Fitch: European Oil Majors Ratings Unaffected by Bolivia's Hydrocarbon

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Fitch Ratings-London/Barcelona/Buenos Aires-05 May 2006: Fitch Ratings says that the hydrocarbon nationalization in Bolivia is not entirely unexpected and that the agency has given only limited credit to the reserves of European oil and gas majors in some Latin American countries. "Nevertheless, the most recent developments in Bolivia underline our concern that the governments of a number of Latin American countries, notably Bolivia, Venezuela and Argentina, continue to demonstrate their discretion to interfere in the energy sector," says Erwin van Lumich, Senior Director in Fitch's Energy team. Fitch comments that the decree signed this week by Bolivian president Evo Morales under which the state will take control of oil and gas reserves does not, at this stage, affect Spain-based Repsol YPF ("Repsol") - rated Issuer Default 'BBB+/Stable Outlook' and Short-term 'F2'. Repsol International Finance's senior unsecured 'BBB+' and Short-term 'F2' ratings and Repsol International Capital Ltd's 'BBB-' (BBB minus) rated preference shares are also unaffected. Among the European majors, Repsol has the largest exposure to Bolivia, with estimated reserves of 620 million barrels of oil equivalent (mboe) at end-2005. The exposure of Total ('AA'/Positive Outlook), BP ('AA+') and BG ('A') is far less material. The likely expropriation of Andina's reserves, Repsol's 50%-owned Bolivian business, would affect an estimated 18% of consolidated reserves at end-2005. However, the impact would not be material in terms of consolidated cash flow contribution, highlighting the relatively early stage of Bolivian production and the low regional market prices. Fitch, nevertheless, recognizes that such government initiated activity can have a detrimental effect on business profiles, undermining long-term viability of upstream businesses. Again, citing Repsol's upstream business, an expected revised reserve life of around seven years following the nationalisation, from close to eight years post the 25% reserves revision announced in January (see statement dated 29 March 2006 on www.fitchratings.com), remains weak compared with international peers and will be hard to improve in the short-term given the long lead-times of new projects for Repsol outside the Argentina-Bolivia-Brazil region. Possible further revisions for Repsol may result from decisions by populist governments in other Latin American countries and from the completion of the external audit process in 2006 to which 47% of reserves will be subjected. However, management has indicated that the likelihood of large downward revisions post this audit process appears low, because some of the remaining fields have been subject to audits recently as part of the group's three-year reserve audit cycle. Fitch will continue to comment on developments in Latin America and their possible impact on Repsol's and other European majors' creditworthiness, with an expected near-term focus on the implications of the decree on strategy and return prospects in Bolivia. Contacts: Erwin Van Lumich, Barcelona, Tel: +34 93 323 8400; Isaac Xenitides, London, +44 207 417 4300; Ana Paula Ares, Buenos Aires, +54 11 5235 8121. Media Relations: Jon Laycock, London, Tel: +44 20 7417 4327. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 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.