# Fitch: Argentine Market Intervention May Hit Repsol, YPF Hard

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Fitch Ratings-Chicago-20 March 2012: Fitch Ratings believes the Argentine government's increasingly bold and unpredictable intervention in oil and gas production could force Spain's Repsol to pay a heavy price. Following last week's decision by two of Argentina's oil-producing provinces to withdraw concessions for Repsol's YPF S.A. unit, the risk of outright nationalization, along with the potential for steep cuts in YPF's dividend payments to the parent, has increased materially. YPF's dividend payments to Repsol, which owns a 57% stake in the formerly state-owned producer, totaled around EUR0.6 billion (USD840 million) in fiscal 2011. Oil and gas production in the two provinces where concessions were revoked accounted for only around 2.7% of YPF's total production in 2011. However, an extension of government control over YPF's operations in other energy-rich areas could seriously erode the company's cash flow generation power and limit its ability to return cash to Repsol. YPF's foreign currency issuer default rating (IDR) is 'B+'. We believe Repsol YPF's current IDR of 'BBB+' could come under pressure if YPF is forced to cut its dividend by 20% or more in 2012. Repsol's exposure to Argentina is high with around 35% of total EBITDA generated by YPF in fiscal 2011. Additionally, around half of its total proved reserves of crude oil and natural gas are located in Argentina. Fitch notes that this has always remained a credit risk for the company, despite efforts by Repsol to enhance the geographical diversification of its upstream business. The government's intent to boost oil and gas production has been clear not only in its heavy-handed treatment of YPF, but also in recently announced plans to sanction drillers operating in the Falkland Islands, where the long-standing sovereignty dispute with Britain has once again emerged as a major political and economic issue. With Argentina now running a large energy sector trade deficit, the government is placing a high priority on domestic oil and gas investment to meet domestic demand without exacerbating the country's foreign exchange reserve problems. In light of Argentina's substantial shale oil reserves, other global energy firms will likely monitor the treatment of Repsol carefully as they consider any future growth of direct investment in the Argentine energy sector. Contact: Bill Warlick Senior Director Fitch Wire +1-312-368-3141 Fitch, Inc. 70 W. Madison Chicago, IL 60602 Borja Monforte Associate Director Corporates +34-93-4678747 Ana Paula Ares Senior Director Corporates +54-11-52 -5-8121 Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings. 