | 3,080.80 |
| | US$ 324,687 | |

The total of hedges open at December 2016 is of the following:

| | Sale Operations | Exchange Rate Agree |
|---|---|---|
| | *(In thousands of US dollars)* | |
| January 2017 | US$ 3,330 | 3,315.95 |
| February 2017 | 51,786 | 3,404.58 |
| March 2017 | 4,284 | 3,202.21 |
| April 2017 | 116,196 | 3,137.40 |
| May 2017 | 4,164 | 3,192.25 |
| June 2017 | 116,082 | 3,164.46 |
| July 2017 | 4,901 | 3,301.35 |
| August 2017 | 4,094 | 3,145.76 |
| September 2017 | 4,534 | 3,180.62 |
| October 2017 | 4,798 | 3,204.96 |
| November 2017 | 4,196 | 3,369.00 |
| December 2017 | 4,992 | 3,160.02 |
| | US$ 323,357 | |

### 26. Risk Management

Because of its financial structure, the Company is directly exposed to exchange, interest rate credit and liquidity risks as shown below:

#### 26.1. Exchange Rate Risk

The exchange risk management is framed-up on the principle that the peso/dollar exchange rate is subject to highly-volatile and unpredictable changes. In this sense, the objective of hedge strategies defined by the Company is to mitigate movements in those variables upon the use of derivative instruments acquired in financial markets.

### 26.1. Exchange Rate Risk (continued)

The exchange rate risk refers to economic effects resulting from fluctuations of the exchange rate which the Company is exposed to. In the case of Ocensa, most revenues from services rendered are computed and collected in United States dollars; however, some expenses and all tax obligations are paid in Colombian pesos as the Company operates in Colombia. For this reason, Company's cash flows are exposed to peso/US dollar fluctuations in the exchange rate.

For that purpose, Ocensa uses hedge operations upon contracting derivative instruments, mainly Forwards, aiming to mitigate the effects that, upon peso/dollar movements, are originated in respect of the budget of expenses in pesos and tax obligations not exceeding one year.

At the December 31, 2017, cutoff, the notional of the current hedge portfolio of exchange rate was of US$324,687 (at December 31, 2016 - US$323,357)..

This represents a decrease of 0.41% of the notional/hypothetical of the portfolio which amount at 2016 was of US$323.357; such change is explained mainly by the hedge during the 2017 of tax flows with expiration in 2018.

The United States dollar/peso exchange rate was revalued 0.56% from December 31, 2017, reflecting an exchange rate of COP$2,984 per US$1 in respect to the rate recorded at December 31, 2016, of COP$3,000.71 per US$1.

Below is the effect that a 1% and 5% variation would have in the exchange rate of Colombian pesos vs. US dollars, related to the exposure of financial assets and liabilities in foreign currency at December 31, 2017, in COP million.

| Scenario/ Variation in the TRM | Effect on results Before taxes (+/–) | |
|---|---|---|
| 1% | COP$ | (6,355) |
| 5% | COP$ | (30,567) |

For the calculation of the effect on results before taxes, the average rate of the year was taken for the year 2017, equivalent to COP$2,950.32 per US$1.

The sensitivity analysis only includes monetary assets and liabilities in foreign currency at the close date, as shown below, in COP million:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Cash and cash equivalents | **COP$** | **41,451** | COP$ | 15,547 |
| Trade accounts receivable and other accounts receivable | | **52,199** | | 53,809 |
| Other assets | | **4,800** | | 12,209 |

### 26.1. Exchange Rate Risk (continued)

| | 2017 | 2016 |
|---|---|---|
| **Active position** | **98,450** | 81,565 |
| Debt and loans bearing interest | **(592)** | (530) |
| Trade accounts and other accounts payable | **(161,844)** | (361,791) |
| Current tax liabilities | **(509,321)** | (497,727) |
| Provisions | **(93,308)** | (73,686) |
| Deferred revenues | **(1,382)** | (1,263) |
| **Passive position** | **(766,447)** | (934,997) |
| **Net passive position** | **COP$ (667,997)** | COP$ (853,432) |

### 26.2. Credit Risk

The credit risk is the risk acquired by the Company as a result of non-compliance with obligations of clients, of financial institutions which investments are made with or of counterparties which derivative financial instruments are contracted with.

Permanent monitoring of credit ratings issued by risk rating companies on financial entities which investments are made with or derivative instruments are negotiated with is carried out at Oleoducto Central S.A. in order to guarantee that such companies meet the minimum rating defined by the Company.

For the portfolio considered impaired, an individual analysis is made which allows identifying the situation of each client and thus defining the necessary provisions. The Company carries out the administrative and legal actions necessary to recover past due accounts receivable, as well as the recognition of interest of clients who do not meet payment policies.

### 26.3. Liquidity Risk

The National Planning Department, as evidenced in its official letter number SC-20134380757471 of October 15, 2013, issued a favorable opinion for the Company to enter into public credit operations upon the international issue of a bond in United States dollars for up to US$1,000,000, with 100% of possibility to reopen the rest of the amount in order to finance Capex needs of new projects.

Based on this favorable opinion, by means of Resolution number 4254 of December 12, 2013, the Ministry of Finance and Public Credit authorized the Company to negotiate the issue and placement of bonds in the international capital market for up to one thousand million United States dollars (US$1,000,000) in order to finance investment needs of future expansion projects.

By means of Resolution 1369 of April 29, 2014, the Ministry of Finance and Public Credit authorized the Company to subscribe, issue and place External Public Debt Bonds, under Rule 144 A / S Registration of the United States of America Securities Act, in international capital markets for up to US$500,000 in order to finance the needs of investment of future expansion projects (Potency 135 and Warming). This provides the Company with the possibility to reopen the rest of the amount, given that Company's financing needs require them and that capital market conditions are favorable.

### 26.3. Liquidity Risk (continued)

The liquidity risk is managed as of the application of the Merton Miller and Daniel Orr model, which is an induction model of random generation for daily changes in the cash balance, in order to establish the minimum cash levels required to take care of the organization liquidity requirements, including its debt service commitments.

The main purpose of the internal procedures is to guarantee enough liquidity levels to comply with the Company's financial commitments within its timetable of maturities, as well as the main instruments for their measurement and follow-up. Such instruments are: Weekly report of the treasury command bulletin board, monthly cash flow, and analysis of the annual mobile average of the cash flow foresight.

The Company has a policy to manage liquidity surpluses. Such policy provides criteria, guidelines and directives for the efficient and safe administration of liquidity surpluses, and establishes limits of exposure per counterparty. At present, the counterparty limit of risk exposure is limited to the higher of the following parameters: A maximum amount of US$150,000 by the counterparty, or if the cash balance falls below such amount, it should be divided at least into three counterparties that meet the minimum rating permitted. In the event issuer and issue limits established herein are exceeded, the portfolio administrator will have 45 calendar days to take the measures necessary to adjust to such limits.

The credit quality of issuers, assets and counterparties of operations are as follows:

Minimum permitted rating:

Foreign Financial Entities

| Rating Entity | Short-term rating | Long-term rating |
|---|---|---|
| Standard & Poor's | A-1 | A+ |
| Moody's Investors Service | P-1 | A1 |
| Fitch Ratings | F-1 | A+ |

Local Financial Entities

| Rating entity | Short-term rating | Long-term rating |
|---|---|---|
| Fitch Ratings | F1+ | AAA |
| BRC Investor Services | BRC 1+ | AAA |

Furthermore, clients that which to participate in processes of Firm Transportation Offer (SOP) with the Company, have a number of requirements that classifies them in 3 qualification groups based on elements such as : i) credit risk classification for its long-term debt in dollars not insured and not subordinated issued by one of the risk rating entities: Standard and Poor's Rating Group, a division of McGraw-Hill Companies; Moody's Investor Services, Inc.; or of Fitch Ratings, Inc, ii) accreditation of minimum indicators of working capital an net equity, iii) accreditation of compliance guarantors and iv) issuance of stand-by letters of credit and by a bank entity with AAA credit certification.

### 26.4. Interest Rate Risk

Oleoducto Central S.A. issued a bond in the international market at a notional amount of US$500 million in 2014. A defined fixed interest rate of 4% was used in such issue; therefore, there is no risk of interest rate.

### 26.5. Capital Management

The main objective of the Company's capital management is to ensure a financial structure that optimizes the cost of capital, maximizes the yield of its shareholders, and allow access to financial markets at a competitive cost in order to cover its financing needs.

Below is the indebtedness ratio of years reported:

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents *(Note 7)* | **US$ 236,356** | US$ 71,837 |
| Loans *(Note 14)* | **(500,399)** | (499,626) |
| **Net financial debt** | **US$ (264,043)** | US$ (427,789) |
| **Equity** | **US$ 1,135,214** | US$ 952,111 |
| **Leverage (1)** | **18.87%** | 31.00% |

(1) Net Financial Debt / (Net Financial Debt + Equity)

## 27. Related Parties

The main transactions between related parties during the years indicated are detailed below:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Hydrocarbon Transportation | Unloading Service | Dilution Service | Administrative Services | Operation and Maintenance Services | Purchase of Products and Services |
| Ecopetrol S.A. | US$1,015,994 | US$ 2,466 | US$ 949 | US$ – | US$ – | US$ 9,457 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | – | – | – | 330 | – | 431 |
| Hocol S.A. | 58 | – | – | – | – | – |
| Oleoducto de Colombia S.A. | – | – | – | 76 | – | 1,086 |
| Oleoducto de Los Llanos Orientales | – | – | 3,273 | – | 330 | – |
| Oleoducto Bicentenario de Colombia S.A.S. | – | – | – | – | 1,241 | 3,580 |
| | US$1,016,052 | US$ 2,466 | US$ 4,222 | US$ 406 | US$ 1,571 | US$ 14,554 |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Hydrocarbon Transportation | Unloading Service | Dilution Service | Administrative Services | Operation and Maintenance Services | Purchase of Products and Services |
| Ecopetrol S.A. | US$874,545 | US$ 2,605 | US$ – | US$ – | US$ 27 | US$ 9,063 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | – | – | – | – | – | 311 |
| Hocol S.A. | 13,044 | 26 | – | – | – | – |
| Oleoducto de Colombia S.A. | 536 | – | – | 305 | 323 | 998 |
| Oleoducto de Los Llanos Orientales | – | – | 2,619 | 10 | 270 | – |
| Oleoducto Bicentenario de Colombia S.A.S. | – | – | – | – | 1,150 | 3,836 |
| | US$888,125 | US$ 2,631 | US$ 2,619 | US$ 315 | US$ 1,770 | US$ 14,208 |

## 27. Related Parties (continued)

The most representative balances with related entities at December 31, 2017 and 2016, are included in accounts receivable and accounts payable, as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Accounts receivable | | | | |
| Ecopetrol S.A. | US$ | 145,578 | US$ | 73,780 |
| Oleoducto de Los Llanos Orientales S.A. | | 1,443 | | 655 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | 972 | | – |
| Oleoducto Bicentenario de Colombia S.A.S. | | 698 | | 927 |
| Oleoducto de Colombia S.A. | | 455 | | 1,027 |
| Hocol S.A. | | 277 | | – |
| | US$ | 149,423 | US$ | 76,389 |
| Accounts payable | | | | |
| Ecopetrol S.A. | US$ | 4,927 | US$ | 1,838 |
| Cenit Transporte y Logística de Hidrocarburos S.A.S. | | 422 | | 86 |
| Oleoducto Bicentenario de Colombia S.A.S. | | 321 | | 298 |
| Oleoducto de Colombia S.A. | | 120 | | 94 |
| Hocol S.A. | | 74 | | 43 |
| | US$ | 5,864 | US$ | 2,359 |

Outstanding amounts are not guaranteed and will be settled in cash. No guarantees have been granted or received. No expense has been recognized in the current year or in prior years concerning uncollectable or bad debts related to amounts due by related parties.

Trade purchases and sales transactions of goods and services, concerning the development of the Company's corporate purpose, with related parties are made under general market prices and conditions.

## 28. Compensation to Directors

Directors' fees for attendance to the meetings of the Board of Directors and/or the Audit Committee amount to approximately to 2017 to US$146 and to US$159 to 2016.

The total compensation paid to directors, executive officials and top directors for salary and other compensations during the 2017 amounted to US$2,207 (2016 for US$1,386).

## 29. Subsequent Events

There were no subsequent events which could have a potential effect on the information contained in the financial statements at December 31, 2017.