Fitch Ratings asignó B+ en la escala internacional a Pan American Energy LLC y a la próxima emisión de títulos por USD 100 millones de Pan American Energy LLC, Sucursal Argentina

12 de octubre de 2004

Fitch Ratings-Chicago-October 12, 2004: Fitch Ratings has assigned a senior unsecured foreign currency rating of 'B+' to Pan American Energy LLC (PAE), as well as the proposed issuance of US$100 million by Pan American Energy LLC, Argentine Branch (Argentine Branch) under its US$1 billion global medium-term note program. The notes will be guaranteed by PAE. The proceeds from the issuance will be used for capital expenditures in Argentina and extending the existing debt profile. The Rating Outlook is Stable. The rating reflects PAE's strong and expanding asset base of hydrocarbon reserves, its position as the second largest hydrocarbon producer in Argentina, strong U.S. dollar revenues from exports of oil and gas, ability to retain a material amount of export revenues offshore, benefits related to its ownership by BP plc (Fitch rated 'AA+'), strong credit protection measures, conservative financial position, and manageable debt maturity profile. The rating also reflects concentration of assets in Argentina, which remains in default in its sovereign debt obligations, potential for increased interference in Argentine export taxes or remittance requirements, political concerns in Bolivia, inherent risks of commodity price volatility, and small size relative to BP's consolidated operations. The Argentine Branch, rated 'AA(arg)' on the national scale by Fitch, has historically been the primary PAE subsidiary both in terms of assets and revenues and the entity that assumes the financial debt for the whole group. The company has demonstrated its success in navigating the Argentine environment to date. PAE's ability to generate sufficient cash flow to repay dollar denominated debt coupled with its right to maintain 70% of export proceeds outside Argentina has mitigated the risks associated with having the majority of its assets and cash generating activities concentrated in Argentina. Due to the combination of maintaining 70% of its export revenues abroad and the company's prudent financial strategy, PAE never failed to meet scheduled debt services despite currency controls imposed during the height of the Argentine crisis. Nevertheless, a material level of uncertainty exists surrounding the future Argentine political and economic environment. The Argentine Ministry of Economy increased taxes on exports in August 2004, establishing a sliding tax scale based on WTI prices, which essentially limits upside cash flow benefits from hydrocarbon exports. PAE may be subject to additional government interference such as further changes in retention rates and taxes or imposing transferability or exchange controls on hard currency, which could reduce U.S. dollar cash flow available to meet financial obligations. At this time, the likelihood or level of further interference is uncertain, although these risks could ease should the Argentine government reach an agreement with creditors and the International Monetary Fund (IMF). Oil revenues account for approximately 82% of total revenues and provide a significant source of U.S. dollars and dollar-related cash flow. Off-take risk is mitigated through contracts for export sales with strong credit quality off-takers. In the local market, off-takers include mainly Shell among others. Historically, PAE's main cash generating assets were located in Argentina. Oil production at Cerro Dragon (San Jorge Basin) accounts for more than 75% of total production while gas production is geographically more diversified. PAE also benefits from BP and Bridas' expertise in both the oil and gas businesses. Reserve replacement and production costs are generally lower than industry averages and

have been improving over time (both around US$1.6/boe), resulting in a high EBITDA margin (averaging above 60% over the past five years). PAE's growth strategy is focused on exploration and production (E&P), primarily in the development of the existing portfolio. The company has been drilling approximately 200 wells per year and is currently at its peak of production. The company is expected to continue with its development strategy. PAE has historically maintained a three-year reserve replacement ratio between 3.3 times (x) and 7.5x, and, as of the 2003 fiscal year-end, average reserve life reached 21 years (15 oil and 27 gas). Total financial debt at June 2004 was approximately US$686 million, with a total financial debt-to-EBITDA of 0.6x and debt-to-total capital of 16%. While PAE's leverage may increase in the future, the company's financial strategy is to maintain a conservative capital structure in the current environment. PAE's current debt profile includes short-term debt of US$178 million and total long-term debt (including current portion of long-term debt) of US$508 million. Core borrowing facilities are generally held at the Argentine Branch level. Given PAE's conservative balance sheet, the company is expected to continue to issue debt on a periodic basis to refinance maturities, extend the average life of its debt and maintain a relatively stable debt-to-capitalization ratio. The company faces maturities of approximately US$170 million in 2005 and US$90 million in 2006. Short-term cash needs should be adequately covered through cash balances, cash from operations plus access to working capital financing. The proposed issuance is expected to be used for capital expenditures in Argentina and extend debt maturities. PAE has demonstrated its ability to access financial markets and refinance outstanding debt, which has been supported by a combination of conservative capital structure, increasing levels of cash generation, and a manageable debt amortization schedule. During 2002 and 2003, at a time when financial and capital markets were closed for most Argentine companies, PAE was able to raise funds multiple times for refinancing and working capital purposes. Credit protection measures have historically been strong, although somewhat volatile, driven by fluctuations in international crude prices. For the six-month period through June 2004, PAE reported a total EBITDA of US$446 million, compared with a total EBITDA of US$336 million for the same period in 2003, reflecting increased production of oil, gas, and liquid petroleum gas (LPG) and higher prices. The company reported an EBITDA-to-interest ratio of 24.3x. Continued growth in oil production and additional contribution from the gas business, as well as cost controls, have allowed the company to improve cash flow. PAE's upstream activities dominate cash flow and include a healthy mix of stable on-shore Argentine fields and high potential Bolivian and off-shore Argentine fields. The benefits of the company's mid-downstream assets are largely strategic. PAE's main asset outside Argentina is its 50% interest in Empresa Chaco in Bolivia, which accounts for approximately 7% of the combined production, representing almost US$80 million of revenue (at 50% ownership) and an estimated EBITDA of approximately US$30 million per year. Fitch remains concerned about the political landscape in Bolivia and potential changes to the hydrocarbon law. However, any likely change is not expected to affect the ratings of PAE. PAE is owned 60% by BP and 40% by Bridas and has been the vehicle for the exploration and production of oil and gas and mid- and downstream gas activities in the southern cone. Contact: Jason T. Todd +1-312-368-3217, Chicago, or Ana Paula Ares +5411-4327-2444, Buenos Aires.