

Fitch: No Formal Obstacles to Potential BP Sale of Pan American Energy.

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14 Jul 2010 11:24 AM (EDT) Fitch Ratings-Chicago-14 July 2010: While there is a history of political interference in the energy sector in Argentina, Fitch Ratings believes that a potential sale of BP's 60% majority stake in Pan American Energy LLC (PAE) in Argentina would not face any formal restrictions from Argentine regulators if BP were to pursue the sale of its stake in PAE, as recent media reports have suggested. Fitch notes that no regulatory restrictions currently exist in either Argentina's hydrocarbon privatization law (Law 24.145 of 1992) or in the existing concession agreements held by PAE. All of PAE's concession agreements have been renegotiated during the past years, extending its life until 2026-2027 which provides a long-term operating environment. PAE's current capital investment program exceeds the investments committed to in such extensions. Energy remains a strategic issue in Argentina, given a history of underinvestment in the energy space and that country's declining energy reserve and production profile. In 2008 Argentina's reserves levels were approximately 11 years for oil and 8 times (x) for natural gas, and the country has gone from being a net exporter to a net importer of natural gas. Currently, Argentina imports natural gas from Bolivia via pipeline and through an LNG regasification terminal. This deficit is expected to increase in the near term as current price conditions and regulatory uncertainties continue to limit investments in the sector. Government intervention in the energy sector in Argentina has historically taken the form of export taxes and price controls /caps for crude oil, natural gas and refined products prices. PAE's track record of growing reserves and production in Argentina makes it strategically important to Argentina, given its status as the second largest upstream producer in that country responsible for 16.5% of total hydrocarbon production. Between 2003 and 2009, PAE's crude oil and natural gas production volumes increased at a 3.9% compound annual growth rate, while national production volumes levels declined by 16% and 5%, respectively. As a result, as long as any new shareholder supports PAE's investment plan (estimated by Fitch at approximately US\$1 billion per annum), which is expected to continue to result in reserve and production growth, Fitch believes that the chances of governmental support (or at a minimum, toleration) of a sale and change in the ownership structure of PAE is good. In the first half of 2010, Bidas Energy Holdings Ltd (BEH) formed a 50-50 joint venture with China National Offshore Oil Corporation Limited (CNOOC) in Bidas Corporation, the entity which holds 40% of PAE, Following this transaction, CNOOC indirectly acquired a 20% stake in PAE. The value of this transaction was approximately US\$3.1 billion. Based on this transaction, a possible sale of BP's 60% stake in PAE could net approximately US\$9 billion on a gross basis. Fitch would note that asset sales remain a key portion of BP's strategy for funding its share of the Macondo well spill in the Gulf of Mexico, and the sale of this single legacy asset would go a long way towards generating BP's stated goal of approximately US\$10 billion in asset sales. Fitch would also note that PAE's existing notes outstanding, including its 7.75% 2012 notes and 7.875% 2021 notes contain change of control provisions, which give individual bondholders the option to execute a put on the notes for 101% of par value in the event of a change of control. A change of control will take place if BP owns less than over 50% of PAE. Given the long term profile of PAE's concession agreements, its level of reserves, increasing production volumes and its experience in those areas where it operates, Fitch does not expect a material change in PAE's operating performance should BP decide to sale its share. PAE's 'BB-' foreign currency Issuer Default Rating (IDR) reflects the company's long-lived reserve base, adequate leverage and solid credit metrics. The two-notch foreign currency IDR above the country ceiling of Argentina is supported by PAE's reliable strong cash flow generation, high level of dollar-denominated export revenues relative to total debt which mitigates its exposure to currency mismatch, and its right to

maintain up to 70% of export revenues offshore which mitigates transfer and convertibility risk; PAE exports totaled US\$1.9 billion in 2009. In addition, the company has a track record of payment during stressed sovereign scenarios. Contacts: Ana Paula Ares + 54 11 5235 8100, Argentina; Mark C. Sadeghian, CFA +1-312-368-2090, Chicago; Jeffrey Woodruff, CFA +44 20 7682 7322, London; or Erwin VanLumich, CFA +34 93 323 8403, Spain. Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com. Additional information is available at www.fitchratings.com. ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.